European SRI Transparency Code

The European SRI Transparency Code (the Code) focuses on SRI funds distributed publicly in Europe and is designed to cover a range of assets classes, such as equity and fixed income.

All information pertaining to the European SRI Transparency Code can be found at the following website: www.eurosif.org. The Code comes with a Guidance Manual for fund managers on how to best use and respond to the Code. The present version of the Code was approved by the Board of Eurosif on DATE.

REVISION OF THE CODE

In 2017 the Code was updated to better reflect the continuing evolution of the European SRI market. A Working Group was set up to facilitate revision of the Code in line with the latest developments in the industry and in view of the latest work carried out by experts at the European and global level.

Applications to sign up to the Code will now be in line with key elements of the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD), Article 173 of the French TECV Act and the latest recommendations made by the High-Level Group of Experts on Sustainable Finance (HLEG) in its final report published in January 2018. Questions that are specifically designed to reflect those recommendations/legislation are indicated in the Code with footnotes.

TWO KEY MOTIVATIONS UNDERPIN THIS CODE

1. The opportunity for retail SRI funds to provide clarification to investors and other stakeholders about their SRI approach in an easily accessible and comparable format.
2. Proactive strengthening of self-regulation to contribute to the development and promotion of SRI funds by setting up a common framework for transparency best practices.

GUIDING PRINCIPLE

Signatories to the Code should be open and honest and should disclose accurate, adequate and timely information to enable stakeholders, especially consumers, to understand the ESG policies and practices of the fund.

COMMITMENTS BY SIGNATORIES

- The order and exact wording of the questions should be followed;
- Responses should be informative and clear, and the resources and methodologies used should be described in as much detail and as precisely as possible;
- Funds should report data in the currency that they use for other reporting purposes;
- Reasons preventing the fund from providing all or part of the information to a given question should be clearly stated and, in such cases, signatories should state when they will be able to answer the question;
- Responses should be updated at least on an annual basis and should have a precise publication date;
- Responses to the Code should be easily accessible from the website of the fund and/or of the fund manager. In any case, signatories should make it clear where to find the information required by the Code;
• Signatories are solely responsible for the answers to the questions, and should state this in their response.

**Statement of Commitment**

Sustainable and Responsible Investing is an essential part of the strategic positioning and behaviour of C-QUADRAT Asset Management. We have been involved in SRI since 2006 and welcome the European SRI Transparency Code.

This is our fifth statement of commitment and covers the period 1. August 2019 to 31. July 2020. Our full response to the European SRI Transparency Code can be accessed below and is available in the annual report of the retail funds and on our web site.

**Compliance with the Transparency Code**

C-QUADRAT Asset Management is committed to transparency and we believe that we are as transparent as possible given the regulatory and competitive environments that exist in the countries in which we operate. C-QUADRAT Asset Management meets the full recommendations of the European SRI Transparency Code.

July 2019

**Eurosif classification of Sustainable and Responsible Investment’s strategies**

**Sustainability Themed Investment:** investment in themes or assets linked to the development of sustainability. Thematic funds focus on specific or multiple issues related to ESG. Sustainability Themed Investments inherently contribute to addressing social and/or environmental challenges, such as climate change, eco-efficiency and health. Funds are required to perform an ESG analysis or screening of investments in order to come under this category.

**Best-in-Class Investment Selection:** approach according to which leading or best-performing investments within a universe, category or class are selected or weighted based on ESG criteria. This approach involves the selection or weighting of the best-performing or most improved companies or assets as identified by ESG analysis within a defined investment universe. This approach includes best-in-class, best-in-universe and best-effort.

**Norms-Based Screening:** screening of investments according to their compliance with international standards and norms. This approach involves the screening of investments based on international norms or combinations of norms covering ESG factors. International norms on ESG are those defined by international bodies, such as the United Nations (UN).

**Exclusion of Holdings from Investment Universe:** an approach that excludes specific investments or classes of investment from the investible universe, such as companies, sectors or countries. This

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1 Sustainable and responsible investment ("SRI") is a long-term oriented investment approach which integrates ESG factors in the research, analysis and selection process of securities within an investment portfolio. It combines fundamental analysis and engagement with an evaluation of ESG factors in order to better capture long-term returns for investors and to benefit society by influencing the behaviour of companies. Ref. Eurosif 2016
approach systematically excludes companies, sectors or countries from the permissible investment universe if they are involved in certain activities based on specific criteria. Common criteria include weapons, pornography, tobacco and animal testing. Exclusions can be imposed at the individual fund or mandate level, but also increasingly at the asset manager or asset owner level, across the entire product range of assets. This approach is also referred to as ethical or values-based exclusion, as exclusion criteria are typically based on the choices made by asset managers or asset owners.

Integration of ESG Factors into Financial Analysis: the explicit inclusion by asset managers of ESG risks and opportunities in traditional financial analysis and investment decisions based on a systematic process and appropriate research sources. This category covers explicit consideration of ESG factors alongside financial factors in the mainstream analysis of investments. The integration process focuses on the potential impact of ESG issues on company financials (positive and negative), which in turn may affect the investment decision.

Engagement and Voting on Sustainability Matters: engagement activities and active ownership through voting of shares and engagement with companies on ESG matters. This is a long-term process that seeks to influence behaviour or increase disclosure. Engagement and voting on corporate governance are necessary, but are not sufficient in themselves for inclusion in this category.

Impact Investing: impact Investments are investments in companies, organisations and funds with the intention of generating a social and environmental impact alongside a financial return. Impact investments can be made in both emerging and developed markets and target a range of returns from below market-to-market rate, depending upon the circumstances. Investments are often project-specific and distinct from philanthropy, as the investor retains ownership of the asset and expects a positive financial return. Impact investing includes microfinance, community investing, social business/entrepreneurship funds and French fonds solidaires.

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1. **List of funds covered by the Code**

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<td>- Other Ögut Studie, Bewertung +5</td>
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<td><strong>Links to relevant documents</strong></td>
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<td>- Corporate presentations</td>
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<tr>
<td>- Other (please specify)</td>
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</table>
2. **General information about the fund management company**

2.1. **Name of the fund management company that manages the applicant fund(s)**

C-QUADRAT Asset Management GmbH  
A-1070 Wien, Schottenfeldgasse 20  
www.c-quadrat.com  
Tel: +43(1)515 66 – 0  
Contact: Carl Berthold  
Email: c.berthold@c-quadrat.com

2.2. **What are the company’s track record and principles when it comes to integrating SRI into its processes?**

The need for sustainable investments is growing. For C-QUADRAT sustainability means more than serving a trend. C-QUADRAT wants to manage funds for its investors that meet the needs of the current generation without restricting those of the future. At the same time, the company’s fund managers seek to generate positive returns, financially and non-financially. In this sense, C-QUADRAT wants to meet the investors’ need for sustainability with funds that comply with environmental standards and meet social criteria.

For us, Corporate Social Responsibility means assuming responsibility in our activities as an asset management company towards our customers, partners and employees. C-QUADRAT Asset Management is one of the first signatories to the UN PRI in Austria. The six "Principles for Responsible Investment" (UN PRI) introduced by the UN in 2006 are principles of responsible investing by which investors and asset managers commit to comply with financial market-relevant environmental, social and governance criteria (ESG criteria) in their investment activities. We apply these principles to a significant portion of our assets under management within our microfinance, European High Yield and funds of funds business.

The aim of C-QUADRAT Asset Management is also to develop financial products that enable self-supporting economic development, especially for disadvantaged sections of society. In 2006, for example, our first microfinance fund, Vision Microfinance (www.visionmicrofinance.com), launched loans to microfinance institutions (MFIs), which in turn awarded microloans to micro-entrepreneurs. To date, our two microfinance funds have raised more than $ 1.36 billion to 279 different MFIs in 63 countries in the form of 995 loans. This meaningful and sustainable help for self-help opens up the opportunity for micro-borrowers to build their own economic existence in order to improve their living conditions and those of their neighbours independently and sustainably. Vision Microfinance was honored in 2010 by CGAP (Consultative Group to Assist the Poor), a World Bank organization, for the exemplary transparency of its coverage, and was repeatedly awarded the LuxFlag label by the Luxembourg rating agency LuxFlag.
With the help of the ESG-compliant single-title funds, the area of sustainable investments within C-QUADRAT Asset Management is further expanding. At present, around EUR 583.9 million are already being managed according to sustainable criteria. The goal is to further expand this area in the coming years.

During the summer of 2019, C-QUADRAT Asset Management took over the European High Yield credit management team and the funds it manages from JAR Capital in London. The team is believed to be the first and only manager in the European High Yield space to fully integrate socially responsible investment or ESG criteria in its investment process via an exclusion and engagement process. The team had always considered its corporate responsibility to strive for the highest standards, ethically and economically, regarding ESG also as an important risk management tool helping investment management identifying risks associated with the investment target. These risks include, among others, environmental, social, reputational and litigation risks. It aims that investment companies have or are evolving to best in class ESG and corporate governance standards and actively supports investment companies achieving these goals with an engagement strategy.

Please also refer to: https://www.c-quadrat.com/cqam/asset-management/nachhaltigkeit/

2.3. How does the company formalise its sustainable investment process?

The basis of responsible investment at C-QUADRAT Asset Management are the Principles for Responsible Investing (PRI) of the United Nations. A full description of the investment process can be found at: https://www.c-quadrat.com/cqam/asset-management/nachhaltigkeit/esg-investmentprozess/

With the on-boarding of the European High Yield team, C-QUADRAT Asset Management fully incorporates ESG issues into its investment analysis and decision-making processes. The process is two-fold: exclusion criteria are applied and an engagement policy pursued. To date, the European High Yield universe has not been fully analysed and rated by a rating agency in the sustainable space. C-QUADRAT Asset Management is pioneering the High Yield investment space by hiring a rating agency to rate its investment universe according to ESG criteria. Given the private nature of the High Yield bond space C-QUADRAT Asset Management acts as a facilitator and multiplier of ESG policies giving rating agencies access to the investment space. In addition, C-QUADRAT Asset Management strives not only to have the investment universe rated but to encourage positive change at company level. Companies that refuse to engage with C-QUADRAT ASSET MANAGEMENT and/ or its engagement specialist, GES, are excluded from the investment universe. The Engagement Decision Tree specifies the steps leading to potential exclusion in case of non-compliance. The ultimate goal C-QUADRAT Asset Management is working towards is to have the entire European High Yield space rated and a Best-in-Class approach made possible. As the European High Yield team invests in debt instruments only, a separate proxy voting policy is not required.
2.4. How are ESG risks and opportunities – including those linked to climate change – understood/taken into account by company?

For C-QUADRAT Asset Management, sustainability means taking a long-term view for the funds we manage. In line with the United Nations definition of sustainability, our ESG funds look for a balanced investment that allows them to meet the needs of the current generation without restricting those of the future. We pursue this endeavor rigorously - aligning economic and extra-financial returns - and thus make a positive contribution to our customers and society through our actions. For our investments in the European High Yield space this implies, that every company C-QUADRAT Asset Management invests in will be analysed for resource usage and potential efficiency gains outlined by the engagement specialist, G.E.S. As a credit manager, we consider ESG criteria an additional risk management tool which help us identify potential deficits at company level such as corporate governance practices and environmental, reputational and litigation risks. It provides our analysts and fund managers the opportunity to improve the transparency and to better understand the risks associated with an investment into its portfolio companies and gain better access at management level.

Enhancement of the analysis process and monitoring tools to minimize probability of defaults

- Improved corporate governance and business practice
- Higher transparency
- More efficient use of resources
- Society and product responsibility enhances acceptability and reduces reputational/ legal risks

2.5. How many employees are directly involved in the company’s sustainable investment activity?

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3 Reference to Article 173 of the French TECV Act and the TCFD recommendations (risks and opportunities section)
Please refer to question 3.2.

2.6. **Is the company involved in any RI initiatives?**

C-QUADRAT Asset Management is a boutique investment manager with limited resources. However, it actively promotes RI awareness and solutions at multiple levels: at investor level, at management level of the companies whose debt C-QUADRAT Asset Management finances and to the wider public via print and online articles as well as presentations/round tables/discussion forums.

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<tr>
<th>General Initiatives</th>
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<th>Social Initiatives</th>
<th>Governance Initiatives</th>
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<td>☐ European Commission’s High-Level Expert Group on Sustainable Finance</td>
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<td>☐ ICCR – Interfaith Center on Corporate Responsibility</td>
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<td>☐ Other (please specify)</td>
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<td>☒ PRI – Principles For Responsible Investment</td>
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<td>☒ SIFs – Sustainable Investment Fora</td>
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<td>☐ Other (please specify)</td>
<td>☐ Other (please specify)</td>
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2.7. **What is the total number of SRI assets under the company’s management?**

As of summer 2019, and with the on-boarding of the European High Yield team and assets, the SRI AUM at C-QUADRAT Asset Management are ca. EUR 647mn. Of these, ca. EUR 90mn are invested in European High Yield bonds.

3. **General information about the SRI fund(s) that come under the scope of the Code**

3.1. **What is (are) the fund(s) aiming to achieve by integrating ESG factors?**

In addition to the potentially reduced risk by considering ESG criteria, the fund's investment objective is long-term capital growth, taking into account higher (short-term) risks. We want to pursue this endeavor - the alignment of financial and extra-financial returns - and thus make a positive contribution to our investors and society through our actions. Sustainability is more than just pure ESG analysis but aims overall at the long-term stability of corporate activity. If, for example, careful use of resources or responsible treatment of employees is emphasized, then these concepts overlap with the goal of long-term return on equity and thus with the principle of earnings quality. As the European High Yield space has not been rated by rating agencies in the sustainability space to date, all issuers C-QUADRAT Asset
Management invests in are subsequently analysed and rated on our behalf by a rating agency in the ESG space. High Yield bond issuers are made aware by C-QUADRAT Asset Management of the growing importance of SRI criteria to their investor base. In addition, weaknesses identified by the rating agency in the SRI space are actively addressed by C-QUADRAT Asset Management at management level of the concerned companies and solutions presented by an activist engagement company that works on C-QUADRAT Asset Management’s behalf. C-QUADRAT Asset Management promotes SRI and seeks to implement SRI awareness and action at the companies it invests in, i.e. the real economy. C-QUADRAT Asset Management strives not only to have the investment universe rated but to encourage positive change at the company level. The ultimate goal C-QUADRAT Asset Management is working towards is to have the entire High Yield space rated and a Best-in-Class approach made possible, encouraging companies towards more sustainable conduct and economic activity in the firm belief of the mutual benefit it achieves.

3.2. What internal or external resources are used for ESG evaluation of the issuers who make up the investment universe of the fund(s)?

The C-QUADRAT Asset Management team currently consists of 17 people, ten of which act as fund managers, eight of them with a dedicated sustainability focus. The risk management team consists of two people. Three people are responsible for administration and mid-back office. We source our ESG research from external providers. For the European High Yield space research is conducted by a leading sustainability rating agency, ISS-oekom (www.oekom-research.com) with over 90 ESG specialist and being active in the space since 1993. The engagement is conducted on C-QUADRAT Asset Management’s behalf by a world leading engagement specialist, Sustainalytics Global Engagement Services (G.E.S.) which represents asset owners in excess of EUR 1 trillion AUM. It employs over 60 specialists and has been active in its space since 1992.

In addition, there is a sustainability advisory board within C-QUADRAT Asset Management. It consists of the CIO, Head of Fund Management and the heads of microfinance and ESG of C-QUADRAT Asset Management. It reviews the performance of the external sustainability data providers, the funds and reviews on a regular basis the positive and negative ESG criteria applied to its mandates. It also takes on an advisory role when it comes to the discretionary individual audit of companies that are on the so-called watch list with regard to the UN Global Compact (UN GC), which means that a violation of the UN GC has or might occur and requires remedy.

3.3. What ESG criteria are taken into account by the fund(s)?

In the European High Yield space, violations against exclusion criteria are identified by our own analysts and the ESG research agency during the analysis of the balance sheets and the rating process and provided to C-QUADRAT Asset Management. Only companies which comply with the following specific criteria are included in our investment universe and are investable for our funds:

- Alcohol: Alcoholic beverages and other foodstuff, in which alcohol is a substantial ingredient, constitute an exclusion criteria. For the producers of beer/ wine and for high-proof beverages/ footstuffs the tolerance level has been set at a threshold of 5% of net
sales. For the traders/retailers of beer/wine and high-proof beverages/foodstuffs the tolerance level has been set at a threshold of 10% of net sales.

- **Biocides**: The production of biocides which are classified by WHO as “extremely or highly hazardous” constitute an exclusion criteria. The tolerance level has been set at a threshold of 10% of net sales.

- **Embryonic Research**: Companies that have specialized in the research of the human embryo or on human embryonic cells are excluded.

- **Gambling**: Exclusion criteria are deemed to include operators of gambling activities. A differentiation is made between particularly controversial forms of gambling, especially taking into consideration the high potential for addiction (e.g. the operation of casinos or betting shops and the production of slot machines) and other forms of gambling (e.g. lotteries; prize-winning and game shows on the television, radio etc., which are financed through increased call costs or other ways of paying to participate which tend to be indirect in nature; the provision of telephone or internet services or similar to third parties for the purpose of operating betting activities, prize-winning or game shows). The sale of lottery tickets is only considered a violation if it accounts for a substantial portion of the revenue and therefore constitutes a part of the company’s core business. The tolerance level has been set at a threshold of 5% of net sales.

- **GMOs**: Genetically modified plants and animals constitute exclusion criteria. A differentiation is made between producers (i.e. the companies which undertake the modification of the genetic material and produce the corresponding seed or animals), users (for example companies which use genetically modified plants or animals or parts thereof in the production of foodstuffs and traders (i.e. companies which sell products containing genetically modified ingredients). The use of genetically modified raw materials in products is recorded only if these materials constitute key components of the company's core products. Trade in relevant products that accounts for less than 5 per cent of turnover is recorded only if trading in food or animal feeds, agricultural commodities or textiles, for example, forms part of the company's core business or if trading in genetically modified products constitutes a separate area of business. Other minor business activities are not included. The tolerance level has been set at a threshold of 5% of net sales.

- **Weaponry**: Weapons (systems) and armaments which have been specially developed for military applications constitute an exclusion criterion. This does not include "dual-use products". A differentiation is made between producers and distributors. Among relevant products, differentiation is made between weapons (systems) (e.g. rifles, tanks, fighter jets), weapons outlawed by the Rome Statute of the International Criminal Court (e.g. weapons of mass destruction, land mines) and other armaments (e.g. radar installations, military transport vehicles, control software). The tolerance level for producers of weapons (systems) or other armaments has been set at a threshold of 5% of net sales whereas the tolerance level threshold for outlawed weapons is zero.

- **Nuclear Power**: Various aspects of the value chain in the nuclear energy field constitute exclusion criteria. A differentiation is made between, in particular, the production and distribution of nuclear energy, but also the mining of uranium and the assembly of key components for nuclear power stations. "Dual-use products", as they are known, are not taken into account. The tolerance level threshold for producers of nuclear power has been set at zero whereas the tolerance level threshold for uranium producers and producers of key components for nuclear power stations has been set at 5% of net sales.

- **Pornography**: Exclusion criteria are deemed to include, in particular, the denigrating and degrading representation of individuals or sexual acts. A differentiation is made between producers and traders. Producers are deemed to include all companies which themselves produce pornographic content (e.g. pornographic films or magazines) as well as
organisers of sex tourism and operators of corresponding establishments. If a company does not itself produce pornographic material, but acquires it from third parties and distributes it or actively supports such distribution, then it falls into the category of trader. This includes, for example, the showing of pornographic films or the active provision of access to these (e.g. by television broadcasters, offers of downloads from telecommunications companies and internet providers) as well as the distribution of corresponding magazines, internet content, telephone hotlines or similar and the active provision of the necessary technical infrastructure. Erotic content that is freely accessible to persons under 18 years of age is not deemed to be pornography. Activities relating to the trade in pornographic material as well as the technical support of this trade that account for less than 5 per cent of turnover are recorded only if the distribution channels used or the support services form part of the company's core business or the explicit trade in pornographic material or the technical support of this trade constitute a separate area of business. Other minor business activities are not included. The tolerance level threshold for producers of pornography has been set at 5% of net sales whereas the tolerance level threshold for traders/retailers is set at 10% of net sales.

- **Fossil fuels:** All companies that are active in the production, mining or facilitation of fossil fuels or in the electricity production utilising fossil fuels are excluded based on the following tolerance levels
  - Fossil fuel production, mining or facilitation with the threshold level set at 5% of net sales
  - Electricity generation from fossil fuels with the threshold level set at 30% of net sales
  - Oil sand production, mining or facilitation with the threshold level set at 5% of net sales
  - Fracking production, mining and facilitation with the threshold level set at 5% of net sales

- **Tobacco:** All types of tobacco products constitute an exclusion criterion. A differentiation is made between producers and traders, as well as according to end product (e.g. cigarettes, cigars, loose tobacco, chewing tobacco) and components or accessories (e.g. cigarette boxes, filters, flavours). Trade in relevant end products with the threshold level set at 5 per cent of net sales is recorded only if trading in food/luxury foods and drinks and tobacco forms part of the company's core business or if trading in tobacco constitutes a separate area of business. Other minor business activities are not included. With regard to trade in relevant components and accessories, only wholesale companies are recorded. The tolerance level threshold for producers of tobacco end products is set at 5% of net sales whereas the tolerance level threshold for traders/retailers is set at 10% of net sales.

- **Business Malpractice:** Cases where a company seriously disregards legal requirements or generally recognized codes of good behaviour constitute an exclusion criterion. A distinction is made between corruption (the acceptance of bribes as well as the bribing others), financial accounting (accounting fraud and controversial accounting practices), competition (e.g. cartel formation, price fixing), taxes (tax evasion and facilitation of tax evasion), money transfers (e.g. severe shortcomings in the application of anti-money laundering rules and economic sanctions rules in the field of money transfers) and miscellaneous (e.g. fraud, insider trading).

- **Controversial Environmental Practices:** Cases involving gross disregard by a company of environmental legislation or generally recognised minimum environmental standards/codes of behaviour constitute an exclusion criterion. These include, for example, large-scale projects (e.g. pipelines, mines, power stations, dams) which have a particularly deleterious impact on ecosystems in the region concerned. A differentiation
is made according to whether controversial environmental practices are caused by the company itself or by suppliers/subcontractors or whether they are financed by the company (e.g. banks which provide capital for relevant projects through project financing).

- **Human rights:** Exclusion criteria include gross violations of internationally recognised principles such as the UN Universal Declaration of Human Rights, insofar as these do not apply exclusively to governmental obligations and are not already covered by the ILO Declaration on Fundamental Principles and Rights at Work (see rights at work). These include in particular actions in which a grave threat to the health/lives of the population, customers etc. is consciously accepted; human trafficking; grievous physical violence towards third parties as well as the commissioning or active support of such violence; actions which grossly violate the rights of self-determination of third parties; actions which grossly disregard cultural rights of self-determination or cultural worth. A differentiation is made according to whether violations are committed by the company itself or by suppliers/subcontractors or whether they are financed by the company (e.g. banks which provide capital for relevant projects through project financing).

- **Labour rights:** Where there is a serious breach of at least one of the four basic principles of the ILO Declaration on Fundamental Principles and Rights at Work (freedom of association and assembly, forced labour, child labour and discrimination), this constitutes an exclusion criterion. Exclusion criteria also apply where minimum employment standards (e.g. in the areas of health and safety, remuneration, working hours) are systematically circumvented, even where these do not relate directly to the four ILO conventions (see above). No differentiation is made according to whether minimum standards are breached by the company itself or by suppliers/subcontractors.

**Positive Screening**

The assessment of the social and environmental performance of a company as part of the Corporate Rating is carried out with the aid of over 100 social and environmental criteria, selected specifically for each industry, covering six areas:
Depending on the products and services it provides, each industry faces different social and environmental challenges. For this reason, the rating agency makes around one-third of these criteria industry-specific. All criteria are individually weighted and evaluated and finally aggregated to yield an overall score. The results provide a ranking of the companies examined within an industry, from which the leaders in that industry (those awarded “prime” status) are identified.

3.4. **What principles and criteria linked to climate change are taken into account in the fund(s)?**

Please refer to 3.1. and 3.3.

3.5. **What is the ESG analysis and evaluation methodology of the fund manager/fund management company (how is the investment universe built, what rating scale is used etc.)?**

**Areas of Assessment**

The rating agency assesses companies’ responsibility towards:

- persons affected by corporate activities (social sustainability)
- the natural environment (environmental sustainability)

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4 Reference to Article 173 of the French TECV Act see paragraphs 3 and 4 of Article D.533-16-1 of Chapter III of the French Legal Code:

https://www.legifrance.gouv.fr/affichCodeArticle.do?cidTexte=LEGITEXT000006072026&idArticle=LEGIARTI000031793697
In order to be able to analyse comprehensively the diverse environmental and social challenges relating to the activities of companies, the rating agency has developed a pool of indicators. These currently number approximately 700. For each company, an average of 100 indicators are selected from this pool on an industry-specific basis so that a targeted evaluation of the problems specific to that company can be carried out.

**Sustainability Matrix**

The social and environmental impacts of industries differ. Therefore, subject to its relevance, each industry analysed is being classified in a Sustainability Matrix.

![Sustainability Matrix](image)

Depending on this classification, the two components of the Corporate Rating, i.e. the Social Rating and the Environmental Rating, are weighted. For example:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Social Component Weighting</th>
<th>Environmental Component Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobile</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Textiles</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Retail</td>
<td>60%</td>
<td>40%</td>
</tr>
</tbody>
</table>

**Evaluation**

The overall analysis is based on a twelve-point grading system from A+ to D-:

- **A+**: excellent performance
- **D-**: poor performance or insufficient documentation

**Prime Status**

The rating agency awards Prime Status to those companies which according to the Corporate Rating are among the leaders in their industry and which meet industry-specific minimum requirements.
Companies may use the rating agency’s Prime Logo in their public relations work to demonstrate their above-average commitment to environmental and social issues.

3.6. **How often is the ESG evaluation of the issuers reviewed? How are any controversies managed?**

The ESG evaluation is continuously reviewed by the external providers and C-QUADRAT Asset Management as the communication with the researched companies yields new insights. Depending on the pace and depth of progress a new ESG evaluation/ rating might be warranted. The methodologies applied by the external providers are widely regarded as best practice within the industry and serve as a benchmark for managers looking to develop methodologies and systems themselves. If companies during the portfolio holding period change their business model to an extend that exclusion criteria are met the portfolio managers have to exclude these issuers from the investment universe within a feasible time span (typically no longer than 4 weeks). Where a company ceases to engage with GES and/ or progress without having achieved a prime or best in class status C-QUADRAT will engage with management following the scheme specified in the JAR Engagement Decision Tree. Failure to comply within the specified time schedule leads to an exclusion of the issuer from the investment universe.

4. **Investment process**

4.1. **How are the results of the ESG research integrated into portfolio construction?**

To our knowledge we are the only manager in the European High Yield space that fully integrates ESG criteria in its investment process via an exclusion and engagement process. In a first step, certain exclusion criteria are applied to the investment universe. The criteria are laid out in detail under 3.3. In the second step companies are fully analysed and rated by an external rating agency in the sustainable space. Identified weaknesses are then actively addressed at management level of the target/ portfolio companies by C-QUADRAT Asset Management and/ or an external engagement specialist. As a result of our exclusion criteria around 50% of the issuers in comparable benchmark indices are excluded from our potential investment universe. The following charts illustrate the integration of ESG in our investment process and portfolio construction:

Overview:
Investment Process

Fundamental Analysis
- The entire investment process depends on sound preparatory credit analysis.
  - Social Responsibility Filter
  - Fundamental Proprietary Credit Analysis
  - Relative Value Analysis

Trade Selection
- Only companies are selected that pass the fundamental analysis process, always with the view that investments are held until maturity.
  - Analysis of Credit Factors
  - Social Responsibility Analysis
  - Market Technical Factors

Portfolio Construction
- The portfolio is constructed to maximize income, balancing returns from credit positions whilst minimizing risks.
  - Portfolio Construction
  - Risk Management
  - Exit Strategies

Risk Control
- Risk control tools are designed to identify and monitor any changes in portfolio risk.

Objectivity of Control
Monitoring of Sustainability Criteria
Step 1: Exclusion (Negative) List

**Social Responsibility Filter (Negative list)**
- Exclusion rule for industries that will be excluded from the investment universe (usually greater 5% of revenues):
  - Alcohol
  - Tobacco
  - Gambling
  - Pornography
  - Armaments
  - Nuclear industry
  - Mine operator or companies, that generate more than 30% of their revenues from fossil fuels

**Fundamental Proprietary Credit Analysis**
- The financial analysis includes:
  - Balance sheet analysis and leverage
  - Cash flow leverage
  - Projections & Stress tests
  - Scenario building

- The qualitative analysis includes:
  - Assessment of management
  - Market environment
  - Growth prospects
  - Barriers to entry
  - Regulatory environment
  - Obligations and Commitments
  - Business and industry environment

**Relative Value Analysis**
- Spread history
- Cash price analysis
- CDS history
- Trading range identification
- Liquidity
- Cash market liquidity
- Borrow availability
- CDS liquidity

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Step 2: Engagement (Positive) impact activity

**Investment Process**

**Trade Selection**

Only companies are selected that pass the fundamental analysis process, always with the view that investments are held until maturity.

**Specific Credit Factors**
- Credit analysis
  - Positive or negative
  - Expected credit development
- Trigger events, including
  - Reporting calendar
  - External drivers
  - Funding deadlines
  - Coupon payments

**Social Responsibility Analysis**
- Company analysis and rating by ISS oekom research AG
- Analysis according to 36 sustainability criteria which are differently weighted according to industry
- Engagement with analysed companies via direct communication and consultancy by Sustainalytics G.E.S.

**Market Technical Factors**
- Current spread position in relation to
  - History
  - Market
  - Comparables
- Market liquidity
  - General market condition
  - Availability of
    - Cash instruments
    - Borrowing
    - CDS
Step 3: Continuous progress assessment

**Summary of different roles in ESG integration**

<table>
<thead>
<tr>
<th>Role</th>
<th>C-Quadrat</th>
<th>ISS oekom research</th>
<th>Sustainalytics G.E.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Yield Universe</td>
<td>„Bottom-up“ credit analysis process</td>
<td>Exclusion criteria and normative screening</td>
<td>Identified weaknesses addressed at company level, solutions provided. On-going monitoring of progress and guidance for improvements</td>
</tr>
<tr>
<td>Investable Universe</td>
<td>Credit selection, portfolio construction and monitoring process</td>
<td>Sustainability analysis and rating</td>
<td>Sustainability is a continuous Process</td>
</tr>
<tr>
<td>C-QUADRAT Portfolio</td>
<td>Enhanced communication with and transparency of portfolio companies, enhanced corporate governance, mitigation of legal or environmental risks, more sustainable business models</td>
<td>Improved sustainability rating, Best-in-Class within their respective industries</td>
<td></td>
</tr>
</tbody>
</table>
4.2. How are the criteria specific to climate change integrated into portfolio construction?
Companies that derive their revenues from fossil fuels are excluded from the portfolio (please refer 3.3. for more details). The efficiency of (natural) resource usage at company level is assessed by ISS-oekom and G.E.S. and improvements suggested in the engagement process with the companies.

4.3. How are the issuers that are present in the portfolio, but not subject to ESG analysis evaluated (not including mutual funds)?
All issuers present in the portfolio are subject to ESG analysis.

4.4. Has the ESG evaluation or investment process changed in the last 12 months?
No.

4.5. Is a part of the fund(s) invested in entities pursuing strong social goals/social enterprises?
No.

4.6. Does (do) the fund(s) engage in securities lending activities?
No.

4.7. Does (do) the fund(s) use derivative instruments?
Only for currency hedging into the fund currency Euro.

4.8. Does (do) the fund(s) invest in mutual funds?
No.

5. ESG controls

5.1. What internal and/or external control mechanisms are in place to ensure compliance of the portfolio with the ESG rules on managing the fund(s) as defined in section 4?\(^5\)

Please refer to the sections about our procedures above (3.1, 3.2, 3.6).

6. Impact measures and ESG reporting

6.1. How is the ESG quality of the fund(s) assessed?
On a quarterly basis ISS-oekom re-assesses the investment universe and assigns an ESG rating to each issuer (D- to A+). In addition, each issuer is assigned a corporate rating and a performance score. An increase in a firm’s numerical score does not always result in an immediate change in its rating classification, however, it ensures we know that engagement is taken seriously by the companies and improvements in all aspects of sustainability criteria will follow over time. The ISS-oekom corporate rating measure a company’s overall sustainability rating according to over 100 individual factors. Naturally, weights and emphasis of these individual factors vary dependent on the company’s sector. In addition, the best-in-class or prime status threshold varies according to the sector analysed. In order to enable

\(^5\) Reference to Article 173 of the French TECV Act
better objective comparison among companies from different sectors ISS-oekom has established a performance score where the prime status is defined as a value of 50.

6.2. What ESG indicators are used by the fund(s)?

The overall ESG rating (D- to A+), the corporate rating and the performance score by ISS-oekom are used as ESG indicator.

6.3. What communication resources are used to provide investors with information about the SRI management of the fund(s)?

Our monthly factsheets and market commentaries are available at https://www.c-quadrat.com/cqam/produkte/produktuebersicht/. On a quarterly basis, investors receive a Sustainability Report about the development of the ESG indicators and case studies of the work conducted by C-QUADRAT Asset Management and its engagement company, GES.

In addition to the presence on Internet platforms with publicly available information, we offer on request various marketing materials. Institutional investors receive tailor-made monthly reports specific to their reporting requirements.

6.4. Does the fund management company publish the results of its voting and engagement policies?

Voting rights – not applicable.

Engagement results – described in the Sustainability Report (available to investors and upon request)

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6 Reference to Article 173 of the French TECV Act
7 Reference to Article 173 of the French TECV Act and the HLEG recommendations on GOVERNANCE