

ENGAGEMENT REPORT 2022



**CORUM
BUTLER**



Introduction

European High Yield remains less advanced and transparent than other larger asset classes regarding ESG information. Comprehensive ESG ratings are yet to be fully implemented but we can see a positive momentum that should translate into more companies following these principles.

Despite the hurdle of a relatively narrow number of companies that are ESG rated, we are nevertheless progressing in our implementation of ESG principles in the investment process. We firmly believe that ESG-related issues will be a major concern for investors in the years to come. This is evidenced by the increasing reporting being requested by both regulators and investors. As part of our commitment to socially responsible investing, in addition to adding ESG criteria in our investment process, we are taking active steps to engage with issuers in our universe to better understand their position on ESG issues.

Indeed, we believe that our SRI approach is only of interest if it is shared with all those associated with it: the investment teams, investors in our funds, but also the issuers in which we are investing. Raising awareness, informing and mobilizing all stakeholders is essential. We will only achieve our ESG objectives through the involvement of everyone.

Throughout this document, we will present the engagements we made in 2022 and focus on specific cases.

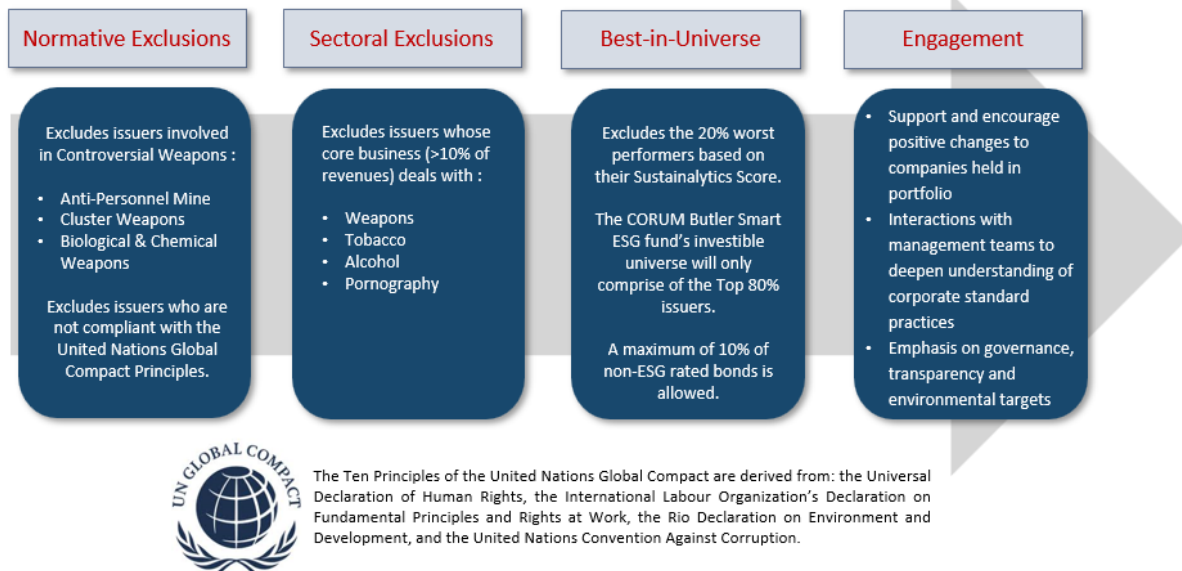
Overview of our ESG Process

ESG considerations are already fully integrated into the investment process through the use of third-party ESG ratings and analysis from Sustainalytics or other equivalent service providers (for the avoidance of doubt, such service providers offer advice and recommendations only, full discretion in asset selection remains at the Investment Manager level) and through the application of our ESG filters (as outlined below) and selection process which involves monitoring issuers to ensure:

1. Companies that do not respect the principles of the United Nations Global Compact on human rights, working conditions, the environment and the fight against corruption are excluded from the Investable Universe.
2. Investee companies which derive more than 0% of their revenue from anti-personal mines, cluster weapons, controversial weapons and biological and chemical weapons or do not comply with the Ottawa Treaty and the Oslo Convention on cluster mines are excluded from the Investable Universe.
3. Investee companies which derive more than 0% of their revenue from certain controversial sectors such as tobacco, adult entertainment and arctic oil and gas exploration are excluded from the Investable Universe.



4. We only invest in issuers whose ESG ratings are in the top 80% of the Investable Universe in terms of ESG ratings.



Existing SRI initiatives at CORUM Butler

While the process outlined above represents the main way in which we show our commitment to SRI through our investments, it is not the only thing that we do. Throughout the last couple of years, we have put in place several initiatives, both at fund and Group level, to achieve our sustainability goals.



SRI Label

The SRI label was created in 2016 by the Ministry of Economy and Finance. Its aim is to enable retail investors, as well as professional investors, to highlight investment funds that implement a robust socially responsible investment (SRI) methodology, leading to measurable and concrete results.

The SRI approach aims to apply the principles of sustainable development to investment. This means that choice of an investment will not only be dictated by short-term financial considerations but will also consider extra-financial criteria, such as respect for the



environment, the well-being of employees within the company or good governance within the company.

With the SRI Label, we, as asset managers, have the opportunity to contribute, through our investment, to the development of a more sustainable and responsible economy.

We obtained the SRI label for the first time in October 2019, with the launch of our CORUM Butler Smart ESG fund. Since then, we have we have extended our ESG process to all our funds. The label was renewed in December 2022 for 3 more years, showing that our efforts have been rewarded.

Signatory of:



The PRI is the world's leading proponent of responsible investment. It's aiming to achieve an economically efficient, sustainable global financial system that is rewarding long-term, responsible investment and beneficial for the environment and society as a whole.

The PRI will work to achieve this sustainable global financial system by encouraging adoption of the Principles and collaboration on their implementation; by fostering good governance, integrity and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures and regulation.

1. Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
2. Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
5. Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
6. Principle 6: We will each report on our activities and progress towards implementing the Principles.

The CORUM Butler Group became a signatory of the PRI in 2022.



United Nations Global Compact Initiative

To reinforce its commitment, the CORUM Butler Group, of which CORUM Butler Asset Management and Butler Investment Managers are subsidiaries, has become a signatory of the United Nations Global Compact. This worldwide initiative encourages companies to adopt a socially responsible attitude by committing to integrating and promoting several principles in terms of human rights, labor law, the environment and the fight against corruption.

Our motivations are directly linked to the increasing materiality of these factors in the financial analysis of issuers, and to the need to adapt our investment skills to these new challenges. Moreover, the approach of the Management Company and the Investment Manager is in line with the Group's Corporate Social Responsibility (CSR) policy.



Transition of all our funds to SFDR - Article 8 Funds

An Article 8 Fund under SFDR is defined as “a Fund which promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices.”

In 2022, the management company, in consultation with the Investment Manager, has identified the our funds as falling within the scope of Article 8 for the purposes of the Disclosures Regulation on the basis that they seek to promote environmental and social characteristics. While the funds promote environmental or social characteristics, they do not have sustainable investment as objective nor do they make any sustainable investments.

All Sub-Funds of the CORUM Butler Credit Strategies ICAV and the CORUM Butler UCITS ICAV are Article 8 Funds starting 1st of December 2022.



Our Engagement

Typology of companies and reason to engage

Date	Ticker	Company	Industry Group	Status
11/02/2022	OHLSM	Obrascón Huarte Lain	Engineering & Construction	Not invested in
11/02/2022	NVFVES	Novafives	Machinery-Diversified	Not invested in
10/08/2022	PPCGA	Public Power Corp	Electric	Invested In
10/08/2022	CNTRNB	Engineering	Computers	Invested In
10/08/2022	THOEUR	THOM Group	Retail	Invested In
10/08/2022	SCHUBR	BestSecret	Apparel	Invested In
10/08/2022	TEREOS	Tereos	Agriculture	Invested In
01/09/2022	ICELTD	Iceland	Food	Invested In
01/09/2022	PFLEID	Pfleiderer	Building Materials	Invested In
01/09/2022	LIMACO	LimaCorporate	Healthcare Products	Invested In

Company	Reason to Engage	Answer
Obrascón Huarte Lain	Severe ESG Risk. Ask for detail regarding controversies involvement and ESG plan to improve their ESG picture	Never answered
Novafives	ESG assessment on Sustainalytics a bit unfair vs. reality - Ask for ESG policies detail to confirm our intuition	Detailed answer
Public Power Corp	Concern regarding a commitment they made on an Environment KPI for their SLB	Detailed answer
Engineering	High ESG Risk as per Sustain - What's their plan regarding ESG topics	Acknowledge - Still waiting for complete answer
THOM Group	High ESG Risk as per Sustain - What's their plan regarding ESG topics	Never answered
BestSecret	Not covered by our ESG provider whereas they have a clear ESG policy - To ask to be rated	They simply replied with their Sustainable 2021 report
Tereos	Severe ESG Risk as per Sustain. What's ESG plan to improve their ESG picture	Never answered
Iceland	Uncovered by Sustainalytics at that time. Asking for more detail regarding an ESG slide in the presentation + ongoing policy	Answer - More info will come to their website by dec22
Pfleiderer	Uncovered by Sustain at that time. Ongoing ESG policy ?	Acknowledge - Still waiting for complete answer
LimaCorporate	Uncovered by Sustain at that time. Ongoing ESG policy ?	Acknowledge - Still waiting for complete answer



Company Specific Engagements

You will find below some discussions we had with companies during the year, the context of this specific issuer, why we chose to contact them, the answer they provided us with, and the conclusion of our exchange.

Public Power Corporation

Public Power Corporation S.A. (PPC) generates, transmits, and distributes electricity across the entire country and the Greek islands. The Company generates electricity from coal, hydroelectric stations, and oil and gas-fired power plants. In July 2021, PPC issued a Sustainability Linked Bond (SLB). This new kind of bond recently appeared in the high yield market. The issuer is targeting an improvement on one or more KPIs linked most of the time to environment at a certain horizon. In case the company misses a target, a step-up margin is applied to the SLB. The company engaged to reduce its CO2 emissions by 57% by December 2023 (from 2019). We contacted them because after reading their recent reports, it seems that the path of CO2 reduction was flat, even slightly increasing rather than decreasing. We wanted to have their opinion on the matter, if they planned to fail their target and why.

They replied within a few days and explained there is a chance that they will fail their target, hence implying a coupon step-up on their bonds. As part of the European effort to reduce the dependency on natural gas from Russia, the Greek government took some initiatives. To ensure the security supply of the country, PPC decided to temporarily increase the lignite fired generation for the next 1-1.5 years. This also implies that the share of coal in energy production mix and sales revenue derived from it will increase. We should monitor these changes closely as our Article 8 policy prevents us from investing in companies with a revenue share of more than 30% derived from coal. This discussion helped us to have a better vision for the coming future.

Novafives

Novafives designs and supplies machines, process equipment and production lines for various industries: steel, aerospace and special machining, aluminum, the automotive and manufacturing industries, cement, energy, logistics and glass. As an engineering group, Sustainalytics considers the company is exposed to high ESG risks (namely governance, human capital and business ethics) and lacks policy and programs to manage these risks. Sustainalytics as per their model rated Novafives at a *Severe ESG Risk level* which prevents us from investing in the SRI fund, as well as in the other funds (as per our Article 8 policy). We found that the rating from Sustainalytics was a bit tough, namely because the company is not involved in any specific controversy. We decided to contact the company during the first quarter of 2022 to understand their dynamics on ESG matters. They provided us with a very detailed answer a few weeks later. They were surprised by Sustainalytics' opinion because



they have a very detailed program related to Climate/Carbon, Business Ethics and Human Capital and they provided another ESG third-party opinion which had the opposite view on the name (top percentile compared to industry).

They assured us that at the time of the answer they followed GHG scope 1 and 2 emissions and planned to disclose such information in their next financial report. They are also currently working on a carbon roadmap with targets and action plans to be defined for each division. Following their answer, we contacted Sustainalytics to transfer the discussion we had with the company and asked them to verify their model as it was clear it didn't reflect true ESG initiatives and transparency of Fives. During the year they published a more detailed CSR 2022 report (2021FY). In May 2022, Sustainalytics upgraded the company risk rating, so it is now a *High ESG Risk*, meaning we are not provided to invest in the bonds anymore.

BestSecret

BestSecret is a leading members-only online destination for off-price fashion in Europe, offering access to over 3,000 premiums to luxury fashion brands and designers.

The company came to refinance their bond in July 2022. At that time only one slide on the roadshow presentation talked briefly about the sustainability issue of the fashion industry but no practical solutions nor objectives from the group have been communicated. Moreover, the group is not rated through Sustainalytics so if we want to invest in the SRI fund this fall in our 10% non-ESG rated bond bucket.

We decided to contact them in August 2022 to understand their dynamic on the ESG matters. They replied within the day by sharing with us their 2021 Sustainability Report they recently published. We learned more about their Sustainability Program (namely material use, fair sourcing, waste management and GHG emissions) and their sustainability governance structure (Steering Committee which provides strategic oversight and ensures commitment from the Management Board).

More precisely, to reduce the share of discarded fashion, they'll implement secondhand features for their members. To improve the sustainability of their supply, they will apply exclusion guidelines regarding some raw materials and introduce more sustainable/recycled materials. In terms of waste management, they will focus on reducing packaging, paper advertising and replacing plastic bags by paper products. Finally regarding GHG emissions, they show declining figures (2021 vs. 2020) in intensity emissions (tons of CO₂/€m revenue) as well as in absolute terms (revenue have increase during these periods). Facilities in Germany and Austria (representing 95% of total electricity consumption) is now using 100% renewable energy. They are also in a shift phase to LED for all facilities, they are installing solar panels on the roof of their logistic center in Germany and they are working on developing their complete corporate carbon footprint target.



We think BestSecret is in a good dynamic regarding ESG initiatives and we have suggested them get closer to Sustainalytics so that they have a rating in line with their ESG behavior.

Iceland

Iceland is an iconic UK grocery retailer focused on value and specializing in frozen food, complemented by an extensive and expanding fresh, chilled and ambient offering.

At the time we contacted the company, Iceland bond was a holding across several of our funds. This is a credit story we like, and we participated in the past to their new issue. When they came to the high yield market in February 2021, the roadshow presentation included an ESG slide summarizing ongoing initiatives (eliminate palm oil in own label food, reduce carbon footprint, eliminate plastic from own label by 2023 and low wastage in frozen food).

Due to poor ESG policies/disclosure from the issuer, our ESG provider Sustainalytics doesn't cover the name. Our SRI policy prevents us from investing in uncovered bonds. We decided to contact them to have a more precise view on their plan related to these matters, as it can potentially change the ESG opinion of Sustainalytics.

We contacted them in September 2022 with a reply in the following hours. They have added an ESG update on their Q1-FY23 accounts (released in September 2022). We can learn that despite some good initiatives, they failed to reduce total food waste this year; they reused surplus bread to feed animals but in 2022 these same animals got contaminated so the surplus couldn't be used. However, their target remained unchanged by 2030 (50% reduction from FY2017/18). They also recognize that their target regarding Plastic Packaging Footprint won't be held as they couldn't fully remove plastic from their own label by December 2023. In their answer they also communicate on the coming launch of 'Doing it Right' section in their website (October 2022) to communicate in real time their ESG target.

So far, they are still not rated by Sustainalytics, in case of improvement on these KPIs during next earnings, we'll recommend them to approach the provider to be ranked.



Conclusion and Plans for 2023

As ESG awareness and demand from investors continue to grow, issuers will be under increasing pressure to comply with higher standards in order to access financial markets. We believe we can make an impact through our regular interactions with those companies. Such promotion of ESG values will push the entire industry to accelerate their transition towards better sustainable standards.

Going forward into 2023, we will continue to strengthen our existing collaboration with the main actors and organizations driving the ESG standards. We will also intensify our company engagements with bond issuers and financial stakeholders. We believe that long-term commitment contributes to value creation. CORUM Butler, as a group, will support our investment team through our efforts.