

# Securities De Munter

**ESG POLICY** —→



Why we adopt

# ESG metrics

We see the population becoming more focused on the long-term social and environmental impact of their actions. We also see regulations evolving to encourage the asset management industry to innovate and work with clients to address both financial and positive impact objectives.

In this respect, it is becoming increasingly important to take environmental, social and governance (“ESG”) risks and opportunities into consideration in the investment process, as these may impact financial performance in the short-, mid- and long-term.

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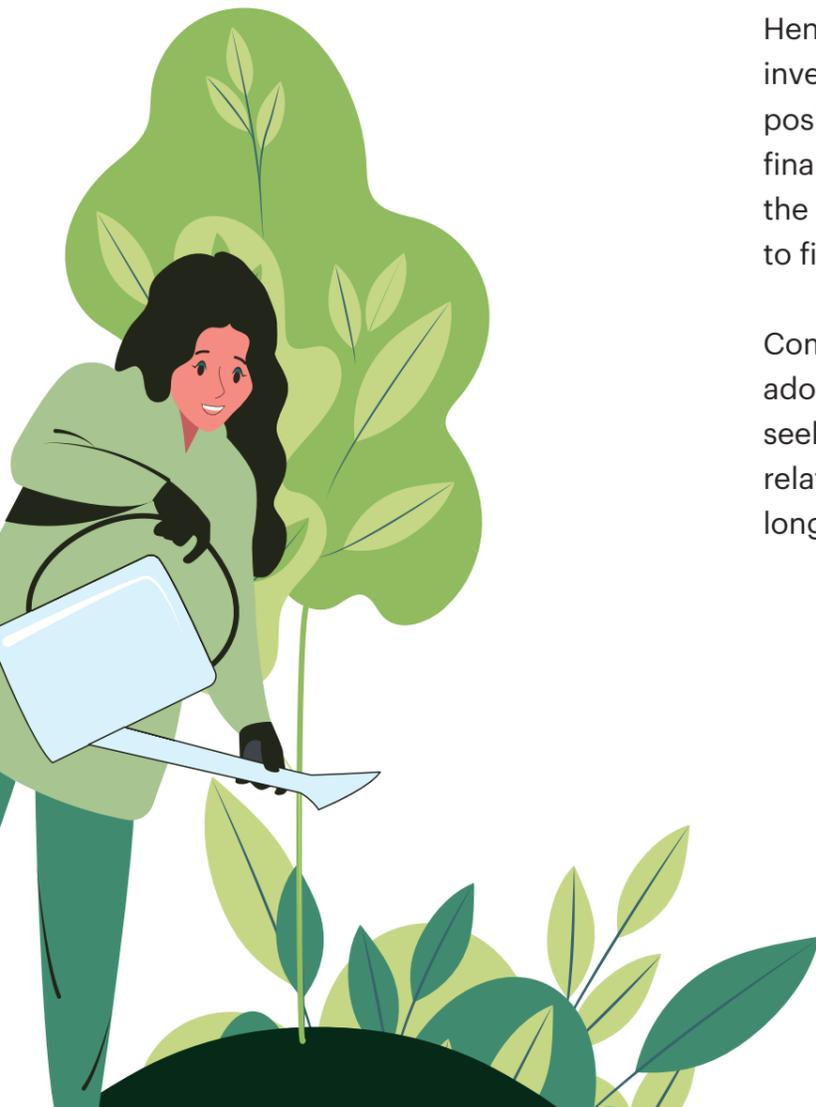


## Why we adopt ESG Metrics

- Environmental issues relate to the quality and functioning of the natural environment and natural systems such as carbon emissions, environmental regulations, water stress and waste.
- Social issues relate to the rights, wellbeing and interests of people and communities such as labour management and health and safety.
- Governance issues relate to the management and oversight of companies and other investee entities such as board, ownership and pay.

Hence, we seek the most attractive investment opportunities which have positive ESG effects that do not require a financial trade-off. ESG issues can erode the value of assets and limit access to financing.

Companies that address these issues by adopting sustainable business practices seek to manage the risks and to find related opportunities to create long-term value.



## How we adopt

# ESG metrics

SDM's ESG investment approach is founded on three key pillars: ESG risk rating, exclusion policies and engagement policy. On a periodic basis, the SDM Investment Committee meets to review the investments according to their ESG credentials.

At SDM, we apply this ESG policy to the SFDR Article 8 funds and to client portfolios, where an ESG-oriented investment approach has been specifically requested.



# 1 Exclusion Policies

The Fund's exclusion policy is aligned with the Norwegian Government Pension Fund and excludes direct investments in companies listed on either their exclusion or observation list of the Council of Ethics.

<https://www.nbim.no/en/the-fund/responsible-investment/exclusion-of-companies/>

This sovereign wealth fund, with over 1 trillion USD in assets under management, is a leader in their implementation of ethical and responsible investing. They use two segments of criteria, first one is product-related (e.g. weapons, tobacco cultivation, fossil fuels) and the second one relates to company policies (e.g. corruption, environmental damage, human rights violations).

In addition to adhering to the Norwegian Government Pension Fund exclusion and observation list, no direct investments will be made in:

- a. *Companies whose main revenue is derived from producing weapons that violate fundamental humanitarian principles through their normal use, or*
- b. *Companies whose main revenue is derived from producing tobacco, or*
- c. *Companies whose main revenue is derived from the gambling industry, or*
- d. *Mining companies and power producers which themselves or through entities they control: derive 30 per cent or more of their income from thermal coal, base 30 per cent or more of their operations on thermal coal, extract more than 20 million tonnes of thermal coal per year, or have a coal power capacity of more than 10,000 MW from thermal coal.*

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- *Base 30 per cent or more of their operations on thermal coal;*
- *Extract more than 20 million tonnes of thermal coal per year, or;*
- *Have a coal power capacity of more than 10,000MW from thermal coal.*

# 2 ESG Risk Rating

Existing direct corporate investments are monitored across the ESG spectrum on a quarterly basis and ranked according to SDM's proprietary ESG Scoring model. New securities are screened on their ESG credentials prior to investing. Companies with a higher ESG risk profile may be linked to higher environmental and reputational risks. Therefore, SDM aims to avoid companies that have above average ESG risk ratings whilst favouring investments with a best-in-class ESG policy. A range of information sources are used to obtain SDM's ESG rating:



**MSCI ESG Ratings** which rates companies from AAA to CCC depending on the relative ESG risk rating within its industry. To arrive at a final letter rating, the weighted average of the key issue scores are aggregated and companies are ranked from best (AAA) to worst (CCC).

#### MSCI ESG RATINGS

|         |   |         |     |   |        |     |
|---------|---|---------|-----|---|--------|-----|
| CCC     | B | BB      | BBB | A | AA     | AAA |
| LAGGARD |   | AVERAGE |     |   | LEADER |     |

**S&P Global ESG Scores** are based on the assessment of corporate sustainability performance in the SP Global Corporate Sustainability Assessment (CSA). Scores are from 0 – 100 (best). As the CSA applies 61 industry-specific questionnaires, the scores should not be used to rank companies across industries and should be reviewed within the context of each CSA industry.

**Sustainalytics ESG Risk Ratings** measure a company's exposure to industry-specific material ESG risks and how well a company is managing those risks. This multi-dimensional way of measuring ESG risk combines the concepts of management and exposure to arrive at an absolute assessment of ESG risk. Sustainalytics identifies five categories of ESG risk severity that could impact a company's enterprise value

#### ESG RISK SEVERITY

|            |       |        |       |        |
|------------|-------|--------|-------|--------|
| 0-10       | 10-20 | 20-30  | 30-40 | 40+    |
| NEGLIGIBLE | LOW   | MEDIUM | HIGH  | SEVERE |

In addition to the three sources mentioned above, SDM corrects for the E-score of the sector. The combination of all the different factors determines the final SDM ESG score. For the SDM Article 8 Funds, direct corporate investments with an SDM ESG rating above 4 will be avoided.

#### SDM ESG RATING

|      |   |   |       |   |
|------|---|---|-------|---|
| BEST |   |   | WORST |   |
| 1    | 2 | 3 | 4     | 5 |

# 3 Engagement Policy

Governance is a window into or proxy for management and board quality.  
Our SDM Funds aim to engage with companies where:

- *We have significant positions;*
- *Voting issues are material; or*
- *Where we believe we can make a positive impact on the governance structure.*

# 4 Compliant with Paragraph 8 of the SFDR Directive of February 4, 2021

As a result, SDM's ESG Policy is compliant with Article 8 of the SFDR guideline of the European Supervisory Authorities of February 4, 2021.

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