

# RESPONSIBLE INVESTMENT AND ENGAGEMENT POLICY

March 2021

This responsible investment and engagement policy defines the way Varenne Capital Partners integrates ESG and engagement into its investment approach.

Varenne Capital Partners is committed to being a responsible investor and taking environmental, social and governance (ESG) issues into account in its investment process.

Our approach encompasses the beliefs, standards, procedures and activities by which we exercise our responsibility towards our clients, who entrust us with the management of their assets. At Varenne Capital, we believe that:

- Responsible investment improves long-term economic and market stability, while directing capital to activities that have positive social and environmental impacts.
- Responsible investment is relevant in both the selection of investments and the management of assets.
- The analysis of ESG factors is a necessary complement to the analysis of fundamental indicators when determining the value of a company.

## 1. ESG INTEGRATION IN THE INVESTMENT STRATEGY

Varenne Capital Partners is an independent investment manager whose purpose is to deliver investors with superior long-term returns with the minimum necessary risk-taking.

To achieve this goal, we develop and combine complementary performance drivers: Long Equity, Short Equity, Merger Arbitrage and Tail Risk Hedging. Varenne Capital Partners' management relies exclusively on internal origination and proprietary research based on a structured and formalised investment process.

Two distinct sources of added value allow us to respond to varying market configurations and macroeconomic contexts: firstly, our four complementary strategies: Long Equity, Short Equity, Merger Arbitrage and Tail Risk Hedging. Secondly, within each strategy, proprietary research based on a rigorous and formalised investment process is supported by dedicated fundamental and behavioural databases.

This unique structure enables us to add value in five steps:

- Reduction and refinement of the investment universe;
- Generation of original ideas;
- Analysis and direct assessment of investment opportunities;

- Systematic portfolio construction;
- Direct execution in the market through our internal trading desk.

The portfolio construction model determines optimal exposures and targets continuous improvement in the risk/return profile of our portfolios.

Since 2019, Varenne Capital Partners has formalised the Environmental, Social and Governance (ESG) criteria applied to its investment management. These criteria were first applied in the Long Equity strategy, but the Company is actively working to extend their application to the other three strategies.

In order to systematically take ESG criteria into account in its analysis, Varenne Capital Partners has developed a proprietary scoring system based on more than 30 factors. This dedicated ESG analysis module is an integral part of our pre-investment analysis process. Each factor is assigned a score ranging from 1 (poor) to 5 (excellent). For a given company, if the average of the scores for each factor is less than 3, then the company is not eligible for investment, no matter how strong the other analysis modules may be.

Varenne Capital Partners systematically excludes companies in certain sectors of activity and/or subject to controversy from the investment universe. As such, some companies are automatically excluded from consideration before in-depth analysis of the company's fundamentals and ESG practices is performed.

#### Exclusion

Varenne Capital Partners does not invest in companies active in the sectors of controversial weapons, pornography, tobacco, mining or international treaty violation. "Active" is defined as more than 15% of the company's turnover being generated by this type of activity. Companies operating in these sectors are eliminated at the very beginning of our investment process.

#### Controversies

Varenne Capital Partners draws on data providers' controversy research and internal data collection systems to be alerted to the occurrence of an ESG controversy. Our analysts will then determine on the basis of the information collected whether or not to exclude a company from the investment universe.

#### ESG score

The reduced investment universe is then filtered according to proprietary fundamental and behavioural criteria, which provides analysts with a list of companies potentially eligible for investment. These companies are then analysed in several different aspects - including ESG - via an internal scoring methodology.

The ESG scoring system takes into account all three dimensions and currently consists of:

- 14 Environmental factors, including factors related to carbon intensity, carbon offsetting, biodiversity, and water/other resource management.

- 14 Social factors, including factors related to the impact of the company's activity on the local community, the existence of measures for the protection of employees and the consideration of ESG criteria for the selection of suppliers and service providers.
- 11 factors for Governance, including factors related to diversity, business ethics, a compensation policy and the consideration of ESG criteria in corporate governance.

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 list of ESG factors to consider is reviewed, updated and potentially expanded every year.

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 Partners believes that environmental, social and governance factors are risk elements that, if not managed properly by companies, may alter their value creation dynamics over time and their financial quality. As such, the team also engages in ongoing monitoring of portfolio companies' ESG performance.

#### Scope of implementation

Varenne Capital Partners' investment strategy is based on the concomitant and complementary use of four performance drivers: Long Equity, Short Equity, Merger Arbitrage and Tail Risk Hedging.

The Long Equity performance driver is based on two pillars:

- *Enterprise Picking* is the foundation of our investment management strategy and comprises an idiosyncratic selection of high-quality securities purchased at a significant discount to our fair value estimate. The holdings in this strategy are long-term, high-conviction positions that can be held in the portfolio for many years, depending on the company's value creation dynamics and its stock market performance.
- This core stock picking can be complemented by the use of proprietary '*baskets*' of stocks. These baskets aim to enhance the risk/return characteristics of the portfolio by adding another form of directional exposure.

Unlike the baskets, the Enterprise Picking component is always present in Varenne Capital Partners' management and constitutes the core of the portfolio.

The Responsible Investment Policy has been systematically applied to the Enterprise Picking component since 2019. Varenne Capital Partners aims to apply this policy to the other components of the portfolio (excluding Tail Risk Hedging) by the end of 2021.

## 2. VOTING POLICY

As a long-term investor, Varenne Capital 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.

Varenne Capital Partners uses the services of International Shareholder Services Inc. (ISS) to exercise its voting rights. Voting is in line with recommendations that incorporate best practices in governance, actions to be taken and processes on subjects related to the Environmental and Social pillars. Our voting also follows the principles of promoting accountability, transparency, honesty and integrity within companies.

Reflecting its commitment to transparency, Varenne Capital Partners publishes a report on the exercise of voting rights on its website every year. For more details, please refer to the company's voting policy which is available on the website.

As an independent management company, Varenne Capital Partners is free from any conflict of interest that may arise from offering other financial services to the companies on which it votes.

## 3. ENGAGEMENT

Varenne Capital considers dialogue with the management teams of the selected companies a necessary analytical step before any investment in the Enterprise Picking basket can be completed. As a matter of course, Varenne Capital excludes the possibility of becoming a shareholder in a company that does not meet the basic criteria of transparency and willingness to engage in dialogue with its investors.

This crucial activity occurs at the end of the analysis process and enables our analysts to assess the quality of the management team, the soundness of the strategy implemented and the resources available to deploy it successfully.

Once a position has been initiated, we aim to engage in regular, open dialogue with the company throughout the life of the investment. Any deterioration in the quality of interactions could lead to a complete divestment.

In addition, since the first quarter of 2021, Varenne Capital Partners has chosen to participate in the pooled engagement actions carried out by ISS. 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 our portfolio. ISS analysts identify serious, systematic or systemic, alleged or proven breaches of compliance with international standards and guidelines on responsible conduct by certain private sector issuers. Every year, ISS engages approximately 100 such issuers on behalf of all signatories of the pooled engagement to engage in a constructive dialogue with companies on issues identified in their policies and practices. The companies selected by ISS each year are not necessarily present at the time of engagement in the portfolios of the funds under

management but are part of the investment universe. Varenne Capital Partners believes that this approach contributes to the overall promotion of more sustainable economic development.

#### **4. PRINCIPLES FOR RESPONSIBLE INVESTMENT**

Varenne Capital Partners became a signatory of the Principles for Responsible Investment (PRI) in March 2020. The Principles for Responsible Investment were developed by an international group of institutional investors in response to the increasing environmental, social and corporate governance issues surrounding investment practices. The process was organised by the United Nations Secretary-General.

By signing the Principles, investors make a public commitment to adopt and implement them, as well as to evaluate their effectiveness and improve their content over time. This is a means by which asset management companies can align their investment activities with the public interest over the long term.

A progress report is completed annually by each of the signatories and is available on the PRI website.

#### **5. CLIMATE IMPACT ASSESSMENT OF PORTFOLIOS**

In the interests of transparency, Varenne Capital Partners, with the help of ISS, is carrying out a climate impact assessment of the portfolios in order to report on the impact of its investments with regard to their progress under the Sustainable Development Goals (defined by the United Nations).

Per regulatory requirements, for funds with assets under management in excess of €500 million, this report must be made available online at the end of the first half of 2021.

#### **6. GOVERNANCE**

The approach and implementation of the responsible investment and shareholder engagement policy is overseen by the ESG Committee, which meets at least every six months and is chaired by the CEO of Varenne Capital Partners. This committee includes the other members of the Investment Committee, as well as the relevant investment management teams and the Company's CCO.

The ESG Committee verifies the integration of ESG criteria into the investment process, annually reviews the proprietary scoring system and monitors the list of exclusions and controversies. It also reviews responsible investment and voting policies and reports.

The Committee oversees the company's culture and values, as well as ensuring a coordinated approach in line with the policies across our business.

Weekly Investment Committee meetings ensure the proper operational integration of the policy within the investment strategy and share with the ESG Committee topics that may require joint decision-making, but also any information that could be useful to the ESG Committee for integration into the investment process.

The Risks Committee, which meets quarterly, reviews at least annually the proper implementation of the responsible investment policy and the voting policy. Possible anomalies or exceptions are duly reported to the ESG Committee.

**VARENNE CAPITAL PARTNERS**

Société par Actions Simplifiée - RCS Paris B 445 000 136 - CODE APE 741G  
42, avenue Montaigne - 75008 PARIS - Tel: +33 (0)1 70 38 81 22  
mail: [contact@varennecapital.com](mailto:contact@varennecapital.com) / [www.varennecapital.fr](http://www.varennecapital.fr)