Protea Orcadia Global Sustainable Sustainability Policy

Last update: June 23

The founders and employees of Orcadia AM are convinced that financial investments can have an important role in how we shape the world and, in our view, a positive impact can be obtained in several ways like for example thematic investments (clean energy, water, …). We have chosen for a holistic approach including certain economic sectors which some would consider as inherently unsustainable or ESG-unfriendly, such as metals and mining of cement production to name but two. Not only are those sectors often necessary for economic development but we also strongly believe that through his investments an investor can nudge companies and countries to make efforts. This explains our choice for the "best in class" approach since it is a positive approach by selecting the leaders versus the laggards within a sector. This pushes companies to improve in order to become (or stay) investable. In our view exclusion of complete sectors would take away the carrot for improvement (why improve if independently of your efforts you will not become investable anyway). However, some kind of behavior or sectors are not in line with our values and philosophy and are for us "uninvestible".

This document describes the approach used within both Protea Orcadia Global Sustainable fund compartments (Balanced and Dynamic). 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

United Nations Global Compact

The United Nations Global Compact formulates 10 universal sustainability principles which relate to human rights, labor, environment and anti-corruption. Companies which are severely violate these principles are automatically excluded from the investment universe of our funds. Compliance with this rule is assured as a company must either be included in a relevant MSCI ESG index or pass a screening by the portfolio managers.

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 which derive 5% or more of their revenue from the production of both traditional tobacco products, tobacco-related products (such as e-cigarettes) and supporting services such as filters, smoking halls and the like. Companies that derive more than 15% of their aggregate revenues from the sales and distribution, of such products are excluded also.

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 (like for instance white phosphorus) are considered to be controversial weapons. Companies which have any tie 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 10% or more of their revenues (5% for the production of firearms and ammunitions for civilian markets) from the production of conventional weapons and related are excluded.

COAL AND UNCONVENTIONAL OIL & GAS

More than other sources of fossil fuels coal and unconventional oil and gas pose environmental, climate and social risks. While it is clear that our society will continue to depend for years to come on fossil fuels to function, we think that it is important that in order to reach the Paris agreement this kind of fossil fuels should be discouraged the most. As such we exclude companies deriving 5% or more of their aggregate revenues 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 deposits), coal seam gas and coal bed methane)

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_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 10% or more of their aggregate revenue from nuclear activities are excluded.

CONTRACTS ON AGRICULTURAL COMMODITIES

Orcadia AM doesn't want to be involved in any speculation on food, which is a basic necessity for everyone on the planet. As such the funds will not invest in any soft commodity futures or contracts.

The exclusion of commodities goes beyond soft commodities and encompasses all raw materials. This strict approach is driven by our desire to avoid the controverses which are often linked to the production of commodities. Moreover, we wish to offer our clients clear, easy to understand, plain vanilla products.

CONTROVERSIAL REGIMES

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 univestible also. As such the fund is not allowed to directly invest in debt issued by these countries, their state-owned companies or in equities whose primary listing in is these countries

OTHER EXCLUSIONS

Are also excluded from the investible universe those companies that derive 10% or more of their revenues from the production of alcohol-related products. The same threshold is applied for companies deriving at least 10% of revenues from the ownership or operation of gambling-related business activities.

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[1] and Norges Bank[2] as both institutions are highly respected within the responsible investment community. Direct equity investments as well as investments in corporate bonds must adhere to the exclusion list compiled by Financité[3] 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[4] 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 exclusion process described above. Investments already present in the fund that no longer pass the exclusion 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

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

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

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

[4] 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

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. 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.

A. Individual Lines

This part describes the direct investments made within our funds, be it equity or bonds. It does not apply to indirect investment through either ETF's, funds or the like

EQUITY INVESTMENTS IN "LARGE CAPS"

We consider a company to be a large cap if its capitalization is sufficiently high to be included in the relevant regional MSCI Standard Index.

For large cap equity investments, a first screening is made based on the membership of the MSCI ESG index of the region. A company which is a member of the standard MSCI index but not a member of the MSCI ESG-index of the same region cannot be included within the portfolio as we want the large caps within the selection to be among the 50% best performers in their sector on the ESG criteria from MSCI.

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"), which lead to an ESG advice "can be bought", "Can be maintained" or "to be sold". 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[5] (formerly RobecoSAM) and Sustainalytics[6]. 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 this would be the case, 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.

[5] Obtained from Bloomberg data feed

[6] Obtained from Bloomberg data feed

Bi-annually, the portfoliomanagers check both the inclusion within the relevant regional MSCI ESG-index and the ESG-scores as calculated by MSCI, Sustainalitics and S&P. The internal assessment should be at least "above average" in order for the position to be maintained within the fund. If this is not the case the position must be sold within the next three months.

EQUITY INVESTMENTS IN "SMALL CAPS"

We consider a company to be small if its market capitalization is too low to be a member of a regional MSCI standard Index. Given that they are not a member of the standard index by construction the company cannot be a member of a regional ESG-index. However as we do not automatically want to exclude investments in small(er) companies, the non-membership of an ESG-index is no issue for as long as the company isn't a member of the Standard Index either (in which case we would consider the company a "large cap").

If and when available, the rating from MSCI is, similarly to the large caps approach, the first element in determining the internal assessment of the company. Again similarly to large caps above, if available, a cross check is made based on the views of S&P and Sustainalytics. 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 this would be the case, 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.

If no MSCI ESG rating would be available the decision on inclusion in the investment universe will be made on the internal assessment which in this case would be solely based on S&P and / or Sustainalytics.

If no ESG rating would be available from either MSCI, S&P or Sustainalytics the internal assessment is made based on publicly available information and discussions with company management and/or investor relations and this both based on both quantitative and qualitative elements.

Annually (or ad hoc if a significant change in the situation would warrant it) the smaller companies in the portfolio are evaluated based on the internal assessment of the company (see above). Given that for small(er) companies it is typically harder to obtain very good ESG-scores, companies with the internal advice "can be maintained", typically companies whose ESG-credentials are more or less in line with their sector, there is no obligation for the investment manager to sell them within 3 months. Positions can however only be maintained and not increased (only allowed for companies with the advice "can be bought"). Companies with the internal advice "to be sold" must be eliminated from the company within 3 months after publication of the advice.

INVESTMENTS IN CORPORATE BONDS

For investments in corporate bonds the approach is very similar to the one in equity investments. If the parent company of the bond emission is a large cap it suffices to follow the approach described within equity in order to be allowed to include the "large cap bond". The evaluation of existing "large cap bonds" is done in a way similar as the one described in the "large cap equity" approach.

In case the parent company is either a small(er) cap or an unquoted company, the approach as described in the small cap equity part above should be used. The evaluation of existing "small cap bonds" is similar to the one described in the "small cap equity" part.

In case of a negative evaluation of existing positions in either large of small cap bonds, the entire position must be sold within the next 3 months. In case of doubt the decision should be escalated to the investment committee

INDIVIDUAL LINES IN SOVEREIGN BONDS

While for equities and corporate bonds we can – at least for part of the universe – rely on external sources in order to assess the extra-financial ESG-criteria this is not / less the case in sovereign bonds. As such we have developed an in-house ESG-methodology for this kind of investments.

In order to attribute a sustainability rating for a country we start from the notion that "sustainable development is a development that meets the need of the present without compromising the ability of future generations to meet their own needs".

In our view this is not limited to the protection of the environment but should also allow the population to thrive and advance both socially (i.e. education) and governance wise (i.e. freedom of speech). We attribute to each of those elements (E, S & G) the following weights. Note that – in line with what we view as best practices – we give a higher weight to the governance aspect as it is in our view (together with potentially the social dimension) the main lever a country has as good governance will create a stable and free environment allowing the two other elements to be reached due to the willingness of companies and citizens to invest for the longer term under such conditions.

Environmental dimension (20% weight): High environmental challenges can have a significant impact both directly through the cost of repairing the damage and indirectly through the increased health costs and loss of productivity thus reducing the fiscal strength of the country and the sustainability of its finances. High dependence on fossil energy increases the vulnerability of the country given the risk of abrupt price movements or even supply shortages.

Social dimension (30% weight): a weak social climate dominated by labor unrest, inequality or lack of participation can create significant investment risks. It can evolve in violent turmoil disrupting trade and / or manufacturing and paralyze policymaking. Moreover, in more extreme cases it can lead to popular uprising and thus to the inability or unwillingness for the country to honor its promises.

Governance dimension (50% weight): Good and honest governance is not only important for the people inhabiting a country but also for investors. Freedom of the press to expose dishonesty, a strong rule of law and a low corruption index are important parameters to evaluate to which extent public power is exercised to protect the interests of a small group at the expense of the economy and society at large.

The calculation of the scores we attribute to different countries are based on the detailed database of the United Nations but also on other data such as Bloombergs Healthcare System. For each data point we apply a normalization process based on a z-score. Scores between 0 and 1 are assigned based on the average and standard deviation within the distribution of the sample of data points. Those z-scores enable a comparison with its peers. The global score of a country is the weighted z-score for the different elements shown above and is updated yearly. To evaluate the proprietary model, we compare the obtained score with the information and ranking that is produced by SolAbility[7]

In order to be allowed to include a country the obtained z-score must be at least 50%. In the event that – due to events during the year (i.e. dictator taking power, very significant deterioration of freedom of the press, …) – in all likelihood the ranking of a country would fall below the 50% threshold, all new investments in this country will be suspended. Existing positions however must not be sold immediately. Sovereign bonds from a country which is no longer deemed "investible" based on the country sustainability rating after an update of the bond-ranking must be sold within 3 months.

B. Third Party Funds and ETFs

INDEXED FUNDS AND ETFS

In order to accepted as an investment, indexed funds or ETFs must have one of the local MSCI ESG / SRI indices or a similar well-recognized provider as benchmark.

ACTIVE FUNDS AND ETFS

A first selection (filter) to reduce the vast universe of active funds is through a filter based on reputable data-providers such as MSCI (Fund Ratings) or Morningstar (Globes). In order to be included a fund should have either a minimum of 3 Morningstar globes or an MSCI Fund rating of BBB, which would means the fund is above average compared to its peers. If those sources would not be available the presence of a label such as LuxFlag, Towards Sustainability or a similar reputable label agency would suffice also.

When investing in third party active funds we want to gain an understanding of the overall philosophy on responsible investment / ESG is and how it compares with our own believes and policy. Ideally this understanding comes from a thorough one-to-one discussion with the lead investment manager(s) of the fund. However, given that Orcadia AM is both still a young and relatively small investment company this is not always possible. In this case we have discussions with the specialized sales or attend presentations to be able to form an idea of the investment approach, the ESG-policy and its role within the investment strategy.

During the one-to-one sessions we try to obtain – besides of course the general investment approach which must adhere to the way we want to invest – a better understanding of how the ESG-factors are incorporated within the decision-making process (i.e. investment universe, allocation, portfolio construction and follow up) and what weight they have within the decision-making process and the investment decisions. Often this is done through the use of examples of investments within the portfolio of the fund in question.

Ideally, we arrive at the selection of an experienced manager which has a long term investment philosophy on responsible investments which is closely aligned with our views and who is able to thoroughly demonstrate how ESG-factors are integrated in their research and investment decisions. We are however – give that we are a young company ourselves – willing to work with managers that are new to the ESG investment philosophy for as long as they are committed to being aligned with our philosophy on responsible investment.

[7] https://solability.com/the-global-sustainable-competitiveness-index/the-index/

Annually the funds in the portfolio are evaluated to make sure that they still pass the inclusion filter of either a minimum of 3 Morningstar Gobes or an MSCI Fund Rating of BBB. In case there is no information available form either source a label from a reputable ESG-labeler would suffice also. We have on a regular basis meetings with the fundmanagers and / or sales representatives if unable to meet the manager of the funds in which we invest in which we evaluated the adherence of their approach with ours. In case the fund would no longer pass the updated filter or if we would arrive at a negative philosophy adherence conclusion, the position will be sold within the next three months.

C. Derivatives

Derivatives can be very useful within the portfolio construction process of a fund as it allows the manager to quickly take positions in certain markets or help protect the portfolio in tumultuous market conditions as they can be invaluable to reduce the overall risk in the portfolio (short futures or option strategies). They can also be an attractive source of return when selling put or call options in volatile markets.

If the derivative in which the fund manager wants to invest is a direct line the investment is only allowed if the underlying would be acceptable from an ESG angle.

Derivatives on equity indices present a challenge from an EGS part of view. They are rarely available (or if it is the case sufficiently liquid) on ESG-indices but they can offer significant value for the investor due to their non-linear outcome (i.e. downside protection while keeping upside potential). Given these benefits our ESG policy allows the use of these instruments on “traditional” indices for as long as it represents a (very) limited and temporary situation (not continuously present in the portfolio).

D. Cash and cash-like instruments

For as long as the deposit bank or the short term instruments used are not in violation with our exclusion policy no ESG analysis is required for as long as the holding period is less than 1 year.

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[8]. 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

[8] ISS International Sustainability Proxy Voting Guideline

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.