



## 2017 Engagement Report

*Since its beginnings, TOBAM has decided that sustainable development would be explicitly core to its values. Its clients have a long-term approach to investing and its sustainable way addresses these concerns.*

*Upholding Environmental, Social and Governance principles (ESG) is not only part of our investment process; but also, an integral part of our day to day business. TOBAM aims to act in a socially responsible manner via its business, its social relations and its long term vision of sustainable growth. By upholding these principles everyday we make sure that TOBAM does not veer from its “sustainable” journey.*

*We consider engagement towards third parties, the industry and the investee companies as another crucial step towards the promotion and development of responsible investment.*

**July 2017**



## ESG matters in the investment process

As part of our fiduciary duty, TOBAM is committed to protecting clients' interest by acknowledging each and every factor that may impact not only the financial performance; but also, the risk profile of firms we have invested in.

Most of our clients have a long-term investment horizon and will need to deal with major sustainability-related challenges that lead to tangible impacts on investment portfolios such as but not limited to: stricter ESG-related regulatory framework, multiplication of norms and standards, pressure from stakeholders, etc. As a result, **ESG criteria can no longer be considered as an “extra-financial” topic, as it now forms an integral part of the factors that need to be considered alongside traditional ones.**

No lasting financial performance can be achieved without a sustainable economic and financial system. Responsible investment has become a necessity, a crucial risk management element of any investment process. We believe that incorporating ESG criteria within our investment process is not intended to provide additional performance, but rather is instrumental in managing the risks and makes absolute sense in the context of long-term investments. **At TOBAM, this ESG incorporation takes two forms:**

- **A strict exclusion policy** suited to our quantitative investment approach, which consists of **excluding companies from our investment universe, that have unacceptable ESG practices and are consequently exposed to material impacts arising from significant risks** (reputational, legal, etc.). Applied to equity and fixed income strategies, respectively since 2007 and 2014, as well as to our Maximum Diversification® indices since 2011, this negative screening is based on the exclusion list published by a renowned investment institution and founding member of the PRI: the Norges Bank, whose
  - Approach is both transparent and readily accessible.
  - Exclusion list is aligned with the PRI guidelines, without seeking to impart a moral judgement.
  - Research approach embodies a constructive dialogue with companies that aims at encouraging better ESG practices and disclosure.
  - Engagement approach respects TOBAM's belief in the need to establish constructive dialogue with economic players
- **The progressive development of a pragmatic and science-based Responsible Investment Integration approach.** By harnessing the quantitatively driven research power of TOBAM we are able to continuously assess the best and most efficient ways of integrating ESG criteria into investment processes. Over the last three years, TOBAM's research team has examined topics related to investment and ESG related analysis of new strategies, back-tests, the impact of exclusion approaches on equity portfolios' performance and volatility, etc.

**By taking into consideration topics such as corporate governance as well as social and environmental issues across various aspects of investment management, we can have a lasting, positive impact on the investment industry as a whole.** Through the application of these two approaches to our open-ended funds, we begin to assume a small part of what we view as a global effort. As a result of the combination of our quantitative approach and ESG capabilities we are able to provide our clients with a large spectrum of bespoke solutions suited to fit their specific Responsible Investment guidelines.


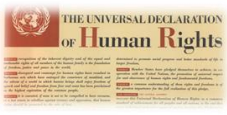










## Exclusion criteria and divestment process

TOBAM applies the exclusion list of Norges Bank, a leading responsible investor in the global investment industry, to all its investments: Equities, Fixed income & Multi-asset.

This list is systematically monitored and published on Norges Bank's website<sup>1</sup>. Whenever Norges Bank's list/criteria gets updated excluded stocks are systematically divested from at the time of the next re-balancing. It should be noted, TOBAM's portfolio management team conducts regular analysis and studies measuring the impact of the exclusion list on our portfolio's performance and volatility.

As at June 2017, the exclusion list was based on the following criteria:

Product-based exclusions		Conduct-based exclusions	
	Production of cluster munitions		Serious violations of human rights
	Production of coal or coal-based energy		Serious violation of individual's rights in situation of war or conflict
	Anti-personnel landmines		Severe environmental damage
	Production of tobacco		Gross corruption
	Production of nuclear weapons		Other particularly serious violations of fundamental ethical norms

<sup>1</sup><https://www.nbim.no/en/responsibility/exclusion-of-companies/>



## Engagement Actions July 2017

TOBAM offers a quantitative management style integrating socially responsible investment criteria across its open-ended portfolios, public indices, and most mandates.

Applied to Equity Anti-Benchmark® strategies since 2007, to Fixed Income Anti-Benchmark® strategies and Maximum Diversification® indices since their respective inception in 2014 and 2011, TOBAM's negative screening is based on the exclusion list published by a renowned investment institution and founding member of the PRI, Norges Bank.

In 2017, via the letter shown below, we began to actively communicate with companies that have been placed on the Norges Bank's exclusion list and resultantly excluded from our investment universe. This being said, as the exclusion list is reviewed on a daily basis, should Norges bank reinstate formerly black listed companies we shall once reconsider its inclusion in our investment universe.

**TOBAM** \*  
CORE INVESTMENTS

Object: Socially Responsible Investment – Exclusion list

Dear Sir or Madam,

TOBAM is an asset management company offering innovative investment capabilities whose aim is to maximize diversification. Created 12 years ago, we run 9 billion USD of assets mostly for large institutional investors.

Since the beginning, TOBAM decided that sustainability and responsible investing would be explicitly core to its values. Our clients have a long-term approach to investing and our Sustainable Way addresses their concerns.

Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

We have decided to apply the [Norges Bank](https://www.nbim.no/en/responsibility/exclusion-of-companies/) exclusion list to our portfolios (<https://www.nbim.no/en/responsibility/exclusion-of-companies/>).

This exclusion list is aligned with the Investment Principles of the Principles for Responsible Investment. [Norges Bank](#)'s advocates and implements shareholder activism, we are aiming at offering investors in TOBAM funds the benefits from [Norges Bank](#)'s engagement efforts. We believe that generating this type of dialogue with companies encourages broader adoption of the principles reflected in the PRI and Global Compact.

Your company is currently included on the exclusion list from [Norges bank](#), as a consequence we do not invest in any security issued by your company for the time being.

Should your company being removed from the [Norges Bank](#)'s exclusion list at the next rebalancing of our portfolios, we will be happy to consider your securities back into our available investment universe.

We appreciate your consideration to this letter and the explanation of our decision.

Kind regards,

Being excluded by Norges Bank can have significant consequences for listed companies - first on their reputation, and second, on their general ability to access financial markets.

Norway's Government Pension Fund Global is Europe's top pension fund in terms of assets under management<sup>1</sup> and is also one of the largest equity holders in the world.

As a pioneer in Sustainable and Responsible Investment, their recommendations are followed by numerous asset owners and managers, hence further increasing the impact of their exclusions.

We believe our engagement approach will contribute to further developing best practices and encouraging the adoption of sound ESG policies by a wider range of companies worldwide.

To view Norges Bank's exclusion list please visit:

<https://www.nbim.no/en/responsibility/exclusion-of-companies>



## For more information

TOBAM is an asset management company offering innovative investment capabilities whose aim is to maximize diversification. TOBAM's Maximum Diversification® approach, supported by original, patented research and a mathematical definition of diversification, provides clients with diversified core exposure, in both the equity and fixed income markets. The company manages \$8.5 billion in Equities and Fixed Income. Its team includes 54 investment professionals. Figures as of June 2017.

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