

DEEP RESEARCH FUND

INSIGHT

How do we work
in Sustainability?



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How do we work in Sustainability?

What does Sustainability mean to us?

Sustainability has been part of our investment process since the early days of the company's founding. At that time, we simply believed that it was the right thing to do; just like every team-member tried to lead their lives in a socially-conscious and environmentally-friendly way, we believed we should invest in companies that lead their corporate existence with a similar philosophy.

Over the years, our thinking has taken a more concrete shape. Today, our approach to sustainability is implemented systematically throughout our investment process and is governed by a Responsible Investment Policy and overseen by our management as well as the Board of Directors. As a sign of our commitment, Anrepa signed the UN Principles for Responsible Investments (UNPRI) and is therefore fully committed to following these principles:

Figure 1: The six ESG commitments of Anrepa

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

We create our portfolio from the bottom up with a focus on each individual company and its contribution to the overall fund. In this strategy ESG integration is not just an "add-on" element: we use it to help create long-term value for clients. At the same time, our detail-oriented approach helps us ensure that the assets we manage are not used for the destruction of either the natural or the social environment. How do we achieve all this?

In this short publication we will show you how we use quantitative and qualitative tools to implement ESG in our investment process.

Translating intuition into process

We started with a hunch. We knew instinctively that in the long run it is better if our investments are behaving in a sustainable way - better for society, nature and the financial returns. But we needed to translate our thinking about sustainability from intuition to an investment method.

It was important for us that a formalized approach reflects our beliefs. We did not want to copy anyone's approach, rely on third party sustainability research, or outsource this work in any way.

We wanted to put Anrepa into our approach to sustainability - just like we do with financial considerations. At the beginning of our sustainability journey, we ran three workshops to identify the sustainability topics that were closest to our hearts. This helped us pinpoint not only the topics themselves but also better under-

stand the logic and emotions that lead us to care for each of the topics. This in turn informed our implementation.

You can see the outcomes of one of our workshops below. The most discussed topics were human rights, addiction issues, weapons, climate change, biodiversity, water, corruption, responsible board governance, and diversity. We also talked about privacy, data responsibility, circular economy and social license to operate. However, one thing that stood out in our discussion is that a company we invest in should create products that experience a natural demand, rather than unnecessary luxury.

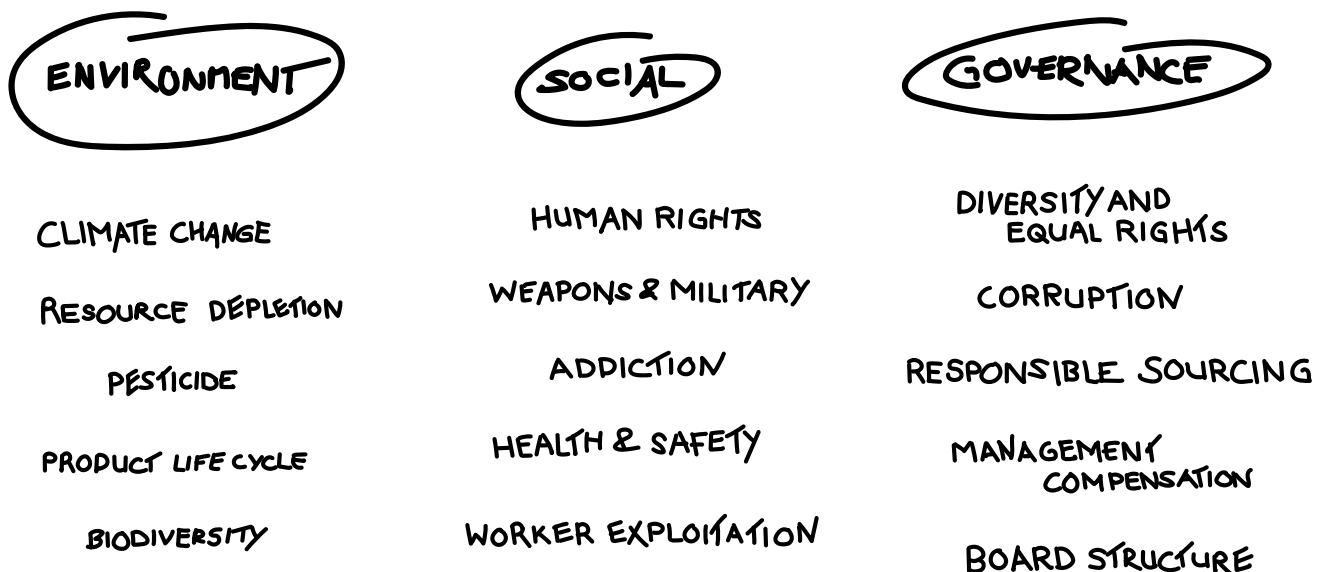


Figure 2: Above are some of the key topics we wrote down on post-it notes during the workshop. Outcomes of these workshops helped us identify sustainability themes that the team considered important and that should inform our research in the next steps.

This was one of the many synergies between sustainability and financial considerations: from a financial perspective, you can be certain of a demand for a product that is a necessity, and from a sustainability perspective, you don't contribute to unnecessary waste.

Once we understood the themes that most concerned the team came the hard conceptual work of systematically implementing our sustainability ideas into our investment process. Here we decided to align quantitative and qualitative aspects of sustainability with those of investment research as shown in Figure 3.

“... in the long run it is better if our investments are behaving in a sustainable way – better for society, nature and the financial returns...”

Figure 3: Summary of sustainability approach in Anrepa's Deep Research Fund

	Investment Process	Sustainability Action
1. Screening & Short list	Narrow down the investment universe to companies fulfilling minimum acceptable financial criteria Rank companies on short list based on financial criteria	Remove companies from the universe that may be in/directly benefiting from corruption, systemic human rights violations and environmental degradation Add environmental, social, governance criteria to the financial criteria to produce the resulting company ranking
3. Pre-Check	Eliminate companies with unsuitable business models or financials	Eliminate companies from research if they fail ESG criteria or those that don't provide benefit to society
4. In-depth	Quantitative and qualitative deep-dive into the selected company	Holistic assessment of material sustainability topics based on SASB
5. Stock Selection	Select stocks for the portfolio based on competitiveness, financials and sustainability	Sustainability considered together with financial and portfolio aspects
6. Monitoring	Once invested, regularly engage with company and monitor financial performance	Raise relevant sustainability topics with portfolio companies and monitor progress

Our sustainability process mirrors our financial research - this helps us make informed decisions at every step of our research process.

**So what happens at each step?
Let's have a look in detail**

1. Screening & Short List

The goal of the screening step is to narrow down our investment universe. For expediency, both investment and sustainability criteria are applied in a quantitative fashion. There are more than 40'000 stock-listed companies active in almost all of the 195 countries in the world. We simply cannot look at all of them. So in this step we use what is called "negative screening": we eliminate companies and industries that we believe could contribute to principal adverse impacts on society or environment.

Sidenote: When other investment companies describe their approach to sustainability, they often focus on the negative impact that poor sustainability performance can have on the value of the investment. This makes sense for their clients as well as the broader economy: the more investment managers view sustainability as part of their fiduciary duty, the more will stock-listed companies be incentivized to improve their sustainability performance. In this step, however, our aim is different: we want to limit the negative impact our investment would have on sustainability.

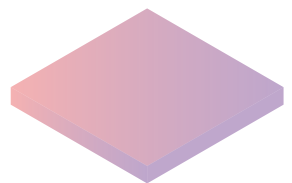
Principal adverse effects indicates the significant negative impacts that a company can have on society or the environment with their operations or their product.

In this step, we try to exclude companies that systematically have negative effects on their surroundings - whether it means that their revenue comes from countries with low human rights performance and high

corruption levels or from sourcing revenue in industries that are unavoidably terrible for the environment. Even if we don't think the investment in these companies would necessarily have negative impact on our financial performance, we simply do not want to benefit from adverse effects to society and environment.

Our approach to the gambling industry illustrates this thinking well. We exclude gambling from our investment universe not because we would think that this industry does not present an interesting opportunity for investment but because we think that this industry inflicts financial and emotional harm on its customers, their families and broader surroundings.

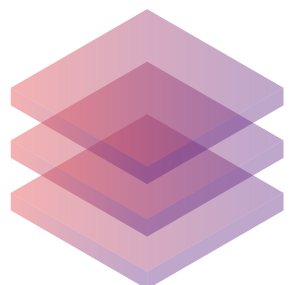
1. Screening & Short List



2. Pre-check

3. In-depth & Stock selection

4. Monitoring



Companies that pass our minimum criteria are subsequently sorted and ranked. On the financial side, we look at EBIT margins, ROE, and other relevant metrics. In sustainability we use quantitative criteria to measure companies on the topics we have identified as important in our workshop: does our company have a water policy? What emissions does the company release? Some sustainability questions we ask may be less obvious. For example, we want to know if the CEO of our potential investment sits on many other boards. This tells us whether the CEO can focus all their intellectual energy on our investment or if she is likely to be

distracted by responsibilities to other companies. To us this again illustrates how sustainability and financial considerations are inextricably intertwined.

Answers to all of these questions – and many, many more – form a part of the scoring. Financial and sustainability scores are weighted together to develop ranking of the companies, and only the best performing companies are moved to the pre-check stage. Here you can see the results of our rankings from our most recent shortlist:

Figure 4: Anrepa's Deep Research Fund Development Process Of Our Shortlist

#	Industry	Company		Status			Metrics				
		Ticker	Country	Lead	Pre-Check	Decision	Date final decision	ESG	FFO%	EBIT%	ATO
1	Computer & Electronics Retail	RCII US Equity	US	JM	Yes	Eliminate	11.12.20	74.8	33.9%	7.9%	1.67x
2	Electronic Equipment & Instruments	NATI US Equity	US	JM	Yes	Postpone	11.12.20	78.1	14.0%	59.7%	0.75x
3	Semiconductors	INTC US Equity	US	ML	Yes	Postpone	21.01.21	73.8	51.2%	31.5%	0.55x
4	Human Resource & Employment Services	RHI US Equity	US	ML	No	Eliminate		83.1	8.5%	8.4%	2.19x
5	Communications Equipment	CIEN US Equity	US	ML	Yes	Eliminate	11.12.20	65.7	18.8%	37.1%	0.92x
6	Industrial Machinery	VALMT FH Equity	FH	ML	Yes	Postpone	11.12.20	80.9	8.5%	7.7%	1.10x
7	Construction & Engineering	028050 KS Equity	KS	JM	No	Eliminate	11.12.20	77.3	6.1%	6.1%	1.39x

This illustrates the development process of our shortlist. ESG is ranked from 0 to 100, higher numbers indicating better performance. Our shortlist also helps us track which analyst is responsible for which research and what the next steps are.

2. Pre-check

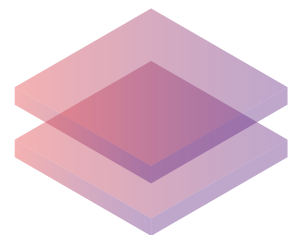
In this step we look at the company’s business model. We take an owners’ perspective: what does this company do, does it make sense to us, do we want to own this company, and would it overlap with our existing portfolio? In the sustainability section of the pre-check we take the sustainability rankings from the previous step and address the most obvious issues. To facilitate our research, we have developed a system of flags that immediately points our attention to the area that needs additional scrutiny as shown in Figure 5.

The themes in the flag system are primarily based on our workshops and are thus based on our values and preferences. We download the information from the same sources as financial data: Bloomberg databases. For both financial and sustainability elements of research, we use only factual information rather than opinions of other analysts. When Bloomberg lacks the information we need, we look for the information ourselves and fill it in manually (blue fields in Figure 5). If we don’t find the missing information, we leave the field as #NA.

This helps us highlight the topics we needs to raise with the company in case it proceeds to the next stage of research. The maximum sustainability points a company can get is 100. If a company has fewer than 70 points, it is excluded from further research at this time.

1. Screening & Short List

2. Pre-check



3. In-depth & Stock selection

4. Monitoring

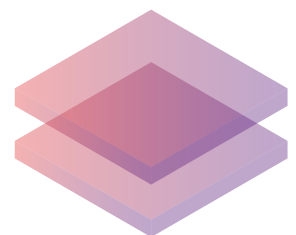


Figure 5: Anrepa's Deep Research Fund Flag System

#	Sustainability	Metric	Flag
1	% of Non-Exec Directors on 3+ Boards	9%	✓
2	% of Exec Directors on 2+ Boards	#N/A N/A	!
3	# of Boards the CEO Serves on Other Firms	1	✓
4	# of Executive Positions Chairman Holds in Other Firms	0	✓
5	% of Women on Executive Committee	22%	✗
6	% of Women on Board of Directors	27%	✗
7	Board of Director Age Range	13	✗
8	% of Non Executive Directors on Audit Committee	100%	✓
9	% of Audit Committee Members on 3+ Boards	0%	✓
10	Independent Audit Chairman	Y	✓
11	% Independent Directors on Audit Committee	100%	✓
12	CEO Duality	N	✓
13	% Non Executive Directors Compensation Committee	100%	✓
14	% of Board Compensation Paid in Stock Awards	0%	✓
15	Shares Held by CEO as % of Outstanding Shares	0.0%	✗
16	Total Options Award Given to Executives	0	✓
17	Carbon Intensity Reported	10.2	10.2
18	Carbon Intensity Filled In	16.7	CO ₂ / Revenue in USD
19	Policy on Anti-Bribery	Y	✓
20	Policy on Sustainable Supplier Guidance	Y	✓
21	Policy on Water	Y	✓
22	Policy on Human Rights	Y	✓
23	Policy on Anti Child Labour	Y	✓
24	Policy on Business Ethics	Y	✓
25	Policy on Health/Safety	Y	✓
26	Policy on Employee Training	Y	✓
# of flags:			4

This example of our flag system illustrates how we further improve data that is available to us. The majority of the information in the column called Metric is downloaded from the Bloomberg database. It is factual and helps us understand that company better. The fields that are highlighted in dark blue had to be manually filled by our analysts and the orange field is an element on which the company itself does not report. The flags indicate issue areas where our company does not reach our targets. Both flags and missing data will be raised during calls with investor relations of the company.

3. In-depth & Stock selection

Every year only about 10-15 companies make it to this stage (out of more than 40'000 that we started with). We spend several months researching these companies to minute details, trying out their products, calling various experts in the relevant domains. In terms of sustainability, we focus on the material sustainability topics identified as crucially important for that particular industry by the Sustainability Accounting Standards Board (SASB), an equivalent of the Financial Accounting Standards Board, together with experts in each industry. Different sustainability topics will have more relevance for manufacturing than for banking.

We use our own principles to shape our investment universe but once we find our research target we follow the advice of experts and focus the sustainability research on topics that are most relevant for the industry and the company. This helps us ensure that we stay true to our values but at the same time we don't neglect sustainability topics that may be specific to particular industries.

With the guidance of the SASB materiality map, we analyze the company's performance on these topics and raise any outstanding issues when we talk directly to the company. And it goes without saying that if we cannot find the relevant information and if the company is unwilling to share, the company is eliminated from further research.

However, if all our criteria are satisfied we present our research to the investment committee with a proposal to include the company into our portfolio. In these conversations, sustainability performance is evaluated along with financials, competitiveness, and many other measures. Each of these elements have to satisfy the

scrutiny of the investment committee. If we deem that the company's competitiveness is unconvincing, we don't invest in it. And it is the same with sustainability: if it does not meet our standards or if the company cannot provide satisfactory answers, we do not invest in it.

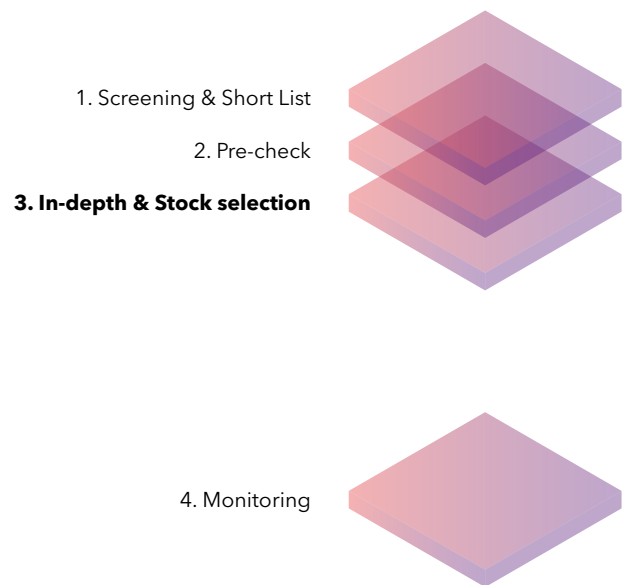


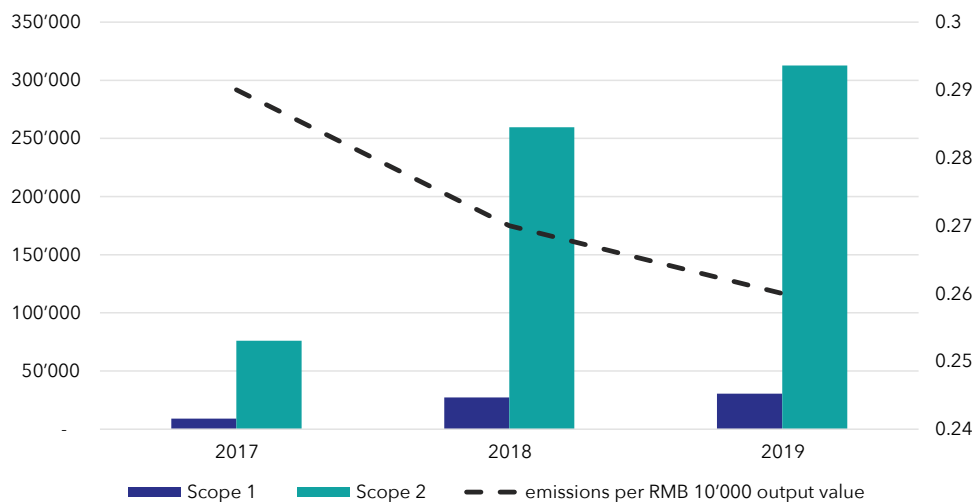
Figure 6: Environment, Social Impact & Sustainability

Environment		
Energy Management	Waste Management	Water Usage
Total energy consumed	Total waste from manufacturing	Presence water policy
Percentage grid electricity	Percentage hazardous	Water usage
Percentage renewable	Percentage recycled	
Social Capital		Leadership and Governance
Product Safety	Competitive Behavior	
Total units recalled	Monetary loss due to legal proceedings due to anticompetitive behavior	
Business Model and Innovation		
Design for fuel efficiency	Materials Efficiency	
Revenue from products designed to increase fuel efficiency or reduce emissions	Description of the management risks associated with use of critical materials	

Full CSR report available since 2017. Out of 10 SASB key risks 8 have complete data. The company lacks a clear recycling policy, and management does not provide a statement on the risks associated with use of critical materials. Additionally, the company provides satisfactory data for their water usage. Key environmental metrics are improving in relation to revenue growth, with the exception of solid waste which is increasing at a rate faster than revenue growth (see Appendix V for detailed analysis). SASB does not mention man-

ufacturing conditions as a risk, however this is a point that should be considered since low price is part of the company strategy. What provides us a certain degree of confidence is that company has to undergo on site visits from all OEMs to which they supply. Low cost production environments always provide for a degree of uncertainty, however I think the scrutiny by OEMs and their procurement teams provide us with some degree of confidence that company is conducting the manufacturing business correctly.

Greenhouse gas emissions



This is an excerpt from our in-depth research on a company in the automotive supply industry. It illustrates how we work with the material topics that the Sustainability Accounting Standards Board identified for this industry (on the right) and the commentary from our analyst highlighting additional topics that should be raised with the company through investor relations.

4. Monitoring

We hold our portfolio companies for several years. This allows us to develop a relationship with the company - it is not unusual that we personally visit their locations and meet the management. These relationships allow us to talk directly to the company representatives and raise sustainability concerns.

While we do not have concrete carbon targets yet, our process and preferences skew towards companies that emit significantly less emissions per dollar revenue than the constituents of the S&P500.

Figure 7: Anrepa's Deep Research Fund Carbon Footprint in Comparison

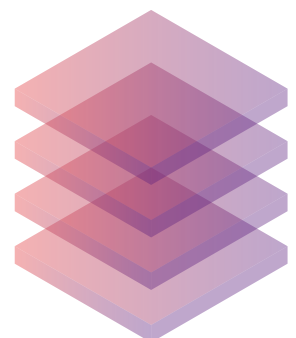
Metric	Definition	Units	Anrepa	S&P500
Carbon Emissions	What is our portfolio's normalized carbon footprint carbon footprint per million USD invested?	tons CO ₂ e/m USD invested	26.7	67.6
Carbon Intensity	How efficient is our portfolio in terms of emissions per unit of output?	tons CO ₂ e/m USD sales	48.3	213.3
Weighted Average Carbon Intensity	What is our portfolio's exposure to carbon-intensive companies?	tons CO ₂ e/m USD sales	47.9	207.3
Exposure to Carbon related assets	Percentage of carbon-related assets in the portfolio	%	0	0.04

Our carbon footprint compares favorably to the S&P500. While we do not have carbon targets, our overall research approach favors companies that low emitters.

While we engage with all our portfolio companies regularly and raise both financial and sustainability topics, we are currently working on our approach to voting.

Once it is ready, our voice will be heard at the annual general meetings as well. Additionally, monitoring includes other activities that are also more meaningful on a portfolio level, such as carbon footprinting. These are conducted regularly and we are always happy to report our numbers.

1. Screening & Short List
2. Pre-check
3. In-depth & Stock selection
- 4. Monitoring**





How we work to implement sustainability

We pride ourselves on our in-house research process. Whether it is the financial analysis or ESG-risk assessment, we analyze our investments ourselves. This requires strong quantitative and qualitative skills, and good teamwork. When making informed investment into industries ranging from semiconductor manufacturing technology to healthcare providers to dredging companies, we have to stay curious, we have to be willing and eager to learn and constantly test the boundaries of our knowledge. And the same applies to researching the vast range of ESG topics: whether it is water issues or the rights of native peoples – we approach it with the same level of diligence as the financial topics.

To stay intellectually honest and keep our analysis sharp, we have to be able to say “I don’t know this, I don’t understand, I need help”. For us, it is not a sign of weakness; it is a sign of confidence in our teammates that they will come to our aid and help us understand the issues we need to know. Our process is supported by our Responsible Investment policy - this policy clearly assigns roles within the team and the company and helps us navigate more complex decisions.

Remuneration

We think long-term - whether it is about our investments or about managing our own company, we focus on the long-term performance and are rather unconcerned with short term volatility or maximization of profit in the next quarter. We decided to have a fixed pay structure to further encourage this thinking. Of course, every teammate is paid based on their education and relevant past experience, but we do not receive bonus and we also do not have a performance-based fee models. We believe those would encourage short-term thinking and that has no place at Anrepa.

We find that the fixed form of remuneration also encourages team work. Having a fixed pay structure allows us to stay intellectually honest, open to criticism, ask for help and deliver the strongest possible result as a team, rather than maximize the return on individual performance. Both financial analysis and sustainability assessment are considered key parts of the job and are rewarded by the salary.

Conclusion

Shortcuts don't have a place in our process. We value sustainability and we want to profit from companies that value it as well. We pride ourselves on our in-house process that treats sustainability with an equal amount of diligence as financial considerations. And we believe this approach helps us create profit for our clients. Contact us to learn more.

DEEP RESEARCH FUND

Presented by Anrepa Asset Management

Fund Ratings

Morningstar Sustainability Rating



Morningstar Low Carbon Designation



MSCI ESG Rating



We are member of



Sustainability Accounting



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