sycomore am

JANUARY 2023

# SFDR - Sustainability-related disclosures

## SFS Sycomore Europe Eco Solutions

## a) Summary

Upcoming information.

## b) No significant harm to the sustainable investment objective

Four layers are implemented to avoid occurrence of significant harm to any environmental or social sustainable investment objective, on an ex-ante basis, prior to any investment-decision.

Indeed, investments targeted by one or more of the criteria below will not be considered as a sustainable investment:

- **As per the Management Company's SRI exclusion policy** : activities are restricted for their controversial social or environmental impacts, as defined and revised annually in Sycomore AM's core policy (applicable to all Sycomore AM's direct investments), and in the Socially Responsible Investment Policy (SRI) policy (applicable to all open-ended UCITs, mandates and dedicated funds managed according to an SRI strategy), such as: violations of fundamental rights, controversial and nuclear weapons, conventional weapons and ammunitions, thermal coal, tobacco, pesticides, pornography, carbon-intensive energy generation, oil & gas.
- **Companies affected by a level 3/3 controversy**: identified based on the Investment Manager's thorough analysis of controversies. The most severe controversy classification (-3 on Sycomore AM's scale, which range from 0 to -3) is considered a violation of one of the principles of the United Nations' Global Compact.
- **SPICE rating below 3/5**: The SPICE methodology, through its 90 criteria, covers all environmental, social and governance issues targeted by the indicators for adverse impacts on sustainability factors listed within the draft Regulatory Technical Standards. A lower rating, below 3/5, indicates a lower sustainability performance on one or more adverse impacts.
- **As per Sycomore AM's Principle Adverse Impact (PAI) policy**: a PAI policy applied to identify further potential significant harm across environmental and social matters targeted by the PAI indicators listed in Table 1 of Annex I is implemented. Companies meeting any exclusion criterion regarding GHG emissions, biodiversity, water, waste, gender equality, UN Global Compact principles/OECD Guidelines for Multinational Enterprises compliance, or controversial weapons, will be reported as "not sustainable".

The development of Sycomore AM's analysis framework "SPICE" as well as the exclusion policy have been inspired by the OECD's Guiding Principles for multinational companies, the United Nations' Global Compact, the International Labour Organization's international standards and the UN Guiding Principles on Business and Human Rights. To assess the fundamental value of a company, analysts systematically examine how a firm interacts with its stakeholders. This fundamental analysis is designed to understand strategic challenges, business models, management quality and degree of involvement, and the risks and opportunities faced by the company. Sycomore AM has also defined its Human Rights Policy in compliance with the UN Guiding Principles on Business and Human Rights.

Despite the above-described due diligence set to detect potential breaches of the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, actual compliance of the analyzed issuers can never be guaranteed.

**c) Sustainable investment objective of the financial product**

Sycomore Europe Eco Solutions (denominated in EUR) aims to achieve a significant performance over a minimum investment horizon of five years, through a rigorous selection of stocks of companies whose business model, products, services, or production processes positively contribute to the energy and ecological transition challenges, through a thematic SRI strategy.

The Sub-fund will partially make environmentally sustainable investments falling under article 5 of the Taxonomy Regulation (2019/2088). Contributing investments can address any or the six environmental objectives set out in article 9 of the Taxonomy Regulation: a) climate change mitigation, b) climate change adaptation, c) sustainable use and protection of water and marine resources, d) transition to a circular economy, e) pollution prevention and control, f) protection and restoration of biodiversity and ecosystems.
No reference benchmark has been designated to meet the sustainable investment objective of the Sub-fund.

**d) Investment strategy**

The Sub-fund's selected companies have one or more activities related to energy, transportation and mobility, renovation and construction, circular economy, and ecosystems (water, pollution, agriculture, food processing, forestry, fishing…). These stocks, which always represent at least 80% of net assets, are selected from European equity markets, without any sector or capitalization constraints, based on fundamental analysis. The aim of this stock selection process is to identify quality companies whose market price does not reflect the intrinsic value assessed by the management team. The process of researching and selecting stocks in the investment universe includes binding extra-financial criteria and overweighs companies whose ESG criteria are consistent with sustainability objectives.

ESG (Environment, Social and Governance) analysis, being fully integrated into the evaluation process, is conducted through the Management Company (Sycomore Asset Management)'s proprietary "SPICE" methodology. SPICE is the acronym for the global, financial, and extra-financial methodology of analysis and evaluation. It aims to understand how the value created by a company is allocated among all its stakeholders (investors, environment, customers, employees, suppliers, and civil society). The Management Company believes that an equitable sharing of value between the stakeholders is an important factor in the development of a company.

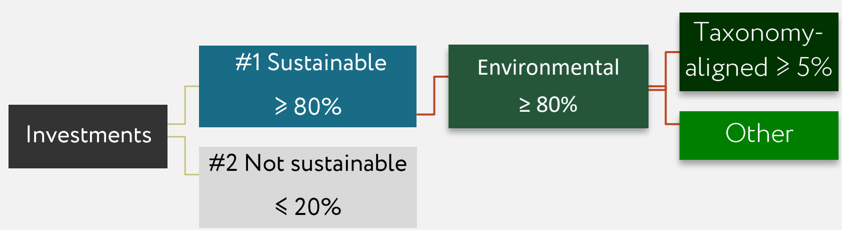
**In addition, the investment universe of the Sub-fund is built according to specific criteria into the overall SPICE methodology (see next item on binding elements of the investment strategy).**

**The SPICE methodology also enables to assess companies' exposure to the United Nations Sustainable Development Goals (SDGs).** Within the People or P pillar, the evaluation of human capital management in the company refers explicitly to SDGs 3, 4, 5, 8 and 10 on social issues such as health, lifelong learning, gender equality, full employment, decent work and reducing inequality. Within the Society & Suppliers or S pillar, the assessment of the societal contribution is based on the analysis of positive and negative contributions from business activities under 4 dimensions (access and inclusion, health and security, economic and human progress and employment) and refers explicitly to SDGs 1, 3, 5, 6, 7, 8, 9, 10, 11, 12, 16 and 17. Within the Environment or E pillar, the 5 issues covered (climate, biodiversity, water, waste/resources and air quality) are related to environmental SDGs 2, 6, 7, 9, 11, 12, 13, 14 and 15. The Sub Fund also undertakes to report annually on the portfolio companies' exposure to SDGs.

Governance is part of the SPICE analysis, including a dedicated governance section within the "I" section involving a significant focus on management structures, and governance items embedded into the other parts of the analysis framework, notably employee relations and remuneration of staff within the "P" section, and tax practices within the "S" section. Overall governance of issues associated with each type of stakeholder (Society, People, Investors, Clients and the Environment) is addressed in each according section.
Further requirements to exclude from the investable universe insufficient governance practices from the "G" section, associated with a minimum threshold, can be found in Sycomore AM's exclusion policy.

## e) Proportion of investments

Binding elements of the investment strategy, used to select the investments to attain the sustainable investment objective of this financial product, are required for any investment of the Sub-fund (excluding cash or derivatives held for liquidity purposes).




**#1 Sustainable** covers sustainable investments with environmental or social objectives.

**#2 Not sustainable** includes investments which do not qualify as sustainable investments.

It is worth noting that the percentages mentioned in the graph above are expressed in relation to the fund's net assets. When it comes to fund's investments in companies, the fund commits to only invest in companies qualifying for sustainable investments under the conditions set forth in this document, i.e., 100% of the invested companies qualify as sustainable investments (excluding cash or derivatives).

**The Sub-fund aims at making a minimum of 5% of investments into environmentally sustainable investments** falling under article 5 of the Taxonomy Regulation (2019/2088).
Contributing investments can address any or the six environmental objectives set out in article 9 of the Taxonomy Regulation: a) climate change mitigation, b) climate change adaptation, c) sustainable use and protection of water and marine resources, d) transition to a circular economy, e) pollution prevention and control, f) protection and restoration of biodiversity and ecosystems.

Nonetheless, the quantitative target set in this document, based on best available information to date from underlying companies, is mostly related to the climate change mitigation objective, through renewable energy production for example.
It will be completed going forward as Taxonomy Regulation delegated acts enter into force and that required information is made available by underlyings.

The Sub-fund will make a minimum of 80% of sustainable investments with an environmental objective.

Sustainable investments with an environmental objective that are not aligned with the EU Taxonomy will be the remaining portion of sustainable investments with an environmental objective (which will make a minimum 80% of net assets), after deduction of sustainable investments with an environmental objective aligned with the EU Taxonomy (which will make a minimum of 5% of net assets).

Two main reasons, inter alia, explain investments with an environmental objective not aligned with the EU Taxonomy:

- Sustainable investments on the one hand are taken as a whole for the purpose of complying with SFDR. Underlyings identified as sustainable investments, based on the criteria set forth in this document (NEC ⩾ 10%, DNSH, good governance), therefore contribute 100% of their portfolio weight to the aggregated sustainable investment total at portfolio level. Environmentally sustainable investments on the other hand, only contribute a certain percentage of their activity, the taxonomy-aligned one assessed based on a breakdown of their revenues, to the aggregated taxonomy-aligned investment total at portfolio level.
- The criterion selected to define positive environmental contribution for the purpose of complying with SFDR (NEC ⩾ 10%) can target any of the six environmental objectives, while the Taxonomy Regulation, to this date, only regulated the climate change mitigation and climate change adaptation objectives.

Investments included under "#2 Not sustainable" relate to derivatives used for hedging purpose, and to cash or cash equivalent (such as sovereign bonds) held as ancillary liquidity.
Bonds, other international debt securities and short-term negotiable securities from public issuers are selected through an in-house rating of the issuing State strictly above 2.5 on a scale of 5 (5 being the highest rate), the State being thus considered as sufficiently sustainable and inclusive.
Other cash and cash equivalent used as ancillary liquidity, and derivatives held for hedging purpose, are not subject to any minimum environmental or social safeguards.

The policy for using derivatives, whose underlying assets are subject to the SPICE analysis process, is compatible with the objectives of the Fund and consistent with its inclusion in a long-term perspective. It is not intended to significantly or permanently distort the ESG selection policy. The use of derivatives is limited to techniques allowing for efficient management of the portfolio of securities in which the Fund is invested. The Fund may not hold a short position in any asset selected as ESG, according to its own method of ESG asset selection.

## f) Monitoring of sustainable investment objective

Sycomore AM's investment managers are responsible for the monitoring of the sustainable investment objective of the funds, using all data and methodologies in use at Sycomore AM with the assistance of ESG research personnel and subject to first and second levels of controls to ensure a proper execution of the investment strategies in compliance with ESG constraints proper to each fund.

## g) Methodologies

The following binding criteria apply to the Sub-fund.

**At investment level**, the Sub-fund will make sustainable investments with an environmental objective based on the following set of selection and exclusion filters, applicable to all investments of the financial product:

- **A filter of selection**, to identify companies whose business models are positively contributing to the ecological transition according to the NEC and commonly qualified as green: within the environmental pilar of SPICE, the Net Environmental Contribution (NEC) score has to be equal or above 10%.
  - Among them, the Sub-fund commits to a minimum share of environmentally sustainable investments as per Taxonomy Regulation. Such investments shall comply with the requirements set out in the Taxonomy Regulation, cumulatively the technical screening criteria involving the substantial contribution to one environmental objective and the do no significant harm criteria, as well as minimum social safeguards.

- **A filter of exclusion**: any company which presents risks in terms of sustainable development. Identified risks include inadequate non-financial practices and performance likely to jeopardize the competitiveness of companies. A company is thus excluded if:
  - it is involved in activities identified in Sycomore AM SRI exclusion policy for their controversial social or environmental impacts, or
  - it obtained a SPICE rating below 3/5, or
  - it is affected by a severe controversy (rating 3/3 in Sycomore AM controversies rating tool), or
  - it is targeted by Sycomore AM's Principle Adverse Impact (PAI) policy.

**At product level**, while the Sub-fund doesn't refer to a Benchmark in its investment objectives, the Management Company aims at having a better result compared to the MSCI Daily Net TR Europe Index on the two following indicators:

- Net Environmental Contribution
- Greenfin green share

## h) Data sources and processing

Below is a summary of the various data sources and required processing for inputs supporting the environmental & social characteristics of the financial products, as well as the components underlying the definition of a "sustainable investment" as interpreted by the investment manager.

The four metrics underlying the positive contributions in the context of sustainable investments are associated with thresholds set out explicitly in the pre-contractual disclosures:

- NEC ⩾ +10%
- Societal Contribution ⩾ +30%
- The Good Jobs Rating ⩾ 55/100
- Happy@Work environment ⩾ 4.5/5

As further explained in the table below, it must also be clarified that the scope of analysis of each of the four metrics is the analysed company as a whole. More precisely:

- The NEC and the Societal Contribution are based on a breakdown of all the analysed company's revenues. Each share of the company's revenues is associated with an environmental contribution (as part of the NEC) or a societal contribution, which can be negative or positive. The analysed company's NEC or Societal Contribution is therefore a weighted-average output from all the company's revenues
- The Good Jobs Rating and the Happy@Work environment are based on all the analysed company's headcount. More precisely, the Good Jobs Rating uses as key input a breakdown of all the

company's headcount, including sector and location; while the Happy@Work analysis covers company practices, considering both positive and negative items, across the whole firm.

| Input | Data sources | Data processing | Data quality management | Use of estimates | Coverage * | More details can be found at: |
|---|---|---|---|---|---|---|
| Net environmental contribution | Company's reports | SAM analysis, especially conversion of revenue breakdowns into positive/negative contributions | Analysis updated at least every 2 years, allowing for gap analysis between former and updated values. | Mostly based on actuals. Some fine breakdowns require analyst estimates based on company's public disclosures | Required for positive contribution (sustainable investments) | https://nec-initiative.org/ |
| Societal Contribution | | | | | | https://en.sycomore-am.com/download/381500688 |
| The Good Jobs Rating | Company's reports | SAM analysis, especially conversion of headcount information (inc. sector, location, etc.) | | Based on (quantitative) actuals. | | https://en.sycomore-am.com/download/185432188 |
| Happy@Work environment | Company's reports and employees' interviews | SAM analysis, conversion of (mostly qualitative) assessments into a rating | | Based on (mostly qualitative) actuals. | | https://en.sycomore-am.com/download/381500688 |
| SPICE | Miscellaneous public sources | SAM analysis, conversion of (mix of qualitative and quantitative) assessments into a rating | | Based on (mix of qualitative and quantitative data) actuals. | Required for investment | https://en.sycomore-am.com/download/381500688 |
| Exclusion policy | Trucost, GCEL, GOGEL, MSCI | Data processing based on automated rules on a weekly basis. | Manual screenings, including transition matrices between former and updated exclusion lists, on an annual basis. | Sector data based on actual revenue breakdowns, acquired from third-party. | Required for investment | https://en.sycomore-am.com/download/569428451 |
| Controversy analysis | MSCI | Sufficiently severe controversies reported by third-party followed by SAM further analysis | Most severe controversies analysis associated with detailed management procedure | None | Required for investment | https://en.sycomore-am.com/download/381500688 |

| Input | Data sources | Data processing | Data quality management | Use of estimates | Coverage * | More details can be found at: |
|---|---|---|---|---|---|---|
| PAI policy | | | | | | https://en.sycomore-am.com/esg-research-material?category=policies |
| GHG emissions | SBTi, Iceberg Data Lab | Use of data collected from:<br>- SBTi<br>- Iceberg Data Lab (SB2A temperatures)<br><br>Qualitative proxy: SAM analysis. | SBTi recorded targets stored and updated on periodic basis, with gap analysis (former/updated)<br><br>SB2A computation by third-party associated with data quality management process.<br><br>Qualitative proxy: analysis updated at least every 2 years. | Use of actual SBTi target or alternatively SB2A temperature computed by third-party.<br><br>Alternative proxy based on qualitative alignment & trajectory analysis (no estimates) | Quantitative (SBTi/SB2A): c. 70%<br>Qualitative proxy: remaining c. 30% | See above under "PAI policy" |
| Fossil fuel sector | Trucost, GCEL, GOGEL | Part of exclusion policy, see above | Part of exclusion policy, see above | Part of exclusion policy, see above | Rules-based screening: 100% | See above under "PAI policy" |
| Water | Factset, MSCI | - Quantitative data used as minimum threshold for further analysis<br>- Qualitative analysis of relevant controversies (MSCI input + SAM analysis), complemented by SAM analysis on relevant matters | Qualitative proxy: analysis updated at least every 2 years. | Qualitative analysis by SAM (water pollution and hazardous waste management), no estimates | Controversy analysis: 100% | See above under "PAI policy" |
| Waste | Factset, MSCI | | | | Controversy analysis: 100% | See above under "PAI policy" |
| Biodiversity | Factset | - Qualitative data from third-party used as a signal for further analysis by SAM | Signals all further examined by SAM. | No estimates for this input | Data provider: c. 20%<br>Qualitative proxy: remaining 80% | See above under "PAI policy" |
| UNGC/OECD GME violations | MSCI + SAM analysis | Part of controversy analysis, see above | Part of controversy analysis, see above | Part of controversy analysis, see above | Controversy analysis: 100% | See above under "PAI policy" |

| Input | Data sources | Data processing | Data quality management | Use of estimates | Coverage * | More details can be found at: |
|---|---|---|---|---|---|---|
| UNGC/OECD GME monitoring | Factset + SAM analysis | - Qualitative data from third-party used as a signal for further analysis by SAM<br>- Further analysis drawing from SPICE analysis | Signals all further examined by SAM, as well as issuers not covered by third-party data.<br><br>SPICE content updated at least every 2 years. | No estimates for this input | Data provider: c. 97%<br>Additional SAM analysis: 100% | See above under "PAI policy" |
| Board gender diversity | Factset | Male/Female ratio associated with basic exclusionary thresholds | Uncertain figures verified on an ad hoc basis directly with the issuers by analysts | Based on reported actuals | Data provider: 99% | See above under "PAI policy" |
| Gender pay gap | Factset, company's reports | Gender pay gap associated with basic exclusionary thresholds | Uncertain figures verified on an ad hoc basis directly with the issuers by analysts | Based on reported actuals | Quantitative: c. 33%<br>Qualitative proxy: remaining c. 67% | See above under "PAI policy" |
| Controversial weapons | MSCI | Part of exclusion policy, see above | Part of exclusion policy, see above | Part of exclusion policy, see above | Rules-based screening: 100% | See above under "PAI policy" |

* Quantitative coverage estimates based on EuroStoxx as of 14/12/2022.

### i) Limitations to methodologies and data

Methodologies implemented by Sycomore AM are based on a qualitative and quantitative analysis of companies' ESG data. ESG data, whether sourced from external and/or internal sources is by nature subject to experience and skills of Sycomore AM's analysts. Despite robust methodological frameworks, a part of subjectivity and discretion remains in the interpretation and use of ESG data. However, ESG information from third parties' data may be incomplete, incorrect or unavailable. ESG data providers are private companies that provide ESG data for a variety of issuers. They may therefore change the valuation of issuers or instruments at their discretion. The ESG approach may evolve over time, due to the refinement of investment decision making processes to reflect ESG factors and risks, and/or due to legal and regulatory developments. Finally, the application of ESG criteria to the investment process may exclude securities from certain issuers for non-financial reasons and, as a result, may result in the loss of certain available market opportunities for funds that do not use ESG or sustainability criteria.

Most data are reported by companies and thus not estimated by a data provider or by Sycomore AM. However, specific limitations are associated with PAI data, which include:

- Completeness: coverage of dataset varies from 10% to 100% of the Eurostoxx. Indeed, some data are not always published by companies. The implementation of the Corporate Sustainability Reporting Directive in the coming years will be a key element to increase data availability. Engagement on disclosure is also an important focus for Sycomore AM to tackle this issue.

- Heterogeneous definition and methodology: all PAI indicators are not fully defined by the regulation. Consequently, discrepancies in the definition and methodology may occur from a company to another. A quality check on the dataset aims at identifying outlier values that may be checked or not considered if there is no possibility to correct the data.
- Accuracy: for some PAI indicators accurate dataset are still not available. Therefore, qualitative proxies, mainly based on our SPICE fundamental analysis model are used.

Limitations, however, do not prevent the financial product from attaining its sustainable investment objective, given the approach to data taken and explained under the previous sub-section "Data sources and processing", including in particular:

- Use of actuals to the extent possible (with associated use of estimates reduced to the extent possible), notably for positive contribution criteria and exclusion policy
- Data quality management processes
- Extended coverage (across all investments)

## j) Due diligence

100% of the funds' assets are assessed for ESG rating, excluding cash at sight and derivatives, through in-house ESG analysis and ESG scoring methodology "SPICE", mutual funds being subject to specific ESG due diligences. ESG analysis is conducted by the research personnel and subject to first and second levels of controls.

## k) Engagement policies

Sycomore AM operates voting and engagement policies that are about encouraging companies to improve their sustainability practices over the long term by suggesting areas for improvement as part of a constructive dialogue and long-term monitoring process. Shareholder engagement is a key feature of our role as responsible investors seeking to generate impacts, with a view to developing more sustainable business models able to meet today's societal and environmental challenges.