Protea Orcadia Equities EMU SRI Ex Fossil Sustainability Policy

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The founders and employees of Orcadia AM are convinced that financial investments can have an important role in how we shape the world. This is reflected in the ESG policy for the funds we manage, where through a positive approach we try to nudge companies to make efforts to evolve in the right direction. It is also reflected in the exclusion policy as we feel that some behavior or sectors are not in line with our values and philosophy and as such should not be part of the investible universe.

This document describes the approach used within the Protea Orcadia Equities EMU SRI Ex Fossil fund and goes above and beyond the "general principles" in the ESG-approach of the funds managed by Orcadia Asset Management. The document is structured along the different stages we apply in our ESG-process:

1. Controversy screening and exclusions
2. Best-in-class approach
3. Engagement

1. Controversy screening and Exclusion Policy

INTERNATIONAL NORMAS AND CONVENTIONS

By using the MSCI SRI-index as a best-in class filter (see below) we automatically make sure that the companies in which we invest respect globally accepted norms and standards. As per the MSCI SRI methodology[1] a company must have a minimum controversy score (higher is better) of 4 to be included in the index and a minimum score of 1 to be maintained. The controversy score is calculated by MSCI and is designed to provide a timely and consistent framework of ESG controversies. The evaluation framework used is designed to be consistent with international norms represented in numerous, widely accepted, global conventions[2] including but not limited to the UN Global Compact, The ILO conventions, The UNGP's and the OECD guidelines for multinational companies.

TOBACCO

The long-term negative effects of tobacco consumption, not only on the user but also on his or her environment, has been clearly proven in the past. As such we exclude all companies active in the production of tobacco and tobacco-related products and companies that derive more than 5% of their aggregate revenues from the production, distribution, retail etc of tobacco and tobacco-related products.

[1] MSCI SRI Indexes Methodology, MSCI ESG Research, Feb 2021 pag 8,10

[2] MSCI ESG Controversies and Global Norms Methodology, MSCI ESG Research, Sept 2018, pag 27-33 for the complete list

WEAPONS AND WEAPON SYSTEMS

Weapons and weapon systems such as nuclear warheads, cluster munition, anti-personal and landmines, depleted uranium, biological & chemical weapons as well as incendiary weapons (for instance white phosphorus) are considered to be controversial weapons. Companies which have any tie, be it either through manufacturing these weapons or any tailor-made component or the selling or distribution of them, to these weapons systems are automatically excluded from the investible universe as these kinds of weapons have a disproportionate and arbitrary impact on the civilian population

Companies that derive more than 5% or more of their revenues from the production of conventional weapons or tailor-made components are excluded.

COAL, OIL & GAS

Within the fund all producers of fossil fuels classified under the GICS Sector “Energy” are excluded. The reason is twofold: firstly, we believe that investors should reduce their “carbon footprint” and feel that excluding this sector is an excellent way to make significant progress on the issue. Secondly, we strongly believe that there are very strong reasons to exclude this sector from a financial point of view. The implementation of measures to limit global warming to 1.5 - 2 °C would leave a significant part of their assets stranded.

Companies which are not a member of the GICS 10 “Energy” sector and which derive revenue from thermal coal mining (including lignite, bituminous, anthracite and steam coal) or from unconventional oil and gas extraction (such as oil sands, shale oil, shale gas, oil shale (kerogen-rich depostits), coal seem gas and coal bed methane) are automatically excluded.

ELECTRICITY GENERATION

Excluding producers of fossil fuels while allowing heavily polluting electricity producers would be contradictory. Excluding the complete sector however would not be a solution as electricity can be produced without or with relatively mild CO_2-emissions (ie. Wind, solar, gas). Nevertheless, the compartment wants to be ambitious on this level also. In order to be eligible for inclusion a company active in the production of electricity must meet several thresholds:

(1) It should not derive 5% or more of its revenue from thermal-based power generation. While we acknowledge that power production and sources used can fluctuate from year to year, there should be no significant and/or structural increase in the use of thermal coal as energy source.
(2) While during the production of electricity through nuclear power there are no CO_2 emissions, we see – at least for the time being – nuclear energy not as a viable solution to reach the Paris climate goals. Until science finds at least a partial solution for the nuclear waste produced during the production of electricity, nuclear energy will remain controversial. Radiation is a significant risk for the health of man, animals and plants alike. Moreover, a significant part of the waste will stay radioactive for centuries thus creating a risk for many generations after ours. As such electricity companies that derive 5% or more of their aggregate production from nuclear activities are excluded as well as companies where 5% or more of its installed capacity comes from nuclear sources. While we acknowledge that power production and sources used can fluctuate from year to year, there should be no significant and/or structural increase in the use of nuclear power.

(3) In order to show that the company is evolving in the right direction and while acknowledging that power production and the sources used can fluctuate, especially when based on solar or wind, the company should structurally increase its production or capacity of renewable energy sources.

(4) Moreover, the company shall meet at least one of the following criteria:
   - Have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi 'Business Ambition for 1.5°C' commitment
   - Derive more than 50% of its revenues from contributing activities
   - Have more than 50% of CapEx dedicated to contributing activities

OTHER EXCLUSIONS

Companies that conduct non mandatory (obliged by a government) research on living animals for non-medical reasons are automatically excluded from the investment universe.

Are also excluded from the investible universe those companies that derive 5% or more of their revenues from the production of alcohol-related products, gambling, adult entertainment and GMO's.

Additionally, to the subsector exclusion factors we have a negative screening on companies which are considered to be involved in (very) severe controversies. We base ourselves on the exclusion list of both Nordea[3] and Norges Bank[4] as both institutions are highly respected within the responsible investment community. Investments must also adhere to the exclusion list compiled by Financité[5] through their so-called "Liste noire Financité" which checks the adherence by the company to the principles of the international conventions which have been ratified by the Belgian Kingdom[6] on human, social and civil law as well as on the environment and governance. Given that the "Liste noire Financité" is a compilation of several blacklists, only companies that are mentioned by at least 2 independent sources are excluded. This in order to avoid potential biases.

IMPLEMENTATION OF THE EXCLUSION POLICY WITHIN THE FUNDS OF ORCADIA AM

Investment is not allowed in companies which do not pass the screening process described above. Investments already present in the fund that no longer pass the screening process must be sold within 3 months. This negative screening of the existing portfolio is done biannually.

In case there would be a new (very) significant controversy on a potential investment which is not excluded (yet) in the negative screening, the investment managers will refrain from investing in this asset awaiting the updated screening. In case a potential very significant controversy would emerge on a company or country already in the portfolio, the portfolio manager will describe the issue based on publicly available sources and present it to the Investment Committee of Orcadia AM. Given that the ESG-principles are at the core of our investment process and at Orcadia AM at large, all major ESG issues are discussed there and a final decision is taken by the Committee. If the Investment Committee, based on the case put forward by the investment managers, decides that the controversy is effectively

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[3] https://www.nordea.com/en/sustainability/sustainable-business/investments/exclusion-list/

[4] https://www.nbim.no/en/responsibility/exclusion-of-companies/

[5] https://www.financite.be/fr/article/liste-noire-financite

[6] We use this additional layer as a (very) significant part of our investors (and potential investors) are either Belgium-based or have an affinity with the country

to be considered as (very) significant all investments in the company must be sold within the 3 months following the decision.

2. Best-in-class process

The exclusion policy described in above is only the first step in the sustainability process of the fund. The second, cumulative, step is a “best in class” approach, where, as implied by its name, the best scoring companies within a sector are withheld. For the management of the compartment the investible universe is reduced from the “standard” MSCI Eurozone index, which includes the largest listed companies in the eurozone, towards the MSCI SRI EMU Index. As such only the top 25% of companies within a sector are withheld. While this significantly reduces the potential universe in which we can invest this is a deliberate choice as we want our investments to be among the top performers in their sector.

This means that the rating from MSCI (from CCC – the weakest to AAA – the very best) is the first element in determining our internal assessment of the company (from “below average” over “average”, “above average”, “good”, “very good” to finally “excellent”). However, given that non-financial assessments are more prone to discussion than financial figures and we want to avoid to invest in companies which would be viewed as clearly below average by other evaluators, we make a crosscheck based on the views of S&P[7] (formerly RobecoSAM) and Sustainalytics[8]. If this crosscheck does not contradict the rating of MSCI the final internal assessment (see above) is attributed and the company can be included in the portfolio. If however based on the crosscheck we arrive at the conclusion that the MSCI rating might paint a too rosy image, we will evaluate on publicly available information if a significant issue might effectively be present. If such an issue would be present, the stock will be excluded from the investible universe. In this case no new investments may be made in the stock and all existing positions must be sold withing 3 months. If the information would be inconclusive, the issue will be discussed in the investment committee which will have the final word on the exclusion out of the investible universe.

Bi-annually, the portfolio managers check the inclusion within the MSCI SRI index and the ESG-scores attributed by MSCI, S&P and Sustainalytics. If a company is no longer a member of the MSCI SRI Index or if the internal assessment is not at least “above average”, the position must be sold within the next three months. An ad-hoc analysis will be made if and when a (very) severe controversy appears on a company. If based on the available information the portfolio managers would arrive at the conclusion that the company would presumably no longer be in line with the values and norms to which the fund adheres and its internal assessment would fall below “above average”, the company will be excluded from the universe, thus automatically excluding new investments and triggering a mandatory sale of the position within 3 months. If the information would be inconclusive, the issue will be discussed in the investment committee which will have the final word on the exclusion out of the investible universe.

[7] Obtained from Bloomberg data feed

[8] Obtained from Bloomberg data feed

3. Engagement

STEWARDSHIP – OUR VIEWS AND APPROACH

- Orcadia AM is convinced that the asset management industry has a key role to play to promote sustainability in a broad sense.
- Orcadia AM has been set up with the idea of
  - (a) allowing investors to invest in a sustainable way without compromising on quality, and
  - (b), through our success, pushing other asset managers into becoming more sustainable.
- Shareholders can exert pressure on the conduct of the corporation through various channels:
  - dialogue,
  - contest vote,
  - resolution proposal,
  - alliance with other shareholders through platforms (such as Shareholders for Change and Climate Change 100+),
  - exit.
- Orcadia AM does see the promotion of sustainability as coming first from investing only in assets of sustainable issuers (through a combination of an exclusion list with a "best in class" approach). Orcadia AM does not consider that investing into non sustainable equities in order to be able to exert pressure at the general assembly as an efficient and desirable way of promoting sustainability.
- To invest only into sustainable securities could be seen as reducing the importance of engaging a dialogue with the corporations the asset manager is investing into and of behaving as an active shareholder at general assemblies. Nevertheless, Orcadia AM is has an engagement policy, mainly through a highly regarded specialized third party.
- Orcadia AM deems that to be part of a large community of asset managers sharing the willingness to promote sustainability and that to have this community speaking with a single voice at general assemblies is an efficient way of exerting pressure on corporations.

ENGAGEMENT PROCESS

Orcadia AM has concluded a fixed-term proxy voting contract with ISS, a global leader in the domain. As stated, it does not mean that we always share the views of ISS. We are aware that a proxy voting company as ISS may have diverging priorities, and may, for instance, let prevail the private interest of the shareholders against other stakeholders. Nevertheless, our view is that to act jointly is most often more impactful than acting on her own, especially given our still limited size.

We wanted to operate through a global player, in order to maximize the impact, and, having therefore to choose between the two leaders, ISS and Glass Lewis, we have decided to work with the former one, as it appeared from our due diligence that they devoted more attention to ESG considerations, which is of utmost importance for Orcadia AM. As the pricing of both offers was the same this has not impacted our choice.

Through the contract with ISS Orcadia AM votes at the general assemblies of all corporations our mutual funds are invested in. ISS does analyze all items submitted to general assemblies and, on the basis of their criteria, which, as stated, do include ESG considerations, does indicate, for each item, if a vote for or against the point submitted to the shareholders appears appropriate. As shareholders, the mutual funds managed by Orcadia are, of course, free to vote as desired, without being bound by the contract with ISS but, by default, the votes of Orcadia AM will follow the recommendation of ISS. Again, in order not to undermine the impact of ISS, Orcadia AM has the policy of following the recommendations provided by ISS, having informed ISS that ESG considerations are of critical importance to Orcadia AM. Should it appear that Glass Lewis or a – still to come – other major actor is pursuing a more sustainability-oriented agenda than ISS, we are determined to change provider. Incidentally, the bank where our mutual funds are in custody is used to work with both ISS and Glass Lewis. As such, from an administrative point of view, changing proxy voting partner would be easy. It allows us to be credible in exerting pressure on ISS in order to see it granting increasing attention to ESG considerations.

We have given ISS a mandate to vote for our funds under its sustainability proxy voting program[9]. On matters of ESG import, ISS' Sustainability Policy seeks to promote support for recognized global governing bodies promoting sustainable business practices advocating for stewardship of environment, fair labor practices, non-discrimination, and the protection of human rights. This policy will take as its frame of reference internationally recognized sustainability-related initiatives such as the United Nations Environment Programme Finance Initiative (UNEP FI), United Nations Principles for Responsible Investment (UNPRI), United Nations Global Compact, Global Reporting Initiative (GRI), Carbon Principles, International Labour Organization Conventions (ILO), CERES Roadmap for Sustainability, Global Sullivan Principles, MacBride Principles, and environmental and social European Union Directives. Each of these efforts promote a fair, unified and productive reporting and compliance environment which advances positive corporate ESG actions that promote practices that present new opportunities or that mitigate related financial and reputational risks. On matters of corporate governance, executive compensation, and corporate structure, the Sustainability Policy guidelines are based on ISS' commitment to create and preserve economic value and to advance principles of good corporate governance.

Information about what is guiding the voting recommendations of ISS as well as how ISS voted on our behalf is available to our clients upon request.

[9] ISS International Sustainability Proxy Voting Guideline