

# Redhedge Environmental, Social and Governance (ESG) and Sustainable Investing Policy Statement 2023

## **Redhedge Synergy Total Return Fund**

*an open-ended sub-fund of Redhedge AIF ICAV*

### **Summary**

Redhedge Asset Management LLP (“Redhedge”) is committed to responsible, ethical investing. This Environmental, Social and Governance (ESG) and Sustainable Investing Policy Statement is intended to articulate how Redhedge incorporates material ESG factors, including sustainability risk assessment, into its investment decision making process, and asset monitoring and review.

This Fund seeks to achieve medium to long-term (five to seven years) capital growth and absolute returns by adopting a multi-strategy approach to investing. The Fund’s investment policy aims to maximise total return, comprised of income and capital appreciation, while limiting risk and volatility. The fund primarily invests in European Credit Relative Value strategies.

### **No Sustainable Investment Objective**

The Redhedge Synergy Total Return Fund promotes environmental, social and good governance characteristics and is classified as an Article 8 fund in accordance with the Sustainable Finance Disclosure Regulation (“SFDR”).

The Fund does not however have a specific sustainable goal as it’s objective, therefore it does not have Article 9 classification.

The fund is compliant with the United Nations’ Global Compact.

### **Environmental or Social (“E/S”) characteristics of the financial product**

In managing its investments, the Fund seeks to promote general environmental, social and governance characteristics. This is done by assessing, determining, and subsequently investing in, issuers with products and activities that are environmentally and socially positive and have good governance practices and by distinguishing, and avoiding, investing in issuers which, in the nature or operation of their business activities, cause social or environmental harm or have poor governance practice s.

The environmental and social characteristics taken into consideration when making investment decisions include the following:

- Environment – Promotion of renewable Energy, and reduction in Greenhouse gas emissions and environmental pollution
- Social – Protection of human rights and health and safety
- Governance – Promotion of ethical business practices, and reduction in bribery and corruption.

The fund also seeks to invest in investments that exhibit ESG characteristics including, for example, bonds those that are green, social, or sustainability linked or where the proceeds of the bonds are used for ESG-related activities. The fund also uses exclusionary screening in our avoidance and exclusion policy.

## Investment Strategy

What investment strategy does this financial product follow?

The investment objective of the Fund is to achieve medium to long-term (five to seven years) capital growth and absolute returns by adopting a multi-strategy approach to investing. The Fund's investment policy is to seek to maximise total return, comprised of income and capital appreciation, while limiting risk and volatility through diversification of investments and sub-strategies of the investment strategy, regardless of the directional movement in global markets.

The core of the Investment Manager's approach is to identify and exploit relative value credit opportunities. In practice, several investment strategies are employed on a continuous basis, specifically in relation to different instrument types. These have low correlation to each other so as to maximise the benefit of diversification. By utilising a range of investment strategies, and by being able to profit in both rising and falling market conditions, the aim is to generate returns that have little correlation to traditional investments. Selection criteria are based on the Investment Manager's short to mid-term views, credit fundamentals and ESG considerations.

The Investment Manager uses fundamental analysis to identify attractive investments due to low price, low valuation and/or low market expectations. Areas of opportunities tend to fall into one or more of the following categories: improving/deteriorating credit quality, bond supply and demand (including analysis of potential buyers and sellers), and dislocations between derivatives and underlying bond pricing. The Fund also has a value bias, looking at bonds that trade at a discount to their sectors and the market. The Fund's investment process emphasises bottom-up security selection based on both the Investment Manager's own and third party proprietary fundamental research at industry levels, with a short to mid-term horizon to provide the best opportunity to find and exploit inefficiencies.

## Sustainability Approach

The Investment Manager has determined that sustainability risk (which is defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the relevant investment (an "ESG Event")) is not likely to have a significant impact on the financial returns of the Fund. Specific and overarching sustainability risks, and their probability and impact, are considered as part of the Investment Manager's assessment and monitoring of both potential and actual investment and Fund performance.

The Fund is typically market neutral. The Fund does aim to prioritise investment in issuers with higher ESG ratings, potentially reducing exposure to sustainability risk. However, please refer to the section entitled 'Risk Factors' in the Prospectus for more information on the challenges of accurately assessing sustainability, or any other risk.

Sustainability risks are monitored qualitatively and quantitatively through a review of ESG data published by the issuer (where relevant) or selected data providers to determine whether the level of sustainability risk has changed since the initial assessment has been conducted.

This includes an ongoing review of indicators, which help guide the investment manager in the identification and prioritization of sustainability risks, both in absolute terms for a single issuer, as well as relative for the single issuer to the portfolio or a given watchlist, or the portfolio as a whole.

The review includes but is not limited to inherent risks arising from climate change, from transition of the economy, or from lack of water access.

By way of example only, the Investment Manager would routinely consider the risk of increased variability in climate, which may manifest itself regionally in the occurrence of severe flooding, which

may damage the business proposition of an industrial park estate, or a manufacturing site. Companies whose output is concentrated in one or only few sites in flood-prone terrain would be deemed a higher risk. A company benefitting from mitigating measures could be considered a lower risk. Finally, the Investment Manager's assessment would also depend on the likelihood that such risk would materially affect the price or net asset value, either through an impact on earnings or the market's valuation multiple.

The EU criteria for environmentally sustainable economic activities ("**EU Taxonomy**") sets out expectations for investments that are specified as aligned with the Taxonomy Regulation. The investments of the Fund, either in part or in whole, are specified as aligned with the EU Taxonomy requirements. The "do no significant harm" principle within the meaning of the Taxonomy Regulation only applies to those investments underlying the Fund that take into account the EU Taxonomy. The investments underlying the remaining portion of the Fund do not take into account the EU Taxonomy.

It is expected that the minimum proportion of investments of the Fund in environmentally sustainable economic activities aligned with the EU Taxonomy shall be 2.5% of the total assets of the Fund, which may include transitional activities and enabling activities. Such investments contribute to the environmental objective of climate change mitigation or climate change adaptation.

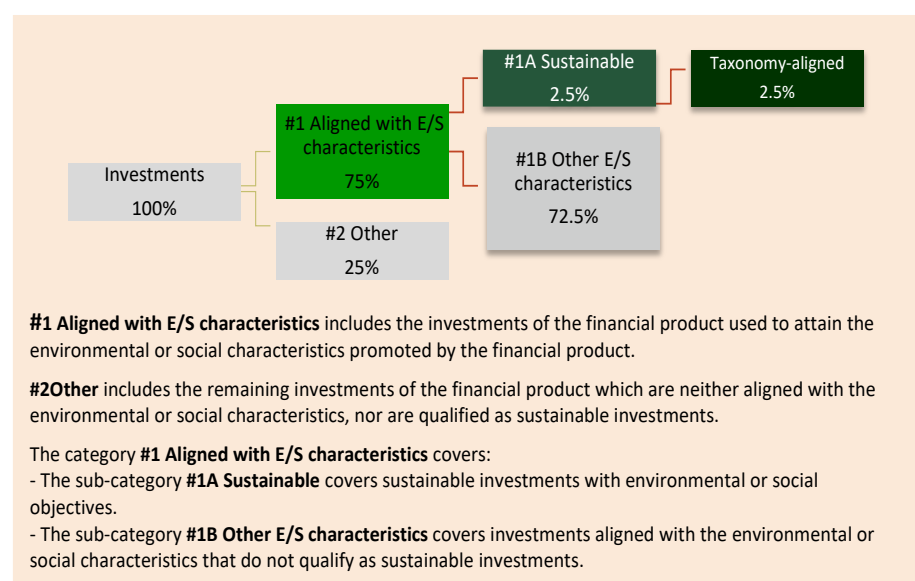
The Investment Manager has relied on data provided by a third party data provider, when calculating the proportions disclosed above.

#### Proportion of Investments used to meet E/S characteristics

The Fund will invest at least 75% of net assets in instruments which are aligned with the promotion of environmental and social characteristics and may include: fixed income securities, Government Bonds and ETF (#1 aligned with ES characteristics).

The Fund may invest up to 25% of its net assets in investments which do not align with these characteristics and may include (#2 Other): cash, collateral, margin and other fixed income securities, Government Bonds and ETF that are not aligned with E/S Characteristics.

The Fund will invest at least 2.5% of its total assets in sustainable investments with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy. The investments demarcated as sustainable in alignment with the EU Taxonomy are a small proportion of overall assets but this percentage is expected to significantly grow.



### Monitoring of E/S characteristics

The environmental and social characteristics of the fund are monitored using the following approaches. Sustainability indicators help guide the Fund's Investment Manager in the identification and prioritisation of sustainability risks, both in absolute terms for a single issuer, as well as in relation for the single issuer to the portfolio or a given watchlist, or the portfolio as a whole. They also facilitate, as part of our ESG scoring process, the prioritisation of investments with strong ESG characteristics, including green and sustainability bonds, and de-prioritisation of those with ESG characteristics assessed as weak.

Sustainability indicators utilised when evaluating "E", "S" and "G" investments are as follows:

In "E", for greenhouse gases, indicators used are carbon emissions, carbon intensity and GHG controversies. For waste and water management, indicators include water and waste controversies, water usage and hazardous waste management. For biodiversity and climate risk, indicators used include controversies and climate related risks

In "S", as well as the OECD guidelines, for human rights and labour management, indicators include human capital risk and human rights controversies. For health and safety as well as the OECD guidelines, indicators include chemical and product safety, health and safety risks and health and safety controversies.

In "G", for business ethics, indicators include business ethics policy and business ethics controversies. For money laundering, indicators used include AML and KYC policy, audit frequency and money laundering controversies. For board diversity and discrimination, indicators used include board composition, gender diversity, diversity controversies, discrimination policy and discrimination controversies

There are several binding elements of the Investment Manager's investment strategy in the selection of the Fund's sustainable investments. These include the restrictions imposed by relevant fund regulation and legislation, including the AIF eligible investment, risk and concentration restrictions that are binding upon the Fund. The Fund's investment strategy and objectives, as articulated in the Fund offering documentation, informs the investment identification, selection and monitoring process which create our investment universe. The Fund does not invest in any investment types, sectors, companies or issuers that are not permitted by, and aligned with, the Fund's investment strategy. It is expected that the minimum proportion of investments of the Fund in environmentally sustainable economic activities aligned with the EU Taxonomy shall be 2.5% of the total assets of the Fund, which may include transitional activities and enabling activities. Such investments contribute to the environmental objective of climate change mitigation or climate change adaptation.

In addition, the Investment Manager has a formal avoidance and exclusion policy which lists 10 main areas of preclusion whereby it will not have any exposure whatsoever to companies that derive a material proportion, namely 33%, of their revenue from one of a series of identified areas of significant concern. These areas include anti-personnel mines, cluster munitions, nuclear weapons, coal mining, depleted uranium ammunition, oil sand (unconventional petroleum deposit), violation in association with environmental pollution, violation of indigenous people's rights, violation of human rights and violation of established norms. These policies are binding. Screening is conducted to make sure that investment characteristics, including ESG, are reviewed both before investment and on an ongoing basis and to ensure that there is adherence to the requirements of our avoidance and exclusion policies.

In case a company is found to be in breach of one of the binding requirements, the fund will evaluate the feasibility of an engagement to solve the issue or divestment that will happen within 2 months of the discovery of the breach.

### **Methodologies**

With respect to the promotion of E&S characteristics, the Fund measures the attainment of such characteristics by measuring various indicators. The Fund utilises third-party data and scores to track indicators including but not limited to ESG ratings; emissions data; environmental, social and governance controversies; and others.

The Fund also use proprietary research as well as third party data and screeners to monitor for exclusion and avoidance criteria's as per the Fund's exclusion and avoidance policy. These screeners and data will typically contain the percentage revenue by activity or business lines which will be compared vs the criteria the Fund has set as per the exclusion and avoidance policy. An exclusion and avoidance list of issuers is also updated at least once annually.

The Fund also develops its own proprietary score using own fundamental ESG analysis as well as using the various indicators to generate our own proprietary ESG score. This score, as well as other indicators are incorporated into our investment and valuation process. The valuation process will typically assign a more favourable risk premium for higher ESG scores in our relative value models, all else equal.

These ESG related data are stored in our database and updated on a daily basis.

### **Data Sources and Processing**

Redhedge utilises a range of internal and external data sources to inform it's ESG analysis and decision-making. Specialist external sources include Bloomberg, MSCI and Sustainalytics.

### **Limitations to Methodologies and data**

Redhedge is limited to the timely availability of data from both internal and external data sources. The investment manager endeavours to keep data up to date and accurate at all times. The Investment Manager may also use active engagement to fill any data gaps or may use complimentary data from additional providers.

### **Due Diligence**

Redhedge is a specialist relative value credit investment manager. In managing its investments, Redhedge seeks to promote general environmental, social and good governance characteristics.

Redhedge applies this due diligence process by assessing, determining, and subsequently investing in, issuers with products and activities that are environmentally and socially positive and have good governance practices and by distinguishing, and avoiding, investing in issuers which, in the nature or operation of their business activities, cause social or environmental harm or have poor governance practices.

Redhedge utilises a range of external and internal information sources and tools including a comprehensive internal ESG framework that integrates ESG characteristics, and comparative assessment, into the investment and valuation process.

The Fund monitors third-party ESG ratings for each security on a daily basis using all available data. The fund also monitors other various ESG indicators that are used as part of the investment process.

The Investment Manager develops internal ESG ratings for each investment and records this in our ESG database. This is reviewed and updated by the ESG Investment Committee at least once annually.

The Investment Manager monitors controversies for all investee companies.

- The exclusions noted previously are updated in the Order Management System by XXX on an annual basis and the system prevents investment in such companies
- The Investment Manager considers existing and emerging ESG risks as part of its investment research process and determines the most significant risk

For example, the Investment Manager assesses the good governance practices of investee companies in accordance with its investment selection and evaluation policy. Good governance assessment includes the initial company screening, as part of which companies that are not in accordance with the OECD Guidelines and UN Global Compact are excluded. As part of investment and ESG assessment and review, proprietary Governance “G” scores are generated, utilising internal and external information sources, for investments within the investable universe. These scores reflect and incorporate consideration of business ethics, bribery and corruption, money-laundering and financial crime, corporate behaviour, tax transparency, executive pay, board diversity and discrimination.

### **Engagement policies**

Redhedge do not have an engagement policy, however, we do have an avoidance policy for sustainability related controversies in investee companies. Please see below for excerpts of our avoidance and exclusion policies;

Avoidance: Redhedge avoids, by seeking to minimise investment, in products, activities and sectors which are determined as significantly detrimental from an environmental, social or governance perspective, for example if the issuer has a very low ESG rating or very severe controversies or ESG contraventions. We also strive to minimise our investment in companies who focus on production/distribution of tobacco.

Such avoidance includes, inter alia, any net long position in bonds issued by issuers flagged as non-compliant with the UN Global Compact (“UNGC”). Screening is conducted to reduce exposure to issuers with poor ESG scores and thus to minimise investment in issuers assessed as detrimental to good environmental, social or governance standards. This includes screening for controversies, environmental data including emissions, non-compliance with UNGC guidelines or new or altered business involvement or information. As well as informing and facilitating avoidance where for example, a severe controversy is identified, it also informs exclusion determination.

Exclusion: Redhedge has binding exclusion criteria (encompassing all asset portfolios and geographical areas), in accordance with which, we will exclude investment in (so will not have exposure to) companies that derive a material proportion of their revenue from areas determined to be inimical to the promotion of environmental, social and good governance characteristics. We seek to exclude investment in issuers where their revenue is materially derived from one or more of the following fields:

Controversial Weapons  
 Thermal Coal  
 Gambling  
 Pornography / Adult Entertainment  
 Depleted Uranium Ammunition

We maintain an exclusion list (that is updated no less than annually) of prohibited counterparties and this is monitored in conjunction with our avoidance criteria.

Should an issuer on the excluded list be deemed to be transitioning to a more sustainable and responsible business model and issue a bond accredited as a green bond then investment in that green bond may be permitted with the explicit authorisation of the CIO.

**Designated reference benchmark**

No specific index is designated as a reference benchmark.

**Taxonomy Disclosures**

The EU criteria for environmentally sustainable economic activities ("EU Taxonomy") sets out expectations for investments that are specified as aligned with Taxonomy Regulation. The investments of our funds, are not specified as aligned with the EU Taxonomy requirements.

While there are investments in our funds that are considered to be sustainable investments, and, those that contribute to an environmental objective, it is not possible to confirm on a standardised basis:

- the extent to which the investments of the Fund are in economic activities that qualify as environmentally sustainable and are aligned with the Taxonomy Regulation;
- the proportion, as a percentage of the Fund's portfolios, of investments in environmentally sustainable economic activities that are aligned with the Taxonomy Regulation; or,
- the proportion, as a percentage of the Fund's portfolios, of enabling and transitional activities (as described in the Taxonomy Regulation).

**Enquiries**

If you have any questions with regard to the management of ESG and sustainability at Redhedge, please contact us at [info@redhedge.com](mailto:info@redhedge.com) or [esg@redhedge.com](mailto:esg@redhedge.com)