LEADERSEL CORPORATE BOND RESPONSIBLE INVESTMENT POLICY

ERSEL
Gestion Internationale

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1. Introduction

Considerations regarding environmental, social and governance aspects have always been an integral part of the investment process.
Sustainability and the management of any activity according to the best practices of "good governance" are indeed essential factors for the value creation in the short term but even more so in the medium to long term. A focus on corporate sustainability can impact a company's ability to create long-term value for investors and stakeholders; therefore, we consider ESG integration an important instrument for improving the risk-return profile of investments.
According to the PRI (Principles of Responsible Investing https://www.unpri.org/) we can define responsible investment "as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership".
Furthermore, following the provisions of EU Regulation 2019/2088 (SFDR) Art. 2(17), sustainable investments can be defined as investments in economic activities that contribute to environmental and/or social objectives, measured through the definition of key indicators (e.g. resource efficiency concerning energy use, compliance with good governance practices of the companies benefiting from the investments).[1]
By integrating ESG factors into the investment process, intermediaries can better meet their clients' demand for long-term returns while making a positive impact on society as a whole. The key role of the financial industry towards the overall society has also been recognized by national and supranational authorities, through specific regulations which consider ESG issues as part of an investor's fiduciary duty.
In our view, the integration of ESG factors into investment strategies is a key success factor for several asset classes, including corporate bond investments.
Firstly, our strategies directly invest in debt instruments issued by financial and non-financial companies which, together with governments, are the main actors in the transition towards a more sustainable future. Recognizing the role of the financial industry in aligning investment decisions with the broader objectives of society, we aim to allocate more capital to issuers that can generate positive environmental and social impact over the medium to long-term.
Finally, in line with a "finance first" approach, incorporating non-financial factors into the credit analysis allows for a more comprehensive long-term view of the material and transitional risks that sectors and companies could face.

2. Aim and Purpose

This investment policy, approved by the Board of Directors of Ersel Asset Management SGR (EAM) and Ersel Gestion Internationale SA (EGI), is an integral part of the Sustainable Investment Policy adopted by EAM, in its role as delegated sub-manager for the Leadersel SICAV sub-funds.
The purpose of this document is to formalize and illustrate the methodologies for selecting financial instruments, the portfolio construction guidelines and the risk monitoring approach adopted by EAM, to integrate the analysis of environmental, social and governance risks within the investment process of the Leadersel Corporate Bond sub-fund.

3. ESG Key Topics

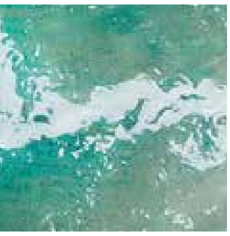
The Leadersel Corporate Bond sub-fund invests in companies from several sectors and therefore has very different exposures to social, environmental and governance issues,

[1] EU Regulation 2019/2088 (SFDR) Art. 2(17): Sustainable Investment.

depending on the sector to which they belong and the geographical area in which they are invested.

As a result, the Fund's investment selection strategy is exposed to all major ESG issues, including:

- **Environmental criteria** - examine how an issuer contributes to environmental challenges - energy consumption, waste, pollution, reduction of greenhouse gas emissions, combating resource depletion and deforestation, protection of biodiversity and climate change;
- **Social criteria** - analyze how a company develops its human capital concerning to fundamental principles that are universal in scope - human resources management, diversity and equal opportunities, working conditions, health and safety;
- **Governance criteria** - assess the effectiveness of management in initiating a process of collaboration among the various stakeholders, to ensure the pursuit of long-term objectives and consequently the long-term value of the company - executive compensation, tax strategy and practices, anti-corruption and abuse of office, diversity and Board structure.



Among the main ESG themes, the Leadersel Corporate Bond strategy aims to prioritize environmental issues, with a primary focus on carbon footprint and decarbonization targets, and governance issues, in terms of compliance with international development goals, litigation and labor rights.

4. Fund Classification

The Leadersel Corporate Bond sub-fund (pursuant to Art. 8 of Regulation 2019/2088) promotes, among others, sustainability factors provided that the issuer in which investments are made follows "good governance" practices. This is achieved through investment strategies that, in accordance with a "finance first" approach, select investments and construct portfolios also according to social and environmental impact criteria. Such an approach is believed to lead to a deeper understanding of a company's long-term risks and opportunities, as the integration of ESG criteria leads to more informed investment decisions and potentially better risk-adjusted returns throughout the investment lifecycle. Indeed, where ESG risks and opportunities are material, the fair value of security and portfolio allocation decisions can be strongly influenced.

EAM recognizes the role of the financial industry in aligning investment decisions with the broader societal goals, and therefore the strategy aims to allocate more capital to issuers that can generate a positive impact on society from an environmental and social perspective over the long term.

5. Investment Strategy

The objective of the strategy is to achieve long-term capital growth by investing primarily in debt instruments issued by financial and non-financial companies, with a focus on European issuers.

Capital growth is reached through a combination of price appreciation and coupon accumulation over time. Leadersel Corporate Bonds focuses on those instruments that do not properly reflect embedded credit risk and therefore offer greater potential for price appreciation and above-average coupons.

The portfolio is constructed with a strong focus on bottom-up selection and a high-conviction approach. However, the portfolio construction process is embedded in a top-down allocation framework which defines the overall strategic exposure to macro risks. Our investment philosophy recognises that fixed income investments are strongly influenced also by macro factors such as interest rates, credit cycles and industry divergences.

Finally, the high conviction nature of the strategy results in a low portfolio turnover and tilts the investment style towards a *buy-and-hold* approach.

The investment process follows then a multi-step approach:

- the universe is screened to exclude non-compliant issuers and securities;
- the best investment opportunities are then identified and selected unising proprietary models;
- the portfolio is constructed to reflect the desired risk positioning withing a strict investment policy framework.

Within the above described investment framework, responsible investing is achieved by incorporating ESG factors throughout the process, using a combination of integration and screening approaches.

The inclusion of ESG factors in the internal credit rating process allows for a better assessment of the risk-reward profile of a corporate bond and thus improve the expected risk-adjusted return of the strategies.

On the other side, screening the universe, setting exposure limits for ESG low-rated companies and defining portfolio targets in terms of ESG profile and carbon footprint, allows to allocate more capital towards those issuers that can generate positive externalities for the whole society on a long-term horizon from an environmental and social perspective.

The ESG incorporation within the investment process can be summarized as follows:

- the universe is filtered by **excluding** from the investable universe **sectors, countries and companies that do not comply** with our exclusion criteria, including norm-based, value-based and business conduct related principles;
- when considering investment opportunities, the ESG rating is **fully integrated in our internal bond selection model**, both quantitatively and qualitatively, to better assess a company's business and transition risks;
- **portfolio targets** are set as binding elements in terms of average ESG rating, maximum exposure to laggards, and carbon footprint analysis with the aim of both managing the overall portfolio risk and adding a positive ESG dimension to the strategy.

5.1 Negative screening

EGI or its delegate's exclusion policy defines certain categories of industries, countries or issuers, that operate in sectors that are considered "non-ESG compliant" or that behave in a way that is inconsistent with ESG values.

1. *Norm-based exclusions*

   EGI or its delegate excludes issuers that do not comply with International Treaties such as those on controversial weapons, in particular the 2008 Convention on Cluster Munitions, the 1997 Ottawa Treaty on anti-personnel mines, the 1997 Chemical Weapons Convention, the 1975 Biological Weapons Convention, the 1968 Nuclear Non-Proliferation Treaty or the rules on the use of depleted uranium.

2. *Industrial sectors exclusions*

   EGI or its delegate excludes issuers that operate in sectors that EGI believes are inconsistent ESG values and, more specifically, those issuers:

   - whose revenues come from tobacco production;
   - that earn more than 50% of their revenues from tobacco distribution;
   - that earn more than 25% of their revenues from coal mining and coal-based electricity generation;
   - that earn more than 25% of their revenues from the extraction of hydrocarbons from tar sands or fracking;

- that earn more than 10% of their revenues from the extraction of hydrocarbons in the Arctic.

3. *Business-conduct exclusions*
   EGI or its delegate excludes issuers that are in serious breach of the UN principles (UNGC) or OECD Guidelines for Multinational Companies, or are subject to investment restrictions by the UN, EU, USA.

4. *Country exclusions*
   These exclusions concern countries that are subject to international sanctions or that violate the UN Global Compact principles. The data used to identify these countries is provided by:
   - World Bank: World Governance Index (WGI) on political stability and absence of violence/terrorism;
   - Freedom House: Freedom in the World (FIW) index on Political rights and civil liberties;
   - Peace Fund: Fragile States Index (FSI).

The countries currently excluded are Afghanistan, Belarus, Burundi, Central African Republic, Democratic Republic of Congo, Iran, Iraq, Libya, Mali, Myanmar, North Korea, Russia, Somalia, South Sudan, Sudan, Syria, Yemen, Zimbabwe.
In addition to the issuers excluded in application of the EGI and EAM Responsible Investment Policy in force, Leadersel Corporate Bond also excludes from its investment universe:
- Companies with more than 5% of revenues from adult entertainment and pornography;
- Companies with more than 5% of revenues from manufacturing & distribution of civilian weapons;
- Companies with more than 5% of revenues from coal mining and coal-based energy generation;
- Companies with more than 5% of revenues from unconventional oil & gas (fracking extraction, tar sands, shale oil & gas);
- Companies with more than 5% of revenues from artic oil & gas extraction;
- Companies with a "red flag" controversy status based on the MSCI data set.

5.2 Bond Selection – ESG Integration

EGI or its delegate proprietary credit evaluation methodology uses different criteria to assess the credit worthiness of an issuer. These criteria depend on whether the issuer is a financial or non-financial company and can range from characteristics such as size, profitability, leverage and coverage to capitalization and asset quality, financial policy and business risk. Each criterion reflects the positioning of issuers within their sector and is equally weighted to calculate the final average relative credit score.
In order to integrate an ESG assessment into the bottom-up analysis, **ESG-related factors have been added** to the financial factors so that - all else been equal - issuers which better incorporate ESG practices into their strategy are considered the most likely candidates for our portfolios, while the issuers that are considered the "worst-in-class" in terms of integration of sustainability factors are penalized.
The strategy considers not only ESG ratings, which measure the risk of a company, only indirectly reflect its impact on the environment or social context, but also negative and positive sustainability practices of issuers. In this context, a qualitative assessment of a company's ESG practices is carried out to make the investment strategy adopted more focused, giving priority to investment in companies with a lower negative environment and social impact (minimizing negative factors) and higher sustainable impact (maximizing

positive factors) as defined by a set of sustainable impact factors measured in terms of the proportion of revenue linked to sustainable practices from an environmental and social perspective.
ESG factors are therefore incorporated into the bottom-up analysis in three different ways:
- Scoring model directly integration with ESG rating, ESG momentum and carbon with a 25% total weight assigned to ESG factors: this means that higher-rated companies with improving momentum and lower carbon footprints will receive a higher score than peers, all else being equal.
- EGI or its delegate have identified a number of environmental and social issues where underperforming companies are penalized relative to their peers. These include lack of carbon targets, excessive water withdrawal, pollution, product safety, labor management controversies and predatory lending practices.
- EGI or its delegate prioritizes companies with a higher measurable sustainable impact, calculated as a proportion of revenue derived from positive social and environmental practices including nutrition, sanitation, education, social financing, affordable real estate, clean energy and other environmentally sustainable business.

Finally, for companies where ratings are not readily available, the management team examines all other sources to develop a picture of the issuer's ESG profile. Company filings and other external research providers may identify areas of additional risk from an ESG perspective, such as litigation, investigations, governance related issues, changing consumer preferences or unethical behavior.

5.3 Portfolio Construction – ESG Integration

After removing non-compliant issuers from the investment universe and selecting the bonds/issuer that meet both financial and sustainability criteria, the strategy must comply with several portfolio-level constraints to further enhance positive ESG characteristics:
- the strategy aims to **position** itself among **leaders**[2] in terms of aggregate ESG rating. Based on the selected ESG data provider (MSCI ESG), this target translates into an AA or better ESG rating;
- the strategy targets a **carbon footprint** at least **20% lower** than its relative benchmark (ICE Euro Corporate Index - ER00). For this purpose, the selected measure for the carbon footprint is Tons of CO2 emissions (Scope 1,2,3) relative to each company Enterprise Value (T CO2E/EVIC) as reported by the selected data provider (MSCI ESG);
- **limits** have been set to how much the sub-fund can allocate **to low ESG performers** and not rated companies. For this purpose, first companies are grouped as follows:
  - High Performers: Leaders (AAA and AA rated) and Average (A and BBB rated);
  - Low performers: Laggards (BB and B rated) and Worst-in-class (CCC rated);
  - Not Rated/Uncovered.

Based on the above classification, the following investment limits have been defined:
- No allocation to CCC rated or B rated with negative trend;
- No more than 10% to low performers (BB and B rated only with stable or positive trend);
- No more than 10% of the strategy can be unrated.

The adoption of this approach grants a positive ESG tilt to the portfolio, by limiting low performers, without at the same time losing investment opportunities when the return looks attractive after all risks, including ESG, have been evaluated. Investing only in high performers/top rated companies could, in fact, tilt the portfolios towards large cap and high-grade credit and limit the potential for generating alpha.

[2] Classification defined according to the methodology adopted by the reference info-provider MSCI: issuers characterized by a rating between AAA and AA are classified as leaders.

Above limits always apply for new candidates to the portfolios, i.e. at the time of buying: as such adding a non-eligible company will result in an active breach of the policy.
Finally, the above listed binding elements refer to the ESG rating scale of MSCI ESG, which qualifies as the selected ESG data provider for all Ersel's Group entities, as detailed below at article 6 of this policy on the access to and use of ESG data.
Since not all ESG providers express their ratings in letter terms, we consider the following rules to allow a comparison of MSCI ESG letter scale with other data providers which express their ratings with a score:

- First, the score must be rebased on a 0 to 100 scale, where 0 is worst and 100 is best;
- Second, the following bands translate scores into letter ratings:

ESG Rating Letter		CCC	B	BB	BBB	A	AA	AAA
ESG Score	>=	0	15	30	40	55	70	85
	<	15	30	40	55	70	85	100

5.4 Portfolio Management

The analysis of an investment's ESG profile does not end with the capital allocation. The process is ongoing, and this is critical to ensure that we identify factors before they turn into events that could threaten the value of an investment, as well as to allowing us to take advantage of new investment opportunities.
More specifically, if an unpredictable adverse event or piece of news hits a particular issuer and causes its ESG profile to be downgraded to the point where the company would no longer be eligible, this is treated as a passive breach. In this case, the manager will not be forced to remove the issuer from the strategy immediately, but will have to justify the holding and will be asked to remove the position as soon as market conditions provide a better exit point in the best interests of investors.

6. Access to and use of ESG data

Access to and use of ESG data ESG data analysis is a key component of the ESG approach as ESG data enhances the understanding of an investment's ESG profile, potential future performance, risks, and opportunities. Several external ESG data providers have entered the market providing, offering a variety of products using different research designs and methodologies that support the ESG research process.
After an extensive analysis, the MSCI ESG Manager platform was selected because it offers access to a comprehensive and structured ESG rating approach, as well as a large database of ESG data, providing very broad coverage of the strategy's investment universe and access to the most up to date ESG information available. MSCI's methodology focuses on the "key issues", which reflects what is referred to elsewhere as a materiality map (i.e. ESG issues are relevant for a specific company). These key issues mainly depend on a company's business and industry. MSCI assigns a score and then an ESG rating relative to peers in the same industry based on a company's exposure to and management of these key ESG risks. This methodology therefore focuses on the risks that can arise from poor management of environmental, social and governance issues. Such risks can have a significant impact on a company's performance: better management of these risks should improve the medium-term risk/return profile of our strategies.

7. Monitoring and reporting

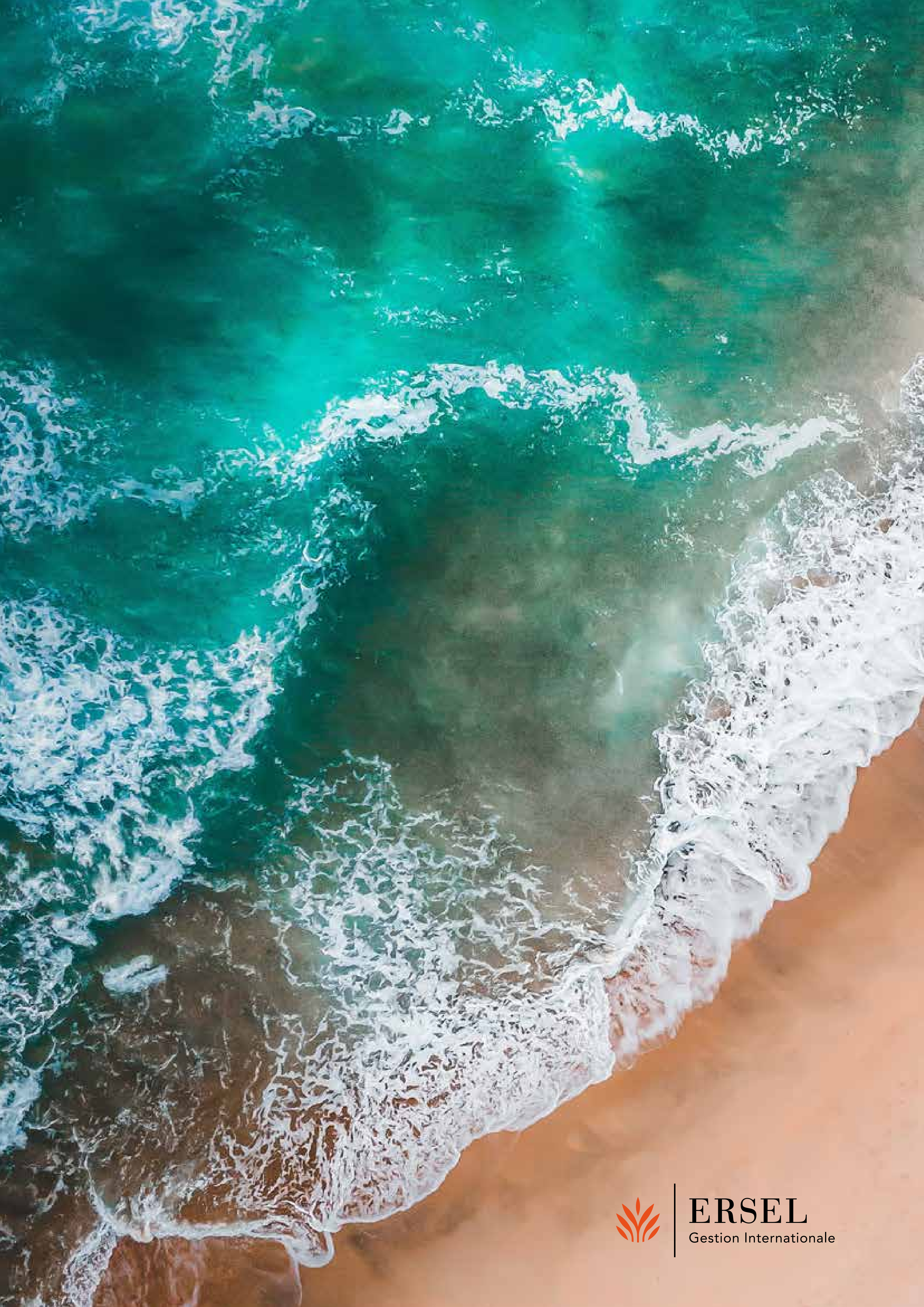
The integration of ESG factors into the investment process is an integral part of the due diligence and research process: the management team is therefore required to track ESG analysis in the investment memorandum for the specific instrument. All engagement activities are monitored and documented internally. In addition, each investment is discussed and reviewed during the Fixed Income Investment Committee which provides an opportunity to discuss ESG issues and ensure that insights are strategically identified. The Risk Management function periodically monitors the compliance of the portfolio with ESG criteria, guidelines and targets as described in the general investment policy and this policy.

8. Review of criteria

The Responsible Investment Policy will be reviewed as part of the regular review of business processes by the Management Team, the Risk Management function, the Compliance Department and the ESG Committee to ensure that it is in line with best practice and regulatory developments.

9. Transparency

The policy will be available on the web site.



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