

Responsible Investment Policy

Introduction

Alexandre Stucki Investment Management (ASIM) is an independent fund manager specialized in Swiss equities. It manages Swiss equity investment funds as well as discretionary portfolios. It is committed to growing the capital entrusted to it with a minimized risk of loss. To achieve this, a “value and growth” philosophy is applied. The investment strategy is based on alpha generation. Portfolio managers do the primary fundamental analysis for all companies invested in and candidates to be considered.

In regards of the ESG funds (Cadmos Swiss Engagement Funds and AS Swiss Equity Cadmos Engagement), ASIM applies active ownership to active portfolio management. Portfolio managers dialogue with all companies invested in the funds to push them integrate their most material environmental, social and governance (ESG) or sustainability topics in their corporate strategy. ASIM collaborates with de Pury Pictet Turrettini and the ESG expert BHP-Brugger & Partners to develop the assessment and engagement process. Portfolio managers participation and sustainability experts, who together formulate progress recommendations in the engagement meetings, is a key differentiating factor. Thanks to their active engagement, portfolio managers obtain ever deeper insight into the sustainability of the companies’ business models and their long-term strategy. This investment strategy allows to better integrate the financially material sustainability factors. Through active ownership and direct engagement with companies, ASIM can better select tomorrow’s winners and improve the portfolios’ risk-reward-impact profile.

ASIM portfolio managers are all engaged in the management of the ESG funds. As such, the benefits of the shareholders engagement and dialogues on corporate sustainability are reflected in all investment made within ASIM. Through its commitment to both financial analysis and ESG, ASIM assures its clients to invest in companies that it has a strong belief in, which are financially sound and mostly follow the 10 principles of the UN Global Compact.

Active Portfolio Management

The investment’s universe is the SPI index, the Swiss Performance Index.

Exclusion: In its selection of securities, ASIM excludes any company that is directly active for more than 5% of its business in weapons of war, in oil and mining exploration, in tobacco and in shale drilling. ASIM also excludes companies which would legally require exclusion by not respecting international or domestic laws.

Stocks’ selection:

In this broad investment universe, the managers select around fifty companies that must meet quantitative and qualitative criterias. Analysts look for companies that create value and are growing: steady growth in sales, improved profitability, strong cash flow generation, a strong balance sheet, and high and improving ROIC. In addition, managers look for quality companies, with proven and trusted management, companies that are leaders in their field and that innovate in growing sectors.

Financial analysis:

For each company selected, the managers will create a financial model, with a history of at least the last 5 years and make projections for the next 5 years for the profit and loss, the balance sheet and the cash flow accounts. The managers refer to the companies' publications (results, presentations, investors days). The managers are in regular contact with the management and investor relations to have a better understanding of the companies and to adjust their projections. The managers have more than 100 meetings with the managers of the companies per year. In addition, there are company presentations following publication of results and other official presentations. The managers also read the research provided by brokers and compare their model with the consensus. The models are constantly updated, whether after publication of results, after a company announcement (for example an acquisition) or a meeting with the management or any other economic event that could have an impact on the business of a company. With this analysis, the managers can assess the financial strength of a company, its level of debt, its future sales growth, the improvement of its margins, its ability to create value, its returns on invested capital over the medium term, its resilience on economic cycles, among others. The manager will also take into account the policy of the use of cash, whether it is reinvested in organic growth (in R&D expenditure or capital expenditure), whether it is used for external growth (acquisition) or returned to shareholders in the form of dividend or share buybacks.

Valuation:

The valuation methodology to determine the fair value of a share is based on the so-called "discounted cash flow" model, it discounts the future cash flows generated by the company. This methodology also takes into account dividends paid by the company to its shareholders.

The managers build their portfolios based on estimated fair values. They re-evaluate the weights in securities, buying or selling a stock based on the updated valuation model.

Active Stewardship

ASIM is an active shareholder in the investee companies in its two ESG funds (Cadmos Swiss Engagement fund and AS Swiss Equity Cadmos Engagement).

Voting provides portfolio managers with valuable information about the quality of a company's governance. The skill, independence and availability of the board of directors are critical to a company's future. The effect of a capital increase, for example, will be felt immediately. Exercising the right to vote is a financial responsibility.

The portfolio managers define their voting positions by studying the analyses of annual general meetings (AGMs) and the voting recommendations supplied by the proxy voting advisory firm, Glass Lewis. This independent agency is a leading provider of governance assessment and voting advice and covers more than 23'000 companies in more than a hundred countries. Portfolio managers have the rights and the duty to deviate from the proxy's recommendations, should they find that these do not take full account of the companies' business models and particularities or do not correspond to their respective internal voting guidelines.

Voting Guidelines :

Structure of the board of Directors

1. Election of individual board members
2. Functioning and independence of the various committees
3. Separation of CEO function and chairman of the board of directors
4. Granting of the discharge

Transparency and coherence of the remuneration structure

5. Appropriate structure of the remuneration system for the executive committee
6. Appropriate structure of the remuneration system for the board members

Structure and ownership of share capital

7. Approval of accounts and allocation of profits / dividends
8. Appropriate capital structure (capital increase...)
9. Appointment of the auditors

Shareholders' rights

10. Amendments to articles of association, equal treatment of shareholders and anti-takeover measures

Environmental, Social and Governance questions

11. Appropriate climate-change related shareholders resolution
12. Adequate diversity & inclusion at board level.

Active Engagement and Impact

ASIM does not limit its analysis to pure financial analysis to build its convictions. The portfolio managers also engage so integrate sustainability into the business models. Any business cannot be disconnected from its environment, from the society in which it operates. It is a guarantee of sustainability for a company to have impeccable ethics and governance, to integrate and to improve its natural and social environment. As such ASIM broadens its financial analysis to an analysis of the sustainability of the company. On the one hand, the reading of company ESG reports and meetings with company managers in sustainability departments allows managers to deepen their knowledge of a company, to better understand certain issues that a company may face, for example at suppliers level for essential raw materials. On the other hand, a business cannot grow if the society in which it is part of does not flourish, if its suppliers cannot improve their standard of living at the risk of seeing their resources disappear. In addition, companies should respect internationally human and environmental rights and laws. It is also essential for a company if it wants to innovate and grow to be an employer of choice, which applies equal opportunities, offers future prospects to its employees to keep them and grow with them.

Unlike many ESG fund managers who refer for their investment universe to securities that are part of ESG indices defined by third parties, ASIM managers take an active part in the ESG analysis by studying the various ESG reports (Sustainability report, code of conduct, GRI report, etc.) and by participating in an annual ESG meeting for each company in which the two ESG funds (Cadmos Swiss Engagement fund and AS Swiss Equity Cadmos Engagement) are invested. The managers therefore have a real deep knowledge of the ESG policy implemented by the companies.

All the dialogues and engagement meetings are designed to motivate companies not only to give greater consideration to tangible financial risks of inaction, negligence or even unlawful behaviour but essentially to increase the integration of the key material environmental, social and governance topics into their strategy and communication. Each year, portfolio managers and our ESG expert (BHP-Brugger & Partners) make clear progress recommendations based on an assessment of each company's identified gaps.

The engagement process

The methodology used is based on the 10 principles of the UN Global Compact.

The Un Global Compact's 10 principles :

Human rights :

1. Businesses should support and respect the protection of internationally proclaimed human rights;
2. Make sure that they are not complicit in human rights abuses.

Labour Standards :

3. Businesses should uphold the freedom of association and recognize the right to collective bargaining;
4. Eliminate all forms of forced or compulsory labor;
5. Abolish child labor;
6. Eliminate discrimination in respect of employment and occupation.

Environment:

7. Businesses should support a precautionary approach to environmental challenges;
8. Undertake initiatives to promote greater environmental responsibility;
9. Encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption :

10. Businesses should work against corruption in all its forms, including extortion and bribery.

The analysis is based on data published by the companies. The advisor begins by studying the quality of the information that covers the 10 principles and assesses the completeness of the information published. To assess how a company integrates and applies the 10 principles, the advisor analyses the documents according to the following 8 criteria:

1. Materiality : how does the company describe the importance of these principles
2. Commitment : to what extent does the company express its commitment to the principles
3. Strategy : how does the company integrate the principles into its strategy
4. Objectives : Are the objectives clearly defined? How does the company transform its engagement into tangible objectives

5. Measures : are the necessary measures properly described? Are the actions ensuring proper integration into the daily business activities?
6. Indicators : what performance measurement indicators has the company identified?
7. Monitoring : is the control system in place
8. Achievements : what is the impact of the measures taken.

The analysis assesses the quality of the information published by the company. It assesses whether the information is accessible and credible. If the company provides quantified year-to-year comparisons, if the information provided is accurate and reliable.

A dialogue is engaged on the conclusions of the analysis, the strengths and weaknesses in its integration of the principles. The focus is on the three most material topics for each business, selected by the portfolio managers. The portfolio managers participate in those dialogues in order to insist on the integration of financial and sustainability issues. During these dialogues, ASIM tries to have both managers in Sustainability or procurement departments and on the financial side, whether it is the chief financial officer, more rarely the chief executive officer, or an investor relations officer. This helps to better assess the ESG adoption within the company and the real commitment of management. It gives a deeper insight into the sustainability of each company's business model while creating additional impetus potentially contributing to achievement of the 17 UN Sustainable Development Goals (SDG's). Our engagement goes beyond simple dialogue with companies. Our ESG experts provide progress recommendations to the companies and provide thorough analysis of the gaps in the reporting.