



# ETERNA INVESTMENT MANAGEMENT

## **Responsible Investment Policy**

**July 2024**

# 1 Introduction

Responsible investing involves the inclusion of environmental, social and governance (ESG) factors in the selection and management of investments.

Eterna Financial Group (EFG) is a signatory to the United Nations-backed Principles for Responsible Investment (PRI) and is committed to investing responsibly and sustainably, with the impact its investments will have on future generations. This long-term sustainable investment approach applies to all funds managed by Eterna Investment Management (EIM) as well as its operations activities in its parent company EFG.

As a long-term investor, EIM believes that ultimately, companies that take a positive approach to sustainability, including all ESG criteria, are likely to outperform companies that are less willing to do so. Therefore, taking into consideration the likely significant financial impact on the investment horizon of the ESG strategy, as well as all the benefits related to the socio-economic development of communities, the team places great importance on this aspect in its financial forecasts and analysis of potential returns.

## 2 Objectives

The purpose of this policy is to establish a clear and flexible framework for Eterna Investment Management to integrate responsible investment principles into its asset management in a market-oriented manner. This Policy is also related to the Voting Rights Policy.

EIM's objectives for its ESG management approach are to:

- a) Fully explore environmental, social, public health, safety and governance issues associated with companies in investment universes when evaluating investment opportunities.
- b) Continuously monitor and improve ESG analyses of the companies in which EIM invests.
- c) Support EIM employees by providing a safe and healthy workplace and providing competitive salaries and benefits.
- d) Respect the human rights of people affected by EIM's investment activities.
- e) Provide timely information on ESG issues to EIM's clients and strive to promote transparency in EIM's ESG activities.

### 3 Guidelines

As a signatory to the PRI, Eterna Investment Management is committed to following and respecting the six principles of responsible investment, namely:

- *Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.*
- *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.*

In addition, EIM adopts the Sustainability Accounting Standards Board (SASB) framework to evaluate its investments in relation to their business sectors.

The implementation of these guidelines is described in the next bullet point (Approach and Practice).

### 4 Approach and Practices

At EIM, as part of a responsible integrated asset management, a proactive approach to investing is preferred to simply excluding securities (except for the specific sectors mentioned below). EIM aims to invest in quality securities that meet the specific ESG criteria of the relevant sectors, in addition to having a positive impact on the community and playing a proactive role with the companies in which it invests. The objective is to foster ownership of companies that are progressing positively in an ever-changing ESG environment, and that demonstrate a social conscience with respect to the specific issues facing its operations.

EIM's ESG approach begins by excluding securities whose core line of business does not align with the Policy. Then, the research team monitors the strategies using its in-house ESG score and analyzes each company in depth using its ESG scorecards. We also exercise our voting rights directly. Finally, EIM actively engages with companies in its portfolios that are deficient at various levels and demands, if necessary, changes to maintain holdings. EIM is also proud to be personally involved in its community by participating in activities and forums related to responsible investment. Together, these steps form EIM's complete responsible investment process.

## 4.1 Exclusions

EIM reserves the right to exclude certain companies and activities from its portfolios if the requirements defined according to the laws applicable in Quebec, Canada or by international conventions are not met.

The internal investment committee is responsible for assessing the consequences associated with the exclusion of a security before making a decision. If circumstances warrant, the excluded securities may be returned to the portfolios.

On the other hand, businesses in certain sectors are excluded because of their core activities:

*Weapons:* EIM does not invest in companies with activities related to the production of weapons or military devices prohibited by international conventions. These explicitly prohibited weapons include anti-personnel mines, non-detectable fragment weapons, cluster munitions, incendiary weapons, blinding lasers, chemical weapons, and biological weapons.

*Tobacco and Recreational Drugs:* EIM does not invest in businesses involved in the processing or production of tobacco products and recreational drugs. These products can cause serious health consequences for consumers and their loved ones.

*Thermal coal:* EIM does not invest in companies engaged in activities related to thermal coal mining. Their high carbon emissions are harmful to the environment.

*Adult Entertainment:* EIM does not invest in companies with activities related to the adult entertainment industry where the dominant theme is sexually explicit use. These are widely criticized for the harmful effects they could have on society as a whole, such as the promotion of a regressive and stereotypical image of gender, as well as worrying effects on human psychology and exploitation.

## 4.2 Specific ESG scores and sheets

The research team plays a key role in monitoring strategies. It highlights the ESG risks of portfolios with its own ESG score and analyzes each company in depth through its internal ESG scorecards.

The Eterna ESG score is based on several important assessment metrics in each of the categories analyzed (environmental, social and governance). For example, it shows greenhouse gas intensity by revenue under the Environment section, the percentage of women employed under the Social section, and the independence of the board of directors under the Governance section, to name a few. All the companies analyzed have a result per section, taking into account all the metrics used, allowing the research team to identify where the greatest ESG risks in their strategies lie.

The second task of the research team is to design and update internal ESG data sheets for each company. In particular, it is at this point that the shortcomings previously detected by the Eterna ESG score are deepened. Analysts will review all available material

(financial statements, annual reports, sustainability policies and reports, etc.) and contact companies directly if more information is needed. The categories analyzed will be based on the categorizations proposed by the SASB standards. The conclusion of the search for each title is put in the form of a reference summary page that facilitates decision-making. A security could be excluded from investments if the analysis reveals an ESG risk that is deemed too high or if the evolution of its strategy does not correspond to the one that was announced.

### 4.3 Shareholder commitments

Dialogues with company management teams and the exercise of proxy voting rights are part of EIM's core investment philosophy. Thus, the EIM research team takes into account all factors, including ESG considerations, that can have a significant impact on a specific investment's performance.

The team meets regularly with companies' executives in its investment universe. During these meetings, managers and analysts question management teams on concerns related to, among other things, corporate governance, corporate sustainability, the company's environmental impacts, the social implications of the company's policies and other relevant issues related to ESG issues. These questions are part of the company's overall analysis.

EIM also actively uses its proxy voting rights to support the guidelines of its Responsible Investment Policy. The principles that guide the exercise of these voting rights are set out in its Voting Rights Policy.

## 5 Oversight Committee

An internal Responsible Investment Committee, headed by EIM's Director of Research, oversees the implementation of the Responsible Investment Policy and its monitoring. The committee also includes an external member from SMS, a firm specializing in sustainable and impact investing. The committee ensures that each investment has covered the essential elements of a sustainability approach, in line with key ESG criteria, and that the valuation of companies reflects the findings of this analysis. A quarterly meeting is scheduled for this purpose and minutes are reported after each meeting by the committee's secretary.

On the other hand, some ESG issues can be more effectively addressed through regulations and policies proposed by the various levels of government. EIM is committed to sharing its views in areas where it believes it has unique expertise or understanding that can help inform public policy.

The EIM compliance team also ensures that the policy is applied in a compliant manner on an ad hoc basis.