



# QUINTET FUND SUSTAINABILITY ASSESSMENT SUMMARY

## QUINTET FUND SUSTAINABILITY DUE DILLIGENCE PROCESS OVERVIEW

Before we approve a third-party fund as suitable for investment in Quintet's financial products, we assess the fund's investment process against a range of factors to make sure it meets our high standards.

Our fund sustainable due dilligence process is built on a robust principles-based philosophy maximising our in-depth expertise to structurally assess the sustainability of funds. We have identified 5 key factors that determine how sustainable a fund is in our eyes.

### 5 KEY ELEMENTS

#### Intentionality

*Explicit and intended link to ESG in objectives*

#### Sustainability of portfolio

*Sustainable characteristics of holdings*

#### Quality of sustainable research

*Sufficient skill, capacity & tools embedded in robust method & processes*

#### Engagement

*High quality voting and engagement, supported by clear policies*

#### Transparency

*Frequent reporting on voting, engagement and progress on ESG targets*

Source: Quintet

To achieve sustainable portfolio characteristics and fulfil intent, the fund manager has to have adequate resources and methodologies in place to make sure that sustainability can be fully embedded.

Furthermore, sustainability doesn't stop when a security is purchased. We believe engagement and proxy voting for equity funds are crucial elements to assess and influence the behaviour of investee entities. Finally, we urge funds to be transparent about the way they have implemented sustainability into their portfolios and how they have executed their sustainable fiduciary responsibilities. We require all funds on our approved fund list to act as active owners and engage with the companies they invest in and use proxy voting where applicable.

## HOW DO WE ASSESS THESE ELEMENTS

To assess the five key pillars, we operate a three-step process comprising interviews, questionnaires and holdings analysis. This process generates a multi-dimensional analysis. It provides both depth and flexibility and enables a full assessment of a fund's sustainability.

1. **Interviewing the fund manager:** by interviewing the fund manager we get a solid understanding of how sustainability is embedded in the fund. Subjects like investment process, resources, consistency in performance and investment process, team and sustainable beliefs are all discussed and analysed.
2. A **questionnaire** regarding sustainability needs to be answered by the fund manager. It contains over 120 questions regarding subjects like SFDR related policies and ESG commitments, UN Global Compact compliance, investment process, exclusions, resources, reporting, etc.
3. The **holdings** of the fund are analysed. Topics like investments linked to the UN SDGs, sustainability risks, environmental, social and governance controversies, and carbon intensity are all taken into account.

With passive funds or ETFs no interview with the fund manager is conducted. The questionnaire is partly answered by the fund manager and partly by the underlying index provider.

Furthermore, in light of the already existing SFDR related requirements, as well as the requirements that will apply as of January 2023, Quintet has further expanded and continues to expand and refine the fund questionnaire and related analysis. An example of this is the assessment of whether funds are Article 6, 8, or 9 products as a part of the analysis of the intentionality pillar, whether the fund considers the adverse impacts of its investment decisions in its investment process, how good governance is assessed, and whether the fund commits to a minimum percentage of sustainable investments.

The aim of Quintet's fund sustainability due diligence process is to not only review what commitments a fund has made, but to also assess whether we believe its policies are credible and sufficiently robust to meet such commitments. In addition, once funds will start reporting based on the new SDFR requirements related to periodic disclosures, Quintet will use such information in the periodic reviews of funds and where needed engage with the fund managers to ensure they manage the fund in line with Quintet's standards and expectations.

## ADJUSTED WEIGHTING OF KEY ELEMENTS BETWEEN STRATEGIES



Based on the outcome of the three steps of the due diligenc process all five key elements are awarded a sustainability score between 0 and 5. Our final verdict on the level of sustainability of a fund is determined by a weighted average score of the 5 key elements mentioned before. But the 4 different approaches to sustainable investment we recognize (see figure 1) are inherently very different and thus require a different approach. When calculating the sustainability score of a fund we weight the five key elements differently between the leader, improver, thematic and dedicated asset strategies to accommodate for the differences between these strategies. The main differences between the scoring of these strategies are mentioned below.

- **Leaders:** Most frequently used classification. Emphasis evenly spread over sustainability of portfolio, quality of sustainable research and engagement. Intentionality and transparency are important additions.
- **Dedicated:** Because these strategies in instruments that are designed to finance activities and projects that have a positive influence on the environment and/or society the sustainability of the portfolio is strongly emphasized. Quality of sustainable research and engagement are less prominently weighted because of the inherent sustainable nature of the instruments used.
- **Thematic:** The weightings are close to leader weighting scheme. We emphasize intentionality on the deliberate nature of the theme (ideally linked to UN SDGs). There is a stronger focus on transparency because we think that communication around how investments fit the theme and how they contribute to sustainability is extra important in these types of funds.
- **Improver:** The focus on improving sustainability leads to a lower weight to sustainability of portfolio. The focus is more on the progress made in sustainability rather than the starting point. The higher weight of intentionality reflects that we emphasize the deliberate sustainable nature of the approach of extra importance in order for the fund . Lower weight to portfolio quality as this is lower by design and inherent to the strategy. Focus on engagement as this is perceived crucial for success. As well as transparency to explain improvements.

Periodically and on an ad hoc basis all the steps of the due diligenc process are repeated in order to ensure that the assessment is up to date and changes, either within the fund or in regulations are accounted for.