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 (AS Swiss Equity Cadmos Engagement, AS Swiss Equity Plus and Cadmos Swiss Engagement Fund), ASIM applies active ownership to active portfolio management. Portfolio managers dialogue with all companies invested in the funds to convince them to integrate their most material environmental, social and governance (ESG) or sustainability topics in their corporate strategy. ASIM collaborates with de Pury Pictet Turrettini, as the ESG advisor, 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. This responds to the will of ASIM to be a long-term investor.

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, flexible, innovative and sustainable.

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 turnover in chemical and biological weapons, nuclear weapons, cluster weapons, depleted uranium munitions, oil and mining exploration, shale drilling, tobacco, adult entertainment and gambling. ASIM also excludes companies which would legally require exclusion by not respecting international or domestic laws. Apart from these cases, ASIM believe that dialogue is preferable to exclusion, it favors maintaining a dialogue and suggesting ways of progress on the sustainable issues.

Stocks' selection:

In the broad investment universe, the SPI, 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 and earnings, improved profitability (increasing operational margins), strong cash flow generation, a strong balance sheet, and high and improving ROIC (return in invested capital). 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.

ESG analysis :

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 have a dialogue with each company ASIM engage.

Sustainability risks (ESG) are integrated into the investment decision making because if they occur, they can have an impact on the value of an investment. (refer appendix 2 : sustainability risks)

Any company is intrinsically linked to its environment, to the society in which it operates. The sustainability of its environment will have an impact on its business model, just as its own business model will have an impact on the sustainability of its environment. This is the principle of double materiality.

Thus, the managers therefore have a real deep knowledge of the ESG policy implemented by the companies and the challenges of sustainability for the companies. Indeed, the study of companies' 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 supplier level for essential raw materials, and can highlight opportunities, e.g. innovations, as well as risks which can influence the prospect of growth (e.g. a risk of supply bottlenecks). This ESG analysis is complementary to the purely financial analysis because it can lead portfolio managers to trigger adjustment to their forecasts.

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.

Based on the annual ESG meetings and reports, a rating is defined for each company in the portfolio, rating compared and checked with external ratings from recognized rating agencies. The rating assigned to each company has a direct impact on valuation through the interest rate used in the discounted cash flow model. A rating above 50 out of 100 reduces the rate while lower rating increases it. The ESG rating can modify the rate applied by up to 50%, thus considerably influencing the fair value.

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 Engagement and Impact

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 the ESG advisor make clear progress recommendations based on an assessment of each company's identified gap. The aim is to engage with all companies held by the ESG funds within three years and to generate positive additional impacts for the majority of the portfolio companies within five years.

The engagement process :

Originally portfolio managers and the ESG advisor used the United National Global Compact as its key reference framework. It was one of the first to encourage businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. Today a multi-framework approach closely linked to the most structured global initiatives such as the United Nations Guiding Principles of Business & Human Rights or the Global Reporting Initiative is used.

All the material issues affecting the companies are condensed into nine topics. Together, these topics encompass all the issues identified by traditional sustainability frameworks. Human rights do not appear as a single topic. Instead, particularly in the light of the UN Guiding Principles on Human Rights, they are considered overarching, and are integrated into all nine topics. The nine topics are : product environmental impact, climate change impact, supplier environmental impact, product social impact, impact on communities, supplier social impact, core labour standards compliance, employee loyalty and skills, and business integrity & compliance. From these nine topics, the portfolio managers select the most material topics for each company, considering the company's business model and its development strategy.

The engagement process is based on the analysis of data published by the companies. The ESG advisor begins by collecting each company's sustainability data. He studies all the company disclosures, as well as media publications and specific databases (CDP, PRI, Bloomberg, SASB etc.). For media controversies and stories, they use the RepRisk database.

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The advisor begins by studying the quality of the information that covers the selected topics 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 extend 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 portfolio managers participate in those dialogues in order to insist on the integration of financial and sustainability issues. During these dialogues, ASIM tries to engage with 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.

During these meetings, the 17 UN Sustainable Development Goals (SDGs) are also discussed. These goals have been set for member countries of the United Nations who have committed to achieving them by 2023. Their purpose is to set the course for achieving a better and more sustainable future for all. They respond to global challenges, including those related to poverty, inequality, climate, environmental degradation, prosperity, peace and justice.

At the level of a company, the SDGs provide a framework for assessing positive or negative impact that the business of a company can have. Not all SDGs are relevant to all business models. It will be necessary to look for each company at the relevant SDGs only. This analytical framework helps motivate portfolio companies to move forward and create more impact.

Following the dialogue, the ESG advisor provide progress recommendations to the companies and provide thorough analysis of the gaps in the reporting.

Active Stewardship

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

Voting provides portfolio managers with valuable information about the quality of a company's governance. Exercising the right to vote is a financial responsibility. 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. Board and management compensation is very important in assessing whether the interests of the board and management are aligned with the interests of the shareholders. ASIM believes that the variable part of the salary, particularly the long-term incentives, must take into account the financial performance (organic growth, improvement of profitability, return on invested capital, cash flow) and sustainability performance.

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 advisor. 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.

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Annex 1 :

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.

Annex 2 :

Sustainability risks

Sustainability risk is defined in the SFDR (Sustainable Finance Disclosure Regulations, Article 3) as an environmental, social or governance event or condition which, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

Sustainability risks are difficult to quantify as there is uncertainty about their evolution. They are classified into three categories: environmental (E), social (S) or governance (G). Below a table with non-exhaustive list of sustainability elements:

Environment (E)	Climate change CO2 emissions Biodiversity loss Pollution (air, water, soil) Disruption of ecosystems Rising sea levels or coastal flooding Wildfires Depletion of raw materials Water resource management
Social (S)	Rights, wellbeing and interest of people (including in the workplace) Human capital Health and safety risks Demographic risks Access to goods and services Gender inequality Racial discrimination Child labor Human trafficking Human rights violation Supply chain labor standards
Governance (G)	Board diversity Executive pay Accounting transparency Responsible tax Bribery and corruption Poor safeguards on personal data IT security Competition

Sustainability risks might be considered as non-financial, but in reality, it is not the case as they can have an financial impact on companies. Indeed a company which by its activity neglects the effects of the pollution which its activity can produce can be subjected to fines and sanctions. A company the neglects human rights or employ children directly or indirectly through its suppliers' risks both regulatory and reputational sanctions which could harm its sales. A company which rely on raw materials can face shocks in its production process, which can generate additional costs.

On the contrary, efficient ESG management can be an opportunity. A company which can provide solutions to adapt or mitigate certain ESG risks may have stronger growth than its competitors. Companies with a good reputation will be able to attract qualified employees and retain them. A company with good resources management can save money and can better face potential supply chain disruption.

ASIM integrates sustainability risks into its investment decisions.

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