



# 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 process<sup>1</sup>.

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

Alken also has regulatory obligations under the Sustainable Finance Disclosures Regulation ("SFDR"<sup>2</sup>) and therefore commits to provide the required level of transparency required – in other words explain to what extent ESG related risks are being integrated into our investment decision process.

## OUR PHILOSOPHY

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

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<sup>1</sup> This integration process was implemented for all of our Alken strategies: Alken Fund European Opportunities, Alken Fund Absolute Return, Alken Fund Continental/ Sustainable Europe, Alken Fund Income Opportunities, Alken Fund Global Convertibles, Alken Small Cap and Alken CAP1.

<sup>2</sup> 2 "SFDR", Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.



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.

Believer of the new mantra “Who Cares Wins<sup>3</sup>”, 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 aspect 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 in<sup>4</sup>.

Thanks to this, **Alken aims to promote both environmental and social factors, as well as works on ensuring that its strategies follow good governance practices.**

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<sup>3</sup> 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 importance milestone in this effort.

<sup>4</sup> Note this was first developed in Q4 2019 and is still progressing since.



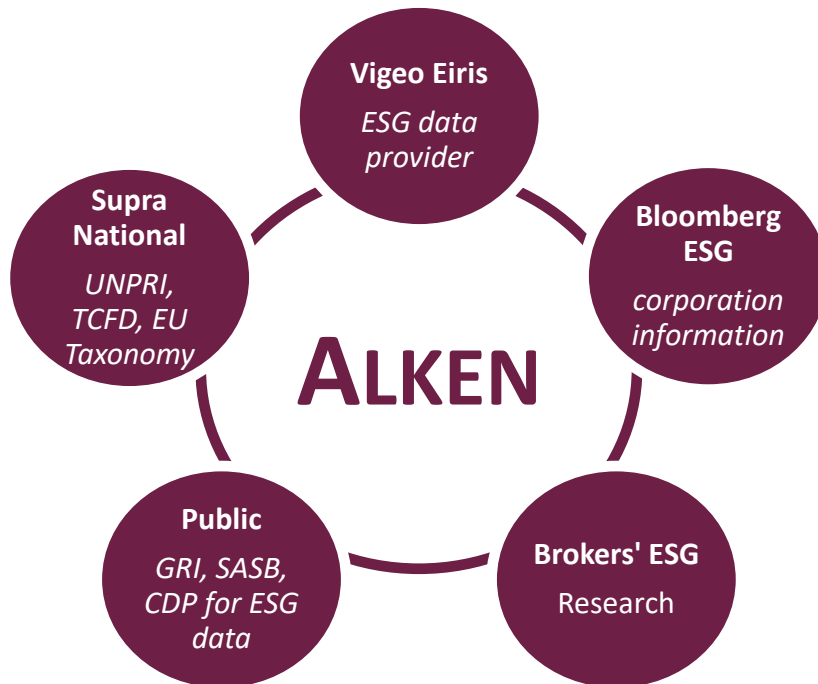
As a traditional stock picking firm and endowed with a team of innovative and motivated individuals, we believe to be well positioned to meet this new sustainable investing challenge. Independently owned, with an expertise in research and thorough analysis, our small and diverse team keeps us flexible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



## OUR RESOURCES & TRAINING

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 staff. The ESG officer provides a yearly face-to-face presentation to the different staff members as well as organises an online ESG training. The ESG officer has years of experience in the field of ESG and also took the PRI Certificate in Responsible Investment.

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





## ALKEN'S PROCESS

### 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. 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).

	Strat Eq 1	Strat Eq 2	Strat Eq 3	Strat Eq 4	Strat Eq 5
Controversial Weapons <sup>5</sup>	✓	✓	✓	✓	✓
Tobacco producers <sup>6</sup>	✗	✓	✗	✗	✗
Thermal Coal Producers <sup>7</sup>	✓	✓	✓	✓	✗
Shell Oil Producers <sup>8</sup>	✓	✓	✓	✓	✗
Oil & Gas Exploration and Production <sup>9</sup>	✗	✓	✗	✗	✗

	Strat FI 1	Strat FI 2
Controversial Weapons <sup>10</sup>	✓	✓
Tobacco producers <sup>11</sup>	✓	✓
Oil & Gas Exploration and Production <sup>12</sup>	✓	✓

<sup>5</sup> Controversial weapons using data provider VigeoEIRIS list of producers ("Full Weapon System" & "Clear Evidence") and related companies apart from nuclear weapons. We may deviate from VigeoEIRIS' list if deemed incorrect according to internal research.

<sup>6</sup> Tobacco producers based on GICS classification

<sup>7</sup> Thermal coal producers that mines or generates thermal coal electricity for over 25% EBITDA

<sup>8</sup> Shell oil producers that generate over 10% EBITDA from shale oil

<sup>9</sup> Oil and gas exploration and production based on GICS classification

<sup>10</sup> Controversial weapons using data provider VigeoEIRIS list of producers ("Full Weapon System" & "Clear Evidence") and related companies apart from nuclear weapons. We may deviate from VigeoEIRIS' list if deemed incorrect according to internal research.

<sup>11</sup> Tobacco producers based on GICS classification

<sup>12</sup> Oil and gas exploration and production based on GICS classification



## SCREENING

Additionally, Alken also put in place 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 score<sup>13</sup> to every company entering the portfolio, helping us prioritise the internal deeper assessment that we conduct as part of our “ESG Integration” process.

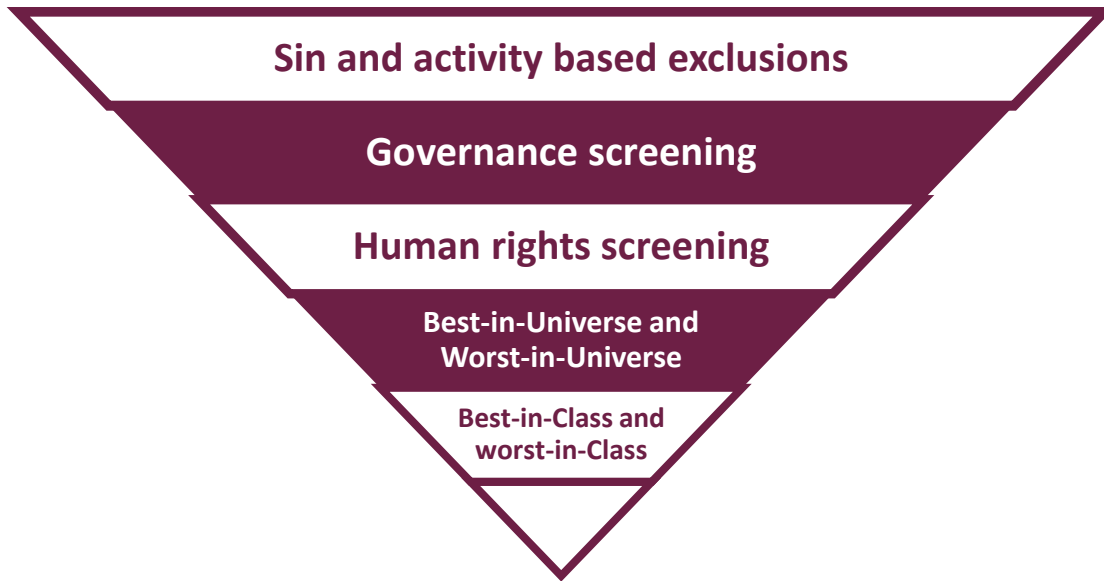
Our ESG screening process can be summarised in the below.

### **1/ 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.

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<sup>13</sup> Note this initial internal score which derives from our screening process and data extracted from provider VigeoEIRIS can be overridden following our internal assessment and subsequent internal re-evaluation of the initial scoring.



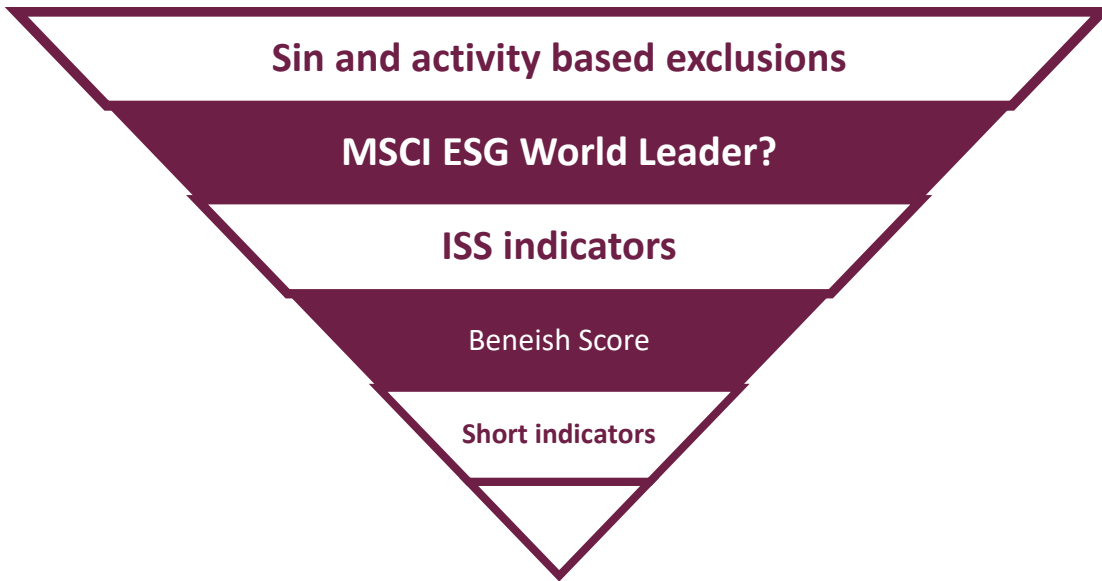
**2/ Where we cannot extract data from our external ESG data provider**

**We first work on a selection of governance indicators available on Bloomberg<sup>14</sup>:**

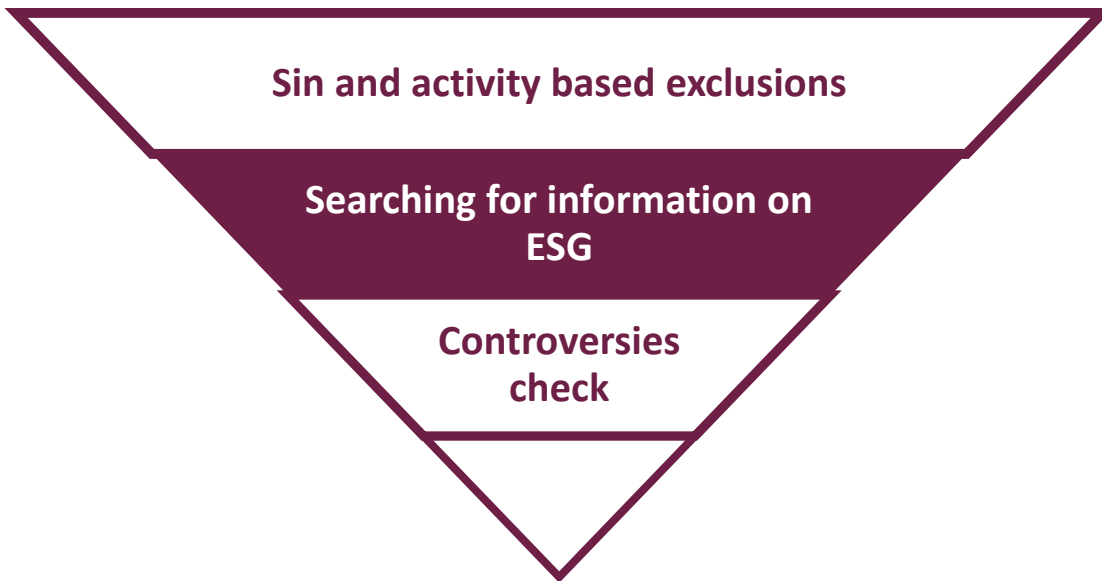
- ✓ MSCI Constituent?
- ✓ ISS Overall Score
- ✓ ISS Board Score
- ✓ ISS Audit Score
- ✓ Beneish Score
- ✓ Short Ratio
- ✓ Prominent Shorts

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<sup>14</sup> This governance pre-investment screening is available on request in a xlsx format. Where no information can be extracted on the above parameters, we have the discretion to decide not to invest in the company.



We then conduct a “manual screening”, looking for E, S, G concerns and potential controversies<sup>15</sup>.



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<sup>15</sup> This overall pre-investment manual screening is available on request in a xlsx format. Where no information can be extracted on the above parameters, we may decide not to invest in the company.

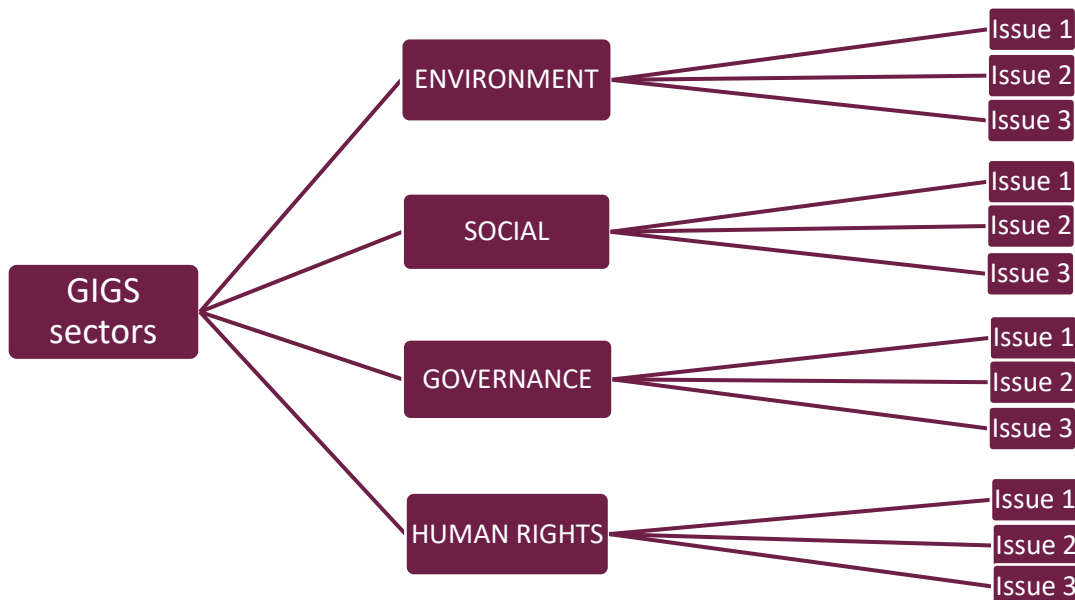




## 2. ESG EVALUATION AND INTEGRATION

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. Over time, Alken continues to improve and extend its proprietary methodology. This process is implemented on a firm-wide level.





## ESG PILLARS AND THEIR SUB-FACTORS

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

<b>ENVIRONMENT</b>	Climate change risk; Energy Transition; CO2 Emissions Management; Impact on Ecosystems; Resource Efficiency; Pollution Prevention; Use of Recyclable; Waste Management.
<b>SOCIAL</b>	Fundamental Labour Rights; Health and Safety; Supply Chain Management; Product Safety; Gender Diversity; Impact on Local Communities; Human Capital Management; Social Dialogue.
<b>GOVERNANCE</b>	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.
<b>HUMAN RIGHTS</b>	Right to Equality; Child Labour Prevention; Anti-Slavery Prevention; Freedom from Discrimination; Social Security; Workers' Rights; Freedom of Expression; Right to Peaceful Assembly.

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**:

<b>Colour code Screening</b>	<b>Internal rating</b>	<b>Priority for internal ESG assessment</b>
<b>Green</b>	<b>A +</b>	<b>Priority 5</b>
<b>Light Green</b>	<b>A -</b>	<b>Priority 4</b>
<b>Yellow</b>	<b>B</b>	<b>Priority 3</b>
<b>Orange</b>	<b>C+</b>	<b>Priority 2</b>
<b>Red</b>	<b>C-</b>	<b>Priority 1</b>



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 company<sup>16</sup>.

## **ESG CONTROVERSIES MANAGEMENT & EXIT STRATEGY**

Once invested in the portfolio, Alken may decide to reduce exposure or exist a particular investment in three situations<sup>17</sup>:

### **1. Exceeding our ratio of poorly ESG performing stock within a portfolio**

Where we are exceeding the percentages ratio that were set up for the given ESG strategy via our screening process, investment can be re-considered.

For instance: As we put in place that only 10% of "RED" classified companies can be invested in <sup>18</sup>strategy X, we can decide to sell any "RED" company if going above the threshold.

### **2. Event-driven: unsatisfactory controversy outcomes**

An event takes place on a specific company, putting heavy risks on ESG. Following our internal analysis and potential further engagement, we are unsatisfied and can re-consider the investment.

### **3. Strong E, S, G or HR concerns**

A company repetitively failing to improve identified key ESG and HR risks over the long period of time can make us re-consider the investment.

### **4. Red companies failing to demonstrate improvements**

Where companies have been categorised RED via our ESG screening process, ESG analyst has to go through its internal assessment review as soon as possible to further check any potential issues within the investee company. If the ESG Officer confirms a potential serious issue, this can lead to further engagement, and if still deemed unsatisfactory, the ESG Committee can decide to reduce exposure or exit the position.

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<sup>16</sup> 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*.

<sup>17</sup> Note there might be other situations which are not listed here.

<sup>18</sup> We wish to keep flexibility in this assessment, so we have not established specific timelines or minimum requirements for this.



## **ALKEN INTERNALLY: INCLUSION, DIVERSITY AND CULTURE EFFORTS**

We endeavour to promote a culture of openness and inclusion at the firm level. We believe that implementing an internal culture of greater inclusiveness will foster better business ideas and outcomes.

Furthermore, alongside Policy, Alken has adopted a number of complementary ESG investment related policies which include, but are not limited to the following:

- ✓ Anti-harassment & bullying Policy
- ✓ Mental Health & Well-being Policy
- ✓ Equal Opportunity Policy (which includes our Diversity & Inclusion Guidelines)
- ✓ Modern Slavery Statement
- ✓ Parental Leave Policy
- ✓ Code of ethics