

# Bellevue Entrepreneur strategies

## EU SFDR Disclosure (2019/2088) Sustainability preferences (MiFID II)

August 2022

**The following information summarizes the regulatory requirements of the EU Disclosure Regulation 2019/2088 (EU SFDR) and the sustainability preferences (MiFID II) with respect to individual funds and groups of funds summarized thereafter.**

# Bellevue Entrepreneur strategies

The subsequent information relates to the following investment strategies:

- Bellevue Entrepreneur Swiss Small & Mid
- Bellevue Entrepreneur Europe Small

## I Definition of ESG characteristics (EU SFDR)

### a) Summary

The investment strategy takes into account social, environmental as well as governance-related characteristics (ESG) as part of the implementation of its investment objectives, in accordance with the provisions of Article 8 of the EU Disclosure Regulation 2019/2088 (EU SFDR).

### b) No sustainable investment objective

The investment strategy takes into account social, environmental or governance-related characteristics, but does not pursue a sustainable investment objective. The fund invests to some extent in sustainable investments. While the adverse impacts on sustainability goals mentioned in Annex I of the RTS are not explicitly taken into account until the RTS is ratified, harmful ESG practices are evaluated by means of involvement in controversial business areas, ESG ratings, and by taking into account the standards of the UN Global Compact, the UN Guiding Principles for Business and Human Rights, and Conventions 1 and 2 of the International Labor Organization (ILO).

### c) Environmental or social characteristics of the fund

The fund takes into account social as well as environmental characteristics. These essentially comprise the following elements:

- 1) Exclusion of serious violations of global norms
- 2) Value-based exclusions based on revenue thresholds
- 3) ESG integration into fundamental company analysis
- 4) ESG stewardship through constructive corporate dialogue (engagement) and the exercise of voting rights (proxy voting)

### d) Investment strategy

The investment objective of the fund is to achieve long-term capital growth by investing in equities and other equity securities. In doing so, the sustainability characteristics described under c) are taken into account as follows:

**Serious violations of global standards** in the areas of the environment, human rights and ethical business practices are excluded. This is measured by compliance with the principles of the UN Global Compact Compliance, UN Guiding Principles for Business and Human Rights, and standards of the International Labor Organization.

In contrast to exclusions based on violations of global standards, **value-based exclusions** are based on social, ethical and moral views. Percentages of sales per business segment are defined which a company must not exceed in controversial business areas such as conventional weapons, thermal coal or tobacco production. Issuers whose annual sales exceed the defined tolerance limits are excluded.

In addition, Bellevue Asset Management AG (hereinafter "BAM") follows an "ESG integration approach" in its investment process with the sub-aspects environment ("E" for Environment), social ("S" for Social) and good governance ("G" for Governance).

Further information on the application of its sustainability approach can be found here: <https://www.bellevue.ch/ch-en/private/esg/sustainability>

### e) Proportion of investments

In principle, BAM aims to invest the entire assets of the above-mentioned funds in investments with sustainable characteristics. However, as there is not yet a sufficient amount of data available in every asset class and some companies do not yet have an ESG rating, a minimum percentage allocation to investments with sustainable characteristics is defined. Investments that do not fully meet the criteria of BAM's ESG integration approach are allocated a maximum permissible residual quota. In order to calculate the minimum allocation to investments with sustainable characteristics, asset classes that cannot be assessed in advance according to ESG criteria, such as cash and cash equivalents or foreign currency forwards, are excluded from consideration and the minimum proportion is calculated based on the net invested assets.

The minimum proportion of investments with sustainable characteristics is determined as follows:

<b>Funds</b>	<b>Minimum proportion of investments with sustainable characteristics</b>	<b>Maximum residual quota</b>
Bellevue Entrepreneur Swiss Small & Mid (Lux)	80%	20%
Bellevue Entrepreneur Europe Small (Lux)	80%	20%

The use of own target funds that comply with BAM's sustainability policy is permitted. The selection of sustainable target funds from third parties also takes into account sustainability aspects. For each target fund, BAM reviews the sustainability approach of the respective provider and its implementation in the respective target fund. The following criteria are assessed:

- Does the asset manager apply exclusion criteria?
- Does the asset manager use one of the following sustainable investment approaches: ESG integration, best-in-class, sustainable thematic investments (themes) or impact investing?
- Does the target fund have a minimum MSCI ESG Fund rating of BB?
- Does the provider have a voting policy that incorporates ESG criteria?

A target fund must meet at least half of the required criteria to be rated as an investment with sustainable characteristics by BAM. If a target fund does not meet the aforementioned criteria, it must be classified under the residual quota.

For a derivative with one underlying instrument, the underlying instrument as well as the issuer must meet the asset manager's criteria for an investment with sustainable characteristics as described above. Otherwise, it is allocated to the portion of the assets that is classified under the residual quota.

For a derivative with several underlying instruments (e.g. index, basket), the underlying instruments of the derivative on average as well as the issuer must meet the asset manager's

criteria for an investment with sustainable characteristics as described above. Otherwise, it is allocated to the portion of the assets that is classified under the residual quota.

#### **f) Monitoring of environmental or social characteristics**

The ESG characteristics mentioned are recorded and documented at least on a quarterly basis. Compliance with the specifications with regards to the global standards as well as the value-based exclusions is checked by BAM Risk Management. Exposure regarding value-based controversial business areas, potential/assumed ESG Laggards (MSCI ESG rating CCC or B), as well as current engagement and voting activities are discussed with the portfolio management teams during internal reviews. A quarterly summary of key ESG characteristics of the individual funds is provided to the Executive Board of Bellevue Asset Management AG as well as to the Board of Directors of Bellevue Group.

#### **g) Methodology**

##### **Global norms**

Compliance with the given ESG characteristics is checked using various methodologies. Compliance with global standards, including compliance with the exclusion of controversial weapons, is measured against the standards and principles of the UN Global Compact, the UN Guiding Principles for Business and Human Rights, and Conventions 1 and 2 of the International Labor Organization (ILO). Based on assessments by leading ESG research providers (currently MSCI ESG), BAM maintains an exclusion list which is updated quarterly and approved by the Chief Compliance Officer.

##### **Norms-based exclusions**

Business areas that are controversial in terms of ethical and moral values are excluded if their sales exceed the tolerance limits for annual sales defined below:

<b>Business area</b>	<b>Threshold</b>
Controversial weapons	0%
Conventional weapons	10%
Thermal coal	5%
Fracking/oil sands	5%
Production of tobacco	5%
Sale of tobacco	20%
Adult entertainment	5%
Gambling	5%
Palm oil	5%

##### **ESG Integration**

In addition, BAM pursues an "ESG integration approach" in its investment process - supplementing traditional financial analysis - with the sub-aspects environment ("E" for Environment), social ("S" for Social) and good governance ("G" for Governance). The environmental aspect includes, for example, whether a company systematically measures and discloses its carbon footprint. The area of society includes, for example, product quality, data security and employee development. Good governance includes, for example, the independence as well as compensation of the board of directors, and business ethics.

Based on the assumption that sustainability risks can have a negative impact on returns, this approach aims to identify ESG risks in order to take them into account in the investment process.

The analyses are then also used by BAM to anticipate developments in the area of sustainability and to incorporate/integrate these findings in its investment decisions.

As a basis for integrating the criteria for sustainable action in the investment decision process, BAM uses an ESG rating per issuer, which consists of various sub-scores. The scores are based on data from independent third-party providers (currently MSCI ESG Research Inc, [www.msci.com](http://www.msci.com)). Only companies with a minimum rating of BB according to MSCI ESG are considered in the sustainable investment quota.

Further information on MSCI ESG's ESG Rating Methodology can be found at: [www.msci.com](http://www.msci.com) or under the search term MSCI ESG Metrics Calculation Methodology.

In a next step, the asset manager uses ESG factors relevant for the respective industry or company, which MSCI ESG defines for each industry and evaluates accordingly. These so-called "key issues" show how a company compares with competitors from the same industry. While Corporate Governance is always an important key issue regardless of industry classification, social or environmental key issues can differ significantly from industry to industry. The overall ESG assessment is qualitatively integrated into the common fundamental analysis and contributes to an integral decision regarding stock selection and position weighting.

BAM's website contains further information on this subject: <https://www.bellevue.ch/en/private/esg/sustainability/sustainability-portfolio>

The evaluation of good governance practices, such as sound management structures, employee relations, compensation practices and tax compliance, is included in the overall assessment of ESG ratings and compliance with global standards. As an asset manager focusing on bottom-up stock selection, good corporate governance is also an essential part of any company analysis.

In addition, the aggregated Scope 1 + 2 CO<sub>2</sub> intensity<sup>1</sup> of the fund and, if available, of the relevant benchmark is measured and published on a quarterly basis.

## **h) Data sources and processing**

The fund uses various data sources to assess and measure ESG characteristics. Primarily, data from MSCI ESG Research is used as a basis for compliance with global norms and value-based controversial business areas. The same applies to the measurement of CO<sub>2</sub> intensities and the assessment of overall ESG ratings. Based on insights from our proprietary fundamental analysis, aggregated ESG ratings from external providers are assessed. In some cases, suspected ESG laggards are subject to additional analyses. Both our own analyses and the sustainability data made publicly available via Bloomberg (ESGD) are suitable for this purpose. The determination of an internally revised ESG rating does not take place due to a lack of external traceability. Information on the degree of coverage of external ESG research is published in the fund reporting.

## **i) Limitations of the methodology and data**

The data sources used may be incomplete or may not lead to an appropriate assessment of the ESG characteristics described in all cases as a result of systematic weaknesses in the ESG methodology of third-party providers. For example, in the case of biotechnology companies, MSCI ESG heavily weights the "Access to Healthcare" criterion. Innovative biotech companies that are only at the research stage cannot, by definition, fulfill this criterion or can only do so inadequately and are thus systematically undervalued.

Isolated data gaps and any objective misjudgments resulting from weaknesses in the ESG rating methodologies are filled to the best of our knowledge and belief by our own assessments from fundamental stock analysis or by consulting other data sources and third-party providers (e.g.

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<sup>1</sup> Scope 1 emissions: Direct emissions caused by a company's activities; Scope 2 emissions: The second group includes all emissions caused by the production of energy used by a company.

Bloomberg, Sustainalytics). Issuers without ESG research coverage are automatically allocated to the quota for which an assessment of the social or environmental characteristics cannot be made in full.

#### **j) Due diligence**

The due diligence of the portfolio and the processes described are part of Risk Management's area of responsibility. Control mechanisms for compliance with sustainability requirements are implemented in the portfolio management system. Further ESG risk reviews are part of the regular review meetings with the portfolio management team. The Compliance Office is responsible for the oversight and review of all compliance-related topics, in particular the issuance, monitoring and updating of sustainability-related directives, both at portfolio level and at corporate level. Relevant ESG issues are periodically discussed by representatives of Risk Management, Product/Sustainability Management and Compliance.

#### **k) Engagement policy**

Portfolio managers engage in an active and constructive dialogue with the management or other relevant representatives of the portfolio companies with regard to environmental, social and governance aspects. If there are indications of controversial sustainability aspects in the run-up to the company discussions, these are constructively raised with the company and progress (e.g. strategy, process adjustments, improvement of ESG rating) is documented over time. Furthermore, BAM represents the long-term interests of its investors by actively exercising its voting rights at the general meetings of portfolio companies through proxy voting.

#### **l) Designated reference benchmark**

Unless otherwise stated in the fund documents or on the website, a standard benchmark is used for the respective fund to measure relative performance. This standard benchmark is used as a reference value in the monthly factsheets and quarterly ESG reports.



## II Definition of sustainability preferences (MiFID II)

With the amendment of the MiFID II Directive as part of the implementation of the EU Action Plan Financing Sustainable Growth, the consultation of clients' sustainability preferences in investment advisory will become mandatory as of August 2, 2022. Financial instruments that may target (potential) clients with sustainability-related objectives according to Art. 9 (9) UA 1 MiFID II-DRL are required to apply one or more of the following three concepts:

- a) a financial instrument where the (potential) client determines that a minimum proportion is to be invested in environmentally sustainable investments within the meaning of the **Taxonomy Regulation** (Art. 2 No. 1);
- b) a financial instrument for which the (potential) client determines that a minimum proportion shall be invested in **sustainable investments within the meaning of the Disclosure Regulation** 2088/2019 (Art. 2 No. 17);
- c) a financial instrument where the main **adverse impacts on sustainability factors ("PAI")** are taken into account, whereby the qualitative or quantitative elements demonstrating this consideration are determined by the (potential) client.

In its implementation, BAM applies the concept b) of **sustainable investments as defined in the Disclosure Regulation (SFDR)**, which entails the following requirements:

- ESG strategy with share of sustainable investments as defined by the SFDR, using specific percentages
- No severe violations of the UN Global Compact and democracy/human rights
- Product provider (BAM) takes into account recognized industry standard (UN PRI)

Art. 2 No. 17 of the Disclosure Regulation 2088/2019 defines a "Sustainable Investment" as an investment in an **economic activity that contributes to the achievement of an environmental and/or a social objective while not significantly harming any of these objectives**. Furthermore, the invested companies must apply practices of good corporate governance ("**Good Governance**").

For an investment to qualify as a "Sustainable Investment", BAM applies the **17 UN Sustainable Development Goals (SDGs)**. These sustainable development goals are general, universal goals for all UN member states, which were adopted in September 2015 as the successor to the Millennium Goals. All people in the world should be able to live in a fairer, more prosperous and more peaceful society by 2030. ESG research provider MSCI ESG measures the target contribution of companies to each of the SDGs and categorizes them as "Strongly Aligned", "Aligned", "Neutral", "Misaligned" and "Strongly Misaligned". As soon as there is a **positive impact on at least one of the 17 SDGs ("Aligned" or "Strongly Aligned"), and one or more other SDGs are not negatively impacted at the same time ("Misaligned" or "Strongly Misaligned")**, BAM assumes a positive alignment with a sustainable objective, i.e. these companies are added to the quota of "Sustainable Investments".

Investments are assigned to the "**Sustainable Investment**"-quota if, on the one hand, they exhibit a positive target contribution as described above and, on the other hand, they meet the sustainable investment characteristics described under I (including UN Global Compact compliance) which also ensures that good governance practices are applied.

BAM has been a signatory of the UN Principles for Responsible Investment (UN PRI) since August 20, 2019, and thus meets the required and globally recognized industry sustainability standard.

The minimum percentage of “**Sustainable Investments**” is determined as follows:

<b>Strategy</b>	<b>Minimum proportion of Sustainable Investments</b>
Bellevue Entrepreneur Swiss Small & Mid (Lux)	30%
Bellevue Entrepreneur Europe Small (Lux)	30%

Similar to the methodology for determining "investments with sustainable characteristics", non-assessable asset classes such as cash and cash equivalents or foreign currency forwards, are excluded from consideration and the minimum proportion of Sustainable Investments is calculated based on the net invested assets.

Further information on MSCI ESG's SDG Alignment Methodology can be found here:  
[www.msci.com](http://www.msci.com)



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