



Principal Adverse Impact Statement

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NICHE AM

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1. Background and scope

The Sustainable Finance Disclosure Regulation (SFDR) defines sustainability factors as environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters.

Principal adverse impacts (“PAI”) are impacts of investment decisions or investment that result in negative effects on the above-mentioned sustainability factors.

This statement describes how Niche Asset Management Limited (“NAM”) considers principal adverse impacts (PAI) of our investment decisions on sustainability factors, as per Article 4 of the SFDR.

This statement applies as of 30 November 2022. It will be reviewed at least annually.

2. Description of principal adverse sustainability impacts

Most economic activities can influence various sustainability indicators, both positively and adversely. These effects can be significant both prior to the investment and during the maintenance of instruments in the portfolio and require periodic reassessment. Adequate monitoring of exposure to social and environmental issues is a priority in order to mitigate the potential negative effects of portfolio’s investments. PAI indicators are a way of measuring how issuers negatively impact sustainability factors.

The PAI indicators applicable to investments in corporate securities that are currently monitored and evaluated by NAM include:

<i>Adverse sustainability indicator</i>	<i>Metric</i>	
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions Scope 2 GHG emissions Scope 3 GHG emissions Total GHG emissions
	2. Carbon footprint	Carbon footprint
	3. GHG intensity of investee companies	GHG intensity of investee companies
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector
Biodiversity	7. Activities negatively affecting biodiversity-sensitive area	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
Waste	9. Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS		
Social and employee matters	1. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	2. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	3. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
	4. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members
	5. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons

<i>Other indicators for principal adverse impacts on sustainability factors</i>		<i>Metric</i>
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
Water, waste and material emissions	7. Investments in companies without water management policies	Share of investments in investee companies without water management policies

3. Description of policies to identify and prioritize principal adverse sustainability impacts

NAM aims to manage the risk connected to potential adverse sustainability impact both Pre-Investments and Post-Investments.

3.1 Methodologies and data used to assess each principal adverse impact: Pre-Investments

Pre-Investment - Exclusion

NAM excludes investing in companies working in specific sectors that present high sustainability risk and very likely to generate adverse impact or to negatively influence the Funds sustainable development.

Pre-Investment, the following PAI on sustainability factors are therefore considered through the NAM exclusion policy:

- Exposure to companies active in the fossil fuel sector (PAI 4, Table 1);
- Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons (PAI 14, Table 1).

Pre-Investment - DNSH

Prior the investments, once the minimum requirements to invest in a company are fulfilled, NAM analyzes the Principal Adverse Impact factors for each of the investee company.

The focus of the DNSH analysis is **not the intensity recorded for each factor, but its dynamics**. In fact, to NAM, it's important the Principal Adverse Impact factors communication and direction. The DNSH analysis represents the **platform upon which to build the engagement strategy** with the company.

- 1) **Communication:** it's crucial stimulating companies to provide as many Principal Adverse Impact factors as possible. NAM understands that small cap or companies based in geographies other than Europe tend to be laggard in this respect. Engagement has the function to stress the importance to gauge and communicate these factors.
- 2) **Dynamic:** NAM believes that penalizing sectors – other than those subject to exclusions (controversial sectors) – or some geographies or the level of economic development per se is not consistent with the sustainability mission of the products. That's why the focus is on the path undertaken by the investee company, i.e. the dynamic of the Principal Adverse Impact factors.

It's important to stress that DNSH analysis is not meant to be a filter to decide what companies to invest in but is the main instrument to engage with the company in order to improve the communication and the dynamics of Principal Adverse Impact factors.

How the DNSH analysis is developed

The DNSH analysis is based on few steps: **1)** data collection; **2)** data processing; **3)** data analysis; **4)** engagement with the investee company.

- **The data collection** uses different sources: a) Data collection is primarily collected through our provider Refinitiv; b) Sustainability documents published by the company are used to update the data when sufficient data is not provided through Refinitiv; c) Direct contact with the investee company.

Where information relating to any of the indicators used is not readily available, a best effort will be used to assess the adverse impacts, including a description of any reasonable assumptions used and cooperation with third-party data providers or external experts.

- **The data processing** normalizes the data collected to adjust for any needed adjustments (corporate action, measurement methods, external events, other).
- **The data analysis** reviews the work and interpretes the data to add a qualitative element to the analysis.
- **The engagement** that will be used to improve communication and dynamic of Principal Adverse Impact factors. The engagement activity and its results are well documented over the time.

Pre-Investment, the following PAI on sustainability factors are therefore considered to monitor the improving trend:

Principal adverse impacts	Corresponding DNSH indicator	NicheAM measure of dynamics of indicator
1. GHG emissions 2. Carbon footprint 3. GHG intensity of investee companies	A) CO2 equivalent Emissions Direct, Scope 1; B) CO2 equivalent Emissions indirect, Scope 2; C) CO2 equivalent Emissions indirect, Scope 3; D) CO2 Equivalent Emissions Total; E) Total CO2 Equivalent Emissions To Revenues USD in million (GHG intensity Scope 1 + 2); F) Total CO2 Equivalent Emissions To Revenues USD in million (GHG intensity Scope 1 + 2 + 3);	The percentage change of the most recently provided Co2 emissions data to the average to the previous years is used to measure the company's progress towards Co2 emissions reductions. A decreasing trend is considered as improvement. Both data in absolute and relative terms are used for the analysis to achieve a full analysis on the trend.
5. Share of non-renewable energy consumption and production	G) Share of non-renewable energy consumption and production	A percentage is calculated to show the Share of non-renewable energy consumption and production. An decreasing trend is classed as positive. The analysis is looking for an improving trend towards using more renewable energy, and therefore a decrease in the share of non-renewable energy consumption and production

Principal adverse impacts	Corresponding DNSH indicator	NicheAM measure of dynamics of indicator
6. Energy consumption intensity per high impact climate sector	H) Total Energy Use To Revenues USD in million (Energy consumption Intensity)	A methodology is used using energy consumption intensity per high impact climate sector data from our provider Refinitiv Eikon is used to classify whether the company being analysed is an energy intensive company. The indicator is only used to companies which operate in high impact climate sector. A decreasing trend is positive.
7. Activities negatively affecting biodiversity sensitive areas	I) Activities negatively affecting biodiversity sensitive areas	The analyst must find information supporting that the company being analysed takes part in activities to minimise negative affects to bio-diversity sensitive areas that are affected by their business. If such information is found, the indicator is classified as YES to classify that the firm show an improving trend towards reducing the negative impact of their activities affecting biodiversity sensitive areas.
8. Emissions to water + (Emissions to Water / revenues)	J) Total Water Pollutant emissions tonnes; K) Water Pollutants emissions to Revenues USD	A decreasing trend is considered as improvement. Both data in absolute and relative terms are used for the analysis to achieve a full analysis on the trend.
9. Hazardous waste ratio + (hazardous waste / revenues)	L) Total Hazardous Waste tonnes; M) Total Hazardous Waste To Revenues USD in million (Hazardous waste + radioactive waste ratio)	A decreasing trend is considered as improvement. Both data in absolute and relative terms are used for the analysis to achieve a full analysis on the trend.
10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	P) Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	An indicator to analyse whether the company of analysis meets minimum safeguard requirements. As there is currently no indicator to represent this from our provider, the company must be contacted to find whether any violations have been recorded.
11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Q) Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	An indicator to analyse whether the company of analysis meets minimum safeguard requirements. As there is currently no indicator to represent this from our provider, the company must be contacted to find their compliance mechanisms.
12. Unadjusted gender pay gap	N) Gender Pay Gap Percentage	An increase is considered positive.
13. Board gender diversity	O) Board Gender Diversity, Percent	An increase is considered positive.

3.1 Methodologies and data used to assess each principal adverse impact: Post-Investments

The following PAI on sustainability factors are considered:

- Mandatory Environmental indicators (PAI 1-9, Table 1) and Optional Environmental Indicator (PAI 7, Table 3);
- Mandatory Social and employee matters indicators (PAI 10-14, Table 1).

Post-Investment – PAI monitoring

The monitoring of the selected PAI indicators on a company basis is implemented through the DNSH analysis, whereas PAI statement is activity made by NAM to judge the whole portfolio on a yearly basis. NAM will produce the PAI Statement in accordance with Annex I of the Commission Delegated Regulation 2022/1288.

This PAI statement provides a **'snapshot'** of the **PAI factors at an aggregate portfolio level**.

The annual disclosure will be based on the average of the attributed impacts of all the investments at the end of each **quarter** (average of indicators observed on 31 March, 30 June, 30 September, and 31 December). In line with what ESMA has recently indicated ([Q&A on SFDR, 17/11/2022](#)): the calculation of all the impacts from the four data points will be done at the same time, according to the latest available information on the impacts of the investee companies (i.e. the latest available information will be used for each investment); the valuation will reflect the fiscal-year end point in time.

Filling in the template columns related to *“Explanation”* and *“Actions taken, and actions planned and targets set for the next reference period”*, will provide NAM the opportunity to:

- explain the underlying dynamics of any deterioration in PAI, and the eventual presence of short-term dynamics, that are bound to reverse, or non-recurring events (if the reason is discovered to be an anomaly, the data will be excluded);
- highlight the actions taken and planned in the engagement process (please refer to section 4 dedicated to Engagement).

When possible, the PAI Statement will also include historical comparisons (up to five reference periods against the latest reference period) in order to provide comparability of the PAI reports over time. This comparison will be carried out even though changes in the amount of assets under management and a different asset allocation of product might severely influence the outcome and hence undermine comparability to the previous years, voiding the analysis of significance.

Post-Investment – PAI Evolution analysis

On top of the analysis required by the regulations, that, as we said, in some circumstances could be void of significance, NAM will monitor to what extent the PAIs of the companies in the portfolio have improved or deteriorated compared to the previous year on a homogeneous basis (e.g., assuming that the actual portfolio has not changed compared to the same period the previous year).

The purpose of the analysis described above is to highlight **how much of the portfolio is made of companies that are reducing their negative impact year-over-year.**

The aim is to have the **portfolio as a whole with improving indicators** and better **communication** in terms of PAI factors.

In the annual document NAM will provide information and engagement evidence.

4. Engagement policy summary

NAM's engagement policy is an essential part of its fiduciary duty and its role as responsible investor.

NAM is an investment boutique that devotes significant part of its work to find undervalued and neglected companies around the world. Several times those companies are **small or micro caps** that don't have the resources nor the culture to provide the necessary disclosure in terms of ESG/SDG, based in geographies other than Europe where sustainability practices are less spread and consistent. Here NAM has the opportunity and the goal to improve sustainability practices and communications of these companies through consistent and positive engagement. NAM deems engagement represents the **most powerful tool** to expand sustainability among small companies.

To this goal, NAM uses tools like:

- **internal ESG analysis:** simplified for micro-cap and small cap based in geographies other than Europe and full analysis for other companies. The different scoring system depends on whether the company publishes a full sustainability report or not; in the latter case, via engagement, companies are judged more on their attitude and progress in respect of sustainability. The findings of the ESG analysis are used to set an objective to improve any practices and communications that are deemed weak.
- **DNSH analysis.** As already anticipated (see above 3.1), also the findings of the DNSH analysis are also used to build NAM's engagement strategy.

The contact with the company is positive, interactive and collaborative and it is made mostly through a mother tongue analyst that can create the best working environment to progress the engagement process. It is important to be open to engage positively with the companies, ready to create a debate that could, in the due time, deliver results and awareness. NAM must strive to work with other investors in order to make the process more efficient and effective.

Where the investee company does not demonstrate any interest to improve its communication/practices within a period of 18 months, the investment will be firstly frozen to new investments and then sold as soon as an opportunity arises in the best interest of the client.

The PAI analysis commentary will significantly rely on engagement activity, to identify the main contributors to the results, in particular to provide an explanation for negative outliers of the portfolio.

NAM will diligently record its engagement efforts with investee companies, by way of emails, calls, videocalls, meetings and relevant documentation. Furthermore, NAM will set and periodically review sustainability engagement goals for each investee company, together with the progress made by the investee company in achieving its goals.

5. International standards adopted by Niche Asset Management Ltd.

NAM recognizes the importance of participating in international initiatives that support businesses to operate in a more sustainable manner.

To this end, it adheres to the following internationally recognized standard and code of responsible business conduct: the United Nations "**Principles for Responsible Investment**" (<https://www.unpri.org/>)

NAM adheres - as of 2019 - to the "*Principles for Responsible Investment*", the Guiding Principles on Socially Responsible Investment promoted by the United Nations on the initiative of:

- "UNEP FI": the partnership between the "United Nations Environment Programme" (UNEP) and the financial sector realized with the aim of analyzing the impact of environmental and social considerations on the sustainability of financial performance.
- "UN Global Compact": the initiative aimed at promoting a sustainable global economy, respectful of human and labor rights, environmental protection and the fight against corruption.

NAM is also a signatory of **FAIRR** (farm animal investment risk & return - <https://www.fairr.org/>). This initiative is a collaborative investor network that raises awareness of the environmental, social and governance (ESG) risks and opportunities brought about by intensive livestock production.

6. Historical comparison

Data not yet available.

7. Reporting

Details of the assessment of principal adverse sustainability impacts will be published annually on the Company's website.