AXIOM
ALTERNATIVE INVESTMENTS

Responsible Investment Policy

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1 - INTRODUCTION

Axiom AI is an investment management company recognized as a specialist in financial institutions (banks and insurance companies) managing more than 2 billion euros on behalf of its clients. More than 90% of our investments are in financial sector companies. Conscious of the relevance that sound financial institutions have for the real economy, since its inception in 2009, Axiom has integrated the analysis of social and governance controversies in its investment decisions. In 2016 Axiom AI formalized its commitment towards Environmental, Social and Governance (ESG) integration by joining the Principles for Responsible Investments. This document explains Axiom AI's approach to incorporating ESG considerations within the organization's activities, including sustainability risks[1] as defined by the Sustainable Finance Disclosure Regulation[2] and as required in its Article 3.

2 - GOVERNANCE

Axiom AI's governance structure enables the smooth implementation of our Responsible Investment (RI) approach. Two main bodies are responsible for its implementation:

2.1 Management committee

This committee defines the RI strategy and ensures it is consistently and effectively rolled out. It defines and allocates resources for its rollout and implementation. It approves strategic ESG projects, sets priorities and makes the main governance decisions. The committee meets weekly to discuss overall business activities, including ESG. It is comprised of seven senior management staff: the Chief Investment Officer, the Chief Operations Officer, the Head of Research and Risk, three heads of Business Development and two portfolio managers, including the manager of our first SFDR Article 9 fund.

2.2 ESG committee

This committee oversees the implementation of our responsible investment approach. The committee equally decides on new issuers to include in the exclusion list, for which exclusion rationale is not governed by the sectoral exclusion policies (e.g. due to controversies). In addition, the ESG committee ensures ESG training needs of staff are met and ensures compliance with regulatory requirements. It is composed of the Chief Investment Officer, the Head of Research and Risk, one head of Business Development, the ESG manager and the manager of our first SFDR Article 9 fund. The members of the committee are encouraged to propose ways in which the ESG integration process can be improved. The committee meets every month and conducts an annual stock take of the RI approach application.

3 - RESPONSIBLE INVESTMENT APPROACH

Axiom seeks to promote the transition to a socially just and low-carbon economy while seeking superior risk-adjusted returns. We are cognizant that the European banking sector plays a key role for the achievement of such a transition as it finances more than 70% of the EU economy[3]. In addition, we acknowledge that empirical research has established a link between firm performance and ESG performance. All this coupled with our focus on subordinated financial debt has led to the development of an ESG approach tailor-made for financial institutions which seeks to minimize both the sustainability risks that can affect issuers' financial performance as well as the negative impact that financial institutions may have in the economy, the society, and the environment.

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[1] 'sustainability risk' means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment

[2] https://eur-lex.europa.eu/legal-content/fr/ALL/?uri=CELEX%3A32019R2088

[3] https://www.ecb.europa.eu/pub/pdf/fie/financialintegrationineurope201105en.pdf

Our approach combines best available information sourced from a range of third-party sources (e.g. ESG data providers, NGOs, proxy voting providers) and proprietary sector expertise. It is comprised of the following tools:

1. ESG controversies database
2. Sectoral and Thematic policies
3. Axiom's Climate Readiness Score
4. ESG analysis
5. Stewardship

The management of all our long funds integrates at least one of these tools. Below we describe the tools in detail.

3.1 ESG Controversies

The nature of the ESG controversies the financial sector is exposed to can vary considerably when compared to so-called real economy companies.

The most significant differences relate to Environmental and Social (E&S) controversies: while for real economy companies these controversies most of the time concern their direct activities or their supply chain, for financial sector companies these controversies concern their products and their financial portfolios. E&S controversies in the financial sector rarely relate to the direct impact of a financial institution's business on the environment and society, but rather to the indirect impact through their lending and investment activities as well as their stakeholders (e.g. counterparties, clients).

In the case of Governance controversies, while the nature of most controversies can be similar to other sectors (e.g., ethical issues), the impact of these can be larger, as not only it can threaten the viability for the issuer but also have knock-on effects in the economy and society. This is due to financial institutions' role to safeguard capital, finance the economy and contribute to financial stability. Based on these, we believe the controversies they are most exposed to are:

Governance	**Social**	**Environmental**
Company culture and how it can lead to abnormal levels of risk taking	Consumer protection and the adequacy of the products designed and sold by the financial institution	Public scrutiny due to involvement in the financing, investment, underwriting, or reinsurance of projects or companies that are deemed to have a negative environmental impact
Compliance with an increasingly large set of complex regulations, especially, but not only, in the field of anti-money laundering	Public scrutiny of clients and business partners with unethical background	Public scrutiny due to failure to meet environmental or climate targets
	Public scrutiny due to involvement in the financing, investing, underwriting, or reinsurance of projects or companies that are deemed to have a negative social impact	Public or regulatory scrutiny due to greenwashing practices

These controversies and others are monitored regularly, depending on their severity. The monitoring of the controversies is done through an in-house database. This monitoring allows us to identify investment risks but also opportunities (i.e., in the case the market overestimates the risk). Each item in the database includes a record date, a factual description of the news, linked companies, a comment on the impact of the controversy, an estimate of the financial risk associated, a classification on the type of controversy and its status (resolved or ongoing). Portfolio managers can use filters to have an updated view on the situation or the history of the controversy. To learn more about our controversies screening you can consult our summary note.

Controversies that are considered to be severe either for the company, the society or the environment can lead to an exclusion from our funds. Our Sustainable Financial Institutions Funds range applies a stringent set of social and governance controversies exclusions.

3.2 Sectoral and Thematic policies handbook

Less than 7% of Axiom's investments are in non-financial sectors. The purpose of these sectoral policies is twofold:

- To avoid investments in products or business practices we deem detrimental to society and the environment and incompatible with our investment beliefs.
- To avoid investments in the companies that are likely to be exposed the most to transition risks.

These policies set the criteria used to build our general exclusions list as well as more stringent criteria applicable to our Sustainable Financial Institutions funds range.

The sectoral policies build on policies established by recognized responsible investors and the requirements of the Belgian *Towards Sustainability* label. Businesses with activities in the following fields are concerned:

1. Adult entertainment production, operation and distribution
2. Alcohol brewing, distilling and trading
3. Cannabis
4. Coal power and mining
5. Controversial Weapons
6. Conventional and unconventional oil & gas production
7. Gambling establishments, equipment and products and services for gambling operations.
8. Tobacco production

In addition, we exclude companies with controversial behaviour that have violated the United Nations Global Compact principles on human rights, labour, environment and corruption.

Our Sectoral and thematic policies handbook describes our beliefs and approach to key cross-sectoral environmental topics such as biodiversity and water use, governance topics such as taxation, and social topics such as oppressive regimes and death penalty.

The handbook equally lays out our approach on sovereign bonds and forward contracts. It specifies the criteria used to define the countries and forward instruments we cannot invest in.

The general exclusions list arising from these policies is applicable to all our long only funds. Our Sustainable Financial Institutions Fund follows a stricter set of sectoral policies.

3.3 ESG Analysis

Axiom AI uses the services of an external data provider to support the selection and monitoring of its investments' Environmental, Social and Governance (ESG) characteristics[4]. The ESG scores are based on industry specific questionnaires that includes both general cross sector questions and sector/subsector specific questions. Each of the indicators considered are weight depending on its financial materiality. In addition, media & stakeholder analysis of controversies is carried out which can impact negatively the score.

Amongst the ESG characteristics included in the case of the banks and insurance companies we can find:

Environmental indicators covering both direct and indirect impacts. The direct impact to the environment through their operational ecoefficiency (GHG emissions, energy use and water use and disposal) as well as their environmental reporting. Their indirect impact to the environment through their portfolio decarbonization strategy and from the environment through assessments of their exposure to climate-related risks and their risk management processes.

Social indicators assessing practices with respect to its employees (e.g. human capital development, talent attraction and retention, labour practices, Occupational Health & Safety), customers (e.g. privacy protection, financial inclusion, customer relationship management) and external stakeholders (e.g. philanthropy).

Governance indicators assessing their corporate governance (e.g. structure, diversity, pay ratios), business ethics policies and practices, crisis and risks management practices, anti-crime policy & actions, cybersecurity measures and breaches, and policy influence/lobbying practices.

Double materiality. These ESG scores are built under the principle of double materiality. The European Financial Reporting Advisory Group defines double materiality as the union (in mathematical terms, i.e. union of two sets, not intersection) of impact materiality and financial materiality[5]. Impact materiality refers to sustainability factors and related indicator that capture the actual or potential significant impacts of the company on people or the environment over the short, medium or long term), while financial materiality refers to factors and related indicators that trigger financial effects on the company that influence or are likely to influence the future cash flows and therefore the enterprise value of the company in the short, medium or long term.

When looked from an ESG risks perspective, the use of an indicator that uses a double materiality approach in asset allocation is therefore complex due to two main reasons. First, the indicator is a very limited risk proxy, this means the indicator (and sub-indicators) cannot be translated into a financial loss, it is therefore uncertain if risks will materialize, when, and their magnitude. Second, a single indicator simplifies two different types of information which can go in opposite directions, therefore hiding potential risks the company is facing.

In consequence, Axiom AI has decided to uses ESG scores in two different ways, as an additional information for portfolio managers investments decisions and to support but not to drive asset allocation. Axiom will work towards improving its ESG scores infrastructure so it can better complement other tools that have a higher impact in ESG risk assessment (e.g. controversies database).

[4] More on its methodology can be found here: https://www.spglobal.com/esg/csa/methodology/
[5]https://www.efrag.org/Assets/Download?assetUrl=/sites/webpublishing/SiteAssets/Appendix%202.6%20-%20WP%20on%20draft%20ESRG%201.pdf&AspxAutoDetectCookieSupport=1

3.4 Axiom's Climate Readiness Score

Axiom AI developed its Climate Readiness Score (ACRS) to achieve an in-depth understanding of financial institutions' climate performance. The need for a proprietary methodology emerged from the identification of a market gap. Indeed, although progress has been made in the identification and analysis of best-practices on climate integration by financial institutions, this analysis remains superficial and not comprehensive enough.

The ACRS uses both quantitative and qualitative analysis to assess financial institutions' climate performance based on three pillars:

Corporate engagement	Climate risks and opportunities management	Contribution to the low-carbon transition
To identify the level of priority given to climate change by a company by looking at its:	To assess the issuers' approach to climate-related risk and opportunities by looking at its:	To understand the contribution the issuer is seeking to make to the energy transition through:
Governance: the involvement of different governance bodies in the development, implementation and monitoring of their climate policy, strategy and/or commitments, as well as the incentives created to enable continuous improvement	**Management**: the degree of integration of climate-related risks and opportunities in their risk management framework, the integration of climate risks in their investment /financing policies, and the use of a carbon price as a risk management tool	**Green share**: the quantity and quality of assets reported by the issuer that are classified as "green" and the robustness of the criteria used for such classification. For banks, Axiom uses its own method to quantify their green share
Strategy: the quality and ambition of the climate targets or commitments set, and how these are formalized within the company's strategy	**Sectoral policies**: the stringency of the policies put in place to either limit investments /lending to companies operating in high carbon sectors or to companies that can have an important impact on biodiversity	**Portfolio alignment**: the quality and coverage of the methodology used to estimate the alignment of the issuer's portfolio to the Paris Agreement goal. For banks, Axiom uses its own method to estimate the temperature of their corporate loan book
Transparency: the degree and quality of data disclosed, as well as their compliance with recognized reporting frameworks (e.g. TCFD, CDP)	**Exposure**: the quality and scope of the issuer's assessment of climate-related risks and their transparency on methodologies used. For banks, Axiom uses its own method to assess physical and transition risk exposure	**Client engagement**: the offer of products and solutions proposed to clients as well as the issuer's efforts and incentives created to raise awareness on the value added of such products

The indicators used to analyse these three pillars change between banks and insurers whenever relevant in order to capture sub-sector specificities.

The ACRS can be used by all portfolio managers and funds. It is at the heart of our climate policy. In addition, our Sustainable Financial Institutions funds range uses the ACRS to define minimum performance thresholds for issuer selection. More information on the thresholds can be found in our Thematic and Sectoral policies handbook.

3.5 Stewardship

We believe effective and proactive stewardship is key for achieving a more sustainable and resilient society. Through our stewardship efforts we seek to promote the long-term success of companies in the benefit of our clients. In order to translate our beliefs into reality we devote resources mainly in the form of bilateral dialogue and proxy voting, but as well in the context of collaborative initiatives.

3.5.1 Engagement

We consider engagement as a change process where investors seek to improve investee companies' practices. Our expertise on financial institutions and in the fixed income markets has led to engagements historically focused on Social and Governance topics, due to the financial sector's higher exposure to these risks. Over the past ten years, it is estimated that banks have paid at least US$450 billion in fines, settlement, litigations, etc., directly linked to general misconduct[6].

Our engagements on environmental topics are increasing as a result of i.) market and regulatory demands to improve financial institutions' integration of climate-related issues in risk management; ii.) increasing portfolio level decarbonization commitments; and iii.) the development of internal tools that enable a higher quality of the engagement.

There are different catalysts that drive our engagement actions, these include:

- The need for more information to fully understand ESG risks and opportunities we have identified;
- To encourage companies to improve their ESG disclosure;
- In the case of controversies, to have better visibility on their impact and mitigation measures put in the place;
- To present and discuss the outcomes of our internal assessments; and
- To promote the development, implementation, and continuous improvement of ESG targets.

Engagement priorities are determined based on our observation of global market developments and emerging ESG practices. Axiom AI carries out engagement on an individual basis either through one-on-one meetings or group meetings and in an collective basis through our participation in the Banks engagement working group of the Institutional Investor Group on Climate Change (IIGCC).

The results and progress on the engagement actions are communicated in the ESG committee, and when relevant, in the weekly portfolio managers meetings so it can feed into investment decision-making. When the results of our engagement are not satisfactory, we may divest or exclude the company from our funds.

3.5.2 Voting

Axiom AI believes that voting is an important part of the investment process. Above all, voting is an opportunity to signal our beliefs and to encourage companies to improve their practices.

In the case of resolutions dealing with Environmental, Social and Governance aspects, these are rigorously analysed by the research team to ensure that the vote is consistent with our beliefs. The team uses the ISS Proxy Exchange platform to send its voting instructions.

Axiom Alternative Investments has established a voting policy setting the conditions for the exercise of voting rights attached to the securities held by UCITS under its management.

Our engagement and voting policy apply to all our assets under management. Our range of funds invested in equities is limited to two funds managing less than 2% of our total assets.

[6] Source : Axiom's controversy database