



# Responsible Investment Policy

- IVO Capital Partners -

## **Shareholder's message:**

*"Climate concerns have never been more relevant than at the end of this decade. Environmental and social impacts are important, both for us as an individual and for the performance of companies.*

*As an asset manager, we must consider all the criteria that can have an impact on the return on our investments. ESG factors have an impact on the risk-adjusted return of corporate bonds. The cost and risks associated with the ESG transition can directly impact investment expenses, debt, refinancing possibilities, cost and access to capital, which are key metrics of credit analysis.*

*Contribute through our asset management activity to steer economic growth in emerging countries and, more broadly, global growth towards sustainable growth is an approach in which IVO wishes to participate. This growth is important both for the financial performance of companies and for our clients.*

*This new thinking environment allows us to broaden our vision, deepen our knowledge of companies, and more actively manage our portfolio. The addition of new investment criteria will lead us to make different decisions depending on the risk assessment.*

*In order to be part of a responsible approach, IVO Capital Partners has been a signatory of the United Nations Principles for Responsible Investment (PRI) charter since February 2017.*

*We integrate ESG into our investment policy, first of all via a sector exclusion policy, aimed at excluding companies that have not implemented a "Responsible Policy" and operate in controversial sectors. Secondly, we have an integration policy that combines ESG indicators with our analysis of companies when making investment decisions and monitoring our portfolio. This integration policy is made possible through our partnership with external providers such as Sustainalytics and Trucost, as well as our in-house research. Lastly, we are engaging with companies, again with the help of Sustainalytics, to encourage them to better understand and manage ESG risks."*

Michael Israel, Managing Partner at IVO Capital Partners

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## I. Introduction

### 1) IVO Capital Partners' investment strategy

As an asset manager, IVO Capital Partners focuses on private and public debt and invests primarily in the following instruments:

- Public or equivalent bonds issued by public or private issuers;
- Securities related to the financing of litigation, including loans, debt instruments, listed or unlisted shares involved in the financing of litigation.

The investment strategy and responsible policy presented in this document apply to the first type of asset only. Given the very specific nature of litigation financing, which requires expertise dedicated to ESG analysis, we do not yet apply ESG criteria to this asset class.

The IVO EM Corporate Debt, IVO EM Corporate Debt Short Duration SRI, IVO Global Opportunities, IVO 2028 and IVO IG 2030 funds follow a High Yield bond strategy with a particular appetite for **emerging markets**. It uses a fundamental approach to take advantage of the mismatches between bond yields and the intrinsic credit quality of their issuers. **The strategy is based on strong convictions and a rise in benchmarks** to fully explore the universe of the bond market, without geographical constraints.

IVO's investment strategy can be summarised as **"bad country, good company" or "bad sector, good company"**, in order to obtain a higher return than traditional products with a lower risk. As a result, **a large part of our investment universe is represented by issuers from emerging countries**, as sovereign/macro-economic debt crises are more frequent in these markets. This approach is different from traditional high-yield strategies, which generally focus more on "indebted companies, good countries".

### 2) Investment Process

When a company issues a bond that may be of interest to us, we conduct an in-depth analysis of the bond. This work begins with a study of the company's shareholding structure, based in particular on the reputation and "reliability" of its shareholders and managers. Then, we study the market in which the company is present in more detail, analyzing its trends, key players, and drivers. The next step is the company-specific financial analysis, with a dynamic study of its sector indicators, the level of its liquidity and the structure of its debt. Lastly, we are interested in the terms and conditions (seniority, main covenants) of the bond issued.

We also hold frequent meetings with management to better understand their model and ask them additional questions.

We prefer companies that we believe can withstand potential macroeconomic shocks: low leverage, solid asset base, stable and relatively predictable cash flows, high dollar exposure.

All of these analyses allows us to determine whether the risk-adjusted return is attractive enough to invest in the company.

**As part of this comprehensive financial analysis, IVO Capital Partners systematically integrates the study of environmental, social and governance risks into this selection process.**

### 3) Why integrate ESG into our investment strategy?

**As an investment fund and asset manager, our objective is to provide our investors with above-market returns while meeting our fiduciary obligations.** We believe that responsible investing and integrating environmental, social and governance (ESG) risks into our investment analysis are integral part of these obligations.

Issuers in our field regularly face environmental, social and governance issues. It is common for an ESG risk to result in a sharp fall in the price of a bond, a restructuring or even a default.

The environmental pillar of our responsible investment policy aims to encourage and support companies in managing the environmental risks associated with their business and in the transition to a sustainable business. At the end of COP21, the signing of the Paris agreement called on major global companies to take measures to limit their CO2 emissions, in order to limit global warming to 2 degrees by the end of the century compared to the pre-industrial average. However, the actions implemented are still insufficient and are difficult to access for smaller companies and countries still undergoing industrialisation. For example, oil companies in our universe are increasingly interested in the post-oil era: they need to develop low-carbon technologies to reduce their greenhouse gas emissions and encourage the use of environmentally friendly biodegradable products.

We believe that integrating social factors improves our decision-making process by identifying companies' exposure to risks related to managing relationships with their employees, customers, stakeholders and local communities. The social criterion consists, for example, in the prevention of risks of workplace accidents, which can have largely negative consequences for a bond. Companies operating in the gaming world also face regulations designed to protect individuals from addictive behaviour. Latin American companies that produce protein, sugar and ethanol are also concerned with issues related to animal welfare, deforestation and the protection of indigenous rights. Other social considerations have an impact on bond prices and yields, such as respect for local communities or the fight against child labour.

As an asset manager, it is essential to ensure that companies are sound in terms of governance in order to minimise the risks of announcements and disclosures that could affect the price of companies in the portfolio. IVO Capital Partners places greater importance on the analysis of governance, especially in emerging countries where the rules are sometimes less strict or less respected than in developed countries. Corruption scandals or the lack of independence of the board of directors can have significant impacts on bond prices.

IVO values two pillars in the corporate governance system:

- Transparency: the company's board of directors and management must be willing to share information openly when asked, be able to answer our questions, explain their decisions and build a relationship of trust.
- Integrity of the management and the board of directors: the company's shareholders and managers must be reliable, and IVO is committed to ensuring that there are no cases of corruption or scandal related to shareholders or managers before investing.

The analysis of ESG risks therefore contributes to our objective of improving the risk-adjusted return of our portfolios over the long term. We have identified three levers for action to integrate ESG into our investment strategy:

- Exclude from our investment universe companies and sectors subject to ESG controversies;
- Assess the quality of companies by integrating the ESG risks and opportunities that impact them in our decisions and investment monitoring;
- Engage with our portfolio companies to help them adopt ESG best practices.

This responsible investment policy is applied to our three bond funds as follows:

General policy	EM Corporate Debt Short Duration SRI	EM Euro Flexible Short Duration SRI
<p><b>Article 8</b></p> <p>Product promoting environmental or social characteristics</p> <p><b>Category 2</b></p> <p>Non-material commitment</p> <ul style="list-style-type: none"> <li>• Sector ESG risk score below the investment universe</li> <li>• ESG analysis on at least 75% of stocks</li> <li>• Consideration of the main adverse impacts on sustainability factors</li> <li>• Application of the exclusion policy, integration and global commitment of IVO Capital Partners</li> </ul>	<p><b>Article 8</b></p> <p>Product promoting environmental or social characteristics</p>  <p><b>Category 1</b></p> <p>Material commitment</p> <ul style="list-style-type: none"> <li>• Sector ESG risk score below the investment universe</li> <li>• ESG analysis on at least 90% of securities</li> <li>• Consideration of the main adverse impacts on sustainability factors</li> <li>• Application of exclusion policy, integration and global commitment of IVO Capital Partners in addition to those of the SRI Label</li> <li>• Outperformance criteria compared to the investment universe: GHG intensity of companies invested in the scope 1+2 fund and % of company without a process of compliance with UNGC and OECD principles</li> <li>• Best-in-universe policy: exclusion of issuers whose ESG quality is less than at least 70% of the issuers in the universe.</li> </ul>	<p><b>Article 8</b></p> <p>Product promoting environmental or social characteristics</p>  <p><b>Category 1</b></p> <p>Material commitment</p> <ul style="list-style-type: none"> <li>• ESG risk score lower than the investment universe excluding the 20% lowest rated issuers</li> <li>• Consideration of the main adverse impacts on sustainability factors</li> <li>• Application of exclusion policy, integration and global commitment of IVO Capital Partners in addition to those of the Luxflag Label</li> </ul>

#### 4) Our sources of ESG information

In order to implement our responsible investment policy, we use various sources of information and external service providers. We aim for the most comprehensive approach possible, and we want to capitalise on the expertise and knowledge of each of our partners.

- **Sustainalytics:**

- a. **Overview of the Sustainalytics offering**

Sustainalytics is one of the leading ESG rating and research companies, with 600 employees and more than 700 clients. It is owned by Morningstar, PGGM, ABN AMRO MeesPierson and Renewal Partners. Its main clients are banks or asset and wealth managers such as Blackrock, Amundi Asset Management, Goldman Sachs Asset Management, and green bond issuers such as Apple or Starbucks Coffee. It works in collaboration with indices such as S&P, JP Morgan, and platforms such as Morningstar.

Sustainalytics offers several approaches to responsible investment:

- Negative selection: exclusion of companies that are weak in terms of ESG or involved in controversial industries;
- Selection based on standards: identification of companies that do not comply with international laws and standards;
- Positive selection: investment in the best performing companies in terms of ESG;
- Integration: incorporation of ESG analysis into the investment and valuation process in order to improve the risk-return profile of an investment portfolio;
- Engagement: collaborative and direct engagement and proxy voting on ESG considerations;
- Impact and thematic investment : targeted investment in companies with the aim of solving sustainable development challenges.

- b. **ESG Risk Rating**

Sustainalytics' ESG Risk Rating measures a company's exposure to ESG risks and its management of material ESG risks from a financial perspective. A company's exposure is determined by the industry in which it operates and its internal characteristics. An ESG issue is considered material if the company is sufficiently exposed to it. For example, corporate governance is material for all companies. Companies are then classified into five risk categories: negligible, low, medium, high and severe.

Sustainalytics first measures the company's overall exposure to ESG risks. Then there is a distinction between manageable and unmanageable risks: for example, an oil company will always face carbon risks unless it changes its business model. The company addresses part of the manageable risk through specific policies and programmes. The rest of the unmanaged risk is the management gap. The ESG risk rating adds together the unmanageable risk and the management gap. Sustainalytics relies on an annual review of the company, news, industry and NGO reports, comparables and company feedback, as well as on daily monitoring of company news

- c. **Research on controversies**

Sustainalytics tracks approximately 83,000 sources worldwide with coverage of more than 15,000 issuers. Incidents (e.g. legal proceedings or oil spills) are identified and reclassified as controversies. The controversy is then rated from 0 to 5 (No evidence of controversy, weak, moderate, significant, strong, severe). Lastly, Sustainalytics estimates the evolution of the rating over the next 12 months based on several criteria such as risk factors and management systems.

- **Trucost:**

Founded in 2000, Trucost is owned by S&P and employs 100 people, including 50 analysts dedicated to environmental research. In France, about 70% of institutional investors' reports are based on Trucost services, tools or data, which cover 15,000 listed companies, 170 countries as well as unlisted companies. Trucost is based on S&P tools and its financial data and provides access to all underlying data in Excel format, with a team available 24 hours a day, every day of the week.

Every year, since 2005, Trucost has analysed all the direct and indirect carbon and environmental impacts of issuers (companies and countries) in all sectors of activity in which the issuer operates. This includes, for example, the energy consumed by companies in the IT sector, the water and mineral resources used by

industrial sectors or waste emitted by various sectors. Trucost analysts follow these steps when analyzing an issuer:

- 1) Collection of financial and production data then segmentation by Trucost / NACE segment. Estimation of all environmental impacts via an estimation model;
- 2) Collection of carbon data and environmental resources reported by issuers;
- 3) Comparison/Verification of data;
- 4) Dialogue phase with the issuer;
- 5) Provision of data to Trucost's client financial institution. Trucost uses the following sources: annual reports, asset-based data provided by the issuer and the regulator and annual interviews with companies.

- **Rating agencies :**

We rely on Moody's ESG research, which regularly publishes notes and reports on the environment, governance, social issues and various themes (e.g. the growth of electric vehicles in California, the environmental impact of green bonds, etc.).

- **Financial Information Services :**

We also use research providers REDD Intelligence (emerging market companies) and Debtwire (bond market). In particular, we rely on their shareholder research and company news.

- **Brokers' notes :**

Lastly, some brokers regularly publish ESG research, to which IVO Capital Partners subscribes, such as DNB.

Our ESG policy is based on four main components: exclusion, integration, engagement, and promotion of responsible investment.



## II. Exclusions

### 1) General policy

The primary driver of our responsible investment policy is to exclude companies with activities that are subject to moral or ethical controversies. We are therefore careful to exclude from our investment universe companies operating in the following sectors for all our funds:

- **Controversial weapons and weapons:**

Controversial weapons have been condemned by numerous international conventions. Therefore, we completely exclude companies involved in the development, production, stockpiling, use or transport of cluster munitions (prohibited by the Convention on Cluster Munitions), anti-personnel mines (prohibited by the Ottawa Treaty), and chemical, biological or nuclear weapons (respectively prohibited by the Chemical Weapons Convention, the Biological Weapons Convention and the Treaty against Nuclear Weapons adopted in 2017). Exclusion, Integration, Engagement, Promotion. The conventional arms industry also represents a risk by promoting arms trafficking and the resurgence of armed conflicts. We therefore exclude companies with more than 20% of their revenues related to weapons.

- **Thermal coal mining:**

According to the International Energy Agency, more than 40% of energy sector CO2 emissions come from coal<sup>1</sup>. Coal mining activities have a significant environmental impact and are largely exposed to the financial risk associated with "stranded assets". In 2020, IVO Capital Partners made the decision to divest from issuers that generate more than 15% of their revenues from thermal coal mining. We will not increase our positions in companies already present in the portfolio, and we are committed not to initiate new positions that do not meet this criterion. In addition, we do not finance new coal mining projects if the company's revenue from coal mining exceeds 15%<sup>2</sup>. We have also decided to exclude issuers creating new coal-fired power plants if they account for more than 15% of the company's revenues. We also exclude new coal infrastructure that is specifically designed for coal development<sup>3</sup>.

- **Oil sands:**

According to the International Boreal Forest Conservation Science Panel, extracting and refining oil sands is the "most polluting and coal-intensive oil processing process on earth, drying wetlands, diverting river courses, and stripping forests of all trees and vegetation." Production requires 4 barrels of water for one barrel of oil. This production of unconventional oil and gas creates environmental and health risks related to the storage of water contaminated with carcinogenic pollutants. This production is also often linked to the violation of indigenous rights. As emerging countries are particularly exposed to oil extraction and production, we exclude all companies with more than 10% of their revenues coming from oil sands extraction.

- **Tobacco:**

Tobacco causes health problems and kills almost half of its consumers, or 7 million people each year, of whom 890,000 are non-smokers who are victims of passive smoking.<sup>4</sup> A 2012 study in high-income, low-income and middle-income countries estimated health expenditure related to tobacco-related diseases at \$422 billion (Goodchild, Nargis, Tursan d'Espaignet). We exclude all companies that generate more than 5% of their revenue from the tobacco industry, including producers and distributors, and that do not apply a responsible health and environmental policy. For example, the strategic plan of one of the major players in the industry is to stop its activities in tobacco and invest in healthier initiatives. Therefore, we do not rule out the possibility of investing in companies with the same attitude.

- **Gambling / Betting :**

Gambling is exposed to the use of their physical and digital networks to facilitate the placement and integration of illicit profits. We exclude companies that work in the gambling industry (casinos, online betting websites, TV broadcasts, bookmakers) that do not have an adequate anti-money laundering policy in place and do not provide anti-money laundering training to employees.

- **Palm oil and pulp:**

Deforestation linked to palm oil and pulp production threatens biodiversity and natural carbon sequestration. It also contributes to global warming if it is not managed sustainably. Therefore, we exclude producers of palm oil and paper pulp that do not have responsible forest restoration, wildlife protection and environmental protection policies in place.

- **Animal welfare:**

We want to preserve animal welfare and endangered species by limiting our exposure to products that harm them, such as fur. Dyes and chemicals used by the fur industry also generate significant environmental pollution. We exclude companies that generate more than 10% of their revenue from the textile industry (producers and distributors) that do not have an anti-fur policy in place or that have not confirmed that their activities do not use fur.

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<sup>1</sup> Report 19 available on the International Energy Agency website.

<sup>2</sup> Does not include companies that use coal internally such as steelmakers

<sup>3</sup> Does not include infrastructure such as ports that can be used by customers transporting coal. We emphasize that the Most infrastructure (ports, roads, airports) often has indirect exposure to coal, which is very difficult to verify in our universe.

<sup>4</sup> Data available on the World Health Organization website.

- **Pornography:**

In order to protect young and vulnerable people from pornographic content, we completely exclude from our investment universe issuers that specialise in pornographic activities (pure players, cinema, video game producers or distributors and physical stores) and companies that generate more than 5% of their revenue from such activities (minority or other interests).

- **Countries under trade embargoes and international sanctions:**

In January 2019, the United Nations imposed sanctions and restrictive measures on the following 16 countries: Afghanistan, Central African Republic, Democratic Republic of Congo, Eritrea, Guinea-Bissau, Iran, Iraq, Lebanon, Libya, Mali, North Korea, Somalia, Sudan, South Sudan, Syria and Yemen. We exclude from our investment universe direct (public debt) and indirect (state-owned companies) financing of these countries.

As our universe is highly exposed to emerging markets, we systematically check during our investment process that the company we analyse is not part of or does not have significant activities (more than 5%) in the countries mentioned above. If the company has significant activities in any of the above 16 countries, we ensure that activities in such countries are not sanctioned by the United Nations. After checking the above, we ensure that the company has a responsible policy in place that, at the very least, includes provisions concerning Human Rights.

## 2) SRI label exclusions (EMCD Short Duration SRI funds)

Following the new version of the SRI label applicable since early 2025, new exclusions have been added to the EM Corporate Debt Short Duration SRI fund in addition to the general exclusion policy in order to meet the new label requirements.

- **The following are excluded due to an environmental criterion**

- Any issuer of which more than 5% of the total production of liquid or gaseous fossil fuels comes from the exploration, extraction or refining of unconventional liquid or gaseous fossil fuels defined by the Scientific and Expert Committee of the Observatory of Sustainable Finance (oil shale, shale gas and oil, oil sand, extra-heavy oil, methane hydrates, ultra-deep offshore oil and gas and fossil oil and gas resources in the Arctic).
- Any issuer in which more than 1% of its activity relates to the exploration, extraction, refining of thermal coal and lignite or the supply of products or services specifically designed for these activities, such as transport or storage; as well as any issuer developing new projects for the exploration, extraction or transport of thermal coal.
- Any issuer carrying out new exploration, extraction or refining projects for conventional and/or unconventional liquid or gaseous fossil fuels.
- Any issuer deriving more than 10% of its revenues from the exploration, extraction, distribution, or refining of liquid fossil fuels.
- Any issuer deriving more than 50% of its revenues from the exploration, extraction, distribution, or refining of fossil gases.
- Any issuer whose primary activity (more than 50% of revenues) is electricity generation with a carbon intensity exceeding 100 gCO<sub>2</sub>e/kWh.

- **The following are excluded due to a social criterion**

- Any issuer suspected of serious and/or repeated violations of one or more of the principles of the UN Global Compact and one or more of the Guiding Principles of the Organisation for Economic Co-operation and Development (OECD).
- All companies involved in the cultivation and production of tobacco.

- **The following are excluded with regard to a governance criterion:**

- Any issuer whose registered office is located in a Country or Territory included in the most recent EU list of non-cooperative jurisdictions for tax purposes.
- Any issuer whose registered office is located in a country or territory appearing on the Financial Action Task Force (FATF) blacklist or grey list.

- **Sovereign bonds are excluded if they are issued by countries and territories which are:**

- Included in the latest available version of the EU list of non-cooperative countries and territories for tax purposes.
- Included on the Financial Action Task Force (FATF) blacklist or grey list.
- Whose latest version of the corruption perception index published by Transparency International is strictly below 40/100.

### 3) Exclusions from the LuxFlag ESG label (Euro Flexible Short Duration SRI fund)

As part of the LuxFlag ESG label in 2025 for the Euro Flexible Short Duration SRI fund, additional exclusions have been introduced, in addition to the general exclusion policy, in order to comply with the requirements of the label:

- Any issuer deriving 1% or more of its turnover from the exploration, mining, extraction, distribution or refining of thermal coal and lignite.
- Any issuer deriving more than 10% of its revenues from the exploration, extraction, distribution or refining of petroleum fuels
- Any issuer deriving 50% or more of its revenues from the exploration, extraction, production or distribution of gaseous fuels.
- Any issuer whose primary activity (>50% of revenues) comes from the generation of electricity with a CO<sub>2</sub> intensity above 100gCO<sub>2</sub>e/kWh.
- Any issuer suspected of serious and/or repeated violations of one or more of the principles of the UN Global Compact and one or more of the Guiding Principles of the Organisation for Economic Co-operation and Development (OECD).
- Any issuer involved in the cultivation or production of tobacco, as well as any issuer deriving more than 15% of its revenues from tobacco-related support activities (such as filters, smoking facilities, e-cigarettes, etc.), or from the sale and/or distribution of traditional tobacco products.
- Any issuer that may be involved (whether credible allegations or confirmed cases), and/or whose management bodies may be involved in serious or very serious abuses, in breach of one or more of the following frameworks: the United Nations Global Compact Principles, the United Nations Guiding Principles on Business and Human Rights, International Labour Organization (ILO) Conventions and OECD Guidelines on Responsible Business Conduct for Multinational Enterprises.
- Any sovereign or corporate issuers and/or persons or entities involved in countries or entities included in any of the following lists: United Nations Security Council sanctions regimes, the list of high-risk jurisdictions subject to a Call for Action by the Financial Action Task Force (FATF), or the consolidated list of persons, groups and entities subject to financial sanctions by the European Union.

The Luxflag label also recommends engaging companies that participate in the following sectors and activities:

- Pesticides and Genetically Modified Organisms (GMOs): Any issuer deriving more than 5% of its revenues from the production of pesticides (including crop protection products) that are not approved by the European Union and are identified under the Rotterdam Convention on Prior Informed Consent (PIC), and/or more than 5% of its revenues from the development, distribution, or cultivation of genetically modified food that has not undergone a risk assessment in accordance with the criteria set out in Annex II to Regulation (EU) No 503/2013 or equivalent standards.

As part of an engagement process with companies falling within the above exclusion criteria, a period of **three months is granted for compliance before divestment is carried out** (up to a maximum of 5% of the portfolio). This provision does not apply to the categories of “controversial weapons” or “direct and indirect financing of countries subject to international trade embargoes and sanctions.”

## III. Integration

### 1) ESG Data Collection

IVO Capital Partners uses four types of ESG indicators for its extra-financial analysis:

- Environmental indicators
- Social indicators
- Governance Indicators
- Human Rights Indicators

#### 1. Environmental indicators

We use certain indicators provided by Sustainalytics, on the following topics:

- **Carbon – company-specific operations:** indicators that measure energy consumption and greenhouse gas emissions.
- **Emissions, effluents and waste:** indicators that measure the management of emissions related to the company's operations into the air, water and soil, except greenhouse gas emissions.
- **Use of resources:** assessment of how effectively and efficiently the company uses its raw materials (excluding oil and energy products) in its production and how it manages the associated risks.

We also use Trucost data to measure and monitor the environmental impact of our portfolio:

- **The carbon footprint of our fund:** the carbon footprint measures past, current or future direct or indirect greenhouse gas emissions associated with issuers in the investment portfolio. The unit is the tCO<sub>2</sub>e, or the tCO<sub>2</sub>e per revenue / invested amount / production unit
- **The environmental footprint of our fund:** the environmental footprint quantifies the emissions of water, landfill, incinerated, nuclear and recycled waste, water, air and soil pollutants and the exploitation of the natural resources associated with our portfolio. The unit is the cost in euros, the cost in euros per revenue/amount invested/production unit with a breakdown by issue (water, waste, etc.)
- **Two degree analysis:** the assessment of the resilience of the strategy must take into account the transition to a more carbon efficient economy and consistent with a scenario less than or equal to 2 degrees. The unit is the temperature or the CO<sub>2</sub> differential or the CO<sub>2</sub> differential per amount invested.

#### 2. Social indicators

Sustainalytics has several social indicators, on the following themes:

- **Occupational health and safety:** takes into account the company's ability to provide its employees with a safe and healthy working environment, free from physical, chemical, biological or radiological risks specific to its sector or industry.
- **Community relations:** measures how the company manages the impact of its activities on local communities, particularly in areas in which the consequences in terms of water quality, air quality and land availability are significant.
- **Product Governance:** assesses how companies manage their responsibilities to their customer. Emphasis is placed on the quality of the management system, marketing practices, accuracy of invoicing and after-sales responsibilities.

#### 3. Governance Indicators

Governance indicators measure companies' structures and their management of ESG risks:

- Integrity and quality of the Board of Directors and management
- Structure of the Board of Directors
- Rights of shareholders and owners
- Remuneration Policy - Financial Reporting and Audit

#### 4. Human rights indicators

Sustainalytics has several indicators related to the treatment of human rights, on the following themes:

- **Human Capital** : Assesses the management of risks associated with a lack of skilled labour as well as labour relations such as non-discrimination, working hours and minimum wage.
- **Human rights** : assesses compliance with international norms and conventions and the protection of human rights within a company's business activities

#### 2) ESG Rating

To ensure the proper application of our responsible investment policy, we fully integrate ESG analysis upstream of the investment process:

- The manager first ensures that the companies proposed in the investment committee belong to the eligible investment universe and are not involved in the sectors excluded by our exclusion list.
- When initiating an investment idea and before entering the financial and extra-financial analysis phase, the manager consults the ESG analyst, who may or may not pre-validate the company in question according to the result of the manager's preliminary analysis.
- This pre-validation aims at excluding companies exposed to severe material ESG risks from the outset. The ESG analyst verifies the compliance of the issuer's activities with the exclusion policy, reviews the ESG performance research provided by our service providers, analyses the governance and searches for evidence of major ESG controversies.

The preliminary study of the indicators provided by our ESG service providers allows us to rank our potential issuers according to their ESG quality:

- A – the “best” companies in terms of ESG: communication on the importance of ESG issues, proactive environmental, social and governance measures that are an integral part of the company's culture.
- B – companies with a good level of ESG: good communication, measures to reduce ESG risks, possible existence of some controversies.
- C – companies with an average ESG level: little communication and measures to reduce ESG risks, existence of controversies.
- D – companies that need to improve their ESG policy: very low or absent communication on ESG, high exposure to ESG risks, major or numerous controversies.

#### 3) Additional internal analysis

In order to have a systematic view of the impact of an issuer's ESG quality on its credit quality, we carry out an additional analysis. This extra-financial analysis is carried out in parallel with the financial analysis of the issuer. Our ESG team issues a recommendation based on its discussions with the issuer, additional research, the manager's assessment and a methodology based on the Sustainability Accounting Standards Board materiality matrix.

We use the SASB materiality matrix to identify the material risks of the industry to which the company under analysis belongs. Based on information collected from the company, our ESG research providers and our research on controversies, we identify non-financial risks that can have a significant financial impact on the company's credit quality. Our assessment of an issuer's ESG quality is based on the company's ability to manage these risks to minimise their financial impact.

This qualitative analysis results in one of these four recommendation levels:

- **Green flag** – The analyst believes that material ESG risks to the company are not likely to impact the issuer's financial performance and the yield on its bonds.
- **Orange flag** – The analyst identifies at least one material ESG issue that is likely to negatively impact the issuer's bond yield.
- **Red flag** – The analyst believes that the financial risk associated with managing ESG issues is very high and is likely to hinder the issuer's ability to repay in the short term.
- **Black flag** – The analyst believes that an investment would represent a risk of a decline in return or payment default related to ESG risk that is too high for IVO Capital Partners.

**We assess the company's ESG quality level at the time of purchase and review the indicators once a year.**

#### 4) Integration of ESG analysis into due diligence

After determining an issuer's ESG quality and recommendation level on our internal ESG materiality scale, we integrate these elements into our investment process.

##### a. Impact on the required rate of return

In order to complement ESG data collection and our internal analysis, we make the decision to adjust the rate of return we require from a company if the risk associated with managing its material ESG issues is high.

For this purpose, we compare the bond yield spread with the average bond yield spreads of a defined universe with the same rating (Standard & Poor's, Moody's and Fitch average). When we identify a material material ESG risk, we require a return of at least 15% to 30% above the average of the same rating universe. This ensures that our clients receive adequate compensation for the ESG risk we tolerate in our portfolios.<sup>1</sup>

The rate of return is one of the determining factors in our decision-making and our day-to-day investment monitoring. As a result, integrating ESG factors into it has a real impact on our investment policy and leads us to more in-depth discussions on the subject.

##### b. Due diligence ESG

The risks associated with the environment, society and governance impact our investment decisions according to the level of recommendation defined by our internal analysis. This last step determines whether the issuer being assessed meets IVO Capital Partners' requirements in terms of ESG quality, a prerequisite for all our investments. During the investment committee meeting, which meets once or twice a week, the investment decision is taken collectively taking into account the ESG flag as follows:

###### - Green flag

o A, B, C or D – These companies may be the subject of an investment.

###### - Orange flag

o A or B – These companies may be the subject of an investment if they show a yield spread that is at least 15% higher than the average spread with the same rating.

o C or D – These companies may be the subject of an investment if they can prove that their yield spread is at least 30% higher than the average spread with the same rating.

###### - Red flag

o A, B, C or D – These companies may be the subject of an investment if they show a yield spread that is at least 30% higher than the average spread with the same rating.

###### - Black flag

o A, B, C or D – These companies are excluded from our investment universe regardless of their ranking.

In some cases, the reactivity requirement does not allow us to perform the additional ESG analysis before placing an order to buy. We then consider that the manager can invest if he has obtained the approval of the investment committee and a positive pre- ESG validation before. In these cases, the objective of pre-validation is to avoid investing in issuers that would receive a black flag during the additional ESG analysis.

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<sup>1</sup> We do not apply the adjustment to bonds with a duration of less than 1, as it is normal for the yield spreads on this type of bond to be smaller than those on securities with a high duration: because their maturity is close, they are less sensitive than bonds with a longer mat

Once the additional ESG analysis has been performed, the issuer is assigned a flag and we adjust the position according to our analyst's recommendation. This detailed internal ESG analysis may therefore lead to a divestment if the yield spread is deemed insufficient.

c. Best-in-universe approach and outperformance criteria for ESG-oriented funds

As part of a continuous improvement approach, we want to implement a more demanding responsible investment approach for some of our funds. In addition to sector exclusions and our ESG integration methodology, we then apply an additional exclusion filter. This screening currently concerns the IVO EMCD Short Duration SRI fund.

We have adopted a **Best-in-Universe** approach, aimed at favouring issuers that stand out for their ability to innovate and adapt to ESG issues. At the same time, we are seeking to gradually divest from issuers whose ESG quality is significantly lower than that of the universe. Thus, we exclude issuers with an ESG rating below that of at least 75% of issuers in the investment universe.

This universe corresponds to emerging market bonds denominated in hard currencies. It was constructed using Bloomberg data and is based on an equal weighting by issuer. As bond managers operating in an ever-expanding market, we have adopted this methodology to reflect the segment's dynamics: the steady arrival of new issuers in the primary market and the natural exit of maturing bonds. IVO Capital Partners calculates the ranking of companies' ESG performance based on this investment universe and Sustainalytics ratings.

Sustainalytics ratings take into account the 3 pillars E, S and G. The relative weight of each pillar in its rating model changes according to the issuer's sub-industry.

You can find the Sustainalytics methodology on the website: <https://www.sustainalytics.com/>

For the **IVO EMCD SD SRI** fund, we have adopted two criteria for outperformance in relation to our investment universe. These criteria are fully in line with the fund's investment strategy and ESG objectives.

Indeed, emerging markets are at the heart of climate issues — they account for about 75% of global greenhouse gas emissions — but also of social issues, with a large majority of companies in non-compliance with the UN *Global Compact* coming from this area.

This is why we have chosen to focus on:

- **carbon intensity** (scope 1 and 2 - expressed in tonnes of CO<sub>2</sub> per million euros of turnover),
- **Lack of processes and compliance mechanisms** to ensure compliance with the principles of the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises.

For the **IVO Euro Flexible Short Duration SRI fund**, an ESG outperformance criterion has been defined relative to the investment universe, with the objective of favouring issuers that exhibit a stronger extra-financial profile than their peers.

In this context, the fund aims to **maintain a sector-level ESG risk score below that of the investment universe, after excluding the 20% of issuers with the lowest ESG ratings**. This approach enables comparison with a reference universe that filters out the weakest ESG performers, while promoting the selection of issuers demonstrating more robust management of environmental, social, and governance risks within their sector.

## 5) Overview of our integration process

Sustainalytics Score Analyst view	A	B	C	D
	0 – 32	32 – 50	50 – 60	60+
Green flag	Investable Company			
Orange flag	Investment if spread higher than the average CEMBI spread with similar ratings + 15%		Investment if spread higher than the average CEMBI spread with similar ratings + 30%	
Red flag	Investment if spread higher than the average CEMBI spread with similar ratings + 30%			
Black flag	Companies excluded from our investment universe regardless of their ranking			

## IV. Engagement

### 1) Why engage with companies?

The growth potential of companies in emerging countries is significant, but so are the associated ESG risks. Regulations in these countries are generally less restrictive and corruption issues and environmental and social challenges can be significant. Most emerging countries are also less advanced on ESG communication and risk management issues. Our engagement policy aims to help these companies better manage ESG risks and support them in a positive change approach. Today, our status as an asset management boutique and our intermediate size allow us to be flexible and adapt our investment policy very quickly. However, despite our ability to react quickly and talk regularly with management, the fact that we invest in debt and not in company shares gives us de facto less leverage than shareholders to push companies for change. In addition, the emerging market is not very mature in terms of ESG issues compared to that of developed countries. It is for all these reasons that we decided to use an external service provider, Sustainalytics, to help us increase our impact and support us in this engagement policy.

### 2) Engaging with Climate Action 100+

In June 2020, IVO Capital Partners joined the Climate Action 100+ investor initiative, launched in December 2017 during the One Planet Summit and considered one of the most relevant initiatives to address the challenges of climate change.

Climate Action 100+ aims to ensure that the world's largest greenhouse gas emitters take the necessary steps to combat climate change. These include 100 "systemically important issuers", which account for two-thirds of the world's annual industrial emissions, as well as more than 60 others which have the potential to support the clean energy transition.

Alongside the initiative's 450 investors representing total assets of \$40,000 billion, IVO Capital Partners supports the public statement of action and calls on companies to improve their governance on climate change, reduce their greenhouse gas emissions and strengthen their climate-related financial communication.

IVO Capital Partners is an active member of investor coalitions that engage with the following companies:

- Sasol
- Saudi Arabian Oil Company
- AES
- Suzano
- Vedanta

### 3) Support from Sustainalytics

We chose Sustainalytics because the company has over 25 years of experience in developing and redefining a transparent engagement model based on international conventions and standards. Its 55 committed clients around the world manage more than 1.8 trillion assets. Its team consists of 21 engagement professionals in Europe and North America, who are also supported by more than 120 analysts.

IVO Capital Partners has decided to subscribe to the Sustainalytics engagement service focused on material risks, i.e. the ESG risks to which companies are most exposed and which may have a significant impact on their financial performance. Sustainalytics initiates a constructive dialogue with the companies most exposed in terms of ESG risks to help them better manage these risks and implement best practices.

The purpose of this engagement is to help investors protect their long-term value by engaging with high-risk companies on their financially material ESG risks. Sustainalytics provides collaborative and constructive engagement to help the high-risk companies in our portfolios better identify, understand and manage their ESG risks. The aim is to fill their gaps in ESG risk management, so that the target company can improve its ESG performance.

We have access to research, news on ESG risks from Sustainalytics and the results of their regular meetings with companies. At these meetings, clear engagement objectives are defined, company responses are assessed and each meeting is followed by recommendations for improvement. Positive developments are reported to us as well as companies that ignore ESG issues and do not make any effort to improve, so this becomes an increased focus point on the company.

IVO Capital Partners can invest in the desired way alongside Sustainalytics and its clients for engagement: participation in meetings, telephone conversations and travels, access to the client platform with all the research on the universe.

## V. Reporting and promotion

### 1) Promotion of responsible and sustainable initiatives

IVO is committed to promoting responsible initiatives by participating in international and national initiatives in favor of ESG and making donations to foundations and associations.

- **Participation in international and national ESG initiatives**

Since February 2017, IVO has been a signatory of the United Nations charter, the “Principles for Responsible Investment”. Adherence to this charter has 6 major implications:

1. We will consider ESG issues in investment analysis and decision-making processes.
2. We will be active investors and incorporate ESG issues into our shareholder policies and practices.
3. We will require the entities in which we invest to disclose appropriate information on ESG issues.
4. We will promote acceptance and application of the Principles among asset managers.
5. We will work together to increase our effectiveness in applying the principles.
6. We will report individually on our activities and progress in implementing the Principles.

IVO Capital Partners also supports **the International Integrated Reporting Council**. IIRC is a global coalition of players convinced that corporate reporting must evolve towards communication on value creation. The IIRC has developed a reference framework that structures a common base of guiding principles, key concepts and building blocks of the Integrated Report, with the following objectives:

- Improve the quality of the information made available to financial capital providers, in order to allocate capital more efficiently and productively;
- Promote a more consistent and efficient reporting approach that builds on a variety of information sources to reflect the full range of factors that significantly impact the organisation’s ability to create value over time;

- Improve accountability and promote responsible management of all capital (financial, manufacturing, intellectual, human, social and societal, and environmental) through a better understanding of their interdependencies; Encourage Integrated Management, decision-making and actions focused on value creation in the short, medium and long term.

IVO is also a supporter of the **Task-Force on Climate-related Financial Disclosures**. This working group created by the G20 Financial Stability Board published in 2017 a set of recommendations aimed at encouraging consistent and reliable financial reporting that allows investors to take due account of the financial risks associated with the climate. These recommendations are based on 3 observations:

- Climate change will be very expensive for the economy (\$2.3 trillion);
- Reporting is an essential element to reduce this risk as it allows shareholders, banks and financial players to assess the cost;
- Companies must publish 2°C scenarios and assess the financial impact of climate change on their activities. These recommendations are now widely recognised by governments, investors and finance officials and serve as best practices in climate reporting.

- **Donations to foundations and associations**

In order to encourage social progress, IVO Capital financially supports the following foundations and associations:

- Alpha Omega Foundation – a foundation of Venture Philanthropy Foundation to accelerate the development of social businesses whose objective is to give disadvantaged people their economic and financial autonomy, through education or access to employment.
- LEV – Endowment fund focused on children’s needs to accompany and support associations carrying out any action of general interest.
- Humanitarian Himalaya – Nepalese Project Support Association to help children in difficulty and contribute to development aid
- Imagine for Margo – Association for the fight against childhood cancer: funding and mobilisation of research stakeholders, raising awareness of children’s cancer, improving the well-being of sick children.
- Mummy Jee Foundation – an association that helps people in difficulty, schoolchildren and women in the Bodhgaya region of India.
- Colegio Internacional Luz Ciencia y Arte – Mexican children’s education support foundation: partnerships with public schools and universities to promote scientific and artistic knowledge and provide courses focused on the UN’s sustainable development goals.
- Pymo Mexico – an organisation that brings together and validates charitable projects in Mexico and connects companies that want to have a social impact with these professionals. In order to encourage social progress, IVO Capital financially supports the following foundations and associations:

## 2) Reporting on our responsible investment activities

We believe it is important to be transparent by communicating about our actions and measuring their environmental, social and governance impact, in order to raise awareness of these issues among our clients.

We therefore make available on our website several public documents that report on our activities and progress in terms of responsible investment.

- **Across the management company IVO Capital Partners**

- Annual Report of the Principles for Responsible Investment;
- Annual evaluation report of the UNPRI.
- Annual ESG report;
- Annual report on the carbon and environmental footprint of our portfolios, in line with the recommendations of the Task Force on Climate-related Financial Disclosure.

- **Principal Adverse Impacts Report**

- **Across the IVO EM Corporate Debt Short Duration SRI fund**

- Annual Impact Report measuring:
  - The overall ESG performance of the portfolio relative to the benchmark;

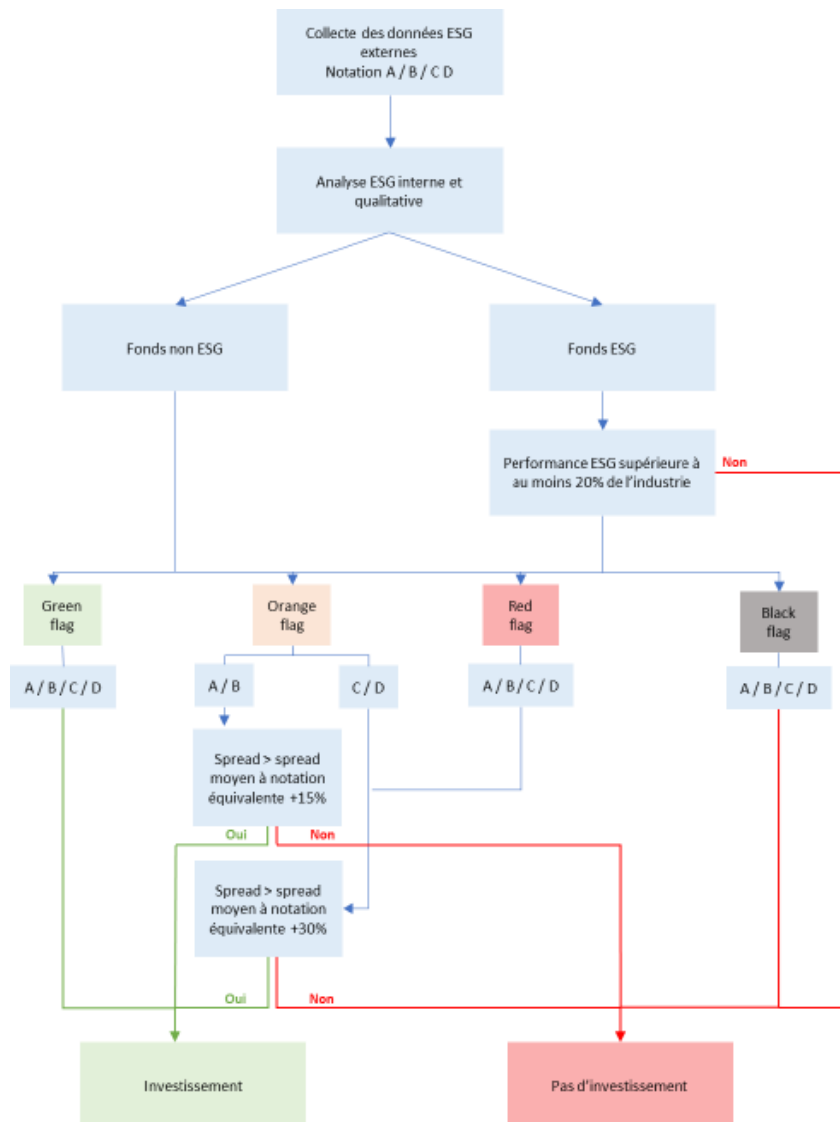
- The portfolio's environmental, social, governance and human rights performance.
- Transparency report in accordance with the Code designed by the French Financial Management Association, the Forum for Responsible Investment and Eurosif<sup>2</sup>.

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<sup>2</sup> Aligned with the key elements of the TCFD recommendations, Article 173-VI of the French Energy Transition for Green Growth Act and the recommendations of the European Commission's High Level Expert Group (HLEG) on Sustainable Finance.

## Appendices

Summary of our ESG integration process



### Additional ESG issues

IVO Capital Partners systematically integrates ESG issues into its pre-investment analysis. In particular, we ensure that the companies in our investment universe demonstrate an adequate responsible policy to manage the following ESG risks:

- **Biodiversity:** we base our analysis on the objectives of the Convention on Biological Diversity, i.e. the conservation of biodiversity, the sustainable use of its components and the equitable sharing of benefits arising from the exploitation of genetic resources.
- **Water consumption:** we have increased vigilance of the commitments of companies operating in water-stressed regions or in sectors with a high water footprint.
- **Taxation:** We rely on the recommendations of the Forum for Responsible Investment regarding corporate tax responsibility.
- **Agricultural futures:** We are careful not to contribute to speculative transactions that could contribute to soft commodity price inflation.

## Glossary

**Stranded assets:** Investments or assets whose value has fallen due to changes in the markets. This is often associated with changes in legislation, environmental constraints or technological advances that make these assets ineffective or obsolete.

**Sustainable development:** IVO Capital Partners relies on the definition of sustainable development provided by the World Commission on Environment and Development in the Brundtland report: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

**ESG:** This international acronym is used by the financial community to designate Environmental, Social and Governance (ESG) criteria, which generally constitute the three pillars of extra-financial analysis. They are taken into account in socially responsible management. We define these three criteria as follows:

- The environmental criterion takes into account: air and water pollution, climate change, deforestation, depletion of natural resources, waste management, loss of biodiversity and soil degradation.
- The social criterion takes into account: workplace safety, labour relations and equal opportunities, human rights, human capital management, product and service safety, procurement and manufacturing practices, marketing practices and community relations.
- The governance criterion verifies: the composition and independence of the Board of Directors, accounting risk and financial disclosure, corruption and conflicts of interest, shareholder rights and executive compensation.

**Responsible investment:** Responsible investment aims to promote sustainable development, taking into account environmental, social and governance factors, in order to generate long-term returns.

**Materiality:** Materiality refers to the economic, environmental, social and societal aspects that may significantly impact a company, its activities and its ability to generate financial and extra-financial value for itself and its stakeholders.

**Principles for Responsible Investment:** Created in 2006 by major global investors in partnership with the United Nations Environment Programme Finance Initiative (UNEP-FI) and the UN Global Compact, the PRI initiative brings together an international network of signatories committed to applying the six Principles for Responsible Investment. The Principles aim to generalise the consideration of non-financial criteria by all financial business lines.

**SASB:** The Sustainability Accounting Oversight Board (SASB) is a non-profit organisation that sets standards for financial reporting. Its focus is specifically on industrial activity, which the organisation tries to subject to ESG criteria. In setting its standards for sustainability disclosures, SASB considers the following five building blocks: environment, social capital, human capital, innovation and business model, leadership and governance.

**ESG selection:** Responsible investment approach that consists of selecting or weighting issuers within a portfolio according to their extra-financial rating. Novethic defines the three ESG selection approaches as follows:

- **Best-in-universe:** prefer issuers with the best extra-financial ratings regardless of their sector of activity, assuming sector biases, since sectors that are considered more virtuous on the whole will be more represented.
- **Best effort:** prefer issuers that demonstrate an improvement or good outlook for their ESG practices and performance over time.
- **Best-in-class:** prefer companies with the best extra-financial ratings within their sector of activity, without preferring or excluding a sector in relation to the stock market index serving as a starting point

**TCFD:** The Task-Force on Climate-related Financial Disclosures is a working group set up in 2015 at COP21 by the G20 Financial Stability Board. Its objective is to make markets more efficient and economies more stable and resilient by supporting financial transparency related to climate risks.