



Engagement Policy

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.

We strongly believe in the role and positive influence that engagement and dialogues with companies can bring. We approach engagement as a way to sensitize listed companies to the requirements facing the asset management industry (reporting needs, principal adverse impacts indicators considerations,) as well as a way to explain our requests, questions and needs for more information. This is the opportunity to constructively build a way to work with listed companies.



We believe that 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.



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 cannot be considered as an "extra-financial" topic, as it 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 three forms:

- **A strict exclusion policy¹** 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 complementary and aligned with the best exclusion practices standards of Norges Bank, but also with some of the largest institutional investors in Europe.
- **Systematic carbon footprint reduction:** TOBAM implements a systematic reduction of at least 20% versus the reference benchmark's carbon footprint across TOBAM's equity and fixed income portfolios and mandates. Reduction is set at 50% for Paris Aligned strategies and indices.
- **Proprietary ESG footprint integration:** TOBAM's Research team has built a proprietary methodology to construct the ESG Footprint of each individual stock holding in our portfolios, hence the ESG footprint of our portfolios. TOBAM has implemented a hard constraint to all equity portfolio, in order to optimize portfolios so that they, at minimum, match the ESG footprint of their respective benchmark.
- **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.

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 approaches to our strategies, we begin to undertake 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.

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

TOBAM defines active ownership and corporate engagement as using its shareholder position on behalf of its client shareholders to influence company management decision making and the further integration of ESG principles and good corporate governance in the companies in which it invests.

¹: TOBAM's exclusion policy is available on request to sustainability@tobam.fr

Priorities & Materiality

Since 2019, we have been focusing our engagement efforts on two priority themes: the respect of human rights and reporting on carbon emissions and climate disclosures. Priorities are defined by assessment of the materiality of the issues addressed as well as by the capability of TOBAM to reach out and influence. We will always prioritize engagement with companies we are invested in (in equity or fixed income indifferently) and on topics that we feel are material in terms of risks, or on our capability to assess the company.

We also consider the source of information and always try to gather as much information and different sources as possible, notably via our connections with human rights organization.

Priorities

Priorities are assessed and outline on an annual basis in the sustainability committee. Priorities are set based on recent development in ESG issues and challenges that are the most relevant for our investments. Since we started engaging with companies and formalizing an engagement policy, we have set up Human rights as a key priority for our engagement and dialogues with companies.

Human Rights

Respect for human rights is a fundamental aspect of responsible investing, reflecting the values and principles that promote sustainable and inclusive societies. By prioritizing human rights in their engagement efforts, asset managers can drive positive change and mitigate reputational risks, while enhance long-term investment performance. Engaging with investee companies on human rights issues encourages them to adopt fair labor practices, uphold diversity and inclusion, address supply chain risks, and promote the well-being of their employees, stakeholders, and the communities in which they operate.

Human rights are core to freedom, creation, innovation and economic development. Breaches or lack of human rights pose great risks to an economic ecosystem.

Data Disclosure

As the world confronts the challenges of climate change, there is a growing demand for transparency and accountability in corporate environmental practices. AT TOBAM we believe in transparency and data. As a quantitative manager, research driven firm, we believe that a good quality of homogenous and reliable data is key to onboard key challenges. We are notably particularly involved in carbon emissions disclosure, and have set the reporting of carbon emissions by companies as a key priority. Carbon emissions data disclosure provides investors with critical information for making informed decisions. It signals a proactive and responsible approach to environmental stewardship;

Materiality

Assessing the materiality of ESG (Environmental, Social, and Governance) controversies is an important task to effectively manage ESG risks and set priorities. There are different steps in his process

Identifying the ESG controversies: at TOBAM we rely on data, and accurate publication of data, we rely as much as possible on different sources of information.

We notably like to consult our research provider ISS, as well as collaborative initiatives, and our partner at human rights NGO, to validate and assess the risks.

We consider materiality also in the context of the engagement theme (severity, scale, how it directly impacts the business activity of the company and how relevant it is for the company).

How we engage?

Recognizing the value of different forms of engagement, TOBAM carries out direct engagement as well as collaborative engagements with other partners or investors. TOBAM acts individually or collectively based on information gathered by its partner ISS, or issued by other stakeholders such as investors or human rights NGO's. All engagement initiatives are discussed and decided during the Sustainability Committee.

Direct Engagement

▪ Engagement with companies excluded by Norges Bank

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 largest pension fund in terms of assets under management¹ 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.

In 2017, TOBAM decided to start actively communicating with companies that have been placed on the Norges Bank's exclusion list and resultantly excluded from our investment universe. We conduct this engagement every two years.

We believe that leveraging on Norges Bank exclusions and spreading their impact 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>

¹: Source: IPE's Top 1000 European pension funds - September 2018 supplement.

▪ Leveraged engagement on holdings

Following on discussions and brainstorming with long-term partners/ investors, TOBAM has set up an initiative to open a dialogue with two to three companies per year based on identified allegations (issued by ISS norm-based research) of failure to prevent or address social or governance controversies in line with established standards.

These discussions will be led by TOBAM but in partnership with large institutional clients in order for TOBAM to thrive from its clients base and amplify its actions by leveraging from these large asset owners influence.

▪ Ad-hoc engagement on holdings

TOBAM might decide to start an engagement action following any serious allegations of ESG-related shortcomings identified by investors or partners NGO's. TOBAM has been supporting human rights NGO's and these groups might identify specific issues with companies held by TOBAM.

The engagement process has a long time horizon and if we are not satisfied with the responses and actions of certain companies, this might ultimately lead to an exclusion from our investment universe.

All initiatives and decisions are discussed and debated during the Sustainability Committee².

²: See page 5 for more details on the Sustainability Committee

How we engage?

Collaborative Engagement

▪ Pooled Engagement in collaboration with ISS

ISS ESG is an advisor to institutional investors in the area of responsible investment, expert in ESG analysis. In 2019, TOBAM joined their pooled engagement initiative to jointly engage with companies regarding their ESG risk and performance.

Approximately 100 listed companies³ are identified annually under norm-based research as failing to prevent or address social and environment controversies in line with established standards for responsible business conduct.

Through this initiative, TOBAM has the ability to voice its concerns with companies that fail to respect established norms (Red flagged controversies - already on TOBAM's exclusion list) and companies that face credible allegations (Amber flagged) as identified by ISS ESG's team of analysts.

Engagements covered fall under the following Global Norms areas



HUMAN RIGHTS



LABOR RIGHTS



ENVIRONMENT



CORRUPTION

We believe that by joining a collective engagement alongside some of the largest and most renowned asset owners and managers, we amplify a global movement and increase our impact.

³ please note that among the companies identified by ISS, TOBAM might or might not be engaging as shareholder of these companies.

Collaborative and Participative engagement

In our efforts to promote best practices and to be a participative player and promoter of ESG integration and disclosures, we participate in collective engagement when appropriate.

TOBAM is a signatory to some collaborative initiatives and take an active role on those most relevant to us:

- The United Nations Principles for Responsible Investment (PRI) since 2011
- The United Nations Global Compact (since 2011)
- The Carbon Disclosure Project
- The Global Statement on investor obligations
- The Global Investor Statement to Governments on Climate Change

TOBAM has joined two initiatives that are significantly committed in moving the human rights integration agenda into the financial industry:



Advance is a PRI-led stewardship initiative where institutional investors work together to take action on human rights and social issues. Investors use their collective influence with companies and other decision makers to drive positive outcomes for workers, communities and society.

<https://www.unpri.org/investment-tools/stewardship/advance>



Investor Alliance for Human Rights is a collective action platform for responsible investment that is grounded in respect for people's fundamental rights. TOBAM is notably involved in the initiative targeting the Uyghurs forced-labor camps in China and companies allegedly involved in these controversies.

<https://investorsforhumanrights.org/>

Engagement on fixed income holdings

TOBAM's SRI policy is applicable to equity, fixed income and multi assets strategies without differentiation.

In regards to engagement, since TOBAM's credit strategies apply the Maximum Diversification® approach to a universe of listed issuers only, the engagement policy as defined above applies to the fixed income portfolios as well as to the equity portfolios.

As described above, TOBAM conducts engagement initiatives of different forms: Direct and Collaborative with risk management as the main driver of the engagement actions.

As such TOBAM's engagement policy and philosophy fits for both our investment at the equity and fixed income levels.

Governance & Reporting

Sustainability Committee

The role of the Sustainability Committee is to challenge and monitor TOBAM's sustainable way and maintain a high level of commitment over time to SRI and CSR challenges.

The committee is also in charge of overseeing and monitoring market and normative evolutions in the field of corporate and social responsibility and responsible investment.

The Committee meets every quarter. Members of the Committee (*Chairman is specifically in charge of overseeing all CSR topics, one portfolio manager is coordinating SRI projects, while TOBAM's CEO is representing TOBAM's employees and shareholders interests*) identify areas for improvement and discuss new opportunities and projects depending on their relevance and feasibility.

The committee is in charge of proposing, discussing and deciding on new engagement initiatives, on current projects and coordinating the next steps.

Escalation Policy

TOBAM established an escalation policy for each engagement initiative following the below principles:

- Dialogue is initiated with letter to Investor Relationship Team or equivalent
- If unresponsive, TOBAM escalates the questions to the CEO of the company
- If unresponsive, the next step is the Board if relevant.

If replies and explanations to the questions are perceived as unclear or requires more details TOBAM sets up a call/video conference with the relevant team at the investee company level.

If all actions are unsatisfactory, or the company remains irresponsible, that will trigger a discussion at the Sustainability Committee level about potential exclusion from investment universe. The exclusion decision will be used as a last resort, and in very exceptional cases.

Reporting

We publish a summary of our engagement activity in the annual engagement report published on our website: <https://www.tobam.fr/engagement-report/>.

Most of our initiatives are publicly disclosed on the report, however we might make some exceptions to our transparency value, as in some cases, publicising the engagement and the investee company name might be detrimental to the discussion.

Please contact the sustainable committee if you have further questions:
sustainability@tobam.fr

ABOUT TOBAM

TOBAM is an asset management company offering innovative investment capabilities designed to increase diversification. Its mission is to provide rational and professional solutions to long term investors in the context of efficient markets.

The Maximum Diversification® approach, TOBAM's flagship investment process founded in 2006, is supported by original, patented research and a mathematical definition of diversification and provides clients with diversified core exposure, in both the equity and fixed income markets.

In line with its mission statement and commitment to diversification, TOBAM built a separate research and portfolio management activity on digital assets and DeFi in 2016.

TOBAM manages close to USD \$6 billion (at December 31, 2022). TOBAM's team is composed of 44 professionals.

For more information, visit www.tobam.fr

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