



Quantum Advisors

India Responsible Returns Strategy Principal Adverse Impact Statement

This statement refers to the REGULATION¹ (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures (SFDR) in the financial services sector.



Introduction

This disclosure is applicable to Quantum Advisors' Q India Responsible Returns Strategy which uses its proprietary ESG framework to build a portfolio of sustainable Indian companies. Q India Responsible Returns Strategy ("QIRR") is an investment strategy offered by Quantum Advisors Private Limited ("Quantum Advisors" or "Q India") under its Discretionary Portfolio Management Services in form of Separately Managed Account (SMA) to its clients.

This statement describes how we consider principal adverse impacts (PAI) of our investment decisions on sustainability factors, as per Article 4 of the SFDR. This statement applies as of June 2022 and it will be reviewed annually.

The Sustainable Financial Disclosure Regulation (SFDR)¹ currently defines sustainability factors as environmental, biodiversity, social and employee matters, governance, human rights, anti-corruption, energy efficiency, and health and safety.

Summary

In our view some of the business activities may cause and contribute towards negative effects on environmental factors. In the context of SFDR, the most significant negative effects on sustainability that are material or likely to be material are referred to as Principle Adverse Indicators (PAI's). Quantum Advisor's India Responsible Returns (ESG) Strategy aims to manage the risk connected to potential adverse impacts from our investments in various ways possible. We have strict screening criteria in place to measure the double materiality the various ESG factors have on a company's operations. Identifying and mapping materiality is the foundation of our ESG analysis. The company analysis includes enhanced due diligence on environmental, social and governance risks material to the investee company and considers how companies manage the identified ESG risks.

To this end, Quantum Advisor's India Responsible Returns Strategy, considers the principal adverse impacts of its investment decisions on sustainability factors throughout all major steps of the investment and portfolio management process.

The mandatory and voluntary PAI's which are currently monitored and evaluated include:

¹Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector



Mandatory PAI's		
Adverse sustainability indicator	Metric	
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
Greenhouse gas emissions⁽²⁾	GHG emissions	Scope 1 GHG emissions
		Scope 2 GHG emissions
		Scope 3 GHG emissions
		Total GHG emissions
	Carbon foot print	Carbon footprint
	GHG intensity of investee companies	GHG intensity of investee companies Share of investments in companies active in the fossil fuel sector
	Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
	Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage
Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	
Biodiversity	Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas
Water	Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
Waste	Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average



**SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS,
 ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS**

Social and employee matters	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
	Board gender diversity	Average ratio of female to male board members in investee companies
	Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons

⁽²⁾For the mandatory PAI's Emissions indicator, We have estimated the missing emission data of companies by taking the peer-set median emission intensity (Emissions/Power and Fuel Cost) OR (Emissions/Employees; for financial sector only).As power and fuel cost acts as a proxy to the emissions a company may have,the peer-set median emission intensity is then multiplied to the company's own Power and Fuel Cost to arrive at an estimated emission of the company.

Energy - We have estimated the missing energy consumption data of companies by taking the peer-set median energy consumption intensity (Energy/Power and Fuel Cost) OR (Energy/Employees; for financial sector only).As power and fuel cost acts as a proxy to the emissions a company may have,the peer-set median energy intensity is then multiplied to the company's own Power and Fuel Cost to arrive at an estimated energy consumption of the company.



For the SFDR voluntary PAI indicators we selected an Social indicator relating to rate of accidents as this applies across a broad set of the industries in our portfolio and we believe this is a strong indicator for corporate culture and employee welfare over all. We also choose CEO to median remuneration as another Social indicator as we strongly believe that executive remuneration should be linked with company's ESG goals and we continuously track median remuneration to understand disproportionate salaries drawn by senior management and missed ESG goals over all.

For the Environment we choose water consumption and recycling PAI. As per our research Currently 54% of India's water availability is located in water stressed zones. It is very important for us to know how companies manage their water consumption, sources of water withdrawal and water recycling

Voluntary PAI's	
Adverse sustainability indicator	Metric
Number of days lost to injuries, accidents, fatalities or illness	Number of workdays lost to injuries, accidents, fatalities or illness of investee companies expressed as a weighted average
Water Consumption	Total water consumption in kilo litres
Water Recycling	Share of water recycling as a percentage of total water consumption
CEO to median remuneration	Mapping the remuneration of highest paid employee to median remuneration of all employees in the organization.

Our current policies to identify and prioritise PAI's in our ESG portfolio :

Subjected to the data availability, our ESG team will monitor the above mentioned mandatory and voluntary PAI indicators for our Responsible Returns portfolio on an ongoing basis using our internally developed research methodology,. As an active fund manager we source data directly with out using third party data provider. Any issuers identified or exhibit high adverse impact across given indicators, are subjected to further analysis by our team. Which will then further be escalated to Chief Sustainability Officer, Investor Relations or anyone else who may answer sustainability related queries. If we are unsatisfied with the response, then we may write to the board of directors. If we believe that management response is satisfactory then we may continue to hold the stock in our fund or else we would trim our exposure or divest out of it completely depending on the severity of the incident.

As presented in our [ESG policy available on our website](#), we identify principal adverse sustainability impacts at every stage of the investment process. We currently have



identified following policies and prioritise principal adverse indicators sustainability impacts:

Engagement policy

Quantum Advisors does not use any third-party consultants for ESG research. We have established a 6-member team dedicated to ESG analysis. In addition to the sector analysts, we have also hired 1 analyst to maintain a database of key ESG KPIs for our coverage universe. Each ESG analyst has a sector focus and is responsible for identifying material ESG aspects relevant to the companies within the sector.

We engage with companies to:-

- Gain a better understanding of their overall sustainability strategy
- Understand some of the challenges faced in the execution of their strategy and keep ourselves informed of their preparedness to any upcoming change in regulation, future risks, and evolving technologies that could impact or assist the issues they face on the ESG front
- Seek clarification on their long term targets and goals
- Research and ESG analysts also visit the manufacturing plants of companies to get a better understanding of the production process, health and safety practices, quality control measures, etc. Research Team also engages with suppliers / vendors of the company to gain deeper understanding of their supply chain practices
- In addition to engaging with company managements and suppliers, our analysts attend seminars, conferences and climate summits organized by various institutions such as FICCI (Federation of Indian Chambers of Commerce and Industry), Centre for Responsible Business, and Investment and Pensions Europe to understand the evolving external environment and how Indian companies are gearing for the relevant ESG risks and opportunities.

Our current exclusion list:

Our current exclusion policy covers the following sectors

- **Hard liquor** (the term 'liquor' does not include wine and beer)
- **Tobacco**
- **Gambling**

No action:

As a process, we review all our portfolio stocks once in every 6 months for ESG checks. Our portfolio actions depend on the score a company derives through our in-house research on ESG qualitative and quantitative aspects. If any of our portfolio companies have a negative controversy, we take immediate action post engaging with the management or company board of directors.



Active ownership

We engage with companies as part of our regular research process and also when we observe breaches in a company's corporate governance and / or environmental and social practices. On occasions we have also written to the Board to highlight certain areas where improvement in ESG practices was required.

If the research team observes data points highlighting breach of ESG issues, a meeting is sought with the management to seek an explanation for the same including what corrective action is being considered to remedy the breach.

Divestment

If the management is unresponsive then it will not be considered for the portfolio. In case the company is already part of the portfolio then the investment team may consider writing to the board of directors to highlight its observations and seek immediate action. If no action is forthcoming from the company, if part of the portfolio will be liquidated.

Voting Policy

As a matter of policy and as a fiduciary to its clients, the Firm has responsibility for voting proxies for portfolio securities consistent with the best economic interests of the clients unless otherwise provided in the investment management agreement with the client. The firm's policy on proxy voting clearly states that, all voting decisions are taken on a case-to-case basis. The concerned research analyst at the Firm reviews the different proposals put before the shareholders and arrives at a final decision on how to vote, keeping in mind the long term interest of the client and the detailed guidelines put in place by the research and investment team

Quantum Advisor's alignment to internationally recognised standards

Quantum Advisors supports the objectives of the UN Sustainable Development Goals. The list below sets out the responsible investing and the best practices which we adhere to, we also look into other organisations when assessing our investments, and collaborate where necessary

Quantum Advisors is an active member or supporter of below mentioned organizations. We support the best practices of many frameworks and standards and try to incorporate them into our own organisation and seek to evaluate our investee companies help in our sustainability linked strategies against the many global best practices advocated by such standards:

- Quantum Advisors is a member of Workforce Disclosure Initiative (WDI) (<https://shareaction.org/workforce-disclosure-initiative/>). WDI is run by Share Action and part funded by the UK Government's Department for International Development (DFID). WDI aims to improve corporate transparency and accountability on workforce issues. Leveraging WDI's global understanding



on workforce related issues, Quantum has begun to engage with Indian companies and nudge them towards better/wider disclosures on workforce related metrics.

- ILO conventions on labour standards
- OECD Principles of Corporate Governance
- United Nations Global Compact
- Transition Pathway Initiative (TPI)
- Task Force for Climate Related Financial Disclosure (TCFD)
- Children's Rights and Business Principles
- Universal Declaration of Human Rights
- Paris Agreement under the United Nations Framework Convention on Climate Change
- Science Based Targets initiative (SBTi) targets