

## 1. Introduction

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We have decided at a corporate-level to exclude certain sectors and practices from our long-only fund Digital Stars Eurozone.

Thus, we exclude, according to norm-based criteria:

- Companies that manufacture or distribute anti-personnel mines according to the Ottawa Treaty (enforced in 1999);
- Companies that manufacture or distribute cluster munitions accordance with the Convention on Cluster Munitions (enforced in 2010);
- Companies that do not comply with fundamental ethical standards (UN Global Compact), such as violation of individual rights, non-respect of human rights, major environmental damage, etc;
- Companies domiciled in controversial “Call to Action” jurisdictions (e.g. Iran and North Korea) identified by the Financial Action Task Force.

We do not invest in companies breaching fundamental ethical standards (violation of individual rights, non-respect of human rights, severe environmental damage, etc.), including companies whose operations or suppliers violate the 10 principles of the UNGC (United Nations Global Compact). We rely on the exclusion list established by Norges Bank, on RepRisk’s UNGC Violator Flag and Factset.

### **Weapons sector**

We also have banned investment in companies active in the production, sales and distribution of non-conventional weapons such as cluster bombs, anti-personnel mines and nuclear weapons (“Don’t bank on the bomb”). If production, sale or distribution of conventional weapons (war material usually considered less controversial) represents more than 5% of revenues, we do not invest in the company.

### **Energy sector**

Chahine Capital has also decided not to invest in companies whose income from exploration, mining, extraction, transportation, distribution or refining of thermal coal or in the provision of equipment or services dedicated to these activities is more than 5%. Moreover, in energy sector, if the sum of activities related to unconventional oil and gas, such as oil sands extraction, shale oil, shale gas and Arctic drilling represents more than 5% of revenues, companies are excluded.

About non-conventional oil and gas, companies are excluded if they are involved in the exploration, extraction, refining and transportation of conventional oil and gas or provide equipment or services dedicated to these activities, provided they do not meet at least one of these criteria:

- have a SBTi (Science Based Target initiative) target set at well-below 2°C or 1.5°C, or have a SBTi “Business Ambition for 1.5°C” commitment;
- derive less than 5% of its revenues from oil and gas-related activities;
- have less than 15% of CapEx dedicated to oil and gas-related activities and not with the objective of increasing revenue;
- have more than 15% of CapEx dedicated to contributing activities to sustainable development objectives (Taxonomy);

### **Power generation sector**

Companies whose coal-fired electricity generation represents more than 5% of turnover or production, sale or distribution of nuclear-based power generation exceeds 5% of turnover are excluded. This includes uranium extraction, uranium concentration, refining, conversion and enrichment, the production of nuclear fuel structures, construction and use of nuclear reactors. It also includes treatment of spent nuclear fuel, nuclear decommissioning and radioactive waste management.

Companies involved in the generation of power/heat from non-renewable energy sources, or providing dedicated equipment or services therefor are not excluded if they meet the following three conditions:

- the company’s absolute production of or capacity for coal-based or nuclear-based energy-related products/services shall not be structurally increasing;
- the company’s absolute production of or capacity for contributing products/services shall be increasing.

- the company shall meet at least one of these criteria:
  - have a SBTi target set at well-below 2°C or 1.5°C, or have a SBTi “Business Ambition for 1.5°C” commitment;
  - derive more than 50% of its revenues from contributing activities to sustainable development objectives (Taxonomy);
  - have more than 50% of CapEx dedicated to contributing activities to sustainable development objectives (Taxonomy);

### **Tobacco sector**

In addition, companies involved in traditional or related tobacco (such as tobacco e-cigarettes, new generation tobacco/nicotine products) production or tobacco sale or distribution for more than 5% of their turnover are excluded.

### **Biodiversity sector**

Companies whose production of pesticides, palm oil or genetically modified organisms (GMOs) represents more than 5% of their total revenue are also excluded.

### **Other sectors**

Companies with income from activities related to the following sectors are excluded:

- Gambling exceeding 5% of sales
- Alcohol representing more than 20% of the turnover
- Non-medicinal drugs exceeding 5% of the turnover
- Adult entertainment (pornography) representing more than 5% of turnover

We use the the Sustainalytics database, a provider of extra-financial data, to evaluate the ESG positioning of companies in our investment universe and to exclude the worst of them. We exclude ESG Risk Ratings above 30 ("High" and "Severe"), as well as Carbon Risk Ratings above 30 ("High" or "Severe").

We have supplemented our existing daily-risk policy with a component related to ESG controversies. Indeed, business conduct risks related to human rights, labour, environment and corruption can result in risks to company reputation and profits, and therefore in a risk borne by the final investor. Thus, we exclude companies with a high level of controversy (levels defined in our ESG Risk Control procedure, available on demand). We use the external RepRisk database for this purpose.

Finally, we have set up an SRI policy and signed the United Nations Principles for Responsible Investment (UNPRI).

## **2. Glossary**

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**RepRisk Index (RRI):** A quantitative measure that dynamically captures a company’s or project’s reputational risk related to ESG issues. The RRI facilitates an initial assessment of the ESG risks associated with investments or business relationships, allows the comparison of a company’s exposure with that of its peers, and helps track risk trends over time.

The RRI ranges from zero (lowest) to 100 (highest). The higher the value, the higher the risk exposure:

- 0-24: generally denotes low risk exposure
- 25-49: represents medium risk exposure
- 50-59: denotes high risk exposure
- 60-74: denotes very high risk exposure
- 75-100: denotes extremely high risk exposure

**RepRisk Rating (RRR):** A letter rating that facilitates corporate benchmarking against a peer group and the sector, as well as integration of ESG and business conduct risks into business processes. The Rating provides decision support in risk management, compliance, investment management, and supplier risk assessment.

The RepRisk Rating ranges from AAA to D:

- AAA, AA, A denotes low ESG risk exposure
- BBB, BB, B denotes moderate ESG risk exposure
- CCC, CC, C denotes high ESG risk exposure

D denotes very high ESG risk exposure

**UN Global Compact Violator Flag:** Allows to easily identify companies that have a high risk or potential risk of violating one or more of the ten UNGC Principles. With the Flag, it is possible to see if the UNGC violations are primarily linked to the operations or to the supply chain of a company.

**ESG Risk Rating:** quantifies a company's exposure to ESG risk and how it manages that risk. The ESG Risk Rating is a score from 0 (less risky) to 100 (extremely risky):

0-10 is a negligible level of risk,

10-20 is a low level of risk,

20-30 is a medium level of risk,

30-40 is a high level of risk,

40 and above is a serious level of risk.

**Carbon Risk Rating:** assesses a company's carbon risk based on the transition to a low-carbon economy. This measure is determined by assessing a company's material exposure and its management of carbon issues. The Carbon Risk Rating is a score from 0 (least risky) to 100 (extremely risky):

0 is a negligible level of risk,

0-10 is a low level of risk,

10-30 is a medium level of risk,

30-50 is a high level of risk,

50 and above is a severe level of risk.

### 3. Digital Stars Eurozone

#### EXCLUDED COMPANIES

6 Stocks have been excluded or not selected during Q3 2021 in a portfolio composed of 63 Stocks.

Excluded companies in Digital Stars Eurozone in Q3 2021 were from the luxury sector (for violation of ethical rules), banking (due to money laundering allegations), industrial (safety-related issue) and healthcare (caused by contamination of vaccine) sector.

Date	Fund	Stock	ISIN	Exclusion Criteria	Remark
01/07/2021	Digital Stars Eurozone	CaixaBank SA	ES0140609019	Governance 30.45>30 Money Laundering allegations	Sold from the portfolio
02/07/2021	Digital Stars Eurozone	Kering	FR0000121485	Peak RRI 71 July 19 Tax evasion scheme	Not integrated NN Momentum
02/07/2021	Digital Stars Eurozone	Kering	FR0000121485	Peak RRI 71 July 19 Tax evasion scheme	Not integrated NN Momentum
11/08/2021	Digital Stars Eurozone	De Longhi	IT0003115950	RRI 44>40 Potentiation Fire Hazard for dehumidifiers	Sold from Portfolio
31/08/2021	Digital Stars Eurozone	Laboratorios Farmaceuticos Rovi, S	ES0157261019	Social 36>30 Contamination of Moderna's COVID-19 vaccine produced by Rovi	Sold from Portfolio
23/09/2021	Digital Stars Eurozone	Metsa Board Oyj	FI0009000665	Governance 32>30 Reduced working hours of seniors employees	Sold from portfolio

The detailed stock exclusion reports are available on demand.

#### ESG REPUTATIONAL RISK (Weighted average based on RepRisk Index, as of 30/09/2021)

**Digital Stars Eurozone: 9 / 100**

MSCI EMU: 26 / 100

Digital Stars Eurozone exhibits a weighted average ESG Reputational Risk 65% below that of its benchmark (MSCI EMU).

#### 2-YEAR PEAK ESG REPUTATIONAL RISK (Weighted average based on the 2-Year Peak RepRisk Index, as of 30/09/2021)

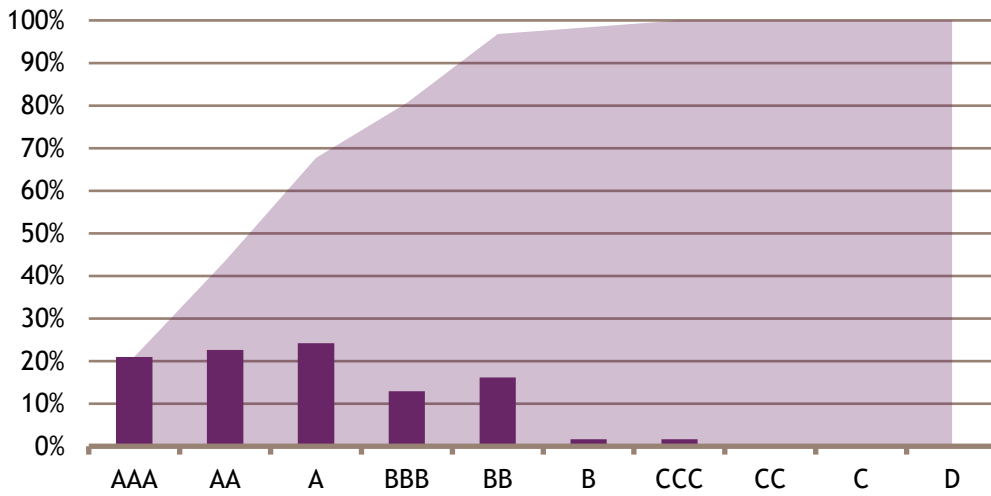
**Digital Stars Eurozone: 16 / 100**

MSCI Europe Small Cap: 39 / 100

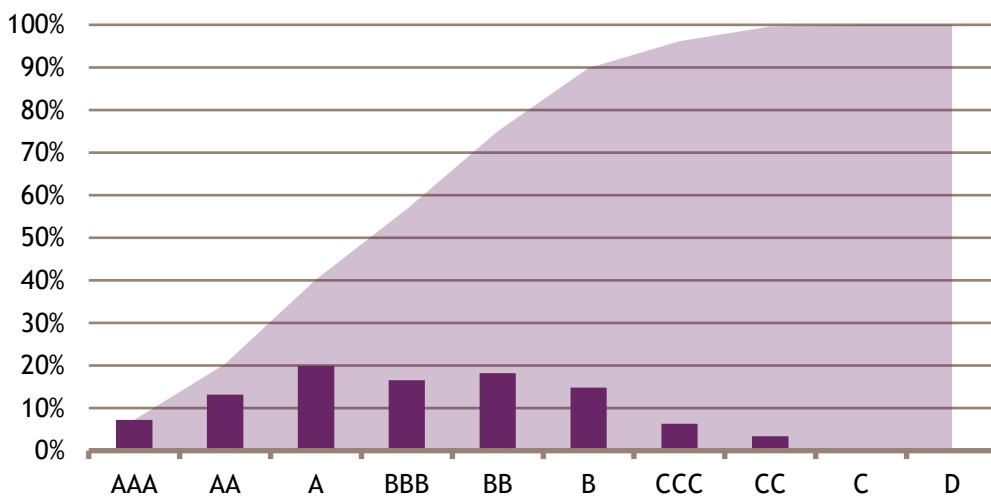
Digital Stars Eurozone exhibits a weighted average 2-year Peak ESG Reputational Risk 59% below that of its benchmark (MSCI EMU).

## ESG REPRISK RATING

### Digital Stars Eurozone



### MSCI EMU



67.7% of the fund stocks have an ESG RepRisk Rating AAA, AA, A, vs 40% for the benchmark.