



**TARENO**  
INDEPENDENT WEALTH &  
ASSET MANAGER

# **Sustainable Investment Guidelines**

Tareno Global Water Solutions Fund



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# 1 Sustainable Investment Goal

The Tareno Global Water Solution Fund aims to contribute to a more efficient and sustainable use of water by investing in securities issued by companies operating in the water sector that offer products, services or solutions with a positive contribution to the UN Sustainable Development Goal 6 - Clean Water and Sanitation. As such, the fund makes an important contribution to Goal 3 of the EU Taxonomy (Sustainable Use and Protection of Water and Marine Resources) and is categorized under Article 9 SFDR.



In line with this objective, the fund applies a holistic approach that integrates the concept of double materiality. This approach recognizes the interconnectedness of both financial and impact materiality, meaning we assess how a company's operations affect environmental and social stakeholders, while also considering how these impacts, in turn, influence the company's long-term financial performance. Through this lens, we evaluate a broad range of current and emerging ESG risks and opportunities that could affect the company's value over time.

Sustainability is integrated into all levels of the investment process. The definition of the universe is directly based on companies' contribution to SDG 6. Once the universe is defined, a sustainability filter is applied to make sure investments are only made in companies without any negative impact on society or the environment. A bespoke sustainability score has been developed and is integrated into the valuation model, having a direct impact on portfolio construction. Finally, active ownership is used to further strengthen ESG practices at the invested companies and promote the fund's sustainability objectives.



## 2 Definition of Investment Universe

The investment universe of the Tareno Global Water Solutions Fund consists of listed equity only. Companies in the universe need to support the achievement of SDG 6 with the products and services they provide. They can either be predominantly or partially exposed to water in terms of revenues. If a company has less than 50% of its revenue from the value chain of water, those products and services need to be leading in the industry.

To build the overall universe, the ISS ESG database is used to screen for companies related to the objective “conserving water” ([SDG solutions assessment](#)), which focuses on ensuring that freshwater, including surface water, groundwater, municipal supply, and rainwater, is accessible and available in sufficient quantity and quality in natural ecosystems. In addition, the database is screened for specific key words like “irrigation”, “desalination”, “membrane”, “pipes” or “hydronic flow”.

This leads to an initial target universe of around 780 companies. To fit Tareno's requirements regarding size and liquidity as well as to ensure a significant SDG 6 contribution, the following exclusions are made:

Exclusion criteria	Description	Number of excluded companies
Size	- Companies with market capitalization falling below the threshold of EUR 150 Mio.	~ 350
Liquidity	- Companies with a lack of market access or liquidity	~ 90
Significant SDG 6 Contribution	- Companies with involvement in “bottled water”	~ 15
	- Companies with partial water revenues and without leadership with the water products they offer	~ 30

The final Tareno Water Universe consists of approximately 300 companies. It also serves as a benchmark for the fund's sustainability performance.

### 3 Exclusion Policy

To prevent investments in companies that are responsible for any negative impact on society or the environment, the fund applies to negative screening. A proprietary sustainability filter is used to exclude companies that:

- Do not disclose the minimum required ESG data points
- Violate the UN Global Compact principles
- Are involved in very serious controversies such as human rights violations
- Generate part of their sales from the following business activities:

Business Activity	Revenue Threshold
Adult Entertainment	0%
Alcohol	5%
Coal Mining	0%
Coal Power	5%
Conventional Weapons	5%
Controversial Weapons	0%
Fracking	5%
Gambling	0%
GMO	0%
Nuclear Power	5%
Oil Sands	5%
Tobacco	0%
Uranium Mining	0%
Oil	10%
Gas	50%
Electricity generation GHG Intensity > 100g CO2 e/kWh	0%

This screening leads to the exclusion of around 70 companies. Data for the negative screening is provided by the third-party research provider ISS ESG.

## 4 ESG Integration

The fund manager calculates a sustainability score for each company in the universe using a proprietary model with qualitative and quantitative elements to evaluate a company. Core data includes aggregated ESG assessment parameters from ISS ESG, a provider that applies the concept of double materiality in all its evaluations.

The Tareno Sustainability Score consists of the following four components:

- ESG Score
- ESG Momentum Score
- Climate Score
- Water Score

The goal of integrating this score into the investment process is to be able to identify leaders and laggards in terms of ESG practices. Investments are predominantly made into leading companies (top 25%). In cases where we choose to invest in non-leading companies, the issues encountered in the sustainability analysis are addressed as part of the active ownership activities, with the goal of improving ESG practices at those companies.

The final Tareno Sustainability Score is transformed into a rating ranging from A to E. Companies that do not disclose the minimally required ESG data points automatically get an E rating. Companies with an E rating are excluded, and among the D-rated companies the weakest are also removed to reduce the investment universe by 25% (30% from 2026 onward).

### 4.1. ESG Score

The ESG Score provides a comprehensive assessment of a company's sustainability performance, based on three key components: Environmental, Social, and Governance.

- **Environmental Rating:** This component evaluates a company's impact on the environment, focusing on areas such as energy management, water use, waste management, and sector-specific environmental concerns throughout its operations and supply chain.
- **Social Rating:** The social aspect assesses how a company manages relationships with employees, suppliers, and local communities. It covers issues such as labor practices, human rights, health and safety, and product responsibility.
- **Governance Rating:** This factor evaluates a company's governance practices, including corporate ethics, board structure, and transparency. It reflects how well the company manages internal processes to ensure accountability and sound decision-making.

Each of these three components contribute equally to the overall ESG Score, providing a balanced view of a company's environmental stewardship, social responsibility, and governance practices.

The ESG Score accounts for 60% of the final Tareno Sustainability Score. The weighting of each of the pillars E, S and G is a minimum of 20%.

## 4.2 Momentum Score

The ESG Momentum Score measures the year-on-year trend in a company's overall ESG rating, indicating whether its sustainability performance is improving, stable, or deteriorating. It compares the current rating with the previous year's final rating to assess the direction and magnitude of change. The score provides insight into the company's progress in addressing environmental, social, and governance issues, highlighting the momentum of its ESG efforts over time. A positive momentum suggests improvement, while negative momentum signals potential setbacks in its sustainability performance. The ESG Momentum Score accounts for 10% of the Tareno Sustainability Score.

## 4.3 Climate Score

The Climate Score evaluates a company's efforts and alignment with climate goals through two main components:

1. **GHG Reduction Targets:** This factor assesses the presence and ambition of an issuer's greenhouse gas (GHG) reduction targets. Companies are rated based on whether they have no target, a non-ambitious target, or an ambitious target, with higher scores given to those with committed or approved Science-Based Targets (SBTs).
2. **Temperature Score:** This component evaluates the issuer's alignment with global temperature goals, based on scenarios from the International Energy Agency's (IEA) Sustainable Development Scenario (SDS). It considers projected future emissions and the company's performance relative to science-based targets to determine how well the company's emissions trajectory aligns with limiting global warming to 1.5°C or 2°C.

Together, these components offer a snapshot of a company's climate strategy, its commitment to reducing greenhouse gas emissions, and how well it aligns with global climate goals. The Climate Score accounts for 15% of the Tareno Sustainability score.

## 4.4 Water Score

The Water Score assesses companies' water management practices across six key components:

- **Water Stress Region Assessment:** Evaluates whether the company operates in water-stressed regions and how it accounts for potential risks.
- **Impact Monitoring and Mitigation:** Assesses whether and to what extent the company monitors its impact on freshwater resources and mitigates negative consequences for external stakeholders.
- **Freshwater Use Inventories:** Measures the company's efforts in tracking and reporting its water usage.
- **Reduction Targets and Action Plans:** Evaluates whether the company has set actionable goals for reducing freshwater use and established clear plans to meet them.
- **Water Use Intensity:** Analyzes the company's water consumption relative to its operations, focusing on trends in intensity and absolute usage.
- **Water Policy:** Considers whether the company has a formal water management policy to guide its sustainability practices.

These components together provide a holistic view of a company's water stewardship and its efforts towards sustainable water use. The water score accounts for 15% of the Tareno Sustainability Score.



## 5 Active Ownership

### 5.1 Engagement Policy

The fund manager relies on active engagement to improve ESG practices at portfolio companies. This is considered to lead to better investment outcomes as well as a positive impact on the environmental and social behavior of these companies. The focus of the engagement activities is on corporate governance, SFDR PAIs and climate and water related issues. Sound corporate governance practices are crucial for the long-term value creation of any company. Climate and water are the two main sustainability themes of the fund. Engagement is specifically used to encourage improvements in reporting standards as well as the setting of specific targets within those focus areas.

Engagement is primarily conducted by the fund management through face-to-face or virtual meetings, participation in investor conferences, and company site visits. Additionally, ESG Book's engagement platform is utilized to scale engagement efforts and close data gaps. ESG Book allows investors to directly request disclosures from companies on specific sustainability frameworks. Data has been requested on the ESG Book Sustainability Framework, the SFDR Framework, and the ISR Framework. The latter is used to engage with portfolio companies on their climate transition plans and encourage them to improve their climate disclosures.

While general dialogues are regularly held with all portfolio companies, active engagement is conducted with companies that are attractive from a fundamental perspective but lag behind in terms of their sustainability performance as evaluated using of the fund's sustainability score. Those companies are proactively approached to address any issues related to their sustainability performance. For companies that are on the watch list due to any controversy, the reasons for the controversy as well as the action plan are part of the dialogue.

The engagement process typically consists of the following five steps:

1. Define targets for engagement with a company
2. Communicate targets to company
3. Company has acknowledged the issue
4. Company has addressed the issue
5. Company has met targets

Engagements typically last 2-3 years. If a company has not met the targets after this time, the fund manager may either re-enter the dialogue, initiate a shareholder resolution, or divest.

In some cases, the fund managers collaborate with other institutional investors through platforms such as the United Nations Principles for Responsible Investment (UN PRI).

### 5.2 Proxy Voting Policy

Voting rights are regularly exercised for all fund holdings. Voting is an important part of active ownership which is used to strengthen environmental, social and governance practices at the invested companies and promote the fund's sustainability principles.

Voting is conducted via proxy voting by ISS in accordance with their international "Sustainability Guidelines". These proxy voting guidelines were specifically developed for sustainability minded investors and advocate for stewardship of environment, fair labor practices, non-discrimination and the protection of human rights. The guidelines take internationally recognized sustainability-related initiatives such as the United Nations Environment United Nations Principles for Responsible Investment (UNPRI), United Nations Global Compact (UNGC), Global Reporting Initiative (GRI), Carbon Principles and the International Labor Organization Conventions (ILO) as a frame of reference, all of which promote a fair, unified, and productive reporting and compliance environment which advances positive corporate ESG actions. Shareholder proposals which aim to increase transparency on material ESG issues and enhance long term shareholder value creation are generally supported

The proxy voting guidelines are updated annually to consider emerging issues and trends on environmental, social and corporate governance topics, as well as the evolution of market standards and regulatory changes. The full guidelines can be found [here](#).

Due to its strong focus on environmental stewardship and robust corporate governance, the ISS sustainability policy is consistent with the fund's sustainability values and helps advance its sustainability goals. Supporting proposals that require companies to disclose climate and water-related figures, for example, helps to improve the quality of the fund's reporting. Supporting proposals calling for a reduction of GHG emission can even directly improve the fund's environmental footprint.

Voting intentions according to the policy are regularly monitored by the fund management and can be changed at any time. To share voting intentions on shareholder resolutions with other sustainable investors, the fund manager usually publishes these intentions on the UNPRI platform. Voting activities as well as results may also be part of the active dialogue with company representatives. Information on past voting activities is published in the annual sustainability report which can be found [here](#).

## 6 Monitoring and reporting

To monitor the fund's sustainability performance, the following KPIs are regularly monitored:

- Tareno Sustainability Score
- Number of TCFD Signatories
- Number of companies with emissions reduction targets
- Number of companies with a Water Resource Management Policy
- Number of companies with water-related targets
- Number of UNGC Signatories
- Number of companies with UNGC violations
- Number of companies with a Human Rights Policy
- Average % of females on the board

Coverage is 100% for all KPIs listed above. Data is provided by ISS ESG and is based on data reported by companies. Additional KPIs with lower coverage are measured and may be published in the fund's sustainability reporting.

If a KPI is negative (for example no Water Policy available) or below a certain predefined threshold (for example below 10% for "Average Females on Board"), the company will be flagged, and the issue will be addressed at the next dialogue with the company.

Full fund holdings with selected KPIs are published quarterly on the [fund website](#), including performance comparison with the investment universe.

More qualitative information about the fund's sustainability performance as well as its active ownership activities can be found in the annual [sustainability report](#).

## 7 Risk control and compliance

External and internal control mechanisms are applied to ensure the fund's compliance with all ESG-related requirements.

The trading team conducts pre-trade checks which include ensuring that a company is part of the ESG-screened investment universe. Additionally, an exclusion list is sent to the management company once a month. The management company double-checks that no investments in companies on the exclusion list are made.

The head of risk management supervises the fund managers and issues a semi-annually control report confirming the compliance of the investments with the requirements listed below.

Nr.	Area	Restriction	
1	ESG Analysis	No investments in companies without ESG Analysis	<input checked="" type="checkbox"/>
2	Investment Universe	Elimination of at least 30% of companies from the initial investment universe	<input checked="" type="checkbox"/>
3	Business Involvement	No investments in companies on the ESG exclusion list due involvement in excluded business sectors	<input checked="" type="checkbox"/>
4	Controversies	No investments in companies on the ESG exclusion list due to involvement in severe controversies	<input checked="" type="checkbox"/>
5	Controversies	Active monitoring of companies on the watch list	<input checked="" type="checkbox"/>
6	UN Global Compact	No investments in companies that violate the UN Global Compact principles	<input checked="" type="checkbox"/>
7	UN Global Compact	Active monitoring of companies on the watch list	<input checked="" type="checkbox"/>
8	ESG KPIs	Measurement of ESG KPIs as defined in the fund's sustainability guidelines	<input checked="" type="checkbox"/>
9	Transparency	Fund holdings are published on the fund website	<input checked="" type="checkbox"/>
10	Proxy Voting	No votes against the fund's sustainability policy	<input checked="" type="checkbox"/>

In the event of a breach of rules, the management company will be informed promptly and appropriate measures will be taken.

## 8 Derivatives policy

The fund may invest in derivative instruments such as currency forwards. This instrument is only used for hedging purposes. The Sub-Fund does not invest in soft-commodities or engage in any securities lending transactions. In case of an investment in any derivative instrument, an ESG analysis of the underlying as well as the issuer must be carried out beforehand.



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