EU Sustainable Finance Disclosure Regulation: Disclosure Statement

Partners Capital Europe SAS

Introduction & Scope

This statement has been prepared based on requirements set out in the Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (the 'Sustainable Finance Disclosure Regulation', or 'SFDR'). The SFDR seeks to provide transparency on sustainability and ESG within financial markets, by requiring financial market participants and financial advisors to prepare standardised entity-level disclosures regarding how they address sustainability risks and principal adverse impacts in their investment processes and the investment decisions made on behalf of clients.

Scope

This statement applies to **Partners Capital Europe SAS**, a member of the Partners Capital group which, as a French incorporated entity, is considered to be a financial market participant under the SFDR in respect of the bespoke discretionary portfolios that it manages on behalf of its clients, as well as any alternative investment funds under its management.

Much of the information included in this statement outlines Partners Capital's group-level approach to the integration of sustainability risks and ESG factors into our investment processes. However, due to the evolvement of various competing global ESG disclosure regulations, this statement has been prepared taking into account the size of Partners Capital Europe SAS as well as the investment activities carried out by this entity in Europe. More information on Partners Capital's group-level approach to sustainable investment can be found on our website.

Sustainability risk policies at an entity level

Under Article 3(1) of the SFDR, Partners Capital Europe SAS is required to outline the entity level policies we have in place regarding the integration of sustainability risks in our investment decision-making process. The SFDR defines a sustainability risk 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 investment. At a group level, Partners Capital holds core beliefs about how investing our portfolios in a responsible manner can have a positive impact on the environment and society. We aim to deliver long-term investment performance to our clients, giving due consideration to financially material environmental, societal, and governance factors, and by embedding sound sustainability risk management practices into our investment decision-making process.

Partners Capital's investment model is based on the "Yale Endowment" model with core tenets including high, stable risk levels, multi-asset class diversification and allocations to alternative asset classes, such as private markets, implemented through partnerships with third party asset managers. We believe that assessing our asset managers' ESG integration approaches and engaging with them to improve their practices can help us to generate better investment outcomes for our clients, while at the same time having a positive impact on society and the environment.

Our Sustainability Risk Management Policy focuses focus on the following principles:

1. Assessment of Managers' ESG Integration Approach

We believe that the integration of financially material ESG factors and stewardship insights into investment decision making, as well as having best-in-class Diversity Equity and Inclusion ('DEI') policies in place, help asset managers to make better long term investment decisions for their, and ultimately our, clients. Given a combination of changing consumer preferences and regulation, we believe that ESG factors are of increasing importance to asset valuations. As such, the integration of financially material ESG factors alongside traditional fundamental analysis provides asset managers with a more comprehensive assessment of an investee company or asset.

We assess the degree to which our managers integrate environmental, social and governance factors into their investment process and their stewardship and engagement approaches. This begins with our initial due diligence on asset managers before we formally approve them for investment. Thereafter, the assessment is ongoing through the life of the relationship including during our formal 3-year due diligence updates, our quarterly risk reporting and in our periodic interactions.

The most formal assessment comes from our annual asset-class specific Asset Manager ESG Survey (the 'Survey') which attempts to assess the quality and sophistication of our asset managers' ESG integration and stewardship approaches, including their approaches to DEI.

Based on the information gathered in the Survey, we assign one of our four ESG classifications to every surveyed manager[1]. For asset managers to receive the highest classification, we expect them to consequentially integrate financially material ESG factors and insights from their engagements with investee companies into their investment processes whilst appreciating that the methodology will vary according to asset class and investment philosophy[2]. More information on how managers are assessed, and the classifications we apply, can be provided upon request.

Where an ethical or reputational issue has arisen during our due diligence on a manager, this will be referred to our Responsible Investment Committee for consideration.

2. Engagement

Shareholder Engagement: Due to predominantly investing via third party fund managers rather than directly holding shares in public companies, Partners Capital has developed an approach to engagement and stewardship that focuses on our relationships with third party managers with which we invest. We encourage our managers, where possible and feasible, to engage with their investee companies on material ESG topics relevant to their portfolios. Additional information on our manager engagement process can be found in our disclosures under the European Shareholders Rights Directive II.

Engagement with Managers: We aim to constructively engage with the asset managers we work with to assist them in improving their ESG integration and stewardship practices, as well as their DEI approaches, especially in cases where our Survey has identified that their practices are lagging our expectations. The goal of our engagements is to support establishing best practice ESG integration and engagement approaches in the asset management industry.

We believe that collaboratively engaging with asset managers on improving their ESG integration approaches will ultimately lead to better long-term financial outcomes for our clients and create a greater impact for society and the environment. We aim to approach our engagements with the managers in a pragmatic, but structured way. We seek to propose measurable, achievable, and time-bound objectives focused on improvements of the managers' ESG integration practices. We also set the expectation that the managers' processes should improve over time.

Proxy Voting: Partners Capital offer a Public Equities Co-investment Programme to our clients that involves investing directly in a select number of stocks held by select third-party managers, based on their due diligence and investment thesis. Given the nature of this investment programme, we do not engage with or monitor these investee companies directly. However, where Partners Capital own stocks directly, we exercise our shareholder right to vote. Partners Capital has retained Institutional Shareholders Services Inc. (ISS) to assist in the proxy voting process, and follows ISS' Sustainability Policy recommendations.

Copies of our Global Proxy Voting Policy, as well as our proxy voting records can be made available to our clients upon request.

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[1] In certain cases, an asset manager may not respond to our request for completion of the Survey, in which case, for those managers investing in a sector with heightened ESG risk, we would seek, through alternative means (e.g. direct engagement with the manager on the issue), to determine the degree to which the relevant manager integrates financially material ESG factors into its investment process. A manager's openness and transparency with respect to ESG matters may be, but is not necessarily always, a factor in our determination as to whether or not we proceed with the investment.

[2] For the avoidance of doubt, Partners Capital generally would not divest from an underlying fund in circumstances where the relevant manager scores poorly on the ESG Integration survey, but will instead generally seek to engage with the relevant manager with a view to improving the score over time.

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3. Exclusions

As an overarching principle, when integrating sustainability risks into our investment decision making, Partners Capital prefers engagement over exclusionary investment approaches. We believe that investors can have a greater impact on management behaviour through active engagement and exercising voting rights.

However, Partners Capital has decided to not invest directly in companies operating in certain sub-sectors. Unless specifically mandated by our clients to do otherwise, we seek to exclude exposure to producers of thermal coal, manufacturers of controversial weapons (including cluster munitions and anti-personnel landmines), tobacco producers and companies engaging in "payday lending" practices from our directly held public equity portfolios[3]. Our view is that companies in these sectors have little scope for improving their ESG profile in the years ahead and have limited scope for contributing to a more sustainable world, unlike some oil and gas producers who may have the potential to contribute meaningfully to the transition to a low carbon economy.

We aim to also apply our exclusions policy on a best efforts basis to our discretionary pooled vehicles and client portfolios. While we seek to minimise look-through exposure to these sectors via underlying funds managed by one of our third party managers where practically possible, Partners Capital do not have control over positions held by third party managers and, as such, there may be instances where there is indirect exposure to the excluded sectors mentioned above.

We understand that certain clients, regardless of our firm-wide approach to exclusions, may also seek to exclude additional sectors and/or companies from the investible universe. In those instances, we will work closely with our clients to design client-specific portfolios in line with those expectations where possible.

4. Advocacy and Social Responsibility

We strive to collaborate with our clients, asset managers and leading institutional investors across the investment industry to support the acceptance and implementation of sustainable investing practices. We actively seek meaningful partnerships and opportunities to grow our network to deepen our knowledge and broaden our impact in this rapidly evolving space.

Our clients each have their own purpose and an array of social or environmental causes that they support. Accordingly, we cannot recommend a specific sustainable investment policy that would be common to all clients. Whilst our investment programme will always be governed by our own core beliefs, where our clients have additional sustainable investment preferences, we commit to assisting them in the ongoing development of their bespoke sustainable investing policies which reflect their specific values and to build portfolios which adhere to those policies.

As part of our advocacy work, Partners Capital became a signatory to the UN PRI in 2020, publicly demonstrating our commitment to responsible investing. As a signatory, Partners Capital pledges to pursue the PRI's six principles for responsible investment. Additionally, Partners Capital actively engages in The Institutional Investors Group on Climate Change (IIGCC) since becoming a member in 2021, furthering our commitment to examine the impact of climate change on investments and to collaborate with like-minded investors on environmental impact.

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[3] In determining whether or not to exclude a particular security from our directly held equities portfolio, we screen relevant securities for a variety of different types of involvements depending on the sector in question. As it relates to thermal coal, a 0% revenue threshold is applied to companies involved with the mining and sale of thermal coal (i.e. companies deriving any revenues from the mining and sale of thermal coal, including lignite, bituminous, anthracite and steam coal, will be excluded from our directly held equities portfolio). This screen does not capture: revenue from metallurgical coal; coal mined for internal power generation (e.g. in the case of vertically integrated power producers); intra-company sales of mined thermal coal; and revenue from coal trading. A 0% revenue threshold is also applied with respect to companies involved in the manufacture of controversial weapons and with respect to companies that provide products and services associated with the 'payday' lending sector. In the case of companies engaged in tobacco, we screen companies based on revenues derived from, amongst others, production, distribution, licensing, retail and supply activities, applying appropriate 'de minimis' thresholds to each relevant aspect of the value chain in determining whether or not a particular company is operating in a particular excluded sector. Accordingly, we may, from time to time, have some direct exposure to the securities of companies who derive limited, incidental and/or non-core revenues from activities in certain of the excluded sectors referenced.

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5. Client Reporting

We believe that effective measurement of ESG factors and the impact, both positive and negative, of investment portfolios is fundamental to assist clients in understanding the sustainability risks associated with their portfolios, as well having the potential to catalyse significant change in the behaviour of both asset managers and business owners and management.

Accordingly, we have developed an ESG investment dashboard which supports clients with monitoring their adherence to specific sustainability preferences and exposure with respect to sustainability related risks. The dashboard comprises five sections:

(i) An estimation of the portfolio's exposure to sensitive sectors;
(ii) A set of ESG metrics for the public equities portion of the portfolio (calculated using third-party data);
(iii) The extent to which the portfolio's underlying managers are integrating ESG factors (measured through our Annual Asset Manager ESG Survey);
(iv) An estimation of the percentage of public equity managers that engage with their investee company management teams; and
(v) The percentage of the portfolio invested in sectors that have the potential to have a positive environmental or social impact (e.g. Healthcare).

Recognising that accurate ESG-related reporting is an industry-wide challenge, we aim to improve the quality of our reporting over time and stay abreast of trends and best practice regarding ESG measurement. The dashboard is therefore updated periodically to improve accuracy and incorporate new datapoints as they become available.

Where clients wish to receive the ESG Dashboard, they should speak to their Partners Capital Client Manager.

No consideration of adverse impacts of investment decisions on sustainability factors

Currently, within the meaning of Article 4(1)(a) of the SFDR, Partners Capital Europe SAS does not consider the principal adverse impacts of investment decisions on sustainability factors. While we fully support the aim of the SFDR to bring clarity and consistency to sustainability-related disclosures in the financial markets, the consolidated Regulatory Technical Standards which governs the mandatory principal adverse impact indicators and related reporting template required to voluntarily claim compliance with Article 4 of the SFDR are challenging to implement in their current form, due to the granularity of the reporting data that is required. It should be noted that Partners Capital predominantly invests via third-party fund managers and full transparency to underlying holdings or data on the principal adverse impact indicators in relation to these portfolios is not consistently provided to allow us to consider the principle adverse impact indicators across all of our holdings.

Partners Capital manages multi-asset class portfolios for its clients, investing across both public and private markets. We have observed positive steps being taken by a subset of public companies to disclose their non-financial impacts. However, progress is not uniform, particularly for smaller and privately-held companies with fewer resources dedicated to sustainability reporting. As a result, companies do not report on all of the principal adverse impact indicators in a consistent and comparable manner. The standard of reporting by private companies, which are less likely to be subject to any mandatory sustainability reporting obligations, is often even further behind.

Partners Capital recognises that sustainability reporting is a rapidly evolving field and we expect the quality of data to improve over time, in line with advancements in corporate disclosure and developments in the availability of sustainability-related data. As such, we intend to review our ability to publish a statement on the consideration of adverse impacts of investment decisions on sustainability factors on an annual basis.

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Remuneration policies in relation to the integration of sustainability risks

Partners Capital has designed its remuneration policies and practices to be consistent with promoting sound and effective risk management, which includes sustainability risks. Our remuneration practices are aligned to the business strategy, objectives, values and long-term interests of the firm.

As outlined in the above disclosures, we hold core beliefs about how investing in a responsible manner can have an impact on the environment and society. We believe that businesses that have positive impact on the environment and society, and govern themselves in the most responsible way, are more likely to outperform those that have a less positive or negative impact on the world. Where employees are eligible for discretionary variable bonuses, in setting these bonuses, we would always consider the overall results and performance of the firm. In addition, a portion of variable pay comprises a deferred award that is invested alongside our clients during the vesting period. Therefore, by embedding good governance practices and integrating sustainability factors into our investment decision-making, and by linking employees' remuneration with the overall performance of the firm, we believe that our remuneration policies incentivise employees to consider all material risks that our portfolios may face, which increasingly includes adverse sustainability risks.

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