OBAM / INVESTMENT MANAGEMENT

Principal Adverse Impact Statement

October 2022

Introduction

Sustainability is an integrated part of OBAM IM's portfolio management process. At OBAM IM, we believe that asset managers play a pivotal role in creating a more sustainable world. Therefore, our client's and investor's assets will be managed through a transparent and sustainable investment strategy. We believe in a sustainable investment strategy from both a societal conviction and a strategic perspective. Sustainability issues may impact the value and reputation of portfolio companies. By building a portfolio consisting of portfolio companies with strong and leading business models, that contribute to a more sustainable world and future, we will create outperformance for our clients and investors. Please refer to our Sustainable Investment Policy for more information on our sustainable investment strategy.

As part of our sustainable investment strategy, we aim to mitigate the negative impacts of our investment decisions on sustainability factors. These negative impacts are also called adverse impacts, whereby the most significant adverse impacts are referred to as principal adverse impacts. These principal adverse impacts can occur in different areas, such as related to environmental, social and employee matters, human rights, corruption and bribery matters. The degree and the way the principal adverse impacts are considered in the investment process depends on various factors, such as on the type of fund or strategy and availability of reliable data.

In this statement we provide more information on our overall approach to identifying, prioritizing and addressing principal adverse impacts of our investment decisions on various sustainability factors. The statement consists of the following four sections:

1. Description of principal adverse impacts
2. Description of policies to identify principal adverse impacts
3. Engagement policies
4. References to international standards

1. Description of principal adverse impact

Definition of principal adverse impact

The concept of principal adverse impact is described in the EU Regulation on Sustainability Related Disclosures in the financial services sector (hereinafter: SFDR). The definition of principal adverse indicator is as follows: “negative, material or likely to be material effects on sustainability factors that are caused, compounded by or directly linked to investment decisions and advice performed by the legal entity.”

SFDR defines 64 principal adverse impact indicators in total, divided in 18 mandatory principal adverse impact indicators and 46 voluntary indicators. Please refer to Annex I for an overview of the principal adverse impact indicators that we structurally considers and that we aim to mitigate via our sustainable investment strategy.

As of 30 June 2023, OBAM IM will describe in this section the aggregated value of the adverse impact of OBAM IM’s investment strategy on the selected indicators as well as the actions taken during the reference period to avoid or reduce principal adverse impact and actions, or targets set for the subsequent period. For now, the following paragraphs aim to provide an introduction how we integrate the principal adverse impact in our portfolio management process, given that sustainability is an essential component of our investment strategy.

Instruments to address the principal adverse impact

OBAM IM has integrated its sustainable investment strategy within its portfolio management process by a mix of sustainable investment instruments. We use a combination of these instruments to address principal adverse impacts. The key ones are exclusion, screening, voting and engagement. Which (combination of) instruments we use depends on the nature of the topic, as well as on the specific context of the investment that is causing the adverse impact.

The sustainability instruments to mitigate the adverse impact can be directly or indirectly related to an adverse sustainability indicator. A direct example is board gender diversity, which we aim to influence via voting and engagement, which can lead to a direct improvement of the board gender diversity indicator. An indirect example is the exclusion of companies involved in tar sands, coals and fossil energy, through which we aim to reduce the GHG emissions indicator, even though the exclusion itself is not based on a certain threshold of GHG emissions.

Further reference is made to Annex II that describes the sustainable investment instruments in more detail.

2. Description of policies to identify principal adverse impacts

Integration of principal adverse impact indicators in portfolio management process

Sustainability is an integrated part of OBAM IM's portfolio management process. We established a Sustainability Policy to ensure that relevant sustainability factors are taken into account within the portfolio management process. The principal adverse impact indicators have been integrated in both our selection and due diligence process and portfolio monitoring process. Please refer to our Sustainable Investment Policy for more information.

1. *Selection and due diligence*

Before we start analyzing and selecting individual investments, we form an opinion on the investable universe in general. Our exclusion policy ensures that the investment universe meets a minimum sustainability standard irrespective of the individual portfolio company's sustainability profile. Sustainability exclusions include (i) sanctioned jurisdictions, (ii) controversial industries that should be avoided because of their potential sustainability risk and (iii) individual (potential) portfolio companies that do not comply with our sustainable investment principles and that are unable or unwilling to improve their behavior.

OBAM IM conducts a comprehensive sustainability due diligence for each potential investment. Within the sustainability due diligence, we focus on assessing whether there are any red flags (e.g., non-compliance with our sustainable investment principles, high ESG-risk score, no EU taxonomy aligned activities) that should OBAM IM prevent from investing in the potential portfolio company. In conducting our due diligence, we pay particular attention to potential adverse impacts on sustainability factors arising from the company's operations. Examples of principal adverse impacts that are considered include, where relevant, climate and other environment-related indicators such as greenhouse gas emissions, energy performance and social and governance indicators such as social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

2. *Portfolio monitoring*

Subject to data availability, our Portfolio Management team monitors the selected principal adverse impact indicators for all (potential) portfolio companies on a quarterly basis using an internally developed monitoring system. The indicator importance is prioritized according to parameters reviewed and maintained by our Sustainability Officer in our Portfolio Management team. These parameters take into account various aspects, including data quality, data freshness and history, data coverage, aspects of the methodology, the materiality of the indicator's subject matter, and divergence of indicator values.

Our monitoring engine applies a risk-based approach. First, the principal adverse impact indicator performance of each portfolio company will be assessed based on data acquired from our external sustainability data and research provider. Next, portfolio companies are screened on their principal adverse impact indicator performance, both for individual indicators and overall. Portfolio companies identified as outliers on specific indicators, or which exhibit high adverse impact across several indicators, are subject to further analysis by our Portfolio Management team who will decide on the appropriate action, including but not

2. Description of policies to identify principal adverse impacts

limited to:

- *no action*: the indicator level of the (potential) portfolio company is deemed acceptable or judged not to reflect the actual ongoing performance of the company, and no further action is needed at this point;
- *engagement*: the (potential) portfolio company is identified as a candidate for an engagement case. The Portfolio Management team engages with the (potential) portfolio company and tracks performance after the engagement
- *exclusion*: the (potential) portfolio company is deemed not eligible for investments across our managed portfolios and is added to our exclusion list.

In deciding the appropriate action, the Portfolio Management team considers, among other things, the severity and scope of individual adverse impacts, and the probability of occurrence and severity of adverse impacts, including their potentially irremediable characteristics.

Data management

OBAM IM uses ESG data from its external sustainability data and research provider (Sustainalytics) in its investment processes to identify relevant adverse impacts and indicators on sustainability factors. The requirements under SFDR are detailed and require additional ESG data, predominantly on company level, that are currently not fully available. We have performed an initial data analysis and are in the process of acquiring additional data from external data providers to meet reporting obligations under SFDR. Once the relevant data are available, the methodologies to measure principal adverse sustainability impacts can be finalized and will be added to this statement.

Governance

OBAM IM has implemented procedures and internal controls to ensure compliance to its policies. In this approach, different departments and committees have their own specific duties and responsibilities.

OBAM IM's Sustainability team drives the sustainability initiatives of our business operations. The Sustainability team acts as the focal point for our sustainable investment activities and delivers expertise and insights to the Portfolio Management team, who are then responsible for the integration of sustainability into their individual investment capabilities. The CEO/CIO is ultimately accountable for sustainable investing.

3. Engagement policies

OBAM IM believes that sustainability issues impact the value and reputation of entities in which OBAM IM invests. Therefore, OBAM IM believes that a company that considers the interests of all stakeholders is a well-managed company, and therefore represents a potential investment proposition for long-term investors.

The promotion of good entrepreneurship via engagement and the voting at general meetings of shareholders are both important elements in the dialogue with companies in which we invest. This commitment is an integral part of our portfolio management process.

Engagement

OBAM IM maintains an active program of corporate engagement on a wide range of social, environmental and governance issues. These engagements are designed to enhance the long-term value of our shareholdings and to foster corporate governance best practices, social responsibility and environmental stewardship.

Engagement consists of a constructive dialogue between OBAM IM and portfolio companies to discuss how they manage sustainability risks and seize business opportunities associated with sustainability challenges. We distinguishes two types of engagement:

- *proactive engagements*: proactive engagements focus on the opportunities to improve the sustainability conduct and corporate governance of portfolio companies. It focusses on sustainability opportunities and risks that may affect the portfolio companies' ability to create long-term value. Proactive engagement focusses on the sustainability drivers that OBAM IM has identified as material; for example, our focus Sustainable Development Goals .
- *responsive engagements*: responsive engagements are a direct response to the action or omissions of a portfolio company making the portfolio company breaches one of our sustainable investment principles, internationally accepted codes such as the UN Global Compact and OECD Guidelines for Multinational Enterprise or triggered a PAI red flag. The aim of the engagement is not only to resolve the identified breach or trigger, but also to improve the portfolio company's future sustainability performance and risk management.

Proxy voting

In tandem with our direct engagement activities, we vote on as many AGM's as practically possible, prioritizing votes related to our sustainable investment strategy while in general insisting that portfolio companies: (i) act in the long-term interest of shareholders, other stakeholders and society at large, (ii) ensure an efficient and independent board structure, (iii) disclose information to the public in a timely, accurate and adequate manner and (iv) ensure high social, environmental and ethical standards and accountability. In principle we vote for resolutions that support our sustainable investment principles, do not increase the sustainability risk of the portfolio company and has no increased principal adverse impact on our selected sustainability indicators.

Further reference is made to our Voting and Engagement Policy. We publish our voting and engagement activities quarterly on our website.

4. References to international standards

We actively contribute and collaborate with other (institutional) investors to further develop sustainable investment. We therefore endorse or sign relevant standards and statements and are active members and signatories of responsible investment initiatives, such as UN PRI.

UN Global Compact and OECD Guidelines for Multinational Enterprises

Link to the following PAIs: (i) Violations UN Global Compact principles and OECD Guidelines for Multinational Enterprises, (ii) Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises and (ii) Lack of a human rights policy.

(Potential) portfolio companies are expected to operate within internationally accepted norms and standards related to human rights, labor rights and business ethics. When companies fail to operate within these norms, they risk negatively impacting societal stakeholders and/or the environment. OBAM IM has signed the UN Global Compact Principles and our sustainable investment policy considers a range of responsible business conduct codes and internationally recognized standards, including but not limited to, OECD Guidelines for Multinational Enterprises, Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and UN Convention against Corruption.

We screen our investment universe periodically to ensure that companies that violate these codes and standards will be excluded.

Convention on Cluster Munitions.

Link to the following PAI: Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)

The Convention on Cluster Munitions was born out of a collective determination to address the humanitarian consequences and unacceptable harm to civilians caused by cluster munitions. Its implementation contributes to advancing the achievement of the UN Sustainable Development Goals and the promotion of international peace and security and international humanitarian law.

We screen our investment universe periodically to ensure that companies involved in the manufacture or selling of anti-personnel mines, cluster munitions, chemical weapons and biological weapons are excluded.

Dutch Corporate Governance Code

Link to the following PAIs: (i) Unadjusted gender pay gap (ii) Board gender diversity, and (iii) Excessive CEO pay ratio.

In its capacity of shareholder, OBAM IM, on behalf of its fund and clients. applies the Dutch Corporate Governance Code. OBAM IM takes its responsibility as a shareholder seriously. We ensure that we vote in accordance with our Voting- and Engagement Policy and quarterly disclose all our voting decisions for the fund on our website. Our proxy voting disclosure complies with the requirements of the Dutch Stewardship Code and SRDII.

OBAM / INVESTMENT MANAGEMENT

Annex

I. Principal adverse impact indicators

II. Instruments to address principal adverse impact

Annex I: principal adverse impact indicators

Principal adverse impact indicator	Description	Sustainable investment instruments
GHG emissions	Scope 1 GHG emissions, Scope 2 GHG emissions, Total GHG emissions. This is based on absolute emissions, either reported or estimated. Multiple types of greenhouse gases are considered and expressed in terms of tons of CO2.	Screening, Voting, Engagement
Carbon footprint	Carbon footprint. This relates to the GHG emissions of the portfolio companies (relative to the value of OBAM IM's investment in that company) divided by the value of all OBAM IM's investments.	Screening, Voting, Engagement
GHG intensity of investee companies	GHG intensity of portfolio companies. This relates to the GHG emissions of portfolio companies divided by their revenues (and relative to the value of OBAM IM's investment in that company).	Screening, Voting, Engagement
Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector. This is based on the identification of companies that derive any revenues from exploration, mining, extraction, distribution or refining of various types of fossil fuels.	Screening, Exclusion
Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of portfolio companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources.	Screening, Exclusion, Voting, Engagement
Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector.	Screening, Voting, Engagement
Activities negatively affecting biodiversity-sensitive areas	Share of investments in portfolio companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those portfolio companies negatively affect those areas.	Screening, Voting, Engagement
Emissions to water	Tones of emissions to water generated by portfolio companies per million EUR invested, expressed as a weighted average.	Screening, Voting, Engagement
Hazardous waste and radioactive waste ratio	Tones of hazardous waste and radioactive waste generated by portfolio companies per million EUR invested, expressed as a weighted average.	Screening, Voting, Engagement

Annex I: principal adverse impact indicators

Principal adverse impact indicator	Description	Sustainable investment instruments
Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in portfolio companies that are considered to be operating in violation of the UNGC principles or OECD Guidelines for Multinational Enterprises.	Screening, Exclusion
Lack of processes and compliance mechanism to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in portfolio companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	Screening, Voting, Engagement, Exclusion (when engagement is not or no longer considered feasible)
Unadjusted gender pay gap	Average unadjusted gender pay gap of portfolio companies.	Voting, Engagement
Board gender diversity	Average ratio of female to male board members in portfolio companies.	Voting, Engagement
Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in portfolio companies involved in the manufacture or selling of anti-personnel mines, cluster munitions, chemical weapons and biological weapons.	Screening, Exclusion
Investing in companies without carbon emission reduction initiatives	The percentage of the portfolio that is exposed to companies that are involved with companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement.	Screening, Voting, Engagement
Lack of a human rights policy	The percentage of the portfolio that is exposed to companies that are involved with companies that lack a human rights policy.	Screening, Voting, Engagement

Annex II: instruments to address principal adverse impact

Instrument	Explanation	Example	More information
Exclusion	Exclusion is about not investing in companies involved in business activities that are detrimental to environment and society and incompatible with our sustainable investment strategy. Before we start analyzing and selecting individual investments, we form an opinion on the investable universe in general. Our exclusion policy ensures that the investment universe meets a minimum sustainability standard irrespective of the individual portfolio company's sustainability profile. Our sustainability exclusions include (i) sanctioned jurisdictions, (ii) controversial industries that should be avoided because of their potential sustainability risk and (iii) individual (potential) portfolio companies that do not comply with our sustainable investment principles and that are unable or unwilling to improve their behavior. The extent to which (potential) portfolio companies are excluded from the investment universe depends on our exclusion levels.	We will not invest in the following sectors: conventional weapons, palm-oil (non-RSPO certified), tobacco, tar sand, coals and adult entertainment. Additionally, we apply strict exclusion levels for fossil and nuclear energy and can only invest in companies which contribute to the energy transition.	Exclusion Policy
Screening	During our selection process, sustainability risks and opportunities are adequately considered. OBAM conducts a comprehensive sustainability due diligence for each potential investment. Within the sustainability due diligence, the ESG profile of the potential portfolio company is assessed and any red flags that should prevent us from investing in the (potential) portfolio company are identified. When conducting our due diligence, we pay particular attention to potential adverse impacts on sustainability factors arising from the company's operations. Examples of principal adverse impacts that are considered include, where relevant, climate and other environment-related indicators such as greenhouse gas emissions, energy performance and social and governance indicators such as social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.	We have included Linde in our portfolio because of their strong market position in industrial gases among which hydrogen (a key enabler in the decarbonizing trend), low-risk ESG score, good sustainable track record and quality (financial) management.	Sustainable Investment Policy

Annex II: instruments to address the principal adverse impact

Instrument	Explanation	Example	More information
Voting	By voting OBAM IM aims to encourage good governance principles and promote good entrepreneurship. OBAM IM established general voting guidelines that forms the basis for voting decisions, considering sustainability, internationally recognized best practice guidelines and material themes for investments. OBAM IM will normally vote in favor of proposals aimed at improving the portfolio company's governance and encouraging the portfolio company to implement policies and measures that may prevent a violation of our sustainable investment principles. OBAM IM will vote against proposals that might lead to the opposite.	OBAM IM frequently votes against management proposals in case of, according to our view, "excessive" pay/ remuneration of (supervisory) board members.	Voting and Engagement Policy
Engagement	OBAM IM maintains an active program of corporate engagement on a wide range of social, environmental and governance issues. These engagements are designed to enhance the long-term value of our shareholdings and to foster corporate governance best practices, social responsibility, and environmental stewardship. Starting an engagement means entering a dialogue with a portfolio company to influence its behavior. Engagement plays a key role in the process of achieving our sustainable investment strategy. Portfolio companies have an incentive to listen to shareholders, as they are providers of capital or owners of their organization.	We engaged with Amazon in 2021 to ensure that Amazon complies with our sustainable investment principles regarding the right to a safe and healthy workplace.	Voting and Engagement Policy

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Disclaimer

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