QUAERO CAPITAL

# RESPONSIBLE INVESTMENT

## HANDBOOK

March 2020

### CONTENTS



For any question, please contact info@quaerocapital.com

# 1. OVERVIEW

At QUAERO CAPITAL, investing responsibly is at the centre of our investment philosophy and process.

**The 4 Pillars of Responsible Investment at QUAERO CAPITAL**

We take steps to avoid companies that are exposed to highly controversial weapons or are to be shown to be in severe and systemic breach of international norms. We don't believe these companies pursue a sustainable strategy, and therefore would prefer to seek long-term performance opportunities elsewhere.

We believe that our clients will benefit from the integration of ESG criteria into our investment research, which will ultimately enhance their investment performance and success. Across our funds, we are convinced that integrating ESG factors into our financial analysis will support making better investment decisions for our clients. This is not just a question of ethics. By integrating these factors, we gain a better understanding of operational, financial and reputational risks for a firm as well as business opportunities. Additionally, ESG insights contribute to reducing negative surprises with target companies and can provide us with increased confidence about the long-term prospects for a business. This enables a better understanding of the risk / return profile of an investment which results in better portfolio construction.

As a responsible investor, we also believe that we can drive positive change by providing feedback to companies' management teams, whether through direct dialogue or through our votes. Across our funds, the investment teams spend thousands of hours every year meeting companies' management of both current and prospective holdings, providing us with an opportunity, when feasible, to press certain issues and encourage greater transparency. We believe this is much more powerful route to sustainable corporate behaviour, as it focuses on positive engagement and ultimately influence on these key issues. Additionally, we take our role as stewards of capital seriously and have implemented a voting policy across our public equity funds.


We continue to look for opportunities to align the interests of our investors with the transformation taking place in business and industry as a result of growing attention on environmental and social concerns as highlighted by the Sustainable Development Goals (SDGs). We see great opportunity in infrastructure assets where there is growing demand, for example in renewable energy, communication infrastructure and health facilities.

We also offer an Accessible Clean Energy investment strategy, which aims to maximise total return by investing in companies operating across the renewable energy value chain, offering investors an alternative energy sector allocation.

### United Nations Principles for Responsible Investment (UN PRI)

*Signatory of:*


In 2015 QUAERO CAPITAL became a signatory to the UN PRI (United Nations Principles for Responsible Investment) to demonstrate our commitment to responsible investment. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society.

### Institutional Investors Group on Climate Change (IIGCC)


QUAERO CAPITAL is a member of the IIGCC (institutional Investors Group on Climate Change) as we look to influence corporations to address long term risks associated with climate change.

The IIGCC is the pre-eminent European forum for investors to collaborate on climate change and the voice for investors acting for a prosperous, low carbon future.

### Carbon Disclosure Project (CDP)


QUAERO CAPITAL is a signatory to the CDP, as we look to influence companies to disclose their carbon footprint and address risks associated with climate change. The platform also provides us with a wealth of environmental data reported by companies.
CDP is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Over the past 15 years they have a created a system that has resulted in unparalleled engagement on environmental issues worldwide.

### Dedicated resources

We strengthen our commitment with the creation of a dedicated ESG team of two analysts who work alongside the investment teams assisting in the integration of ESG criteria into research analysis, structuring our dialogue with company management, and spearheading further developments in ESG policy.

We also launched an ESG Committee, which has oversight and responsibility for the development and integration of the ESG policy and for driving progress. As the industry continues to evolve, with companies reporting more ESG data and client expectations changing, we'll adapt and develop our policies and approaches in order to continue to deliver financial return for our clients in a responsible and impactful way.

# 2. EXCLUSION POLICY

**Exclusion Policy**

We incorporate an exclusion list to our investment screens across all applicable QUAERO CAPITAL investment strategies.

We do not invest in companies that are involved in the production or supply of indiscriminate and controversial weapons, in line with our commitment to the UN PRI and International Humanitarian law.

We therefore exclude companies that breach Oslo and Ottawa conventions, ensuring we do not invest in companies that use, stockpile, produce or transfer cluster bombs or anti-personnel mines.

We exclude companies involved in the use, stockpiling, production and transfer of chemical or biological weapons. We also exclude companies with significant involvement in nuclear weapons in line with the Treaty of the Non-Proliferation of Nuclear Weapons (NPT).

In addition, we exclude companies whose conduct is in systematic and severe breach of UN Global Compact principles, which reflect global norms:

**1. Human Rights**

Businesses should:

a. Support and respect the protection of internationally proclaimed human rights
b. Make sure that they are not complicit in human rights abuses

**2. Labour Standards**

Businesses should uphold:

a. The freedom of association and the effective recognition of the right to collective bargaining
b. The elimination of all forms of forced and compulsory labour
c. The effective abolition of child labour
d. The elimination of discrimination in respect of employment and occupation

**3. Environment**

Businesses should:

a. Support a precautionary approach to environmental challenges
b. Undertake initiatives to promote greater environmental responsibility
c. Encourage the development and diffusion of environmentally friendly technologies

**4. Anti-corruption**

a. Businesses should work against all forms of corruption, including extortion and bribery

The list is aggregated using insights and analysis shared by third parties, supplemented with internal analysis from our investment teams and ESG analyst. The list is updated during the ESG committee meeting every 3 months. The purpose of this list is to ensure we avoid investing in companies that systematically and severely breach these norms. We don't expect this list to replace our own ESG analysis, but to support it.

**Selectively excluding "within" sectors rather than entire industries**

Our general preference is not to systematically exclude industries across our portfolios. While a portfolio can limit exposure to, for example, any company in the exploration or extraction of oil, by divesting the ability to influence the strategic direction of the company is lost completely. Additionally, industries are very interlinked, which makes it difficult to decide

where to draw the line. If we divest oil companies, should we divest any company that uses oil as an input? Or any company that sells services or machinery to the oil industry? Having said that, in some portfolios we have taken the step to exclude certain sectors, usually due to evaluation of long-term risks associated with the sector that don't match the risk profile of the portfolio.

We subscribe to the philosophy that by encouraging more responsible and sustainable behaviour from companies across industries, we can create much more value and more positive impact. However, by the nature of our investment approach we avoid many of the controversial sectors that other funds actively screen out. We have historically held few companies exposed to weapons, tobacco, pornography, gambling and mining. We identify challenges to the sustainability of those industries, all exposed to significant and unpredictable external factors such as regulation.

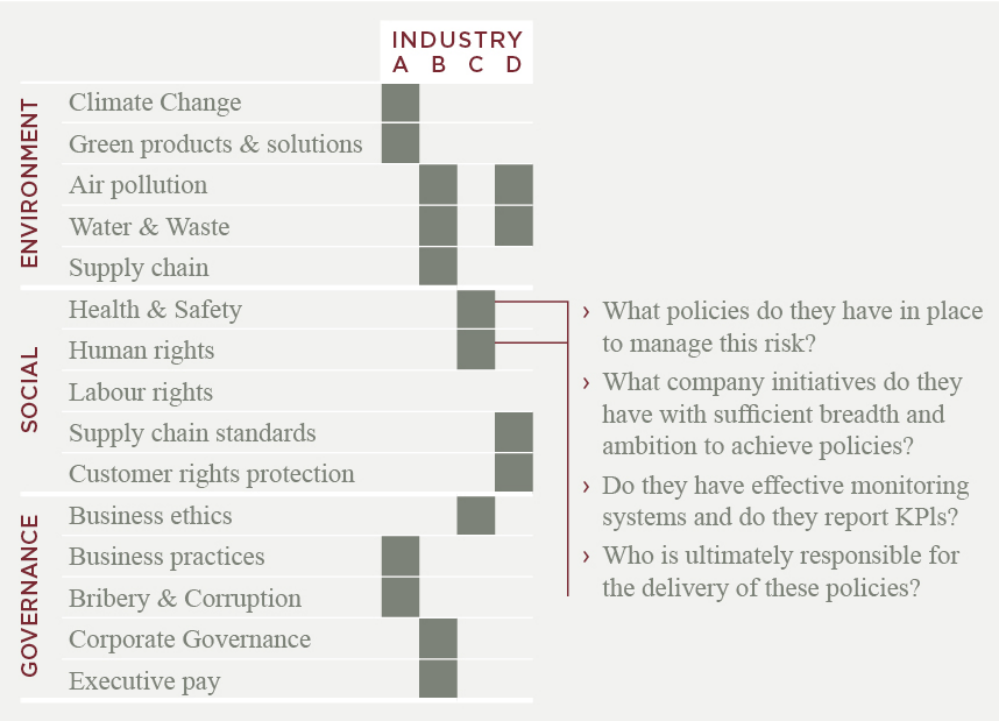
# 3. ESG ANALYSIS AND INTEGRATION

**Integrating ESG Analysis Across Investment Strategies**

After becoming a signatory to UN PRI in 2015, QUAERO CAPITAL embarked on a thorough review of our integration of ESG analysis within our investment process. We took steps to structure our ESG evaluation of each company held in portfolios, to better document it through a proprietary template and to share intelligence across the organisation. There are few external rating agencies that cover the investment universe of many of our investment strategies, with coverage generally decreasing with market cap. Where there is coverage, we've been disappointed with the quality of work behind it.

Our decision not to use an external ESG resource is not just due to low coverage, as we also question the benefit of outsourcing this fundamentally important input in the investment process outside of a quantitative strategy. We are, however, keen to substantiate our approach with external data, and we do this with a « Portfolio check » from Conser Invest (Sustainable Investment experts based in Geneva), who collect data from across the market to build a 'consensus view' on our portfolios. This ensures we avoid provider bias. The data we receive with the portfolio checks helps us identify where we think differently from the market.

Our ESG analysis is completed by the ESG team with the support of the individual fund investment teams, where the company knowledge is greatest. With companies reporting more and more datapoints, we're adapting our approach to focus on material factors with the benefit of the specialist perspective of our ESG analysts.




This approach ensures we focus time and energy on the factors that are financially most material to the company's financial success. Our analysis follows a proprietary structure, enabling comparison, highlighting areas of risk, and raising the need to start dialogue with management.

We structure our evaluation according to how clear their policies connect with their actions, and whether they are sufficient for the business they're in. We ask:

- What policies do they have that manage the identified ESG risks?
- What specific initiatives do they outline that serve to help the organisation fulfil set policies?

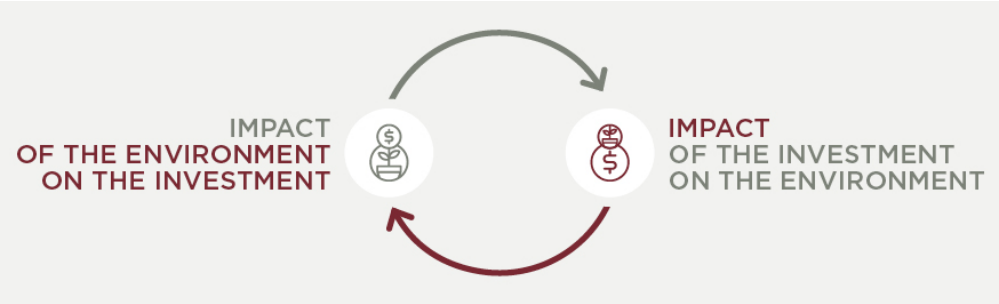
- What management systems are in place to monitor and manage the success of initiatives?
- Who will take responsibility for delivery of policy and initiatives, and do they have enough seniority?

**The Twofold Objective of Environmental Analysis**

We look at companies through the lens of ESG criteria two ways: the impact the company is having on the environment, and the impact the environment could have on the company. Both can lead to significant business risks.

We look to understand how the company is making efforts to reduce their footprint and impact on their environments – what are their policies, what initiatives do they have underway, how are they measuring their progress and who is responsible for delivery?

We also wish to understand how the climate is affecting their business. Climate change and its secondary effects will impact many industries and companies. A good example of this is agricultural businesses affected by areas suffering long-term drought tied to climate change.



# 4. DIALOGUE

### Our Approach (Listed Equities)

With several QUAERO CAPITAL investment strategies focusing on small cap companies we can often be one of the largest investors in companies held in our portfolios. The portfolio managers have long been constructively engaging with companies to work towards the adoption of good governance and sustainable strategies.

We connect this dialogue with our ESG analysis in a structured way and we log these interactions to offer greater transparency to our clients. Going forward we will constructively engage with companies held in other portfolios.

When we identify an area of concern, a 'red flag', we consider starting a dialogue with the company, either through meetings with the company's management or through communication channels such as IR. These topics of engagement usually cover two areas: ESG transparency and ESG risks and issues.

### ESG Transparency

We want to encourage greater ESG transparency, as this is vital for us as investors to appreciate the risks and opportunities faced by each company. In addition we see an opportunity to provide feedback to companies regarding the changing expectations of investors. We find that there is an opaqueness to agency ratings which fails to encourage progress at companies. As we look forward, we'll be using our involvement with IIGCC and CDP to encourage companies to report data in line with TCFD (Task Force on Climate-related Financial Disclosures) recommendations.

### ESG Risks and Issues

If an area of concern is raised during an ESG evaluation, either due to lack of transparency or due to risks around strategy, we raise it with the company in order to better understand the issue and to encourage responsible practice. We either wait until our next meeting with the management, or we organise a conference call or start an email exchange. Often these are initiated with the executive team directly.
We log each interaction and identify where follow-up meetings or calls would be beneficial. If commitments to increase transparency are made, or strategies in response to a controversy are discussed, we will maintain notes and follow up with the company's management at our next meeting.
We believe this is how we can most fulfil our obligations and commitments as responsible investors. If a CEO sits through 10 meetings with investors, and the majority of these investors raise questions regarding their sustainability strategy, we are confident that over time this feedback loop will affect corporate strategy.

We see active ownership as a powerful tool for change, not just to encourage better corporate behaviour but as a consequence to drive better long-term financial returns for our investors.

# 5. VOTING POLICY

### A Fiduciary Duty to our Investors

Voting forms part of QUAERO CAPITAL's engagement strategy, which is why we aim to vote 100% of the time. We consider voting part of our fiduciary duty to our investors, and vote in accordance with clients' best interests. Proxy voting, and the analysis of corporate governance issues in particular, are important elements of the portfolio management services. Our voting is executed by the relevant investment teams, with the support of the guidelines and the ESG analyst. We intend to publish our annual voting record each year, to offer full transparency to our investors.

### Voting Fields

We pay particularly attention to the following items:

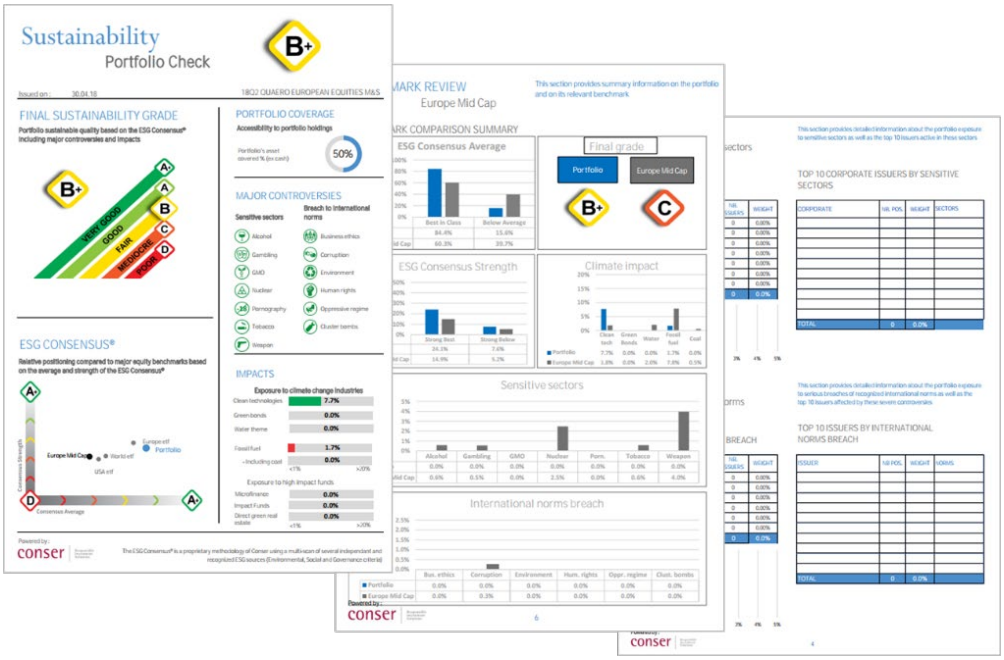
1. **Financial statements & Audit approval**. QUAERO CAPITAL will approve accounts so long as there is no reason to question their reliability. QUAERO CAPITAL will vote to approve auditors when we regard them as independent.
2. **Board of Directors**. QUAERO CAPITAL supports resolutions that promote the effectiveness of boards in acting in the best interest of shareholders. This includes consideration of independence, experience, diversity and aligned interests.
3. **Executive compensation**. QUAERO CAPITAL supports compensations 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.
4. **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.
5. **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.
6. **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.

# 6. OTHER ESG RESOURCES

### Conser Invest Portfolio Check

We're deeply committed in our bottom up analysis of companies, including their ESG profiles, but see value in understanding the 'market view'. We use the Conser Invest portfolio check, which provides us with detailed understanding of how ESG agencies, NGOs, sustainable funds and other sources are viewing our investments. We use this tool for two reasons:

i. Providing feedback to companies regarding their ESG profiles according to the market, which we expect will be educational whether we or they agree with the conclusion or not.
ii. To support our analysis, and trigger further investigation into companies that the market scores badly. We may ultimately disagree with their evaluation, but we want to be well-informed if we're missing anything.




### Annual Sustainability Report

We commit to report on our progress as we enhance our responsible investment approach each year. The report includes any update 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.

### ESG Committee

As the company grows, and the variety of funds and asset classes increases, it's 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
Georgina Parker – Head of Sustainability
Philip Best – Chief Investment Officer
Mark Ebert – Infrastructure Securities Fund Manager
Luigi Piccone – Head of Marketing

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 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

# DISCLAIMER

This document has been prepared by Quaero Capital SA ("QUAERO CAPITAL") solely for the information of the person to whom it has been delivered. The information contained herein is strictly confidential and may not be reproduced, distributed or published by any recipient for any purpose without the prior written consent of QUAERO CAPITAL. The description of QUAERO CAPITAL's responsible investment process is intended to be representative and may be changed from time to time by QUAERO CAPITAL. QUAERO CAPITAL may decide not to perform certain steps, or may perform additional steps, in its discretion.

QUAERO CAPITAL believes the information contained herein to be reliable and has been obtained from sources believed to be reliable, but no representation or warranty is made, expressed or implied, with respect to the fairness, correctness, accuracy, reasonableness or completeness of the information and opinions. The information herein includes certain statements and projections and projections reflecting significant assumptions and subjective judgments by QUAERO CAPITAL. These forward-looking statements are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond QUAERO CAPITAL's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Nothing contained herein shall constitute any representation or warranty as to future performance of any financial instrument, currency rate or other market or economic measure.