

# ***Protea Orcadia Equities EMU SRI Ex Fossil ESG and Exclusion Policy***

Last update: June 23

The ESG and Exclusion Policy described hereunder is specific for the fund and comes as a complement to Orcadia AM's global ESG and Exclusion policy. Policy elements which are covered in the global, and which are less strict than the ones covered here are not repeated.

## **1. Exclusion Policy**

### **WEAPONS AND WEAPON SYSTEMS**

Weapons and weapon systems such as nuclear warhead, cluster munition, anti-personal and landmines, depleted uranium, biological & chemical weapons as well as incendiary weapons are considered to be controversial weapons. Companies which have any tie in these weapons systems are automatically excluded from the investible universe as these kinds of weapons have an 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 and related are excluded.

### **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-related products and companies that derive more than 5% of their aggregate revenues from the production, distribution, retail etc of tobacco-related products.

### **COAL, OIL & GAS**

We have decided to exclude all producers of fossil fuels classified under the GICS Sector "Energy". 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.

## **ELECTRICITY GENERATION**

As electricity produced by burning coal is significantly more polluting than electricity produced from other sources of fossil fuels, we excluded all companies that derive 5% or more revenue from thermal coal-based power generation.

While during the production of electricity through nuclear power there are no CO<sub>2</sub> 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.

## **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.

Orcadia AM doesn't want to finance in any way controversial regimes, which we define as countries with (1) high levels of corruption, (2) fundamental breaches in human rights or (3) a complete lack of political freedom. It is clear that countries subject to international sanctions as specified by the United Nations Security Council Sanctions list or under an "asset freeze" from the European Union are also excluded from financing. Those jurisdictions which are considered by the Financial Action Task Force as high risk and subject to a "Call for Action" are considered uninvestible also. As such the fund is not allowed to directly invest in equities whose primary listing in is these countries

## **OTHER POINTS**

At this stage, no specific analysis is applied on single criteria such as biodiversity, water use, pollution and waste, gender and diversity or taxation. Given however that the minimum ESG-score for inclusion in the MSCI SRI Indices, which we use as inspiration to determine our investible universe, is AA we feel that it is (highly) unlikely that we would not meet minimum standards on these topics.

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

## 2. ESG Evaluation approach

A first screening is made based on the membership of the MSCI SRI index of the eurozone. A company which is a member of the standard MSCI index but not a member of the MSCI SRI-index cannot be included within the portfolio as we want companies within the selection to be among the top performers in their sector based on the SRI criteria from MSCI.

As a crosscheck the inclusion candidate is also evaluated based on the ESG-score calculated by RobecoSAM<sup>1</sup> and Sustainalitics<sup>2</sup>. The combined score is compared with the respective sector. In order to be allowed for inclusion the combined global ESG-score should be better than the median of its sector and each of the combined subscores (E,S&G) should be at least in the 75<sup>th</sup> percentile to avoid that a company with an awful score on a sublevel can be included just because it scores very well on the other subscores.

If there is only data available from one of the providers, we can still include the investment, provided of course the screening is passed. If the 2 approaches would be severely contradictory, the portfolio manager makes a qualitative assessment of the ESG-profile of the company, taking special attention to the part where the outcomes would contradict, and presents the case to the Investment Committee of Orcadia AM. In the rare cases where neither Sustainalitics nor RobecoSAM data would be available the investment manager prepares a case based on publicly available information and discussions with company management and/or investor relations which will be presented to the investment committee which decides whether or not to include the name. Ideally this will be done by analyzing a similar company which scores well in either the Sustainalitics or RobecoSAM ranking showing for the relevant elements<sup>3</sup> how the company scores relatively versus peers based on a qualitative assessment by the portfolio manager.

Bi-annually, the portfolio managers check both the inclusion within the MSCI SRI index and the combined global ESG-score and subscores as calculated by Sustainalitics and RobecoSAM. If a company is no longer member of the MSCI SRI index, or if the combined global (sublevel) ESG-score as calculated by Sustainalitics and RobecoSAM falls below the median (75th percentile), the position must be sold within the next 3 months. Annually (or ad hoc if a significant change in the situation would warrant it) the companies for which no Sustainalitics or RobecoSAM score is available are evaluated by updating the relevant information by the portfolio manager. The portfolio manager assesses the position based on the updated information. If it would appear that, based on the assessment, the company has become more similar to the worst 50% of the sector the case is presented to the investment committee. If the committee decides against keeping the position within the portfolio, it must be sold within three months.

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<sup>1</sup> Obtained from Bloomberg data feed

<sup>2</sup> Obtained from Bloomberg data feed

<sup>3</sup> Relevant elements are inspired by the Bloomberg XLTP tool on ESG

