CLIMATE CHANGE POLICY

Alken Asset Management Ltd

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Contents

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1. The role of asset owners in financing the transition.

The OECD estimates that, globally, EUR 6.35 trillion a year will be required to meet the Paris Agreement goals by 2030. As public-sector resources will not be sufficient to meet this challenge, the mobilisation of institutional and private capital is fundamental.

1.1 Alken Commitments: UNPRI, TCFD, Paris Agreement

We have been a UNPRI signatory since 2013 and we support the TCFD since March 2020. Alken has a long-term investment approach which seeks to guarantee that the growth of companies is compatible with a more sustainable global economy. More precisely, we are committed to work towards the decarbonisation of the global economy, in line with the goals set by the Paris Agreement. For this, we encourage corporates to disclose their climate-related risks, we encourage further research and R&D to be made on the different climate change opportunities and we encourage further regulatory developments to clearly define the framework for asset managers.

1.2 Our fiduciary duty

As an asset manager, our fiduciary duty is to respect our clients' needs and ensure a sustainable long-term value creation. Today, the consideration of climate change developments has become a great way to ensure a steady performance, to manage risk better as well as to make sure our investments are better in line with our clients' values.

1.3 Doing Well by Doing Good

Considering the increasingly visible natural disasters, the unprecedented wave of public climate demonstrations, the public opinion's increased attention and the never stopping media coverage of the matter, climate change-related risks are no longer only belonging to the world of NGOs or governmental organisations but has become everyone's concern.

The phenomenon of climate change has today been largely evidenced by scientists and its impact on both the environment and the society in which we live in have put the global energy transition at the forefront. More precisely, there is now a wide scientific consensus that global emissions have to drop by 50% over the next decade for the world to have a chance of staying at 1.5 degrees of global warming. This implies clear and immediate actions for businesses.

As an asset manager, we believe that our mission lies not only in managing and mitigating climate change-related risk, but also in gradually financing the energy transition that is required.

Avoiding greenwashing requires thorough analysis and strong dialogue with companies. Our objective is to build a strong modelling which will allow the firm to estimate the climate risks of every prospecting companies and which will allow us to offer a portfolio of climate change resilient companies. We started building this process last year and continue developing our modelling.

2. Our take-away from the EU Taxonomy

In 2018, the European Union responded to the objectives agreed in the Paris Agreement on Climate Change by establishing a Technical Expert Group (TEG) on sustainable finance. The first milestone achieved by the TEG has been to agree on an EU classification system for the sustainable activities, also referred as the “EU Taxonomy”. In 2019, a second step has been to draft a regulation facilitating the establishment of a framework for sustainable investment, also called the “Taxonomy Regulation”. Within this framework, the TEG identified a set of economic activities that make a substantial contribution to climate change mitigation or adaptation. The same year, the Commission presented the *European Green Deal*, an overarching framework and programme of actions that will focus on transforming the European economy. A key element of the Green Deal is the proposed *Climate Law* which confirmed the legal commitment of the EU to meet the climate change objectives by 2050. In March 2020, the TEG published a final report on the EU taxonomy, providing with a number of recommendations and implementation guidance for firms like ours.

2.1 Zoom into the Taxonomy Regulation

The below summarises the two main upcoming obligations for asset owners:

- The Regulation will require financial participants offering financial products in Europe to **incorporate disclosures with reference to the Taxonomy**[1]

Among other things, this includes publishing:

- ✓ a policy on the integration of sustainability risks in the investment decision-making process (article 3),
- ✓ a policy on the adverse sustainability impacts of investment decisions on sustainability factors (article 4), and
- ✓ a policy on the remuneration being tied to the integration of sustainability risks (Article 5).

- The Regulation’s Delegated Acts will require among other things **a screening of activities which substantially contribute to climate change mitigation or adaptation.**

[1] See Regulation 2019/2088 on *sustainability-related disclosures in the financial sector* https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088&from=EN

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2.2 Aligning a portfolio to the Taxonomy: what is required?

As a firm, we are currently looking at aligning some of our strategies to the Taxonomy. For this, the following process should be followed:

- Identify the company's activities and break them down by turnover (or revenue or capex where appropriate). Based on the TEG's Taxonomy recommendations, only some of the companies' activities will have technical screening criteria.
- Among the prospected companies, identify validate whether each economic activities of the given company meets the relevant substantial contribution criteria.
- The third step is to verify whether the investee company does no significant harm to other environmental objectives of the Taxonomy.

2.3 Current Implementation at Alken

Over the last six months, we have worked on developing a formal comprehensive and integrated approach in order to access opportunities that derive from the transition to a low-carbon economy and in order to manage some of our strategies' exposure to carbon risks. The carbon risk and opportunities management that we have implemented covers both our equities and fixed income strategies. More precisely, our implementation can be broken down into the following three pillars:

1. **Awareness** – We are building our awareness on the environmental risks of companies and their respective sectors, and we are trying to assess the activities in each sector which can have a positive impact on the environment.
2. **Integration** – We have built a proprietary materiality map of specific climate-related issues per sectors and have focused on making sure those environmental considerations are integrated alongside value and other risk considerations for the applicable sectors. Examples of the issues we look at are levels of CO2 emissions, decarbonisation strategy, carbon transition management, energy efficiency management or climate change risk.
3. **Engagement** – We have always acted as engaged stewards of our investments. We engage directly with the different entities in the event where we hold assets that have a significant environmental risk exposure in order to make sure we can mitigate the risk. We question companies based on the environmental issues that we have pre-identified.

3. Closer look at the carbon risk at Alken

The impacts of climate change are now unavoidable, and businesses are already witnessing extreme heatwaves or warmer records. Consequently, as a firm, Alken endeavours to understand and manage the risks and effects that derive from this changing climate.

More precisely, internally, carbon risk is now part of one of the key topics discussed during investment meetings, effectively trying to assess the different carbon risks, as well as more broadly the different environmental risks and opportunities across Europe and globally.

3.1 Our Process

Today, we are seeking to assess the environmental impacts (positive and negative) that are generated by a company. For this, we have put in place our proprietary environmental impacts' mapping for every sector. Depending on the industries, we have tailored questions in order to understand where the company is and what is the company planning to do. We question companies on those ESG material issues, and based on their positions, we aim to provide an overall scoring as well as an ESG positioning about this given company[2].

Among other techniques, we may use the following ones:

3.2 Carbon pricing

This process refers to an estimated cost of carbon emissions which is used to help identify revenue opportunities and risks, as an incentive to drive energy efficiencies to reduce costs and to guide capital investment decisions.

Although we do not have yet developed such an internal process and modulization, we have started looking at solutions provided for instance by Bloomberg or by our ESG data provider to be able to report on the mandatory requirements of SFDR Level 2 as well as on the Taxonomy coming into force early next year.
We believe that modulization carbon pricing is a complex calculation and for now we would prefer using third party data to access that information.
As of today, this is only a trial phase where we test the data provided by those third parties. As soon as we believe that the information is reliable and that their models is mature enough, we have the objective to start adding that information into our overall climate exposure analysis.

3.3 Sensitivity analysis

This process refers to assessing the sensitivity of different assets under different transition pathways.

4. TCFD reporting requirements and Alken's response

The TCFD examples of climate-related risks and potential financial impacts including both **transition risks** and **physical risks** are embedded within our overall internal "**ESG materiality map**" and among other things we use the **climate risks indicators** and their potential financial impacts when engaging with companies and willing to retrieve more data on them. In particular, we have added the following metrics into our materiality map and engagement with investee companies:

PHYSICAL RISK	Resource efficiency
	Energy source
	Products & services solutions
	Resilience solutions

[2] . This was developed beginning of 2020 at Alken and is still an on-going process.

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TRANSITION RISK	Increased pricing of GHG emissions
	Exposure to litigation
	Enhanced emissions-reporting obligations
	Substitution of existing products and services with lower emissions option
	Costs to transition to lower emissions technology
	Changing customer behaviour
	Increased cost of raw materials
	Shifts in consumer preferences
	Increased stakeholder concern or negative stakeholder feedback

As of end of December 2021, a number of firms now fall under the FCA climate-related disclosure requirements aligned with the TCFD's recommendations:

- Entity-level: Publication of an annual TCFD report, published on the main business website. This must set out how the asset manager takes climate-related matters into account in managing or administering investments on behalf of clients.
- Product-level: Disclosures must be made on the products and portfolios, including a score set of climate-related metrics. To be published on the business main website and also cross-referenced in the appropriate client communication.

Given that our firm's AUM falls below 5 billion pounds, we are not technically falling under the obligation to produce the entity-level report (the product-level report is N/A).

We however provide a voluntary response to the TCFD recommendations:

4.1 GOVERNANCE

The oversight of our ESG risks & opportunities is embedded in executive responsibilities:

- The Board & Trustees
- C-Levels
- Investment Committees
- Chief Risk Officer & Chief Compliance Officer
- Head of Sales & Marketing

On top of those responsibilities, we use our organizational structure in order to ensure the ESG-related risks and opportunities are duly managed:

- We may hold a weekly ESG investment meeting to discuss progress, advancements, and on-going difficulties.
- We may hold a weekly ESG IT development meeting to discuss on-going and future IT developments on ESG.
- We may hold a quarterly ESG Committee with the management to discuss achievements and future developments.

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- We may hold a quarterly ESG investment committee to discuss compliance with ESG rules.
- We may hold an annual ESG meeting with the entire firm to highlight main developments and develop future objectives.
- We may hold an annual ESG Committee to discuss overall directions, budget, staff, trainings, ESG objectives.
- We may hold an annual compliance & ESG meeting with the board members whereby we discuss ESG objectives, including climate-related strategy, for the year to come.

More information are being disclosed in our ESG Responsibilities and Organizational Map Policy.

You are also invited to review our Remuneration Policy integrating the ESG risks and opportunities.

4.2 STRATEGY

As described in our ESG Integration Policy and our Responsible Investor Annual Report, our Climate strategy can be broken down into the following main pillars:

- *Climate-related Exclusions*
- *Climate-related Integration: climate-related review of the risks and opportunities*
- *Climate-related Engagements*
- *Climate-related Voting (performed by our Management Company)*
- *Climate-related disclosures*

4.3 RISK

As described in our ESG Integration Policy, Climate Change Policy and our Responsible Investor Annual Report, we have developed a process to identify Climate-related Risks, in particular physical and transition risks.

4.4 METRICS AND TARGETS

As described in this Climate Change Policy and our Annual Investor Report, we are monitoring the following metrics:

- The carbon footprint of each of our invested instruments
- The carbon footprint of each of our Article 8 strategies
- The climate-related impact metrics in relation to our invested instruments
- The climate-related impact metrics in relation to our Article 8 strategies
- The percentage of sustainable investments contributing to a climate-change mitigation of our Article 8 strategies

5. Our climate change criteria based on the SDGs

In 2015, the United Nations adopted a sustainable development program called the Sustainable Developments Goals (SDGs) which set up 17 overarching objectives for 2030, which themselves can be broken down into 169 specific targets and 232 indicators. The SDGs therefore create a roadmap to help investors drive their focus. The United Nations Conference on Trade and Development (UNCTAD) estimates that meeting the SDGs by 2030 will require US$5 trillion to US$7 trillion per year from the private sector.

As we cannot only rely on creating new capital, investors also must redirect existing capital. At Alken, we have aligned our internal climate change criteria with the SDGs goals that are directly or indirectly related to climate change issues.

More precisely, we have integrated the following SDGs criteria by translating the bellow into a set of different environmental sub criteria:

- **Goal number 6:** Clean Water & Sanitation
- **Goal number 7:** Affordable & Clean Energy
- **Goal number 13:** Climate Action
- **Goal number 14:** Life Below Water
- **Goal number 15:** Life on Land

We understood from the UNPRI *consultation on investing with SDG outcomes* that aligning a strategy with the SDGs requires two key drivers:

- ✓ Analysing financially material ESG issues at an **individual investee level** (micro), and
- ✓ Analysing the financially material ESG issues at **the systems levels** (macro), with an approach that focuses on shaping real-world outcomes.

If those two layers often indeed overlap and objectives go in the same direction, note this is not always the case, and this where, the UNPRI believes SDGs can help make a difference.

Consequently, not only do we ask ourselves **how environmental issues may affect investment decisions,** but also, **how investment decisions may affect global environmental issues**. However, note that sometimes, one positive progress on an environmental objective can result in a negative outcome on another environmental issue. We endeavour to measure those and operate the best arbitrage we can.

Our Mapping

Alken's environmental analysis therefore focuses on the following mega trends and associated issues:

MEGA TRENDS	UNDERLING ENVIRONMENTAL ISSUES
CLIMATE CHANGE	Climate Change Risk
	Decarbonisation Strategy
	Energy Transition
	CO2 Emissions Management
	Technological Developments
BIODIVERSITY & SCARCITY OF RESOURCE	Water Stress Management
	Biodiversity Protection
	Impact on Ecosystems
	Resource Efficiency
	Pollution Prevention
	Use of Recyclable
	Changing Demographics
WASTE & POLLUTION	Waste Management
	Air Quality
	Toxic Emissions

Although the above criteria are the environmental objectives that our firm endeavours to prioritise, we nevertheless realise that the world and societies are undergoing quick transitions and changes, from demographics' changes, to environmental changes or technological advancements. Our mapping and focus are therefore dynamic, and we strive to constantly anticipate the different upcoming dynamics and priorities.

6. Our Principal Adverse Impacts Monitoring

– Focus being placed on the environmental aspects

Over the year of 2023, we have started engaging with our issuers on the environmental potential adverse impacts that they could have, trying to understand what their impacts are, and if any mitigating measures can be implemented.

The type of questions asked are usually as follows.

Additionally, we have chosen to also add the DEFORESTATION voluntary factor into our list of environmental potential adverse impact.

Climate and other environment-related indicators:

1. To what extent did you reduce your GHG Scope 1 emissions? Explain the situation.

2. To what extent did you reduce GHG Scope 2 emissions? Explain.

3. To what extent did you reduce GHG Scope 3 emissions? Explain.

4. To what extent did you reduce your overall carbon footprint? Explain.

5. To what extent did you reduce your overall GHG intensity? Explain.

6. To what extent did you reduce the share of your business activities being active in the fossil fuel sector (if applicable)? Explain.

7. To what extent did you reduce the share of your business activities being linked to non-renewable energy consumption and production (if applicable)? Explain.

8. To what extent did you reduce the share of your business activities being linked to an energy consumption intensity per high-impact climate sector? Explain the situation.

9. To what extent did you reduce the share of your business activities being linked to activities negatively affecting biodiversity - sensitive areas? Explain.*

**business activities with sites/operations located in or near to biodiversity sensitive areas, where the activities negatively affect those areas*

*10. To what extent did you reduce the share of your business activities being subject to a high emissions to water ratio** (if any)? Explain.*

*** Tons of emissions to water generated by your business activities per million EUR invested, expressed as a weighted average*

*11. To what extent did you reduce the share of your business activities being subject to a high hazardous waste ratio*** (if any)? Explain.*

****Tons of hazardous waste and radioactive waste generated by your business activities per million EUR invested, expressed as a weighted average.*

More information is being provided in our Annual Investor Report.

ANNEX

EXAMPLES OF CONTRIBUTION BY SDG

TARGET 7.1: *By 2030, ensure universal access to affordable, reliable and modern energy services*
"FASTNED's goal is a European network of a 1000 fast charging stations on prime locations, where all electric vehicles can charge with renewable energy from sun and wind."
TARGET 7.2: *By 2030, increase substantially the share of renewable energy in the global energy mix*
"FASTNED's mission is to give freedom to electric drivers and accelerate the transition to sustainable mobility".

- *Fastned Freedom Plan*: Building a European network of fast charging stations broken down into four phases:
  - Get started in the Netherlands;
  - Roll out a pan-European network;
  - Drive down prices for customers through faster charging;
  - Use power demand to invest in solar & wind farms.

- Fastned reminds that "fast charging stations have a tremendous potential for delivery electricity efficiently to large numbers of EVs. Today, fast charging is typically done at 50 kW but the speed of fast charging is increasing rapidly. A fast-charging station can thus be upgraded to serve more EVs per day. Operators of these stations will have an incentive to upgrade their stations with more chargers and with faster chargers as it will allow them to sell more kWh per location per day."

- Fastned reminds that "*Fast charging stations are good for the grid*":
  - "All future Fastned charging stations are connected to robust medium voltage distribution grids. This helps to divert load from the vulnerable low voltage grid.
  - Large fast charging stations with 10+ chargers are able to serve hundreds of cars per day, yet require just one grid connection. This lowers the burden of connecting to grid companies.
  - Fast charging stations connected to the medium voltage grid are very suitable to be equipped with additional battery storage. On site batteries can (a) increase the maximum capacity of the station during peak moments (b) in aggregate, these batteries can act as a large-scale flexible resource for the grid operator[3]"

[3] Extracted from Fastned's website: https://fastnedcharging.com/hq/why-fast-charging-stations-are-good-for-the-grid/ on 17032021.

"Building a world leader in sustainable mobility."

Previously: GROUPE PSA & FIAT CHRYSKER AUTOMABILES separately. Both joined forces on January 16, 2021.

TARGET 11.1: *By 2030, ensure universal access to affordable, reliable, and modern energy services.*

- "Well positioned to compete in global markets with 39 electrified vehicles available by the end of 2021. Significant scale with well-established commercial positions in Europe, North America and Latin America."
- "Stellantis' portfolio is uniquely suited to offer distinctive, sustainable mobility solutions to meet its customers' evolving needs, as they embrace electrification, connectivity, autonomous driving, and shared ownership."

TARGET 11.2: *By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons.*

- "As the electrified market continues to grow, the company is well positioned with 29 electrified models available and plans to introduce 10 additional vehicles by the end of 2021."
- "The company is strongly committed to playing an active part in contributing to the societies in which it operates, as it works towards achieving a long-term goal of carbon neutrality across all products, assembly points and other facilities[4]".

TARGET 12.5: By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.

- « [...] Stay in line with a product strategy that promotes better recovery and recyclability of its vehicles, the Group's manufacturing plants are committed to developing a circular economy wherever they are located. The Group also wants to avoid wasting natural resources and only use the quantity of raw materials necessary."[5]
- "This strategy also extends into waste management, through the achievement of zero landfill waste and by encouraging the use of recovery and recycling channels." [6]

[4] All info were extracted from Stellantis website on 17032021: https://www.stellantis.com/en/news/press-releases/2021/january/stellantis-building-a-world-leader-in-sustainable-mobility
[5] Info extracted from PSA Groupe 2019 report on 17032021: https://www.cotecorp.com/Groupe_PSA_2019_CSR_Report.pdf
[6] Info extracted from PSA Groupe 2019 report on 17032021: https://www.cotecorp.com/Groupe_PSA_2019_CSR_Report.pdf

Science Based Targets[7]**:** *show companies how much and how quickly they need to reduce their GHG emissions to prevent adverse impacts of climate change.*

GROUPE PSA[8]**:**

- "PSA Automobiles SA commits to reduce absolute scope 1 and 2 GHG emissions 20% by 2034 from a 2018 base year.
- PSA Automobiles SA also commits to reduce scope 3 GHG emissions from use of sold products 37% per vehicle kilo meter by 2034 from a 2018 base year (the target boundary includes biogenic emissions and removals from bioenergy feedstocks).
- The targets covering GHG emissions from company operations (scopes 1 and 2) are consistent with reductions required to keep warming to 2 degrees Celsius "[9].

Figure: extract for Science Based Targets

Progress against target (as a % of target completion)	**Progress against target** (current % status compared to target % status)	**Target timeframe** (% elapsed)	**Target timeframe** Base year to target year (latest data year in brackets)	**Target type**	**Activity unit**
PostNord AB: PostNord AB reported progress on all targets (see below).					
90%	36 of a 40% reduction target	91%	2009 to 2020 (2019)	Absolute	
Procter & Gamble Company: Procter & Gamble Company reported progress on at least one target, but progress could not be represented in this table.					
Prologis: Prologis reported progress on at least one target, but progress could not be represented in this table.					
Proximus: Proximus reported progress on at least one target, but progress could not be represented in this table.					
PSA Automobiles SA: PSA Automobiles SA reported progress on all targets (see below).					
37%	7 of a 20% reduction target	6%	2018 to 2034 (2019)	Absolute	
16%	6 of a 37% intensity reduction target	6%	2018 to 2034 (2019)	Intensity	vehicle kilometer

For Illustrative Purpose only.

[7] https://sciencebasedtargets.org/

[8] Extracted from Science Based Targets website on 17032021: https://sciencebasedtargets.org/companies-taking-action#table

[9] Extracted from Science Based Targets website on 17032021: https://sciencebasedtargets.org/companies-taking-action#table

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