Sustainability Risk Policy

Thematics Asset Management

Scope: Global [100% of assets under management]
Policy update: July 2023

This document is prepared to comply with Article 3 of EU regulation 2019/2088 on sustainability-related disclosures in the financial services sector ("SFDR"). It also meets the expectations of Article 29 of the French Energy and Climate Law ("document outlining (the) policy on the inclusion of environmental, social and governance criteria in (the) investment strategy"). Its purpose is to provide information on how Thematics Asset Management integrates sustainability risks in its investment decision-making and advice activities.
Thematics Asset Management, hereafter referred to as "Thematics AM", is an affiliate of Natixis Investment Managers, the holding company of a diverse line-up of specialised investment management and distribution entities worldwide. Thematics AM provides investors with access to a wide range of high conviction and active global equity thematic strategies.

Consistent with its commitment as a responsible investor and as signatory to the United Nations Principles for Responsible Investment, Thematics AM systematically integrates sustainability considerations in all its investment products and investment advisory activities. These sustainability considerations include both opportunities and risks – opportunities arising from investing in structural trends, most, if not all of which encompass environmental and social challenges, as well as material risks that companies and their operations could be exposed to inherent to their activities and industries.

This policy document focuses on the material sustainability risks and describes which risks has Thematics AM identified to be material for its investments and what approaches does it employ to manage these risks.

I. What is a 'sustainability risk'?

Sustainability risk is defined by Regulation (EU) 2019/2088 on Sustainable Finance Disclosure Regulation ("SFDR") as "an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment".

II. What are the different sustainability risks that Thematics AM has identified as material to its investments?

In identifying which sustainability risks are material to its investments, Thematics AM has considered the concept of double materiality as defined by existing regulations. This concept encourages a company to judge materiality from two perspectives: 1) "the extent necessary for an understanding of the company's development, performance and position" and "in the broad sense of affecting the value of the company"; and 2) environmental and social impact of the company's activities on a broad range of stakeholders. The concept also implies the need to assess the interconnectivity of the two.

In addition, Thematics AM also aligns with existing international sustainability standards, such as the IASB, SASB and GRI.

Guided by these frameworks, Thematics AM consider the following as material sustainability risks of its current thematic investments:

a. Environmental
   i. Climate (transition and physical risks) and biodiversity
   ii. Waste management
   iii. Impact of products and services to environment
   iv. Exposure to environmentally harmful activities (coal, oil and gas, etc.)
   v. Exposure to high to severe level environmental controversies

b. Social
   vi. Human and labour rights
   vii. Impact of products and services to people and the society
   viii. Data privacy
   ix. Exposure to socially harmful activities (weapons, tobacco, etc.)
   x. Exposure to high to severe level social controversies

c. Governance
   xi. Good governance
   xii. Business ethics
   xiii. Exposure to high to severe level governance controversies

The application of the Sustainability Risk Management Policy takes place within a framework of constraints:

- ESG data quality: Analysis is partly based on data provided by investee companies and/or ESG data supplier and is therefore dependent on the quality of this information which can be very heterogeneous. However, it should be noted that controls are in place and final ESG scores are based on IMs own conviction, multiple sources, including third-party and their own desktop research. (Refer to the Select section below)

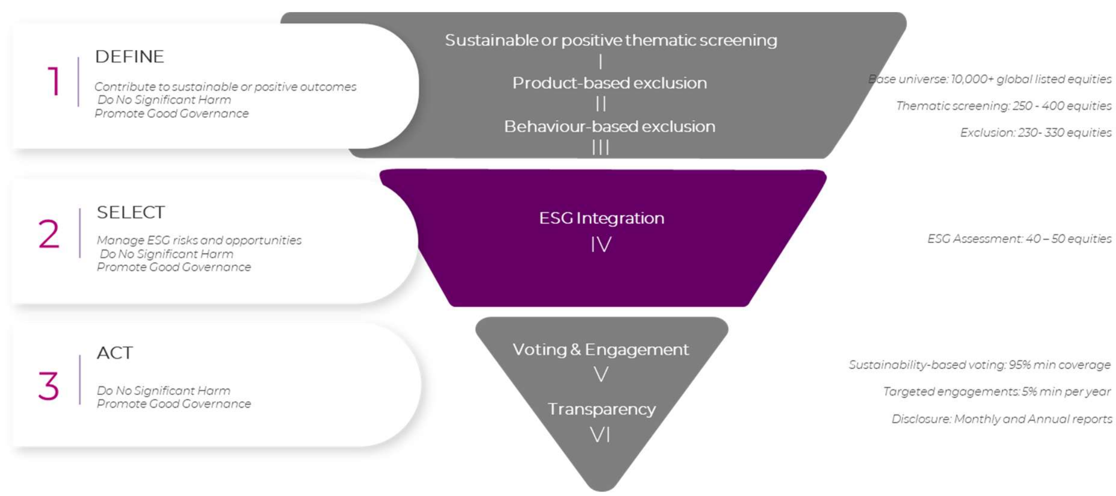
- The maturity of methodologies: due to the emerging maturity of analytical technologies, particularly with regards to climate and biodiversity, Thematics AM faces technical limitations. It has therefore opted for a continuous improvement approach to ESG processes to overcome these shortcomings.

III. How does Thematics AM manage these sustainability risks?

Management of these sustainability risks is governed by Thematics AM's Responsible Investment framework, which comprises the following approaches:

1. Sustainable or positive Thematic screening
2. Product-based exclusion
3. Behaviour-based exclusion
4. ESG Integration
5. Voting & Engagement

These approaches are applied across the three phases of the investment process of Thematics AM: Define, Select and Act - when we define the theme, its boundaries and the securities to comprise the investable universe, during the security selection for the portfolio, and post-investment. These approaches are implemented in all Thematic Strategies systematically and through binding elements.



Thematics AM Responsible Investment Framework

Define

At the first stage of our investment process, we 'Define' our theme, its associated boundaries and ultimately the investable universe for the strategy. We set boundaries around what can and can't be considered appropriate for the strategy in question. We also apply product-based and behaviour-based exclusionary criteria at company and strategy level in order to minimise adverse impacts recognising that even companies in positive thematic areas could have an adverse impact on society or the environment. Please refer to our detailed Thematic Screening and Product- and Behaviour-based Exclusion policies here.

We also exclude companies that are exposed to controversies rated by external provider as severe or high with negative outlook. If the company is already in the portfolio, the portfolio managers cap the position at 2% of the portfolio and a targeted engagement with the company is initiated. The cap will be lifted if progresses are made within a 6-month timeframe, otherwise the position is divested.

Select

At the second stage of our investment process, we 'Select' companies that are suitable for investment.

ESG Integration is central at this stage. Our proprietary ESG scoring framework is used to assess the environmental, social, and governance risks and opportunities exposure of a security. It aims to mitigate potential ESG and sustainability risks should they materialise, and to maximise the value created through the ESG focus. Please refer to our detailed ESG Integration Framework here.

Act

The third phase defines how we 'Act', in terms of sizing positions within the portfolio, and how we actively manage those positions.

'Position Sizing' is defined using thresholds that take ESG scores into consideration. Finally, 'Engagement' with companies on ESG issues and 'Voting' are core elements of our active ownership and engagement approach. Please refer to our detailed Voting and Engagement Policy here.

IV. Governance

The portfolio managers are notably responsible for the internal ESG scoring of the companies in their portfolios, from both an opportunity and risk point of view.

The ESG team ensures that the responsible investment policies and processes are applied for all strategies, advises the portfolio managers on exclusions, votes and engagement, and monitors the best international practices in terms of ESG.

The sustainability risk indicators monitored by the ESG team are the following:

- The ESG Risk scores of Sustainalytics, which evaluates the extra-financial risks that can have a financial impact on the company if materialized.
- The climate risk indicators provided by S&P Trucost, such as the carbon footprints, the implied temperature rise and the transition and physical risks. The transition risk is monitored through the Unpriced Carbon Cost indicator, which evaluates the financial impact of a rise of the carbon price, according to different climate scenarios and different time horizons. The physical risk is monitored through a physical riskscore which ranges from 0 to 100 and which evaluates the impact of acute and chronic physical risks such as wildfires, droughts, heatwaves, according to different climate scenarios and different time horizons.

The governance and implementation of Thematics AM's Responsible Investing Framework and sustainability risks oversight is managed by the Responsible Investment Committee, composed of the following:

- Chief Investment Officer
- Head of Compliance
- Head of Responsible Investing
- ESG Specialist
- Climate Specialist

V. Consideration of sustainability risk as part of the remuneration policy

Following the entry into application of the Regulation (EU) 2019/2088, our remuneration policy has been updated to reinforce promotion of sound and effective risk management with respect to sustainability risks. The objective of this update was to ensure our remuneration practice does not encourage excessive risk-taking with respect to sustainability risks and is linked to risk-adjusted performance. The remuneration policy is available on Thematics website under: https://thematics-am.net/3Dky0jE

Legal Information

Thematics Asset Management

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