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Environment, Social and Governance Policy

Value Square NV is the management company of all Value Square funds. Through its investments, Value Square funds are owners of various entities and may therefore influence company’s operations. This policy describes how Value Square shall execute such influence on behalf of the fund.

Purpose and Objective

Value Square is committed to maximizing long term risk adjusted returns for its clients and believes that investing in sustainable businesses is complementary to this. The key objective behind carrying an in-depth research on all relevant environmental, social and governance aspects, is to look for possible issues that might escalate into incidents and endanger the value of investments. At Value Square, we rely on analysing the performance on several ESG criteria and on the commitment of the management in continually improving such performance. By integrating the ESG risk analysis with our investment decision-making process, we analyse any factor that might potentially impact the long term returns on our investment. Value Square believes that executing an independent and in-house research enables our asset managers to take an unbiased judgement call on potential sustainability risk associated with investments.

The underlying principles for Value Squares ESG policy have been derived by the guidelines set under the United Nations Global Compact* guidelines and the United Nations Principles for Responsible Investment**.

Policy Statement

Any investment or potential investment consideration shall comply with the following standards:

1. Shall not be a part of the exclusion list. Value Square will not knowingly invest in:
   a. Companies operating business in anti-personnel mines, cluster munitions, depleted uranium.
   b. Companies that meet the exclusion criteria as described in the implementation section.

2. Analysis of the present and historical performance of the firm for ESG (Environment, Social and Governance) indicators set out by Value Square fund managers and described later in this document. The basis for such research shall be public disclosures, media releases or company publications.

3. Undertake a series of ownership and engagement steps to minimize any risks arising out of sustainability or governances’ incidences.
Guidelines and implementation

ESG Integration: Value Square is committed to pursuing the UN PRI principles, by integrating the following ESG procedures with our investment procedures:

Exclusion Criteria:

A. **Value Square will not invest in:**

1. **Controversial weapons:**

Regulated by Belgian Law Mahoux, Value Square shall have no investments in a company involved in controversial weapons industry. Value Square refers to the external research provided by ISS Ethix for this. ISS Ethix, screens about 20000 companies worldwide and provides a list of entities that are currently or have in the past been involved in activities related to the following weapons:

   1. **Anti-personnel mines**
   2. **Depleted uranium**
   3. **Cluster munition**

An entity is considered involved in above activities if 1. It manufactures essential parts which are made specifically for weapons 2. and which are manufactured with that specific purpose. Value Square is committed to have no investments in such entities that have a clear evidence of involvement or strong signs of involvement (in absence of evidence) in such activities. *As of January 2017, there are 32 listed and 137 unlisted companies, which we exclude under this category.*

II. **Nuclear weapons:**

Value square is committed to have no investment in entities that are involved in nuclear weapons industry. For exclusions in this category we comply with the research list of Norwegian pension fund. We concur with the findings and policy stand of the *Ethics Council for nuclear weapons section and have thereby decided not to invest in 12 companies that are primarily involved in providing critical functional components to nuclear weapons.*

III. **Tobacco:**

The adverse effects of tobacco on human health are a cause of concern for the society, and much less sustainable to say the least. The health impacts of tobacco consumption pose dangers especially to the youth of a society and in some cases the statutory warning falls short of highlighting the dangers.
At Value Square, any company that has a major part of its business linked to tobacco manufacturing, shall be excluded from our investment universe.

IV. Coal extraction:
Value Square will not invest in companies that are actively involved in coal extraction operations.

**Value Square will seek to avoid investments in:**

I. Alcohol:
We find that laws concerning alcohol production are rather better governed than those for tobacco. In addition, we concur that excluding softer forms of alcohol beverages (wines, beer etc.), from much harder alcoholic products, shall not be a pragmatic exercise. Therefore, alcohol is not a part of our exclusion list, however Value Square will not make an investment in such entities which are in gross violations of the legal regulation concerning the alcohol industry, and where the company fails to make adequate disclosures to consumers about the adverse impacts.

II. Adult Entertainment:
Value square believes that this industry can have adverse influence on the respect for human rights, and therefore is committed to not make any investments in an entity that has a major part of its revenue tied to pornography.

III. Nuclear energy:
While the scope of nuclear weapons is more clearly defined, the adverse impacts of nuclear energy plants is somewhat blurred. In such case, our primary criteria would be to exclude any company that fails to operate in conjunction with internationally accepted regulations and standards.

IV. Gambling:
While in Belgium, there is a legal framework that regulates gambling business, this is not the case in all parts of the world. At Value Square, we will generally exclude any company that has primary source of revenues linked to gambling (above 70%) and one that conducts such business outside of the legally accepted framework.

Integration: ESG risk analysis (firm level analysis)

In the second phase of integrating ESG policy to our investment philosophy, we rely on carrying out an in-house ESG research and risk analysis. In line with the UN PRI principles, this approach helps us execute the principles of seeking disclosures and exercising the ownership practices.
While researching the conduct-based sustainability risk, we gather information on some fundamental performance indicators and the performance trend of the entity for those indicators.

The factors that Value Square considers are:

1. **Environmental conduct:**
   a. Energy intensity (MWh/m sales)
   b. Direct GHG intensity (t/m sales)
   c. Travel CO2 intensity (t/m sales)
   d. Waste intensity (t/m sales)
   e. Water intensity (m3/m sales)
   f. Paper & packaging intensity (t/m sales)

2. **Social conduct:**
   a. Accident severity rate (hours/employee)
   b. Employee turnover (%)
   c. Workforce replacement rate (%)
   d. Pension benefits obligation coverage (%)
   e. Philanthropic contribution rate (% sales)

3. **Governance risk analysis:**
   a. ESG provisions rate (% shareholders equity)
   b. Non-independent directors (%)
   c. Percentage of non-executive director on board
   d. Percentage of women on board
e. Board meeting per year
f. Board meeting attendance (%)
g. Audit committee
h. Nomination committee
i. Compensation committee
j. CSR sustainability committee
k. Independent chairperson

The disclosures on these criteria shall be analysed relative to the other entities in the portfolio. Companies that are a key contributor to improving the overall score of the portfolio are positively scored while those that bring the performance down, are flagged for further engagement.

In addition to the absolute performance, we also analyse the change in performance over 3 years. In case of a considerable decline in performance, further engagement with the management can be considered.

Apart from the KPI's and its trend, we also take into consideration the implementation of a well-defined framework for improving sustainable business practices. These include:

**Policy and framework-based analysis for social conduct:**

a. Health and safety policy
b. Fair Remuneration policy
c. Training policy
d. Employee CSR training policy
e. Equal Opportunity policy
f. Human rights policy
g. Policy against child labour
h. Business Ethics policy
i. Anti-Bribery policy
j. Employee protection

Fund managers shall take into consideration performance of the company on basis of above analysis, however the impact of these factors on the investment decision shall be decided on a per case basis.

In addition, for companies in the fund, analysts and portfolio managers shall track any involvement in conflicts related to environmental, social or governance instances. These are discussed on a weekly basis in the meeting of asset managers and a decision of engagement is thereon taken.
Ownership and Engagement:

As with exclusion and integration, our ownership principles comply with the principles laid down by UN Global Compact, the UNPRI and the UN Guiding Principles on Business and Human Rights. Value Square believes in the significance of active participation and ownership, and undertakes the following stand:

a. **Exercise of Voting rights:**

   Value Square shall participate in all general meetings, to the extent feasible, and exercise voting rights to the benefit of the fund. Voting decisions shall be guided with the objective of maximizing risk adjusted returns for investors. These principles are described further in our Voting policy.

b. **Engagement with management:**

   Value Square might decide to actively engage (preferably in private) with the management and the board when it feels that improvements to sustainable business practices, regarding environment, social or governance issues, are possible. This includes undertaking active dialogues on sustainability efforts, and suggestions on improvement. Some cases where Value Square will undertake engagement with management include:
   a. Considerable change in strategy from previously communicated
   b. Issues related to governance or compliance
   c. Significant changes to board composition
   d. Clarification on adverse media report involving the company, or related party
   e. Any other issue that it feels endangers the long-term value of investment.

   Value Square may also engage in collaboration with other long-term investors, about these issues, in case it deems necessary. However, the risk of conflict of interest and of being put in insider position will be diligently considered before undertaking such actions. In addition to the above, Value Square may resort to the following options in case the outcome of above engagement does not yield expected results:
   a. Expressing views publicly
   b. Proposing extraordinary general meeting and resolutions
Voting Policy:

Value Square strives to vote at those AGM’s where the fund managers think they should act. Voting rights are exercised directly by fund managers where possible or by giving a proxy to a custodian bank. The underlying principle guiding whether to vote for, against or abstain from voting, is based on whether the proposal is likely to increase directly or indirectly the shareholder wealth and value creation or not.

Information:

Timely access to information is pertinent to voting decisions of all shareholders. Value Square expects disclosure on various voting proposals to be received at minimum 2 weeks in advance of the annual general meeting.

Company Boards:

Value square will normally support election of board members where independence and diversity of board is maintained. In some cases, however, where enough evidence suggests that such election might adversely impact value creation for shareholders, fund managers might choose to withhold support. A decision on per case basis will be made.

Executive remuneration

Value Square supports executive compensation proposals that align management incentives with shareholder value creation. At the same time, we shall oppose in instances where grant of share options at significantly discounted prices, or where these lead to excessive dilution, or where rewards are not justified by company’s performance. We encourage share buy-backs as a measure to counter any dilution from such issuance.

Reporting and audits

Value Square supports integrated reporting approach whereby company communicates with its stakeholders its mid and long-term strategy providing adequate disclosures. We however might withhold support where reports do not provide material ESG disclosures or where executive director is a member of the audit committee.

Anti-takeover mechanisms

Value Square does not normally support permanent anti-takeover mechanisms that distort shareholder interests in favour of management. These might include poison pills, classified boards, super majority voting requirement among others. Exceptions might be made for mechanisms that enable negotiation of offer or ensure fair treatment of shareholders.
**Capital structure**

Value Square supports equitable treatment of all shareholders and will normally not support proposals that discriminate minority shareholders. Under normal circumstances, Value square supports “one share- one vote” principle.

Value Square might withhold support to proposals of capital increase if these lead to serious dilution of equity for continuing shareholders. We encourage management, board and other strategic shareholders to increase stake in the company, by investing own capital. Value square supports proposals that increase transparency related to intercompany transactions.
Conflicts of interest:

Value Square has implemented a policy on conflicts of interests to prevent conflicts of interest damaging the interest of clients between on the one hand Value Square, its directors and its employees and on the other hand the clients, or between the clients themselves. The Compliance Officer is responsible for keeping this policy up to date and for supervising the implementation of the policy.

Value Square holds an inventory at its offices of all identified existing or potential conflicts of interests. Every conflict of interest is described as well as the measures designed to control or eliminate the conflict of interest. If Value Square is not capable of controlling or eliminating the conflict of interest, it shall refuse services to the client or clearly inform clients about the conflict of interest before initiating services (disclosure), depending on the specifics of the situation.

If new conflicts of interest are identified these are included in the Register of conflicts of interest. The register is drafted and kept up to date by the Compliance Officer. Every director or employee confronted with a (potential) conflict of interest is asked to inform the Compliance Officer.

*UN Global Compact 10 principles

Human Rights
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.

Labour
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and

Environment
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

**UN Principle for Responsible Investment (PRI):

We will incorporate ESG issues into investment analysis and decision-making processes.
We will be active owners and incorporate ESG issues into our ownership policies and practices.
We will seek appropriate disclosure on ESG issues by the entities in which we invest.
We will promote acceptance and implementation of the Principles within the investment industry.
We will work together to enhance our effectiveness in implementing the Principles.
We will each report on our activities and progress towards implementing the Principles.