

## Sustainability Risk Policy

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## 1 Introduction

This Sustainability Risk Policy describes and outlines the framework of Tolomeo Capital AG (“Tolomeo”) which has been implemented to manage ESG risks. The framework reflects Tolomeo’s principle, and addresses the ESG risk management principles, roles and responsibilities of the Board of Directors, Risk Manager, Executive Management, and all employees.

The Board of Directors is responsible for an appropriate Risk Management and internal policies that identifies, measures, manages and monitors significant risks including ESG risks, which might materially impact the business of Tolomeo or its reputation.

As a systematic asset manager Tolomeo offers a wide range of products and services in asset and wealth management. We have clients across all sectors including those that may be exposed or linked to significant ESG risks or requirements. We therefore need to incorporate understand the ESG risks associated with our activities.

Doing this effectively is essential to avoid any negative impacts on the environment or society, and to uphold our commitments to international standards. Failing to do this may also lead to reputational risks for Tolomeo and restrict our ability to benefit from potential business opportunities.

Systematic evaluation of ESG risks is therefore an integral part of our investment and risk management process. This policy summarizes Tolomeo’s position on ESG matters.

## 2 Scope and Purpose

### 2.1 Purpose

The purpose of this Policy is to define the framework by which Tolomeo will manage ESG risks in its business activities such that it fosters the operating culture that promotes sustainable and ethical behavior in conducting its own business and that its investment products are protected from material ESG risks which might have a negative effect on performance or reputation.

### 2.2 Scope

The Sustainability Risk Policy applies to the management of Tolomeo and to the investment products which are managed by Tolomeo. Tolomeo’s sustainability risk management shall comprise all measures, which aim at identifying, monitoring, measuring, limiting, controlling, and reporting on the following key areas:

#### A. Management of Tolomeo:

Our approach to manage ESG risks is based and reflected in our policies “Compliance Manual & Code of Conduct” (The Code) and “Our Axioms” (Axioms).

Our Axioms or core values are the operating philosophies or principles that guide our organization’s internal conduct as well as its relationship with its customers, partners, and shareholders. The Code formulates, among others, the basic values, such as integrity, responsibilities to our communities, fairness, compliance, transparency, and discretion. They emphasize that sustainability is at the heart of our corporate responsibility principles; that we will consider the ESG impacts of our actions; and that we will apply high standards to our business to support a sustainable future. In order to comply with

the Code, employees must ask themselves whether or not a proposed transaction or initiative presents any risks to the environment or society.

**B. Investment practices within Tolomeo products:**

As a systematic asset manager, we are used to incorporate data in our investment process. However, on the other hand as a small asset manager who invests on a global basis, we cannot conduct the ESG analysis of our investment universes ourselves, but we rely on the ESG scoring methodologies of reputable third-party providers. There are currently numerous ESG data providers. Some well-known third party ESG report and ratings providers include for example: (i) Bloomberg ESG Data Service; (ii) MSCI ESG Research; (iii) Sustainalytics Company ESG Reports; and (iv) Thomson Reuters ESG Research Data. In addition to incorporating ESG scores within the investment process, Tolomeo is also using exclusion lists of securities.

Each product which is managed or advised by Tolomeo will have its own defined level of minimal ESG scores to become eligible securities and its own exclusion lists (**ESG parameters**) depending on the mandate and the needs and requirements of the clients / investors. The ESG parameters of each product are communicated in the respective product documentations or are shared on request.

### **3 General Overview**

#### **3.1 Investment Practice**

We believe that ESG issues can have a material effect on company long-term fundamentals, in terms of both opportunity and risk. We consider ESG factors when making investment decisions across all asset classes and strategies using the in-depth analysis of third party ESG research and data providers, as mentioned above.

The maximum acceptable ESG parameters are defined for each product individually depending on the client's needs and requests.

In direct investments in equities and corporate bond securities we apply the company's main principle for sustainability:

- Exclusion

##### **3.1.1 Direct Investments**

As a systematic asset manager our direct portfolios tend to be very diversified with hundreds of positions (long and short), which are usually very small. In addition, our holding periods are generally speaking fairly short, from a couple hours to a couple weeks. Hence, our relative importance to the portfolio company's management and our weight compared to other shareholders is minimal such that our voting power is insignificantly small. The minimal voting power and the short holding periods make it impractical to engage with the management of the portfolio companies. Therefore, the one and only practical way to incorporate ESG risk within our investment process is to follow the main principle of exclusion as described in section 3.2.

### 3.1.2 Indirect Investments, Investments in Indices and Derivatives

To the greatest possible extent, our sustainability principle of exclusion is considered when investing in certain types of assets and instruments, such as other fund management companies' funds, commodities, indices, or derivatives. However, when we use e.g., ETFs (exchange traded funds) or derivative instruments based on an index, companies that are excluded can be invested in indirectly via a selected ETF or index derivatives. We aim to select products that meet our exclusion criteria, but in many cases, there are no corresponding instruments at all, or if there are such products, the liquidity or trading costs of those are such that they would materially contradict our best execution policy and would introduce severe liquidity risks to our clients' portfolios.

If there is no viable index or derivative product, we either limit the long exposure to the excluded companies to less than 5% of the overall exposure and/or if possible, we implement an "enhanced passive strategies" approach to stick to the exclusion principles. This is achieved by using the index as the core of the portfolio, and engaging in restricted active strategies, including divesting certain securities, and trading derivatives. By combining the parent index with active investment decisions such as synthetically excluding certain stocks we can create a resulting portfolio that perfectly integrates our ESG criteria to lower the ESG downside risk on the one hand and without violating our best execution policies nor endangering the general risk management principles on the other hand.

The responsibility and the competence for taking, monitoring, and reporting such risks shall be clearly defined and assigned to one or more members of the Management.

## 3.2 Exclusions

### 3.2.1 Exclusion Lists

Within its investment universe, Tolomeo maintains a list of companies which are active in controversial industries such as e.g., the production and/or marketing of cluster munitions. The exclusion lists are based on recommendations of regional data providers and do not include our own opinion. All companies on the exclusion list are excluded in all of our portfolios where we directly invest in securities. As mentioned in above we try to limit the exposure or where possible completely hedge out the exposure to those companies where we invest in broader indices.

### 3.2.2 Minimal ESG Scores

In addition to the exclusions lists we exclude all companies which do not meet a minimal score ESG. Typically, we exclude all companies which would qualify as laggard in the MSCI ESG Rating methodology



The exclusion lists and ESG scoring lists are updated on an annual basis and are defined on every product individually. The corresponding exclusion and ESG scoring lists can be requested directly from Tolomeo.

### 3.3 Product Disclosures

Each investment product will have its own set of ESG parameters and level of limits which will be communicated within the products' documentations or on request. The limits and the ESG parameters are reviewed on an annual basis and adjusted according to the possible changes in legislation.

## 4 Sustainability Risk Management

### 4.1 Sustainability Risk Management Process

Risk management is a dynamic process constantly reflecting the changing market conditions. The risk management process covers all activities for a systematic management of risks. It consists of the following four steps:



- 1. Risk identification:** The purpose is to identify significant ESG risks that may adversely affect the achievements of investment objectives. For this we review the ESG ratings and exclusion lists of reputable third parties as mentioned in 2.2.
- 2. Risk analysis / Measurement:** The purpose is to provide for each and every product which is managed by Tolomeo an exclusion list of securities based on the quantitative and/or qualitative measurement of identified risks provided in step 1. Each product might have different levels of risk acceptance levels and the lists are compiled for each and every product individually.
- 3. Risk Management / Mitigation:** The purpose is to implement portfolios for each and every product which takes only long exposure in companies or securities which are not defined on its corresponding exclusion list.
- 4. Risk Monitoring:** The purpose is to monitor the development of the sustainability key risks and track whether the portfolios stick to the exclusion list. In addition, it shall periodically report non-compliance with limits and measures to remedy the reported issues. In addition, if there are material changes in the identified sustainability risk items the management can adjust the exclusion lists also within the year. Generally, the risk identification process is reviewed on an annual basis.

## 4.2 Risk Management Framework

The Management will review and amend (if necessary) on an annual basis the following:

- Exclusion lists and ESC ratings

As part of the overarching risk management framework the Board of Directors reviews on an annual basis the following:

- The risk inventory (all identified risks)
- The ICS framework
- The risk scores (severity, frequency and hence total expected impact)
- Measures and mitigations
- Key controls (if applicable) - for a subset of the identified risks
- Responsibilities
- Frequency of measures taken

## 4.3 Responsibilities

Body	Risk identification	Risk measuring	Risk taking	Risk monitoring
<b>BoD</b>	Approves Corporate Risk Policy; Annual Corporate Risk Assessment and action plan; Delegates implementation duty to Management.	Within the general annual review, the BoD determines whether Management has achieved the objectives with regard to the scope of sustainability policy, among the other objectives.		Approves annually an action plan in the annual process of defining company goals.
<b>Executive Management</b>	Responsible for risk identification;	Responsible for risk measurement and implementation of control system.	Defines limits on product level; assures compliance with those limits.	Responsible for effective risk monitoring systems and relevant reporting.
<b>Risk Management</b>	Overseeing implementation and management of the Policy;			
<b>Compliance</b>	Reviews processes with a view to regulatory requirements and legal restrictions; Collaborates with Risk Management to direct compliance issues as appropriate.			

## 5 Alignment with Compensation

### 5.1 Compensation Process

Every year the independent Board of Directors reviews and approves the level of salaries and has to approve any additional bonus or dividend payment as well. Variable annual bonus payments are only paid out if the company has delivered a profit and holds a predefined level of liquidity (defined as a multiple of fix costs). This ensures that the company has always a sustainable level of cash in order to ensure the going concern. Bonus payment and base salary are dependent on seniority, function, the achievement of personal goals and the alignment with our internal Code.

## **5.2 Sanctions**

Violation of this Policy or any other Tolomeo Policy may result in sanctions, including disciplinary sanctions and/or adjustment of compensations schemes, against such employee, and other sanctions under the law as well as claims for damages. The Board of Directors shall be responsible for issuing sanctions.