



ESG AND SUSTAINABILITY POLICY

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INTRODUCTION

Zadig is an asset manager whose mission is to deliver alpha for its clients by building concentrated portfolios of high conviction ideas. As early signatories of the United Nations Principles for Responsible Investing in 2015, Zadig has been adapting its investment process to integrate the extra-financial considerations that make our investments not only attractive from a risk-reward perspective but also purposeful and sustainable.

This document details our commitment to integrating those extra-financial considerations. We are talking about the environmental, social and governance insights (collectively known as ESG) that come in addition to our rigorous bottom-up, valuation-driven stock picking. Furthermore, it presents the tools and 3rd party data providers that we use to reach our investment conclusions as well the people involved at every stage of the investment decision process. Lastly, as this is an area that is constantly evolving, it indicates the direction towards which we are moving and our vision of how this process may evolve in the future.

Scope

Only the funds and accounts part of Memnon European Strategy, including the Memnon European Equity fund, are subject to an **ESG integration** process.

Principles

Zadig's rational and cautious approach to investment pays tribute to its namesake from the protagonist of the novel with the same name written by the French Enlightenment philosopher Voltaire. Voltaire took great pride in judging people by the questions they ask rather than by their answers. As curious stock pickers, a major part of our job is asking questions, testing hypotheses and challenging the status quo. "What is the company's fundamental reason for being?" is the first and most important question we ask and the starting point of our due diligence process when assessing a potential investment. Through its day to day activities, a company must demonstrate that it creates value for all its stakeholders and not just its shareholders for us to consider an investment.

Corporate governance is a key focus of our investing process. Understanding voting rights, the poles of decision-making power, structure of the board and the safeguards to protect minority shareholders have been points on our due diligence checklist years before becoming popular in the ESG framework.

On top of this Zadig integrates Environmental and Social factors in its research process, which we would describe as including risks and opportunities linked to environmental and social matters in our valuations and our investment cases as well as exposure to Sustainable Impact solutions.

ESG INTEGRATION

Scope: Memnon European Strategy

We make a clear distinction between ESG integration and our Sustainability analysis, which we'll describe in the next section.

We define ESG as a set of metrics that help understand a company's non-financial performance in three areas (Environment, Social and Governance) that are usually then compared and ranked within an industry or peer group. ESG factors are not here to help form an opinion on an industry's impact on the world but rather assess how a company manages and tries to improve its impact on all stakeholders, whether local communities, employees or shareholders given the industry in which the company is operating.

➤ The criteria we take into account in our ESG assessment are listed in the table below and relate to the classification of MSCI. They split into 10 themes and 37 key issues.

3 PILLARS	10 THEMES	37 ESG KEY ISSUES	
Environment	Climate Change	Carbon Emissions Product Carbon Footprint	Financing Environmental Impact Climate Change Vulnerability
	Natural Resources	Water Stress Biodiversity & Land Use	Raw Material Sourcing
	Pollution & Waste	Toxic Emissions & Waste Packaging Material & Waste	Electronic Waste
	Environmental Opportunities	Opportunities in Clean Tech Opportunities in Green Building	Opportunities in Renewable Energy
Social	Human Capital	Labor Management Health & Safety	Human Capital Development Supply Chain Labor Standards
	Product Liability	Product Safety & Quality Chemical Safety Financial Product Safety	Privacy & Data Security Responsible Investment Health & Demographic Risk
	Stakeholder Opposition	Controversial Sourcing	
	Social Opportunities	Access to Communications Access to Finance	Access to Health Care Opportunities in Nutrition & Health
Governance	Corporate Governance*	Board* Pay*	Ownership* Accounting*
	Corporate Behaviour	Business Ethics Anti-Competitive Practices Tax Transparency	Corruption & Instability Financial System Instability

While governance metrics (Voting rights, board independence, % of women in management positions, etc.) can easily be compared across industries, this is not the case for environment and social metrics. Comparing an asset heavy and labour-intensive car maker to a software company on social or environment tapes is difficult and for that reason ESG rating providers, understandably so, compare and rank companies within their own industries.

For this reason, and because ESG agencies tend to disagree 50% of the time on the rating of a given company (according to research published by MIT in 2019¹), we do not use third party ESG ratings only but rather build our own scores, based on what we think matters most for each company.

The score is built around 4 pillars as follows:

- 1 Environment:** Raw score provided by MSCI
- 2 Social:** Raw score provided by MSCI
- 3 Governance:** Zadig Internal score
- 4 Controversies:** Raw score provided by MSCI

We then apply different weights for each sector. For example, industrial sectors have a higher weight for environment and for service companies we shall focus more on social issues. In the table below we describe how each sub-sector is assigned a different Environment and Social score. We consider Governance as a crucial component of any investment, whatever the sector and therefore apply a constant 40% weight.

Pillars weights by industries

Weights <input type="button" value="↑↓"/>	E <input type="button" value="▼"/>	S <input type="button" value="▼"/>	G <input type="button" value="▼"/>	Controversies <input type="button" value="▼"/>
Aerospace & Defense	30%	20%	40%	10%
Air Freight & Logistics	35%	15%	40%	10%
Airlines	35%	15%	40%	10%
Automobiles	25%	25%	40%	10%
Beverages	25%	25%	40%	10%
Building Products	40%	10%	40%	10%
Communication Services	20%	30%	40%	10%
Commercial Services & Supplies	15%	35%	40%	10%
Construction & Engineering	30%	20%	40%	10%
Electrical Equipment	35%	15%	40%	10%
Energy	40%	10%	40%	10%
Financials	10%	40%	40%	10%
Food & Staples Retailing	25%	25%	40%	10%
Food Products	25%	25%	40%	10%
Health Care	10%	40%	40%	10%
Hotels, Restaurants & Leisure	20%	30%	40%	10%
Household Durables	25%	25%	40%	10%
Household Products	25%	25%	40%	10%
Industrial Conglomerates	30%	20%	40%	10%
Information Technology	10%	40%	40%	10%
Internet & Direct Marketing Re	10%	40%	40%	10%
Leisure Products	25%	25%	40%	10%
Machinery	30%	20%	40%	10%
Marine	35%	15%	40%	10%
Materials	35%	15%	40%	10%
Multiline Retail	20%	30%	40%	10%
Personal Products	25%	25%	40%	10%
Professional Services	10%	40%	40%	10%
Real Estate	35%	15%	40%	10%
Road & Rail	25%	25%	40%	10%
Specialty Retail	20%	30%	40%	10%
Textiles, Apparel & Luxury Goo	30%	20%	40%	10%
Tobacco	25%	25%	40%	10%
Trading Companies & Distributo	25%	25%	40%	10%
Transportation Infrastructure	30%	20%	40%	10%
Utilities	40%	10%	40%	10%

Example of how Valeo's score is composed using the weights of the table above.

Name	Subsector <input type="button" value="↑↓"/>	E Score (MSCI) <input type="button" value="▼"/>	S Score (MSCI) <input type="button" value="▼"/>	G Score (Zadig) <input type="button" value="▼"/>	Controversy score (MSCI) <input type="button" value="▼"/>	Zadig ESG Score <input type="button" value="▼"/>
VALEO SA	Auto Components	7.70	4.00	6.5	4	5.9

The tables above illustrate through an example how we track the data as published by companies and what we consider to be the most relevant questions.

The Governance Internal score of the company reflects our assessment of its governance standard and integrates the willingness of companies to improve on ESG matter and engage with us on the subject. With 800 companies meetings per year for more than 15 years, we are well equipped to form a view on governance practices of European corporates.

Zadig’s proprietary Governance score is the result of a combination of two analysis:

- 1) An objective and data-driven assessment, with a focus on minority shareholders rights, diversity, board structure and attendance.
- 2) An experience-driven assessment of the governance standard by the analyst. Here we aim to include our views on the management team and its track record, the quality of board members and the presence of large or majority shareholder and how that might influence the company’s performance.

It is our belief that when it comes to governance not everything is black or white. In some cases a great CEO also chairing the supervisory board might be better solution than a fully independent and diversified board unable to take decisions.

For the assessment of controversies, we look at situations where company operations and/or products have a negative environmental, social and/or governance impact. Cases include alleged company violations of existing laws and/or regulations, company actions or events that violate commonly accepted international norms, including but not limited to norms represented by global conventions such as the UN Global Compact. The severity of the controversy depends on the nature as well as the scale of impact, as resumed in the table below by MSCI.

SCALE OF IMPACT	Nature of Impact			
	EGREGIOUS	SERIOUS	MEDIUM	MINIMAL
EXTREMELY WIDESPREAD	Very Severe	Very Severe	Severe	Moderate
EXTENSIVE	Very Severe	Severe	Moderate	Moderate
LIMITED	Severe	Moderate	Minor	Minor
LOW	Moderate	Moderate	Minor	Minor

ENGAGEMENT

Companies that obtain a low ESG score, either internal or MSCI, are subject to dedicated engagement with management as described in our Engagement and Voting policy. The reports of these engagements are available as part of the ESG presentation made available on our website.

As part of the Risk Management Committee of Zadig, MSCI ratings and Controversies are monitored independently from the investment teams and the following threshold require an Engagement with management and report of such engagement in order to be invested or remain in the portfolio:

Companies with MSCI ESG rating below BB or Orange and Red controversies' flags.

EXCLUSION POLICY

Zadig's exclusion policy is based on General exclusions based on companies under international sanctions as well as Sectors exclusions and SDG/ESG exclusions:

International sanctions exclusions

Scope: All Equity strategies at Zadig

ZERO TOLERANCE

Exclusion of all companies under international sanctions.

Sector exclusions

Scope: All Equity strategies at Zadig

Zadig prides itself for taking a pragmatic rather than dogmatic approach to ESG and Sustainability. While some sectors (see below) are under particular scrutiny, the investment team believes it is on society's and investors interest to keep an open mindset and be able to look forward rather than backwards in order to select companies and assess their ESG and Sustainability credentials.

Tobacco

Due to its adverse health impact and addictive nature, the production and distribution of tobacco products have been a subject of ethical consideration globally.

Exclusion Criteria:

- excluded if more than 5% of a company's revenue is generated from the production of tobacco products.
- excluded if more than 50% of a company's revenue is derived from the distribution of tobacco products.

Tobacco consumption is associated with pervasive health consequences and fatalities for smokers and non-smokers. According to the World Health Organization (WHO), tobacco generates social and economic costs as it causes premature deaths and losses in productivity, leading to reduced household income, increases in poverty, and healthcare expenses.

Controversial Weapons

Generally, while a world without need for defence businesses would be appreciable, the recent events demonstrated that there needs to be (more) investments in defence systems in order to preserve western democracies. Zadig's pragmatic approach to defence continues to allow investments in the Defence sector as long as strong ESG policies are in place in order to be confident that arms and defence systems are sold in accordance with best practices and best in class policies.

However, controversial weapons have an indiscriminate and disproportionate impact on civilians, even years after a conflict may have ended.

Anti-personnel mines, Cluster munitions, Chemical and biological weapons are among the most contentious armaments globally. These weapons have been subject to international treaties and conventions due to their indiscriminate effects on civilian populations and the environment.

Exclusion Criteria:

- Anti-personnel mines, the 1997 Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines (entered into force in March 1999)
- Cluster munitions, the 2008 Convention on Cluster Munitions (CCM) prohibits under any circumstances the use, development, production, acquisition, stockpiling and transfer of cluster munitions, as well as the assistance or encouragement of anyone to engage in prohibited activities.
- Chemical and biological weapons, prohibited by the 1972 Biological and Toxin Weapons Convention and the 1993 Chemical Weapons Convention.

Companies with any tie to Controversial Weapons (including cluster munitions, landmines, depleted uranium weapons, biological/chemicals weapons, blinding lasers, non-detectable fragments and incendiary weapons) as defined by the methodology of the MSCI Ex-Controversial Weapons Indices available at [MSCI Global ex Controversial Weapons Indexes Methodology](#).

Thermal Coal and Fossil Fuel

Many companies are taking tangible steps to transform their business models towards sustainability. As long-term investors, we are willing to invest in businesses in transition like many utility and oil companies that are scaling down CO2 intensive power generation to invest in renewable energy. We think some historical 'fossil fuel companies' can lead a smoother energy transition by reinvesting smartly the cash from oil into green investments. While the proportion of their assets is only shifting slowly towards clean energy, we think these companies often have the know-how and distribution power to accelerate the transition and engagement to push in this direction is a better option than excluding the sector because of its historical fossil fuel business. This pragmatic view has been confirmed by the recent energy crisis reminding how critical affordable energy access is for our democracies to survive.

However, we have set the following exclusion criteria:

Thermal Coal

Exclusion Criteria:

- Companies with any development of new projects related to thermal coal.

- Power generators where share of coal is more than 20% of energy production and/or revenue.
- Mining companies where share of coal is more than 20% of energy production and/or revenue.

Fossil Fuel

Exclusion Criteria:

Investments will be excluded if any part of a company's operations involves hydrocarbon production that:

- exceeds 20% from oil sands extraction,
- exceeds 20% from ultra deep offshore drilling,
- exceeds 20% from coal bed methane.

HIGH SCRUTINY SECTORS

- **Alcohol & Gambling** – no exclusion of these sectors which would have to demonstrate that their advertising policies and compliance with regulations are best in class given the risk of addiction both industries face. History has shown that prohibition of such products are costly for society and that it is better for society that, while tightly regulated, these industries can exist. It prevents organised crime from developing around it, allows better health campaigns against addiction and raise significant tax for government through excise duties.
- **Arctic Oil & Gas** – Companies with Arctic Ocean operations are subject to higher scrutiny from our analyst team with the aim of differentiating between companies operating mainly in Greenland from those closer to the Atlantic ocean.

The exclusion list is binding, however, should a company make an announcement that would trigger the inclusion of a company that was previously excluded, we reserve the right to invest in this company upon validation by the board of the fund/management company and adequate documentation.

SUSTAINABLE IMPACT SOLUTIONS

Scope: Memnon European Strategy

SUSTAINABILITY ANALYSIS







We consider ESG as a crucial part of our due diligence for any company, in particular to assess the risk of investments. However, the relative ranking exercise implies that companies involved in notoriously unsustainable business can attract best in class ESG scores.






Hence, our Sustainability analysis goes a step further by focusing companies' exposures to sustainable impact solutions, both social and environmental. Our approach is pragmatic, starting with the purpose of the company, using data to assess the exposure to sustainable themes today as well as in the future; we then follow up by investigating any sustainability claims that the company is making while always keeping an eye on controversies. Our engagement with management is key to understanding and challenging Sustainability claims made by companies, in particular when positive impacts are somewhat offset by negative ones. We also use sell-side research to complement our own research in identifying companies' exposure to sustainable trends. Currently Credit Suisse, Morgan Stanley and Berenberg benefit from highly rated sustainability focused teams which we have access to.

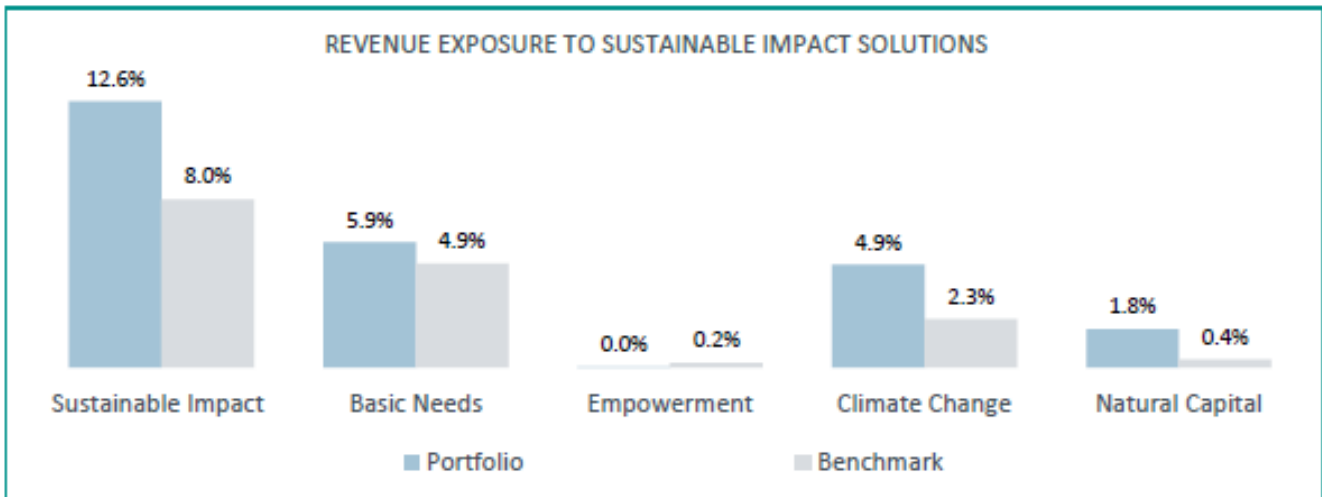
The second pillar of our Sustainability analysis is also quantitative and consists in the assessment of the portfolio's overall exposure to sustainable impact solutions. We rely on MSCI for quantification of annual revenues generated by companies from products and services providing sustainable impact solutions.

While there is no hard commitment to achieve a certain level of exposure to sustainable impact solutions for the portfolio, it usually shows a higher exposure than the European market as per the extract below (as of June 2022)

ESTIMATED ANNUAL REVENUE GENERATED BY COMPANIES FROM PRODUCTS & SERVICES PROVIDING SUSTAINABLE IMPACT SOLUTIONS

Social Impact Solutions For a \$1mm investment in the Portfolio or a hypothetical investment of \$1mm allocated to replicate the index:	BASIC NEEDS				EMPOWERMENT	
	 Nutrition	 Affordable Real Estate	 Major Disease Treatment	 Sanitation	 SME Finance	 Education
MEMNON: \$63,512 per year in Social Impact products & services	\$51,455 per year of revenues from nutritious food	\$0 per year of revenues from affordable real estate	\$2,675 per year of revenues from top 20 diseases treatment	\$9,354 per year of revenues from sanitary products	\$28 per year of revenues from SME lending	\$0 per year of revenues from education services
MSCI Europe: \$15,321 per year in Social Impact products & services	\$4,218 per year of revenues from nutritious food	\$909 per year of revenues from affordable real estate	\$5,924 per year of revenues from top 20 diseases treatment	\$2,748 per year of revenues from sanitary products	\$712 per year of revenues from SME lending	\$488 per year of revenues from education services

Environmental Impact Solutions For a \$1mm investment in the Portfolio or a hypothetical investment of \$1mm allocated to replicate the index:	CLIMATE CHANGE			NATURAL CAPITAL	
	 Alternative Energy	 Energy Efficiency	 Green Building	 Sustainable Water	 Pollution Prevention
MEMNON: \$56,885 per year in Clean Tech products & services	\$3,402 per year of revenues from alternative energy technologies	\$25,579 per year of revenues from energy efficiency technologies	\$0 per year of revenues from green building	\$19,401 per year of revenues from sustainable water technologies	\$8,502 per year of revenues from pollution prevention technologies
MSCI Europe: \$20,579 per year in Clean Tech products & services	\$5,293 per year of revenues from alternative energy technologies	\$7,353 per year of revenues from energy efficiency technologies	\$1,699 per year of revenues from green building	\$1,262 per year of revenues from sustainable water technologies	\$4,206 per year of revenues from pollution prevention technologies



TOP 5 CONTRIBUTORS TO PORTFOLIO'S REVENUE EXPOSURE TO SUSTAINABLE IMPACT SOLUTIONS

Contribution to Portfolio Revenue		
Company	Exposure	Theme
1 JDE PEET'S N.V.	4.3%	Nutrition
2 ROCKWOOL A/S	3.4%	Energy Efficiency
3 VEOLIA ENVIRONNEMENT SA	2.0%	Alternative Energy, Sustainable Water, Pollution Prevention
4 MERCK KOMMANDITGESELLSCHAFT AUF AKTIEN	1.1%	Major Disease Treatment, Energy Efficiency
5 SAP SE	0.9%	Energy Efficiency

To be eligible to contribute, a company must generate revenue from products or services that help solve at least one of the world's major social and environmental challenges, while maintaining minimum ESG standards through its operations.

* See Appendix for methodology

ENGAGEMENT

The third pillar of our process is qualitative in nature and capitalises on Zadig's 800+ annual company meetings to test the sustainability claims of companies by asking challenging questions.

On top of discussing business trends there are two objectives to these meetings:

- Avoid greenwashing traps and differentiate the corporates with little substance but a strong communication team vs. those that do more than they say on the sustainability agenda.
- Take a longer-term view on the sustainable business's exposure of companies. This is the opportunity for us to challenge and fine tune the assumptions we make.

NO CONSIDERATION OF ADVERSE IMPACTS OF INVESTMENT DECISIONS ON SUSTAINABILITY FACTORS

Scope: All Equity strategies at Zadig

While the Management Company takes into account sustainability-related factors and Sustainability Risks in its investment management activity, the Management Company does currently not evaluate the adverse impacts of investment decisions made on a uniform set of sustainability factors with respect to the Sub-Funds given the difficulties in obtaining the necessary information due to the investment strategy of the relevant Sub-Fund and the resources required to put in place the necessary processes. The Management Company will evaluate the situation on an on-going basis and may decide to consider principal adverse impacts on the basis of suitable data going forward.

VALUATION AND PORTFOLIO CONSTRUCTION

Valuation is at the heart of Zadig's investment process and every investment has a target price derived from a proprietary valuation model.

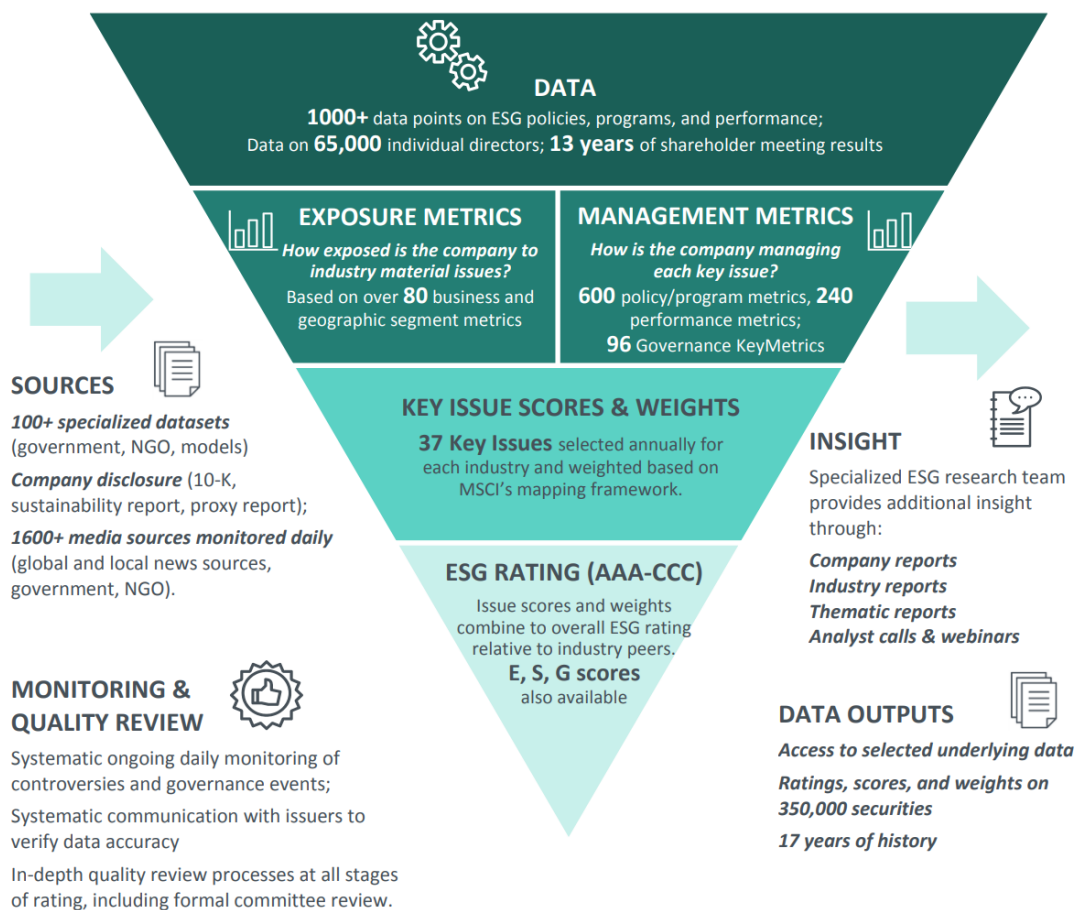
ESG factors are taken into consideration when calculating a company's cost of capital and hence influence our fair value targets. For example, for two otherwise identical companies in the same industry we would use a higher cost of capital for the company with the lower share of sustainable revenues and/or the higher share of "dirty" revenues. Here again the example of utility companies is helpful: in our view Engie today deserves a lower multiple (or higher cost of capital) than Iberdrola or Enel as it has fallen behind in the transition to clean generation, which takes time and usually involves significant costs and write downs.

Similarly, a company with weaker governance standards is considered higher risk for minority investors and would therefore be valued with a higher cost of capital than its peers. We keep track of all our target prices and meeting interactions via an internal database which is also a source of idea generation over time.

DATA SUPPLIERS

- **MSCI** – is used not for the ESG Scoring overall but for the E and S data individually and for monitoring the controversies in our universe as well as exposure sur Sustainable Impact Solutions. It is also used for reporting to investors with production of regular Sustainability, Climate and ESG reports. Only raw data from MSCI is used to assess each company on ESG and Sustainability however, we like to use MSCI reporting tool to show that the final portfolio is also performing well on ESG and Sustainability metrics when using MSCI reporting capabilities.

Figure 1: ESG Rating Framework and Process Overview



Number of Board Meetings:

Non-executives meet in absence of Executives: Yes

Name	M/F	Age	Tenure (Years)	Boards	Independent of Mgmt	Independent of Other Interests	Management Link/ Designation Reason	Nationality
Coles, Joanna	F	54	1		Yes	Yes		
Lafley, Alan G.	M	70	< 1		Yes	Yes		
Lasky, Mitchell I	M	54	4		Yes	Yes		
Lynton, Michael COB	M	55	3		Yes	Yes		
Meresman, Stanley S	M	69	1	1	Yes	Yes		
Miller, Scott S	M	64	< 1	1	Yes	Yes		
Murphy, Robert I	M	28	4		No	Yes	Executive	
Spiegel, Evan CEO I	M	26	4		No	Yes	Executive	
Young, Christopher	M	45	< 1	1	Yes	Yes		
	F	# > 70	# > 15 yrs	# > 3				
Total (of 9)	1	0	0	0	7	9		
Percentage	11.1%	0%	0%	0%	77.8%	100%		

S - Financial Expert (2) **I** - Industry Expert (3) **CEO** - Chief Executive Officer **COB** - Chairman of the Board

- **Bloomberg** – is used for raw data that is meaningful and measurable (CO2 emissions, employee fatalities, % of women in management positions, etc.)
- **ISS Ethix** – provides a web-based voting and research platform to access vote recommendations and research reports. It contains relevant information for the assessment of governance of companies.



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