

## **GFG Monaco**

### *ESG Policy*

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GFG Groupe Financier de Gestion (Monaco) SAM (“GFG” in the following) has registered office at 74 Boulevard d’Italie, 98000 Monaco, and is authorised to carry out its business in Monaco in accordance with CCAF (Commission de Controle des Activites Financieres) and subject to control by CCAF itself.

This Policy is applicable just in the scope of UCITS Fund Management carried out by GFG as Investment Manager.

This Policy integrates all the limits and investment rules collected in the Prospectus. Should any overlap occur, the prospectus limits and constraint apply first.

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## 1. Introduction

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The goal of this document is to describe in detail how ESG scores integrate in the investment process of the sub-funds GFG manages.

We believe that maintaining the current Financial goals for the funds we manage, we can successfully integrate a Non-Financial objective, driven by ESG related researches, to promote long term business sustainability and prevent potential financial risks deriving from ESG issues oversight.

To guarantee our clients a consistent and fully compliant integration of ESG data in our investment processes, we applied to receive an SRI Certification (ESG Label) from LuxFlag, an independent and international non-profit association (<https://www.luxflag.org/about/who-we-are.html>).

On the 1<sup>st</sup> July 2021, we officially received the LuxFLAG ESG Label<sup>1</sup> (<https://www.luxflag.org/labels/esg/>).

This certification acknowledges GFG's commitment in integrating environmental, social and governance considerations into its investment process, placing itself at the

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*1 Investors must not rely on the LuxFLAG label with regard to investor protection issues and LuxFLAG may not incur any liability related to financial performance or default of the labelled fund. LuxFLAG ESG Label is valid from 1st July 2021 to 30th June 2022, subject to renewal.*



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level of the highest international standards in terms of Socially Responsible Investments (SRI).

In the following chapter, we will define the Non-Financial investment objectives, the source of our ESG research, the impacts they have on the construction of the Investment Universe and on the Investment Decision. Finally, we will describe how the on-going monitoring takes place and what is our divestment approach

## ***2. ESG Investment Research***

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Our principal source of information for ESG related topics are RepRisk and Norges Bank. Please refer to the Appendix for the full list of sources we use.

### **2.1. RepRisk**

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We rely on a fully comprehensive ESG research package from RepRisk, a global leader and pioneer in data science, specializing in premium ESG and business conduct risk research and quantitative solutions.

As a key differentiator from competitors, RepRisk relies on an “Outside-in perspective”: focuses on performance, based on media, stakeholder and public sources external to a company. Provides a timely and effective “reality check” about what is happening on-the ground, i.e. how a company conducts its business where it operates around the world.

Our ESG drivers come from four different pillars of RepRisk research, based on different classifications of ESG incidents, which are also associated to a Severity and a Reach:

1. Issues: all ESG incidents are mapped to one of the 28 ESG Issues defined by RepRisk in line with key international standards
2. Topic Tags: ESG incidents might also be associated to one or more of the 67 Topic Tags defined by RepRisk. These are “hot topics”, more specific and thematic
3. UNGC: United Nations Global Compacts defined ten principles that companies should integrate into strategies, policies and procedures to establish a culture of integrity and not only to uphold their basic responsibilities to people and planet but also to set the stage for long-term success. RepRisk flags companies that violated one or more of those principles
4. RRI: RepRisk Index: a quantitative measure (0 to 100) of a company's reputational risk exposure related to ESG issues. The RRI is available for all entities in the RepRisk database.



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## 2.2. **Norges Bank**

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Norges Bank maintains the list of companies that are excluded from the Norway's Government Pension Fund Global (GPF), the world's largest.

Norges' council on ethics is appointed by Norway's ministry of finance and makes recommendations to Norges Bank's executive board.

Reasons for exclusion include production of tobacco, involvement in nuclear weapons or cluster munitions, "gross corruption", and violations of human rights

## 3. **Non-Financial investment objectives**

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### 3.1. **Funds providing returns in line with an operational index <sup>2</sup>**

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Euro Global Bond and Global Corporate Bond funds aim to provide their investor with a low tracking error and higher return than their respective operational Indices.

Both funds share the Non-Financial objective of including Social, Environmental and Governance criteria in the internal investment process that means carefully balance ESG considerations while maintaining a risk-adjusted return profile in line with their operational index.

Sustainability considerations include exclusion of certain companies involved in controversial activities such as tobacco, weapons, gambling, harmful environmental practices as well as conduct-based screening.

On top of those exclusions, we apply ESG scores to analyse issuers and to monitor investments, and further limits on issuers involved in severe controversies or having weak ESG scores.

### 3.2. **Absolute Return and Total Return Funds**

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Income Opportunity aims to deliver steady capital appreciation with contained volatility, regardless of the directional movement in equity, interest rates, credit or currency markets.

Global Enhanced Cash aims to capital preservation with the objective of generating excess return with respect to the European Central Bank short term rates.

Both funds conjugate the goal of maximizing opportunities in financial markets with the Non-Financial objective of being consistent with principles of environmental, social and governance ESG focused investing.

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<sup>2</sup> Please note that the reference to an index is made for information only. The index is not mentioned in the investment policy of the Sub-Fund



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On top of those exclusions, we apply ESG scores to analyse issuers and to monitor investments, and further limits on issuers involved in severe controversies or having weak ESG scores.

## 4. ESG Scores

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For compliance purposes, we require to have in place a precise scoring approach for all type of securities we had in our sub-funds' portfolios during the last two years.

Should we decide, in compliance with Prospectus limits, to invest a financial instrument that does not fall in any of the following categories, it is mandatory to update this policy before proceeding with the investment.

The only financial instruments that won't be object of ESG evaluation are:

- Derivatives on Currencies
- Derivatives on Volatility

All the ESG Scores dealt in this chapter will range from 0 (no ESG Risk) to 100 (Extremely Severe ESG Risk).

Based on the ESG scores computed or collected as explained in this chapter, the Investment Team might increase or reduce them by ten units<sup>3</sup>, producing a report to justify the change, based on one or more of the following criteria:

1. In depth analysis of ESG Investment Research underlying research
2. Recent Trend of the Scores considered (RRI)
3. Perspective of future addressment of ESG issues by the Company
4. Other third-party research.

### 4.1. Government Bonds

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The Government Bonds ESG Score is computed as an equally weighted average of the three following different scores:

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<sup>3</sup> For what concerns the Single Dimension Scores, the Investment team can only reduce by a maximum of 10 units the RRI.



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- E Score: Environmental Performance Index (EPI) published by Yale university <https://epi.yale.edu/>
- S Score: Social Progress Index (SPI) published by the non-profit association US Social Progress Imperative <https://www.socialprogress.org/>
- G Score: Worldwide Governance Indicators (WGI) <https://info.worldbank.org/governance/wgi/>

For all indicators we take into account the latest data available. Please refer to the Appendix for further information about those scores.

## 4.2. Corporate Bonds and Listed Equities

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### 4.2.1. ESG Score

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The Corporate Bonds and Listed Equities ESG Score corresponds to the Peak RepRisk Index (Peak RRI) value of the respective Issuer's Global Ultimate Owner (GUO).

The Peak RRI is the higher RRI that the GUO had in the last 2 years.

The GUO of an issuer is derived from RepRisk platform. We might use BBG fields to supplement instrument-to-GUO matching when needed.

### 4.2.2. Single Dimension Scores

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RepRisk platform provides the Environment, Social and Governance contributions to the RRI (RepRisk Index). This set of information allows us to run a detailed analysis with the objective of highlighting companies that display severe issues related to one of the three dimensions of analysis (E, S and G).

Single dimension scores (Environment Score, Social Score and Governance Score) are calculated multiplying the current RRI with the contribution (expressed as a %) of each factor.

## 4.3. Indexes

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The ESG Score for Indices is computed using the following formula:

$$\begin{aligned} \text{Equity Index ESG score} \\ &= 95\% \text{ Equity Index Country Score} \\ &+ 15\% \text{ Equity Index Sector Score} \end{aligned}$$

Where:

- "Equity Index Country Score" is the exposure weighted average of all Peak RRI associated to the Countries where the Index holdings are domiciled;
- "Equity Index Sector Score" is the exposure weighted average of all Peak RRI associated to the Sector where the Index holdings belong.



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#### **4.4. Derivatives**

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The ESG Score for Derivatives corresponds to ESG Score of the underlying asset.

#### **4.5. Issuers not covered by the research**

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If a Company is not covered by our ESG research providers, we apply as a proxy the correspondent Country-Sector ESG Score provided by RepRisk.

### **5. ESG Strategies**

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We comply with different ESG strategies, as described in detail in the following chapter:

- Exclusion / norm-based screening (chapter 6.1)
- ESG Best in Class (chapter 6.2)
- Single dimension Best in class (chapter 6.3)
- ESG Integration (chapter 7.1)

### **6. Construction of the investment universe**

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#### **6.1. ESG Exclusions - Jurisdictions and Controversial Activities**

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All our funds exclude investments in

- jurisdictions mentioned in United Nations Security Council Sanctions;
- jurisdictions mentioned in Financial Action Task Force list of “High-Risk Jurisdictions subject to a Call for Action”;
- all instruments issued by a company within Norges Bank Exclusion list<sup>4</sup>;
- all instruments whose GUO is within Norges Bank Exclusion list<sup>2</sup>;
- all instruments whose Ultimate Parent Companies defined by Bloomberg is within Norges Bank Exclusion list<sup>2</sup>;
- all instruments whose GUO has as RepRisk Sector “Gambling” and “Tobacco”

Those limits apply to all portfolio instruments, including derivatives contracts having as underlying an instrument matching one or more of the above criteria.

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<sup>4</sup> <https://www.nbim.no/en/the-fund/responsible-investment/exclusion-of-companies/>



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Referring solely to our Funds providing returns in line with an operational index, if one exclusion impact one of the Companies in the top decile of the most weighted ones within the operational Index, a further analysis based on RepRisk researches will be run. Those exclusions might in fact compromise our funds' financial goals, and in the best interest of our clients we must act very carefully. Should the Company will be assessed as still eligible, a 6 months waiver will apply and a further analysis will be requested at the end of this period.

## 6.2. ESG Best in class

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On top of the controversial activities, we screen out of the Prospectus-compliant investment universe:

- all the companies displaying weak ESG Scores, i.e. above 65, indicating an extremely high ESG risk exposure;
- all Government Bond having an ESG Score above 60.

Those criteria apply exclusively to stocks and bonds. Derivatives do not undergo ESG Best in class exclusions, not being a core part of our investments. They are assessed on a case by case basis.

## 6.3. Single dimension Best in class

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We also aim to identify companies that display severe issues related to one of the three dimensions of analysis (E, S and G), even if they might not have a Peak RRI above our threshold.

We therefore exclude from the investment universe:

- all the companies that have Environment Score above 30;
- all the companies that have Social Score above 30;
- all the companies that have Governance Score above 35.

The thresholds have been set to reflect the current distribution of issues among the three different dimensions. Governance is on average the main contributor to the RRI and was therefore assigned a slightly higher limit. These figures can be reviewed annually.

Those criteria apply exclusively to stocks and bonds. Derivatives do not undergo single dimension Best in class exclusions, not being a core part of our investments. They are assessed on a case by case basis.

## 6.4. Underlying Funds investments

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We consider eligible to be invested just the funds that fulfill at least one of the following requirements:





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- all the sub-funds we manage, for which we can grant a full alignment and compliance with this policy
- index trackers
- all third parties' funds that are LuxFlag labelled.
- all funds that provide an ESG Screening Policy reviewed and approved by Luxflag before the investment takes place.

## 7. On-going monitoring

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The scores we take into account for ESG valuation are updated weekly.

### 7.1. ESG Integration

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Given the constrained applied to the investment universe, detailed in the previous chapter, ESG Scores are taken into account within the investment process alongside all the other quantitative and fundamental financial indicators to assess the profitability of an investment.

RepRisk platform provide licensed users with detailed reports on all incidents occurred for a Company, a Sector or a Country. This set of information is very valuable to assess ESG related information within the Security picking process.

We will maintain also a list of critical companies based on different criteria, including:

- Companies mentioned as “Under-observation” by Norges Bank;
- Companies flagged by RepRisk as violators of UNGC principles<sup>5</sup>;
- Companies having an RRI above 55;
- Companies having an Environment Score above 25;
- Companies having a Social Score above 25;
- Companies having a Governance Score above 30.

For UNGC violators, even if we do not apply strict exclusion criteria, we commit to avoid investments in these securities and, when these investments are key to our financial goals, we closely monitor the developments of the company in the scope of the violation. If no relevant remediation occurs in a two years period, the company will be excluded until it will be UNGC compliant.

For all the other alerts, even if these are not strict limits on the companies included in this list, the Asset Management team will take this input into account within the

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<sup>5</sup> Please refer to the Appendix for further details



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investment process to include ESG considerations to the stricter limits described above.

## ***8. Divestments***

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### **8.1. ESG limits violations**

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When a fund's holding ESG scores change (including GUO change) causes that holding to violate one or more of the exclusion limits set in this Policy, the Investment Team has up to 3 months to divest in the best financial interest of the shareholders.



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## 9. Appendix

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### 9.1. Sustainalytics

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The ongoing monitoring of companies can rely also on public Sustainalytics ESG research available on Bloomberg platform.

### 9.2. United Nation Global Compact Principles (UNGC Principles)<sup>6</sup>

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Corporate sustainability starts with a company's value system and a principles-based approach to doing business. This means operating in ways that, at a minimum, meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. Responsible businesses enact the same values and principles wherever they have a presence, and know that good practices in one area do not offset harm in another. By incorporating the Ten Principles of the UN Global Compact into strategies, policies and procedures, and establishing a culture of integrity, companies are not only upholding their basic responsibilities to people and planet, but also setting the stage for long-term success.

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

#### ***Human Rights***

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

#### ***Labour***

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

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<sup>6</sup> Please refer to the Appendix for further details  
PERLINK "<https://www.unglobalcompact.org/what-is-gc/mission/principles>"  
<https://www.unglobalcompact.org/what-is-gc/mission/principles>



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***Environment***

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

***Anti-Corruption***

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

### **9.3. Worldwide Governance Indicators (WGI)<sup>7</sup>**

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The Worldwide Governance Indicators (WGI) project reports aggregate and individual governance indicators for over 200 countries and territories over the period 1996–2020, for six dimensions of governance: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law.

The 6 WGI score are based on 32 data sources, belonging to one of the following four categories: (1) Surveys of households and firms (2) Commercial business information providers (3) Non-governmental organizations (4) Public sector organization. On WGI website it is available for download the extensive list of data sources outcomes.

Each data source contains several different questions. All questions are first assigned to one of the 6 WGI principles (Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption) and then rescaled on a score from 0 to 1.

Finally, for each principle, it is computed an average of all the questions' scores available with an Unobserved Components Model (UCM). The ending point is that they compute different weight for each question. The average score for each principle ranges from -2.5 to 2.5 and is associated with a Standard Error.

Those scores are then compared among countries to compute a Percentile (from 0 to 100) to recap in a unique number all the information assessed. Alongside the percentile they provide a 90% confidence interval for this score.

Over time comparison of the value obtained are not recommended as the underlying data source have changed, the number of Countries considered have changed and the weight associated to each question change.

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<sup>7</sup> Source WGI website <https://info.worldbank.org/governance/wgi/>



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The WGI are produced by Daniel Kaufmann, Natural Resource Governance Institute (NRGI) and Brookings Institution, and Aart Kraay, World Bank Development Research Group.

#### 9.4. Environmental Performance Index (EPI)<sup>8</sup>

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The Environmental Performance Index (EPI) is broad research project of the Yale Center for Environmental Law & Policy and The Center for International Earth Science Information Network (CIESIN) at Columbia University's Earth Institute. Its aim is to summarize of the state of sustainability around the world and it is released biannually.

These indicators provide a gauge at a national scale of how close countries are to established environmental policy targets. The EPI offers a scorecard that highlights leaders and laggards in environmental performance and provides practical guidance for countries that aspire to move toward a sustainable future.

The EPI uses 32 performance indicators across 11 issue categories in order to rank the vast majority of the world countries (180 in 2020 report) on environmental health and ecosystem vitality. The environmental health account for 40% of the total score, while the ecosystem vitality for 60% overall.

The 11 main issue categories and their respective weights are report as follows:

- Air Quality (20%)
- Sanitation & Drinking water (16%)
- Heavy Metals (2%)
- Waste Management (2%)
- Agriculture (3%)
- Pollution Emissions (3%)
- Climate Change (24%)
- Water Resources (3%)
- Fisheries (6%)
- Ecosystem Services (6%)
- Biodiversity & Habitat (15%)

The data used to build the Index come from trusted third-party sources and are then aggregated to construct indicators on a 0–100 scale, from worst to best performance.

The researchers highlight how better data collection, reporting and verification across a range of environmental issues are urgently needed. The existing gaps are

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<sup>8</sup> Source EPI Website <https://epi.yale.edu/>



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especially pronounced in the areas of agriculture, water resources, and threats to biodiversity.

Furthermore, the inability to capture transboundary environmental impacts (i.e. the ones which do not account for “exported” impacts associated with imported products) persists as a limitation of the current EPI framework.

The researchers underline the impossibility to compare different EPI releases in time series/panel dataset because the underlying methodology and data change between versions of the EPI. For over time comparison, it is recommended to use single indicators.

## 9.5. Social Progress Index (SPI)<sup>9</sup>

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The Social Performance Index (SPI) is a comprehensive indicator aiming to measure the real quality of life, independently from economic indicators. It is published since 2013 on a yearly basis. The latest available report (2020) covers 163 countries and about 99% of the world’s population.

The Index uses 51 social outcomes indicators in order to calculate an overall score for the countries analyzed. These indicators are grouped in a broader framework composed of 3 main dimensions, each of which is the sum of four equally weighted components:

- Basic Human Needs (Nutrition & Basic Medical Care, Water & Sanitation, Shelter, Personal Safety)
- Foundation of Wellbeing (Access to Basic Knowledge, Access to Information and Communications, Health & Wellness, Environmental Quality)
- Opportunity (personal Rights, Personal Freedom & Inclusiveness, Access to Advanced Education).

The data sources range from large international institutions like the United Nations to nongovernmental organizations such as Transparency International. We also include data collected via global surveys, such as Gallup’s World Pol.

All the data gathered are no older than 10 years and the indicators considered in the analysis are typically inclusive from a geographical point of view. Therefore, the Index tends to exclude many indicators which cover only a subset of countries even if they are reliable.

As regards the Index calculation, the researchers follow a 5-steps process:

- 1) Addressing missing values in indicators;
- 2) Values standardization;

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<sup>9</sup> Source SPI Website <https://www.socialprogress.org/>



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- 3) Values inversion (for which a higher value denotes lower social progress. 17 in 2019 Index);
- 4) Principal Component Analysis (PCA) to aggregate indicators into a component score;
- 5) Calculation of dimension and overall Social Progress Index scores.

The component, dimension, and overall Social Progress Index scores are scaled from 0 to 100 (where the higher the score the better).