

**DIRECTIVE**

**Sustainable Investments and ESG Risks**



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## 1. Introduction and purpose

This Directive describes in detail how Lemanik Invest SA (hereafter LISA) incorporates sustainability risks and the main adverse impacts on sustainability into its investment decisions. In particular, it explains the logic and objectives of sustainable finance, as well as the related governance structure and how this Directive is applied within all company departments.

This Directive aims to comply with Regulation (EU) 2019/2088 of the European Commission on sustainability-related disclosures in the financial services sector (Sustainable Finance Disclosure Regulation, SFDR).

It is based on the standards recognised at international level in the area of due diligence and reporting, including but not limited to:

- The UN Guiding Principles on Business and Human Rights;
- The OECD Guidelines for Multinational Enterprises;
- The exclusion list of the Council on Ethics for the Norwegian Government Pension Fund Global.

### 1.1. Our commitment to sustainability

The general commitment to sustainability made by Lemanik Invest SA is embodied in the following sustainability principles:

1. Lemanik Invest undertakes to uphold the principles of sustainable development.
2. As a collective investment scheme manager, Lemanik Invest takes account of various factors, including amongst others the investment objectives and ESG preferences included within the fund prospectus.
3. Lemanik Invest wishes to respond to growing demand from clients by offering innovative investment solutions that take account of opportunities and risks related to sustainability.
4. As a company with a long-term objective, Lemanik Invest is a fair employer, which seeks to add value for all stakeholders through measures that take account also of the environment as well as social aspects.
5. Lemanik Invest constantly reminds its employees of the opportunities and risks related to sustainability and undertakes to provide ongoing training to them concerning these issues.
6. Lemanik Invest limits the environmental impact of its business operations as far as possible, thus also helping to protect the climate.
7. Lemanik Invest sets specific sustainability targets and ensures that the management structures and processes in place are at all times appropriate.

## 1.2. Definitions

Sustainability risks are environmental, social or corporate governance (ESG) circumstances or conditions that, should they manifest themselves, could have an actual or potential adverse impact on the value of the investment.

The main adverse impacts on sustainability are those resulting from investment decisions that have detrimental effects on sustainability factors, such as for example environmental, social and worker-related issues, respect for human rights and the fight against corruption.

## 1.3. Scope

This Directive applies to all the sub-funds of the collective investment schemes managed by the Company (as per Annex 2) and to all related investment decisions<sup>1</sup>.

# 2. Governance

## 2.1 General Management

The General Management defines the sustainability strategy for the entire Company, sets specific targets based on ESG principles and monitors implementation of this Directive.

## 2.2. Investment Committee

The Investment Committee monitors the investment process with reference to ESG issues and authorises any departures from long-term objectives. For each fund, the Investment Committee defines common standards concerning the:

- identification and classification of investment sectors;
- exclusion of particular investment solutions and/or types;
- type of ESG reporting;
- indication of solutions for stakeholders.

The objective of the Investment Committee is to raise awareness concerning and the importance of sustainable investments amongst portfolio managers.

## 2.3. Portfolio Manager

The Portfolio Manager is responsible for selecting those securities within his/her own sub-fund that best comply with the Company's ESG policy, in accordance with the general limits specified. He/she provides feedback and proposes solutions within the Investment Committee regarding sustainable investments.

## 2.4. ESG Analyst

The ESG Analyst is responsible of the analysis of ESG for each sub-fund and the quality of the information provided to the Investment Committee to select the investments regarding that topic. He/she also reviews the investment of the sub-fund every month to update the portfolio

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<sup>1</sup> For further details on the methodology applied on Lemanik Sicav's subfunds, please refer to the document "Lemanik SICAV's ESG Methodology".

in case of changes in the scoring or scope of the exclusion list and informs the Investment Committee.

### 2.5. Risk Manager

The Risk Manager is responsible for managing the exclusion lists, as well as for drawing up all reporting documentation in good time (cf. section 5). He/she supports portfolio managers in allocating an internal rating correctly and in good time.

## 3. Operational framework

### 3.1. General exclusions

All investments decided on by portfolio managers must fulfil certain minimum prerequisites. The Oslo Convention on Cluster Munitions categorically prohibits the use, production, stockpiling or transfer of cluster munitions. It was signed by 94 countries in December 2008 and came into force on 1 August 2010.

The Luxembourg Government ratified the Convention by an Act of 4 June 2009, which prohibits all persons, companies and corporate undertakings from knowingly financing cluster munitions or anti-personnel mines. Luxembourg companies, including investment funds, must comply with this legislation.

Despite the lack of an official list of banned companies issued by the Luxembourg Government, market operators have referred to various lists proposed and issued in other countries.

Lemanik Invest has decided to prohibit investments in companies that produce these types of arms. These companies have been included in an unofficial list, which has been discussed and agreed upon with the Management Company, Lemanik Asset Management SA (see Annex 3).

This list is reviewed and updated generally on a quarterly basis.

Lemanik Invest complies with the restrictive measures imposed by the European Union in relation to sanctioned countries, which prohibit investments in the companies targeted (e.g. sanction against Russia, Belarus and Iran).

In addition, Lemanik Invest has decided not to invest in companies included in the exclusion list drawn up by the Council on Ethics for the Norwegian Government Pension Fund Global. An extract of the criteria used in order to draw up the exclusion list is provided in Annex 1.

The list of prohibited companies is available to all portfolio managers and is constantly updated.

### 3.2. Investment decisions

For all investments made after this Directive has entered into force, portfolio managers are obliged to carry out a series of checks that take account of the sustainability criteria set out below.

#### 3.2.1. Reference provider

Lemanik Invest has decided to use the company Bloomberg as a reference provider for the purpose of selecting sustainable investments. Its platform is widely used by all portfolio managers and provides various sustainability-related information.

### 3.2.2. Internal rating

Lemanik Invest has decided to award an internal rating calculated by incorporating an ESG rating and an ESG risk score provided by two specialized providers and an average of 18 metrics, including 8 relating to the environment, 6 to the social aspect and 4 to corporate governance.

### 3.2.3. Type of compliant securities

Lemanik Invest has decided to classify a series of financial products as compliant with ESG standards. These are:

- Supranational Bonds where proceeds are used for sustainable initiatives;
- Government Bonds issued by countries included in a list drawn up by the Management Company, Lemanik Asset Management SA, with reference to Anti Money Laundering (AML) with a medium or low risk profile;
- Exchange Traded Funds (ETF) with geographic focus in countries included in a list drawn up by the Management Company, Lemanik Asset Management SA, with reference to Anti Money Laundering (AML) with a medium or low risk profile;
- Credit Default Swaps (CDS) Single Name with, as underlying, Government Bonds issued by countries included in a list drawn up by the Management Company, Lemanik Asset Management SA, with reference to Anti Money Laundering (AML) with a medium or low risk profile;

### 3.2.4. Permitted investments

If a company has not been included in the exclusion lists (cf. section 3.1) and according to our ESG methodology, an investment is considered sustainable under the following circumstances:

- investments certified as compliant with ESG criteria (e.g. Green Bonds);
- companies that have signed up to the United Nations Global Compact;
- companies that have signed up to the Principles for Responsible Investment (PRI);
- companies that comply with eligible ESG criteria according to the rating methodology of Lemanik Invest;

Where it is not possible for certain companies to obtain an internal rating, the portfolio manager takes steps in order to obtain as much of the missing information as possible in order to enable an adequate classification according to ESG criteria.

Investment in any companies not included in the exclusion lists (cf. section 3.1) that do not have an internal rating or that is considered not eligible according to the internal rating is only possible up to a maximum limit of 50% of the sub-fund's total invested amounts in securities. The maximum limit is set by the General Management and is checked and updated annually based on the data provided by the various providers.

Any breaches of that limit are discussed, analysed and where applicable approved within the Investment Committee.

### 3.2.5. Risk assessment and principal adverse impacts on sustainability

Disputes and serious violations of international rules, which are referred to as "ESG critical events", are often related to adverse impacts on sustainability, for example a significant adverse



impact on the environment, child labour, etc. In addition, these cases can suggest an inadequate management of sustainability risks by a company or a government.

In order to identify and monitor ESG critical events, Lemanik Invest uses information provided by external specialized providers (data available on Bloomberg). The ESG assessment methodology of these providers takes account of the UN Guiding Principles on Business and Human Rights, the OECD Guidelines for Multinational Enterprises, the Declaration on Fundamental Principles and Rights at Work, the ILO Core Conventions and the United Nations Global Compact.

In order to properly understand the impact of ESG critical events, portfolio managers carry out broad research in order to assess their adverse impact on the sub-fund managed by them.

In addition, some ESG critical events can be identified as such within a sub-fund under management at a later stage after the investment decision. If an investment is flagged as being subject to an ESG critical event, the position will be regularly reviewed and monitored by the Investment Committee.

## 4. Checks

With reference to the terms of section 3.1, and more specifically the list of companies that produce cluster munitions and anti-personnel mines, in its capacity as Investment Manager Lemanik Invest SA carries out pre-compliance checks to ensure that no investments are made directly in any such companies. These checks are carried out on a pre-trade basis. In addition, second-level monitoring is carried out by the post-compliance team of the Management Company, Lemanik Asset Management SA, as part of its post-compliance activity and risk management for the fund. These checks are carried out on a daily basis. The list is reviewed quarterly and shared between the parties.

In addition, Lemanik Invest carries out a post-trade analysis on portfolios in order to identify any positions involving issuers classified by Bloomberg as belonging to the Aerospace and Defence sector. If identified, these positions are discussed with the portfolio manager and analysed on a case-by-case basis.

Lemanik Invest carries out pre-compliance checks to ensure that no investments are made in companies targeted by restrictive measures imposed by the European Union.

## 5. Reporting

Risk Management is responsible for drawing up a quarterly report indicating the overall amount of ESG investments for each portfolio for discussion within the Investment Committee. In addition, Risk Management provides each portfolio manager with a tool for checking each individual security and the related issuer in order to perform an assessment according to ESG before making the investment.

The Risk Manager is also responsible for encouraging the collection of any missing information by portfolio managers as set out in section 3.2.2.

The Risk Manager is responsible for the proper organisation of the electronic database along with all information relating to ESG issues, subdivided according to issuer and type of investment.



## 6. Divesting Policy

If the extra-financial factors drive the investment to exclusion (e.g., exclusion list, controversy monitoring), the portfolio managers are given one month to fully divest the position.

Given the periodically screening after an investment was acquired, it could be observed that investments change their ESG criteria. Amongst others, a simple reason could be that the auditors have observed non-alignment of their ESG targets / criteria or lack of reporting. Consequently, these events could have a negative impact on the stock price of that investments or simply the immediate divestment could lead to a higher loss than if done over a longer period of time.

## 7. Voting and Engagement

As our activity must always be in the best interest of our investors, we also must always act in accordance with our ESG ambition and have this reflected in the voting processes of our investments, when we are invited to. Although our primary intention is not to influence the board of the investments, the Investment Manager would ensure each vote acts in the best interest of the investors by protecting their rights and is in line with our commitment to sustainability (cf. section 1.1) which promotes transparency, integrity and avoid any conflicts of interest should we vote.

## 8. Transitory provisions

The provisions contained in this Directive shall apply to all new investment decisions. The Investment Committee is responsible for determining the best strategy for implementing the Directive in relation to any positions already present within sub-funds that do not fulfil the criteria set out in this Directive for classification as “eligible” in ESG terms, in view of the targets set by General Management, and taking account of various factors such as investment maturity, liquidity, volatility, etc.

## 9. Entry into force

This Directive shall enter into force immediately and shall replace any previously applicable directives or practice.

Lugano, 08 May 2023



Luca Avidano  
CEO



Francesco Rana  
CFO





## Annex 1

### **Extract from the Guidelines for Observation and Exclusion from the Government Pension Fund Global**

#### **Section 2. Criteria for product-based observation and exclusion of companies**

(1) The Fund shall not be invested in companies which themselves or through entities they control:

- a) produce weapons that violate fundamental humanitarian principles through their normal use
- b) produce tobacco
- c) sell weapons or military materiel to states that are subject to investment restrictions on government bonds as described in the management mandate for the Government Pension Fund Global, section 3-1(2)(c).

(2) Observation or exclusion may be decided for mining companies and power producers which themselves or through entities they control

- a) derive 30 per cent or more of their income from thermal coal,
- b) base 30 per cent or more of their operations on thermal coal,
- c) extract more than 20 million tonnes of thermal coal per year, or
- d) have a coal power capacity of more than 10 000 MW from thermal coal.

(3) In assessments pursuant to subsection (2) importance shall also be given to forward-looking assessments, including any plans the company may have that will change the level of extraction of coal or coal power capacity relating to thermal coal, reduce the income ratio or business share based on thermal coal and/or increase the income ratio or business share relating to renewable energy sources.

(4) Recommendations and decisions on exclusion of companies based on subsections (2) and (3) above shall not include green bonds issued by the company in question where such bonds are recognised through inclusion in specific indices for green bonds or are verified by a recognised third party.

#### **Section 3. Criteria for conduct-based observation and exclusion of companies**

Companies may be put under observation or be excluded if there is an unacceptable risk that the company contributes to or is responsible for:

- a) serious or systematic human rights violations, such as murder, torture, deprivation of liberty, forced labour and the worst forms of child labour
- b) serious violations of the rights of individuals in situations of war or conflict
- c) severe environmental damage
- d) acts or omissions that on an aggregate company level lead to unacceptable greenhouse gas emissions
- e) gross corruption
- f) other particularly serious violations of fundamental ethical norms.



## Annex 2

### **List of the sub-funds for which the current directive is applicable**

- Lemanik Sicav – Active Short Term Credit
- Lemanik Sicav – Asian Opportunity
- Lemanik Sicav – European Dividend Preservation
- Lemanik Sicav – European Flexible Bond
- Lemanik Sicav – European Special Situations
- Lemanik Sicav – Global Equity Opportunity
- Lemanik Sicav – Global Strategy
- Lemanik Sicav – High Growth
- Lemanik Sicav – Selected Bond
- Lemanik Sicav – Spring

## Annex 3

### **Producers of cluster munitions<sup>2</sup>**

Avibras (Brazil)  
Bharat Dynamics Limited (India)  
China Aerospace Science and Industry [CASIC] (China)  
Hanwha (South Korea)  
LigNex1 (South Korea)  
Norinco (China)  
Poongsan (South Korea)

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<sup>2</sup> An official list of banned companies issued by Lux Government is not available, therefore Lemanik Invest relies on an unofficial list, shared with Lemanik Asset Management, drafted by a specialized third-party provider.