

sectorgamma

Environmental, Social and Governance (ESG)

Policy

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## Introduction

This document is prepared to provide our clients and prospective clients with a general overview on how Sector Gamma AS considers and implements, environmental, social and governance (ESG) factors into our investment process.

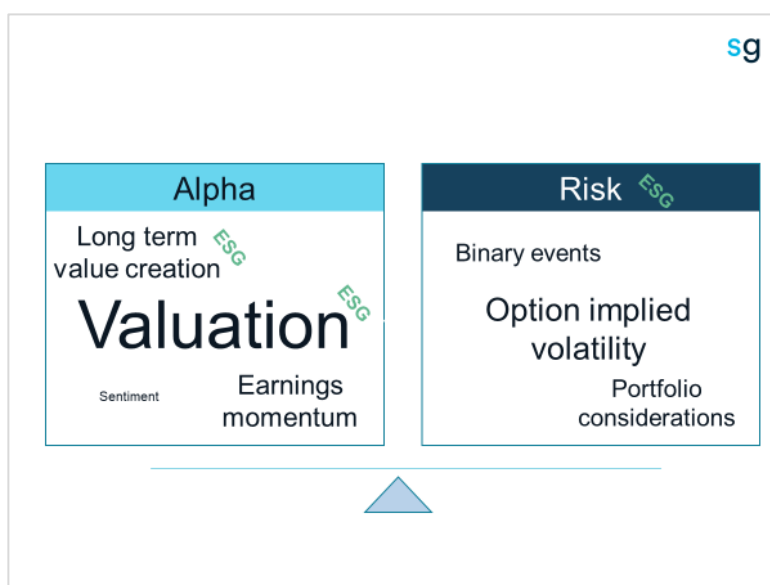
## Objective

We believe ESG factors have the potential to significantly impact the long-term financial health, and subsequent stock valuations, for companies in our investment universe. We seek to identify, analyze and properly account for all factors impacting the long-term financial health of a business. Our work is bottom up with a long-term fundamental value orientation. Contributing to a long-term sustainable allocation of capital should be of value to the broader societies as well as to the investors in our funds. We will primarily express our views through allocation of capital and through active AGM shareholder voting.

## Integration to investment process

The long-term sustainability of a business is of critical importance to our stock selection approach. We believe ESG factors are best integrated in a bottom up fashion where the analyst/investment manager have the final ownership to the ESG analysis and inputs. A dedicated ESG analyst will provide support and data analytics to the investment managers. Sector Gamma has an established framework for analysing stocks, as illustrated below, where ESG factors are integrated on multiple levels. All investment opportunities are evaluated based on a risk/reward framework and ESG factors have the potential to impact both the bottom up Alpha score as well as the bottom up Risk score.

Specifically, we consider ESG factors when assessing the long-term value creation score (20% of our alpha score) of a company. This score is a long-term assessment, independent of valuation, of the company's ability to sustainably reinvest capital above its cost of capital. A weak governance structure, unsustainable pricing policies and/or aggressive selling practices can be examples of ESG factors that would lead us to lower the value creation score of a company.



We also integrate legacy ESG factors in our valuation work (50% of our alpha score) on a company. Multiple companies in our investment universe have significant outstanding lawsuits or negative financial

exposures tied to historic misbehaviors such as selling practices, marketing, patenting, collusion, drug safety reporting issues, clinical trial manipulation, accounting and tax practices, billing, drug pricing and access issues etc. We are using our best judgement to estimate the future liability tied to these legacy litigation issues and are including this estimate in our valuation work. Additionally, we typically don't give full valuation credit to companies with unusually low tax rates and/or unusually low R&D spending and/or unusually high price inflation, compared to relevant peers.

Finally, we can subjectively increase the riskiness of the company based on uncertainty and materiality of ESG matters if we believe these are not properly accounted for in the options implied volatility for the security.

In addition to the continuous analytical work described above, we hold quarterly ESG meetings where the dedicated ESG data analyst presents recent trends, portfolio exposures, ESG index flows, third party rating activity etc. to the investment team for discussion.

## Sustainability commitment

### Voting

Sector Gamma subscribes to ISS Voting Services to vote on behalf of our holdings. In most cases we vote according to their recommendations, which are based on the ISS' Global Voting Principles. These principles provide four key tenants, accountability, stewardship, independence, and transparency, which underlie their approach to developing recommendations on management and shareholder proposals at publicly traded companies. These principles support Sector Gamma in meeting our fiduciary responsibilities and global corporate governance adherence through voting and by promoting long-term shareholder value creation and risk mitigation.

The ISS' Global Voting Principles encompass to respect shareholder rights and provide appropriate transparency, considering relevant laws, customs, and best practice codes of each market and region, as well as the right and responsibility of shareholders to make informed voting decisions. These tenants comprise the core principles that apply globally within the ISS voting framework.

As an advocate for investor transparency we will adhere to quarterly prepare and publish our voting activity to our investors.



## Adherence

Sector Gamma is a signatory to the United Nations-supported Principles for Responsible Investment (UNPRI). The UNPRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in enforcing and incorporating these factors into our investment and ownership decisions.

## Exclusions

Sector Gamma applies specific investment exclusions when determining what investments to make for the funds. We adhere to Norges Bank Investment Management's observation and exclusion of companies list. The Norwegian Ministry of Finance has established ethically motivated guidelines regarding the observation and exclusion of companies. The guidelines contain criteria for exclusion based either on the companies' products or on their conduct.