

## ESG and Sustainability policy

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### *Introduction*

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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 3<sup>rd</sup> 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*

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All Equity strategies and funds managed by Zadig are subject to an ESG integration process. The Sustainability analysis only fully applies to the European SRI strategy / Oyster Sustainable Europe fund but benefits other strategies too.

### *Principles*

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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 has started to integrate 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. Our Socially Responsible Investing process specific to European SRI strategy through the Oyster Sustainable Europe fund goes a step further and is detailed throughout this document.

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### *ESG Integration*

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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.

While governance metrics (Voting rights, board independence, % of women in management positions, etc.) can easily be compared across industries, it is not the case of environment and social metrics. Comparing an asset heavy and labour-intensive car maker to a software company on social or environment topics 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 2019<sup>1</sup>), 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

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<sup>1</sup> Berg, Florian, et al. "Aggregate Confusion: The Divergence of ESG Ratings." *SSRN Electronic Journal*, 2019, doi:10.2139/ssrn.3438533. Accessed 3 Mar. 2020.

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.

Weights	E	S	G	Controversies
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%

*Pillars weights by industries*

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

Name	Subsector	E Score (MSCI)	S Score (MSCI)	G Score (Zadig)	Controversy score (MSCI)	Zadig ESG Score
VALEO SA	Auto Components	7.70	4.00	6.5	4	5.9

<b>Environment</b>		2012	2013	2014	2015	2016	2017	2018	2019
Water Withdrawal	<i>in m3</i>	628	638	610	590	598	595	587	595
Water Withdrawal per 1m€ revenue	<i>Total water</i>	58.1	60.4	59.7	58.8	61.0	59.2	56.0	59.2
Water Recycling	<i>Percentage of water the company recycles, of the total</i>				96.1%	96.2%	95.8%	96.1%	96.0%
Energy Usage	<i>Total Energy</i>	58,156	52,338	56,364	78,458	80,661	80,416	81,151	78,400
Renewable Energy Use %	<i>Amount of</i>	n/a	17%	10%	8%	8%	8%	6%	n/a
Total Waste '000 tonnes		141.8	183.3	155.7	148.0	176.0	170.8	155.1	162.6
Total Waste Intensity		13.11	17.35	15.24	14.74	17.96	17.01	14.79	16.17
Waste Recycling Ratio	<i>Recycled %</i>	—	—	—	—	—	—	—	—
Hazardous Waste Intensity	<i>Tonnes of</i>	0.41	0.27	0.35	1.30	2.73	2.00	1.29	1.33
Total CO2 Equivalents Emissions	<i>Ratio of total</i>	0.43	0.45	0.45	0.41	0.35	0.37	0.36	0.34
Scope1 CO2 Equivalents Emissions	<i>Scope 1 gr</i>	0.250	0.263	0.274	0.235	0.244	0.232	0.237	0.237
VOC Emissions '000s tonnes	<i>Total amount of volatile organic compounds (VOCs) emitted by the company, in thousands of metric tons.</i>								
Total Sox Emissions	<i>Sulphur dioxide</i>	0.39	0.37	0.40	0.37	0.37	0.30	0.28	0.29
Total Nox Emissions	<i>Nitrogen oxides</i>	1.03	1.07	1.09	1.10	1.10	1.09	1.03	1.01

#### Additional questions

Does the company have clear targets for emissions, waste, water, recycling?	Yes p.9 of Sustainability report
Are they included in management incentives? If yes in what proportions and timeframe?	Up to 30% of short term incentives
Does the company have policies in place to control its supply chain and suppliers behaviour with respect to environmental issues?	Yes 96% of suppliers covered by their code of conduct
Are there any severe environmental controversies to report?	No

<b>Social</b>		2012	2013	2014	2015	2016	2017	2018	2019
Number of employees		28,203	27,985	26,543	25,011	24,723	24,960	25,880	24,390
Employee Turnover	<i>Number of</i>	12.8	12.8	22.0	17.4	22.8	15.0	15.0	15.0
Average Training Hours	<i>Hours the employee spends on training</i>	—	755,595	716,661	775,341	642,798	648,960	569,360	731,700
Average Employee Compensation	<i>Total labour expenses divided by # of employees</i>								
% Women in Workforce	<i>Percentage</i>	23.0	22.3	25.0	24.0	26.0	26.0	26.0	26.0
% Women in Management	<i>Percentage</i>	0.0	0.0	33.3	23.1	21.0	21.0	20.0	24.0
% Minorities in Workforce	<i>Percentage of Minority Employees</i>								
Lost Time Injury Rates	<i>Total numt</i>	1.5	1.2	1.0	0.9	0.9	1.1	0.9	1.1
Total Injury Rates	<i>Total numt</i>	3.3	2.8	2.5	2.2	2.3	1.5	1.2	1.4
Fatalities Rate	<i>Total numt</i>	n/a	0.07	0.00	n/a	n/a	0.04	0.00	0.04
Glassdoor note	<i>Employee score for the company and the CEO</i> 3.8 / 5. new CEO so 100% approval rate not relevant with 2 notes								

#### Additional questions

Is the company a UN Global Compact Signatory?	Yes
Has the company put in place clear policies for:	
Anti-bribery	Yes
Whistle blowing	Yes
Health and safety	Yes
Human rights	Yes
Child labor	Yes
Consumer data protection	Yes
Are there any severe social controversies to report?	4/10 on the Veracel situation in Brazil. Engaged and documented

<b>Governance</b>		2012	2013	2014	2015	2016	2017	2018	2019
Dual share classes with unequal rights: yes/no									
Chairman and CEO separation: yes/no	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Independent Chairman: yes/no	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Size of the board	8.0	10.0	9.0	8.0	8.0	9.0	9.0	9.0	9.0
# of independent directors	8.0	9.0	8.0	8.0	7.0	7.0	6.0	6.0	6.0
# of employee representative on the board	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
% of women on the board	12.5	30.0	33.3	25.0	25.0	33.3	33.3	22.2	22.2
% of international board members									
Board duration	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Number of board meetings	10.0	9.0	12.0	7.0	8.0	10.0	11.0	12.0	12.0
% attendance	100.0	96.5	97.3	98.2	96.7	97.7	100.0	100.0	100.0
Size of committees									
Audit	3.0	4.0	4.0	4.0	3.0	4.0	4.0	3.0	3.0
Compensation	3.0	3.0	3.0	4.0	3.0	3.0	3.0	3.0	3.0
Nomination	—	—	—	—	—	3.0	3.0	3.0	3.0
Independent Chair of committee: yes/no									
Audit	Yes	Yes	Yes	Yes	No	No	No	No	No
Compensation	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Nomination	n/a	n/a	n/a	n/a	n/a	Yes	Yes	Yes	Yes
CSR / Sustainability committee: yes/no	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

#### Additional questions

Is there a large/controlling shareholder?	Yes the Wallenberg family and the Finnish state with 27% of voting rights and 10% of capital
Is the state a shareholder in the company?	Yes
Is the company in a sensitive sector with State overview (media, defense, energy...)?	No
Are there poison pills or mechanisms preventing potential takeovers?	No
Is the management team a shareholder in the company?	Recently appointed CEO doesn't hold shares. CFO holds 32k shares
Zadig assessment of the:	
Remuneration policy	No FCF metric nor shareholder return. Could be improved
Management and board quality	Good
Quality of reporting and accounting	Good
Are there any severe controversies involving management, the board?	No

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.

Controversies are monitored by Zadig's risk committee using MSCI research and reported to investors on a quarterly basis. For any controversy score below 5/10, which are considered moderate to very

severe, we document our research and engagement with the company and make it available to investors. We take controversies very seriously and severe ones affecting companies in our portfolios, if no credible action plan is put in place by the company to solve the situation, might result in closing the position.

Flag	Score	Description
<b>R</b>	0	<b>RED:</b> Indicates that a company has been involved in one or more recent very severe controversies
<b>O</b>	1	<b>ORANGE:</b> Indicates that a company has been involved in one or more recent severe structural controversies that are ongoing
<b>Y</b>	2	<b>YELLOW:</b> Indicates that the company has been involved in recent moderate-to-severe level controversies
	3	
	4	
<b>G</b>	5	<b>GREEN:</b> Indicates that the company is not involved in major recent controversies
	7	
	8	
	10	

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 themes.

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*Sustainability analysis*

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Our approach is pragmatic, starting with the purpose of the company, using data to assess the exposure to sustainable goods and services (as % of sales or assets) today as well as in 5 years; we then follow up by investigating any sustainability claims that the company is making while always keeping an eye on controversies. In detail it consists of an exclusion policy and a sustainable goods and services analysis.

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*EXCLUSION POLICY*

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Zadig’s exclusion policy is based on Sectors exclusions and SDG/ESG exclusions:

**Sector exclusions**

### Zero Tolerance Issues

- Tobacco – exclusion of all companies deriving more than 5% or more revenue from the production, distribution, retail and supply of tobacco-related products.
- Weapons and armament – exclusion of companies that derive more than 5% of revenues from producing or selling products or services that form a significant part of weapons, weapon system or weapon platform.
- Genetically Modified Organisms – exclusion of companies deriving 5% or more revenue from activities like genetically modifying plants, such as seeds and crops, and other organisms intended for agricultural use or human consumption
- Adult entertainment – exclusion of all companies deriving 5% or more revenue from the production of adult entertainment materials and all companies deriving 15% or more aggregate revenue from the production, distribution and retail of adult entertainment materials
- Gambling – exclusion of companies deriving 5% or more revenue from ownership of operation of gambling-related business activities
- Alcohol - exclusion of companies that derive more than 5% of their revenues from the manufacture of alcoholic beverages and companies that derive more than 15% of revenues from the wholesale or retail distribution of alcoholic beverages.
- Thermal coal – exclusion of companies that derive more than 5% of revenues (either reported or estimated) from coal-based power generation and/or thermal coal extraction.

### Low Tolerance Issues

- Fossil fuels – Exclusion of all companies deriving 30% or more revenue (either reported or estimated) from the fossil fuels-based power generation, production and sale of oil and/or natural gas.

We believe a low tolerance policy is more appropriate when it comes to fossil fuels as 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 companies that are scaling down CO2 intensive power generation to invest in renewable energy. Orsted, EDP or Enel are good examples of companies that have gone or are now going through such transitions.

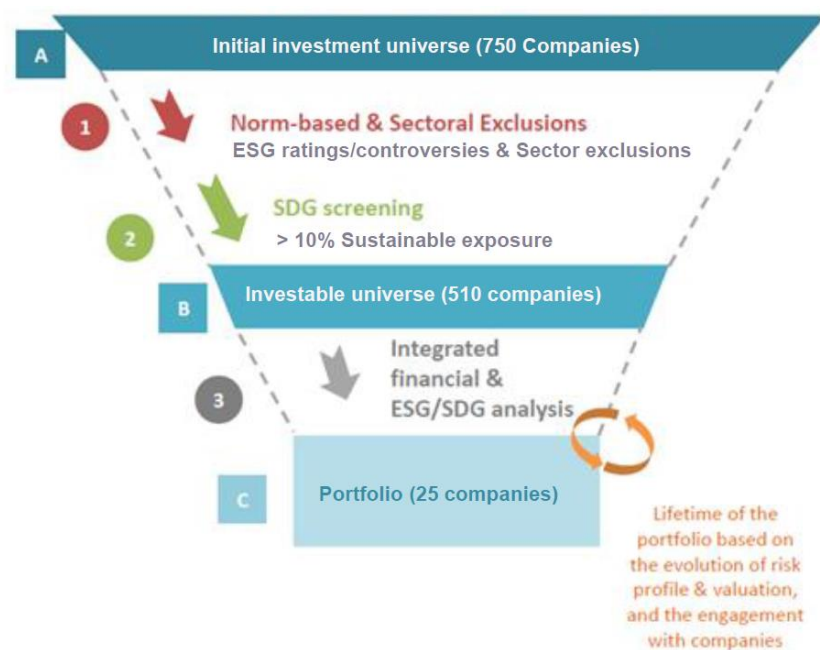
### UN SDG and ESG exclusions

- Human Rights – exclusion of companies that clearly infringe international agreements and which are complicit in human right abuses, either deliberately or through neglect and will not invest in companies that violate human rights of their employees, their suppliers or the local communities they operate in.
- UN SDG exposure – our objective is to invest only in companies that currently address at least one United Nations Sustainable Development Goals (SDG) with at least 10% of their revenues. We therefore also exclude from our investable universe companies that don't fit these criteria.
- ESG filter – exclusion of companies with very severe controversies and/or that are rated CCC or B by MSCI, representing on average the worst 20% of companies in an industry.

### Summary

	# of stocks	% of stocks excluded
Aerospace & defence	14	100%
Beverages	8	73%
Oil services	9	100%
Mining	21	100%
Oil & Gas	16	100%
Utilities	8	24%
Tobacco	3	100%
Controversies and ESG exclusion	22	3%
<b>Total ESG and Sector exclusion</b>	<b>101</b>	<b>13.5%</b>
Companies with no SDG exposure	139	18.5%
<b>Total companies excluded</b>	<b>240</b>	<b>32%</b>

In total our investable universe is reduced by around one third compared to Zadig’s initial universe and we end up with more than 500 investable companies, a pool large and diversified enough to build our concentrated portfolio. These numbers might evolve over time as we aim at reviewing our exclusion list quarterly.




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*SUSTAINABLE GOODS AND SERVICES TAXONOMY AND THE UN SDGS*

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The second pillar of our Sustainability analysis is also quantitative and consists in the assessment of a company’s exposure to Sustainable Development Goals. It is performed in two steps.

First we look at the present situation, i.e. what share of a company’s current revenues address sustainable themes, and rely on data provided by Vigeo Eiris (part of Moody’s Corporation) - a trusted 3<sup>rd</sup> party data provider that was chosen by the World Bank for its first UN SDG Bond in



2017. Vigeo Eiris’s methodology (included in the appendix) and data transparency won versus other providers tested (including Sustainalytics, Refinitiv, MSCI, Arabesque and RepRisk).

As illustrated by the examples below, data can be fully traced back to publicly available data issued by the company via annual and sustainability reports and does not rely on surveys or binary Y/N outcomes. Vigeo Eiris constantly engages with corporates to correct and enrich their data while allowing us to verify ourselves the credibility of the source. They are also taking part in the discussion shaping the future of the taxonomy at European level.

According to data from Vigeo Eiris the market capitalization weighted exposure to sustainable goods and services of MSCI Europe is around 24% today.

Sustainable goods and services and the UN SDGs



Each sustainable goods and services theme in Vigeo’s methodology translates into one of the 17 UN SDGs meaning that each of our investments addresses at least one SDG.



	Access to Information	Capacity Building	Energy & Climate Change	Food & Nutrition	Health	Infrastructure	Responsible Finance	Water & Sanitation	Protection of Ecosystems
1. No Poverty	X	X				X	X		
2. Zero Hunger				X					
3. Good Health & Well-being				X	X			X	
4. Quality Education		X							
5. Gender Equality	X	X							
6. Clean Water & Sanitation								X	
7. Affordable & Clean Energy			X			X			
8. Decent Work & Economic Growth		X				X	X		
9. Industry, Innovation, & Infrastructure		X	X			X			
10. Reduce Inequalities		X					X		
11. Sustainable Cities & Communities			X			X		X	X
12. Sustainable Consumption & Production			X					X	X
13. Climate Action			X						
14. Life Below Water								X	X
15. Life On Land				X					X
16. Peace, Justice, & Strong Institutions	X								
17. Partnerships for the Goals		X				X			

Not all SDGs can be credibly addressed by listed companies. We provide here a summary of our view on which SDGs are the most likely to be address by European listed companies:

SDG	Significant for companies?
1 No Poverty	No
2 Zero Hunger	Somewhat significant
3 Good Health and Well-being	Very significant
4 Quality education	Somewhat significant
5 Gender equality	Very significant
6 Clean water and sanitation	Very significant
7 Affordable and clean energy	Very significant
8 Decent work and economic growth	Very significant
9 Industry, innovation and infrastructure	Very significant
10 Reduced inequalities	No
11 Sustainable cities and communities	Somewhat significant
12 Responsible consumption and production	Very significant
13 Climate action	Somewhat significant
14 Life below water	No
15 Life on land	No
16 Peace and justice strong institutions	No
17 Partnerships for the goals	No

The external data is integrated into Zadig's proprietary data tools to give us quick snapshots of companies' exposure as well as the ability to do screenings, look at exposure by sector, market cap, country, etc. as per examples below:

Search box allows quick snapshot of any company in Europe

## Bouygues

Capital Goods | Market Cap 14 693 mEUR

### Sustainable Exposure

20% of Net sales

#### Source

- Bouygues website - accessed in August 2018 - [www.bouygues.com/en/](http://www.bouygues.com/en/)  
 - 2017 Registration Document - p 14, 24, 25, 26, 44, 46, 67, 95, 108, 110

Major themes addressed

### Sustainable Products and Services

Data service provider; Support services for SMEs; Green buildings; Renewable energy technology; Smart grid technology; Sustainable transportation; Recycling services

#### Summary

Source of the publicly available data so that we can assess credibility

Bouygues has a minor involvement in goods and services contributing to sustainable development, addressing the themes Access to information, Capacity building, Energy & climate change, Infrastructure, Protection of ecosystems.

On 23 January 2017, Bouygues Telecom launches the 4G box for households located in France's less densely populated areas so that they can benefit from very-high-speed internet in the home. The share derived from this activity is unclear.

Through the Bouygues Telecom business segment, the Company offers assistance and services to French SMEs wishing to set up or develop further in Asia. The share derived from this activity appears to be minor.

Through the Bouygues Construction and the Bouygues Immobilier business segments, the Company is engaged in the construction and the rehabilitation of houses, hotels and other types of building facilities that comply with green building certifications, including HQE, BREEAM, LEED. In addition, Schneider Electric chose Bouygues Immobilier to develop its new corporate campus in Grenoble. This 26,750 m<sup>2</sup> building is aiming for certification against the LEED(R) Platinum standard. The share derived from this activity is unclear.

Bouygues Construction completed a 14-MW solar farm in Noheji, Japan. The Group's first energy infrastructure project in Japan, in operation since November 2017, will produce the equivalent of the energy consumption of more than 3,000 households. In addition, the Company inaugurated the "Wattway" solar road, which is based on a photovoltaic solar surface. The share derived from these activities appears to be minor.

Through the Bouygues Immobilier business segment, the Company built IssyGrid, which was the first district smart grid to be created in 2012, and which became operational since 2016 and with data available in real time. IssyGrid supervises the energy consumption and production of some 2,000 residents and 5,000 employees in a 100,000 m<sup>2</sup> perimeter. It does this by providing real-time information at the neighbourhood level so that people can optimise their consumption of renewable power generation and battery-stored energy. In 2017, IssyGrid was awarded the top prize in the Green Solutions Awards, in the sustainable infrastructure category. The share derived from this activity is unclear.

The Railways activity (Colas Rail) comprises the design and engineering of complex, large-scale projects and the construction, renewal and maintenance of rail networks (conventional and high-speed lines, trams and metro systems). The railways activity represents 8% of the Company's net sales in 2017.

Through the Colas business segment, the Company produces and recycles construction materials (aggregates, emulsions, ready-mix concrete, bitumen) through a network of 741 quarries, 125 emulsion plants, 568 asphalt plants, 168 ready-mix concrete plants and one bitumen production plant. The share derived from this activity is unclear.

Detailed explanation of how the sustainable exposure was constructed

## Demant

Health Care Equipment & Service | Market Cap 7 569 mEUR

### Sustainable Exposure

96% of Revenue

#### Source

- William Demant Group website - accessed June 2018 - [www.demant.com](http://www.demant.com)  
 - Annual report 2017 - p 10

### Sustainable Products and Services

Medical equipment; Medical technology

#### Summary

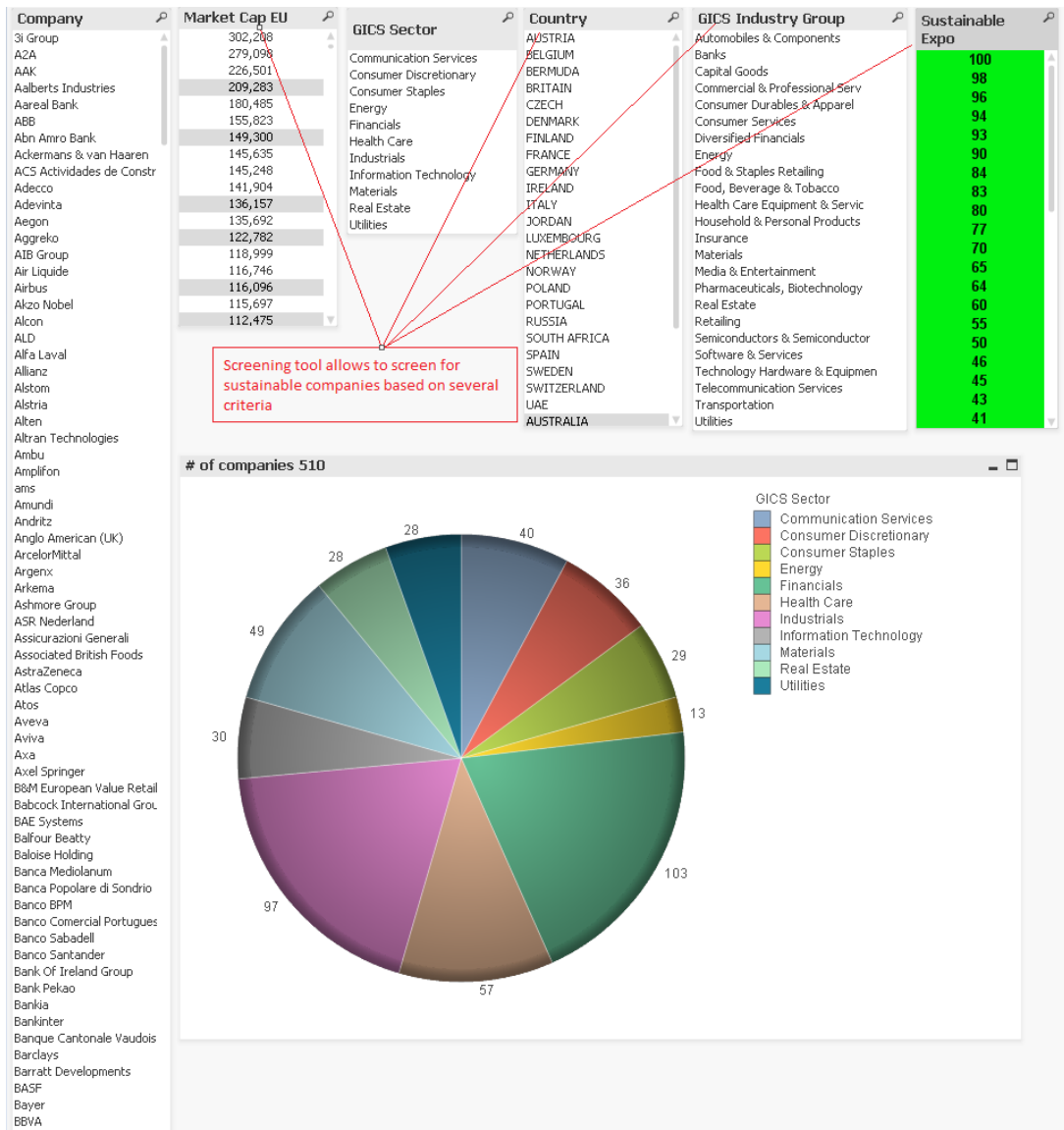
William Demant Holdings has a major involvement in goods and services contributing to sustainable development, addressing the theme Health.

William Demant Holdings develops, manufactures and sells products and equipments that help people with hearing loss connect and communicate such as hearing devices and hearing implants.

This segment represents a share of 87% of the Company's total revenue in FY 2017.

William Demant Holdings provides diagnostic instruments to measure patients hearing loss such as tympanometers, balance systems, otoacoustic emission instruments and audiometers.

This segment represents a share of 9% of the Company's total revenue in FY 2017.



Second, we use our proprietary research to compute an estimate of 5 year forward SDG exposure. How a company is evolving is as important as the starting point and we are convinced the best investment opportunities will come from companies that will manage to successfully adapt and evolve towards more sustainable businesses.

Name	Subsector	Vigeo % Sustainable	Zadig % Sustainable 5y Fwd
ORPEA	Health Care Providers & Ser	100%	100%
SUEZ	Multi-Utilities	100%	100%
BILLERUDKORSNAS	Containers & Packaging	75%	80%
SIGNIFY NV	Electrical Equipment	30%	70%
STORA ENSO OYJ-I	Paper & Forest Products	20%	60%
AIR LIQUIDE SA	Chemicals	30%	50%
SPIE SA	Commercial Services & Supl	10%	50%
VALEO SA	Auto Components	10%	30%

Zadig's 5 year forward SDG exposure estimate is based on our own, bottom up, financial forecasts for the different business lines of each company and might evolve over time if actual developments defer from our assumptions.

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.

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*COMPANIES MEETINGS AND ENGAGEMENT WITH MANAGEMENT*

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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 to arrive at our proprietary 5y forward sustainability exposure estimate.

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*VALUATION AND PORTFOLIO CONSTRUCTION*

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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.

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## Data suppliers

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- Vigeo Eiris - Their Sustainable Goods & Services (SGS) research assesses the extent of corporate involvement in products and services that contribute to the achievement of the Sustainable Development Goals (SDGs). It addresses the lack of data on SDG performance and makes it easy for investors to understand.

### Our approach

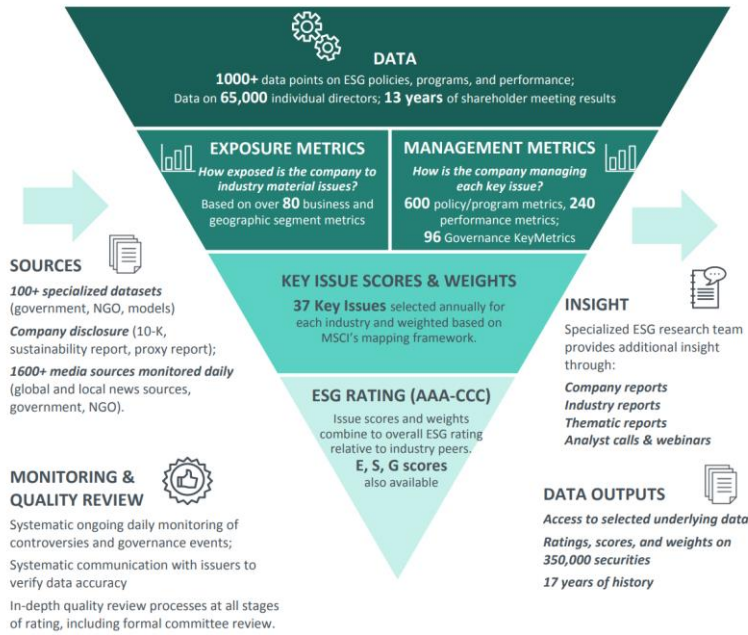


How do we assess corporate involvement in sustainable products?

1. Identification	Identification of sustainable products/services in a company's activities, according to the product inventory
2. Quantification	Quantification of the level of involvement for each product/service
3. Summary	Summary of a company's total involvement in sustainable products/services
4. Categorisation	Categorisation of impact according to 9 themes: Access to Information, Capacity Building, Energy & Climate Change, Food & Nutrition, Health, Infrastructure, Responsible Finance, Water & Sanitation, Protection of Ecosystems
5. Classification	Classification of involvement into four scales: None, Minor (1-19%), Significant (20-49%), Major (50% +)

- 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. 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 <b>I</b>	M	54	4		Yes	Yes		
Lynton, Michael <b>COB</b>	M	55	3		Yes	Yes		
Meresman, Stanley <b>S</b>	M	69	1	1	Yes	Yes		
Miller, Scott <b>S</b>	M	64	< 1	1	Yes	Yes		
Murphy, Robert <b>I</b>	M	28	4		No	Yes	Executive	
Spiegel, Evan <b>CEO I</b>	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.

Team

We believe that E, S and G issues are at the core of how a business is run and there's no one better to assess those credentials other than our own existing investment research team. Hence, there is no dedicated ESG team at Zadig but all analysts are integrating the ESG factors into their analysis. Adrian Vlad and Louis Larere are the two SRI specialists and the architects of the current SRI investment strategy and process.

#### **Louis Larere**

- Bocconi University in Milan and ESCP business school in Paris
- European Equity analyst since 2014
- Joined Zadig in March 2019 as senior analyst
- In charge of Telecoms, Materials, Automotive sectors

#### **Adrian Vlad**

- Tiffin University BBA, (OH, United States) and ESSEC Business School MBA (Paris, France)
- Joined Zadig in 2012 as senior analyst
- In charge of Consumer, Media, Technology sectors

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### *Vision of the future*

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It is our belief that sustainability can be quantified consistently across sectors and geographies. The impact a company has on its clients, employees, suppliers and the environment is measurable especially in today's data driven society. While the corporates are not there yet in terms disclosure and capabilities, we have started collecting data when available in order to build a more robust picture of our investment universe. We also aim to actively engage with the companies we meet to push for more disclosure.

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### *Risks*

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We reckon the main risk associated with our strategy comes from the relatively low transparency of some companies on sustainability topics and widely spread greenwashing communication strategies, which could make our due diligence more difficult.

As we have done at Zadig for the past 15 years, we will keep on improving our process. Looking for new sources of data, meeting with industry participants and trying out new third party providers will help us avoid the green traps. Regularly checking controversies on the companies, we are invested in also helps us mitigate risks as we are usually able to engage rapidly with IR teams to understand the situation and act on it.



