



ESG INTEGRATION POLICY

Alken Asset Management Ltd
And
Alken Finance LLP

INTRODUCTION

This document provides an overview of Alken Asset Management and Alken Finance (Alken) incorporation of environmental, social, governance and human rights (ESG) considerations into its investment process¹.

The policy aims to explain the firm's ESG objectives, its guiding principles, its resources and the process the firm has put in place.

RATIONALE FOR ESG INTEGRATION

Allocator of capital, Alken sees finance as a vehicle to achieve long-term oriented goals and not just an end in itself. We therefore work to achieve a sustainable global financial system by embedding the sustainability-related linkages that underpin economic growth into our investment strategy. Alken understands that failing to both evaluate and integrate ESG factors in the same way as we do for any other financial factor are likely to lead to a company's poor performance. Every day, corporate scandals remind us that ESG issues will affect a company's performance. In an increasingly complex and interconnected world, we believe in long-term investments as the financial system of tomorrow, where ESG issues are no longer a distant threat on the horizon but ones that are here and now, with potential multi-billion-dollar economic consequences such as climate change. We recognise that this new trend has now become *the* proxy to measure how markets and societies are evolving and how concepts of valuation are adapting to these changes.

¹ This integration process was implemented for five of Alken strategies: Alken Fund European Opportunities, Alken Fund Absolute Return, Alken Fund Continental Europe, Alken Fund Income Opportunities, Alken Fund Global Convertibles.



Believer of the new mantra “Who Cares Wins²”, Alken sees the integration of ESG factors within the business’ DNA as a catalyst for forward-looking solutions. From the management’s investment decisions to its relationship with key stakeholders, ESG issues are now incorporated in every aspects of an institutional investor’s core business culture and are on their way to becoming part of investors’ fiduciary duties. We therefore believe that the selection and integration process of ESG criteria contributes to the robustness of the investment decision process.

ESG INVESTMENT OBJECTIVES

As an asset manager, our fiduciary duty is to respect our clients’ needs and ensure a sustainable long-term value creation. Today, the integration of ESG criteria has become a great way to ensure a steady performance, to manage risk better as well as to make sure our investments are better in line with our clients’ values.

As an asset manager, our duty is also to all work towards a more sustainable financial system where asset managers play an active role in mobilising finance for sustainable growth. Together with other firms, we believe that implementing an ESG strategy can help promote sustainable activities, channelling investments as a tool to support economic growth while reducing pressures on the environment, social and governance aspects.

In order to drive its ESG integration priorities, Alken follows the Sustainable Development Goals (SDGs) objectives. Thanks to a team effort between the PMs, the investment analysts and the ESG analyst, Alken has developed its proprietary ESG mapping which helps us identify material ESG issues for each sector in which we invest in³.

As a traditional stock picking firm and endowed with a team of innovative and motivated individuals, we believe to be well positioned to meet this new sustainable investing challenge. Independently owned, with an expertise in research and thorough analysis, our small and diverse team keeps us flexible and easily adaptable in this fast-changing environment.

² The Who Cares Wins initiative has been actively engaging with mainstream financial companies and organizations in an effort to assist in the integration of ESG issues in investment analysis. The conference took place in Zurich in 2005 and marked an important milestone in this effort.

³ Note this was developed in Q4 2019 and Q1 2020 and is still in progress.



OUR RESOURCES

Alken has assigned in 2019 the ESG function to one person, who oversees the enhancement of our ESG processes across the firm, together with the COO, the PMs and investment analysts. We gather internal information, research, analysis or ESG scoring via our proprietary internal ESG platform which is available to the relevant staff⁴.

In addition, Alken uses different information vehicles in order to operate the integration of ESG issues in its investment process:



MANAGING CONFLICTS OF INTEREST

Alken recognises its position as a fiduciary for its clients and aims to always act in its clients' best interests. Subsequently, we put in place a number of checks in order to identify potential or actual conflicts of interest in order to minimise any risks on our clients' interests. Among other things, we have a specific policy on conflicts of interest management in our compliance manual, together with regular reminders sent to the staff, as well as a register of any potential or actual conflicts. This is being regularly reviewed by the compliance team.

⁴ The platform was initially built in Q1 2020 and is under constant development and improvements



ALKEN'S PROCESS⁵

1. ESG EXCLUSION AND SCREENING

EXCLUSIONS

Alken put in place a few years ago a firm-wide exclusion of issuers which are either linked to controversial activities or prohibited products in relation to controversial weapons. Beginning of year 2020, we also put in place several specific strategies additional exclusions based on sins (i.e: tobacco producers) or based on specific activities (i.e.: oil & gas exploration and production).

SCREENING

Additionally, Alken also put in place in 2020 a screening stock selection process which ESG thresholds and levels may vary depending on the investment strategy at stake. The rationale behind this selection process is to ensure that the screening of each security has been made so to match the long-term performance objectives of the given strategy, the amount of risk we believe it can sustain, and some minimum ESG standards. More precisely, our screening process follows two objectives:

- Filter the universe via a selection of ESG filters to organise companies into categories depending on their ESG maturity levels.
- Assign an internal initial score⁶ to every companies entering the portfolio, helping us prioritise the internal deeper assessment that we conduct as part of our “ESG Integration” process.

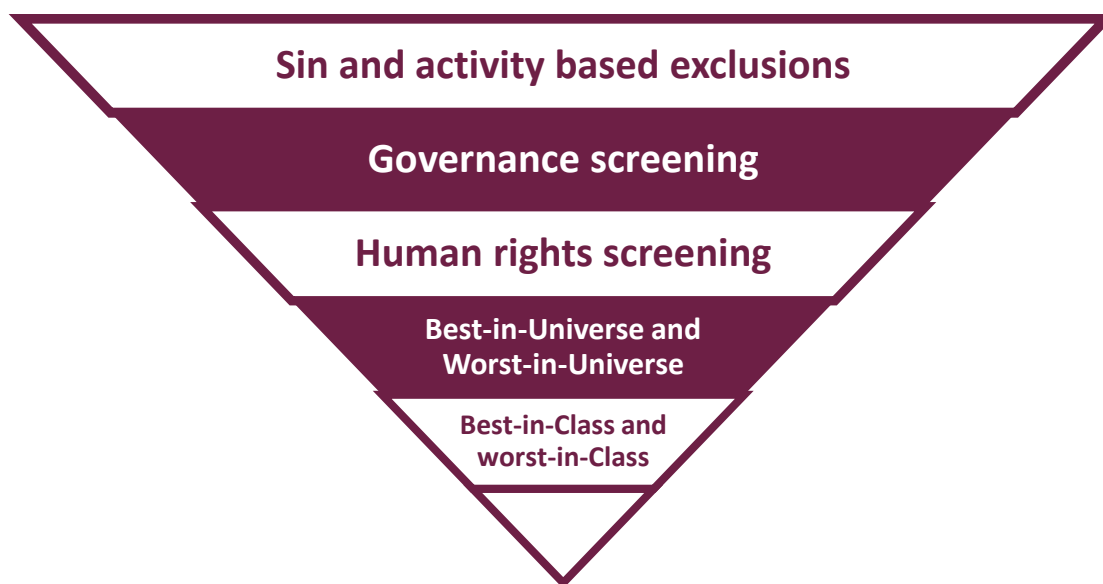
Our ESG screening process can be summarised in the below.

Where we can extract data from our external ESG data provider:

- ✓ Screening on **Governance and Human Rights** parameters,
- ✓ Identification of **Best-In-Universe** and **Worst-In-Universe** companies globally,
- ✓ Identification of **Best-In-Class** and **Worst-In-Class** companies for each sector.

⁵ This process is applicable to *all* our strategies at Alken.

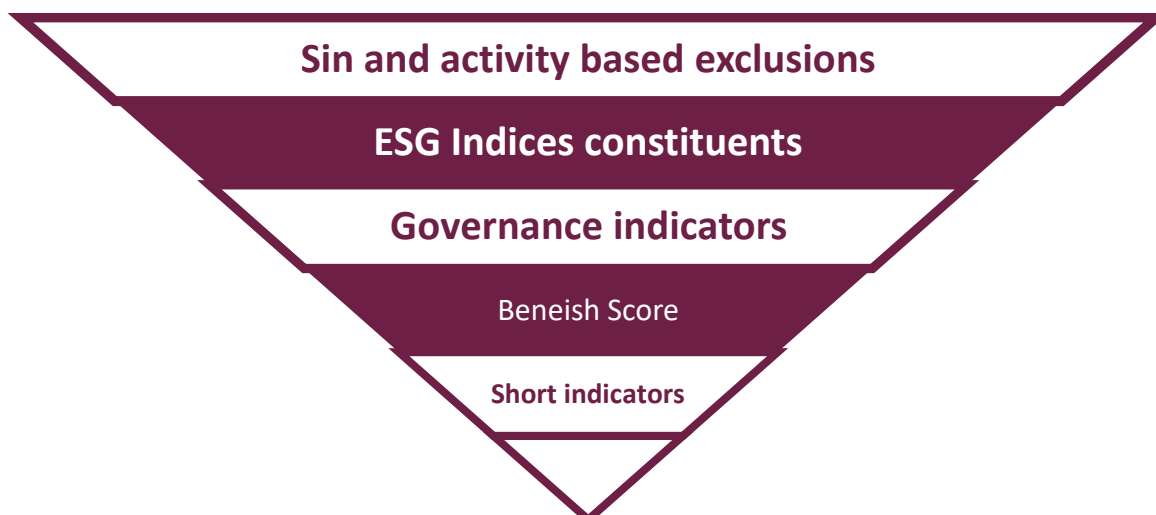
⁶ Note this initial internal score which derives from our screening process and data extracted from specialised ESG data provider can be overridden following our internal assessment and subsequent internal re-evaluation of the initial scoring.



Where we cannot extract data from our external ESG data provider, we focus on a selection of governance indicators:

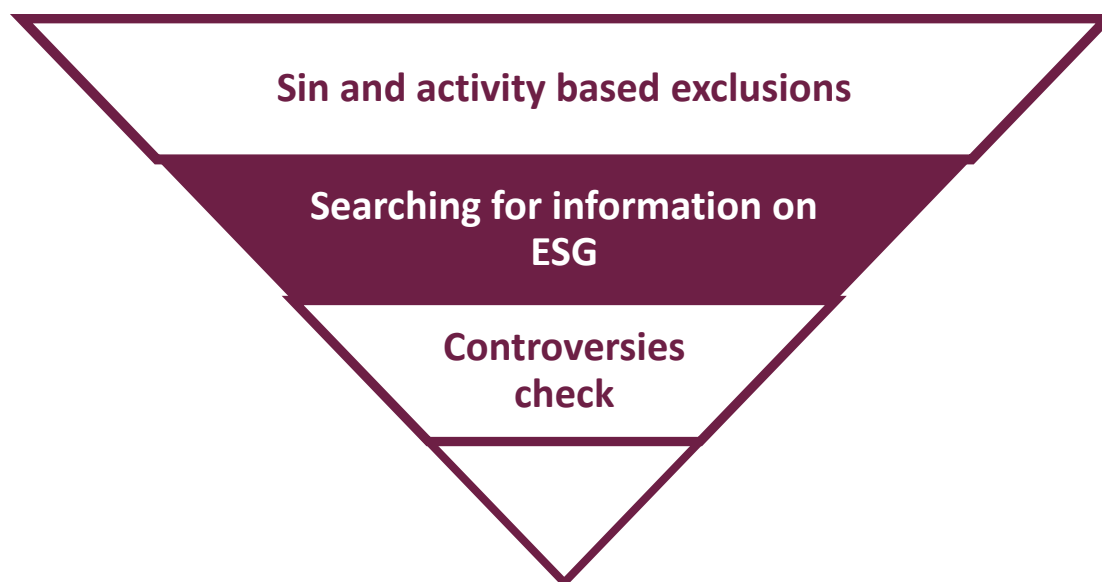
- ✓ ESG indices Constituent?
- ✓ Governance Overall Score
- ✓ Governance Board Score
- ✓ Governance Audit Score
- ✓ Financial Score
- ✓ Short Ratio
- ✓ Prominent Shorts

Where no information can be extracted on the above parameters, we may decide not to invest in the company.





Where the company cannot be linked to an equity issuer and therefore no information is available, we conduct a “manual screening”, looking for E, S, G and HR concerns and potential any controversies:



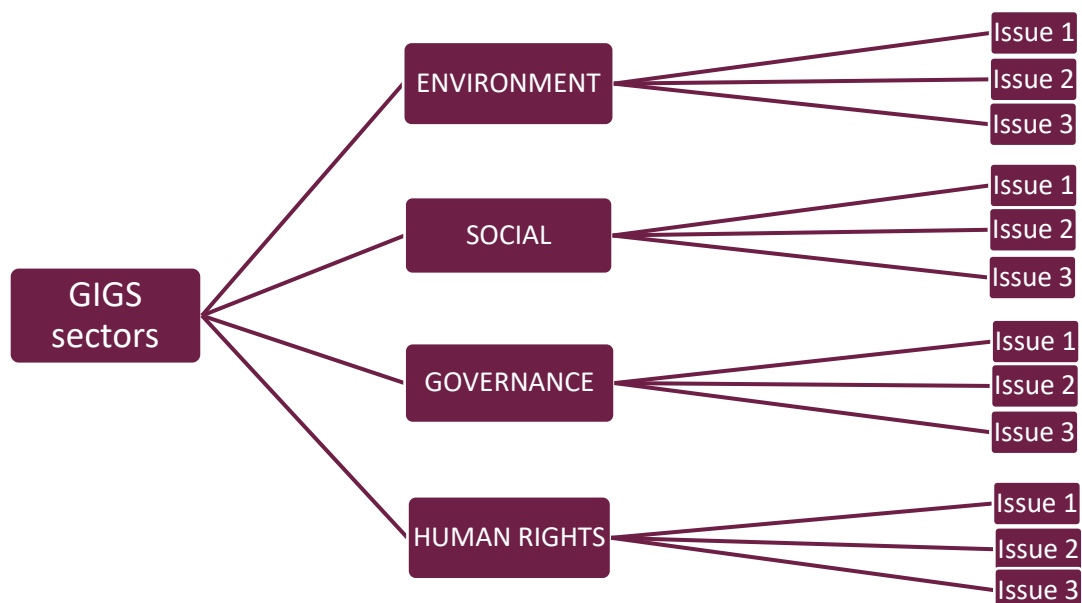
Where no information can be extracted on the above parameters, we may decide not to invest in the company.

2. ESG EVALUATION AND INTEGRATION

The objective sought by our ESG integration process is to use the company’s internal evaluation and subsequent rating to measure the ability of the given company to adequately manage its ESG risks and opportunities. This process seeks to help us better evaluate our portfolio’s exposure to emerging ESG trends per sectors as well as potential ESG risks that should be monitored.

To achieve this, Alken has defined a set of **three different sub-themes** for its **four ESG pillars**: environmental, social, governance and human rights. The three sub-themes vary **depending on the sector/ sub-industry** of the analysed company. This new process was put in place beginning of year 2020 and is still an on-going process⁷. Over time, Alken will continue improve and extend its proprietary methodology. This new process was implemented on a firm-wide level.

⁷ Our internal ESG taxonomy does not yet cover *all* sub-industries of the GICS. Where we do not have a specific ESG materiality of a given sub-industry, we use our internal ESG checklist which helps the analyst identify twelve material ESG issues of a business.



ESG PILLARS AND THEIR SUB-FACTORS

The key **cross sectorial ESG criteria** that we have identified at Alken can be summarised as follows:

ENVIRONMENT	Climate change risk; Energy Transition; CO2 Emissions Management; Impact on Ecosystems; Resource Efficiency; Pollution Prevention; Use of Recyclable; Waste Management.
SOCIAL	Fundamental Labour Rights; Health and Safety; Supply Chain Management; Product Safety; Gender Diversity; Impact on Local Communities; Human Capital Management; Social Dialogue.
GOVERNANCE	Corruption and Bribery Prevention; Remuneration Policies; Audit and Internal Controls; Ownership Structure; Level of Transparency; Voting Structure; Independence of the Board; Independence of the Committees.
HUMAN RIGHTS	Right to Equality; Child Labour Prevention; Anti-Slavery Prevention; Freedom from Discrimination; Social Security; Workers' Rights; Freedom of Expression; Right to Peaceful Assembly.



ESG RISK MANAGEMENT

We endeavour to conduct our **internal ESG assessment** based on the degree of ESG risk the company is posing, as defined via our **screening process and categorisation methodology**:

Colour code Screening	Internal rating	Description	Priority for internal ESG assessment
Green	A +	ESG Leader	Priority 5: - Internal assessment conducted where possible
Light Green	A -	Strong ESG company	Priority 4: - Internal assessment conducted where possible
Yellow	B	Good but some reservations	Priority 3: - Internal assessment conducted where possible
Orange	C+	ESG weaknesses identified	Priority 2: - Internal assessment conducted where possible once priority 1 all completed
Red	C-	Strong reservations	Priority 1: - Internal assessment conducted within 6 months starting July 15th

We evaluate companies first using the information the company disclosed in its ESG/annual reports, ESG section on the website, or any other publicly available information shared by the company.

Where no information can be gathered, we send a specific ESG questionnaire to the IR or ESG representatives of the given company.

Following the company's official response or answers to our questions, we conduct an assessment on the quality of the ESG communication provided and on the depth of their commitment on ESG. Further information on this process can be found in our *ESG Investment Process Guidelines*.

Following our evaluation, an internal score and grade is assigned to the company⁸.

⁸ Again, more information on our methodology, score card, or criteria can be found in this document, available for both, our Fixed-Income and our Equity ESG strategies: *ESG Investment Process Guidelines*.



ESG CONTROVERSIES MANAGEMENT

Once invested in the portfolio, Alken may decide to reduce exposure or exist a particular investment in the following two situations⁹:

1. Strategy-driven

This is the situation where we exceed the percentages ratio that were set up for the given ESG strategy via our screening process.

For instance: As we put in place that only 10% of “RED” classified companies can be invested in ¹⁰strategy X, we may decide to sell any “RED” company if we go above the threshold).

2. Event-driven

This is the situation where an event takes place on a specific company, putting heavy risks on ESG and making us re-consider the investment, and where even after engaging and allowing some time to the company, the later continues to fail and no improvements are being made.

To flag those controversies, Alken uses its ESG data provider’s “alerts” to keep abreast of the ESG upgrades or downgrades potentially affecting its portfolio¹¹ as well as any insights generated from research brokers and from our investment team’s analysis.

When assessing a controversy, both the financial analyst and the ESG officer look at the following factors:

- ✓ The degree of severity of the controversy - what are the short- and long-term impacts?
- ✓ The status of the case – is the controversy ongoing or has it already been concluded?
- ✓ The way the company is or has mitigated the controversy
- ✓ What stakeholders were affected by the controversy?
- ✓ How many times this year did the company face a controversy?

Depending on the above assessment, we follow-up within three to six months and then re-evaluate the situation.

⁹ Note there might be other situations which are not listed here.

¹⁰ We wish to keep flexibility in this assessment, so we have not established specific timelines or minimum requirements for this.

¹¹ We do not have access to the Controversies Module of data provider but new controversies are sent by email by our provider.

OUR EXIT STRATEGY

We may decide to disengage and exit a company due to ESG concerns in the following situations:

1. Strategy-driven depending on committed maximum thresholds.

As described in the above

2. Even-driven controversy failing to improve over time.

As described in the above

3. Red company failing to improve over time.

