

## Principles for Responsible Investing and the Management of Sustainability Risks

As an independent and specialised asset manager, 7orca Asset Management AG (hereinafter referred to as 7orca AG) aims to deliver long-term added value for its clients. As an expert in quantitative management, 7orca AG always places the requirements of institutional investors at the centre of its activities and operates largely free of conflicts of interest.

The investment approaches pursued by 7orca AG are systematic and quantitative and are implemented in a disciplined manner using rule-based decision-making algorithms with a robust risk management process. Part of this decision-making and risk management process is the consideration of all relevant financial risks and their ongoing assessment. All relevant sustainability risks within the meaning of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector are also taken into account.

1. Transparency in strategies for dealing with sustainability risks and remuneration policy
  - 1.1. Definition: Sustainability risks are also often referred to as ESG risks. These are ecological or social risks, as well as those relating to corporate governance, the occurrence of which can have a significant negative impact on the economic performance of investment approaches by significantly deteriorating the financial profile, liquidity, profitability or reputation of the underlying investment. Since such risks cannot ultimately be completely ruled out, specific strategies for limiting and identifying sustainability risks have been developed for the financial services offered.
  - 1.2. Handling by 7orca AG in investment decision-making processes: 7orca AG specialises in currency risk management and volatility strategies, using standard derivative instruments such as forward exchange transactions, options and futures. In addition to currencies, the underlying assets of the derivatives include stock and bond indices. Bonds also play a role, particularly as a basic investment.
    - 1.2.1. Instrument-related: The company enlists the support of specialist third parties to assess the sustainability risks of individual securities (currently exclusively bonds). For example, 7orca AG has access to all ESG data and tools provided by Bloomberg. This primarily concerns ESG scores for approximately 15,000 companies, sustainable finance data (e.g. PAI rankings and indicators) and climate data (e.g. GHG emissions). Further details on the scope and methodology of the ESG data can be found here: <https://www.bloomberg.com>. The use of this data is integrated into the respective investment process and thus aims to largely exclude securities with below-average ratings.

The company also takes sustainability risks into account when using derivatives on indices or currencies, insofar as these can be assessed. To this end, the company monitors the liquidity of new products such as derivatives with ESG-compliant indices as a benchmark and weighs their use against the liquidity of traditional derivatives.

- 1.2.2. Strategy-related: Overlay strategies, which include strategies for hedging currency risks, typically aim to reduce specific risks specified by the investor. In this case, sustainability risks may be overlooked, e.g. if a particular foreign currency risk is to be neutralised as far as possible through rolling hedging transactions. This also applies in principle to active overlay strategies with a trend-following character, which are also only suitable for taking sustainability risks into account to a limited extent. However, trend following may, under certain circumstances, cause sustainability risks to be reflected in the price index and thus indirectly influence the hedging strategy. However, the gateway for the inclusion of sustainability criteria is the selection of counterparties with whom bilateral currency hedging transactions are conducted. The company continuously monitors the creditworthiness of these counterparties using publicly available data on credit default swaps. Adverse ESG developments (particularly with regard to governance) are generally reflected in a deterioration of the score. In addition, the company conducts regular assessments based on available ESG ratings and incorporates these into its overall assessment of execution quality.

The company avoids building up equity exposure through direct investment in equities. Direct investment in equities is not part of its strategy and therefore, in many cases, makes a company-based analysis of sustainability risks and a formal engagement policy unnecessary. However, indirect equity exposure may arise through the use of equity-related derivatives. In such cases, the derivatives are based on a broad index that dilutes as much as possible the proportion of any target equities of companies with comparatively higher sustainability risks.

Where it is appropriate to invest liquidity in debt securities (particularly as part of the core investment in volatility strategies), the Company primarily invests in government bonds. In addition, and with regard to corporate bonds, the Company initially uses the aforementioned ESG ratings.

By defining minimum ratings, it is possible to filter out bond issuers that have lower than average sustainability risks, thereby ensuring a best-in-class preselection.

In addition, issuers are selected according to the following criteria:

- Exclusion of nuclear power
- Exclusion of armaments and weapons
- Exclusion of coal mining and coal-fired power generation
- Exclusion of oil and gas production, including fracking
- Exclusion in the event of systematic or serious violations of the criteria of the UN Global Compact
- Exclusion of unfree states according to the Freedom House Index
- Exclusion of states that have not ratified the Paris Agreement

Investment restrictions resulting from legislation or voluntary exclusion, such as in the case of the UN conventions on cluster bombs, are taken into account by 7orca AG across the board for all its mandates, i.e. as a rule within the scope of portfolio management for investment funds. Further restrictions on the consideration of sustainability issues are implemented on a customer-specific basis in consultation with the respective investor or the relevant capital management company. This makes it possible to take into account the individual needs and values of the investor, particularly in the financial portfolio management of special funds. 7orca AG makes the manner in which sustainability issues are individually taken into account in the investment process transparent to investors.

- 1.2.3. Company-related: 7orca AG's strategies for incorporating sustainability risks are also incorporated into the company's internal organisational guidelines. The organisational guidelines reflect the company's rigorous governance and embody the 'tone at the top' approach. Compliance with these guidelines is decisive for the evaluation of employee performance and thus influences future salary development. In this respect, the remuneration policy is in line with the strategies for incorporating sustainability risks.

In order to contribute to a more sustainable and resource-efficient economy, 7orca AG also takes into account the United Nations Principles for Responsible Investment (UN PRI) and the Oslo Convention on Cluster Munitions and Landmines as guidelines when implementing investment decisions.

At 7orca AG, consideration of sustainability issues goes beyond the investment process and also has a direct impact on the company. 7orca AG sets high standards for good corporate governance and manages its relationships with employees, capital management companies, investors, custodians and business partners in a responsible manner. 7orca AG strives to always act fairly and independently of third-party interests in the best interests of its investors. Avoiding conflicts of interest as far as possible is central to this and is explained in more detail in the company's own principles for dealing with conflicts of interest.

7orca AG strives to incorporate sustainability aspects into its operational processes, for example by using green electricity, favouring remote presentations (webcasts) over face-to-face events, and largely avoiding the use of combustion engines for employee commuting.

Despite the measures described above, the materialisation of sustainability risks and thus a decline in the value of investments made cannot be ruled out. Taking sustainability risks into account does not preclude investment decisions from having adverse effects on the environment or on social and employee issues, or from being detrimental to the fight against corruption and bribery.

2. No consideration of the adverse impact of investment decisions on sustainability factors.

The aforementioned sustainability risks can materialise in the financial performance of an investment and must therefore be monitored. It is also important to measure the impact of an investment on sustainability and to take this into account in the investment process.

7orca Asset Management shares this view and therefore only works with asset management companies that take adverse sustainability impacts into account. The manner in which adverse sustainability impacts are specifically incorporated into the investment process may therefore be subject to specific requirements imposed by the various asset management companies, for example in the form of exclusion lists. 7orca takes these guidelines into account at fund level as part of the portfolio management regularly outsourced to 7orca. Where possible (i.e. taking into account any conflicting guidelines), 7orca also consolidates the guidelines of the various capital management companies and incorporates them into 7orca's basic strategy for taking sustainability impacts into account. For example, 7orca compiles the exclusion lists of various capital management companies and applies them to all mandates where possible. However, 7orca Asset Management does not currently carry out any independent identification and assessment of adverse sustainability impacts beyond this or in relation to mandates whose structure does not provide for a capital management company. Currency management does not generally offer sufficient starting points for this, and the other investment strategies are currently only offered in fund structures under German law, i.e. with a capital management company.

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