

# ESG Policy & Approach

## 1. Mission Statement

Since its foundation in 2000, Mercier Vanderlinden Asset Management has upheld a strong track record of incorporating values and norms in its investment approach. This has historically translated itself in the exclusion of various sectors and companies that have been tied to child labour, arms manufacturing and other activities that do not align with the values of Mercier Vanderlinden.

One of these values has always been transparency. For this reason, Mercier Vanderlinden wishes to clearly outline its ESG-principles in a public document so that any stakeholder can consult and review our policy at any given time. By clearly outlining our ESG-guidelines and making our policy public, we willingly open ourselves for feedback and provide stakeholders with the opportunity to verify our compliance with our own ESG-guidelines.

We sincerely hope that this contributes to our already strong conviction that any investment that we make should align with the values that we as a firm hold dearly.

Since 2017, Mercier Vanderlinden is listed as a signatory of the UNPRI (United Nations Principles for Responsible Investment). By subscribing to the UNPRI, we committed ourselves to improving the transparency of our investment process with regard to the application of ESG criteria.

## 2. Focus & Evaluation Methods

ESG stands for Environment, Social and Governance.

At Mercier Vanderlinden, we are convinced that all three aspects should be taken into consideration when making investment decisions. Therefore, none of the funds managed by Mercier Vanderlinden will focus exclusively on one component of the ESG-matrix in the incorporation of our values in our investment strategy.

The components of the ESG-matrix will be evaluated in the following manner:

**Environmental:** Given the availability of numerical data (e.g. CO<sub>2</sub>-emissions), a quantitative approach is used in the evaluation of the environmental performance of our portfolio holdings. The required data are supplied through a mix of internal research, company disclosures and third-party data providers.

**Social:** As quantitative data is not always available and a portfolio holding's performance on the social component of the ESG spectrum is a subjective matter, we employ a qualitative framework in the evaluation of the social performance of portfolio holdings. Internal analysis is compared

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with the assessment of a third-party data provider. In the event of differing opinions between Mercier Vanderlinden and the third-party provider, Mercier Vanderlinden will publicly publish which investments were made despite a negative assessment of the third-party provider. In this publication, the fund manager will provide a clear and transparent motivation for the decision to opt for the internal assessment over the assessment of the third-party provider.

**Governance:** Since quantitative data is not always available and a portfolio holding's performance on the governance component of the ESG spectrum is of a subjective matter, we employ a qualitative framework in the evaluation of the governance performance of portfolio holdings. Internal analysis will be compared with the assessment of a third-party provider. In the event of differing opinions between Mercier Vanderlinden and the third-party provider, Mercier Vanderlinden will publicly publish which investments were made despite a negative assessment of the third-party provider. In this publication, the fund manager will provide a clear and transparent motivation for the decision to opt for the internal assessment over the assessment of the third-party provider.

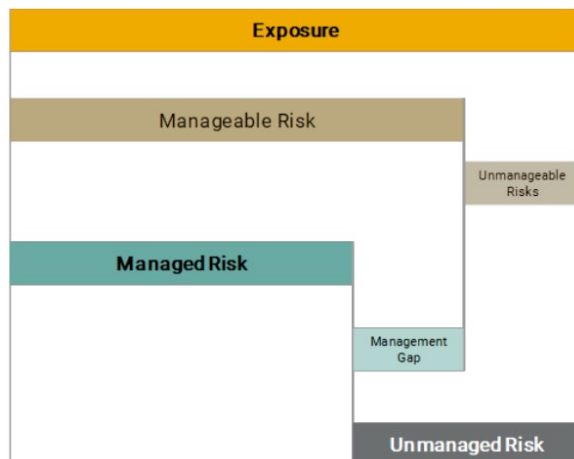
## 3. Determining the ESG risk

For the calculation of the ESG risk, we mainly rely on both the data and the methodology of our third-party ESG data provider. At the discretion of the investment team, both quantitative and qualitative elements can be added to the methodology to further refine the results of the calculations. The final risk scores are absolute, which means that companies across various sectors and countries can be compared to each other based on that score.

The derived ESG risk score measures the degree to which the economic value of a company is at risk due to ESG related incidents. The calculation methodology focuses on material ESG risk, which is defined as the risk whose presence is likely to influence the decisions made by a reasonable investor.

In the initial stage our third-party data provider determines the ESG issues at the sub-industry level for each company. This is done based on a comprehensive consultation with industry experts that also uses structured data inputs, standardized question templates, company reporting, third-party data and the track record of industry events. Based on this sub-industry score, a beta factor that indicates a company's under- or overexposure to the sub-industry's ESG issues can be applied. Using this methodology, an individual company's risk exposure is determined.

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Source: Sustainalytics

The next step in the process is dividing the exposure between ESG risk that can be managed and ESG risk that cannot be managed. A company active in the field of charcoal mining can be very proactive in the management of their ESG issues but the company can not divert the environmental risk that is inherent to the mining of charcoal. The unmanageable risk will be directly added to the unmanaged risk.

Subsequently, the part of the manageable risk that is effectively and sufficiently managed is determined. This is done through the consultation of a set of management indicators. These indicators include certifications, policies and management systems. The methodology also looks at outcome-focused indicators that measure the management performance either via a company's involvement in controversies or directly in quantitative terms. The part of the manageable risk that is insufficiently managed will also be added to the unmanaged risk.

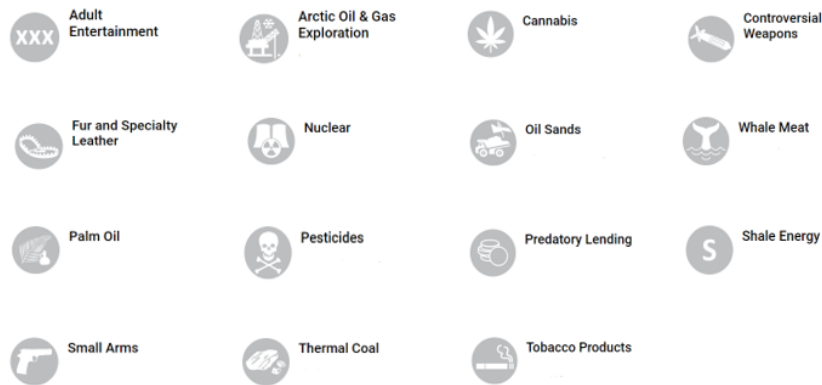
It is this unmanaged risk that ultimately determines the ESG risk score of an individual company.

## 4. Our Guidelines

### I. Negative screening – Exclusion principle

It is our belief that in order to represent our values, we can not justifiably invest in or support companies that are continuing or not phasing out practices that we regard as unsustainable and incompatible with our values. For that reason, Mercier Vanderlinden has decided to fully exclude all companies that have a revenue exposure of more than 10% to the product categories below from the investable universe.

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## II. Extended exclusion

Mercier Vanderlinden acknowledges the leading role that the Norwegian State fund has taken in incorporating ESG-principles in their investment philosophy. Mercier Vanderlinden has decided to equally exclude any company listed on the Norwegian State Fund's exclusion list from the investable universe. The exact list of companies excluded by the Norwegian State Fund can be found [here](#).

## III. UN Global Compact Principles

The fundamental responsibilities of companies in the areas of human rights, labour, environment and anti-corruption are well covered in the UN Global Compact principles. Given that we consider these principles as the basis of sustainable investing, we commit ourselves to only consider companies that do not materially fail to comply with these principles for our investable universe.

## IV. Inclusion of ESG factors in the Investment process

Mercier Vanderlinden commits itself to not purchase any new positions unless a thorough analysis of the ESG related aspects of the potential new investment has been made and discussed by the investment committee. While the discussion of ESG related matters may tilt towards one of the three pillars of ESG, the report will not be considered complete unless all three pillars (Environment, Social, Governance) have been discussed. ESG factors will be a key decision factor in the investment process.

## V. Best-in-class principle

In order to give a clear signal to the market that we openly encourage all companies to fully comply with ESG-standards, Mercier Vanderlinden has committed itself to apply a best-in-class screening for its portfolio composition:

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- i. Mercier Vanderlinden commits to have  $\frac{2}{3}$  of the portfolio weight of each fund invested in companies that fall within the 50% best performing companies (lowest ESG risk rating) of that company's subindustry;
- ii. Mercier Vanderlinden commits to having less than 15% of the portfolio weight of each fund invested in companies that fall within the 25% worst performing companies (highest ESG risk rating) of that company's subindustry.

## VI. Limitation of risk

Mercier Vanderlinden commits itself to refrain from investing in any company that falls within the 'high' or 'severe' ESG-risk categories. If the fund manager decides to make an investment in a company that according to our internal analysis does not fall in these categories but of which our third-party data provider considers it to fall in these categories, then the portfolio manager shall disclose his/her motivation for investing in this company on its website.

## VII. Transparency

Given that there are no clear guidelines regarding the analysis of ESG-related factors, it is common for various analysts to come to different conclusions. In the event that internal analyses differ from those of the third-party data provider, the fund manager will always disclose on its website why he/she opted to use the internal analysis over the one of the third-party provider.

## 5. Remediation

If Mercier Vanderlinden is made aware of any new developments that affect the ESG-profile of one or more of the portfolio holdings, the fund manager commits itself to review the situation within a reasonable timeframe. Mercier Vanderlinden undertakes to restore the investment portfolio to a compliant state within 3 months of being made aware of such breach.

## 6. Coverage<sup>1</sup>

The aforementioned policy guidelines that rely on ESG risk score ratings are fully applicable for Merclin SICAV and MerLin Institutional Fund. The policy guidelines also apply to the equity component of Merclin II SICAV. Due to insufficient coverage from ESG research providers, the policy lines that are based on ESG risk score ratings cannot be extended to any product other than direct line equity investments.

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<sup>1</sup> This new section 6 was added in version 2 of this ESG Policy for clarity purposes.

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## 7. Communication & Further Information

Mercier Vanderlinden encourages all clients that wish to receive more information regarding our ESG investment policy as well as Mercier Vanderlinden's own ESG initiatives to discuss these topics with their relationship manager.

For specific questions regarding ESG, feel free to send us an e-mail to [info@mvam.be](mailto:info@mvam.be).