



## *Responsible Investment Policy*

*imagine*



NICHE AM

## Contents

<b>1. Objective .....</b>	<b>3</b>
<b>2. Definitions.....</b>	<b>3</b>
<b>3. Responsible Investment Policy summary .....</b>	<b>4</b>
<b>4. Sustainability risk management process .....</b>	<b>5</b>
<b>5. SDGs analysis methodology.....</b>	<b>8</b>
<b>6. NAM's ESG approach.....</b>	<b>9</b>
<b>6. Oversight and Ongoing Monitoring.....</b>	<b>10</b>
<b>7. (Proxy) Voting .....</b>	<b>10</b>
<b>8. Reporting .....</b>	<b>10</b>
<b>9. Governance .....</b>	<b>10</b>
<b>10. Team .....</b>	<b>10</b>
<b>11. Active participation in market bodies.....</b>	<b>11</b>

## 1. Objective

The objective of the Responsible Investment Policy is to provide a detailed description of the activities carried out towards the appropriate integration of Sustainability criteria into the management of the Funds for which Niche Asset Management (hereafter “NAM”) performs the function of delegated Investment Manager.

Funds under Article 8 and 9 of the Regulation (EU)2019/2088 are considered. Under Article 8 we find financial products that promote environmental and social characteristics, though they do not have sustainability investment as their objective. Under Article 9, we find financial products that promote a sustainable investment objective.

The Policy has been drawn up pursuant to the European Union’s Sustainable Finance Disclosure Regulation (SFDR - (EU)2019/2088), which imposes transparency and sustainability related disclosure requirements to Financial Markets Participants (FMP).

## 2. Definitions

For the purpose of the Policy, and aligned with the Regulation, the following definitions apply:

- *“Sustainable Investment”* means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities. This provided such that investments Do Not Significantly Harm (DNSH) any of those objectives and that the investee companies follow good governance practices.
- *“Sustainability Factors”* mean Environmental, Social and Governance (ESG), hereafter also referred to as “ESG” or “ESG Factors”.
- *“ESG Investing”* refers to the integration of Sustainability Factors into the investment decision-making process. Typically, market participants will consider the risk and rewards of a broad range of ESG criteria on which companies are measured.

### 3. Responsible Investment Policy summary

Niche Asset Management (NAM) have signed up to the United Nations Principles for Responsible Investments (PRI), therefore NAM incorporates the PRI guidelines in its investment policy.

NAM's investment policy commits to the followings:

1. Incorporating environmental, social and governance aspects into its investment analysis and decision-making processes.
2. Operating as an active shareholder, integrating ESG issues into shareholder policies and practices.
3. The companies invested in are requested to proceed to appropriate disclosure of news pertaining to environmental, social and governance factors and if they are small entities the company will open a dialogue and will apply the necessary pressure in order to prepare to work in this direction.
4. Promotion, embracement and implementation of the Principles in the community of investors;
5. Collaborating with sector operators and bodies to improve efficiency in implementing the Principles.
6. Disclosure to the public of reports on the AM company's activities and on the progress made in applying the Principles.
7. NAM does have a due diligence process based on both external providers and/or internal analysis, in order to assess the principal adverse impacts of investment on "*sustainability factors*".
8. NAM does have a due diligence process based on internal proprietary unique qualitative/quantitative analysis, in order to assess the companies' impact on the 17 Sustainable Development Goals (SDG) set by the UN.
9. For all the products managed by NAM that bear ESG / SDG characteristics or objectives the company will disclose on its website:
  - A description of the relevant ESG / SDG characteristics and/or ESG / SDG objective of the product;
  - The methodologies used to assess, measure and monitor the ESG / SDG characteristics of the product and/or impact of the product on the ESG objective;
  - How the ESG / SDG characteristics are met;
10. NAM does have a due diligence process based on both external providers and/or internal analysis, in order to assess the compliance of its exclusionary screening policy (see below).

## 4. Sustainability risk management process

NAM's Sustainability Risk Management Process is integrated in the investment process, and it's based on the following steps:

- **Minimum Safeguard Analysis.**
- **Corporate governance analysis.** Only firms with good corporate governance can be part of the investment universe.
- **Exclusions.** NAM does not invest in companies that are involved in the business areas detrimental to our community.
- **ESG analysis.** NAM seeks to invest in companies characterized by best practices in terms of Environmental and Social practices.
- **Do Not Significantly Harm (DNSH).**
- **Engagement activity (policy).**
- **Principal Adverse Impact analysis.**

- ***Minimum safeguard***

The aim of this analysis is to avoid investments in firms with a negative social impact. The Minimum Safeguards (MS) compliance will be focused on Global Compact principles and minimum standards related to UNGP, OECD Guidelines and ILO conventions, especially for what concerns due diligence processes on human rights, including labour rights, bribery, taxation, and fair competition.

The MS assessment is carried out using:

- 1) Third-party providers;
- 2) In the case data from third part providers is lacking at the best of NAM knowledge, via direct contacts with the investee companies and using controversy analysis as an additional indicator for identifying gaps in a firm's human rights due diligence process

NAM will not invest in companies that are in breach of these human rights standards.

After the investment, should violations occur across any company held in the portfolio, NAM expects the investee company to fix the violation, to change its procedures and to substitute the high-level management in charge of the related function. NAM will first engage with the company and then, if the violation persists, a liquidation procedure for the investment will be enacted.

- ***Corporate Governance analysis.***

The Good Corporate Governance assessment is based on sound management structures, employee relations, remuneration of staff and tax compliance, while taking into account the size, the risks and the resources of the company.

This analysis is assessed through direct research, use of third-party providers and direct engagement in case of small-micro cap, also via a questionnaire.

Additionally to ensure the respect of good governance, NAM will only invest in publicly traded company as a minimum safeguard, as several policy and audit are taken place before a company goes public.

- **Exclusion**

The following companies are excluded from the Investment Universe:

- Companies involved in the production, sale, or storage of uranium weapons.
- Companies involved in the production or sale of anti-personnel mines and cluster bombs.
- Companies that have their revenue from weapons exceed 10%.
- Companies that have their revenue from tobacco exceed 10%.
- Companies that have their revenue from thermal coal exceed 10%.
- Companies that have their revenue from oil upstream exceed 10%.

According to NAM, those are companies whose negative effect cannot be minimized.

NAM can apply further and more targeted exclusion policies for specific products.

If an issuer business activity in which NAM is invested becomes significantly involved in the above, NAM will sell it within a reasonable timeframe, considering the best interest of the shareholders.

- **ESG analysis**

NAM integrates Environmental and Social factors into fundamental investment analysis and decision making. Please refer to the ESG analysis section.

- **Do Not Significantly Harm (DNSH)**

Most economic activities can influence various sustainability indicators, both positively and adversely. Adequate monitoring of exposure to environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters is a priority in order to mitigate the potential negative effects of portfolio's investments.

According to SFDR regulation, the Principal Adverse Impacts ("PAI") indicators are a way of measuring how investee company negatively impact on the above sustainability factors.

NAM's Do Not Significantly Harm (DNSH) analysis takes into consideration the analysis of the PAI of each investee companies. The focus of this analysis did not only consist of examining the intensity recorded for each sustainability factor, but first and foremost its dynamics. It is considered particularly important that each of investee company demonstrates an improving trend with respect to sustainability factors, both from an environmental and social impact perspective, that shows that the company is gradually minimizing its negative impact of its business.

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 to improve the communication and the dynamics of Principal Adverse Impact factors.

The adoption of Controversies analysis can also be used to entail companies involved in controversial conduct related to the environmental objectives.

- **Engagement activity (policy)**

As already anticipated, the focus of the DNSH analysis is not the intensity recorded for each factor, but its dynamics.

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 managed funds. That's why the focus is on the path undertaken by the investee company, i.e. the dynamic of the Principal Adverse Impact factors.

In addition, for some of the managed funds, engagement also includes the promotion of awareness of the SDG goals where they have not been explicitly supported by the firm.

NAM will diligently record its engagement efforts with investee companies, by way of emails, calls, videocalls, meetings, relevant documentation, and standardised or personalised forms on sustainability created by the Investment Manager.

The contact with the company is positive, interactive and collaborative and it's made mostly through mother tongue analyst that can create the best working environment to make the engagement process progressing.

Where the investee company does not demonstrate any improvement within a period of 18 months, the investment will be liquidated. The divestment will be implemented gradually, considering the best interest of the shareholders.

- **Principal Adverse Impact analysis.**

This PAI statement is an analysis required by the regulator in order to present a 'snapshot' of the PAI factors at an aggregate portfolio level. The PAI statement ([click here to read the document](#)) provides more details about this analysis.

On top of the analysis NAM can apply further analysis. 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 this analysis is to highlight how much of the portfolio is made of companies that are reducing their negative impact year-over-year.



## 5. SDGs analysis methodology

NAM also integrates an impact assessment based on the SDGs (Sustainable Development Goals as set by UN - [THE 17 GOALS | Sustainable Development \(un.org\)](https://www.un.org/sustainabledevelopment/)) for some of the managed funds.

The objective of the analysis is to define whether a company contributes to the SDGs achievement.

The contribute to the achievement of the SDGs, as defined by the United Nations, is implemented through an internal review of the company practices and its business, based on a qualitative and quantitative proprietary analysis.

Differently from the mainstream approach, NAM does not mix SDG and ESG analysis. As a company can be functional to the achievement of SDGs while, at the same time, demonstrating a negative impact on the community, NAM's aim of the SDG analysis is to define the level of functionality to SDGs of a company (POSITIVE IMPACT), leaving to other analysis the task to define its NEGATIVE IMPACT and its attitude to reduce it. Hence, this analysis has to be integrated with other analyses (ESG, DNSH, Controversies, Minimum Safeguard, etc) to define the sustainability of a company.

The SDG analysis is divided into three phases.

- 1) The first phase is composed by the **business exposure**: the percentage of the business that is functional to SDGs' achievement. The analyst explains here the rationale behind the choice and provides clear evidence for the reader, taking into consideration of the several peculiarities of the sectors in which the firms operate.
- 2) The second phase is the **SDG Repercussion**, that is composed by the analysis of the positioning of the company in the SDGs related business and by the measurement of the SDGs functionality of the company's business.
  - The **positioning** analysis is related to how much the company is needed in order to for this SDG related business to continue smoothly; asking what the negative repercussions would be (like for example, higher prices, lower quality, less supply) if the company were to discontinue it. Clearly, the market share in the area of activity is very important here.
  - The SDGs **functionality** represents the "intensity" of the SDG exposure. The business exposure provides the exposure in terms of volume, but each activity can have a different "intensity" in term of importance for the SDGs achievements. For example, producing cheap furniture for offices helps to set up new activities but the revenue has a lesser SDG intensity than, for example, producing windmills.
- 3) The third phase is **business growth**: the analyst verifies whether the SDG related business of the company is growing and whether and to what extent the company is investing in this business.

Finally, the different scores coming out of the analysis made will be entered into a matrix to define whether the company can be considered SDG related and at what extent.

Having determined the score of the company in terms of SDG, the analyst will pass the result to the fund manager, to the risk manager and to the compliance officer. The companies that turn out not being SDG related will be excluded from the investible universe of the fund and included in the risk and compliance pre-trade filters.

All the passages are duly documented, and the process is repeated annually or earlier if something new and significant arises. Please refer to the Appendix to see an example of SDG analysis.



## 6. NAM's ESG approach

ESG issues are the set of topics that, though, are difficult to measure in monetary terms, have emerged as crucial when evaluating risks and rewards of investments. There is no exhaustive list of such issues however, the following examples can be considered:

Environmental Issues	Social Issues	Governance Issues
Climate Change	Human Rights	Board Composition
Air and Water Pollution	Data Protection and Privacy	Bribery and Corruption
Biodiversity	Gender and Diversity	Executive Compensation
Deforestation	Labor Standards	Political Contributions
Waste Management	Community Relations	Whistleblowing schemes

Source: CFA Institute

The ESG risk analysis is integrated by NAM in the fundamentals and valuation analysis of the company. NAM analyses the practices used by the companies in the domains of environmental, social and governance on a continuous basis as part of the stock selection process, as one of the instruments to minimize the negative impact of the investments.

The ESG analysis is applied to equity stocks and corporate bonds. In relation to government bonds, the Investment Manager will not invest in any country that appears in sanction lists or that the Investment Manager deems not to be investable based on scores published via the Freedom in the World report (Freedom House), Global Peace Index (Institute for Economics and Peace) and Women, Business and the Law index (World Bank).

NAM's ESG analysis is based on:

- a) the analysis of extra-financial data provider **Refinitiv** and on **proprietary analysis tools**.  
Refinitiv, a third-party provider specialized in the assessment of sustainability risks, that measures firm's relative ESG performance, commitment and effectiveness using publicly reported data. Refinitiv analysis does not have any particular negative or positive bias on the different industries. It attributes a score based on the practices of each company relative to its comparable peers within the same industry. This allows to hold companies in controversial sectors that are nonetheless needed to the communities, provided that those companies stand out for in terms of ESG practices. This methodology is well combined with an exclusion policy in order to exclude sectors that the fund deem negative and not absolutely necessary. NAM verifies the reliability of the data of the provider. When NAM finds material mistakes or incongruencies, it reperforms the ESG analysis according to its proprietary model, conceptually consistent with Refinitiv. More details regarding the Refinitiv approach can be found in the Appendix.
- b) **NAM's proprietary ESG analysis**.  
Internal analysis takes into consideration the size and the resources of the investee company:
  - **simplified ESG analysis for micro-cap and small cap based in geographies other than Europe**. In fact, if a managed fund is focused on companies with a small capitalization, it is very likely that the sustainability analysis cannot be fulfilled satisfactorily, as those companies very often are not able to publish a Responsible Investing Report and/or lack of sufficient sustainability information. As such, NAM will positively and effectively engage with the investee companies, with the aim to embed and progressively institutionalize a healthy sustainability culture in their operating and development processes.

- **Full comprehensive analysis for other companies, whether those firms are not covered by Refinitiv or NAM deems the Refinitiv analysis inaccurate.**

Only the proprietary analysis is being used in case of lack of coverage from the external ESG provider.

## 6. Oversight and Ongoing Monitoring

The Responsible Investment Policy consideration and integration is a firm-wide approach, as such, all of the NAM's functions seek to ensure the consistency and quality in sustainability factors. Nonetheless, it will be the responsibility of the Compliance, Risk Management and Portfolio Management Functions, to oversee and monitor actively its implementation.

## 7. (Proxy) Voting

Participation at shareholder meetings is assessed on the basis of its relevance for the interests of the managed portfolios and the possibility of having a meaningful impact on the outcome of the meeting through the voting rights held. Such behaviour enables the Company to focus on a selected number of investee companies, which allows for an adequate level of analysis. Please refer to the [Voting Right Policy](#).

## 8. Reporting

Being a PRI signatory NAM is subject to mandatory annual reporting.

## 9. Governance

NAM has defined a dedicated governance system for managing responsible investment processes.

**Board of Directors** – determines the Responsible Investment (RI) policy and its subsequent revisions as well as its commitment to the six principles of the PRI; approves the exclusion and integration criteria to be applied to the managed assets, and periodically verifies that the RI Policy has been correctly implemented based on checks carried out by Risk Management and the Internal Audit.

## 10. Team

At NAM all the functions consider responsible investing an integral part of their job. Investment, risk, compliance and audit functions integrate responsible investing in the day-by-day duties. NAM focuses on fundamental analysis.

We have just one investment team where we integrate every feature of the investee company, including the risks ESG and the opportunities SDG. The investment team is made of PMs and analysts; here responsible investing bears the same importance of financial, economic, commercial metrics while evaluating a company.

The ESG/SDG/Sectors Exclusion quantitative and qualitative limits are internally set and are timely checked by the Risk management team.

The respect of the responsible Investing policy is monitored by the compliance and periodically tested by the Internal Audit Committee.

The Internal Audit Committee, which is composed by two independent members of the Board of Directors, carries out an internal audit on a yearly basis.

NAM assesses the responsible investment capabilities and training needs among its team members on a yearly basis.

## 11. Active participation in market bodies

NAM is a signatory of PRI, UN Global Compact and member of FAIRR (farm animal investment risk & return).