KAIROS Partners SGR
a Julius Baer Group company

Responsible Investment at Kairos

March 2021

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 will make it possible in the future to enhance the valuations of those issuers less subject to events that could significantly reduce the financial value of the investment; 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 products which, pursuant to art. 8 of EU Regulation 2019/2088 ("SFDR" - Sustainable Finance Disclosure Regulation), promote environmental and social characteristics in the investment activity.

The same guidelines are also adopted in the monitoring and assessment of sustainability risks related to the remaining products and services of the SGR.

In fact, the SGR aims to attain that at least 50% of the assets under management be invested in compliance with this policy. As regards the investment advisory service, it is intended that at least 50% of the recommended instruments selected by the competent committee meet the criteria outlined.

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 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.

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:

- 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?
Regulation (EU) 2019/2088 introduces the distinction between sustainable products with different levels of ambition, aimed at producing positive effects for sustainability, namely:
- financial products that promote environmental and/or social characteristics; and
- financial products that have a sustainable investment objective, namely that of producing positive effects for the environment and society.

Financial products that promote environmental and / or social characteristics differ from sustainable investments in that they set themselves a general sustainability objective, which by its very nature does not lend itself to a precise measurement of direct effects.
Promoting environmental or social characteristics requires that sustainable investment factors be 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: tax strategies, board diversity, bribery and corruption and executive pay.

1.4 ESG integration
Promoting environmental or social characteristics implies the integration of ESG factors into the investment process.
This means that, in addition to traditional financial considerations, the investment approach has to incorporate ESG factors into the securities selection process for the relevant funds. In doing so, the relative ESG performance of the companies in the investment universe of each fund is taken into consideration.
At the same time, certain industries or sectors may be excluded from the investment scope of a fund.
These rules are used to define our investment universe.

2. 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 internal committees responsible for each type of service.
In this context, each competent 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.
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

1 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”

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.

3. IDENTIFYING THE INVESTMENT UNIVERSE

The following paragraphs describe the criteria and methodologies adopted in order to select the securities to invest in and those to exclude from the investment universe of our ESG funds.

Exclusion criteria
Kairos has decided to exclude from the investment universe of its ESG funds, companies directly engaged in and/or generating significant revenues from certain industry sectors.
In particular the following sectors are excluded based on the analysis of the data provided by Sustainalytics:
- Involvement in Controversial Weapons, i.e. anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium, nuclear weapons and white phosphorus;
- Tobacco producers;
- Thermal Coal, with a 25% revenue threshold from thermal coal mining and exploration and 25% power generating capacity (coal-fired electricity, heat or steam generation capacity / thermal coal electricity production).

In addition, companies that do not respect the principles of the United Nations Global Compact (UNGC) are excluded.
Finally, the investment universe will exclude any company having a SEVERE rating in terms of controversy risk.

Inclusion criteria
The list of companies taken into consideration for the purpose of the investment will be those that have better integrated ESG factors, consequently presenting lower risks with respect to these factors.
As at the date of this document, the ESG parameters and scoring are gathered from Sustainalytics, an independent data provider specializing in ESG and Corporate Governance research and ratings. The provider assesses the ESG risks of companies based on a wide number of indicators, taking into account their exposure to material ESG issues and providing a score for their unmanaged risk.
In order to assess the incidence of these risks, over one hundred company parameters are taken into consideration.
By way of example, but not limited to, the following parameters are considered:
Environmental section:
- environmental policy;
- water intensity;
- air emission programs;
- 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;
- directors and managers' remuneration;
- financial statements and the administrative control.

3.1 Responsible investment in bonds

The bond portion of Kairos' ESG funds can be invested in three types bonds even where the bond issuers do not meet the inclusion criteria defined above:

- *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.

3.2 Responsible investment in other Collective Investment Schemes (UCIs)
The investment in other UCIs is included in this policy only where the target UCITS under EU law manages the sustainability risk as defined in the SFDR and therefore promotes sustainable investment or has sustainable investment as its objective (articles 8 and art. 9) invests at least 70% of its assets in compliance with ESG criteria. With regard to UCIs other than those under EU law, the criteria of this policy are deemed to be satisfied if the offering documentation explicitly or implicitly refers to the same exclusion criteria.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.

3.3 Long/Short Investment Policies
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".
In the management of long/short funds, it is necessary to take account of the "pair trading" strategy. This term refers to an investment strategy that implies taking a long position combined with a short position on two different securities having a similar weight in absolute value. In order to favour issuers having a better ESG profile, also from a relative point of view, this strategy can only be pursued where the weighted average of the ESG ratings of the long positions involved is lower than the weighted average of the ESG ratings of the short positions.

3.4 Investment in non-ESG rated securities
The investment in securities of issuers which do not have an ESG rating by Sustainalytics is allowed on condition that the portfolio manager, having obtained the necessary information from the issuer and/or from specialized analysts, 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.

4. ACTIVE OWNERSHIP AND ENGAGEMENT

Kairos intends to encourage the companies it invests in to engage in more sustainable business practices. Therefore, in addition to selecting companies based on their ESG scoring, 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.

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