



# ESG INTEGRATION POLICY

Alken Asset Management Ltd

*Last updated: June 2022*

## Contents

A.	INTRODUCTION .....	2
1.	RATIONALE FOR ESG INTEGRATION.....	2
2.	ESG INVESTMENT OBJECTIVES.....	3
B.	OUR RESOURCES & TRAINING .....	3
C.	ALKEN’S PROCESS.....	5
1.	ESG EXCLUSION AND SCREENING .....	5
1.1	EXCLUSIONS .....	5
1.2	SCREENING.....	6
2.	ESG EVALUATION AND INTEGRATION .....	8
D.	ESG PILLARS AND THEIR SUB-FACTORS .....	9
E.	ESG CONTROVERSIES MANAGEMENT & EXIT STRATEGY .....	11
F.	ALKEN INTERNALLY .....	12
1.	INCLUSION, DIVERSITY AND CULTURE EFFORTS.....	12
2.	ALKEN ESG TEAM .....	12



## A. INTRODUCTION

This document provides an overview of Alken Asset Management’s incorporation of environmental, social, governance and human rights (ESG) considerations into its investment process<sup>1</sup>.

The policy aims to explain the firm’s ESG objectives, its guiding principles, its resources, and the process the firm has put in place.

### 1. RATIONALE FOR ESG INTEGRATION

Allocator of capital, Alken sees finance as a vehicle to achieve long-term oriented goals and not just an end in itself. We therefore work to achieve a sustainable global financial system by embedding the sustainability-related linkages that underpin economic growth into our investment strategy. Alken understands that failing to both evaluate and integrate ESG factors in the same way as we do for any other financial factor are likely to lead to a company’s poor performance. Every day, corporate scandals remind us that ESG issues will affect a company’s performance. In an increasingly complex and interconnected world, we believe in long-term investments as the financial system of tomorrow, where ESG issues are no longer a distant threat on the horizon but ones that are here and now, with potential multi-billion-dollar economic consequences such as climate change. We recognise that this new trend has now become *the* proxy to measure how markets and societies are evolving and how concepts of valuation are adapting to these changes.

Believer of the new mantra “Who Cares Wins<sup>2</sup>”, Alken sees the integration of ESG factors within the business’ DNA as a catalyst for forward-looking solutions. From the management’s investment decisions to its relationship with key stakeholders, ESG issues are now incorporated in every aspect of an institutional investor’s core business culture and are on their way to becoming part of investors’ fiduciary duties. We therefore believe that the selection and integration process of ESG criteria contributes to the robustness of the investment decision process.

---

<sup>1</sup> This integration process was implemented for five of Alken strategies: Alken Fund European Opportunities, Alken Fund Absolute Return, Alken Fund Continental Europe, Alken Fund Income Opportunities, Alken Fund Global Convertibles.

<sup>2</sup> The Who Cares Wins initiative has been actively engaging with mainstream financial companies and organizations in an effort to assist in the integration of ESG issues in investment analysis. The conference took place in Zurich in 2005 and marked an importance milestone in this effort.



## **2. ESG INVESTMENT OBJECTIVES**

As an asset manager, our fiduciary duty is to respect our clients' needs and ensure a sustainable long-term value creation. Today, the integration of ESG criteria 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.

As an asset manager, our duty is also to all work towards a more sustainable financial system where asset managers play an active role in mobilising finance for sustainable growth. Together with other firms, we believe that implementing an ESG strategy can help promote sustainable activities, channelling investments as a tool to support economic growth while reducing pressures on the environment, social and governance aspects.

In order to drive its ESG integration priorities, Alken follows the Sustainable Development Goals (SDGs) objectives. Thanks to a team effort between the PMs, the investment analysts and the ESG analyst, Alken has developed its proprietary ESG mapping which helps us identify material ESG issues for each sector in which we invest in.

As a traditional stock picking firm and endowed with a team of innovative and motivated individuals, we believe to be well positioned to meet this new sustainable investing challenge. Independently owned, with an expertise in research and thorough analysis, our small and diverse team keeps us flexible and easily adaptable in this fast-changing environment.

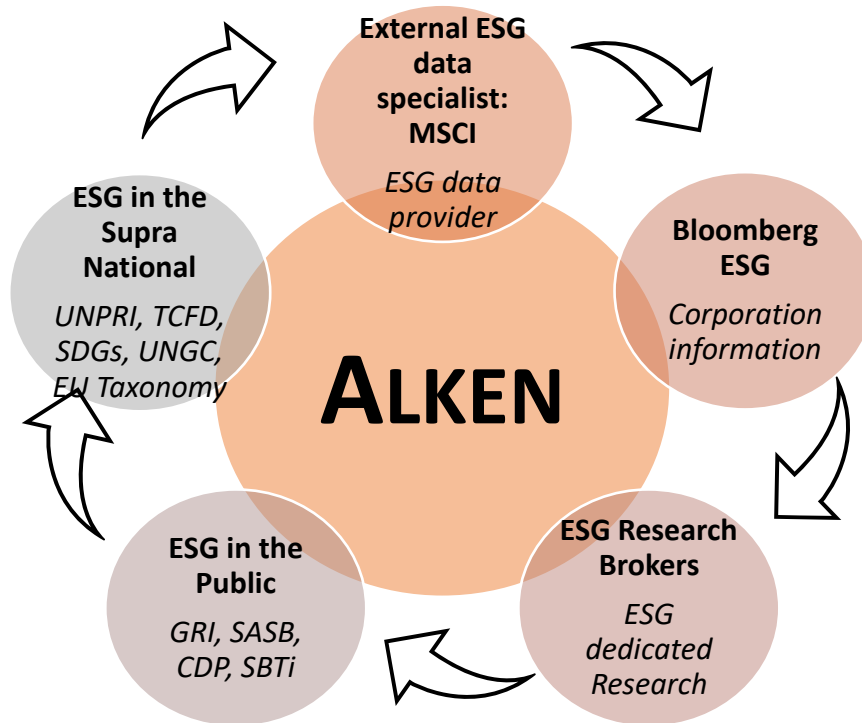
## **B. OUR RESOURCES & TRAINING**

Back in 2019 the ESG function was assigned to one dedicated person to oversee and manage the enhancement of our ESG processes across the firm, together with the COO, the PMs and investment analysts. The ESG officer has a few years of experience in the field of ESG with an ESG data provider and also additionally took the PRI Certificate in Responsible Investment.

The firm gathers internal information, research, analysis or ESG scoring via our proprietary internal ESG platform which is available to the relevant staff members.

The ESG officer provides at least a yearly face-to-face presentation to all staff members on top of a yearly ESG only training that everyone has to take.

Alken uses a number of different information vehicles in order to operate the integration of ESG issues in its investment process.



More can be found in our dedicated Policy: *ESG Research and ESG Team Policy*.




## C. ALKEN'S PROCESS

### 1. ESG EXCLUSION AND SCREENING

#### 1.1 EXCLUSIONS

Alken put in place a few years ago a firm-wide exclusion of issuers which are either linked to controversial activities or prohibited products in relation to controversial weapons.

We also put in place several specific strategies additional exclusions based on sins (i.e.: tobacco producers) or based on specific activities (i.e.: oil & gas exploration and production).

	ESG LuxFLAG strategy	ESG LuxFLAG strategy	ESG LuxFLAG strategy	Other strategy	Other strategy	Other strategy	Other strategy	
Controversial Weapons <sup>3</sup>	 All Activities Excluded			Controversial Weapons Excluded				
Tobacco producers <sup>4</sup>				No exclusion on Tobacco				
Thermal Coal Producers <sup>5</sup>				Thermal Coal & Shale Oil are Excluded Activities			No exclusion	
Shale Oil Producers <sup>6</sup>								
Oil & Gas Exploration and Production <sup>7</sup>				No exclusion on O&G E&P				
Poorly Governed Companies (soft exclusion) <sup>8</sup>				CG Excluded (unless justification)			No exclusion	

<sup>3</sup> **Controversial weapons** using MSCI ESG: Controversial Weapons - Any Tie- CWEAP\_TIE

<sup>4</sup> **Tobacco producers** using MSCI ESG: Tobacco Total - Any Tie: TOB-TIE

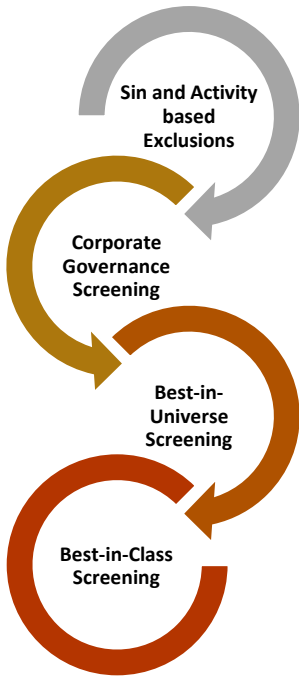
<sup>5</sup> **Thermal coal producers** using MSCI ESG: THERMAL\_COAL\_MAX\_REV\_PCT [Thermal Coal – 30% of Revenue]

<sup>6</sup> **Shale oil producers** using MSCI ESG: SHALE\_OIL\_MAX\_REV\_PCT [Shale Oil – 30% of Revenue]

<sup>7</sup> **Oil and gas exploration and production** using MSCI ESG: OG\_REV\_EXTRACTION\_PROD [O&G – Extraction and Production – 30% of Revenue], unless MSCI List has insufficient data or contradicts GICS classification.

<sup>8</sup> **Poorly governed companies** using MSCI ESG: CORP\_GOVERNANCE\_SCORE: below 3/10, unless overridden by investment team explanation, reviewed, audited, and confirmed by ESG and Compliance team.

## 1.2 SCREENING



Alken also put in place a screening stock selection process. The rationale behind this selection process is to ensure that the screening of each security has been made so to match the long-term performance objectives of the given strategy, the amount of risk we believe it can sustain, and a number of minimum ESG standards. Our screening process has therefore two objectives:

- Filter the universe via a selection of ESG filters to organise companies into categories depending on their ESG maturity levels.
- Assign an internal initial score<sup>9</sup> to every company entering the portfolio, helping us prioritise the internal deeper assessment that we conduct as part of our “ESG Integration” process.

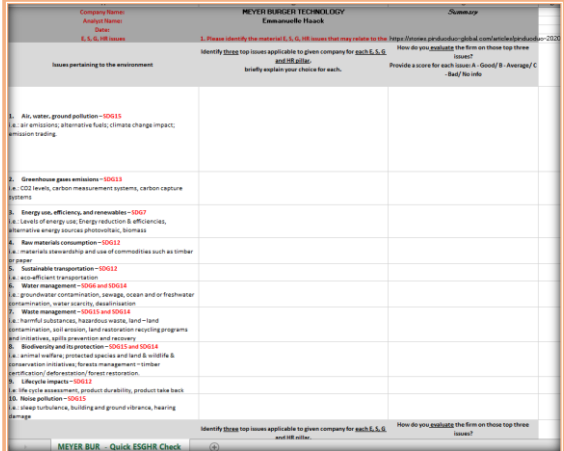
### Scenario 1: We can extract a company ESG report from our external ESG data provider:

- We screen based on an overall **Governance** parameter,
- We identify the **Best-In-Universe** and **Worst-In-Universe** globally,
- We identify the **Best-In-Class** and **Worst-In-Class** companies for each sector.

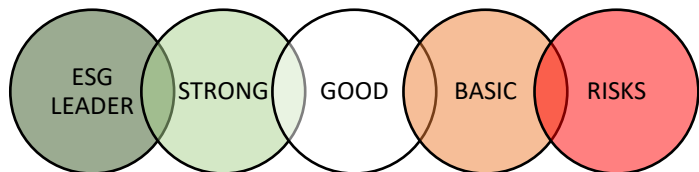
### Scenario 2: There is little or no data available from our ESG data provider:

<sup>9</sup> Note this initial internal score which derives from our screening process and data extracted from ESG provider can be overridden following our internal assessment and subsequent internal re-evaluation of the initial scoring.

- We work on a **selection of governance indicators available on Bloomberg<sup>10</sup>** (i.e.: ISS Overall Score; ISS Board Score; ISS Audit Score; Beneish Score; Short Ratio; Prominent Shorts).
- We go through our internal **“ESG checklist” review** where we identify the most relevant E, S, G and HR indicators for the company business. We then evaluate the company level of ESG integration across those indicators. We use this review to assign an internal score to the company.



Our screening process categorises companies into **five different sections:**



#### Grade A +: ESG Leader

- **Disclosure:** excellent
- **ESG strategy** integrates ESG opportunities
- **ESG risks:** measures fully in place to mitigate them
- **CSR culture:** part of the firm’s DNA

#### Grade A -: Strong ESG Company

- **Disclosure:** very good
- **ESG strategy** integrates a number of ESG opportunities
- **ESG risks:** several measures are in place to mitigate them
- **CSR culture:** mostly part of the firm’s DNA

#### Grade B: Good ESG quality

- **Disclosure:** adequate
- **ESG strategy** integrates *some* ESG opportunities
- **ESG risks:** measures in place to mitigate *some* ESG risks
- **CSR culture:** the firm has made significant effort to integrate sustainability in its culture

<sup>10</sup> This governance pre-investment screening is available on request in a xlsx format. Where no information can be extracted on the above parameters, we have the discretion to decide not to invest in the company.



**Grade C +: Basic quality, light exposure to ESG risks**

- **Disclosure:** some weaknesses or gaps were identified
- **ESG strategy:** missing integration on several material ESG opportunities
- **ESG risks:** missing mitigating measures on several ESG material risks
- **CSR culture:** CSR is not yet embraced in the firm's DNA

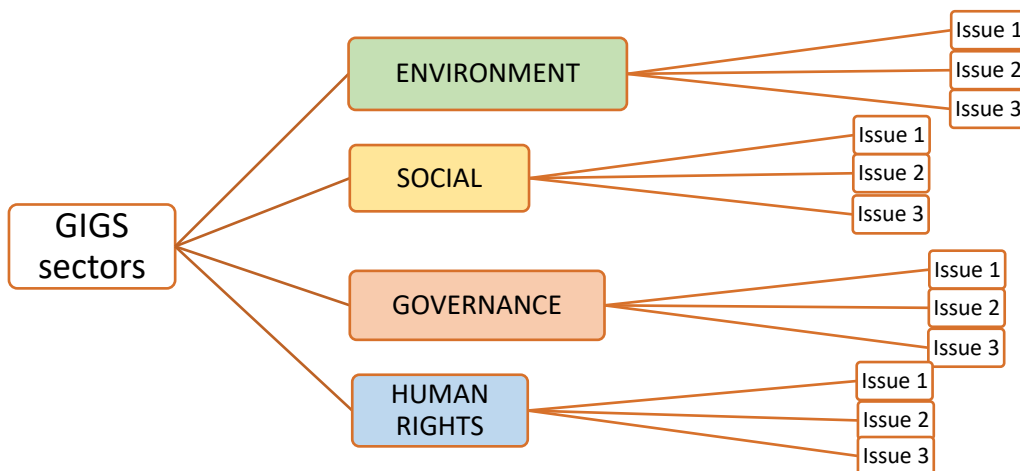
**Grade C -: Strong exposure to ESG risks**

- **Disclosure:** extremely poor
- **ESG strategy:** *Most* ESG opportunities fail to be integrated or mentioned within the strategy
- **ESG risks:** *Most* ESG risks are not considered in the strategy
- **CSR culture:** is not part of the firm's DNA

## 2. ESG EVALUATION AND INTEGRATION

The objective sought by our ESG integration process is to use the company's internal evaluation and subsequent rating to measure the ability of the given company to adequately manage its ESG risks and opportunities. This process seeks to help us better evaluate our portfolio's exposure to emerging ESG trends per sectors as well as potential ESG risks that should be monitored.

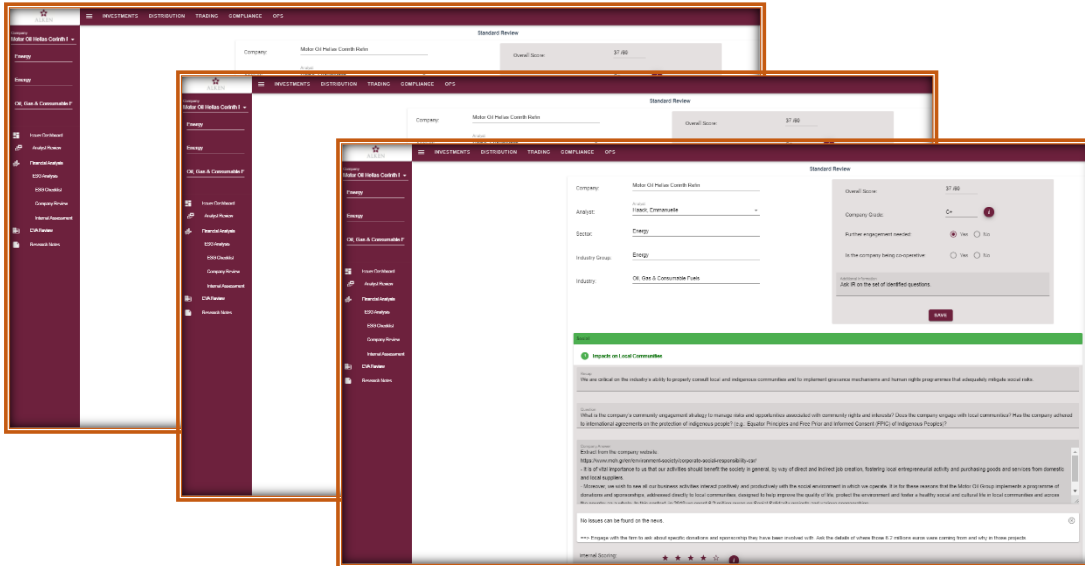
To achieve this, Alken has defined a set of **three different sub-themes** for its **four ESG pillars: environmental, social, governance and human rights**. The three sub-themes vary **depending on the sector/ sub-industry** of the analysed company. Over time, Alken continues to improve and extend its proprietary methodology. **This process is implemented on a firm-wide level.**







We use our **proprietary ESG platform** to analyse companies through *our* ESG lens:



## D. ESG PILLARS AND THEIR SUB-FACTORS

The below shows some of the key **cross sectorial ESG criteria** that we have identified at Alken. Note we identified specific ESG criteria to each and every sector as well.



SECTOR	SUB-SECTOR	ENVIRONMENT			SOCIAL			GOVERNANCE			HUMAN RIGHTS				
		Issue 1	Issue 2	Issue 3	Issue 1	Issue 2	Issue 3	Issue 1	Issue 2	Issue 3	Issue 1	Issue 2	Issue 3		
1	ENERGY	OIL, GAS, COALS, FUELS	CO2 Emissions	Impacts on ecosystems and landscape	Resource Efficiency & Local Pollution Prevention	Impacts on Local Communities	Health & Safety	Gender Diversity	Corruption & Ethics Prevention	Director's Structure	Business Ethics	Right to equality	Right to peaceful Assembly	Anti-Slavery Prevention	
2	MATERIALS	METALS & MINING	CO2 Emissions	Impacts on ecosystems and landscape	Promotion of Renewable Energy Sources	Impacts on Local Communities	Health & Safety	Fundamental Labour Rights	Competition and Ethics Prevention	Board structure and role	Ownership Structure	Freedom from discrimination	Freedom of Expression	Anti-Slavery Prevention	
															CONSTRUCTION MATERIALS
3	CONSUMER DISCRETIONARY	TRANSPORTATION - AIRLINES	CO2 Emissions	Carbon Transition Management	Impact on ecosystems and landscape	Human Capital Management	Cost-Cutting	Product Safety	Privacy and Security	Supply Chain Management	Product Design & Life Cycle	General Human Rights	Child Labour Prevention	Anti-Slavery Prevention	
															AUTO & COMPONENTS
4	CONSUMER DISCRETIONARY	FURNITURE, APPAREL & LUXURY GOODS	CO2 Emissions	Raw Material Sourcing	Impact on ecosystems and landscape	Fundamental Labour Rights	Animal Welfare	Consumer Behaviour	Product Innovation	Supply Chain Management	Product Design & Life Cycle	General Human Rights	Child Labour Prevention	Anti-Slavery Prevention	
															SPECIAL RETAIL
5	CONSUMER STAPLES	FOOD & STAPLES RETAILING	Energy use & Transportation	Sustainable agriculture & Animal rearing management	Impact on ecosystems and landscape	Fundamental Labour Rights	Health & Safety	Automation of Labour	Product Safety	Supply Chain Management	General Corporate Governance	General Human Rights	Anti-Discrimination and harassment	Anti-Slavery Prevention	
															PHARMA & BIOTECH
6	HEALTH CARE	HEALTH CARE EQUIPMENT & SERVICES	CO2 Emissions in the transportation	Toxic emissions and hazardous waste	Water management	Contribution to social cause	Health & Safety	Product safety and manufacturing quality	Fair pricing	Business Ethics	General Corporate Governance	Human Rights' protection	Non-discrimination	Social dialogue	
7	FINANCIALS	BANKING	Environmental strategy embedded within business model	Physical Impacts of Climate Change	Energy Efficiency	Selling practices & Product Labeling	Data Security & Customer Privacy	Access & Affordability	Management of the increased regulatory risk	Product design & lifecycle management	Business Ethics	General Human Rights	Child Labour Prevention	Anti-Slavery Prevention	
															DISPERSED FINANCIALS
8	INFORMATION TECHNOLOGY	SOFTWARE & SERVICES	CO2 Emissions	Energy Efficiency	Promotion of Renewable Energy Sources	Customer Privacy and Information Management	Gender Diversity	Human Capital Management	Privacy and Security	Anti-Competitive Practices	General Human Rights	Child Labour Prevention	Anti-Slavery Prevention		
9	INFORMATION TECHNOLOGY	HARDWARE & EQUIPMENT	CO2 Emissions	Conflict Minerals	Lifecycle Management and E-Waste	Climate Change Risk	Labour Management	Health & Safety	Social Dialogue	Competitive Behaviour	Managing systemic risks from technology disruptions	Anti-Competitive Practices	General Human Rights	Child Labour Prevention	Anti-Slavery Prevention



We mapped those E, S, G and HR factors to the relevant sectors, as shown in the below, to build our internal materiality map.

This ESG mapping helps us identify the key factors to look at for each sector and its underlying company.

**Priority for ESG review:** We endeavour to conduct our internal ESG assessment based on the degree of ESG risk the company is posing, as defined via our screening process and categorisation methodology. Priority is given to “Red” companies as well as to the companies being on our “Watch list”.

**Sources of our ESG review:** We evaluate companies first using the information the company disclosed in its ESG/annual reports, ESG section on the website, or any other publicly available information shared by the company.

**Engagements for our ESG review:** Where no information can be gathered, we endeavour to send a specific ESG questionnaire to the IR or ESG representatives of the given company<sup>11</sup>. We endeavour to organise a call to discuss the different questions we have.

**Evaluation and scoring of company’s communication and actions:** Following the company’s official response or answers to our questions, we conduct an assessment on the quality of the ESG communication provided and on the depth of their commitment on ESG. Further information on this process can be found in our ESG Investment Process Guidelines. With this evaluation, an internal score and grade is assigned to the company<sup>12</sup>.

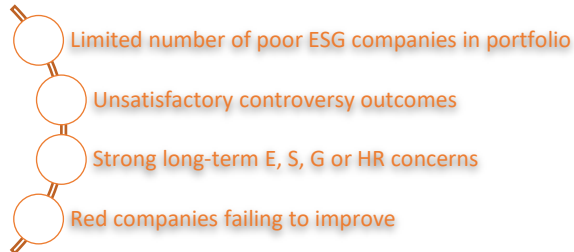
<sup>11</sup> For more information on our engagement, please refer to our Engagement & Voting Policy.

<sup>12</sup> Again, more information on our methodology, score card, or criteria can be found in this document, available for both, our Fixed-Income and our Equity ESG strategies: ESG Investment Process Guidelines.



## E. ESG CONTROVERSIES MANAGEMENT & EXIT STRATEGY

Once invested in the portfolio, Alken can decide to reduce exposure or exit a particular investment in the following situations<sup>13</sup>:



### ❖ Limited number of poor (“RED”) ESG companies in LuxFLAG portfolios

For instance: As we put in place that only 10% or 25% of “RED” classified companies can be invested in <sup>14</sup>strategy X, we will decide to sell any “RED” company if going above the threshold.

### ❖ Unsatisfactory controversy outcomes

An event takes place on a specific company, putting heavy risks on ESG. Following our internal analysis and potential further engagement, we are unsatisfied and can re-consider the investment.

### ❖ Strong long-term E, S, G or HR concerns (including UNGC failures)

A company repetitively failing to improve identified key ESG and HR risks over the long period of time can make us re-consider the investment.

### ❖ Red companies failing to improve

If the internal ESG analyst concludes, thanks to his internal analysis and review, that the company is not presenting strong ESG risks, then the company is uplifted to the above category. It is no longer a “RED” company.

If, on the contrary, the analyst concludes in his analysis that the RED company does indeed present a strong degree of ESG risk(s), then the analyst may decide to either further engage with the company, to reduce or even to exit the company, depending on the situation. For this, we use our ESG Committee to discuss the matter altogether.

<sup>13</sup> Note there might be other situations which are not listed here.

<sup>14</sup> A maximum of 10% of “Red” companies is accepted for our ESG LuxFLAG strategies, and a maximum of 25% of “Red” companies is accepted for the rest of our Article 8 SFDR strategies.



## F. ALKEN INTERNALLY

### 1. INCLUSION, DIVERSITY AND CULTURE EFFORTS

We endeavour to promote a culture of openness and inclusion at the firm level. We believe that implementing an internal culture of greater inclusiveness will foster better business ideas and outcomes.

Furthermore, alongside Policy, Alken has adopted a number of complementary ESG investment related policies which include, but are not limited to the following:

- Equal Opportunity Policy (which includes our Diversity & Inclusion Guidelines)
- Modern Slavery Statement
- Parental Leave Policy
- Code of ethics

### 2. ALKEN ESG TEAM



Reda Karkar



Falastin Ali



Antony V.



Emmanuelle

Please visit our website for more information: <https://www.alken-am.com/esg>