Responsible Investment

at Kairos

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KAIROS Partners SGR
a Julius Baer Group company

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1. INTRODUCTION

1.1 Business Strategy

The themes of ESG (Environment, Social and Governance) are of growing importance in today's world and constitute both a threat and an opportunity for the global economy. The effort to reduce the risks associated with these factors has been stimulating the search for innovative solutions across every field over the last few years and is expected to bring substantial economic growth in the medium to long term.

As an asset manager, Kairos analyses, on behalf of its clients, the trends that underpin economies and financial markets and the resulting transformation and long-term impact on the companies it invests in. The same analysis is part of the process of selecting financial instruments "recommendable" to clients as part of the investment advisory service.

The SGR also believes that managing sustainability risk[1] will make it possible to enhance the valuations of those issuers less subject to events that could significantly reduce the financial value of the investment in the future; therefore, it expects that the assessment and monitoring of the same risks will have a positive impact on the returns of financial instruments in the long term. This document contains the guidelines generally adopted by the SGR in the management of its products.

1.2 The Evolution of the EU Regulatory Framework and the Objectives of the SGR

The growing attention to issues related to sustainability and finance has generated a process to strengthen the European regulatory framework on sustainability with the aim of achieving long-term sustainable development. The first stages of this path are represented by the United Nations 2030 Agenda focused on 17 goals for sustainable development and the Treaty of Paris signed by 195 countries on climate change. Subsequently, in May 2018, the European Commission published a package of legislative proposals aimed at promoting "sustainable finance" in line with the objectives set out in its "Action Plan" of March 2018.

In this context, on 27 November 2019 the European Parliament and the Commission published the EU Regulation 2019/2088, also known as Sustainable Finance Disclosure Regulation ("SFDR") relating to the information on sustainability in the financial services sector, subsequently integrated by Regulation (EU) 2020/852 (so-called "EU Taxonomy"), which introduces a taxonomy mechanism to establish the degree of eco-sustainability of investments, in order to counteract any greenwashing or window dressing phenomena by intermediaries. This regulatory evolution represents an important step towards the implementation of the ambitious objectives of the Paris Agreement and the Commission's Action Plan for the financing of sustainable growth. Since then, further regulations have entered into force to provide technical support and guidance to the implementation of the SFDR principles.

In particular, the SFDR aims to strengthen information transparency towards investors, establishing information duties for asset management companies as well as constraints for the assessment and management of sustainability risks.
As part of the definition and application of the legislative changes referred to above, the objective of the SGR is to play an active and positive role in the context of sustainable development. To this end, through this policy, the SGR intends to:

[1] A sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment, as specified in sectoral legislation, in particular in Directives 2009/65/EC, 2009/138/EC, 2011/61/EU, 2013/36/EU, 2014/65/EU, (EU) 2016/97, (EU) 2016/2341, or delegated acts and regulatory technical standards adopted pursuant to them.>> as per recital 14 Regulation EU 2088/2019.

- adapt to the principles and guidelines developed at national and international level to encourage the integration of sustainability criteria in their decision-making and investment processes;
- correctly assess and monitor sustainability risks in order to have a positive impact over time both on the performance of its products and on society as a whole;
- actively dialogue with all stakeholders by disseminating their own strategic approach to sustainability by encouraging good governance practices and proper management of environmental and social risks;
- guarantee greater transparency regarding sustainability issues towards investors.

1.3 What is ESG?

Managing sustainability risks requires that sustainability factors are taken into account when making investment decisions. Such investment factors are usually summarized in the acronym ESG, i.e. Environmental, Social and Governance.

Examples of environmental factors are: climate change, water waste, pollution, deforestation and use of soil.

Social factors generally refer to: human rights, working conditions, child labour and employee relations.

Finally, the reference to governance includes, amongst others, tax strategies, board diversity, bribery and corruption and executive pay.

1.4 ESG Integration

The SFDR introduces the distinction between financial products and services with different levels of sustainability ambition namely:

a. financial products or services managing the sustainability risk, but that do not integrate sustainability factors (art.6 as of SFDR);
b. financial products or services that, in addition to managing the sustainability risk, promote environmental and/or social characteristics, provided that the investees follow good governance practices; these may partially invest in sustainable investments[2] (art. 8 SFDR); and
c. financial products or services that, in addition to managing the sustainability risk, have a sustainable investment objective (art. 9 SFDR).

In the following paragraphs, products and services falling under letters b. and c. are referred to as ESG products/services or, as the case may be, ESG Funds.

[2] According to SFDR, Sustainable investment means "an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance".

2. IDENTIFYING THE INVESTMENT UNIVERSE

The following paragraphs describe the criteria and methodologies adopted in order to select the investment universe taking into account ESG factors.

Some products and services can adopt a stricter approach to the identification of the investment universe described hereby and add further limitations based on the environmental and/or social characteristics promoted and/or the sustainable investment objective of the product/service, as further described in the relevant offering documentation.

Where the information provided by ESG data providers[3] does not take account of recent developments or appears incomplete, the investment team supported by the Analysts & ESG team, having due consideration of the information publicly available, may provide relevant documentation and request a waiver to the Investment Committee.

2.1 Exclusion Criteria

Investment in certain companies is excluded based on the following criteria:

a) Norm-based screening;
b) Controversy levels;
c) Risk rating;
d) Ethical exclusions.

2.1.1 Norm-based screening

Norm-based screening applies to all Kairos products and services and takes into account the following:

- with regard to prohibited war material, exclusion lists are based on:
  - the Italian Law n.220, 2021 and the Law Decree n.73, 2022;
  - issuers domiciled in countries that do not comply with the Oslo Convention on Cluster Munitions (2008) and with the Ottawa Treaty on Anti-Personnel Mines (1999),
  - Julius Baer group policies.

  Such prohibition is also extended to any type of financial instrument issued by the issuers identified based on the above.

- predatory lending;
- the respect the principles of the United Nations Global Compact (UNGC);
- companies domiciled or listed in countries comprised in the following lists as well as securities issued by governments or governmental agencies in those countries:
  - FATF black list available at https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/call-for-action-february-2020.html;
  - FATF grey list available at https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-february-2020.html;

[3] As at the date of this policy, the data provider used by Kairos is Sustainalytics.

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- EU High risk third countries available at https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-supervision-and-risk-management/anti-money-laundering-and-counter-terrorist-financing/eu-policy-high-risk-third-countries_en are also excluded;
- Countries under financial embargo available at http://www.dt.mef.gov.it/it/attivita_istituzionali/prevenzione_reati_finanziari/embarghi_finanziari/.

2.1.2 Controversies & Risk Rating Criteria

In addition to the above, the following criteria contribute to assess the sustainability risk of all Kairos' products and services based on the data available through the data provider adopted by Kairos from time to time:

- exclusion of companies having a severe controversy level[4];
- a maximum average ESG risk rating of the portfolio of 30 for issuers of equity and corporate bonds[5];
- exclusion of issuers domiciled or listed in countries with a severe risk rating, as well as securities issued by governments or governmental agencies in those countries[6].

2.1.3 Ethical Exclusions

In addition to the above criteria, Kairos' has decided to exclude from the investment universe of its products and services companies directly engaged in and/or generating significant revenues from certain industry sectors.

In particular, issuers involved with Controversial Weapons, including nuclear weapons where they are domiciled in countries not adhering to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), are excluded for all products and services.

In addition, the following sectors are excluded from the investment universe of ESG Funds:

- Tobacco producers;
- Thermal Coal, with 25% revenue threshold from thermal coal mining and exploration and electricity generation;
- Small arms, with a 10% revenue threshold.

2.2 Inclusion Criteria

The list of companies taken into consideration for the purpose of the investment by ESG Funds will be those that have better integrated ESG factors, consequently presenting lower risks with respect to these factors.

[4] The controversy level identifies companies involved in incidents that may negatively impact stakeholders, the environment or the company's operations. The controversies are assessed by the ESG data provider on a scale from 0 to 5; a controversy level of 5 is considered SEVERE.
[5] ESG risk rating are assessed by the data provider on a scale from 0 to 100; a risk rating higher than 30 is considered HIGH.
[6] The country risk rating combines an assessment of the government's current stock of capital, including natural resources, production, human resources and institutional capital with an assessment of a specific country's ability to manage it in a sustainable manner. The Country Risk rating is assessed by the provider on a scale from 0 to 100; a risk rating higher than 40 is considered SEVERE.

The inclusion of the environmental and/or social characteristics is performed by means of an internal model based on the sectorial materiality matrix in order to complement, where this is deemed appropriate, the analysis of the data provider.

By way of example, the following parameters are considered:

Environmental section:

- emission reduction target trajectory;
- biodiversity policy;
- water intensity;
- identification of products, activities and services that have significant impacts on the environment;
- compliance with environmental regulation.

Social factors:

- diversity programmes;
- human capital development;
- employee turnover rate;
- bribery and corruption policy.

Governance section:

- the quality and integrity of directors and managers;
- the structure of the board of directors;
- shareholders’ rights;
- employee relations;
- directors and managers’ remuneration;
- financial statements, the administrative control and tax compliance.

Good governance practices are the basis for E/S integration into ESG products and services.

2.2.1 Responsible investment in corporate financial instruments

The responsible investment in corporate financial instruments, by way of example however not limited to equity, corporate bond, derivatives on single names, is performed by applying the above exclusion and inclusion criteria.

Green, Social, Sustainability Bonds

With regard to green, social and sustainability bond, the responsible investment is performed by applying the same criteria, however the focus of the analysis is shifted on the project financed or refinanced. Those instruments are considered sustainable investments as defined in the SFDR.

The bond portion of Kairos’ ESG products may be invested in three types of bonds even where the bond issuers do not meet the criteria defined above except for good governance practices:

- green bonds;
- social bonds;
- sustainability bonds.

In the absence of formally recognized criteria, Kairos generally refers to the definitions of such instruments provided by the International Capital Market Association (ICMA) and published on its website https://www.icmagroup.org/green-social-and-sustainability-bonds. A brief description is provided below.

Green Bonds

Green Bonds are any type of bond instrument whose proceeds are exclusively invested to finance or re-finance, in full or in part, new and/or existing green projects and that, in any case, are aligned with the four fundamental components of the Green Bond Principles (GBP).
The Green Bond Principles are non-binding procedural guidelines with the aim to ensure transparency and disclosure of information, as well as to promote integrity in the growth of the Green Bond market, by defining and specifying the appropriate approach to issue a Green Bond. The GBP are intended for broad use in the market: they provide issuers with guidance on the key components to issue a Green Bond; they assist investors by promoting and allowing access to the information needed to assess the positive impact of their investment in Green Bonds; and they help investors by guiding the market towards disclosing information required to facilitate transactions.

The GBP recommend that issuers follow a transparent procedure and disclosure, which investors, banks, underwriters and financial advisors use to understand the features of any one Green Bond.

The GBP emphasise the required transparency, accuracy and integrity of the information that will be communicated and reported by the issuers to the stakeholders.
The GBP have four fundamental components:
- use of proceeds;
- project evaluation and selection process;
- management of proceeds;
- reporting activity.

Social Bonds

Social Bond means any type of bond instrument whose proceeds are exclusively invested to finance or re-finance, in full or in part, new and/or existing social projects and that, in any case, are aligned with the four fundamental components of the Social Bond Principles (SBP).

The Social Bond Principles are non-binding procedural guidelines with the aim of ensuring transparency and disclosure of information, as well as to promote integrity in the growth of the Social Bond market, by defining and specifying the appropriate approach to issue a Social Bond. SBPs are intended for broad use in the market: they provide issuers with information on the key components to issue Social Bonds; they assist investors by promoting and allowing access to the information needed to assess the positive impact of their investments in Social Bonds; and they help investors by guiding the market towards disclosing information required to facilitate transactions.

SBP recommend that issuers follow a transparent procedure and disclosure, which investors, banks, underwriters, financial advisors use to understand the features of any one Social Bond.

The SBP emphasize the required transparency, accuracy and integrity of the information that will be communicated and reported by the issuers to the stakeholders.

The SBP have four fundamental components:
- use of proceeds;
- project evaluation and selection process;
- management of proceeds;

- reporting activity.

Sustainability Bonds

Sustainability Bond means any fixed-income bond instrument whose proceeds are used exclusively to finance or re-finance a combination of eligible Green and Social Projects. They comply with the four core components that characterize both GBP and SBPs.

Green, Sustainability and Social Bond selection process
The process for the inclusion of Green, Sustainability and Social Bonds in the potential investment universe is different for new issues (primary market) or existing issues (secondary market).

With regard to the bonds placed on the primary market:
- they are automatically included in the eligible universe if they meet the inclusion criteria outlined above;
- if the issuer is not rated by Sustainalytics, the fund management team, having obtained the necessary information from the leaders of the placement syndicate, verifies its compliance with the principles outlined above and, more generally, with this policy.

As concerns the issues on the secondary market, identified through the classification provided by Bloomberg, these are:
- automatically included in the investment universe if they meet the inclusion criteria outlined above;
- if the issuer is not rated by Sustainalytics, the fund management team analyses the offering documents of the bond, verifies its compliance with the principles outlined above and, in general, with the objectives of this policy.

It is the portfolio manager's responsibility to check ex-ante the compliance of the financial instruments with the aforementioned characteristics and to document the analysis carried out.

2.2.2 Responsible investment in ETP

With regard to all Exchange Traded Products (by way of example, but not limited to ETC, ETF on Real Estate and Global and Sector Index ETF) the fund shall invest in the ESG version of the ETP, where available. If such version integrating ESG factors is not available, the investment team may proceed to invest in the available ETP and will have to monitor the creation and availability of the ESG version on the market. When such event occurs, the investment team will switch the position to the one integrating the ESG factors.

2.2.3 Responsible investment in Private Equity, Private Debt and Venture Capital assets

With regard to the private equity asset and venture capital in particular, the SGR integrates the Environmental, Social and Governance (ESG) criteria across all the stages of the investment process. The responsibility for integrating ESG aspects into the investment process is assigned to the Venture Capital Investment Team, supported by ESG expert third-party consultants. The main ESG activities carried out for Venture Capital funds are summarized below:

Pre-investment:
The investment team applies the exclusion and inclusion criteria to each potential investment. An ESG questionnaire is addressed to the target company, aiming at identifying any material ESG issues.

Acquisition:
Where material ESG issues have been identified in the pre-investment phase, these will be addressed in the investment documentation. In addition, when acting as *lead investor* (i.e., when acting as the only investor in the

round or when investing the largest stake in the round), specific commitments towards ESG objectives will be outlined in the investment documentation.

Ownership:
The investment team will collect and periodically monitor the key ESG data, including the KPIs related to the environmental and social characteristics promoted by the fund; where a material ESG issue is detected following the acquisition, the investment team will manage the event and will provide support at improving the ESG performance through the joint definition, implementation and monitoring of a specific action plan.

Exit:
The exit report will include ESG information.

2.2.4 Responsible investment in other Collective Investment Schemes (UCIs)

The sustainability risk of products investing in UCIs is deemed managed when the target UCIs are subject to the SFDR. With regard to UCIs not subject to the SFDR, the sustainability risk is assessed based on the information provided by the target investment manager in relation to the UCI as part of the due diligence process.

It is the portfolio manager's responsibility to check ex-ante the compliance of the financial instruments subject to investment with the aforementioned characteristics and to document the analysis carried out.

2.2.5 Short Positions

The objectives of this policy are generally fulfilled also by taking net short positions in securities normally excluded from the investment universe pursuant to the previous paragraph "Exclusion criteria". This does not affect the possibility for the funds to short other securities in line with their investment policy.

The portfolio average ESG risk score will be calculated by netting long and short positions.

2.2.6 Investment in non-ESG rated financial instruments

The investment in securities of issuers which do not have an ESG rating by the ESG data provider is allowed on the condition that the portfolio manager, having obtained the necessary information from the issuer and/or from specialized analysts through a proprietary questionnaire, verifies and documents compliance with the principles outlined above, and, more generally, with the objectives of this policy.

The above does not affect the possibility of taking short positions on securities that do not meet such objectives.
The investment in securities not respecting the above criteria should not exceed 10% of the assets of the fund, each security not exceeding 3% of the fund's assets.

These thresholds do not apply to investments in private equity/debt by closed-ended funds that have a specific mandate to invest in such deals.

In case of non-eligible instruments, not rated by the ESG data provider, which are by way of example but not limited to futures and options on indices, those instruments will be not taken into account for ESG score calculations.

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3. ACTIVE OWNERSHIP AND ENGAGEMENT

Kairos intends to encourage the companies it invests in to engage in more sustainable business practices. Therefore, in addition to taking into account their ESG risk rating, we will discuss with companies that we intend to invest in, as to how they intend to handle their ESG risk management and to develop their business in this respect.

In this context, we consider investing in new or unlisted companies – which may not have an ESG score yet - as a way to influence their ESG risk management and business practices. Therefore, where the management of such companies commits to actively engaging in sustainable practices, we may still invest with a view to promoting the respect of ESG factors. This is done through direct dialogue with the companies, escalation in case we see no progress in the medium term, and exclusion as a last resort. In addition to engagement, and in alignment to it, Kairos will use proxy voting to influence the governance of ESG issues.

This occurs through direct dialogue with the companies, the involvement of the highest levels of management in case no progress is seen in the medium term and exclusion will apply as a last resort. In addition to the commitment of the investee companies, and in line with it, Kairos will use the vote in the shareholders' meeting purpose of influencing the governance of ESG issues. For find additional details on engagement and stewardship on the relevant policy.

4. ROLES AND RESPONSIBILITIES

In line with the investment process adopted by the SGR, the choice of the strategies adopted in the management of individual products or services is the responsibility of the Board of Directors, which delegates the tactical choices to the Investment Committee.

In this context, the Investment Committee, in turn, can delegate to individual portfolio managers the selection of financial instruments suitable for making the tactical choices established by the committee itself, setting the limits of this delegation. Therefore, unless otherwise indicated, the analysis on the financial instruments to be invested in is delegated to the portfolio management/advisory operating structures, supported by the Analysts and ESG team.

Finally, Risk Management is responsible for monitoring compliance with the limits, including those relating to these guidelines; in its checks, the Risk Management will use the results of the analysis conducted by the operating structures only where these are formally complete and correct. Risk Management reports any breaches to the portfolio managers, to the relevant committee as well as to the Board of Directors in order to re-establish compliance with the limits.

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