

2023

ESG Policy

Aquila Asset Management

Signatory of:



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Introduction

1. Aquila Asset Management

Aquila Asset Management AG is a prominent active asset manager specialising in fixed-income investments. The company has a proven track record of success in this area. Our primary focus is providing customised services and solutions to institutional clients, including asset managers and family offices.

At Aquila Asset Management, we believe in fostering a collaborative working environment based on a flat hierarchy and continuous exchange of ideas. Our investment policy reflects this approach and is designed to align our interests directly with our clients.

We recognise the significance of ESG (Environmental, Social, and Governance) factors in influencing the performance of investments, both directly and indirectly. Therefore, we integrate ESG factors into our investment process to generate the best long-term adjusted risk-return for our clients. We aim to ensure our investment strategies are sustainable, socially responsible, and transparent.

Objective

2. ESG policy scope

Aquila Asset Management has expressed long-standing concern regarding the challenges associated with Environmental, Social, and Governance (ESG) issues, particularly those related to environmental matters. These issues have had adverse and unforeseen impacts on countries and companies, resulting in reduced investment performance in such firms. In 2022, the company decided to introduce ESG factors into its investment process to mitigate the likelihood of underperformance due to ESG exposure. The company took this issue seriously, becoming a signatory of the Principle for Responsible Investment (PRI) in March 2022. Since July 2023, the company's fixed-income funds have become Article 8.

Our Environmental, Social, and Governance (ESG) policy has been developed and adhered to for several reasons:

- Risk perspective. Environmental risks are considered one of the most significant global risks in both probability and damage impact.
- Return's perspective. Investing in companies that operate in sustainable megatrends and improve their exposure to ESG factors can lead to higher returns than competitors who do not manage these risks.
- Fiduciary duty perspective. It is our responsibility to act in the best interests of our clients by incorporating ESG factors into our investment process to achieve financial returns while simultaneously having a positive impact on the environment.
- Ethical perspective. Aquila Asset Management is committed to avoiding exceeding 'planetary boundaries,' investing in companies that reduce negative externalities or increase their positive impact on the environment is one way to achieve this mission.

3. Signatory of UN PRI

In March 2022, we became a signatory of United Nations Principles for Responsible Investment (UN PRI), where their principles guide us into the integration of ESG factors:

1. We will include ESG topics in investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practice.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the principles.
6. We will report on our activities and progress towards implementing the principles.

ESG integration at Aquila Asset Management

4. ESG approach

Our Environmental, Social and Governance (ESG) framework is predicated on three core pillars:

- Screening. Excluding entire sectors that may have a negative impact compared to other industries could undermine our diversification power and our goal to encourage companies to be more responsible in conducting their business. Rather than excluding a polluting company, we strive to leverage the situation and turn it into a positive outcome for our fund's profitability and the environment. However, we still abstain from investing in companies that operate in controversial sectors such as "Tobacco", "Defence", "Alcoholic Beverage", and "Casinos and gaming" based on the Bloomberg Industry Classification System Level 4 (BICS).
- Thematic/Impact. We actively seek and invest in attractive Green and Impact bonds of both corporates and sovereigns. Additionally, we identify opportunities in companies that focus on sustainability-aligned themes such as clean energy, water, and Sustainable Development Goals (SDGs).
 
- ESG integration. We conduct ESG integration by identifying ESG risks and opportunities and evaluating their impacts on companies' value drivers, enabling us to decide whether to include or hold the issuer in the fund based on their potential return and sustainable performance.

5. ESG integration

Our approach to incorporating environmental, social, and governance (ESG) factors into our investment process involves a multi-stage methodology. Initially, we perform a thorough research analysis to leverage external ESG scoring to identify potential ESG risks linked to the company. Furthermore, we ensure that the company is not involved in controversial industries.

Subsequently, during the valuation phase, we adjust various financial metrics such as forecasted financials, valuation models, multiples, financial ratios, and credit ratings based on the potential impact of ESG factors on the issuer. Finally, we integrate the bond into our portfolio based on its contribution to our performance, risk, and sustainability objectives.

6. Our ESG restrictions

Our investment approach adheres to a rigorous internal ESG methodology, which governs that we allocate at most 15% of our funds to issuers with an ESG rating equivalent to or below B (according to our internal ESG methodology). Furthermore, we refrain from investing in firms that operate in contentious sectors, such as "Tobacco", "Defense", "Alcoholic Beverages", and "Casinos and Gaming", in line with the Bloomberg Industry Classification System Level 4 (BICS).

Monitoring and communication

7. Monitoring

Our organization implements an ESG control system subjected to internal and external assessments every week. Internally, we ensure that we comply with our ESG limitations and constraints. Externally, our fund administrator operates on our principles, yet with greater autonomy.

8. Communication

Transparency stands at the core of our operations, and we prioritize being forthright with our clients regarding our modus operandi and market achievements. Furthermore, we are committed to maintaining transparency in our environmental, social, and governance (ESG) practices. Our ESG report is available to clients upon request.