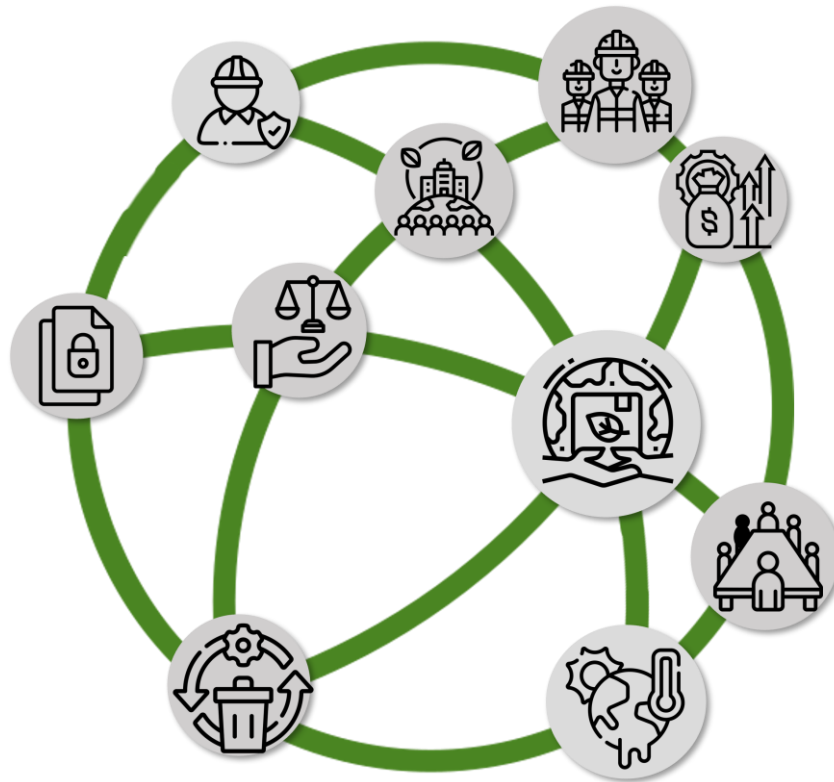


# ESG Integration Policy

Thematics Asset Management

Scope: Global [100% of assets under management]

Last policy update: June 2023



Signatory of:

## ESG Integration in Thematics AM’s responsible investment strategy

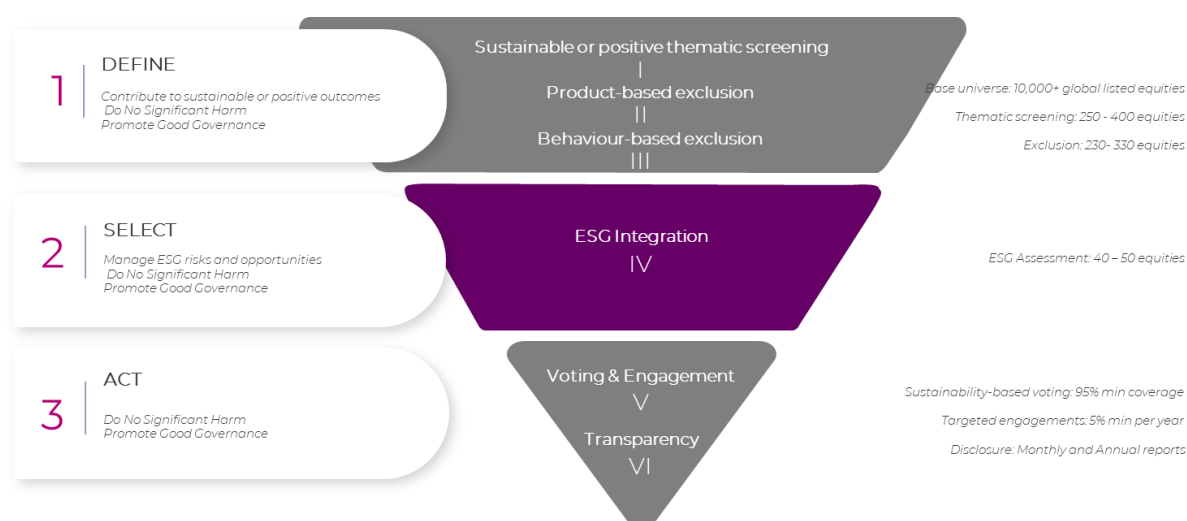
To achieve the sustainable investment objectives or to attain the ESG characteristics of its strategies, Thematics AM embeds Responsible Investment across the end-to-end investment process.

Thematics AM Responsible Investment Framework incorporates the following approaches:

- Sustainable or positive Thematic screening
- Product-based exclusion
- Behaviour-based exclusion
- ESG Integration
- Voting & Engagement

The 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.

The **ESG Integration** approach of systematically integrating the different ESG risks and opportunities companies are exposed to is carried out in the Select Phase, following the definition of the thematic scope and boundary and the investable universe:



*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.

## 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 risks should they materialise, and to maximise the value created through the ESG focus.

## 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.

## Systematic integration of ESG risks and opportunities

Responsible investment is one of the 4 “pillars” of our investment philosophy, alongside the emphasis on secular growth opportunities, focusing on our investment themes and adopting an unconstrained approach.

- Emphasis on secular growth, which is derived from the primary forces of Technology, Demographics, Globalization and Scarcity that are causing the “tectonic” shifts shaping tomorrow’s world and affecting companies as well as the flow of money
- Investment themes, where we look only in targeted segments of the enjoying long-term secular growth underpinned by structural and long-lasting forces
- Unconstrained approach, with our forward-looking, benchmark-agnostic, diversified, and with global equity exposure.
- Responsible Investment, which is integral to reducing risks, that include sustainability risks, as well as to creating long-term value for our investors and for society.

We believe that material Environmental, Social and Governance factors have an overall impact on a company’s bottom line, both in the short and/or long-term and that ESG integration leads to better-informed investment decisions. Integrating sustainability risks and factors in our investment process is employed to manage operational, financial, and reputational risks and deliver excess returns to fulfill our fiduciary duty.

At Thematics AM, Responsible Investment means also assessing how our investments contribute to accelerating the transformation of the economy and moving society towards a more sustainable model. It also means taking care of the company’s human resources, minimising negative impact of operations to the environment and natural ecosystem; these approaches contribute to long term value creation and, in the end, benefit the business, the employees, the society and the economy.

While there is still an absence of globally defined and accepted ESG assessment standards, Thematics AM has developed its proprietary ESG scoring framework guided among others by existing materiality frameworks, such as but not limited to, Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI).

## Our proprietary ESG Scoring Methodology

### ESG Scoring framework

Thematics AM proprietary ESG scoring framework is composed of targeted and focused sets of metrics it deems most material to its range of thematic strategies and are aligned with the double materiality concept.

1. the most material sustainability risks that could translate to notably financial and reputational risks if unmanaged and the most material opportunities that companies are exposed to, linked to the nature of their activities; and
2. the most material environmental and social areas where companies could have adverse impact, due to the nature of their activities

When assessing the different criteria, our objectives are:

- On the Environmental side, to make sure the company will keep its license to operate by managing material environmental risks it is exposed to
- On the Social side, to confirm the company is getting community consent (employee, suppliers, clients, and regulators)
- On the governance side, to maintain strong management and protect minority shareholders' interest.

This aligns with the concept of double materiality as defined by the regulations. It 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"; 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.

The result of the ESG integration approach is a total ESG score that carries an equal weight (25%) as other investment criteria (Quality, Trading Risk, and Management) and will impact the security's inclusion and final weight of the investment.



*Thematics AM Investment Scoring Framework*

## Material ESG Metrics

The Portfolio Managers assess individual companies across the 11 different material ESG indicators drawing from a range of resources, including desktop research, company engagement, and ESG ratings from at least two third-party rating agencies (ISS and Sustainalytics).



*Thematics AM Material ESG metrics*

The methodology developed by Thematics AM is based on the following steps:

- Portfolio Managers set the level of materiality for each of the 11 ESG indicators at fund level ("**Weighting of Material ESG Metrics**")
- Portfolio Managers then conduct a systematic ESG assessment and assign an individual ESG score to the companies across the 11 ESG indicators
- This score is then combined with the weight of the ESG indicators to take into account the materiality of the ESG Indicators and this process result in a binary score of 0 or 1 for each company ("**Company level Scoring**")
- This last score is used to calculate an overall score integrating the 4 investment criteria ('ESG', 'Quality', 'Trading risk', 'Management') and which will determine the weight of the company in the portfolio ("**Position sizing**")

## Weighting of Material ESG Metrics at Fund Level

Whilst we acknowledge the interconnected nature of environmental, social, and governance factors, it is our view there are specific topics and criteria which are more material than others depending on the business models, the geographies or the industries involved. To account for this, Thematics AM's framework sets the level of materiality for each of the 11 ESG indicator at fund level. The weighting is assigned at subsegment and categorised as either high or medium (2 or 1, respectively). The weight designation is primarily guided by the Portfolio Managers expertise and knowledge of sectorial business models, while also accounting for existing materiality mapping, such as that of the SASB.

ESG Factors with the highest materiality are assigned a 'weight' of 2. Factors that are assessed to have medium materiality are assigned a 'weight' of 1.

See the graphic below for illustrative purpose.

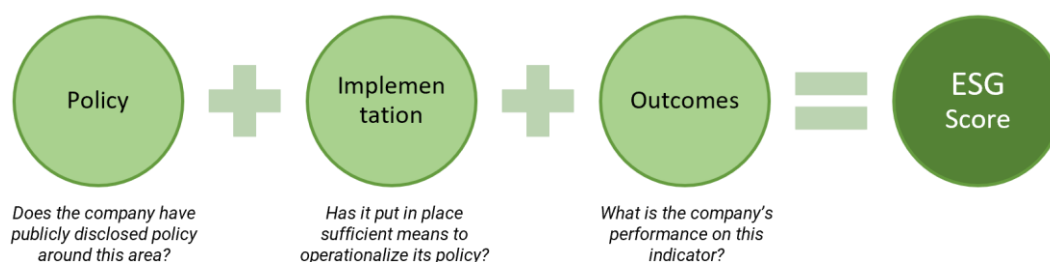
*Illustrative materiality weighting at fund level, Thematics Water Fund;*

Risk Mapping - Water Fund		Environment			Social			Governance				THEMATICS	
		Climate change strategy	Effluents and waste management	Environment al impact of products and services	Staff and supplier's health and safety	Labor practice	Society and product responsibility	Data privacy	Executive compensation	Quality of the Board	Shareholders rights and poison pills	Business ethics	TAM Score
Demand efficiency	Consumers	1	2	2	2	1	2	1	1	1	1	1,36	17,4%
	Industrials	2	2	1	2	1	1	1	1	1	2	1,36	13,3%
	Agriculture	1	2	2	1	1	1	1	1	1	2	1,27	0,0%
	Distributors	1	1	1	2	2	1	2	1	1	1	1,27	10,8%
Pollution control	Monitoring	1	1	1	1	1	2	2	1	1	1	1,18	16,8%
	Waste	1	2	2	2	2	1	1	1	1	2	1,55	7,3%
Water infrastructure	Regulated Utes	2	2	2	2	2	2	1	1	1	2	1,64	13,1%
	Concessions	2	2	2	2	2	2	1	1	2	2	1,82	9,4%
	Technologies	2	2	1	1	1	1	1	1	1	2	1,27	9,4%
<b>Total</b>		1,46	1,72	1,48	1,73	1,42	1,48	1,28	1,17	1,10	1,10	1,54	1,41

This weighting at Fund level will then be used to calculate the total ESG score for a company at Fund level.

### Company level scoring

Portfolio Managers conduct a systematic ESG assessment of companies before they decide to invest. They score individual company across the 11 material ESG indicators. Portfolio Managers' analyses focus on 3 key pillars – Policy, Implementation, Outcome.



*Thematics AM Company-level scoring*

In the course of their analyses, Portfolio Managers are guided by an Internal ESG Scoring Guidance, a document providing minimum criteria in scoring, as well as a set of common questions.

Portfolio Managers base their opinion on public documentation and third-party data. If necessary, Portfolio Managers complete their analysis via a discussion with the company management and additional documentation provided by the company. They also exchange analyses on specific matters with equity 'sell-side' brokers/salespeople.

The output of this process is a score of individual company across 11 material ESG indicators. To arrive at the final company ESG score, these are multiplied by the indicator weights designated above. See illustration below for a fund level score view.

Company Scoring - Water Fund		Environment			Social				Governance				TAM Score
		Climate change strategy	Effluents and waste management	Environmental impact of products and services	Staff and supplier's health and safety	Labor practice	Society and product responsibility	Data privacy	Executive compensation	Quality of the Board	Shareholders rights and poison pills	Business ethics	
Company 1	Consumers	1	1	2	1	0	0	1	1	1	0	1	50,0%
Company 2	Concessions	0	1	1	1	0	1	1	1	1	0	0	31,8%
Company 3	Concessions	0	2	2	1	0	0	1	1	1	0	0	36,4%
Company 4	Concessions	1	1	2	1	0	1	1	1	0	0	1	50,0%
Company 5	Concessions	1	2	2	1	0	1	1	1	1	0	0	50,0%
Company 6	Concessions	1	2	2	1	0	1	1	1	1	0	0	50,0%
Company 7	Industrials	1	1	1	1	1	0	1	0	0	1	1	37,5%
Company 8	Monitoring	0	1	2	1	1	2	1	1	1	1	1	60,0%
Company 9	Monitoring	1	1	2	1	1	2	1	0	0	1	1	55,0%
Company 10	Monitoring	1	1	2	2	1	2	1	0	1	1	1	65,0%
Company 11	Industrials	1	1	2	1	1	1	1	1	1	1	1	62,5%
Company 12	Technologies	1	1	2	1	1	1	1	1	0	1	1	53,8%
Company 13	Technologies	1	1	2	1	1	1	1	1	2	2	1	65,4%
Company 14	Distributors	0	1	1	0	0	1	1	1	1	1	1	40,0%
Company 15	Industrials	1	1	2	1	1	1	1	1	1	0	1	62,5%
Company 16	Consumers	1	1	1	1	1	1	1	1	1	0	1	50,0%
Company 17	Technologies	1	1	2	0	0	1	1	1	1	1	2	50,0%
Company 18	Regulated Utes	2	2	2	1	1	2	1	1	2	1	0	70,8%
Company 19	Distributors	1	1	1	1	1	1	1	1	1	2	2	58,3%
Company 20	Consumers	0	0	2	0	0	1	1	2	1	2	1	54,2%
Company 21	Waste	0	1	2	1	1	1	1	1	1	1	1	50,0%
Company 22	Consumers	1	1	1	1	1	1	1	1	2	2	1	57,1%
Company 23	Distributors	0	1	2	1	1	1	1	1	1	1	1	58,3%
Company 24	Regulated Utes	0	2	2	1	1	2	1	1	0	1	1	66,7%
Company 25	Monitoring	1	1	2	2	1	2	1	0	2	1	1	70,0%
Company 26	Industrials	2	1	0	2	2	1	1	1	2	1	1	50,0%
Company 27	Waste	1	1	2	1	1	1	1	1	0	1	1	56,3%
Company 28	Industrials	2	1	2	1	1	1	1	1	1	1	1	62,5%
Company 29	Monitoring	1	2	2	2	1	2	0	0	0	0	0	65,0%
Company 30	Monitoring	1	1	1	1	1	1	1	1	1	1	0	50,0%
Company 31	Consumers	1	1	1	1	1	1	1	1	2	0	1	57,1%
Company 32	Distributors	0	1	1	2	1	1	1	1	2	1	1	55,0%
Company 33	Industrials	1	1	1	1	1	1	1	1	1	1	1	50,0%
Company 34	Consumers	1	1	2	1	1	1	1	1	0	0	1	50,0%
Company 35	Consumers	0	1	0	1	1	1	1	1	1	1	1	42,9%
Company 36	Monitoring	1	1	2	1	1	2	1	2	1	1	1	70,0%

Illustrative ESG scoring, Thematics Water Fund

### Position Sizing

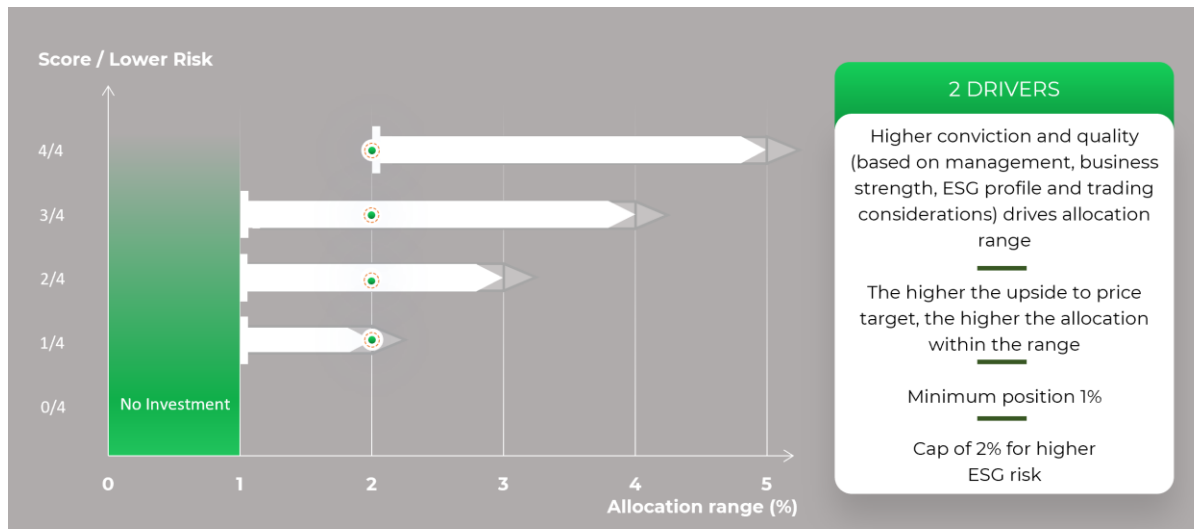
In order to calculate an overall score at the company level, final company ESG score is translated in a binary score (an ESG score above 50% is set at 1 while an ESG score below or equal to 50% is set out at 0).

With the binary scores of companies across the four investment criteria - 'ESG', 'Quality', 'Trading Risk', 'Management' – each equally weighting 25%, Portfolio Managers proceed to the position sizing based on their qualitative and quantitative assessment.

- An overall score of 4 implies a range of 2%-5%
- An overall score of 3 implies a range of 1%-4%
- An overall score of 2 implies a range of 1%-3%
- An overall score of 1 implies a range of 1%-2%

The target weight of the position within the range will be driven by the potential valuation upside identified by the Portfolio managers.





*Position sizing allocation range*

### Ressources used to undertake ESG analysis

The data used to form an overall opinion on a company is a synthesis of outputs that come from a combination of some or all of the following:

- PM's network of contacts from the broader relevant industry
- Equity sell-side analysts and research documents,
- Third party sustainability data providers, including
  - a. Institutional Shareholder Services (ISS)
  - b. Sustainalytics
  - c. S&P Global Trucost
  - d. MSCI
  - e. CDP
  - f. Bloomberg

### Selectivity

ESG Integration through our proprietary ESG Scoring is primarily employed to account for the material environmental, social, and governance risks and impacts of our investments, and to size the positions within the portfolio.

To ensure the effective implementation of the ESG integration approach at the portfolio level, we monitor the selectivity of the process vs the investable universe or the reference index, based on the weighted average score (which means we do not necessarily exclude the lowest rated companies, but overall, we are exposed in the portfolio to better ones than the average of the investable universe). We commit to permanently achieve at the portfolio level a better ESG rating than the investable universe on a 3-month rolling basis, after eliminating at least 20% (in weight) of the worst rated securities of the latter. As securities which are not held in the portfolios are not scored by Portfolio Managers, Thematics AM calculates the ESG rating of the strategy and the investable universe based on third-party data, which have to provide at least a coverage of 90% of both the universe and the strategy.

The Thematics AAA European Selection strategy differs in its approach, as for this specific one, we exclude the 20% (in weight) of the worst rated companies of the investable universe.



### Controversy-based post investment capping as continuous ESG risk management and DNSH approach

To ensure continuous accounting for ESG risks that are evolving by nature, Portfolio Managers are required to cap the position at 2% in companies already in the portfolio, that become exposed to high with negative outlook and/or severe ESG controversies. Moreover, PMs can also apply a 2% cap in companies which are exposed to an ESG risk controversy they deem to be material even if the third-party assessment has indicated a lower risk level. For each strategy, the total number of capped securities cannot be more than five. Further, targeted engagement with the company is initiated. The cap would be lifted if sufficient performance improvement is demonstrated within 6 months. Portfolio Managers will exit the investment otherwise.

Please note that we exclude all companies that are exposed to high-risk controversy with negative outlook and severe risk controversy from the portfolio. This is discussed in detail in our Exclusion Policy.

### Frequency of review of ESG information

ESG risk and opportunity assessment is reviewed on an ongoing basis – with the portfolio managers continually receiving company and industry updates.

More broadly, the Thematics AM ESG team and RI Committee conducts a quarterly review of all assets under management across all sustainability KPIs.

### ESG Performance disclosure

All Thematics AM funds, through its annual precontractual documents and sustainability report, disclose on a number of sustainability KPIs including the following that relate to the ESG Integration approach:

- Percentage of each strategy's assets under management that are subject to ESG analysis
- ESG rating vs Investable Universe's rating (measured as the rolling 3 months average of the weekly rating), after eliminating at least 20% of the worst-rated securities of the latter.
- Percentage of each strategy's assets under management of the newly invested issuers that have already high with negative outlook and/or severe ESG controversies at the time of investment
- Number of already invested issuers that become exposed to high with negative outlook and/or severe ESG controversies and within a 6-month time frame:
  - are not engaged or,
  - are engaged but do not demonstrate sufficient performance

## Legal Information

Thematics Asset Management

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