Kairos Partners SGR
a Julius Baer Group company

Responsible Investment at Kairos

November 2019

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POLICY STATEMENT

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.

WHAT IS ESG?

Investing responsibly 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.

ESG INTEGRATION

Investing responsibly 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.

IDENTIFYING THE INVESTMENT UNIVERSE

The following paragraphs describe the criteria and methodologies we have 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 (0% revenue threshold);
- 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, we have excluded companies that do not respect the principles of the United Nations Global Compact (UNGC).
Finally, we will exclude from our investment universe 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.

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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