Saemor Capital B.V.

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Responsible Investment Policy

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Introduction

Saemor Capital B.V. is dedicated to conducting ourselves in accordance with the highest legal, ethical and professional standards in our business. We pride ourselves on being an investment boutique with an institutional infrastructure. In the investment process we aim to have a balance between our main objective (providing high risk-adjusted returns over the course of the business cycle) and our responsibility to society at large. We consider the responsibilities of stewardship to be part of our fiduciary duty to our clients and other stakeholders. This note explains our policy with regards to responsible investment in more detail.

In January 2011, Saemor became a signatory to the United Nations-supported Principles for Responsible Investment ("PRI") under Aegon Asset Management. The PRI commits asset owners and managers to advocate for and integrate considerations for ESG factors in the investment management process. Through the PRI membership, we recognize the importance of ESG integration in contributing to investment excellence and stable, long-term returns.

Saemor Capital is also a member of the PRI hedge fund working group, responsible for developing standards for hedge funds. The Principles are aspirational in nature. 'As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Next to the PRI, our policy is guided by the following international frameworks relevant to responsible investment: UN Global Compact and OECD Principles of Corporate Governance.

Our approach

ESG is a general term for an investment approach that takes into account the environmental, social and governance impact when making investment related decisions. There are several approaches by which funds can incorporate ESG information into their investment strategies. It can be as simple as screening out companies from an investor's universe that rank poorly on ESG criteria. The ESG philosophy can also take on a much more rigorous approach where investors incorporate specific ESG data towards companies or industries as an integral component of their investment analysis and decision process.

In our flagship fund, we have chosen to:

1. integrate environmental, social and governance factors into our investment process under the condition that these factors improve the risk/reward of our stock selection and portfolio construction models;
2. exclude non- compliant listed companies (‘exclusions list’). The approved list of stocks is still large enough to enable Saemor Capital to fully utilize its existing investment strategies;
3. limit our exposure to stocks, where ESG issues could impact its financial performance (‘restricted list’).

For clients who have customized ESG guidelines, we have the capacity to tailor portfolios incorporating their goals, risk budgets and investment restrictions. We are able to offer managed accounts to investors via our managed account platform.

Whether any given firm is well managed and whether shareholders are fairly treated directly affect expected returns through the generation of future cash flows and the control of cash flow distribution between stakeholders. Issues concerning employee health, safety and turnover can impact shareholder value. ESG issues can have an impact on a company’s financial performance, and thereby investment performance. This is the main reason why we actively pursue an ESG policy; it is part of our fiduciary duty. ESG integration is part of each team member’s responsibility throughout the entire investment process.

ESG integration

We apply ESG principles in our day-to-day management. Our investment approach is pragmatic and empirical, and we do not treat ESG any differently. We assess the merits of ESG adoption by looking at empirical and objective evidence on ESG investing. A number of ESG factors are included into our investment process. These factors are selected on their alpha appeal and added value. If performance results of an ESG strategy is equal to or better than other investment strategies (e.g. value and momentum), then an ESG strategy will be included in our stock selection criteria. Sustainable companies tend to score highly on these factors: Dividend Growth Stability, Earnings Growth Stability, Accruals, Asset Turnover, Capex-to-Depreciation, Earnings-to-Employees, Debt Change and Debt-to-Assets.

We may attempt to use specific ESG datasets to potentially uncover untapped sources of alpha and/or risk diversification. Saemor Capital has access to ESG research data from third party providers (e.g. Sustainalytics, Bloomberg, MSCI and Thomson Reuters’ Asset 4). We evaluate the ESG scores from these different data sources to assist with the screening and analysis of companies based on sustainability factors as opposed to conventional financial metrics. The ESG scores attempt to gauge a company's impact on environmental, social, and governance pillars.

Exclusions List

Companies on our Exclusions List will not be included in the portfolio. This differs from our Restricted List which limits position sizing for companies with ESG flags but are still allowed in the portfolio. There are approximately 140 companies on the Exclusions list. Most of these companies are based in the U.S. and Asia with very low representation from EMEA countries. The categories on the Exclusion List include, among others, Tobacco, Controversial Weapons, Coal Mining and Palm Oil.

Restricted List

As mentioned earlier, companies on our Restricted List are allowed in the portfolio but are limited as to their position sizing if they have ESG flags.

We prefer to avoid or limit the exposure to weakly governed firms as part of our broader investment strategy. If we feel a company does not – and will not within a reasonable time period - meet our ESG standards and that these issues could have a material impact on the share price, we may limit the exposure to 0% and thus implicitly exclude these companies from our investment universe.

A number of our portfolio managers are responsible for company research. They assess the impact of financially material ESG issues and take this into account in the decision-making processes.

This is one pillar of our fundamental risk overlay. Portfolio managers can restrict the potential holding size of a particular company. These restrictions are fed into our portfolio construction process.

Since 2016, we adopted stricter holding limits for companies with a controversy red flag, i.e. those companies experiencing an ESG controversy. This was implemented in our flagship strategy. The holdings restriction for such stocks was brought down to 2% at cost (both long and short)

Engagement

We have established a process to engage with companies of concern that do not qualify for exclusion (inclusion on the restricted list).

We can engage directly, through third parties or collaborative initiatives as appropriate to the situation. We collaborate with our strategic partner Aegon Asset Management. Companies that are associated with serious controversies related to the environment, human rights and customer related concerns, and where we expect to have the greatest impact. This is a narrow list as European companies typically score very well on ESG measures within the global landscape. Constructive dialogues have been established with various European companies in collaboration with external partners, like Eumedion, IIGCC and PRI.

Meetings with company representatives (C-level, investor relations) provide a forum for fundamental portfolio managers to discuss ESG topics with management. Being a quantitative manager we however rarely have one-on-one meetings with company management.

Voting

We acknowledge that casting proxy vote ballots at company meetings serves to promote good corporate governance and to protect/enhance shareholder value. The right to vote at company shareholder meetings is a fundamental part of a well functioning corporate governance system and Saemor exercises this right, where appropriate and possible. Shares that are rehypothecated or included in a portfolio swap or CFD prevent us from voting.

Saemor has put in place the infrastructure necessary to vote with the assistance of our prime brokers. We will act as a responsible owner if the investee company is associated with serious controversies related to the environment, human or labour rights or governance, by exercising our voting rights and/or filing resolutions, where appropriate and possible. This will only be the case in rare instances where we maintain significant holdings in the investee company over a longer term period. We will not borrow shares with the purpose of voting those shares.

ESG training

In order to make the most of the opportunities that ESG integration offers, we read and conduct ESG research and attend webinars/seminars about ESG and other RI matters. This is a continuous process. Saemor encourages all employees to develop themselves by means of training and courses. Saemor uses external courses such as the PRI Academy's Responsible Investment Essentials for training employees.

Implementation of policy

We regularly examine whether our portfolio adheres to the Responsible Investment policy. There is both pre-trade and post-trade compliance based on the Exclusions and Restricted List. Risk control, exposure monitoring and performance analysis are conducted on an ongoing basis. Our governance structures provide appropriate levels of oversight in the areas of disclosure, valuation, audit, risk management, and potential conflicts of interest and to implement compensation and other policies that align the interests of management and investors.

At the Annual Meeting of Participants, we report on our activities and excluded names in the universe. When the ESG analysis shows that a portfolio holding should be excluded, the compliance officer will instruct the portfolio manager to close the position within three months.