ESG HANDBOOK

QUAERO CAPITAL

CONTENTS

Note that our ESG Handbook is updated whenever a change in our ESG approaches, methodologies or tools requires it. This version is dated May 2024.

For any question, please contact info@quaerocapital.com.

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May 2024

1. ESG GENERAL APPROACH & STRATEGY AT QUAERO CAPITAL

Sustainability risks and opportunities

QUAERO CAPITAL is convinced of the value that ESG analysis brings to its investment decisions – whether this analysis highlights risks or opportunities.

Sustainability risks[1] 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. We expect to see a continued increase in regulation of environmental externalities and social impacts across many geographies.

At the same time, as sustainability factors influence industry evolution and growth, there are multiple driving forces creating **new opportunities** across all industries.

Beside sustainability risks and opportunities, that are inherent to individual companies, their sector and location, **secular sustainability trends** are changing our environment and our society. In particular, 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. Other **environmental issues** will also drive opportunities alongside risks, such as biodiversity loss, resource depletion and air pollution and water scarcity.

Sustainability relevance for active, long-term investors

We have the conviction that active managers who have developed an expertise in ESG issues and use it at every step of their investment process can make better investment decisions.

At QUAERO CAPITAL, we are genuine **long-term investors** and have a multi-year time horizon in mind. To us, a sustainable investment is an investment that make sense over a long period of time. The extension of investment time horizons is a key element of the *EU Action Plan on Sustainable Finance*[2].

Our priorities

We are aware that a relatively small firm such as QUAERO CAPITAL has to set priorities in terms of ESG investing.

To us the most important elements on which we believe we can make a difference are:

- Thorough bottom-up ESG analysis – especially for assets that are not covered by agencies
- Stewardship – with a clear focus on encouraging transparency and climate objectives

Our approach

While we evaluate a wide range of sustainability risks depending on the asset and the risk materiality, we specifically identify three topics that are core to our approach:

- **Climate change adaptation and mitigation**
- **Climate transition**
- **Strong and accountable governance structures**

We consider them when we assess the company and when we engage with the company in the context of our active ownership.

Our role as a steward

QUAERO CAPITAL is aware that asset managers can play a role in encouraging more sustainable practices, which should lead to more sustainable and successful companies and ultimately to a more sustainable society.

[1] Our definition of sustainability risks is in line with article 2(22) of the SFDR, which states the sustainability risk "*means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment*."
[2] https://finance.ec.europa.eu/sustainable-finance/overview-sustainable-finance_en

Conscious of the level of influence we can have in our engagement activities, we concentrate our time and efforts where we can have most impact on our priority objectives.

For our small cap investments and – even more so – for our private equity investments in infrastructures, as our ownership stake is relatively high, our influence can actually be significant to highly significant.

Milestones

Since QUAERO CAPITAL signed the PRI, in 2015, we have gradually improved and developed our ESG practice**.**

ESG resources

QUAERO CAPITAL started building a dedicated ESG team in 2018 with the hiring of 2two sustainability specialists. A third ESG analyst joined them in 2023.

ESG knowledge and expertise of QUAERO CAPITAL also come from the different portfolio managers (PMs) – especially the PMs in charge of our thematic funds.

Every year, investment teams are trained on sustainability issues either by the ESG team or by specialists.

Section 8 of this document gives a full account of our ESG resources.

ESG practice

In 2018, we developed a specific approach for our small cap strategies. This was especially significant for QUAERO CAPITAL as the European small and micro cap fund Quaero Capital Funds (Lux) – Argonaut is the first fund launched by the firm. The main specificity of the fund, i.e., investments in small and micro cap companies, led to the definition of a dedicated approach involving in-house assessment of extra-financial factors due to lack of third-party coverage and a focus on engagement, facilitated by the closeness developed between the PMs and the management of the companies, as well as the intent to invest long-term in companies.

In 2019, we defined an ESG framework and implemented firm wide ESG policies on exclusion, voting and engagement. This first set was later completed by a climate policy in 2021, which includes a commitment to launch financial products that invest in companies and/or assets that are part of the solution to climate change, perform climate-related exclusions, integrate climate risk and engage with companies to report in line with TCFD.

Several sections of this document explain our policies and the way ESG is integrated into the investment process of our different funds.

ESG regulation - SFDR

Following the introduction of the Sustainable Financial Disclosure Regulation (SFDR) in the European Union, several QUAERO CAPITAL funds have been classified as Article 8 or Article 9 funds.

Those are described in detail in Section 7 of this document.

Label

Three of our funds have been granted the French SRI label.

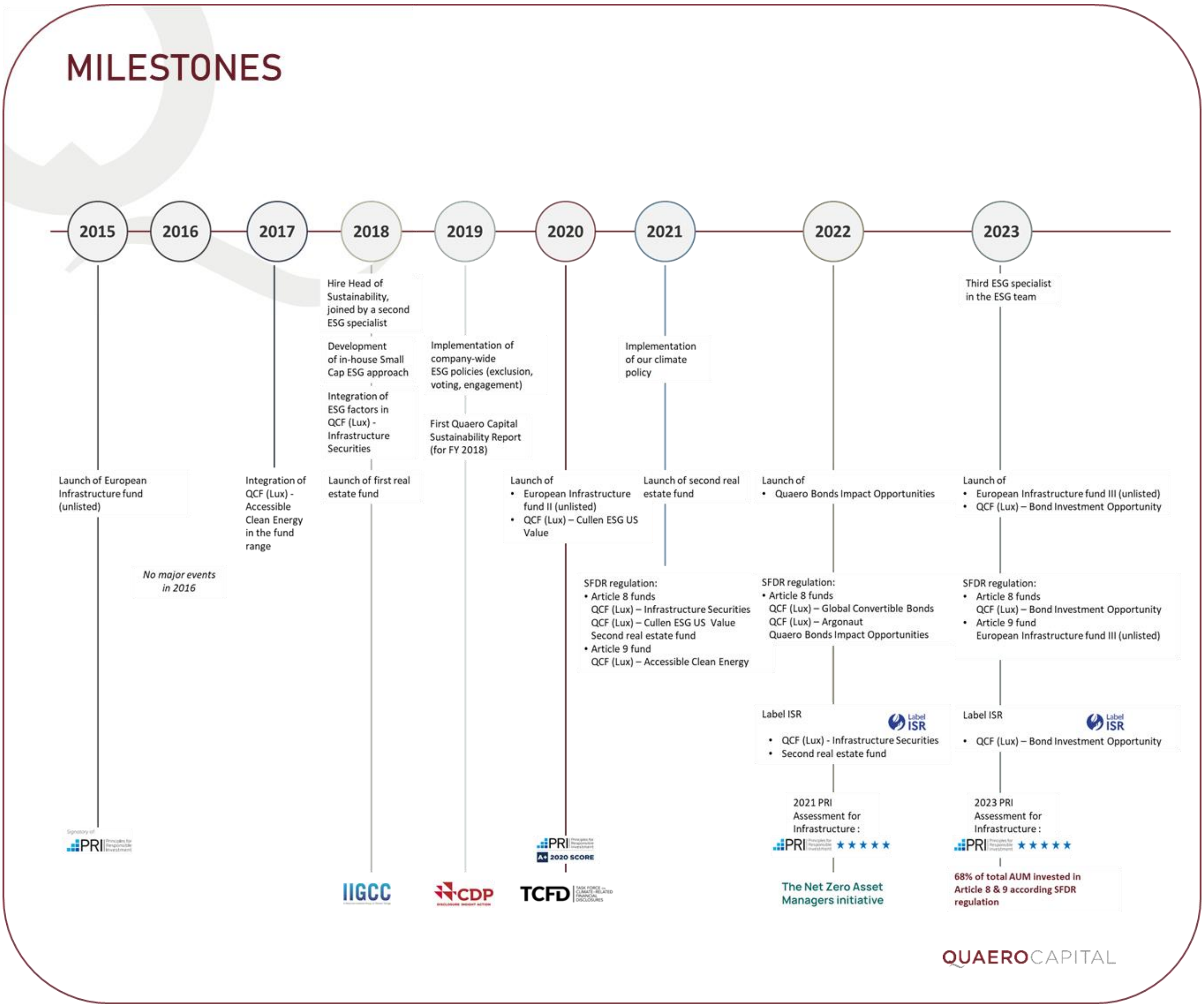
ESG commitments

Over the years, QUAERO CAPITAL has committed to several international and local initiatives.

QUAERO CAPITAL adheres to:

- The UN Principles for Responsible Investment (PRI) since 2015
- The Institutional Investor Group against Climate Change (IIGCC) since 2018
- The Carbon Disclosure Project (CDP) since 2019
- Task Force for Climate-related Financial Disclosures (TCFD): we have publicly pledged our support to the aims of the TCFD since 2020

- L’Institut de la Finance Durable previously Finance for Tomorrow since 2022
- The Net Zero Asset Manager initiative since 2022
- Sustainable Finance Geneva since 2019
- Swiss Sustainable Finance since 2019
- France Invest since 2016
- Association Française de la gestion financière (AFG) since 2015



Graph 1: Milestones of QUAERO CAPITAL ESG development
Source: QUAERO CAPITAL, December 2023

2. ESG FRAMEWORK

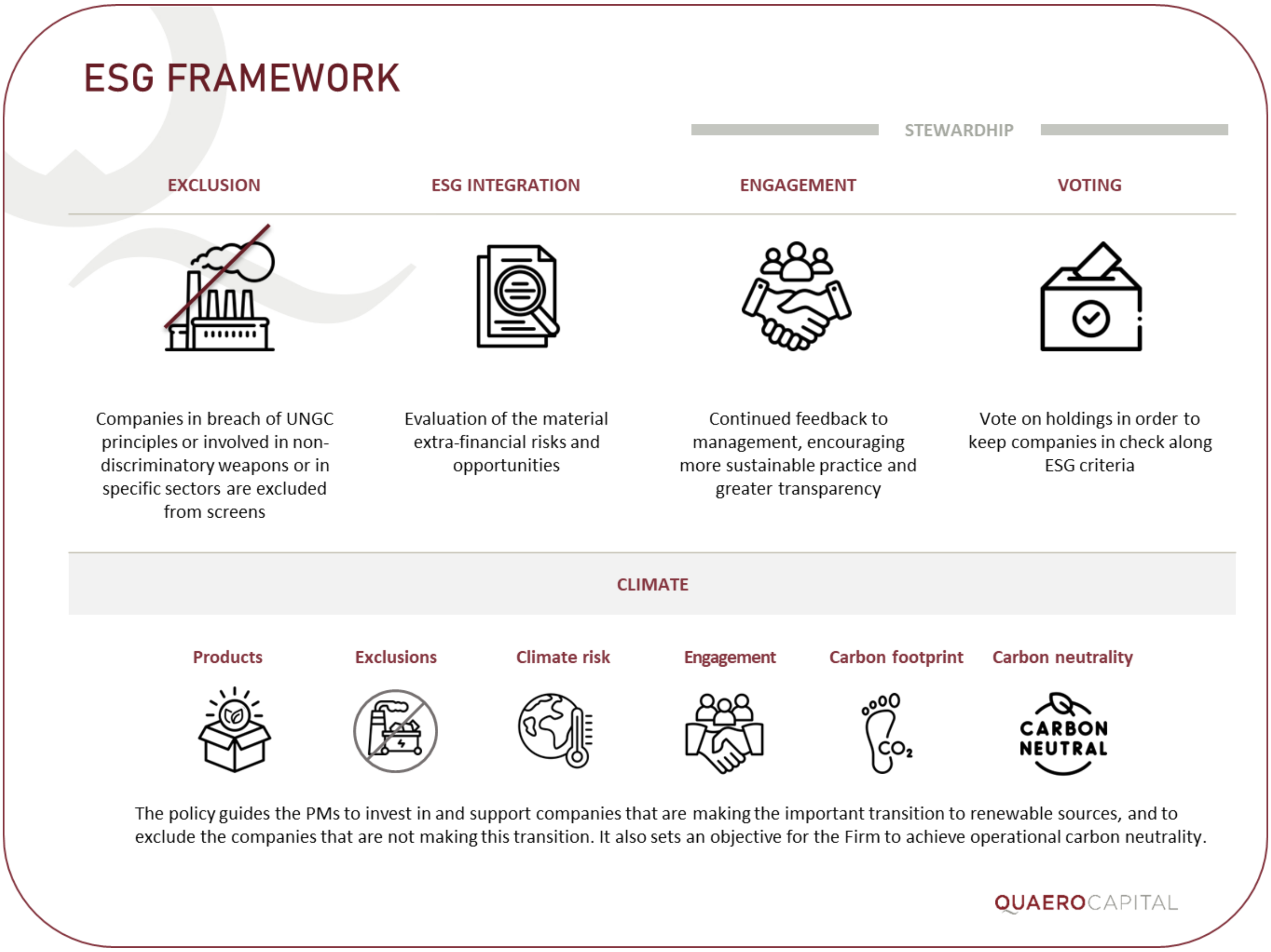
General principles

Since 2018 QUAERO CAPITAL has implemented a set of responsible investment policies to provide a framework for the ESG approach we apply to our funds[3].

The policies cover:

- Exclusion
- Engagement
- Voting
- Climate

ESG Integration is not defined in a policy as each fund follows its own ESG approach.



Graph 2: QUAERO CAPITAL ESG Framework
Source: QUAERO CAPITAL, December 2023

Our different policies are summarised in the chapters that follow. Their full versions are available on our website at ESG Documents - QUAERO CAPITAL.

[3] This applies to all funds investing in listed securities except *Quaero Capital Funds (Lux) – World Opportunities* which is sub-managed by an asset manager outside of the QUAERO CAPITAL Group.

3. CLIMATE POLICY

Introduction, rational for defining a climate policy

QUAERO CAPITAL considers unequivocal the empirical evidence of global warming, and the impact of human activity on the pace of this warming. If unmanaged and unmitigated, the impact of climate change will be devastating to both society and the global economy.

We recognise 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.

We acknowledge the responsibility of the asset management industry in the fight against climate change:

- Through the integration of climate change risks
- Through the investment decisions we make
- In the contact we have with investee companies as well as other financial market players

We see the integration of climate risk as a core part of our fiduciary duty to clients. We also believe 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.

Therefore, QUAERO CAPITAL defined a **climate policy** to guide the investment teams of the firm to invest in and support companies that are making the important transition to renewable sources, and to exclude from the portfolio of funds[4] the companies that are not making this transition.

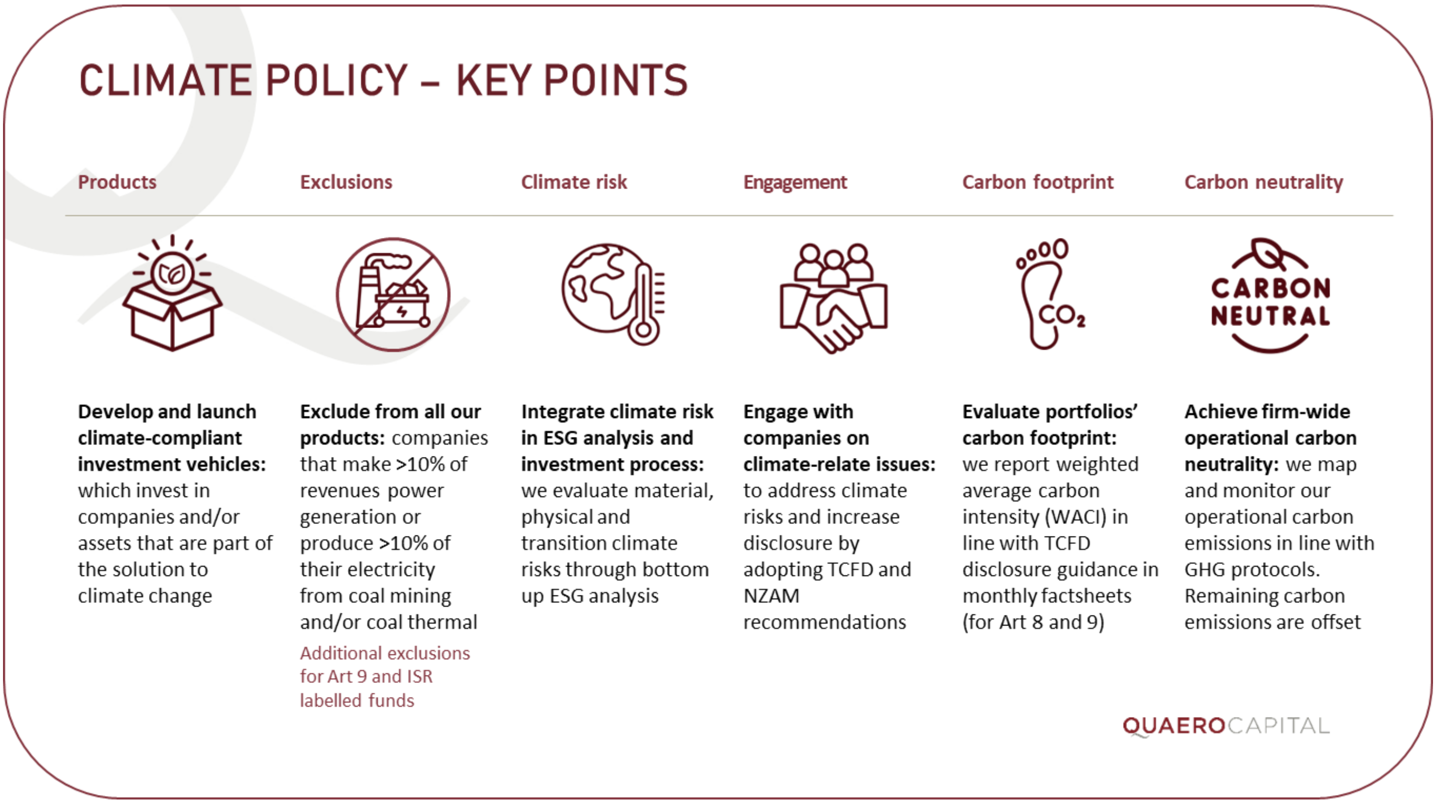
Climate policy

The climate policy gives guidance on the following:

1. **Products** - Develop and launch financial products which invest in companies that are part of the solution to climate change
2. **Exclusions** - Perform climate-related exclusions
3. **Climate risks** - Integrate climate risk in ESG analysis and investment process
4. **Engagement** - Engage with companies we invest in to address climate risks and report in line with TCFD recommendations and our commitment to the Net Zero Asset Manager initiative (NZAM)
5. **Carbon footprint** - Report on each portfolio's environmental footprint and impact for selected strategies
6. **Carbon neutrality** - Plan to achieve QUAERO CAPITAL operational carbon neutrality

The key points are illustrated in the graph below.

[4] This applies to all funds investing in listed securities except *Quaero Capital Funds (Lux) – World Opportunities.*



Graph 3: Climate strategy – Key points
Source: QUAERO CAPITAL, December 2023

Products

Develop and launch financial products which invest in companies and/or assets that are part of the solution to climate change

The transition required to address the risk of climate change creates both risks and opportunities across almost every industry and market.

QUAERO CAPITAL identifies many attractive investment opportunities in assets exposed to these changes, companies that we believe are accelerating the energy transition through innovation and scaling of important technologies.

Currently, QUAERO CAPITAL manages:

- Quaero Capital Funds (Lux) - Accessible Clean Energy[5]. The objective of the fund is to maximise total returns while contributing to decarbonisation by investing and taking an active role along the clean energy value chain
- Three private equity infrastructure funds with a significant focus on renewable energy assets
- Two real estate funds investing in French real estate that manage assets to minimise energy intensity through effective energy management and renovation

In the future, QUAERO CAPITAL aims to continue developing sustainable products that are part of the solution to climate change.

[5] The objective of *Quaero Capital Funds (Lux) - Accessible Clean Energy* fund is to maximise total returns while contributing to decarbonisation by investing and taking an active role along the clean energy value chain. This includes a wide variety of companies including those involved in clean energy technology development and production (including solar, wind, bioenergy, hydraulic, geothermal energy), renewable energy transmission and distribution, smart grid management, energy storage technologies including hydrogen and batteries, carbon capture and renewable energy services, raw materials used in the clean energy value chain and energy efficiency products, systems and processes. The fund provides access to a large and diverse set of industries via an active, long-only listed equities strategy offering daily liquidity. The fund is categorized as an SFDR Article 9 Product.

Exclusions

We perform climate-related exclusions for our public equity and fixed income funds, as well as our real assets funds.

Public equity and fixed income funds

Coal exclusion

On the basis of the climate policy, QUAERO CAPITAL aims to exit from coal by 2030 at the latest and in this direction excludes investments in:

- Companies that make more than 10% of revenues from coal mining and/or coal thermal power generation
- Electricity production companies with coal-powered plants contributing ≥ 10% generation and whose carbon intensity is not in line with the objectives of the Paris Agreement (unless there are credible commitments to reduce emission intensity by 2035)

Model used

The exclusion list is aggregated using the Global Coal Exit List from Urgewald[6] and The Transition Pathway Initiative (TPI) Tool[7].

QUAERO CAPITAL follows the Paris-compliant trajectory for the power sector's carbon intensity as determined by the International Energy Agency (IEA) in its biennial Energy Technology Perspectives report. This modelling is used to translate emissions targets made at the international level into sectoral benchmarks, against which the performance of individual companies is compared. This framework is known as the Sectoral Decarbonisation Approach.

Exceptions

QUAERO CAPITAL also recognises the importance of encouraging companies to reduce their dependence on coal-powered energy and to invest in renewable power sources, aligning their activities with the objectives of the Paris Agreement over time.

Different countries are expected to contribute at different paces to the objectives of the Paris Agreement, reflecting the diversity of their economic status.

QUAERO CAPITAL therefore removes power generators from its exclusion list if they have made credible commitments to reduce carbon intensity to a level consistent with the IEA's Paris-compliant trajectory by 2035. The evaluation is both a quantitative and qualitative assessment, reviewing planned disposals and capex plans. Consideration for removal from the exclusion list must be agreed by the ESG committee quarterly.

Unconventional oil and gas exclusion

QUAERO CAPITAL listed funds that are article 9 under the SFDR and/or have the French SRI label exclude unconventional oil & gas. The exclusion policy excludes companies operating upstream in unconventional oil and gas for which either:

- Have a share of unconventional fossil hydrocarbons production >30%
- Have short-term expansion plans in unconventional fossil fuel hydrocarbons > 0%

Model used

The Exclusion list is aggregated using the Global Oil & Gas Exit List from Urgewald.

Unconventional fossil hydrocarbons include fracking, tar sands, coal methane, extra heavy oil, ultra deepwater, arctic and oil shale. For more details please see the climate policy.

Private equity infrastructure funds

The QUAERO CAPITAL private equity infrastructure team ensures that the funds they manage do not invest and/or finance any of the following:

[6] https://coalexit.org/
[7] https://www.transitionpathwayinitiative.org/sectors

- Coal-fired power stations
- Coal mines intended for thermal use (production of electricity)
- Diversified asset

unless those investments meet the following criteria:

- *For electricity production plants and heating networks*: coal represents less than 20% of the total production mix, or the emissions factor of power or heat production is lower than 500 gCO2e/kWh (the global average of power production emissions factor). This limit can be higher as long as a business plan is agreed to achieve such target within a reasonable timeframe
- *For conglomerates*: the turnover of the activity related to coal (extraction, processing, etc.) must be 10% lower than the total turnover of the asset

Climate risk

Integrate climate risk in ESG analysis and investment process

For QUAERO CAPITAL funds[8], the integration of ESG analysis has contributed to the careful management of climate risks.

Material physical and transition climate risks are evaluated through QUAERO CAPITAL bottom up ESG analysis performed by the ESG team, alongside third-party ESG data and ratings.

Both acute and chronic **physical risks** are evaluated with the assistance of IPCC Scenarios, desk-top research as well as discussions directly with the company management.

Transition risk is considered a greater risk than physical risk for QUAERO CAPITAL's investments, therefore significant time is spent understanding the scale of these type of risks. The results of this research are integrated in the analysis from the ESG team and taken into account in each investment decision where these factors are considered material.

Resources used for this analysis include CDP reports, company sustainability reports, and PRI reports including reports such as the 'Inevitable Policy Response', identifying areas of potential future regulatory change.

Engagement

Engage with companies we invest in to address climate risks and report in line with TCFD recommendations and NZAM

QUAERO CAPITAL believes that engaging and voting on climate risk and policy enhances the value of clients' assets.

In 2019, QUAERO CAPITAL became signatory to CDP (formerly Carbon Disclosure Project), an organisation which requests a full and thorough response from public companies on climate strategy using TCFD recommendations.

QUAERO CAPITAL is also signatory to the Institutional Investors Group for Climate Change (IIGCC) to support the lobbying of companies and governments to better address the risks of climate change.

In 2022 QUAERO CAPITAL joined the Net Zero Asset Manager initiative and in 2023, set an interim target to engage with invested companies to set emission reduction targets in line with science-based target (SBT).

Scope

Through those 3 initiatives, we do active engagement, encouraging the implementation of proactive and ambitious environmental strategies and practices for all our public equity and fixed income funds.

[8] This applies to all funds investing in listed securities except *Quaero Capital Funds (Lux) – World Opportunities*.

For real assets funds, we engage with projects/assets on a case-by-case basis regarding carbon footprint and other environmental topics (see also 6. Stewardship).

Process

QUAERO CAPITAL applies a TCFD-centred proxy voting policy that reflects a commitment to mitigating the risks and impacts of climate-related issues.

Carbin footprint

Report on portfolio's environmental footprint[6] and impact for selected strategies

The ESG team monitors how well portfolios are aligned with the objectives of the Paris Agreement. We use a quarterly carbon footprint evaluation in order to do so.

QUAERO CAPITAL believes transparency on carbon footprint of its funds is an important element for asset owners, if they want to assess the climate impact of their investments.

Our Annual Sustainability Report and monthly factsheets (on selected funds) include weighted average carbon intensity (WACI) in line with TCFD disclosure guidance.

Additional indicators

For **Quaero Capital Funds (Lux) – Accessible Clean Energy** which invests in companies in the clean energy value chain, impact metrics are reported in an Annual Impact Report. These metrics include annual supply of renewable energy and % of revenue aligned with climate change mitigation.

For **Quaero Capital Funds (Lux) – Infrastructure Securities** and **Quaero Capital Funds (Lux) – Bond Investment Opportunity**, a commitment has been made to maintain a carbon intensity below that of the universe, ensuring the investment process favours company best managing climate risks.

Carbon neutrality

Plan to achieve QUAERO CAPITAL operational carbon neutrality

The material physical and transition risks QUAERO CAPITAL faces relate to its investments.

Indeed:

- In terms of location, the cities where QUAERO CAPITAL has offices are not subject to material physical or transition risks related to climate change
- As a service company, QUAERO CAPITAL has very limited operational risk related to climate change

However, we believe that, as a company, our own operational footprint is important; because every business and individual have a responsibility to reduce their own footprint, no matter the size.

The ESG team has undertaken an extensive annual process of mapping QUAERO CAPITAL principal carbon emissions in line with GHG protocols since 2019. This includes:

- Scope 2 emissions – electricity use in offices
- Scope 3 emissions – business travel and employee commutes

The objective is to reduce our company footprint. As a result of this work, QUAERO CAPITAL aims to reduce its carbon emissions through:

- Minimising business travel emissions where possible – this includes use of trains over planes and maximising the use of video conferencing
- Encouraging employees to commute by public transport or bicycle; also, a working from home policy reduces the number of miles commuted each week
- Maximising energy efficiency in office buildings through careful selection of office locations and switching energy providers to 100% renewable contracts

Alongside these efforts, QUAERO CAPITAL commits to offset remaining carbon emissions through carbon offsets. We believe this is a valuable and effective tool only if it is with fully audited and verified programs to ensure the projects are additive, meaningful and permanent.

Climate commitments

TCFD

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

Net Zero Asset Manager initiative

We have committed to the Net Zero Asset Manager initiative in 2022.

Science-Based Targets initiative (SBTi)

We use the Science-Based Targets initiative (SBTi) approach and have set targets for a proportion (see below) of our investments that have set their own approved Science-Based Targets (SBTs). We chose this methodology as it focuses the effort of the PMs and the ESG teams on engaging with companies to integrate climate risk fully into their business models, and in doing so setting themselves greenhouse gas (GHG) emission reduction targets that are in line with the best climate science. SBTs are reviewed and approved by the initiative, ensuring that the targets are sufficient to meet a 1.5-degree scenario.

Targets and monitoring

In line with our commitment to NZAM, in 2023, we set an interim target:

- For at least 45% of our assets under management to be managed in line with the attainment of net zero emissions by 2050 or sooner
- With a target of 70% of investments setting their own Science-Based Targets by 2030

We will continue to focus engagement on climate-related disclosures through the CDP disclosure campaign, and as a result of these commitments we put in place a second engagement step specifically requesting companies to set their own SBTs.

These targets will be reviewed on an annual basis. The ESG team will monitor the proportion of each fund with SBTs every 6 months and report to the Management Committee. We will also report publicly our progress towards our targets in our Annual Sustainability Reports.

We already monitor the carbon intensity of the public funds relative to their relevant universes. This is shared internally with PMs and the Management Committee on a monthly basis. Externally, those elements are communicated in our Annual Sustainability Report.

We report these datapoints for each investment in each portfolio to the relevant PM(s), so it can better inform them of the impact each of their investments is having and prioritise their engagement efforts.

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

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

1. Dialogue and voting to 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

For details on climate policy for all QUAERO CAPITAL funds, please see our website.

4. EXCLUSION POLICY

Introduction

While we take our fiduciary duty to investors to maximise returns very seriously, we are confident that we can continue to do so even if some companies are excluded from our investment universe.

This is not only a question of ethics but also of risk management: the companies we exclude carry significant financial risk connected to their business and/or corporate behaviour.

The principle of an exclusion policy was adopted in 2019. The policy has evolved over the years to include climate-related exclusions in 2021, and tobacco exclusion in 2023.

It applies to all funds[9] managed by QUAERO CAPITAL.

Exclusions covered by the policy

Norms-based exclusions

QUAERO CAPITAL follows a principles-based approach to responsible investment matters, applying certain exclusions to avoid allocating capital to companies that consistently and systematically cross ethical lines.

QUAERO CAPITAL applies the principles of the UN Global Compact to assess the behaviour of companies. Companies that are in severe and systemic breach of these principles are excluded from our investment universe.

Controversial weapons exclusions

QUAERO CAPITAL considers illegal weapons (i.e., anti-personnel mines, cluster munitions, chemical and biological weapons) and uranium and nuclear weapons (collectively "Controversial Weapons") and their potential use as controversial given their indiscriminate effect on human populations. Companies that are involved in the production or development of Controversial Weapons and do not comply with the following treaties are excluded from QUAERO CAPITAL's universe:

- The Ottawa Treaty (1997), which prohibits the use, stockpiling, production, and transfer of antipersonnel mines
- The Oslo Convention on Cluster Munitions (2008), which prohibits the use, stockpiling, production and transfer of cluster bombs
- The Chemical Weapons Convention (1993), which prohibits the use, stockpiling production and transfer of chemical weapons
- The Biological Weapons Convention (1972), which prohibits the use, stockpiling, production and transfer of biological weapons
- The Treaty of the Non-Proliferation of Nuclear Weapons (1968) which limits the spread of nuclear weapons to the group of so-called Nuclear Weapons States

Climate-related exclusions

For listed strategies, QUAERO CAPITAL excludes investments in:

- Companies that make 10% or more of revenues from coal mining and/or coal thermal power generation
- Electricity production companies with coal-powered plants contributing ≥ 10% generation and whose carbon intensity is not in line with the objectives of the Paris Agreement (unless there are credible commitments to reduce emission intensity by 2035)

The exclusion list is aggregated using the Global Coal Exit List from Urgewald and the Transition Pathway Initiative (TPI) Tool.

9 This applies to all funds investing in listed securities except *Quaero Capital Funds (Lux) – World Opportunities.*

QUAERO CAPTIAL listed funds that are article 9 under SFRD and/or have the French SRI label exclude unconventional oil & gas. The exclusion policy excludes companies operating upstream in unconventional oil and gas for which either:

- Have a share of unconventional fossil hydrocarbons production >30%
- Have short-term expansion plans in unconventional fossil fuel hydrocarbons > 0%

The Exclusion list is aggregated using the Global Oil & Gas Exit List from Urgewald

For its private equity infrastructure strategies, the team ensures that the funds they manage do not invest and/or finance any of the following:

- Coal-fired power stations
- Coal mines intended for thermal use (production of electricity)
- Diversified asset

unless those investments meet the following criteria:

- *For electricity production plants and heating networks*: coal represents less than 20% of the total production mix, or the emissions factor of power or heat production is lower than 500 gCO2e/kWh (the global average of power production emissions factor). This limit can be higher as long as a business plan is agreed to achieve such target within a reasonable timeframe
- *For conglomerates*: the turnover of the activity related to coal (extraction, processing, etc.) must be 10% lower than the total turnover of the asset

These exclusions are applied systematically to all private equity infrastructure funds at QUAERO CAPITAL.

Sector-related exclusions

QUAERO CAPITAL excludes investments in tobacco producers, using the **tobacco** identifier according to the Bloomberg Industry Classification Standards (BICS).

For funds covered by the policy, these exclusions are applied by the risk team to pre-and post-trade checks.

EXCLUSION POLICY – KEY POINTS

Norms-based	Controversial weapons	Climate-related	Sector-related
Exclusion of companies that do not apply the principles of the UNGC in the following areas:	Exclusion of companies involved in the production or development of Controversial Weapons and do not comply with the following treaties:	Exclusion of companies that:	Exclusion of the tobacco sector as defined by the Bloomberg Industry Classification Standards (BICS):
Human rights	Anti-personnel mines Ottowa Treaty (1997)	Make >10% of revenues from coal mining and/or coal thermal power generation	All companies that are categorised in this sector are excluded
Labour standards	Cluster Munitions Oslo Convention (2008)		
Environment	Chemical Weapons Convention(1993)	Produce >10% of their electricity generation with coal-powered plants and whose carbon intensity is not in line with the objectives of the Paris Agreement	
Corruption	Biological Weapons Convention (1972)		
	Treaty of the Non-Proliferation of Nuclear Weapons (1968)		

Additional exclusions for Art 9 and ISR labelled funds

QUAEROCAPITAL

Graph 4: QUAERO CAPITAL Exclusion policy
Source: QUAERO CAPITAL, December 2023

Exclusions for specific funds

Specific funds may have additional exclusion lists:

- Exclusions based on ESG ratings
- Exclusions based on sectors or sub-sectors
- Exclusions based on countries or regions

Certain funds commit to invest in companies with a best-in-class ESG profile. These funds systematically exclude companies with an MSCI rating (or internal if the MSCI rating is not available) below a certain level, ensuring that the worst performers on sustainability risk management are not included in the fund.

More precisely:

- **Quaero Capital Funds (Lux) – Accessible Clean Energy** excludes oil and financial sectors due to their lack of contribution to climate change adaptation and mitigation.

- **Quaero Capital Funds (Lux) – Infrastructure Securities** excludes companies domiciled in countries with authoritarian regimes due to sustainability risks. The PMs do not believe that companies in these countries can meet sufficient ESG standards. We have chosen to use The Economist Democracy Index to determine these exclusions, excluding all countries identified as 'authoritarian'. The index is updated annually following the publication of each update report.

- **Quaero Bonds Impact Opportunities** and **Quaero Capital Funds (Lux) – Bond Investment Opportunity** both have two additional exclusion lists.

  The first list excludes companies in the following **sectors**: casinos and gaming, cruises, alcoholic beverages, tobacco, cannabis, integrated oil, exploration and production, intermediate sector - oil and gas, refining and marketing, drilling and drilling assistance, oil services and equipment, extraction of minerals and precious stones.

The second list excludes companies that are located in **countries** with authoritarian regimes because of sustainability risks. The PMs do not believe that companies in these countries can meet sufficient ESG standards. We have chosen to use The Economist Democracy Index to determine these exclusions, excluding all countries identified as 'authoritarian'. The index is updated annually following the publication of each update report. Non-cooperative jurisdictions at risk of money laundering, terrorist financing and tax evasion are also excluded.

For details on exclusion for all QUAERO CAPITAL funds, please see our website.

5. ESG INTEGRATION

Introduction

QUAERO CAPITAL integrates ESG analysis in the investment process of its funds[10] in order to identify key sustainability risks and opportunities. This extra-financial analysis is used alongside the financial analysis of the stocks that are considered by the PMs.

The ESG approach and the way the ESG integration is performed may differ across our fund range.

Funds designated Article 8 and 9 under SFDR pursue either ESG characteristics or sustainable objectives.

Public equity and fixed income

For publicly traded assets, **our approach differs for each fund** depending on

- The availability of data, its quality/reliability and/or transparency in some markets
- The ESG commitment of the strategy

Data availability and quality

ESG data quality and reliability of external ratings continue to be an issue for many markets, especially for smaller companies that may not report as many datapoints as larger firms. Fewer datapoints and limited disclosure often lead to a lower rating, which may not fairly reflect the reality of the company.

When we consider that we cannot rely on external ratings (emerging markets and small companies), we focus on our own ESG analysis and due diligence and avoid a 'ratings-focused' ESG process.

For *developed markets and larger companies*, we have more confidence in the quality of external ESG ratings, namely MSCI ratings, and therefore use them as a dependable ESG screening tool.

Nevertheless, we still consider important to have our own view in addition to external ratings (see below).

Typical approach: reduction of the universe

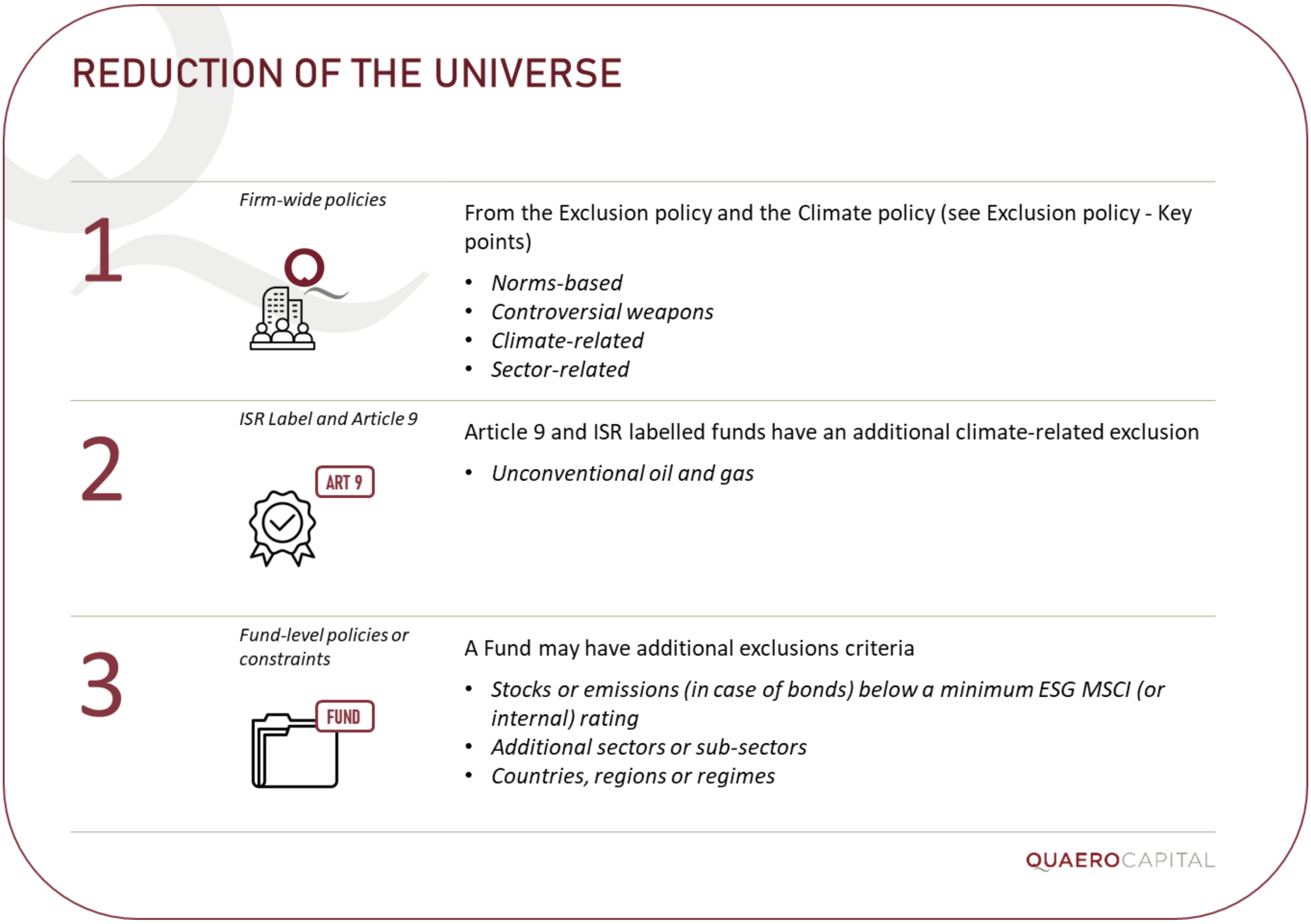
For the funds[12] QUAERO CAPITAL manages, the first step of the investment process is to apply the exclusions (see previous section 4. Exclusion policy) covered in the exclusion policy and the climate policy.

The Article 9 and French SRI labelled funds have additional climate-related exclusions.

For certain funds, the prospectus may then indicate specific constraints, such as:

- Requesting minimum ESG ratings (such as "90% of the portfolio AuM must be BBB or above") - in which case, MSCI ESG ratings (or equivalent) are used to screen out the worst performing companies of the universe
- Excluding specific sectors or sub-sectors
- Excluding certain countries or regions

[10] Scope of ESG Integration: all equity and fixed income funds except for *ATD Quart Monde*, *Quaero Capital Funds (Lux) – World Opportunities.* It does not apply either to the fixed income strategies run in the *Quaero Capital Funds (Lux) – Yield Opportunities.*



Graph 5: Typical investment process – Reduction of the universe
Source: QUAERO CAPITAL, December 2023

ESG evaluation system

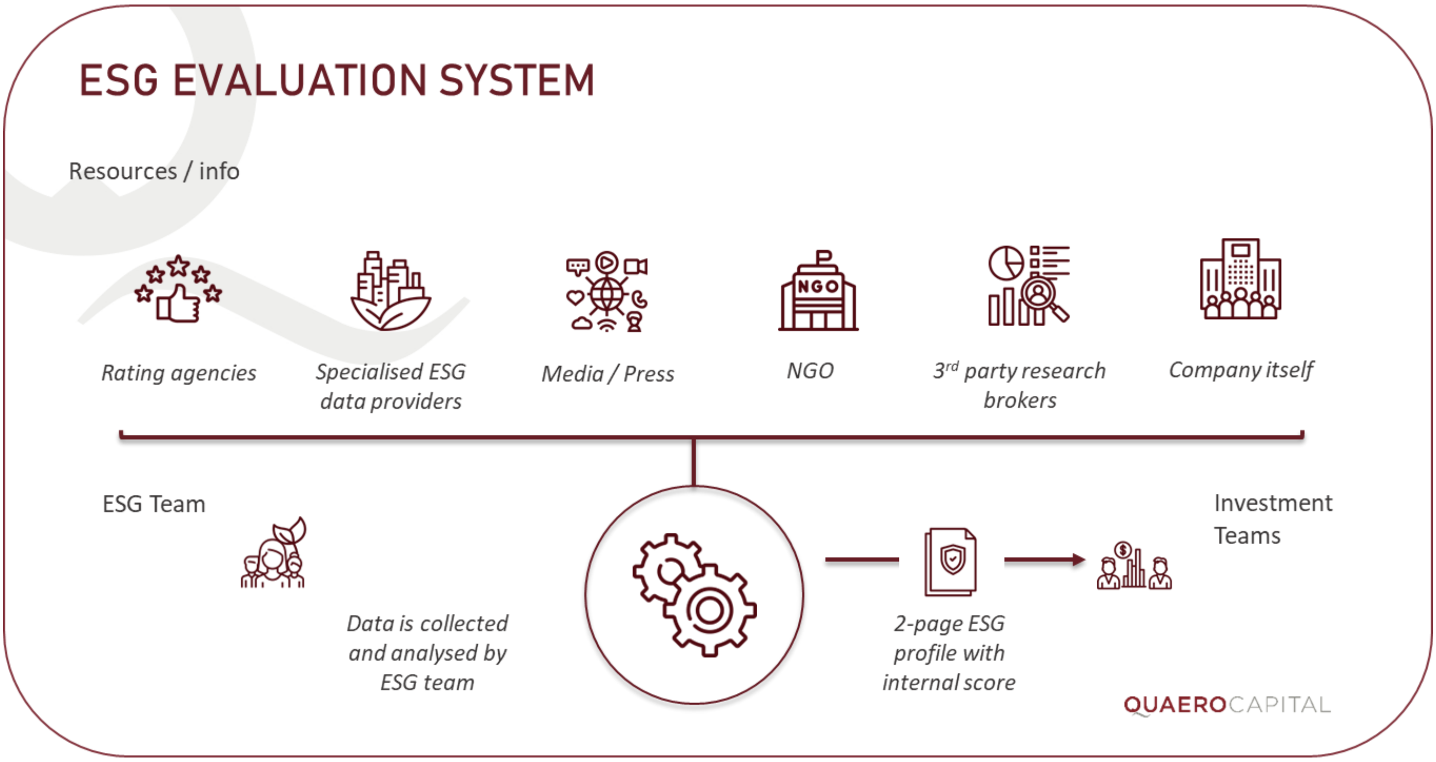
In the next step of the investment process, the PMs analyse in detail the companies that they have selected in their target list.

In order to complement their financial analyses, they integrate extra financial analysis using theESG MSCI ratings and analysis when available or the evaluation performed by the ESG team when the ESG MSCI rating is not available.

In order to perform the internal ESG analysis, the ESG team follows an approach that is both qualitative and quantitative, using datasets from:

- Various notes or datapoints from agencies such as MSCI, Bloomberg (when available)
- Specialised ESG data providers such as the Carbon Disclosure Project (CDP), Carbon4 or the Glass Lewis proxy voting research
- The press and media
- NGOs
- Third party research firms (brokers)
- The companies themselves

As illustrated in the graph below, based on the information gathered, the ESG team establishes a 2-page ESG profile that includes an internal ESG score (a scale 5 rankings that ranges from Very Poor to Excellent). Those elements are then used by the investment teams to complete their analysis of the companies they are considering.



Graph 6: QUAERO CAPITAL ESG evaluation system
Source: QUAERO CAPITAL, December 2023

More information on the analysis performed by the ESG team and on the ESG profile

For many investments, the ESG analysts follow a **bottom-up** analysis

- First identifying material risks with the help of Sustainable Accounting Standards Board's (SASB) materiality matrix
- Then exploring the company strategy and management of those risks

Alongside, they 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)
- 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 is strategically risky to depend on consumption of environmental resources, but we expect future regulation to make polluting more expensive. One of the elements we want to assess is how much a company reduces exposure to such risks compared to its peer group.

For many companies, climate change is the most important sustainability risk to consider. For most companies in our investment universes, 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, China 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 have proven 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 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 have a high stake in the company/asset.

Companie should

- Align executives' long-term interests with the ones of shareholders
- Incentivise good corporate behaviour and investment in long-term growth and opportunities
- Not focus on short-term financial performance at the expense of environmental and social considerations

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' interests and reward strong strategic judgement and execution and not short-term financial manipulation. Additionally executive compensation should be aligned with important environmental and social objectives.

Good governance practice diverges by geography, and we take into consideration country governance codes.

The in-house ESG analysis is performed by the ESG team who works closely with the investment teams to benefit from their expertise and ensure that ESG analysis is embedded in the investment processes.

The output is an **ESG profile** and an internal **ESG score** which both evaluate 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 when possible.

This ESG profile is used by the PMs to complete their analysis and continue the final steps of the investment process.

The graph below gives an overview of the ESG profile.

ESG EVALUATION CHARACTERISTICS

Scope

- Evaluates how well the company approaches and manages its ESG risks
- Evaluates how well the company can benefit from sustainability-related opportunities
- Evaluates ESG goals and targets set by the company
- Assesses the company's climate strategy
- Considers the impact of the company/ of the company's products on the environment
- Monitors ESG controversies

Type of data

- Company description
- Industry challenges
- ESG risks and their significance
- ESG KPIs depending on company's sector
- Specific climate and disclosure engagements
- ESG controversies

Characteristics

- Data come from ESG data providers, companies' reports, direct contacts with the companies, media, NGOs…
- Systematic template
- Allows comparison year on year
- Companies are compared to peers when possible
- Qualitative and quantitative
- Over 50 indicators

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Graph 7: ESG evaluation characteristics
Source: QUAERO CAPITAL, December 2023

Real assets

ESG is an important characteristic of our real asset funds, including both private equity infrastructure funds as well as real estate funds.

The integration of ESG considerations is critical both during:

- The due diligence phase of each real asset – using ESG analysis allow us to make a better assessment/valuation of the asset and the potential sustainability risks/opportunities that are linked to the asset
- The entire holding period of the asset – monitoring key sustainability indicators and objectives that have been set for the asset

A first ESG assessment is performed during the due diligence phase of the investment process by the ESG team and the investment team.

At the time of investment, key sustainability objectives are defined for each asset. We use the Sustainable Development Goal (SDG) framework for doing so. Objectives can be established over several years, with specific milestones. We measure their progress on an annual basis. This allows us to monitor the contribution of each asset towards the achievement of the SDGs. Those elements are documented in our Annual Impact Reports.

Private equity infrastructure funds

In order to perform our ESG analysis, we have developed two grids with the help of sustainability consultants with strong expertise in private equity infrastructure assets, in line with European sustainable standards.

The first grid is used at the due diligence phase to check whether the project is fit for further consideration from an ESG point of view. This review is carried out by the fund team and validated by the ESG team.

After the asset has been acquired, during the entire holding period, we perform annual ESG assessments of each project – in particular to monitor progress on the SDGs goals set at the investment stage This review is carried out by the fund team, with the help of the project team and recorded by the ESG team. This data is then compiled and reported to clients in the Annual Impact Report.

Real estate funds

To assess the ESG profile of each asset, we have developed our own detailed ESG grid

This grid is based on indicators such as carbon footprint, water consumption, biodiversity, accessibility to public transports, disability access, etc. from the best international benchmarks, including the Observatoire de l'Immobilier Durable (OID), SDGs, PRIs and Global ESG Benchmark for Real Assets (GRESB).

Using this ESG grid, the investment team and ESG team can compare the ESG performance of our assets with previous years' results, identify areas for improvement, and define appropriate action plans. The grid allows us to obtain a consolidate view of the ESG and climate performance of the asset.

Our real estate strategies adopt a **best-in-progress approach**. This means that we focus on improving the ESG performance of our properties rather than acquiring properties that are already performing well. We enhance the value of our properties by taking actions to improve their ESG performance. This involves levers relating to the use, maintenance and operation of the assets. The actions are undertaken in close collaboration with tenants and technical staff.

Considering sustainability risks into the investment process

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 have a policy to pursue ongoing and active dialogue with the management teams of the companies we target (this is especially the case for small cap investments and investment in private equity infrastructure). One of the areas we focus on during our engagement activity is encouraging (1) greater transparency on ESG strategies and (2) increased 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 sustainability 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)
- We encourage companies to reduce ESG and climate risks when we engage with them

We evaluate physical climate risks on a case-by-case basis, but for the majority of our current investments we consider these risks to be low.

For more details on ESG integration, please see our website.

6. STEWARDSHIP

Stewardship – engagement and voting policies – principles

QUAERO CAPITAL is committed to a sustainable form of capitalism

- Where companies are run for the long-term and not for short-term profit maximization
- Where stakeholders are considered alongside shareholders
- Where boards are strong and empowered structures in organisations to ensure executive teams are both enabled and sufficiently overseen for the benefit of all stakeholders and ultimately society

We consider that such companies are likely to have better management of such risks, which should lead to better long-term financial performance.

As an asset manager, QUAERO CAPITAL has a responsibility to act as a good steward of capital on behalf of its clients through active stewardship, including direct engagement on these issues with company management teams.

We welcome opportunities to collaborate with other shareholders and are an important partner to the CDP disclosure campaign, often taking a leading investor role to engage with companies to disclosure greater detail of their climate strategies.

QUAERO CAPITAL is also a signatory to the Institutional Investor Group against Climate Change (IIGCC) and co-signs 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 for smaller asset managers.

QUAERO CAPITAL has defined two policies to guide its team performing stewardship : the engagement policy and the voting policy.

Engagement policy – application

The QUAERO CAPITAL engagement policy applies to our **public equity and fixed income funds** [11].

In particular, our **small cap funds** are able to exert significant influence on companies they invest in due to the relatively large positions held and over long periods of time. Engagement Is a very important part of our ESG approach for those funds, with a particular focus on climate-related disclosure.

See the *Quaero Capital Funds (Lux) - Argonaut Engagement Report* for more details (ESG Documents – QUAERO CAPITAL).

For **private equity** and **real estate** funds, investments are predominantly majority owned, which provides significant influence on how the asset is managed. Influencing directly how these assets are managed is a key element of the strategies for our private equity and real estate strategies. These are outlined in fund specific documentation that is available upon request.

Engagement policy – general approach

Public equity and fixed income funds[14]

For companies where QUAERO CAPITAL has significant influence, such as when ownership amounts to more than 1% of the company, or when a good relationship has been built with company management, the ESG team will identify areas for engagement either as a result of internal ESG analysis or following a controversial event or report that should be addressed.

[11] Scope of this policy: all equity funds except for *ATD Quart Monde*, *Quaero Capital Funds (Lux) – World Opportunities and Quaero Capital Funds (Lux) – Yield Opportunities.* See Engagement Policy.

These areas are prioritised depending on the level of materiality to the future of the company and the severity of the controversy.

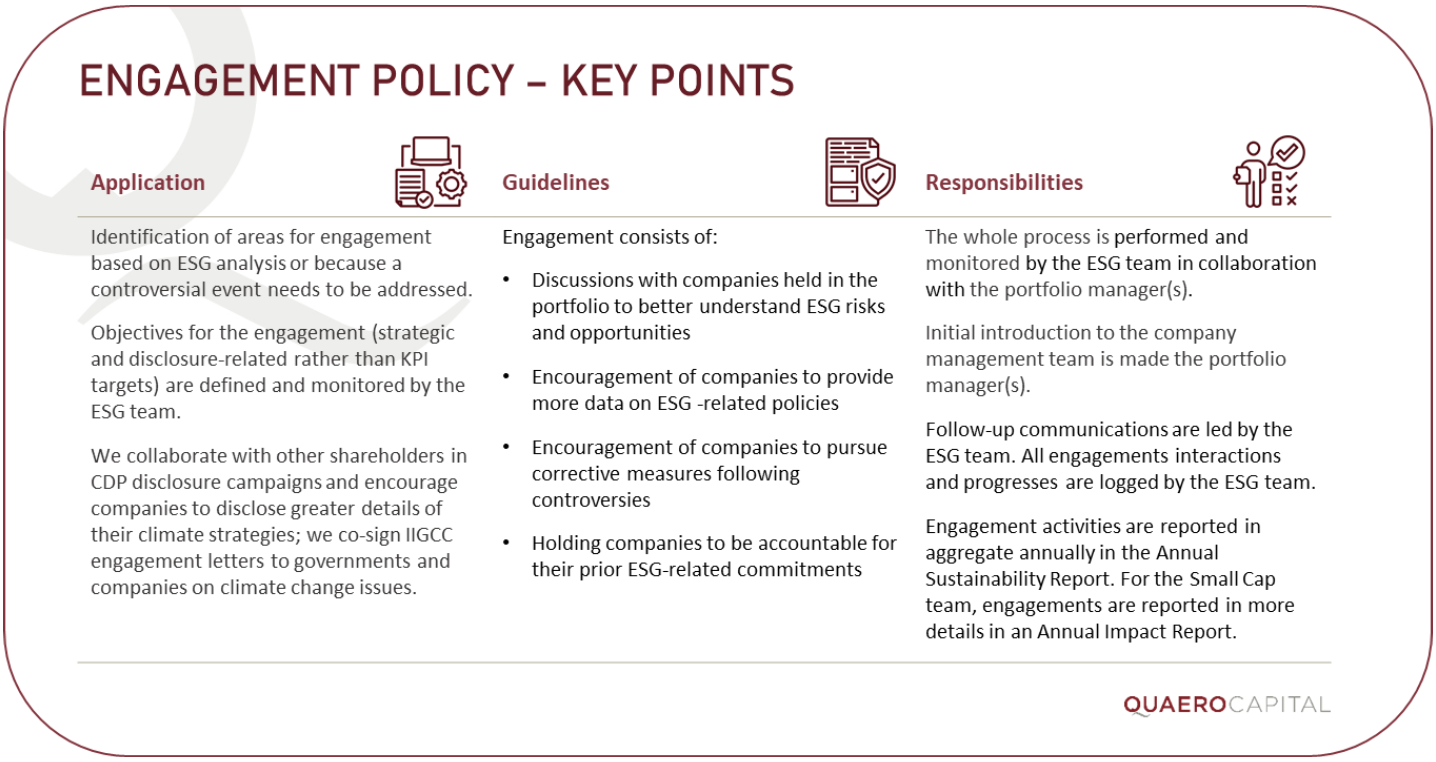
Engagements are initiated by the PM(s) directly with the company management team and are usually followed by a meeting between the PM(s), the company management team and, at times, the ESG team. The ESG team may seek to include outside input from organisations that focus on the specific area and industry, to include expert opinions on the topic. Objectives are formed during the engagement and monitored by the ESG team. The engagement topics tend to be strategic and disclosure-related rather than KPI targets.

Opportunities to collaborate with other shareholders are welcomed. QUAERO CAPITAL is 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, and more recently has started engaging with many companies across the portfolios encouraging them to set Science Based Targets as part of our commitment to the Net Zero Asset Manager initiative.. QUAERO CAPITAL is also a signatory to the IIGCC and co-sign their engagement letters to governments and companies on climate change issues.

QUAERO CAPITAL actively seeks other organisations to 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.

Engagement consists of

1. Discussions with companies held in the portfolio to better understand sustainability risks and opportunities
2. Encouragement of companies to provide more data and better transparency on ESG-related policies
3. Encouragement of companies to better communicate and pursue corrective measures following controversies
4. Holding companies to account for their prior commitments related to ESG issues



Graph 8: QUAERO CAPITAL Engagement policy
Source: QUAERO CAPITAL, December 2023

Real asset funds

The private equity infrastructure funds adhere to the concept of Positive Impact Finance defined by UNEP Finance Initiative in 2017: it is about making investments that contribute to one of the three pillars of sustainable development (economic, environmental and social), while ensuring that the negative impacts linked to funded activities are properly identified and managed.

Thus, in terms of investments, the private equity infrastructure funds are committed to promote sustainable governance, efficient asset management, and a scrupulous approach to risk analysis and management. In this context, the private equity infrastructure funds act as an active shareholder, whether they have a majority or minority ownership. They engage the management of each asset, when possible, to improve certain environmental or social impacts.

For the real estate funds, as we are convinced that we cannot act alone and that our responsibility as a landlord implies a mobilisation of the entire value chain, we have deployed an engagement policy with our key stakeholders.

We have environmental annexes to each new contract, which commits to the establishment of a Green Committee for each asset that meets every year. Through these Green Committees, we engage with the building tenants, property managers and we raise awareness on ESG topics, such as encouraging efficient use of energy, water and recycling and providing them a best practice guide.

We have also set ourselves the objective of drawing up a “Charte de chantier vert” for all buildings under construction to ensure that companies and their subcontractors involved in construction or renovation operations commit to put in place specific procedures for reducing site nuisances.

The aim of the charter is to meet the requirements of sustainable practices in the building industry and to reduce as much as possible the impact of the work on the workers, the neighbourhood and the environment. In the event of failure to comply with the provisions of this charter, the company concerned may be held liable and penalties will be applied.

Voting policy[12] – General approach

QUAERO CAPITAL views proxy voting as an integral part of its investment management responsibilities. Exercising all voting rights when possible is an important element of our approach as responsible investors and it is part of our fiduciary duty. We consider quality corporate governance as a driver of sustainable performance for investors and stakeholders alike, and we believe active stock ownership through voting is a vital part of a quality and well-functioning governance structure.

In 2019, **we invested in our voting process**, enrolling Glass Lewis not to make our voting decisions for us, but to assist us with research which adds a great amount of value to our internal voting process.

The information we receive includes:

- A comparison with country and industry peers
- In-depth analysis of the balance of skills of a corporate board
- Evaluation of compensation plans

Voting decisions are made by PMs, with advice from the ESG team. Proxy voting is completed through an online platform by the ESG team in compliance with instructions from the PM(s) of each fund.

A priority for our stewardship activities is climate risk and encouraging companies to ensure they are suitably focused on the issues and opportunities connected to mitigating and adapting to climate change. Therefore, in 2022, **we implemented a voting policy** with our provider of proxy voting research and recommendations designed to identify companies with

[12] Scope of this policy: all equity funds except for *ATD Quart Monde*, *Quaero Capital Funds (Lux) – World Opportunities*. It does not apply either to the fixed income strategies.

insufficient climate strategy, risk management and/or disclosure and recommend voting action to encourage an improvement.

The ESG team is responsible for ensuring that QUAERO CAPITAL's voting guidelines are kept up to date and integrate sustainable aspects.

VOTING POLICY – PROCESS

Team in charge	Task
ESG team	1. Establishes and keeps voting guidelines up-to-date 2. With input from **external advisory services**, establishes recommendations for portfolio managers of each fund
Portfolio managers	3. Define their votes taking into account the voting guidelines but keeping ultimate discretion on their voting decisions
ESG team	4. Enters the votes into an on-line platform 5. Maintains records of the votes (including reasons behind each of them) 6. Includes a summary of all votes in the Annual Sustainability Report

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Graph 9: Voting policy process
Source: QUAERO CAPITAL, December 2023

Key principles of the voting policy

- **Financial statements & audit approval** – QUAERO CAPITAL will approve accounts so long as there is no reason to question their reliability. QUAERO CAPITAL will vote to approve auditors when we regard them as independent.
- **Board of directors** – QUAERO CAPITAL supports resolutions that promote the effectiveness of boards in acting in the best interest of shareholders. This includes consideration of independence, experience, diversity and aligned interests.
- **Executive compensation** – QUAERO CAPITAL supports compensation packages that ensure alignment of interest between the executives and shareholders. Performance incentives should be long-term in nature and should include equity allocation. Compensation packages considered excessive will not be supported.
- **Share issuance** – QUAERO CAPITAL will vote according to the interest of current shareholders and will look to avoid risk of dilution of shares. There may be instances where share issuance is beneficial, when used for employee incentives for example. QUAERO CAPITAL will review each situation on a case-by-case basis.
- **Mergers & acquisitions** – QUAERO CAPITAL will review each situation on a case-by-case basis, considering strategic, financial and governance risks and benefits associated with the transaction.
- **Environmental and social issues** – where it aligns with the best interests of shareholders, QUAERO CAPITAL will vote to encourage companies to increase transparency regarding their environmental and social policies and impacts, as well as hold companies accountable for a lack of progress on climate risk governance.

For details on engagement and voting (including our records of voting) for all QUAERO CAPITAL funds, please see our website.

7. SFDR ARTICLE 8 AND 9 FUNDS AT QUAERO CAPITAL

SFDR: Article 8 funds

Public equity and fixed income funds

QUAERO CAPITAL funds that invest in companies with **sustainability characteristics** are classified as Article 8 funds.

These are funds that are committed to invest in companies that demonstrate appreciation and commitment to sustainability throughout their operations.

The investment process for listed Article 8 funds often includes an initial ESG screen using MSCI ESG ratings. We always have our own view on a company, usually in the form of a full analysis, a 2-page ESG profile, and internal rating from the ESG team (see section 5. ESG Integration).

Among the different Article 8 funds,

- Some seek to invest in companies with the strongest ESG profiles in their industries
- Others prioritise working with poorly rated companies through engagement in order to improve their reporting, transparency and sustainability

Real assets funds

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

We have two investment strategies in **real estate**. The first one focuses on the evolution of working methods to offer new generation office buildings. The second one is dedicated to education real estate. For both, we aim to upgrade and improve assets' ESG characteristics.

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.

As at the date of this document, the following funds are designated as Article 8:

- Education real estate fund
- Quaero Capital Funds (Lux) – Argonaut
- Quaero Capital Funds (Lux) – Bond Investment Opportunity
- Quaero Capital Funds (Lux) – Cullen ESG US Value
- Quaero Capital Funds (Lux) – Global Convertible Bonds
- Quaero Capital Funds (Lux) – Infrastructure Securities

The first two **private equity infrastructure funds and first real estate fund** were closed when the regulation came into force, but these funds report in line with 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.

As at the date of this document, the following funds are designated as Article 9:

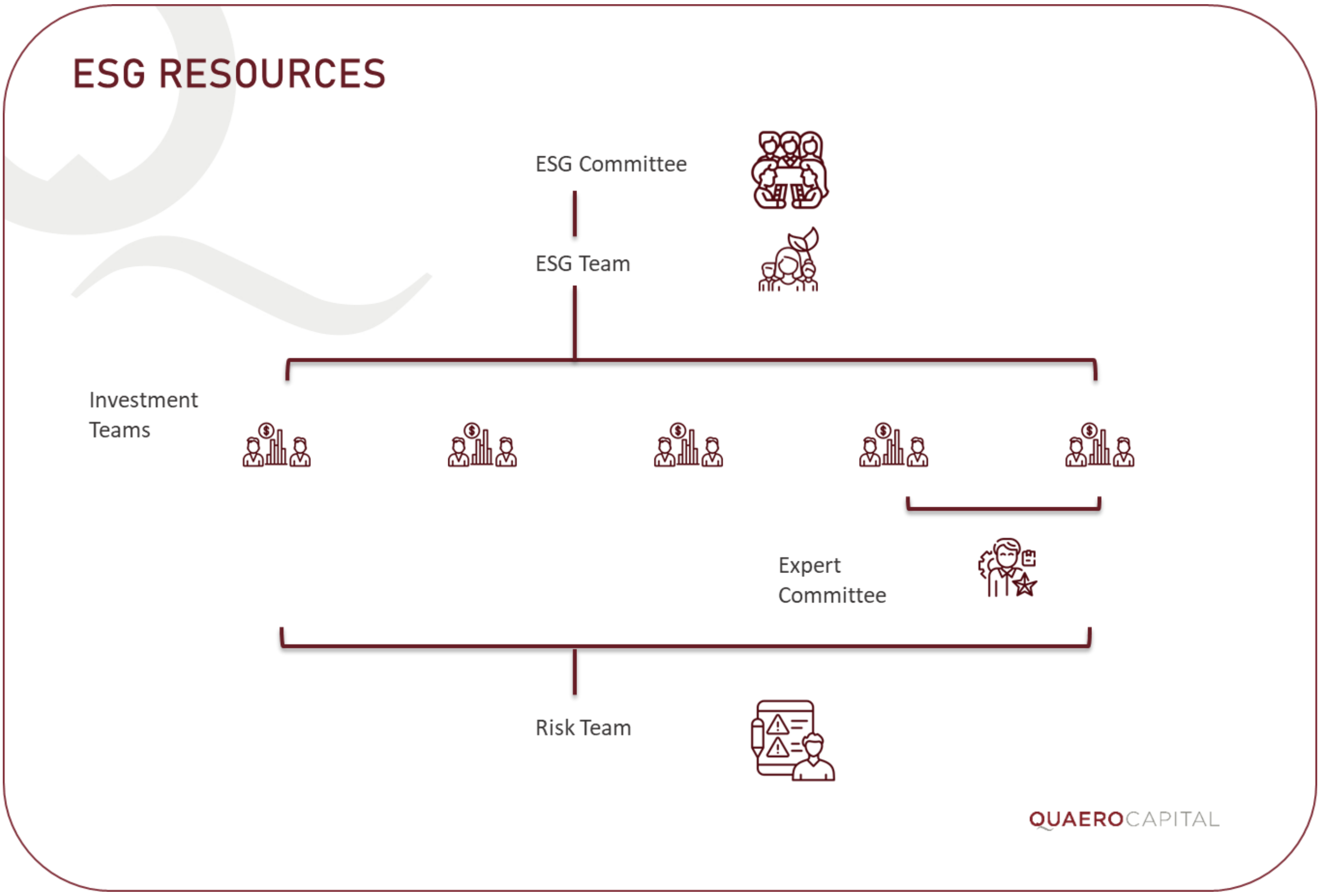
- Private equity infrastructure fund III
- Quaero Capital Funds (Lux) – Accessible Clean Energy

Further information

Further detail on our approach to SFDR regulation can be found in the ANNEX section.

8. RESOURCES DEDICATED TO ESG

The ESG resources can be summarised as follows



Graph 10: ESG Resources at QUAERO CAPITAL
Source: QUAERO CAPITAL, December 2023

ESG committee

As the company evolves and the variety of funds and asset classes increases, it is important that we develop our approach to ESG investing in a consistent and coordinated manner. To drive this process, we have appointed an ESG committee with senior representatives from across the organization.

The ESG committee has oversight and responsibility for the development and integration of the sustainability policies through both the company's investments and its own corporate behaviour.

The ESG committee of Quaero Capital SA defines the strategy of the company in terms of ESG and climate risks. The proposed strategy is then approved by the Management Committee of each QUAERO CAPITAL entity.

The composition of the ESG committee is available on our website. As at the date of this document, its members are:

- Jean Keller – Chief Executive Officer
- Thierry Callault – Head of Business Development
- Francesco Samson – Chief Operating Officer
- Philip Best – Chairman of the Board and Portfolio Manager

- Georgina Parker – Head of Sustainability
- Hélène-Sophie Renneboog – Head of Marketing and Communication
- Michael Malquarti – Head of Risk
- Antoine Turrettini – Investment Director, Private Equity Infrastructure
- Mark Ebert – Portfolio Manager

The committee meets quarterly for one hour to review:

- Strategy and objectives related to ESG and responsible investment
- Company engagements during the quarter
- ESG policies and their implementation
- Internal ESG reporting and monitoring
- Internal initiatives to promote ESG internally and externally
- Proposed ESG training for approbation
- Draft version of the Annual Sustainability Report prior to approval
- Any important ESG issues/questions related to the investment process
- Client requests related to ESG
- Client reporting on ESG aspects

Dedicated ESG team

Since 2018, QUAERO CAPITAL has had a dedicated ESG team. The composition of the team is available on our website. 100% of their time is spent on ESG and climate issues.

The ESG team has various responsibilities at corporate/entity level. In particular, the ESG team is responsible for the implementation of all policies except for the voting policy, which is the responsibility of the Legal department.

The ESG team also brings support to the various investment teams. This support may differ according to investment strategies, as each fund has its own ESG approach.

More generally, the team oversees:

- ESG strategy and formulation of policies
- Updating ESG exclusion policies
- Oversight and administration of proxy votes
- Oversight and support of engagement efforts
- Corporate sustainable responsibility at Quaero Capital (France) SAS
- Ensuring all relevant teams are up to date and aware of changes in the ESG strategy
- ESG training
- ESG analysis of target companies
- Thematic research
- Support on the design of fund-level ESG processes
- ESG reporting

The team is led by Georgina Parker.

Georgina Parker joined QUAERO CAPITAL in April 2018 and is Head of Sustainability. Georgina began her career in 2007 as a generalist equity analyst with Bessemer Trust, working first with the UK small&mid-cap team before joining the global large cap fund as a generalist analyst working in both London and New York. In 2015 she left to take part in the business development of Virgin Pure, a Virgin-backed start-up focused on reducing plastic waste. In 2018 she returned to the investment industry to contribute to the movement towards sustainability, joining the sustainable investment experts at Conser Invest in Geneva. In 2014, Georgina co-founded a network for ambitious career women, called BroadMinded, currently spanning over 1000 women in London. Georgina holds a degree in Economics from the University of Edinburgh and is a CFA charterholder.

An organisation that enhances ESG awareness and knowledge

The ESG team works with the investment team of each fund in the ESG integration, raising awareness of sustainability and ESG issues as well as training them on the use of ESG datasets or certifications that they may use such as the MSCI platform or the French SRI Label. A benefit of being a relatively small organisation is that there is regular in-person interaction between the ESG team and the investment teams. This results in regular informal training and exchanges on ESG issues and topics.

ESG in all investment teams

Through our active and long-term approach to investment, sustainability has always formed part of our analysis – and was therefore embedded in the investment processes and carried out by the investment teams.

All our funds follow a different philosophy and ESG approach, but each investment team considers the analysis and evaluation of sustainability risks and opportunities important to the investment process and seeks to demonstrate sustainability characteristics. They also follow the firm-wide ESG policies, as described in this Handbook.

Specific thematic expertise

In parallel, QUAERO CAPITAL has developed ESG thematic expertise, which includes industry leading expertise in investments related to infrastructure and energy transition. This expertise is represented in the QUAERO CAPITAL private equity infrastructure team and the public equity teams behind Accessible Clean Energy and Infrastructure Securities funds, all of which have a significant focus on the green energy transition and extensive experience and knowledge.

Expert committee

The Accessible Clean Energy fund benefits from the support and input of an expert committee with senior expert in areas such as: oil, natural gas, biomass, geothermal, wind, solar, batteries, CO_2 solutions, sustainability across supply chains, electronic materials, optics, semiconductors, nanotechnology, chemistry, energy policy.

Risk team

The Risk team has oversight on the adherence of each fund to its stated ESG objectives or characteristics, enacting pre- and post-trade restrictions. We have not, to date, defined how the ESG strategy performance is affected by ESG factors.

All CVs are available on our website.

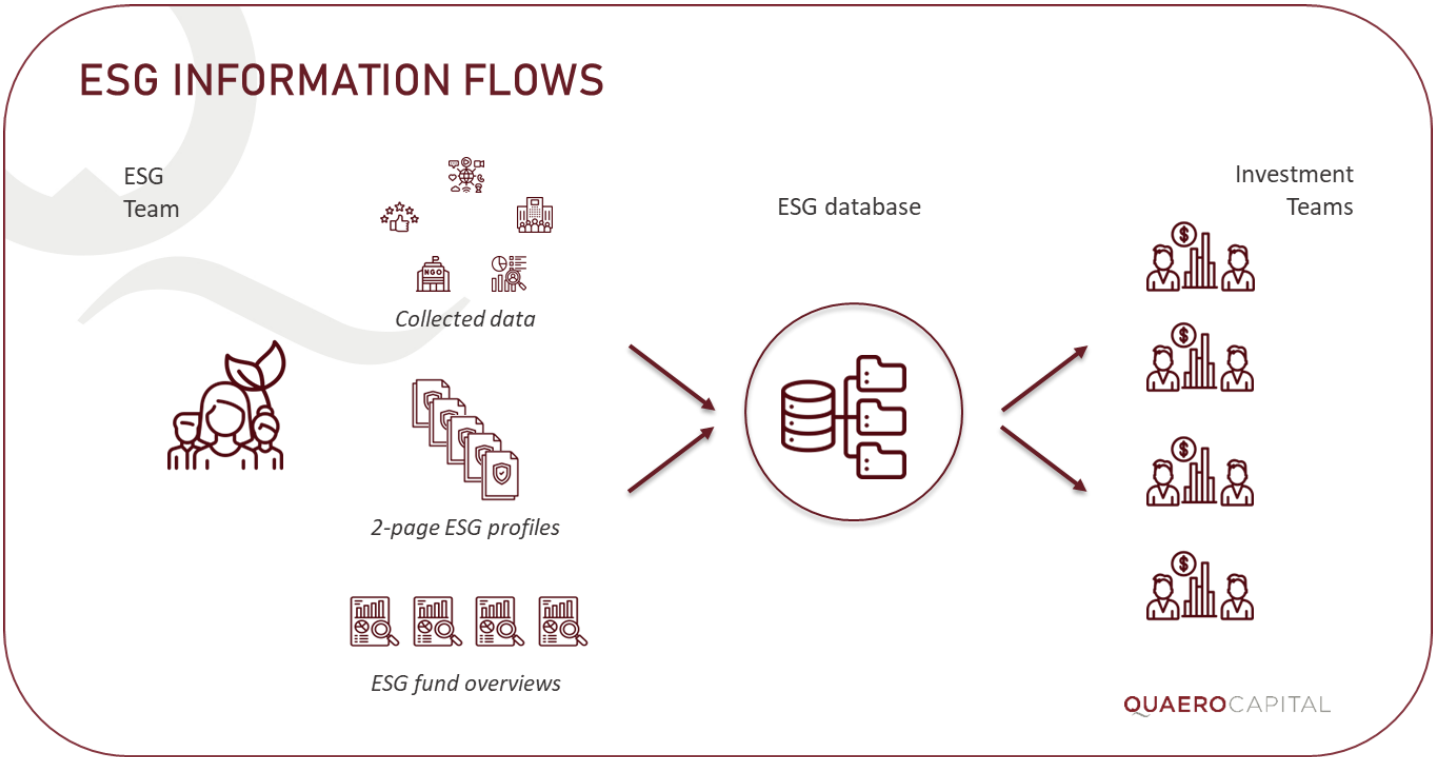
9. ESG INFORMATION FLOW AND DATA

ESG information flow

The collected ESG data and the internal ESG analyses put together by the ESG team are stored in files that are shared with / made available to PMs.

Every month, the ESG team sends a ESG fund overview to each investment team.

All those information serve as a basis for discussion between the ESG team and the PMs.



Graph 11: ESG Information flows at QUAERO CAPITAL
Source: QUAERO CAPITAL, December 2023

At corporate level, key strategic information on ESG trends and regulation are shared during the ESG committee meetings. It is also in this forum that decisions regarding the evolution of our ESG practices are taken.

Externally, we communicate various ESG datapoints in our fund monthly factsheets, including distribution of ESG scores across the portfolio holdings, the portfolio ESG score and the KPIs identified above. This applies to all our Article 8 and Article 9 funds.

The ESG team also regularly writes on ESG topics; those papers are distributed internally and to investors through a monthly newsletter and posted online.

Data

QUAERO CAPITAL uses the different providers and data set listed below:

- MSCI ESG ratings and controversies, which includes carbon intensity metrics as well as multiple other valuable ESG metrics
- CDP data are used to assess company in terms of environmental disclosure
- Glass Lewis voting research and recommendations, which provide real insight into the relative merits of governance structures
- Carbone4, a climate and biodiversity expert, which provides data set enabling us to assess portfolio impact
- Broker research and analysis on ESG and sustainable themes
- Bloomberg

Reporting

Monthly reports

- Internal reports for all public equity and fixed income funds
- Factsheets for each Article 8 and Article 9 UCITS funds (except Quaero Capital Funds (Lux) – Argonaut) show a monthly ESG overview of the funds

Annual reports

- Annual Sustainability Report
- Voting records
- Article 29 – Loi Energie Climat Report (for our French entity)

Impact reports

We publish annual impact reports for our Article 9 funds and French real estate funds. As at the date of this document, the impact reports are prepared for the following funds:

- Quaero Capital Funds (Lux) – Accessible Clean Energy
- The French real estate funds (OPPCI Foncière and OPPCI EDUCATIO)
- The private equity infrastructure funds

Engagement reports

As at the date of this document, an engagement report is prepared for:

- Quaero Capital Funds (Lux) – Argonaut

ANNEX

Sustainable investment definition

Article 2.17[13]of the European Regulation (EU) 2019/2088 known as SFDR, defines sustainable investment as:

"an investment in an economic activity that contributes to an environmental objective, measured for example through key indicators in resource efficiency regarding the use of energy, renewable energy, raw materials, water and land, in waste generation and greenhouse gas emissions or in the effects on biodiversity and the circular economy, an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to the fight against inequality or that promotes social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities or provided that such investments do not materially prejudice any of these objectives and that the companies in which the investments are made apply good governance practices, in particular with respect to sound management structures, employee relations, remuneration of competent personnel and compliance with tax obligations."

Thus, three key steps are established to characterize an investment as sustainable. **To be sustainable, an investment must:**

1. Be performed in one or more activities that contribute positively to an environmental or social objective, and
2. Respect the precautionary principle of not "causing significant harm" to another environmental or social objective, and

Be performed in a company that applies good governance principles.

The **European Taxonomy** is a classification of "environmentally sustainable" economic activities. They are appreciated through their contribution to at least one of the six EU's environmental objectives, without significantly causing harm to any of the other environmental objectives and while respecting minimum safeguards. Additionally, they must comply with the technical screening criteria of Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing the Taxonomy Regulation.

The six environmental objectives defined in Article 9 of Taxonomy Regulation include:

- Climate change mitigation
- Climate change adaptation
- Sustainable use and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems.

In accordance with the interpretation of the European Commission (Communication 2023/C 211/01 16 June 2023), an environmentally sustainable economic activity aligned with the European Taxonomy is considered to be a sustainable investment within the meaning of Article 2 (17) of the SFDR (Recital 19 and Article 5 of the Taxonomy Regulation).

[13] https://eur-lex.europa.eu/legal-content/FR/TXT/HTML/?uri=CELEX:32019R2088&from=fr#d1e644-1-1

1. Activities that contribute positively to an environmental or social objective

Public equity funds

The Article 9 fund pursues a sustainable objective of contributing to decarbonisation by investing and taking an active role along the clean energy value chain.

This is achieved through investing in companies whose primary business in the clean energy value chain including

(i) Clean energy technology development and production including solar, wind, bioenergy, hydraulic, geothermal energy
(ii) Renewable energy transmission and distribution
(iii) Smart grid management
(iv) Energy storage technologies including hydrogen and batteries
(v) Carbon capture and renewable energy services
(vi) Raw materials used in the clean energy value chain
(vii) Energy efficiency including energy efficient products, systems and processes

The fund only invests in companies that have a positive revenue exposure to the above identified green activities. This is an initial indication of the involvement of the company in the green energy value chain.

The fund's approach to selecting investments with a meaningful contribution towards climate change mitigation follows the following steps:

1. Identify key themes

a) What are the most compelling technology trends that will contribute to cutting the cost of clean energy and accelerate the trend to de-carbonisation?
b) Is the technology identified disruptive?
c) What is its level of maturity?
d) Can it be scaled and adopted globally?

2. Select the right technologies

a) Policy assessment – what are the government and regulatory risks?
b) Technology assessment – scientific consultation, evaluation of what has changed
c) Economic assessment – what is the ability for this technology to compete with the incumbent technology and how do the economics compare

3. Select companies that will have a meaningful impact

a) Does the management have a clear & sustainable vision in line with the energy transition?
b) Is green revenue growing?

This qualitative assessment concludes whether this company can have a meaningful impact on climate change mitigation.

Each position is reviewed on an annual basis to update the percentage of revenue in green activities. Before any new investment is made, the same calculation is made and the threshold set will be monitored.

Private equity infrastructure funds

The QUAERO CAPITAL private equity infrastructure team chooses assets based on their contribution to the environmental or social sustainable investment objectives.

A sustainable investment objective is defined as a positive contribution by an asset to one of the sustainable development goals, as listed below.

Since the impacts generated by the investments vary depending on the type of assets, for each sector and type of asset selected by QUAERO CAPITAL, specific goals have been identified.

Given the nature of QUAERO CAPITAL's infrastructure investments, all investments must contribute to the

- SDG 8 'Decent work and economic growth' and
- SDG 9 'Industry, Innovation and Infrastructure'.

In addition, the following goals have been set depending on the sector of activity of the asset:

- Investing in the **water** sector aims to improve access to drinking water and water use efficiency, contributing to SDG 6 'Clean water and sanitation'
- Investing in **renewable energy** increases the supply of renewable energy and contributes to SDG 7 'Affordable and clean energy'
- Investing in the **telecom** sector improves access to the internet and builds eco-friendly data centres, contributing to SDG 13 'Mitigation of climate impacts'
- Investing in the **waste management** sector aims to increase the volume of waste collected, and/or the recycling percentage of key materials in the waste stream, and/or generating waste-to-energy, contributing to SDG 11 'Sustainable cities and communities' and SDG 12 'Responsible consumption and production'
- Investing in **social infrastructure** promotes access to social infrastructure while reducing environmental impacts, contributing to SDG 3 'Good health and well-being' and to SDG 4 'Quality education'
- Finally, investing in **transportation** helps to create economic opportunities and connectivity between municipalities, contributing to SDG 11 'Sustainable cities and communities'

The table below summarises the SDGs to which each asset must contribute, depending on its sector, and the indicators used to measure the contribution.

Sector of the investment	SDGs to which the asset must contribute	Indicators used to measure the contribution of the asset to the SDGs
For all investments – regardless of the sector	SDG 8 'Decent work and economic growth' and SDG 9 'Industry, Innovation and Infrastructure'.	• Number of jobs created during the year (nb) • Capital expenditure on infrastructure during the year (mEUR)
Water	SDG 6 'Clean water and sanitation'	• Quantity of water recycled/treated over the past year (m3) • Budget allocated to the preserve and/or improve existing infrastructure for water management (mEUR)
Renewable energy	SDG 7 'Affordable and clean energy'	• Renewable energy generated (MWh) • Renewable energy generation capacity (MW)
Telecom (data centres)	SDG 13 'Mitigation of climate impacts'	• Data center energy efficiency (ratio of total energy used and energy used only by IT equipment) PUE (nb) • Share of energy used from renewable sources (%)
Telecom (deployment of telecommunications / networks / cables)	idem	• Number of additional households / organizations that had access to fiber in year N compared to year N-1 (nb) • Kilometers of additional networks created in year N compared to year N-1 (km) • Number of connected sites (nb)
Waste management	SDG 11 'Sustainable cities and communities' SDG 12 'Responsible consumption and production'	• Quantity of waste collected for recycling (tons) • Share of waste recycled among total waste collected (%)
Social infrastructure	SDG 3 'Good health and well-being' SDG 4 'Quality education'	• Number of people who had access to social infrastructure thanks to the fund's investments in year N compared to year N-1 (nb)
Transportation (Railway)	SDG 11 'Sustainable cities and communities'	• CO2 emissions avoided per passenger compared to private car use (tCo2eq) • Length of road/track built or improved in year N (km)
Transportation (Freight)	idem	• Number of containers transported (nb) • CO2 emissions avoided per passenger compared to an alternative mode of transport (tCO2eq)
Transportation (Highway)	idem	• Number of roads with "free flow" to improve road traffic flow (nb) • Length of road/track built or improved in year N (km)

Table 1: SDGs to which each unlisted infrastructure asset must contribute
Source: QUAERO CAPITAL, December 2023

The substantial contribution to at least one of the six environmental objectives of the Taxonomy will be measured in accordance with the technical screening criteria of Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing the Taxonomy Regulation.

The alignment of sustainable investments with the EU Taxonomy will be measured by at least one of the following three indicators: turnover and/or Capex and/or Opex.

In terms of data, the substantial contribution is established either by an external service provider or by the company itself when, given its degree of maturity, it is able to produce the alignment of its economic activity(ies) with the EU Taxonomy.

2. Respect the precautionary principle of not "causing significant harm" to another environmental or social objective

Public equity funds

To ensure that an investment does not cause significant harm (DNSH) we exclude companies (note that some of those exclusions are part of our firm-wide exclusion policy):

- With more than 20% revenue from coal except for those with transition commitments that reach 2 degrees by 2035 according to TPI (Transition Pathway Initiative), or – in absence of TPI – according to own analysis
- In severe and systemic breach of UN Global Compact principles
- That are tobacco producers
- That are involved in the production or development of Controversial weapons and do not comply with international convention
- With a high controversy level according to third-party providers
- With an MSCI ESG rating lower than BB, or – when not available – an internal ESG rating of 'very poor'

The Principle Adverse Impacts (PAIs) are incorporated into an ESG assessment of a company, either through the MSCI rating or through our internal methodology. These are considered relative to industry peers and country standards. Currently, no minimum thresholds are set due to significant variance across industry and company, and at times this data may not accurately convey the forward-looking commitments made by the company.

The PAIs are also considered actively at portfolio level, with monthly internal reporting (to PMs) highlighting every position in the fund and the full list of mandatory principle adverse impacts.

Private equity infrastructure funds

Quaero Capital excludes investing in companies that are deemed to have severely and systematically breached the UN Global Compact principles regarding human rights, labour standards, or corruption or which are engaged in controversial weapons.

The use of a pre-investment grid helps to identify potential sustainability risks during the pre-investment phase and the monitoring of indicators during the holding period ensures that our investments do not cause significant harm to any environmental or social sustainable investment objective. Topics such as good governance, sound management structures and employee relations will be analysed during the pre-investment phase and holding period. If risks are identified during the pre-investment phase the fund will refrain from investing and/or will seek to implement mitigating actions during the holding period.

The Principal Adverse Impacts (PAIs) are incorporated into the annual ESG analysis of each project following an SDG framework.

Items	PAI Indicators
Greenhouse gas emissions	1.GHG emissions • Scope 1 GHG emissions • Scope 2 GHG emissions • Scope 3 GHG emissions • Total GHG emissions
	2. Carbon footprint
	3. GHG intensity
	4. Exposure to companies active in the fossil fuel sector
	5. Share of non-renewable energy consumption and production
	6. Energy consumption intensity per high impact climate sector
	7. Investments in companies without carbon emission reduction initiatives
Biodiversity	8. Activities negatively affecting biodiversity-sensitive areas
Water	9. Emissions to water
Waste	10. Hazardous waste and radioactive waste ratio
Social and employee matters	11. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
	12. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
	13. Unadjusted gender pay gap
	14. Board gender diversity
	15. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)
	16. Lack of a supplier code of conduct.

Table 2: PAI indicators
Source: QUAERO CAPITAL, December 2023

A vigilance threshold will be introduced for each indicator (determined globally or by business sector). Failure to comply with this threshold will lead – via a dialogue with the company concerned – to the establishment of an action plan.

For these PAIs we aim to present data directly reported from investee companies but we are conscious that some data may also be estimated. We will present in our reporting the proportion of investments for which estimated and reported by companies or third party data providers.

The principle of the "DNSH" of **environmentally sustainable economic activities aligned with the EU Taxonomy** is established in application of the above-mentioned technical screening criteria.

In accordance with the Commission Communication 2023/C 211/01 of 16 June 2023, for investments consisting of an equity participation in unlisted companies or a bond subscription with no specific destination in the economic activities of the Portfolio Company, Quaero Capital systematically verifies additional elements under SFDR to ensure that the Portfolio Company's investment as a whole qualifies as a sustainable investment.

3. Principle of good governance

Public equity funds

Strong governance structures are considered of high importance. The structure should align the executives' and long-term shareholders' interests, 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 the funds consider country governance codes.

While the PMs seek to have high confidence in the executive team of a company, the company board must act in its role of overseeing and correcting the executive when needed.

Executive compensation is an important factor. It must be aligned with long-term shareholders' interests, and it should reward strong strategic judgement and execution and not short-term financial results.

Private equity infrastructure funds

The QUAERO CAPITAL private equity infrastructure team considers the establishment of good governance an essential prerequisite for the success of each project and of the entire portfolio of projects.

In terms of investments, the team is committed to promote a sustainable governance, efficient asset management, and a scrupulous approach to risk analysis and management.

In this context, we act as an active shareholder, whether we have a majority or minority ownership. We invite our industrial partners to enter or remain invested in the project companies the longest time possible.

The QUAERO CAPITAL private equity infrastructure team's governance is organized around two bodies, which regularly monitor ESG criteria for each investment.

- An **advisory committee** composed of the principal investors. This committee meets at least once a year and can – among other things – verify the consistency of the investments with the fund's strategy and preventing conflicts of interest
- An **investment committee** responsible for investment decisions. It includes members of the investment team, the ESG team, the risk team, the compliance team as well as independent members

Quaero Capital ensures that financed companies comply with the minimum safeguards mentioned in article 18 of the Taxonomy Regulation. To this end, Quaero Capital ensures that portfolio companies implement appropriate procedures to guarantee that its activities are carried out in accordance with international standards.

This verification takes into account the size, nature and scope of activities, as well as the level of maturity of portfolio companies.

Where appropriate, in addition to the DNSH verification mentioned above, Quaero Capital may use the PAI indicators relating to social and personnel matters to ensure that portfolio companies comply with the minimum safeguards.

If an investment no longer qualifies as a sustainable investment within the meaning of the SFDR, Quaero Capital would make sure to put in place corrective measures and procedure to remedy to the event of disqualification. If remedial measures fail to regularise the situation, further action must be taken, which may lead to the disposal of investment that has become non-compliant.

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Quaero Capital (France) SAS est une société de gestion d'actifs autorisée par l'Autorité des Marchés Financiers (www.amf-france.org) sous le numéro GP-14000016 au 17 juin 2014. Il s'agit d'une société par actions au capital de EUR 250'000, ayant son siège social au 4-8, rue Daru, F-75008 Paris, France. Elle est inscrite au registre du commerce de Paris sous le numéro 802 673 491.

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Quaero Capital LLP is registered in England as a limited liability partnership (No. OC314014).
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