

# INFORMATION ON SUSTAINABLE INVESTMENT OBJECTIVES

## VARENNE GLOBAL

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This document provides information on sustainable investment objectives conforming with Article 10 of the Regulation (EU) 2019/2088 (SFDR).

### Summary

This financial product promotes environmental and social (E/S) characteristics in accordance with Article 8 of the Sustainable Finance Disclosure Regulation (SFDR) but does not have as its objective sustainable investment.

The financial product systematically incorporates the identification and measurement of sustainability characteristics in their *Long Equity - Enterprise Picking* investment process by generating proprietary ESG scores through a review of 40 factors, an analysis of environmental, social, and governance factors, alongside conventional analysis. This strategy represents more than 50% of the assets of the financial product.

### No significant harm to the sustainable investment objective

This financial product promotes environmental and social characteristics but does not have as its objective sustainable investment.

### Sustainable investment objective of the financial product

The financial product systematically incorporates the identification and measurement of sustainability characteristics in their *Long Equity - Enterprise Picking* investment process by generating proprietary ESG scores through a review of 40 factors, an analysis of environmental, social, and governance factors, alongside conventional analysis.

The *Long Equity - Enterprise Picking* strategy represents more than 50% of the assets of the financial product.

In addition, the Sub-Fund will apply on the Long Equity-Enterprise picking strategy an exclusion policy that provides for excluding of companies operating in areas such as controversial and nuclear weapons, pornography, tobacco or are found to be in breach of the UN Global Compact principles as covered and assessed by the Sub-Fund's data provider.

Finally, the Management Company will engage with companies held in the Sub-Fund that have a bottom quintile ESG to promote positive change in their ESG disclosures and/or ESG practices.

**Investment Strategy**

The Management Company has determined a list of ESG factors that are considered material to the companies in which the Sub-funds might invest. The weight that is placed on these factors and the manner in which the Management Company takes into consideration the risks and opportunities from these ESG factors varies by sectors/industries and impacts the internal scoring definitions scale (0 worst– 5 best) that is consistently used to assign internal ESG scores. The aggregate ESG scores are the weighted average of the E, S and G scores for the securities, utilizing weights that can vary by sector/industry.

Internal ESG scores and other relevant criteria are reviewed at least annually, and the Sub-Fund’s investment holdings on Long Equity - Enterprise Picking is reviewed before investment for compliance with the Sub-Fund’s ESG criteria. As such, this dedicated ESG analysis module is an integral part of the pre-investment analysis process: for a given company, an ESG score is given on a scale (0 worst– 5 best); if the ESG score is less than 3, then the company is not eligible for investment, no matter how strong the other analysis modules may be.

Below are the key environmental, social and governance factors that the investment team considers material to its internal ESG Scores.

<b>E factors</b>	<b>S factors</b>	<b>G factors</b>
<ul style="list-style-type: none"> <li>- Carbon emissions</li> <li>- Energy and Water Management Opportunities</li> <li>- Waste &amp; Hazardous Material Management</li> <li>- Biodiversity Impact</li> </ul>	<ul style="list-style-type: none"> <li>- Employee Health &amp; Safety</li> <li>- Employee Engagement, Diversity, and Inclusion</li> <li>- Human Rights &amp; Community Relations</li> </ul>	<ul style="list-style-type: none"> <li>- Corporate Governance</li> <li>- Business Ethics</li> <li>- Tax Transparency</li> <li>- Regulatory Risk</li> </ul>

Also, this Sub-Fund applies an exclusion policy that provides for excluding of companies operating in areas such as controversial and nuclear weapons, pornography, tobacco or are found to be in breach of the UN Global Compact principles as covered and assessed by the Sub-Fund’s provider.

In addition, the Management Company considers it essential to be an active investor on behalf of the funds it manages and to participate in the consideration of environmental, social and governance issues through an appropriate voting policy.

The Management Company will engage with companies in the bottom quintile of the Sub-Fund to improve ESG disclosure and/or improve ESG practices. Engagement is integral to our fundamental research process, providing a framework for dialogue to actively support, influence or change ESG practices that may have a material impact on a company’s ability to preserve or grow its economic value. In addition, the Management Company participates in a pooled engagement action. This allows the company to be part of a more global and broader approach and push for governance improvements in a wider universe than just the companies present in the Sub-Fund.

## Investment Proposition

The Management Company systematically incorporates the identification and measurement of sustainability risk in their Long Equity - Enterprise Picking Investment, which will represent a minimum of 50% of the assets managed by the financial product.

The remaining will be constituted by the other strategies of the Sub-Fund such as Special Situations, Financial contracts, cash, or cash equivalents.

## Monitoring of Sustainable Investment Objective

In order to monitor the sustainable investment objective of the financial product, four elements are tracked as binding criteria to the selection process:

- To ensure the promotion of both environmental and social characteristics as well as good governance, the financial product portfolio-level aggregate ESG score will be better than the financial product's (average score) investment universe.
- Any target company must have an internal ESG score equal or higher than 3.
- No invested securities will be in breach of the UN Global Compact principles (as covered and addressed by our provider).
- There will be a formal engagement plan for each security held in the Sub-Fund that has a bottom quintile ESG score.

## Methodologies

The following paragraph presents different methodologies corresponding to E/S characteristics maintained by the financial product:

- Internal ESG Scoring:

Varenne Capital has developed a proprietary ESG scoring methodology. The Management Company has determined a list of criteria which combine ESG and sustainability risk indicators that are considered material to the companies and sectors in which the funds might invest.

The Management Company considers that the materiality of risks and opportunities varies by sector/industry; and as such impacts the internal definitions that are used to assign internal ESG scores on a scale of 0-5. The aggregate ESG scores are the weighted average of the E, S and G scores for the securities, utilizing weights that vary by sector/industry.

The scoring methodology combines both quantitative and qualitative analysis in 40 separate indicators. This dedicated ESG analysis module is an integral part of the pre-investment analysis process. For a given company, if the aggregate ESG score is less than 3 (where 0 = worst and 5 = best), then the company is not eligible for investment, no matter how strong its performance on the other proprietary analysis modules may be.

<b>E factors</b>	<b>S factors</b>	<b>G factors</b>
<ul style="list-style-type: none"> <li>- Carbon emissions</li> <li>- Energy and Water Management Opportunities</li> <li>- Waste &amp; Hazardous Material Management</li> <li>- Biodiversity Impact</li> </ul>	<ul style="list-style-type: none"> <li>- Employee Health &amp; Safety</li> <li>- Employee Engagement, Diversity, and Inclusion</li> <li>- Human Rights &amp; Community Relations</li> </ul>	<ul style="list-style-type: none"> <li>- Corporate Governance</li> <li>- Business Ethics</li> <li>- Tax Transparency</li> <li>- Regulatory Risk</li> </ul>

In addition to sustainability metrics, factors related to the transparency and availability of information and the existence of robust internal processes, controls and procedures are also integrated into the scoring system.

The ESG score is reviewed, together with the other company fundamentals, at the Investment Committee meeting where a stock is deemed eligible for inclusion in our portfolio. Varenne Capital believes that environmental, social and governance factors are sustainability risk elements that, if not managed properly by companies, may alter their value creation dynamics over time and are material to their financial quality.

Internal ESG scores for each company in the portfolio and the scoring methodology are reviewed at least annually.

- Exclusions:

Varenne Capital excludes from its investment universe those companies with operations in areas such as controversial and nuclear weapons, pornography, tobacco, or companies which are found to be in breach of the UN Global Compact principles as covered and assessed by our providers. The criteria for exclusion are reviewed each year, with respect to the sectors considered and the percentage turnover exclusion limits.

Sector	Turnover % limit
Controversial weapons	Any Tie
Nuclear weapons	7.5%
Coal	25%
Pornography	2%
Tobacco	15%

- Voting and Engagement:

The Engagement strategy at Varenne Capital follows multiple layers:

- An adapted Voting Policy that takes into consideration environmental, social, and governance criteria.
- Regular dialogue between Senior Management and Varenne Capital for companies that are part of the *Long Equity - Enterprise Picking* strategy.
- Regular Engagement with companies that following the internal ESG scoring process, are identified as being in the bottom quintile in the strategy in order to improve ESG disclosure and/or improve ESG practices.
- Participation in the pooled engagement actions carried out by ISS. This allows the company to push for governance improvements and the overall promotion of more sustainable economic development in a wider universe than just the companies present in our portfolio.

### **Data Sources and Processing**

The Fund uses data from several sources: MSCI ESG, ISS ESG (proxy advisor for voting), Factset.

As part of the ESG rating process, a consistency check can be carried out quickly as the Analysts generally monitor several companies in the same sector, enabling them to detect any anomalies. In the event of an anomaly, the Analysts can escalate the data considered erroneous to the supplier for correction/explanation.

Analysts also carry out an in-depth due diligence of companies before investing, including extra-financial data, to ensure that abnormal data points do not skew the final rating.

To complete the research work, the Analysts also collect data (financial and extra-financial) supplied directly by the issuers, but they can also call on different types of experts for consultation.

### **Limitations to Methodologies and Data**

When evaluating a company or issuer on the basis of ESG criteria, the Management Company may depend on information and data from third parties, which may be incomplete, inaccurate or unavailable. As a result, the Management Company may face difficulties in accurately assessing a security or issuer based on these criteria. While the ESG data landscape is in the process of standardization, there may still be issues with data quality, as well as limitations concerning data coverage or scope. Current and future regulations will continue to improve the standardization of reporting and the corporate declarations on which ESG data is based. Varenne Capital is aware of these limitations, and is implementing a series of measures to mitigate their impact, notably through the following:

- Regular calls for tender to measure data quality.
- Using and utilizing multiple data sources (ESG data providers, but also public information published by issuers, calls with experts, news articles, etc.)
- Integration of our internal scoring methodologies that maintain a qualitative aspect to the research done by the Analysts

## Due Diligence

Varenne Capital puts in place different verification procedures regarding elements linked to ESG characteristics in the sustainable investment objective; notably:

- 1) On the internal ESG scoring:
  - a. Varenne Capital has for objective to update at least once per year the proprietary ESG scoring for each company in the *Long Equity - Enterprise Picking* strategy. The scores can also be updated following new information relating to specific issuers, sectors, or controversies.
  - b. Tracking external ESG scoring by different ESG providers and comparing the scores with the internal ESG scores in order to observe any glaring differences: finding discrepancies leads to reflection and may allow the team to detect potential anomalies even if Varenne Capital maintains its independence in its internal scores.
  
- 2) On external data providers: Continuing with regular calls for tender allows a greater measurement of data quality.

## Engagement Policies

As a long-term investor, Varenne Capital considers that, in addition to integrating demanding criteria into its investment selection process, it is essential to be an active investor on behalf of the funds it manages, and to participate in the consideration of environmental, social and governance issues through an appropriate voting and engagement policy.

More details are available in the « [ESG Documents](#) » section on the website, with notable documents:

- Responsible Investment and Engagement Policy
- Voting Policy
- Active Ownership and Stewardship Report

## Benchmark Reference

No specific index has been designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics it promotes, however, from a comparison perspective, the Management Company considers the investable universe.

**VARENNE CAPITAL PARTNERS**

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