



Sustainability | 2023

Sustainability Policy

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1. Commitment to Sustainability

Purpose

For 2Xideas, sustainability lies at the heart of finding businesses that grow and deliver superior value for many years.

Vision

2Xideas assembles and maintains a leading portfolio of mid cap quality growth companies that achieve competitive strength based on healthy business models, deliver superior long-term returns, and skillfully manage their environmental, social, and governance opportunities and risks.

Mission Statement

We aim to be the leading global mid cap equities research provider and investor. We do this by finding companies that deliver growth and value through innovative products, efficient business models, superb execution, and ethical relations with all stakeholders, resulting in exemplary equity performance. 2Xideas' proprietary 4M Analysis (Macro, Market, Moat, and Management) and research methodology integrate an environmental, social, and governance (ESG) assessment in evaluating candidate companies in our investment process.

2Xideas strives to build a long-lasting business for our partners, employees, investors, and other stakeholders. We anchor sustainability within 2Xideas operationally, as well as in our research, investment processes, and risk assessments.

Sustainability Stewardship

2Xideas fosters sustainability primarily by achieving our mission of finding companies that succeed durably better than competitors and therefore generate long-term above-market returns, including managing environmental, social, and governance opportunities and risks with acumen. We are signatory to the UN Principles for Responsible Investment (PRI), and have integrated ESG assessment into our research methodology and investment processes, as well as our internal practices.

We embrace our fiduciary duty as long-term investors in the capital markets and put a high emphasis on active ownership. We exercise our voting rights via proxy voting along a sustainability benchmark and communicate our voting activities to investors transparently upon request.

Risk Mitigation

At 2Xideas we operate a process-oriented risk assessment and management on both a corporate and investment level. We create awareness of potential internal and external risks and engage all employees in periodic educational activities on risk factors. On the corporate level we manage environmental, social, and governance risks and challenges in a responsible and ethical manner by providing proactive directives and guidance to employees and stakeholders. On the research and investment side, we analyze macro risks and opportunities including climate risks, controversies, and business risks as part of our fundamental research.

Corporate Culture

The success of our business activities depends on enabling our employees to pursue a common goal wholeheartedly in a fruitful and inspiring environment. 2Xideas offers a progressive, open-minded, respectful, and transparent work environment. Internal talent development is as important to us as being an equal opportunity employer. It is our joint and individual responsibility to act accountably, contribute to a sustainable environment, and create a positive social impact.

All operational aspects are aligned with our goal of contributing to broad social influence and a reduced environmental impact.

2. Sustainability Risks and transparency of principal adverse sustainability impacts

The evaluation of sustainability risks is integrated into the investment process wherever possible and data availability is sufficient.

Climate-related or other environmental-related Sustainability Risks are expected to have a limited negative impact on the returns of investments made by 2Xideas. This is due to exclusion filters applied to the investment universe, the overall investment philosophy of 2Xideas, and the fundamental analysis of each investment, which form the basis for taking investment decisions.

Sustainability risks associated with social or governance matters are also addressed by exclusion filters and by the fundamental analysis of each investment. However, Sustainability Risks associated with social or governance matters are more difficult to quantify and therefore assess. Such sustainability risks and their potential impact on the returns of investments made by 2Xideas might change due to new policies, laws, regulations, changing consumer preferences, or other future developments, which cannot be foreseen.

One measure taken by us to manage sustainability risks is to compare our own assessment of each investment to the assessment of one or several specialized service providers. Where third-party service providers assess the sustainability risks in a materially different way, special attention is paid to that circumstance when investment decisions are taken.

2Xideas considers principle adverse impacts of investment decisions on sustainability factors for direct investments. By integrating sustainability into its business strategy, 2Xideas has committed itself to the systematic and comprehensive consideration of climate and sustainability aspects in its business activities. Therefore, 2Xideas has incorporated the systematic consideration of Principal Adverse Impacts (PAIs), as defined in the Sustainable Financial Disclosure Regulation (SFDR), into its investment processes. The details about the SFDR Disclosures on entity and product level are available on our website.

3. Sustainability Committee

The sustainability committee provides the structure and guidance for the implementation of the corporate sustainability strategy, the integration of it into the research process and from a regulatory point of view on the product level. The sustainability committee is responsible for ensuring that all employees at 2Xideas are continuously informed and where applicable adequately trained to implement the sustainability strategy at all levels. Furthermore, the sustainability committee acts as knowledge hub within 2Xideas and as the decision making committee on active ownership decisions for the funds and mandates holdings.

The Sustainability Committee consist of 5 members of which one is a yearly rotating place reserved for research analysts. This ensures that awareness and engagement for all sustainability aspects of our business is created throughout the analyst' team.

If and when a decision for the active ownership strategy for companies in which we are invested is required, a minimum of 3 members must agree, otherwise the recommendation of the proxy service provider is implemented.

The sustainability committee meets on a quarterly basis for strategic developments and implementations and ad-hoc if need be for active ownership decisions.



**Dr. Roger
Meister, CFA**

CEO



**Michael
Stutz, CFA**

CIO



**Henrik Munk
Nielsen, CFA**

Deputy CIO



**Raffaella
Semedo, CESGA**

Head of Sustainability



**Grégoire
Serre, CFA**

Equity Analyst

4. 2Xideas Exclusion Policy

Our Investment Universe comprises mid and large global equities with a minimum daily average traded volume of USD 10m. 2Xideas applies various exclusion criteria to its investment universe. These are valid for all core positions for which the investment decisions are based on fundamental research. The underlying data points and research for decision-making is sourced from MSCI ESG Research LLC. Upon request, we provide a detailed list of companies excluded from the 2Xideas Investment Universe. The exclusion list represents around 8% of our investment universe. The exclusion list is revised and updated quarterly.

The exclusions are split into two categories, namely Norms-based Exclusions and Values-based Exclusions.

Compliance with **Norms-based Exclusions:**

2Xideas identifies companies that do not conform with United Nations (UN) & International Labor Organization (ILO) Global Norms and are therefore not eligible for investment. This refers to systematic violations of the guiding principles as defined in the following four Global Norms:

- UN Global Compact Compliance
- UN Human Rights Compliance
- ILO Labor Compliance Broad
- ILO Labor Compliance Core

In addition to the UN & ILO Global Norms, 2Xideas also excludes companies that have any ties with the following two industries as part of the 2Xideas Norms-based Exclusions:

- Any Ties with Nuclear Weapons
- Any Ties with Controversial Weapons

Compliance with **Values-based Exclusions:**

2Xideas also limits its inclusion of companies that are involved in specific business areas that have a high potential for negative social and/or environmental impact based on 2Xideas values with maximum revenue thresholds. (See appendix for more details). Those business involvements include:

- Civilian firearms
- Conventional weapons
- Tobacco
- Adult entertainment
- Gambling
- Nuclear power
- Thermal coal
- Unconventional oil & gas
- Oil sands
- Conventional oil & gas

5. 2Xideas Controversies Assessment

2Xideas carries out individual assessments of ESG Controversies involving companies in its investment universe, in particular companies flagged as research targets. ESG Controversies refers to cases of very severe or severe negative social, environmental, and governance impacts. This can include cases of bribery and corruption, workplace discrimination or environmental incidents. Controversies regarded as breaches against our values will lead to the exclusion of the involved company from the investment universe until the controversy is resolved to a satisfactory standard.

If a company flagged as a research target or an actual investee company is involved in any controversy, we seek dialogue with the management of the company to better understand the issue. Furthermore, we evaluate what measures the company is taking to address the current controversy and avoid future incidents. The assessments take place on a quarterly basis or ad-hoc and rely on a systematic 2Xideas framework for consistency and comparability and it is governed by the Sustainability Committee.

6. ESG Integration

Given our focus on quality and sustainability, we have implicitly considered many relevant ESG topics in our fundamental analysis from the very beginning. We have always invested in companies with a strong innovation culture, operating in markets with a long runway for growth, led by ethical management teams with a long-term mindset and strong capital allocation track record. In our view, it is critical to combine an ESG framework with the fundamentals of the business. A long-term investment can only be sustainable and attractive if factors such as carbon footprint, use of water, labor relations, etc. are seen in combination with a profitable and growing business, earning fairly for the benefit it brings to the market in which it operates.

The 4M analysis lies at the heart of our fundamental research process and allows us to verify business quality, growth prospects, and sustainability in a standardized way across sectors and countries. We act as long-term shareholders and build long-term relationships with our portfolio companies. Our 4M analysis framework enables us to understand how value will be created and risks mitigated using Environmental, Social and Governance (ESG) considerations among other financial and non-financial factors.

Macro – Resilience to external forces

- Potential to outgrow GDP
- Dependence on economic cycle
- Exposure to external factors
- Environmental



Market – Attractive market and positioning

- Runway for growth
- Visibility of demand
- Market share
- Competitive dynamics
- Switching costs



Moat – Defending the market position

- Economies of scale or scope
- Sustainable lead in asset, process or technology
- Patents, licenses, certifications & approvals
- Network effects
- Culture
- Brand



Management – Competence & Integrity

- Leadership
- Execution
- Resource allocation
- Social
- Governance



7. Engagement & Dialogue

As fundamental analysts, we are in a continuous dialogue with the companies we research and in which we invest in. We frequently visit management teams at their headquarters (pre covid-19, approx. 200 on-site meetings per year), discuss an array of topics with C-level executives and engage with the companies on potential issues of concern, including arising ESG issues.

As part of our proprietary fundamental research process, we log and analyze each and every interaction with target investee companies and also monitor and review engagement outcomes. Where need be, we revisit and if necessary, we revise the objectives and approach the management of that company again. If our minimum objectives are not met or a given situation worsens, we divest from the company.

All investment decisions are documented and communicated in a transparent and comprehensive manner to investors through various publications throughout the year. Specific examples of engagement outcomes with investee companies are available upon request.

8. Proxy Voting Strategy

At 2Xideas, all analysts are required to analyze the upcoming items at AGM's and other company meetings and build a qualified opinion. The analysts participate, where feasible, at pre-AGM meetings or calls organized by the investee companies.

We implement our active ownership strategy by executing proxy votes via ISS – Institutional Shareholder Service. We rely on the ISS Sustainability Benchmark Voting Guidelines and Research among other resources to complement our fundamental research on the governance structures of investee companies. The ISS Sustainability Voting Guidelines align with our investment philosophy and provide the basis for our decision-making process. The voting guidelines are available on our website.

We have implemented a documented process for the research analysts' approach to proxy voting and the Sustainability Committee is involved in the decision making process, especially in the case where we as a group do not agree with the recommendation of the ISS Sustainability Benchmark recommendation.

A Stewardship Report is available on our website and upon request.

9. Appendix

Detailed exclusion criteria:

Norms-based exclusions:

- All companies that fail at least one of the Guiding Principles as defined in UN Global Compact Compliance, UN Human Rights Compliance, or ILO Labor Compliance (Core and Broad).
- All companies having any ties with nuclear weapons.
- All companies having any ties with controversial weapons.

Values-based exclusions:

- **Civilian firearms**
 - All civilian firearms producers.
 - Companies deriving 5% or more of revenues from the distribution of firearms and ammunition intended for civilian use.
- **Conventional weapons**
 - Companies deriving 5% or more of revenues from the production of conventional weapons.
 - Companies deriving 10% or more of revenues from weapons systems, components, and support systems and services.
- **Tobacco**
 - All tobacco producers.
 - Companies deriving 5% or more of revenues from the distribution, retail, and supply of tobacco-related products.
- **Adult entertainment**
 - Companies deriving 5% or more of revenues from the production of adult entertainment materials.
 - Companies deriving 15% or more of revenues from the production, distribution, retail, and supply of adult entertainment materials.
- **Gambling**
 - Companies deriving 5% or more of revenues from ownership or operation of gambling-related business activities.
 - Companies deriving 15% or more of revenues from gambling-related business activities.
- **Thermal coal**
 - Companies deriving 5% or more of revenues from the mining of thermal coal and its sale to external parties.
 - Companies deriving 5% or more of revenues from thermal coal-based power generation.
 - Companies generating more than 10% of total electricity from thermal coal.
- **Nuclear power**
 - Companies deriving 15% or more of revenues from nuclear power activities.
 - Companies that have 5% or more of installed capacity attributed to nuclear sources.
 - Companies generating 5% or more of total electricity from nuclear power.

- **Unconventional oil & gas**
 - Companies deriving 5% or more of revenues from unconventional oil & gas.
- **Oil sands**
 - Companies deriving 5% or more of revenues from oil sands extraction.
- **Conventional oil & gas**
 - Companies deriving any revenues from extraction & production of oil & gas, unless 40% of revenues are derived from alternative fuels.
- **Oil & gas-based power generation:**
 - Companies deriving 30% or more of revenues from liquid fuel and natural gas-based power generation.
- **Thermal coal reserves**
 - All companies owning reserves in thermal coal while deriving revenues from thermal coal mining.
- **Oil sands reserves**
 - All companies owning reserves in oil sands while deriving revenue from oil sand extraction.

Additional individual assessment:

The Sustainability Committee may come to the conclusion, that a certain company is excluded due to false or misleading data points by the external provider. In that case, we opt to add the company to our whitelist. The blacklist on the other hand is used to remove companies from the 2Xideas investment universe based on the findings of our fundamental analysis, the incoherence from the assessment of the external data provider or if the company has no reported business segments yet due to a recent listing on a stock exchange. Both the whitelist and blacklist are available to our investors at all times upon request.

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