ESG Integration Policy

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Version: 1.4
As of26/09/2026

Introduction

Stilgar Asset Management is firmly convinced of its responsibility to contribute to the One Health objective. We also believe that companies improving their ESG (Environmental, Social, and Governance) impacts demonstrate better risk management and greater resilience to market volatility. The value creation driven by strong ESG practices is a performance enhancer that Stilgar AM seeks to capture as an active investor.

We integrate ESG criteria into our investment decisions to:

- Identify material extra-financial risks (climate, biodiversity, human rights, governance) that may impact financial performance and reputation.
- Identify opportunities linked to the sustainable transition (growth, cost reduction, access to financing, innovation).
- Fulfill our fiduciary duty by incorporating ESG into fundamental analysis and portfolio construction.
- Promote best ESG practices among issuers through engagement and voting, and encourage a positive contribution to the Sustainable Development Goals (SDGs) (see Voting and Engagement Policy).

Scope of Application

Stilgar AM's ESG policy applies to:

1. All managed funds classified as Article 8 and Article 9 under the SFDR regulation.
2. All managed mandates replicating the Management Company's ESG strategy or investment process.
3. Collective Investment Schemes (OPCVM/ CIS) that have obtained a sustainability/ESG label (e.g., ISR Label, Greenfin, etc.), incorporating all specific constraints set out in the specifications of these labels.
4. Dedicated strategies, funds, or mandates subject to specific non-financial constraints.

ESG Process

Our approach is based on five pillars: Filter – Analysis & Evaluation – Selection – Engagement – Voting.

1. Filter

Stilgar AM applies a structured screening framework structured around several types of exclusions and a controversy monitoring mechanism.

Exclusions

Full details of exclusions are set out in policy *III.8_Exclusion Policy*. They cover:

- Norm-based exclusions
- Jurisdictional / Territorial exclusions

- Sectoral exclusions
- Label-related exclusions

Identification and Handling of Controversies

Stilgar AM identifies issuers subject to severe ESG controversies based on its internal methodology—specifically where issuers are exposed to severe controversies regarding environmental, social, and governance issues, or face a critical risk of serious violation of the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. This step forms part of the identification of principal adverse impacts (PAIs).

Controversies are assessed on the basis of:

- Public sources (NGO reports, press, judicial decisions), and
- Internal research and analysis.

Controversies are handled in two ways:

- Controversies identified during scoring have a negative impact on the rating of the relevant pillar within the scoring methodology (see 2.1 Scoring).
- Daily alerts received by portfolio managers are assessed by them. In the event of a major controversy or a critical risk of violation of international standards (UN/OECD), the Management Company immediately re-examines the investment case to verify the accuracy of the facts and assess risk materiality. A formal escalation process applies depending on the severity of the situation:
    - Critical controversy (maximum level / proven breach of norm-based filters): This triggers a mandatory divestment process documented during the Investment Committee. The exit from the position is initiated immediately and completed within a timeframe designed to ensure best execution, in the exclusive interest of unitholders and subject to market liquidity conditions.
    - Sectoral or operational controversy (lower levels): The issuer is placed under watch at the next ESG Committee and constructive engagement is initiated. In the absence of concrete improvements in the company's practices or a lack of transparency within 6 months, the Management Company proceeds to divest the holding under prevailing market conditions.

2. ESG Analysis & Evaluation

The extra-financial management objective is an improvement-based approach: the weighted average ESG score of the portfolio must at all times be higher than the average ESG score of the initial investment universe.

Stilgar has developed a proprietary ESG analysis and evaluation methodology, inspired by sectoral materiality matrices and structured around five stakeholders: Governance, Planet, Employees, Suppliers, and Civil Society. Each issuer receives an aggregated ESG score (0–100), with sector-specific weightings that account for the materiality of issues.

For each portfolio, the minimum evaluation rate is:

- 90% for:
    - Equities issued by large-cap companies headquartered in "developed" countries.
    - Investment-grade debt securities and money market instruments.
    - Sovereign debt issued by developed countries.
- 75% for:
    - Equities issued by large-cap companies headquartered in "emerging" countries.
    - Equities issued by small and mid-cap companies.
    - High-yield debt securities and money market instruments.
    - Sovereign debt issued by developed countries.

Our evaluation is based on an in-house methodology using proprietary analysis tools, applied consistently and reproducibly to all issuers in our universe (see III.9: ESG Scoring Methodology).

Evaluation Principles

- The analysis is based on 42 qualitative and quantitative criteria.
- Each criterion is evaluated and converted into a sub-score (0–100), using:
- Interpolation for quantitative data.
- A five-level grid (leading / strong / adequate / limited / weak) for qualitative criteria.
- Each criterion is assigned a materiality coefficient (1–5) within its pillar, reflecting its relative importance.
- Sub-scores are aggregated by weighted average at the pillar level (E, S, G), then into a global ESG score using pillar-specific weightings.
- A penalty mechanism is applied at the pillar level in cases of proven controversies, negative impacts, or red flags (e.g., audit anomalies, environmental disputes, exposure to sensitive sectors).

The analysis relies on publicly available information from issuers (annual and sustainability reports, regulatory and governance documents), recognized specialized sources, and market data. No estimated data is used: missing data is not extrapolated.

3. Selection

Portfolio construction follows an improvement-based logic. The weighted average ESG score of the portfolio must always be higher than the average ESG score of the initial investment universe, after excluding issuers subject to our Exclusion Policy.

The investment universe consists of all issuers tracked and scored by our proprietary methodology, serving as the extra-financial benchmark for the fund.

As ESG analysis is an integral part of our investment process, all decisions to increase, reduce, or divest positions take into account the evolution of the internal ESG score.

If a situation requires a rapid response from the company—such as after the detection of a major controversy—we immediately re-examine the investment case to verify whether appropriate measures have been taken. If not, escalation measures may lead to enhanced engagement or divestment.

Extra-Financial Monitoring and Control System

The control system ensures ongoing compliance with regulatory requirements and ESG commitments outlined in the fund's legal documentation.

Ex-ante control (prevention of active breaches): before any security is added to the portfolio, a systematic verification of extra-financial ratios is conducted to prevent any active breach.

Ex-post control (detection of passive breaches): a recurring post-trade monitoring process is implemented to detect any passive breaches resulting from market fluctuations, subscription/redemption flows, or the deterioration of an issuer's ESG score.

Breach handling: the alert is immediately notified to the portfolio manager and the Chief Compliance Officer (CCO). The liquidation of the position is initiated immediately and completed within a timeframe aimed at ensuring best execution, in the sole interest of unitholders and subject to market liquidity conditions.

Engagement

Engagement covers:

- All companies held directly in portfolios managed by Stilgar AM.
- Issuers subject to internal ESG analysis.
- Companies with significant ESG risks.

For details on our engagement principles, see the Engagement and Voting Policy.

Voting

Stilgar AM systematically exercises its voting rights for equities held directly in portfolios under its management, in accordance with the principles defined below. Exceptions include:

- Units of UCITS or AIFs.
- Derivative instruments.
- Specific mandates where the client retains voting responsibility.

For details on our voting principles, see the Engagement and Voting Policy.

Governance

As ESG criteria are integral to investment decisions, portfolio managers are responsible for both financial and extra-financial analysis.

Extra-financial objectives are included in the annual individual objectives of each employee.

Stilgar AM implements ESG governance through:

- A quarterly ESG Committee.
- A monthly Risk Committee.

Policy Review

This policy is reviewed annually.

Note

This summary aims to clarify the key principles and mechanisms of Stilgar AM's ESG integration process. The full internal document (non-public) provides detailed provisions.