



**RESPONSIBLE INVESTMENT POLICY**  
**InterCapital Asset Management**

# Responsible Investment Policy

## 1. PURPOSE AND SCOPE

This Responsible Investment Policy (hereafter “Policy”) defines InterCapital Asset Management’s (hereafter “ICAM”) commitment to responsible investing by detailing the approach followed in managing investments.

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (hereafter “ESG”) issues can affect the performance of investment funds and portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). Therefore, our approach to responsible investment is centred on incorporating ESG criteria into the investment analysis and decision-making process, as well as active ownership through engagement and proxy voting.

In order to demonstrate commitment to responsible investment, ICAM has been a signatory of the United Nations Principles for Responsible Investment (hereafter “Principles”) since 2020 ([www.unpri.org](http://www.unpri.org)). Where consistent with our fiduciary responsibilities, ICAM follows the following six guiding principles:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.

We recognise that applying these principles may better align investors with broader objectives of society. Improved ESG practices should help create an environment of higher standards of business conduct, increased market efficiency, sustainable environmental management, and thus ultimately a more cohesive and fair society. Even though such indirect benefits may not contribute immediately to our investment performance, they should over time translate into higher and more consistent overall returns.

ICAM’s primary business is providing portfolio management services. This policy will apply to all equity and fixed income investments considered or made by ICAM in the name of our funds or portfolios under management. However, we recognize that the availability of data, costs related to acquiring data and our engagement possibilities will differ based on issuers and geography. Consequently, this policy will list different approaches based on issuers (Government or Corporate) and geography (South-East Europe or Global).

Our investment professionals including Analysts who research and rate the quality and value of assets, and Investment Managers who take investment decisions, in collaboration with the Compliance team are responsible for ensuring that ESG issues are considered during the investment process on a consistent basis.

## 2. OVERALL APPROACH

This part summarizes the overall approach used by ICAM in the investment process, split between equity and fixed income strategies. For more details, please refer to individual fund prospectuses, publicly available on our website.

ICAM invests both in local (South-East Europe) and global issues. We try to deliver positive returns over the market cycle by constructing portfolios that maximise the aggregate upside of individual securities. Our idea generation is proprietary, driven predominantly by upside to internally set fair value targets.

In our equity strategies, we consider values obtained through fundamental analysis, quality score (calculated in-house based on IR quality, liquidity, volatility etc.), ESG profile of a company, and FX

outlook (where relevant). Our philosophy is based on value investing principles, stating that over time stocks tend to over- or underreact to market news and thus deviate from fundamental values. ICAM tries to take advantage of such occurrences by combining top-down and bottom-up approach heavily leaned on in-house valuation in order to identify over- or under-priced issues and making trades accordingly. We tend to have long-term holding periods, but our upside-oriented process also allows taking advantage of short-term market volatility, without losing focus on the underlying fundamental value of a company.

In our fixed income strategies, we consider the long-term value-driven approach starting with macro / top down analysis. Our fixed Income research methodology consists of analysis of the fundamental factors; global and local macro-economics; conditions of economy, politics; interest rate prospects and credit risk, currency dynamics and money market movements. Our team engages in the analysis of the drivers of market prices, analysis of credit risk of the assets and scenario planning utilizing in-house research and external research. We evaluate issuers through our proprietary scoring system to identify undervalued investments and the divergences between market prices and credit risk. On top of that, we take into account the ESG score of the issuer.

Certain funds also allow investments in other asset-classes, like options, but they account for a very small percentage of our overall asset under management and are mostly used for limiting volatility.

### 3. IMPLEMENTATION

ICAM will undertake ESG checks on all prospective and existing investments in order to integrate ESG issues into its investment process. Through such process, our investment managers and analysts need to understand:

1. specific ESG risks and opportunities an investment is exposed to,
2. material impacts of those ESG issues,
3. how ESG risks are being managed and what is the likelihood of them materializing,
4. likely impact of ESG issues on the value and prospects of certain investment.

In order to ensure that relevant issues are consistently considered when making investment decisions, our ESG integration comprises of two levels:

1. Exclusion principles,
2. ESG Score.

ICAM has fully internalised the ESG research and scoring process. We believe comprehensive understanding of an issuer is crucial in creating high-quality business models and incorporating ESG issues. To that end, each analyst has its own set of issuers under coverage and is responsible for tracking, modelling and valuing both financial and ESG indicators. These models and recommendations are considered by investment managers prior to making investment decisions. Our Chief Investment Officer is responsible for making sure that ESG issues are being consistently taken into account, as well as providing implementation support, necessary internal training and Policy recommendations.

#### 3.1. EXCLUSION PRINCIPLES

Checking whether specific issuers fall into one of the following exclusion categories is the first step taken when considering new investments. Additionally, existing investments are re-checked periodically to ensure they still comply to our principles. Exclusion is applied outright for involvement in certain countries, not meeting minimum requirements related to (corporate) governance or after non-successful engagement process to address discovered infringements of United Nations Global Compact (UNGC) or poor corporate governance practices. Our key exclusion principles are:

- **Authoritarian regimes:** We do not invest in Government-issued securities or companies which are incorporated or generate a majority of their revenue in countries considered authoritarian. Authoritarian regimes are defined within the Economist Intelligence Unit Democracy Index as those with a score below 4.0. The scoring process considers five categories: 1) electoral process and pluralism, 2) functioning of government, 3) political participation, 4) political culture,

5) civil liberties. The 2019 Democracy index covered 167 countries, out of which 54 (32%) were considered authoritarian, covering 36% of world population.

- **Sanctions list:** ICAM may set additional country-based restrictions based on the European Union sanctions within the framework of the Common Foreign and Security Policy (CFSP), and the list of sanctioned countries of the UN Security Council.
- **UNGC and corporate governance violations:** Within our ESG analysis we check companies for significant deficiencies in corporate governance or breaches of the UNGC principles which cover 4 main topics: 1) human rights, 2) labour, 3) environment, 4) anti-corruption. Upon detecting violations, we firstly engage with companies to make them aware of the situation and try to improve the situation. Exclusion is applied if there are no identifiable improvements regarding the issue by the end of the engagement period. Engagements are carried out according to our engagement practices described within this document.
- **Investments in funds:** Investments into other investment funds are allowed only if the management company is an UNPRI signatory. Investment funds are defined as collective investment undertakings, where shares are offered to the public, the assets are invested in listed securities and other liquid financial assets, and the shares are redeemable within a reasonable time period. Investments into closed-end investment funds or collective investment undertakings which are dealt in on a regulated market are not categories as investment funds but as securities. In case of the latter, ICAM does not necessarily apply a look-through policy.

We do not apply sector-based exclusion, as our scoring methods are focused on valuing efforts put into mitigating negative ESG impacts. We believe these criteria can and should be applied to all sectors, giving priority to more ESG-friendly issuers and in that way motivating all others to improve.

### 3.2. ESG Score

ICAM uses an internally developed and proprietary ESG scoring model, which takes into account about 50 qualitative and quantitative indicators (15 for government-issued securities), covering environmental, social and corporate governance criteria. Each criterion is individually rated on a scale of 1 to 100, where higher values indicate better performance. Three separate scores (E, S, and G categories) are obtained by weighting individual criteria falling under the respective category. In case of corporate issuers, these weights differ among industries in order to prioritize important aspects of each.

**Environmental (E) score** comprises aspects such as carbon footprint and its reduction policy, resource efficiency, waste management etc.

**Social (S) score** comprises aspects such as human rights, employee diversity, work safety, supply chain etc.

**Corporate Governance (G) score** comprises aspects such as board composition and independence, transparency and accountability, shareholders' rights, audit etc.

**Final ESG score** is obtained by equally weighting the three separate scores. Further adjustments (positive or negative) can be made in cases of controversies or other specific issues, if they are not valued within the regular scoring process but are deemed important and material enough when assessing the overall profile of a company. ESG scores are checked and re-evaluated at least once a year.

ESG scores are used to rank companies and countries within our investment universe and are considered while making investment decisions (in addition to classic fundamental valuation). Furthermore, individual company scores are used to calculate weighted portfolio scores. Investment managers are responsible for making sure the portfolio scores are kept above minimal targets set by ICAM internally, and the process is supervised by our Chief Investment Officer.

Low ESG scores do not automatically lead to the exclusion of a company. Instead, they are used to pinpoint potential areas of improvement. In such cases, ICAM engages with companies to try to improve their practice (further details described under our engagement practices). Since most of our equity investments are made in the region of South-East Europe where ESG reporting still lags behind global practices (especially related to environmental issues), low scores often result from lack of data. Thus,

one of our engagement priorities is to encourage disclosure (especially carbon footprint) in the region via individual or collaborative engagements.

#### **4. ENGAGEMENT AND OWNERSHIP PRACTICES**

Engagement is the interaction with issuers in whose securities ICAM invested or considers investing. We engage on ESG topics in order to understand the risk and opportunities of each specific case, and to use our influence as an investor to encourage companies to improve their practices.

Engagement may take several forms, including direct dialogue with the executive management, formal correspondence with the Management board or Supervisory board, and exercising shareholders' rights on the general assembly.

In case of disproportionate costs or impracticability, we may refrain from exercising voting rights or other forms of engagement.

For full disclosure on ICAM's engagement and voting priorities, methods, escalation strategies and tracking information, please see our Active Ownership Policy.

#### **5. REPORTING**

ICAM reports on Responsible Investment topics directly to clients per their request. In order to make reporting public and more transparent, ICAM pledges to implement the following:

- Report annually on RI topics via UNPRI Reporting Framework. ICAM became a UNPRI signatory in 2020, and the first report is expected to be published in 2021. UNPRI Reporting Framework provides Transparency and Assessment Reports. Transparency Report shows a signatory's responses to a list of questions asked within the Reporting Framework, and is made public on the UNPRI website. Assessment Reports demonstrate how a signatory has progressed in implementing the principles year-on-year relative to peers, and are not by default public.
- Publish ICAM's Sustainability Report. We are working on creating a public report which will encompass our achievements related to responsible investments, including aggregate ESG scores and portfolio emission footprint (where applicable). However, due to the shortcomings in corporate disclosure in South-East Europe, our focus for the moment is engaging corporates to improve tracking and reporting on ESG issues.

#### **6. GOVERNANCE**

Oversight and responsibility for responsible investment related issues at ICAM are split between the following roles:

- Chief Investment Officer is responsible for creating and updating the overall Responsible Investment Policy, internal RI procedures, as well as making sure the remaining parties oblige to their tasks. The CIO is also in charge of checking any ESG reports prior to their publication.
- Analysts are tasked with collecting and analysing ESG data, as well as calculating ESG scores which they must make available for Investment Managers to use. Analysts are required to propose engagement steps related to ESG issues in case they are deemed needed.
- Investment Managers are expected to take ESG issues into account prior to making investing decisions. They are also in charge of making sure the funds they manage have higher-than-minimum required ESG score (as agreed with the CIO), and that exclusion filter be taken into account prior to making investments.
- Chief Compliance Officer is tasked with overseeing that internal procedures are in-line with ICAM's Responsible Investment and other policies, and that the policy is in-line with regulatory requirements.