

LIMMAT
CAPITAL

Sustainability Risk Policy

Version
August 2022



Document Information

DOCUMENT NAME	Sustainability Risk Policy
DOCUMENT STATUS	Amended and updated
VERSION NUMBER	2
DATE	August 2022
AUTHORS	Martin Pacanovsky
AUTHORIZED BY	BMC / Raphael Rutz, Martin Pacanovsky
DISTRIBUTION	All LIMMAT personnel To counterparties, service providers, and investors as needed or as requested

About LIMMAT CAPITAL

LIMMAT CAPITAL Alternative Investments AG (“LIMMAT”, “we”) is an independent investment advisory and management firm licensed and supervised by FINMA as an asset manager of collective investment schemes under the laws of Switzerland. LIMMAT strives to adopt and follow the best industry practice and in the matters of compliance standards, LIMMAT subscribes to the Code of Conduct issued by the Swiss Funds & Asset Management Association (SFAMA). LIMMAT is authorized to provide asset management services to separately managed accounts, Swiss and foreign funds. Since its inception, LIMMAT has been passionate about generating attractive risk-adjusted returns for its clients, based on finding great investment opportunities with focus on diversification, liquidity, transparency, all the while applying strict risk control.

Our Guiding Principles

The long-term interests of our investors are central to the way we approach our business and the way we manage our growth. Our growth goals revolve around building and expanding our investment platform in a controlled fashion. We are deeply convinced that our focus on delivering long-term consistent positive risk-adjusted returns to our investors will also serve the best interests of our business partners and our firm.

1. Alignment of interest

Our clients' interests always come first and we seek alignment of our interests with those of our clients. If we provide our clients with superior value, both investment and client service, our success will follow.

2. Team-centric culture

People are the company's most valuable asset. Our people possess the character, common sense, and creativity. Our culture stems from shared values, abilities and skills of every individual in our company and blends the diversity of thought and opinion into wisdom. We are committed to teamwork and while we encourage individual creativity, we believe that team effort often produces superior results.

3. Commitment to long-term sustainability

The long-term success and achievement are central to the way we approach our business and the way we manage our growth. Our growth goals revolve around building and expanding our business and making a positive and sustainable impact on the world.

4. Value-guided behavior

We live daily by our values and maintain high ethical standards in everything we do, both in our work for the firm and in our personal lives.

5. Drive for excellence

We take great pride in the professional quality of our work. We have an uncompromising determination to achieve excellence in everything we undertake.

6. Creativity & innovation

We constantly strive for creativity and innovation to improve our working process. We know that the world of finance will not stand still and that complacency can lead to extinction.

Table of Contents

About LIMMAT CAPITAL		3
Our Guiding Principles		3
1	Introduction	5
1.1	Background	5
1.2	Use of the Policy	5
1.3	Amendments	5
1.4	Questions	5
2	Purpose and Scope	6
2.1	Purpose	6
2.2	Scope	6
3	General Overview	7
3.1	Investment Practice	7
3.2	Exclusions	8
3.3	Product Disclosures	9
4	Sustainability Risk Management	9
4.1	Sustainability Risk Management Process	9
4.2	Risk Management Framework	10
4.3	Responsibilities	10
5	Alignment with Compensation	11
5.1	Compensation Process	11
5.2	Sanctions	11
6	Appendix A: Product Overview and corresponding exclusion lists	12
6.1	Limmat Capital SICAV - LC Equity Fund (UCITS)	12

1 Introduction

1.1 Background

This Sustainability Risk Policy (the “**Policy**”) sets out our risk framework related to Environmental, Social, and Governance (ESG) risks. The framework reflects Limmat’s guiding principles and defines risk management principles, roles and responsibilities of the Board of Directors, Chief Risk Office, Executive Management, and all staff. At all times LIMMAT will seek to be proactive in identifying potential risks in its business and develop policies and procedures to minimize these risks.

The Board of Directors is responsible for instituting an adequate Risk Management Plan and internal policies that identify, measure, monitor, and manage significant risks including ESG risks, which might materially impact Limmat’s business or its reputation.

The collective investment schemes that Limmat manages or advises are exposed or related to a variety of risks, including significant ESG risks. Limmat developed this policy to address those risks in our products and investment process.

We at Limmat Capital take our fiduciary obligations seriously. We strive to operate our business in a responsible and ethical manner. Our decisions are determined by our guiding principles and take into account not only financial, management, and growth prospects data points but also issues related employees, human rights, the environment, bribery, consumers and corporate governance.

It is our strong belief that investors will reward companies who conduct their business responsibly. In turn, investors will be rewarded by knowing they have made a positive impact on the world. We are committed to doing our part in making the world a better place for all. We weigh the impacts of our decisions on in terms of environmental, social, and governance aspects at both corporate and fund strategy levels.

We utilize a combination of discretionary and systematic investment selection. While a definitive set of standards does not yet exist, we nonetheless endeavor to do our best to play our part in promoting sustainability, ethical standards, and social equality goals. This Policy summarizes Limmat’s position on ESG matters.

1.2 Use of the Policy

Each employee (including officer, manager, and supervisor) of Limmat must:

- › Receive a copy of this Policy;
- › Ensure the contents of the Policy are understood and used in day-to-day activities and
- › Maintain a copy of the Policy in a readily accessible place within the office;

1.3 Amendments

Limmat will amend this Policy as necessary and within a reasonable time after changes occur in federal securities laws, rules and regulations, Limmat’s business lines, or its supervisory system.

1.4 Questions

If an employee has a question regarding the requirements of this Policy or is uncertain about the laws, regulations or LIMMAT’s policies that relate to his/her business activities, he/she shall contact his/her manager or the Compliance Officer.

2 Purpose and Scope

2.1 Purpose

The purpose of this Policy is to define the framework by which Limmat will manage ESG risks. The goal of the Policy is to foster a culture of sustainable and ethical behavior. In conducting its own business and managing investment products or client portfolios, Limmat strives to mitigate material adverse ESG risks.

2.2 Scope

The Sustainability Risk Policy applies to the management of the company and to the investment products which are managed by Limmat. Limmat's sustainability risk management shall comprise identification, monitoring, measurement, mitigation, prevention, and reporting on the following key areas:

- › **Management of Limmat:** Our approach to managing ESG risks is based and reflected in our Compliance Manual and our guiding principles (Principles).
Our Principles are the values, operating philosophies, and principles that guide our organization's internal conduct as well as our relationship with our clients, counterparties, partners, and shareholders. The Compliance Manual formulates, among others, the basic values, such as integrity, responsibilities to our communities, fairness, compliance, transparency, and discretion. One of the guiding principles refers to sustainability in both our business as well as how our decisions affect sustainability of other businesses, the environment, and social improvement. As a direct consequence of the values, we ascribe to we will consider ESG effects of our actions and we are committed to high standards in our business to support a sustainable future. All employees must address the question whether or not a proposed transaction or initiative presents any risks to the environment or society. If a proposed transaction or an investment would clearly violate any of the tenets, we will choose to forego such an investment opportunity.
- › **Investment practices within Limmat products:** As a manager of collective investment schemes pursuing various investment strategies, ranging from completely discretionary to completely algorithmic, we are used to incorporating a wide breadth of data in our investment process. In order to understand the ESG risks in our portfolio as well as proposed transactions, we will incorporate several data sources and qualitative assessment. For one, we will rely on ESG scores and ranks provided by established data providers, including MSCI ESG Research, and Sustainalytics, Bloomberg. The review of scores and ranks will inform our investment decisions; however, we currently do not manage or advise any funds or products targeting to be ESG products. In addition to incorporating ESG scores within the investment process, Limmat is also using exclusion lists of securities.

Each product managed or advised by Limmat will abide by pre-defined level ESG engagement including eligible securities and exclusion lists (ESG parameters) depending on the specific mandate and investor needs and requirements. The ESG parameters in use for each fund or product are described in the respective prospectus or offering memorandum.

3 General Overview

3.1 Investment Practice

We believe that ESG issues can have a material effect on the company's long-term fundamentals, both in terms of opportunity and risk. We consider ESG factors when making investment decisions across all asset classes and strategies using scoring methodologies developed by third-party ESG research and data providers, as mentioned above. However, our first and foremost objective is to deliver attractive risk-adjusted returns identifying attractive investment opportunities to achieve our objective.

The relevant acceptable ESG parameters are defined for each product individually depending on the regulatory framework, client need or requests.

In direct investments in equities and corporate bond securities we apply the company's main principle for sustainability:

- > **Exclusion Lists**
- > **Minimum Rating**

3.1.1 Direct Investments

As an asset manager with expertise in both discretionary and quantitative strategies, the portfolios we manage tend to be very diversified, some with hundreds of positions (long and short), which are usually very small. In addition, the holding periods of positions varies from hours to years. One importance aspect is the size of our positions; due to the size of the funds we manage, the positions represent only a small fraction of each investment's market capitalizations. Where we invest in smaller capitalization stocks and have access to the management team, we engage with them and discuss their ESG roadmap. Where no rating is available from any provider, we make our own qualitative assessment based on relative standing to peers. In cases where it is outright impossible or impractical to conduct our own analysis of environmental, social and governance factors, we apply a negative screening standard relying on exclusion lists as described in section 3.2.

3.1.2 Indirect Investments, Investments in Indices and Derivatives

To the greatest possible extent, our sustainability principle of exclusion is considered when investing in certain types of assets and instruments, such as third-party funds, commodities, indices, or derivatives. For example, when investing in exchange traded funds or derivative instruments linked to an index, companies on an exclusion list may be invested in indirectly via that selected ETF or index derivatives. While we aim to select products that meet our exclusion criteria, in many cases, it is impractical or impossible to look-through the instrument such as an ETF or Index and be satisfied that the minimum parameters have been fulfilled.

In cases where we are unable to be satisfied that all parameters have been satisfied, i.e., we are unable to determine conclusively whether the investment comprises some instruments on the exclusion list, we will attempt to limit the long exposure to the excluded companies to less than 5% of the overall exposure of the relevant fund. Alternatively, if possible and practicable, we will structure the investment in a way such that we divest the instruments on the the exclusion list. By combining the index/ETF investment and divesting instruments on the exclusion list, we synthetically align the portfolio with the ESG principles in this Policy.

The responsibility and the competence for assessing, monitoring, and reporting such risks shall be clearly defined and assigned to one or more members of Limmat’s Executive Management.

3.2 Exclusions

3.2.1 Exclusion Lists

Within its investment universe, Limmat takes into account the recommendations for exclusion maintained by the Swiss Association for Responsible Investments (<https://www.svvk-asir.ch/en/activities/#c616>), which includes companies with controversial conduct (violations of laws or standards, human rights, labor rights, environmental management, governance) or products (production, sales, distribution, and storage of banned weapons such as landmines, cluster munition). If a company on the list sources more than 10% of its revenue from said conduct or product-based criteria, they will be excluded from the investment universe.

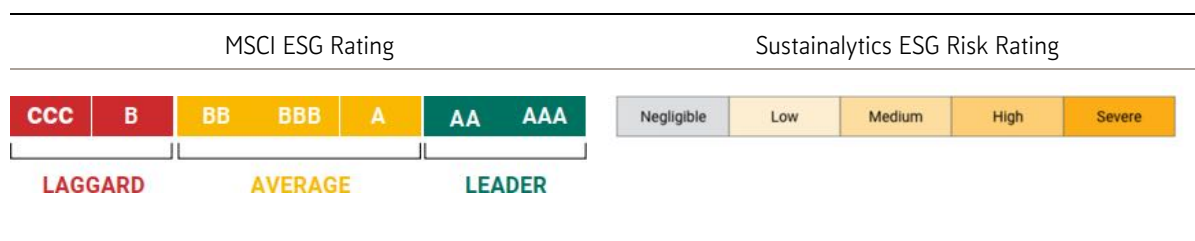
As described in sub-section 3.1.2, companies on the exclusion list are excluded from the direct investment universe. Where such a company may be a member of an index, basket of securities (ETF), or a derivative, we may seek to structure the investment such that the long position in such a company is avoided.

Limmat may add other companies on the exclusion list based on other recommendations and listings, including the International Financial International Finance Corporation (IFC) Exclusion List (<http://www.ifc.org/exclusionlist>), which excludes 8 types of businesses, such as production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans.

The exclusion list is reviewed at least annually.

3.2.2 Minimum ESG Scores

In addition to the exclusions list(s), we consider the ESG score or rank of the companies under analysis and assess the score/rank relative within the industry and sector. In addition, we consider the company’s efforts to improve. We limit the exposure to companies that are rated as laggards by MSCI ESG rating methodology. Typically, we exclude all companies which would qualify as laggard in the MSCI ESG Rating methodology or high or severe ESG risk in the Sustainalytics risk rating methodology. In case the two ESG rating methodologies diverge, the lower rating will prevail. For example, if MSCI ESG Rating is at BB but Sustainalytics shows a high ESG risk rating, the company will be excluded.



The exclusion lists and ESG scoring lists are updated on an annual basis and are defined on every product individually (see Appendix).

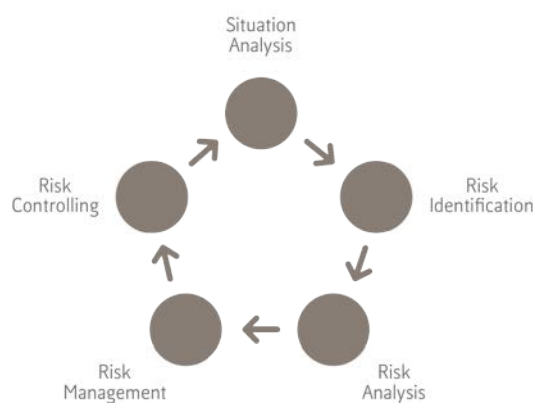
3.3 Product Disclosures

Each investment product will have its own set of ESG parameters and level of limits which will be communicated in the relevant fund documentation or on request. The limits and the ESG parameters are reviewed on an annual basis.

4 Sustainability Risk Management

4.1 Sustainability Risk Management Process

Risk management is a dynamic process constantly reflecting the changing market conditions. The risk management process covers all activities for a systematic management of risks. The risk management process at Limmat Capital enables efficient identification of risks and provides a framework for risk mitigation. It consists of the following five steps:



1. **Situation Analysis:** The first step considers the company goals and strategy, risk tolerance, and evaluation of internal and external factors that may pose risks to the company.
2. **Risk Identification:** The purpose is to identify significant ESG risks that may adversely affect the achievements of investment objectives. For this we review the ESG ratings and exclusion lists of reputable third parties as mentioned in 2.2.
3. **Risk Analysis / Measurement:** The purpose is to provide for each and every product which is managed by Limmat an exclusion list of securities based on the quantitative and/or qualitative measurement of identified risks provided in step 1. Each product might have different levels of risk acceptance levels and the lists are compiled for each and every product individually.
4. **Risk Management / Mitigation:** The purpose is to implement portfolios for each and every product which takes only long exposure in companies or securities which are not defined on its corresponding exclusion list.
5. **Risk Controlling:** The purpose is to monitor the development of the sustainability key risks and monitor portfolio adherence to the exclusion criteria. In addition, it shall periodically report non-compliance with limits and measures to remedy the reported issues. In addition, if there are material changes in the identified sustainability risk items the management can adjust the exclusion lists also within the year. Generally, the risk identification process is reviewed on an annual basis.

4.2 Risk Management Framework

The Executive Management will review and amend (if necessary) on an annual basis the following:

- > Exclusion lists and ESG ratings

As part of the overarching risk management framework the Board of Directors reviews on an annual basis the following:

- > The risk inventory (all identified risks)
- > The ICS framework
- > The risk scores (severity, frequency and hence total expected impact)
- > Measures and mitigations
- > Key controls (if applicable) – for a subset of the identified risks
- > Responsibilities
- > Frequency of measures taken

4.3 Responsibilities

Body	Risk Identification	Risk Measuring	Risk Management	Risk Control
BoD	Approves Corporate Risk Policy; Approves Annual Corporate Risk Assessment and action plan; Delegates implementation duty to Executive Management.	As part of annual review, the BoD determines whether Executive Management achieved the objectives with regard to the scope of sustainability policy, among the other objectives.		Approves annually an action plan in the annual process of defining company goals.
Executive Management	Responsible for risk identification;	Responsible for risk measurement and implementation of control system.	Defines limits on product level; Ensures compliance with the limits.	Responsible for effective risk monitoring systems and relevant reporting.
Risk Management	Overseeing implementation and management of the Policy;			
Compliance	Reviews processes with a view to regulatory requirements and legal restrictions; Collaborates with Risk Management to direct compliance issues as appropriate.			

5 Alignment with Compensation

5.1 Compensation Process

The remuneration of all staff at Limmat Capital is made up of fixed salary and variable bonus. The fixed salary component is paid out monthly and the variable bonus, if any, is paid out annually. The independent Board of Directors reviews and approves salaries and any bonus payment or dividend payment annually. Variable bonus is determined by the performance of the company, the relevant unit, and the personal contribution of each team member. The variable bonus is not guaranteed and is paid out only if the company has achieved or exceeded its goals or if the individual contribution of an employee during a particular year was significant. This ensures that the company has always a sustainable level of cash in order to ensure going concern. Bonus payment and base salary are dependent on seniority, function, the achievement of personal goals and the adherence to the Compliance Manual and other company policies.

5.2 Sanctions

Violation of this Policy or any other Limmat Policy may result in sanctions, including disciplinary sanctions and/or adjustment of compensations schemes, against such employee, and other sanctions under the law as well as claims for damages. The Board of Directors shall be responsible for issuing sanctions.

6 Appendix A: Product Overview and corresponding exclusion lists

6.1 *Limmat Capital SICAV - LC Equity Fund (UCITS)*

6.2.1 *Classification*

The fund has been classified as an Article 6 fund pursuant to regulation (EU) 2019/2088 on sustainability-related disclosures in the financial sector ("SFDR"). The fund does not promote sustainable features or does not have the objective of sustainable investment within the meaning of Article 8 or Article 9 of the SFDR.

In accordance with the provisions of Article 7 of Regulation (EU) 2020/852 (EU Taxonomy), the following is pointed out in this context:

The investments in this fund do not take into account the EU criteria for environmentally sustainable economic activities and does not consider Principal Adverse Impacts in the decision-making process.

6.2.2 *Exclusion Criteria*

Recommendations for exclusion are maintained by the Swiss Association for Responsible Investments.

No more than 10% of revenues may be attributed to the relevant conduct- or product-based criteria.

6.2.3 *Minimum ESG Scores*

No more than 10% of the fund's long exposure can be to companies with an MSCI ESG Rating of 'laggard' or Sustainalytics ESG Risk Rating of High Risk.

6.2.4 *Additional Exclusion Lists*

Limmat ESG Exclusion list

Limmat's primary goal and responsibility as an investment manager of the investment funds we manage are to achieve the best possible returns in the fund and thus grow the shareholder's investment in the fund. There will be no decision made on ESG grounds that is inconsistent with any fiduciary, legal, and contractual duties owed by Limmat to the shareholders of the funds.