



ESG HANDBOOK

May 2021

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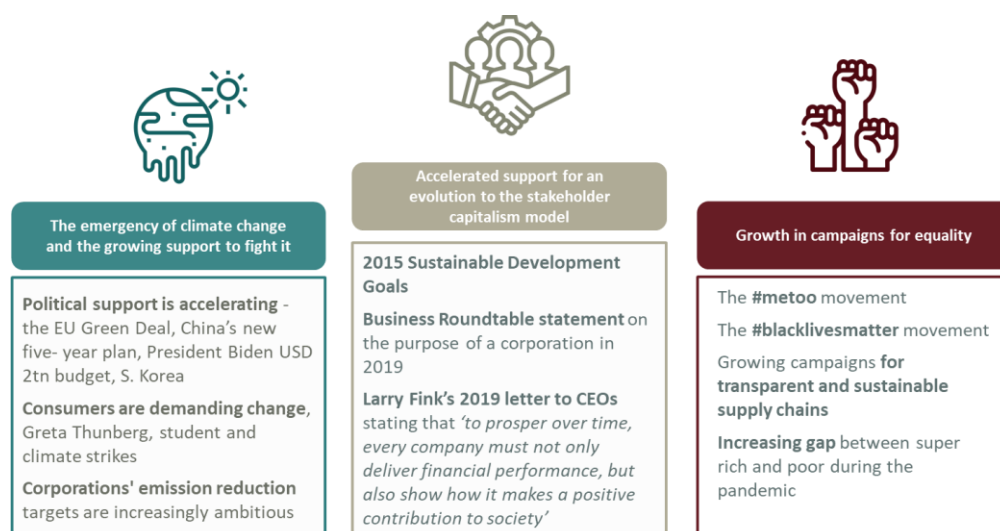
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For any question, please contact [info@quaerocapital.com](mailto:info@quaerocapital.com).

## 1. QUAERO CAPITAL'S COMMITMENT TO SUSTAINABILITY

Critical campaigns are changing society and it's understanding of significant negative environmental impacts and social inequalities. Discussions around the role of business are evolving, incorporating sustainability into the responsibility of business as well as society and individuals.

For the investment world, extensive and wide-reaching research continues to demonstrate the correlation between financial success and management of sustainability factors, and the improvements in reporting and transparency aid valuable and worthwhile research on these connections.



QUAERO CAPITAL is absolutely convinced of the value that ESG analysis brings to its investment decisions as it recognises that sustainability risks exist for every asset group, industry and geography. These risks have become more apparent in recent years, with society and government attention drawn to the unsustainable consumption of natural resources and the impact this will have on future growth and industry.

At the same time there are multiple driving forces creating new opportunities across all industries as sustainability factors influence industry dynamics and growth. As global governments step up to combat climate change, many industries will face structural changes and the winners and losers will be decided by different dynamics than in the past. Beyond climate change QUAERO CAPITAL sees many other environmental issues that will drive opportunities alongside risks, such as biodiversity loss, resource depletion and air and water pollution.

QUAERO CAPITAL is also convinced of its role in encouraging a more sustainable society. Investors and asset managers have the capacity to raise important issues and encourage greater attention from executive management teams on environmental and social issues that are vital for a sustainable future.

While QUAERO CAPITAL evaluates a wide myriad of sustainability risks depending on the asset and the materiality of each risk to that asset, QUAERO also identifies three major topics that are core to our strategic approach at the company level and engagement at the asset level: climate change mitigation, climate transition and strong and accountable governance structures.

Active managers through  
fundamental company analysis

Central to the QUAERO CAPITAL philosophy is to invest away from the crowds, selecting companies that many rating agencies, sell-side analysts, and investors have yet to discover. These opportunities require considerable market knowledge as well as bottom-up research

and analysis. This means our investment teams often know more about a company or asset than any other investor in the market.

QUAERO CAPITAL ESG analysis provides an additional perspective to this bottom-up approach; in the same way that it does not rely on any third-party buy or sell signal for financial analysis, QUAERO CAPITAL wants to build its own understanding and perspective through ESG analysis as well.

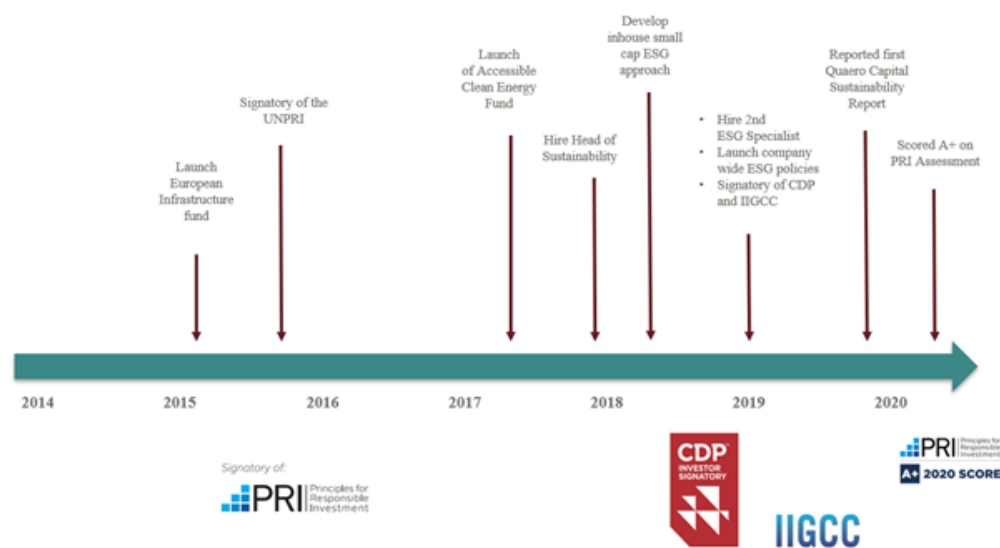
### Long-term investment horizon

At QUAERO CAPITAL, we are genuine long-term investors; we invest for multi-year periods which is increasingly rare. This is a fundamental part of sustainable investment, as a market full of only short-term traders and investors will under-estimate the impact of sustainable factors and create disincentives for executive management teams to manage businesses for the long-term. This extension of investment time horizons is a key element of the European Sustainable Finance Development plan and is something QUAERO CAPITAL has always considered to be key.

### Investment in ESG capabilities

Through our active and long-term approach to investment sustainability has always formed part of our analysis, but over the past five years we have built strong and specific expertise in responsible investment. This includes industry leading expertise in investments in the energy transition through the combination of experiences in the QUAERO CAPITAL private equity infrastructure team and the public equity team behind Accessible Clean Energy and Infrastructure Securities funds, all of which have a significant focus on the green energy transition and immense experience and knowledge.

Additionally, an internal ESG team has been recruited and developed to drive and manage our approach to sustainability across all investment strategies. QUAERO CAPITAL believes the topics within sustainability umbrella are complex and require a dedicated resource to continually build knowledge that supports investment decisions across investment teams. The ESG team is therefore very well integrated across the organisation to implement all aspects of the company's Responsible Investment Policy.



### Engagement and interaction with management teams

This is vital to the investment process for our funds and provides us with many opportunities to voice our stance on sustainability and encourage greater management of sustainability risks and embrace of sustainability opportunities. QUAERO CAPITAL takes its fiduciary duty seriously, and through these meetings and its use of proxy votes it will support strong governance structures which suitably represent both shareholders and stakeholders of an organisation.

### The inter-divisional approach on sustainability risks at QUAERO CAPITAL

Sustainability risks are considered in an inter-divisional approach by all QUAERO CAPITAL's teams:

- Research work and exchanges with target investments for the integration of sustainability risks. We therefore have a policy to pursue ongoing and active dialogue with the management teams. One of the areas we focus on is encouraging greater transparency from our corporates on their ESG strategies and to increase ESG reporting;
- Implementation of efficient and reliable monitoring tools in order to check the ESG profiles of the companies where we invest (see other ESG resources for more information);
- The integration of sustainability risks within the internal control framework (risks identification, procedures and control plan). Consequently, specific controls are conducted to ensure that investments comply with our internal procedures;
- The implementation of risk management controls to monitor and address ESG risks;
- Constitution of an ESG committee including senior representation from across the organization in order to monitor the ESG approach of the company (see ESG committee for more information)

## 2. SIGNIFICANT EXPOSURE AND INVESTMENT IN SUSTAINABLE MANDATES

All our funds<sup>1</sup> integrate ESG analysis, but a number of our funds have specific objectives to allocate capital to companies that either demonstrate superior sustainability characteristics or actively pursue sustainable objectives. QUAERO CAPITAL is immensely proud of its early commitment to these funds and their subsequent success.

### Our public commitments

The UN Principles for Responsible Investment (PRI) since 2015



The Carbon Disclosure Project (CDP) since 2019



The Institutional Investor Group against Climate Change (IIGCC) since 2018



Task Force for Climate-related Financial Disclosures: we have publicly pledged our support to the aims of the TCFD since 2020



Sustainable Finance Geneva since 2019



Swiss Sustainable Finance since 2019



France Invest since 2016



<sup>1</sup> This applies to all funds except *Quaero Capital Funds (Lux) – Yield Opportunities* and *Quaero Capital Funds (Lux) – World Opportunities* which are sub-managed by asset managers outside of the QUAERO CAPITAL Group.

### 3. QUAERO CAPITAL ESG POLICIES – LISTED INVESTMENT STRATEGIES (EQUITY AND FIXED INCOME)



#### Exclusion policy (separate policy doc)

QUAERO CAPITAL's exclusion policy applies to all funds managed by QUAERO CAPITAL. It applies these exclusions because it considers these companies to carry considerable financial risk connected to their business and/or corporate behaviour. QUAERO CAPITAL also applies exclusions because it does not wish to allocate capital to companies that consistently and systematically cross ethical lines. QUAERO takes its fiduciary duty to its investors to maximise returns very seriously, and QUAERO CAPITAL is comfortable that it can continue to do so without investing in these companies.

The exclusion policy comprises three parts

1. Companies involved in the production or supply of indiscriminate weapons, in-line with our commitment to the UNPRI and International Humanitarian law. QUAERO CAPITAL does not support weapons that cause an unnecessary number of civilian casualties.

QUAERO CAPITAL therefore excludes companies that breach Oslo and Ottawa Conventions, ensuring it does not invest in companies that use, stockpile, produce or transfer cluster bombs or anti-personnel mines. It excludes companies involved in the use, stockpiling, production and transfer of chemical or biological weapons. And it excludes companies involved in nuclear weapons in-line with the Treaty of the Non-Proliferation of Nuclear Weapons (NPT).

2. Companies whose conduct is in systematic and severe breach of UN Global Compact principles, which reflect global norms:
  - Human Rights
    - o Businesses should support and respect the protection of internationally proclaimed human rights; and
    - o Make sure that they are not complicit in human rights abuses
  - Labour Standards
    - o Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
    - o The elimination of all forms of forced and compulsory labour;
    - o The effective abolition of child labour; and
    - o The elimination of discrimination in respect of employment and occupation
  - Environment

- o Businesses should support a precautionary approach to environmental challenges;
- o Undertake initiatives to promote greater environmental responsibility; and
- o Encourage the development and diffusion of environmentally friendly technologies
- Anti-corruption
  - o Businesses should work against all forms of corruption, including extortion and bribery
- 3. Companies whose business causes significant damage to the efforts to reduce the risk of climate change (see Climate Policy for further detail)

## ESG integration

Across its funds<sup>2</sup> QUAERO CAPITAL integrates ESG analysis in order to identify key sustainability risks and opportunities. ESG analysis contributes to the multi-dimensional perspective we build on each of our investments, ensuring we understand the full risk profile as well as the potential opportunities that major changes in society and the environmental will offer.

While our sustainable funds, as designated by the Sustainable Financial Disclosure Regulation in the EU, pursue greater sustainable objectives such as investing in the best-in-class in their industry, all our funds will consider sustainability risks. Our approach is both qualitative and quantitative, using datasets such as MSCI when available as well as platforms such as CDP questionnaire responses and Glass Lewis proxy voting research. For most investments we then follow a bottom-up analysis, first identifying material risks with the help of SASB's (Sustainable Accounting Standards Board) materiality matrix and then exploring the company strategy and management of those risks. Alongside we consider potential regulatory changes and top-down themes.

Environmental factors considered include both the level of use of finite resources (with KPIs such as energy use, water use, material use etc) or pollutive processes (waste generated, carbon emissions) and the impact of the business on the local environment. Depending on the industry and geography in which the business operates, these factors help us understand the efficiency of the operations in respect of the environment. Not only do we believe it to be strategically risky to depend on consumption of environmental resources but we expect future regulation to make it more expensive to pollute, and we therefore want to know if a company is behind its peer group in reducing exposure to such costs.

Climate change is for many companies the most important sustainability risk to consider, for most in our investment universe it is transition risk that is most material. Regulation has already changed significantly to price the externality of carbon emissions in many large markets such as Europe and certain US states, and we expect this to expand beyond just regulation as large purchasing companies start to use internal carbon prices.

Social factors considered include well-researched factors that are shown to impact long-term company success and valuation. These include employee related factors such as employment standards, wage inequality, company culture, employee retention and employee investment and training. Customer relationship factors are also included, such as customer satisfaction, customer retention, product recalls, customer mis-selling and data privacy protection. Other societal factors will include tax avoidance which we believe is another example of free-riding, similar to environmental pollution, that ultimately governments will look to reduce, and corruption which poses a serious risk to a corporate reputation as well as societal stability.

Strong governance structures are considered of high importance, especially in investments where we are a minority shareholder. The structure should align the executive with long-term

<sup>2</sup> this applies to all funds except *Quaero Capital Funds (Lux) – Yield Opportunities* and *Quaero Capital Funds (Lux) – World Opportunities* which are sub-managed by asset managers outside of the QUAERO CAPITAL Group.



shareholders, incentivising good corporate behaviour and investment in long-term growth and opportunities, not focused on short-term financial performance at the expense often of environmental and social considerations. Good governance practice diverges by geography, and we consider country governance codes. While we always seek to have high confidence in the executive team of a company, the board must act in its role of overseeing and correcting the executive when needed. Executive compensation is an important factor for us, this must be aligned with long-term shareholders and reward strong strategic judgement and execution and not short-term financial manipulation.

The in-house ESG analysis is performed by the ESG team who work closely with the investment teams to benefit from local expertise and ensure that ESG analysis is embedded in the investment processes. The output is an ESG profile which evaluates the strength of the company's approach to material environmental, social and governance risks, as well as the positioning of the company to benefit from sustainability-related opportunities. Companies are compared to peers where available.

#### Example profile: Volitalia

#### SFDR: Article 8 funds

QUAERO CAPITAL funds that commit to strong sustainability characteristics are regulated as Article 8 funds. These are funds that are committed to invest in companies that demonstrate a real appreciation and commitment to sustainability throughout their operations. The investment process for article 8 funds includes an initial ESG screen using MSCI ESG ratings, excluding companies that are rated below BBB. The processes then use the ESG analysis performed as above to select companies with the strongest profiles within their industries. In addition, industries or markets where business practice is controversial and confidence is low in adherence to sustainability principles are underweighted or avoided.

Currently Infrastructure Securities and Cullen ESG US Value funds are designated Article 8.

#### SFDR: Article 9 funds

QUAERO CAPITAL funds that pursue a sustainability objective are regulated as Article 9 funds. These are funds that are committed to allocate capital to companies that have a sustainability objective, aligned with the Sustainable Development Goals. The investment process may differ between such funds due to the differing objectives, but transparency is key to ensure that these funds are materially aligned with the stated objective.

Currently the Accessible Clean Energy fund is designated Article 9.



Due to the wide range of strategies and philosophies across our funds, each fund explains its own approach in its Responsible Investment Charter.

#### Stewardship – Dialogue and Voting

We are committed to a more sustainable form of capitalism, one where companies are run for the long-term and not for short-term profit maximisation, one where stakeholders are considered alongside shareholders, and one where boards are strong and empowered structures in organisations to ensure executive teams are both enabled and sufficiently overseen for the benefit for all stakeholders and ultimately society.

Companies make an essential contribution to society, providing jobs for employees, products for customers, financial returns to investors and taxes for governments to spend on social services and goods. There is however potential for this contribution to fall short of its potential, often due to a weak governance structure. As asset managers we have a responsibility to act as good stewards of capital on behalf of our clients through both engagement and dialogue with management and the proxy voting decisions provided to shareholders. We believe long-term sustainable decisions are inline with our long-term shareholder interests.

Our engagement and dialogue opportunities vary by investment strategy, but our policy supports the pursuit of active dialogue with company management where possible in line with our commitment to sustainability. This may mean ensuring that we ask questions about a company's approach to key sustainability risks during management meetings and that we ensure they are aware of our broad commitment to sustainable, long-term investment. Disclosure and transparency of sustainability risk management are a central theme to these conversations. If we can be one of many voices repeating the same message, we believe executives will increasingly take notice.

A further step is pursued in two areas – one is where we have considerable influence on the company or project due to a significant shareholding and/or a long history of ownership, and the other is in pursuit of climate change mitigation goals.

For companies or projects where we have significant influence, we will identify areas for engagement either as a result of our ESG analysis or due to a controversial event or report that we would like to be addressed. These are prioritised depending on the level of materiality to the future of the company and/or the severity of the controversy. These engagements are initiated by the portfolio manager directly with the executive team and are usually followed by a meeting between the portfolio manager, ESG team and the company management team. The ESG team often seeks to include outside input from organisations that focus on the specific area and industry, to include expert opinions on the topic. Objectives are formed during the engagement and monitored by the ESG team, and they tend to be strategic and disclosure related rather than KPI targets.

We welcome opportunities to collaborate. We are an important partner to the CDP disclosure campaign, often taking leading investor role to engage with companies to disclosure greater detail of their climate strategies. We are also a signatory to the IIGCC and co-sign their engagement letters to governments and companies on climate change issues. We actively seek other organisations we can work with and encourage organisations to expand collaboration opportunities to investors in smaller cap and niche markets which individually make up a large proportion of economies and are a focus for many of our investment strategies.

Read our Dialogue Policy [here](#).

Read our Voting policy [here](#).

## 4. PRIVATE EQUITY : OUR APPROACH

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Investment strategies in European Infrastructure systematically integrate a review of environmental and social issues in the projects' analysis. These projects thus provide concrete solutions to the various needs encountered: knowledge infrastructure such as optic fiber networks or universities, energy saving, renewable energy production, waste treatment, water purification, reduced travel times, improved transport comfort and safety and/ or improved healthcare.

Investment strategies in French Real Estate follow the evolution of working methods to offer new generation office buildings, but also real estate services whose needs are growing, such as nurseries, post-secondary schools and nursing homes.

The investment time horizon for our investments in real assets is long, and our influence on projects is considerable; we usually take majority ownership positions. As a result, ESG analysis is a key part of our due diligence process, and an assessment of the impact of these assets on key sustainability objectives is important. KPIs are collected on an annual basis for projects, using the Sustainable Development Goal (SDG) framework to identify those that are most material, and objectives are agreed over time to align the projects to more meaningfully contribute towards the achievement of the SDGs.

Climate change mitigation forms a core part of stewardship activities for real assets, both at the project investment stage as it relates to influencing the projects to shift to renewable energy sources and through management of the project post-investment.

For more information please get in contact.

## 5. FUNDS OF FUNDS : OUR APPROACH

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A key part of the fund manager selection process is understanding how sustainability risks are integrated and the philosophy and commitment of the asset manager at organisation and fund level. The questions we ask of every fund enable us to understand how sustainability risks are considered, what level of expertise they have on key sustainability topics and whether there is alignment with the QUAERO CAPITAL philosophy. We expect external fund manager stewardship policies and activities to align with our own.

For more information please get in contact.

## 6. CLIMATE POLICY

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The empirical evidence of global warming, and the impact of human activity on the pace of this warming, is in our view unequivocal. If unmanaged and unmitigated, the impact of climate change will be devastating to both society and the global economy.

QUAERO CAPITAL acknowledges the responsibility of the asset management industry in the fight against climate change. Not only through the integration of climate change risks, the investment decisions we make but also in the contact we have with investee companies as well as other financial market players.

For us we see the integration of climate risk as a core part of our fiduciary duty to clients. QUAERO CAPITAL also believes that the climate transition provides great opportunity for enhanced financial returns and as such continue to innovate and develop opportunities for clients in this sphere.

QUAERO CAPITAL recognises the Paris Agreement ambition to keep global temperatures to 2 degrees above pre-industrial levels, and the further ambition to limit warming to 1.5 degrees as fundamentally important for society as well as our own investments.

QUAERO CAPITAL has signed the statement of support for the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). As such as will make annual disclosures inline with the recommendation in our annual Sustainability Report, outlining our strategy and our targets.

Our Climate Strategy:

- Develop and launch financial products which invest in companies that are part of the solution to climate change
- Integration of climate risk in ESG analysis and investment process
- Engagement with investee companies to address Climate Risk and report to TCFD recommendations
- Report on each portfolio's environmental footprint and impact for selected strategies
- Commit to a zero-carbon operational footprint from 2021

Inclusion of climate and biodiversity risks (French Energy and Climate Law)

QUAERO takes into account the impact of its investments on climate change and biodiversity within its ESG evaluation methodology, in particular through:

1. Through dialogue and voting we encourage reduction of GHG emissions.
2. Launch and expansion of the Accessible Clean Energy fund;
3. Integrating carbon footprint within our ESG analysis
4. Measurement of carbon footprint at portfolio level

Read our Climate Policy [here](#).

## 7. APPROACH TO SUSTAINABILITY OUTCOMES

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It is important understand not just the impact that sustainability risks have on our investments but also the impact our investments have on sustainability objectives.

We refer to the SDG framework to instruct our approach to sustainability outcomes and prioritise this for our real asset investments alongside the Accessible Clean Energy equity fund.

The Accessible Clean Energy fund includes a core investment objective of climate change mitigation, investing in and providing capital to companies that are having a meaningful impact on climate change mitigation through the development of important technology that will reduce future emissions.

For real assets we look to drive sustainability outcomes through both selection and active management of projects.

## 8. ESG COMMITTEE

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As the company grows, and the variety of funds and asset classes increases, it is important that we develop our approach to responsible investment in a consistent and coordinated way. To steer this, we have an ESG committee including senior representation from across the organisation.

The committee is made up of:

- Jean Keller – Chief Executive Officer
- Thierry Callault – Head of Business Development
- Francesco Samson – Chief Operating Officer
- Philip Best – Chief Investment Officer
- Georgina Parker – Head of Sustainability
- Helene-Sophie Renneboog – Head of Marketing
- Michael Malquarti – Head of Risk
- Antoine Turrettini – Investment Director, Private Equity Infrastructure
- Mark Ebert – Infrastructure Securities Fund Manager

The committee meets quarterly to review:

- Strategy and objectives related to ESG and responsible investment
- Company engagements during the quarter
- Review ESG policies and implementation
- Internal ESG reporting and monitoring
- Internal initiatives to promote ESG internally and externally
- Review and approve ESG training
- Review and approve ESG Annual Report
- Any important issues/ questions related to the investment process
- Client requests related to ESG
- Client reporting

## 9. EXTERNAL REPORTING

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Our aim is to provide transparency for clients on both sustainability-related activities during the year and key ESG metrics for each portfolio. We use external ratings for this, and while we recognise the subjectivity of each ESG rating methodology, we believe it is a useful starting point for further discussion. Further information can be provided on request.

We also commit to report on our progress as we enhance our responsible investment approach each year in our annual QUAERO CAPITAL Sustainability Report. The report includes updates to our responsible investment strategy, as well as reports on ESG analysis work over the year, engagements with management teams and our voting history for the year.

Quaero Capital (France) SAS complies with article 173 of the French Energy Transition for Green Growth law of 17 August 2015.

## DISCLAIMER

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Potential investors are encouraged to consult a professional adviser in order to determine whether such an investment is suitable for their profile and must not base their investment decisions solely on the information contained in this document.

ESG/ investing strategies aim to consider and in some instances integrate the analysis of environmental, social and governance (ESG) factors into the investment process and portfolio. Strategies across geographies and styles approach ESG analysis and incorporate the findings in a variety of ways. Incorporating ESG factors may inhibit the portfolio manager’s ability to participate in certain investment opportunities that otherwise would be consistent with its investment objective and other principal investment strategies. The returns on a portfolio consisting primarily of ESG or sustainable investments may be lower or higher than a portfolio where such factors are not considered by the portfolio manager. Because sustainability criteria can exclude some investments, investors may not be able to take advantage of the same opportunities or market trends as investors that do not use such criteria. Companies may not necessarily meet high performance standards on all aspects of ESG or sustainable investing issues; there is also no guarantee that any company will meet expectations in connection with corporate responsibility, sustainability, and/or impact performance.

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