



## Environmental, Social & Governance Policy

This policy details the approach of Velox Capital Partners LLP (“Velox”) to integrating Environmental, Social and Governance (ESG) factors within the firm and its investment processes. It is reviewed periodically by the ESG Committee (as per the committee’s Terms of Reference), and updated where necessary to reflect changes in circumstances and practice.



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# WHO WE ARE



Velox, a company incorporated under the laws of England and Wales, has agreed to act as the Appointed Representative of Marble Bar Asset Management LLP (“MBAM”), the Investment Manager to the Velox Fund (the “Fund”). Through the Appointed Representative and Secondment Agreements between Velox and MBAM, the members of Velox are responsible for the discretionary management of the Velox Fund, implemented through an investment process which revolves around integrating technicals, fundamentals, ESG, sentiment and catalysts in order to find repeatable patterns of market behaviour within a controlled environment of risk disciplines. We embrace technology to organise processes and aggregate market data to prepare for efficient analysis. The Velox Fund is an Article 8 fund.

## Our Culture

We at Velox believe that for any company to deliver long-term, sustainable, value creation it needs to consider all stakeholders - including regulators, shareholders, employees, partners, clients, suppliers, the environment and the local community. Simply put, to be as focused on its business practices as on its financial performance. We trust that the integration of ESG factors within the organisation and investment strategy allow us to better handle risks and opportunities, and that sustainable business practices drive long-term value creation in the same way that revenues or costs would. As such, Velox has a specific responsibility to act in interests of these stakeholders.

This ethos is embedded within our Mission Statement, Core Values and Commitments. This includes having programmes in place to promote equality and value diversity, having a robust and fully transparent investment process, adhering to best practice on board composition, having solid policies in place to ensure the health and safety of employees, and to minimise any negative impact on the environment.



# Mission Statement

*Deliver positive, consistent returns across economic cycles, driven by a foundation of integrity, responsibility, people and innovation.*

## Core Values

### DISCIPLINE & REFLECTION

Follow the process, embrace opportunities to question & learn

### MANAGE RISK

Identify, understand & mitigate

### INTEGRITY

Upholding the highest standards in our decision making & actions

### RESPONSIBILITY

For the environment, society & good governance

### VALUE PEOPLE

Drive performance through wellbeing, development & mutual respect

### INNOVATE

Advance technology. Inspire creativity, positivity, quality, individuality & leadership



# Commitments

In order to reach our ESG integration goals we have set commitments which we seek to adhere to and achieve through the operations of the firm and team, and also through our investment process. At the firm level these are managed by our Corporate Social Responsibility (CSR) Manager, and within the investment strategy our dedicated ESG Officer. These commitments are reviewed and assessed at each quarterly ESG committee meeting, or more often as required.

- 
- ① minimise waste and preserve resources
  - ② reduce carbon footprint
  - ③ make a positive contribution to society
  - ④ improve health & well-being
  - ⑤ promote equality & value diversity

As an example, to help fight climate we have committed to reduce our Carbon Footprint. On the investment side, this is executed via excluding Thermal Coal and Palm Oil from investable industries. At the firm level, examples include partnering with charities to increase biodiversity, volunteering at local community engagement initiatives, reducing office printing, and minimising work related travel.

Please refer to our [website](#) and [Sustainability Reports](#) for details on our latest initiatives.



# Environmental, Social & Governance Factors

ESG factors embrace aspects of a business which may materially influence its financial performance over time. But more than this, we believe that businesses must not only deliver financial performance, but also show how it makes a positive contribution to the environment and to society. At Velox we look at these holistically, meaning that we place as much importance on the integration of ESG factors in our internal operations as we do through our investment process.

ESG related risks and opportunities vary by country, industry and size, but examples may include:



Risk



Opportunity

e

‘Stranded assets’ risk for oil & gas companies.

Mispricing due to investment into renewables.

s

‘Human rights’ risk for retailers sourcing from suppliers operating unethical and illegal working conditions.

Investing in companies with good labour management practices leading to less turnover and higher labour efficiency.

g

‘Transparency & Accountability’ risk due to lack of appropriate board oversight and decision-making structures which undermine investor confidence in management.

Invest in companies promoting transparent pay packages linked to ESG, which gives faith in the company’s efforts towards stakeholder management and sustainable practices.



# Oversight

To provide continuous oversight of our efforts the Velox board have appointed an ESG committee and also integrated ESG factors into the duties of our Risk Committee.

The ESG Committee assists in the fulfilment of our responsibilities and duties towards the implementation and management of environmental, social and governance initiatives, with respect to Velox and its duties to the Fund.

The committee comprises of at least four members. Members of the committee are appointed by the board in consultation with the chairman of the ESG committee. Members represent CSR, investment, risk and management in order to align incentives across the company.

The committee shall meet quarterly, and otherwise as required. Ongoing monitoring on ESG parameters, limits and exposures for the purpose of the investment strategy will sit with the Risk Committee, which meets weekly.

A copy of the ESG Committees Terms of Reference can be made available upon request.

The Risk Committee is explicitly in charge of monitoring, evaluating and mitigating risks arising from ESG in our investment process. Please see [Risk Integration](#) for more details.

## ESG COMMITTEE



ADAM  
DAVIES  
*Chair*



SAARTHAK  
CHHABRA  
*ESG Officer*



ISOBEL  
LAWLOR  
*CSR Manager*



DIMITRI  
KERN  
*Member*



ELINA  
KOVALEVA  
*Member*



JEREMY  
STONE  
*Member*

# Partnerships, Pledges & Regulations

Velox supports international initiatives and guidelines to promote and support sustainable enterprises. We have adopted the UN's Principles for Responsible Investments (PRI). PRI comprises six principles, as an open global initiative, launched in 2006, which has become a global standard for sustainable investments. Velox signed PRI in 2019.

Together with Velox's Core Values and Commitments, these principles are an important foundation for the integration of ESG principles through the organisation and the investment process, forming a guide for initiatives managed by our CSR Manager, ESG Officer and ESG Committee as a whole.

Additional partnerships, pledges and regulations for the firm and Velox strategy include:



Signatory of:







# Remuneration

Remuneration is structured in such a way as to encourage a long-term focus in line the sustainability of the Velox business, and with clients. To benefit the financial security of employees, Velox have increased alignment, transparency and frequency within the bonus structure. A discretionary bonus scheme exists to compensate staff, with analyst bonus payments tied to performance fee generated. Payments are deferred over 4 quarters, in equal amounts, from the point at which it is allocated (year-end).

Velox consider ESG factors alongside our long standing fundamental, technical, sentiment and catalyst analysis. As such, the ESG Committee deem it against the investment policy, and the concept of full ESG integration, to incentivise investment on the basis of E,S or G factors over others. Any material breaches of the firm's policies by a staff member, including this ESG Policy, may result in that staff member's bonus being adjusted down.

## PORTFOLIO MANAGERS

Equity Ownership // VCP LLP

## CEO

Shadow Equity // VCP LLP

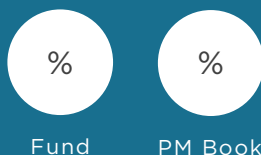
(and aligned to duration. See illustration in Analyst section below)

## ANALYSTS

Share of performance fee // Fully transparent

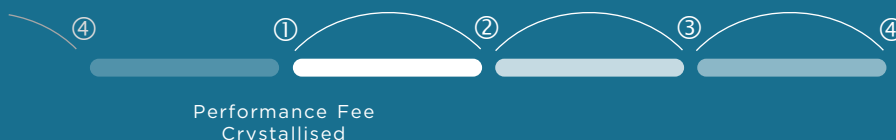
Alignment to Performance

At Fund and Book levels



Alignment to Duration

Bonus retained and paid in equal amounts over four quarters



# Active Engagement



We strongly believe in the importance of active engagement, which we implement predominately through our Fundamental strategies. By engaging in dialogue with companies on their business practices, we enhance our understanding of a company's exposure to key ESG risks and opportunities, providing us with an additional layer of insight that feeds into our investment decision making. We also follow the SASB framework to direct companies to provide standardised, industry-specific, and materiality-based disclosures as we believe that in order to better evaluate ESG related risks and opportunities within our investment universe, more complete and reliable information is necessary. These efforts help us direct capital to influence more sustainable business practices.

The Velox Fund is a sub-fund of the DMS UCITS Platform SICAV, a Luxembourg domiciled UCITS. As securities are not physically held by the Fund it cannot partake in proxy voting.

## Transparency & Accountability

Velox is committed to providing timely and relevant communication and reporting of its ESG integration efforts both externally (e.g. to key stakeholders such as clients) as well as internally (e.g. to teams, committees and management).

We regularly post to the Velox ESG blog, named "ESG Spotlight" and hosted on the Velox website. With the blog we hope to shed some light on our thoughts, practices, research and views – how we can help overcome the challenges ahead and at the same time find opportunities for investment. The Fund monthly newsletter also includes a section to further highlight "ESG Spotlight", often providing a summary or excerpt and directing readers to the full version.



ESG Spotlight

Via our ESG Spotlight we also provide access to our bi-annual Sustainability Report. The reports provide insight into our efforts including both internal and external analysis of Fund performance, incorporating measure such as the Sustainable Development Goals.



veloxcap.com

ESG information, including how we fulfil our commitments, is publicly available on the Velox corporate website.

Velox formally fulfils the reporting requirements that being a PRI signatory entails, in the form of the annual Transparency Report which is available on the Velox and PRI website. It also seeks to disclose the results of the PRI assessment of its ESG integration efforts.



# INVESTMENT PROCESS



*ESG factors provide an additional layer of information and insight integrated across an established and robust process*

We understand that ESG issues have the potential to influence returns meaningfully over the short, medium and long term, and recognise the importance of a formalised approach towards evaluating and integrating them into our investment strategy. Using industry specific Material Risk Factors, we have created a bespoke Traffic Light System integrated across the entire investment process - research, portfolio construction and risk management - with accessibility maximised by our proprietary application, ViA, which actively monitors and displays the Velox ESG colour and key ESG risks that a particular company is facing.



Material Risk Factors ↓



Traffic Light System ↓



Velox Integration App

[View online demo ↗](#)



# ESG Integration

ESG Integration, when done effectively, provides an opportunity for investment managers to integrate ESG principles and data into existing and well established fund strategies. Whilst impact investment will invest into a renewable company, ESG integration can find the bank or industrial company that is changing the way it interacts with the environment, society and its stakeholders. At Velox, we have integrated ESG factors as an additional layer of information and insight across our established process. Our proprietary industry specific systems and technologies seamlessly integrate ESG risk factors (including sustainability risks) and opportunities across the entire investment process. In doing so, we consider ESG alongside our long standing fundamental, technical, sentiment and catalyst analysis - identifying such risks and opportunities, whilst maintaining a market neutral long-short strategy.

We believe that ESG Impact and Exclusion strategies alone cannot hope to achieve global sustainability goals. Unless investment managers across ALL strategies evolve to contribute to achieving these targets, or at very least identify the associated risks, there will be no place for them in the future. Most investments strategies cannot, whilst maintaining their identity, evolve to be an Impact strategy - they must integrate ESG principles to survive.



## ...a note on shorting

ESG Integration, when deployed correctly, allows spotting of the worst in class companies. These companies are the laggards in their industry on sustainable transition and are slowing the pace of the collective transition. Velox uses its systems and processes to spot these ESG laggards. Actively shorting allows for engagement, capital to be redeployed from the laggards to leaders, and hedging against transition risks.

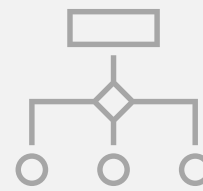
However, effective integration requires that the Velox investment process gives equal consideration to each of its five lenses: technicals, fundamentals, ESG, sentiment and catalysts. As such, ESG leaders in their industry, as identified by Velox's Traffic Light System, may also be shorted where the research team identify weaknesses through one or more of the other five lenses. Shorting in this way provides the same advantages, as for a company to be truly sustainable it must be in leader in ESG and traditional metrics.



# Materiality

The concept of materiality recognises that there are differences in the importance of information in making investment decisions across different industries and time frames. Materiality, in the context of ESG, considers the likelihood of an ESG factor having a substantial impact on the future prospects, financial condition and operating performance of a company.

Using MSCI data and an industry based materiality framework, our research team have identified a subset of Environmental, Social and Governance Factors that are material for each industry we invest. These factors are constantly monitored and reviewed by the ESG committee.



The investment team consider ESG factors equally and alongside the traditional metrics of active investment, such as financial impact and risk, legal, regulatory and policy drivers, industry norms and competitive drivers, opportunities for innovation as well as other factors related to macroeconomics and valuation.

The materiality of ESG factors can differ by industry and region, and the response to those factors can differ by company. We constantly evaluate a company's exposure to a material factor alongside the management's policies to mitigate the risk.



Factors that we look at include: Governance, Incentive structures, Human Capital Development, Interaction with society, Ecological efficiency and Product carbon footprint.



# Traffic Light System

The backbone of our ESG investment process is our proprietary ESG Traffic Light System that works in tandem with the current investment process. It provides our investment team with another layer of information to mitigate risks arising from ESG factors on any potential holding by assigning Red, Green and Amber flags to all companies in the investment universe. For each material key issue, we look at how exposed that company is to that risk factor and how its management are prepared to deal with the risk. Using both these factors we score the company against its industry on its overall key issue.

## RED

✗ Longs ✓ Shorts

We believe these companies have material risks that are destructive to society, environment or other stakeholders. Velox's investment strategy is prohibited from going long any Red security. For a company to be classified as Red, more than half of its material key issues should be ranked in the bottom quartile.

## AMBER

✓ Longs ✓ Shorts

These securities have some risks associated with ESG. Research analysts are mandated to consider any risks associated with material ESG issues. After research and management engagement, if the analyst believes that the risks can be mitigated, they can recommend the security to the PM's.

## GREEN

✓ Longs ✓ Shorts

Companies are leading the way in their interactions with society, environment and their stakeholders. Velox's investment strategy can go long this security without any specific ESG consideration. Greens have no material key issues in the bottom quartile and at least 3/4 of its key issues in the top 2 quartiles.

For companies with missing data on key issues, the industry wide material key issues will be highlighted within ViA. The research analysts can then engage with company management, speak to sell side brokers or make their own judgements on the company's exposure to those issues.

The ESG Traffic Light System does not apply to the Arbitrage strategy. The Arbitrage strategy looks at pricing dislocations in the market and lasts a maximum of 48 hours. We do not feel that ESG risks will manifest in such a short period of time and are therefore inapplicable to this strategy.

The ESG Traffic Light System does not apply to our hedges. Velox use a combination of market and factor indices to hedge out unwanted market and factor exposures in the book. Since these are created by brokers or index providers, Velox does not have control over the constituents and as such cannot apply our Traffic Light System to them.



## Good Governance

SFDR requires that all corporate investments meet the principle of good governance, which all companies held within an Article 8 fund should satisfy. Velox utilise relative governance rankings and severity of controversies on governance to flag companies as Red in our ESG traffic light system. As per the Velox ESG Policy, Reds cannot be held as long investments.



1

The first step is relative assessment against home market peers guided by MSCI's "Home Market Percentile": a percentile rank comparing Home Market Companies, from 1-100 (100 being the best), on Pay, Board, Accounting and Ownership practices. A company that ranks below 25% receives a warning flag on that issue. If more than 50% of the key issues are flagged, then the company is given an overall **RED** rating.



2

Additionally, we assess controversies arising on Business Ethics, Fraud, Anti-competitive Practices, Corruption and Tax Practices. Companies with severe or very severe controversies that generate a significant reduction in their MSCI Corporate Behaviour score will be given a **RED** rating.

Note: Velox trades short positions, and in indices and custom baskets for hedging purposes. These are not considered company investments and the good governance policy is not applied to those financial securities.

# Exclusions



Velox also believes that as stewards of capital, we have a duty to direct capital to companies that are good corporate citizens. We exclude long investments in all of the below industries as we deem them unethical. We allow shorting in certain industries where we feel short interest can encourage better practices.

## CLIMATE CHANGE

Velox has decided to tackle climate change by turning its focus to Coal and Palm Oil.



### COAL

If Global Warming is to be contained within 2 degrees Celsius, many of the fossil fuel reserves, especially Coal should not be extracted and burned. Coal has one of the highest CO2 content per energy produced. We exclude companies involved in the mining of coal and those that are generating any power from thermal coal - allowing a concession for generators active in renewables (>5% of revenue).



### PALM OIL

Velox believes that non-sustainable palm oil production is a significant contributor to climate change due to its big contribution to deforestation. We exclude companies that derive more than 10% of turnover from non-sustainable palm oil production.



### CONTROVERSIAL WEAPONS

The manufacture of armaments is in conflict with sustainable development due to its potential to inflict death and injury and cause damage to natural capital. As per the Ottawa Convention (1997) and the Oslo Convention (2008). We exclude companies that derive more than 10% of turnover from production of controversial weapon systems or critical components of these.



### TOBACCO

Velox believes that companies that derive their revenue from tobacco or related industries are in conflict with the concept of social development because of the health impacts of smoking. We exclude companies that license or produce tobacco or related products with a revenue threshold of 0% and companies that get more than 10% turnover from tobacco distribution or supply.



### GAMBLING

Velox believes that there is a significant negative social impact from gambling addiction and has decided to reprimand companies involved in the industry. We exclude long holdings in companies that derive more than 10% turnover from management of, ownership of or supply to gambling facilities.



### PREDATORY LENDING

Velox believes that companies that profit from situations where people are desperate and financially weak is not something that we would like to put our capital towards. We exclude long holdings in companies that get more than 10% turnover from predatory lending activities.



### CANNABIS

Similar to smoking and gambling, Velox understands the threat to sustainable development that cannabis is associated with due to its addictive nature. We exclude companies that get more than 10% turnover from cannabis production or distribution.



### ADULT ENTERTAINMENT

The degrading portrayal of individuals in pornography has been linked with contribution to sexual discrimination, exploitation of the vulnerable and has been a contributor to violence against certain groups. We exclude companies that get more than 10% turnover from production, distribution or retailing of pornographic content.







## Monitoring & Internal Reporting

We embrace technology to organise processes and aggregate market data to prepare for efficient analysis so it is imperative that we can quickly identify a change in a company's ESG characteristics. We have developed a bespoke application, ViA, which actively monitors and displays the Velox ESG colour and key ESG risks that a particular company is facing.



Velox Integration App

*[View online demo ↗](#)*

Additionally, ESG factors are fully integrated into our research notes. All research notes include a section detailing the key ESG risks the company is facing after being thoroughly researched and assessed. As such, the investment team, and therefore the strategy we manage, can have a holistic view of the risks faced by the company.

## Risk Integration

The purpose of the Velox Risk Committee is to assist all Velox staff in the fulfilment of their corporate governance duties in relation to risk management, internal controls and financial reporting, with respect to Velox and its duties to the investment strategy.

We strongly believe that risks arising from an investment company's conduct towards the Environment, Society and its own Corporate Governance are highly correlated to its performance. Controversial behaviour is increasingly penalised and can pose a material risk to the performance of a security. Hence, we have taken a calculated step to integrate risk assessment from an ESG perspective into the duties of the risk committee.

The risk committee meetings address the below ESG duties:

- ▲ Monitor, question and evaluate any long positions that have moved to red according to the Traffic Light System and manage the subsequent divestment;
- ▲ Monitor and flag any holdings that have moved from one colour to another;
- ▲ Discuss and evaluate the key ESG risks for the mid-long term holdings of the portfolio; and,
- ▲ Discuss ongoing key issue ESG controversies on the holdings in the portfolio.





## CONTACT

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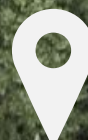
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## Amendments to this Policy

| Version No. | Date          | Description  | Author  |
|-------------|---------------|--|---------|
| 1.0         | Jan 2020      | First version  | AD & SC |
| 1.1         | August 2020   | Updates to reflect implementation  | AD & SC |
| 1.2         | January 2021  | Update removing Nuclear from Exclusion list  | SC      |
| 1.3         | March 2021    | Addition of last paragraph on page 6   | SC      |
| 1.4         | August 2021   | Updates following fund transfer. MBAM as Investment Manager and Velox fund as sub-fund of the DMS UCITS Platform SICAV | IL      |
| 1.5         | April 2022    | Full review and revisions. Addition of ESG Integration and Shorting sub sections                                       | AD      |
| 1.6         | November 2022 | Addition of Good Governance and Remuneration policies  | AD      |