



**Quintet Asset Management**  
**Sustainable Investment Framework**  
**(Summary)**

# Sustainable Investment Framework (Summary)

<b>Status:</b> Project	<b>Document Type:</b> Process	<b>Version:</b> 03.0
<b>Version:</b> EN		<b>Issuing Date:</b> 01.09.2025

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Responsible	Entity	Date
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Authorised Management	QAM	01.09.2025

## Versioning

Version	Effective Date	Changes
01	31.12.2022	NA – creation of the document
02	31.12.2023	Updated criteria in first SFDR pillar - contribution
03	01.09.2025	Update for Quintet Asset Management S.A.

## Table of Contents

1. Introduction.....	4
1.1    QAM's interpretation of the sustainable investment definition.....	4
1.2    Application.....	4
2. Approach to single lines (equities and bonds) .....	5
2.1    General approach .....	5
2.2    Green bonds .....	6

## 1. Introduction

This document describes QAM's Sustainable Investment Framework ("SIF"), which is a framework to generate an instrument-level data set in order to meet the requirements laid out in the European Regulation (EU) 2019/2088 on Sustainable Finance Disclosure Regulation ("SFDR"), Article 2(17).

This data set is also needed in the context of MiFID ESG, in order to be able to match instruments and products with clients' sustainability preferences.

### 1.1 QAM's interpretation of the sustainable investment definition

QAM's interpretation is that SFDR's definition of a sustainable investment applies to investments instruments related to corporate and sovereign bonds.. As the SFDR's sustainable investment definition is multi-dimensional, in order to systematically assess investments based on this definition, QAM has divided the definition into three key pillars:

1. Contribution to an environmental and social objective
2. Do no significant harm
3. Good governance

QAM's interpretation is that an investment instrument needs to meet the requirements of each pillar to be considered a sustainable investment. An exception to this are sovereign bonds, as the European Commission has clarified that the good governance requirement only applies to investments in companies<sup>1</sup>.

### 1.2 Application

The framework is applied to investments in equities and bonds (including sovereign bonds, though Quintet for the time being will only consider sovereign bonds that are Green Bonds as potentially eligible to be sustainable investments).

For each asset class we may deploy a tailored approach, depending on the nature of the asset class and our interpretation of the regulation.

For investments in third-party mutual funds, Exchange Traded Funds (ETFs), and Alternative Investment Funds<sup>2</sup> ("Alternatives"), QAM relies on the sustainable investment disclosures of these financial products. QAM's current

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<sup>1</sup> Q&A provided by the European Commission with answers to questions of the ESAs, d.d. 25 May 2022, p.8.

<sup>2</sup> Alternative investment funds as defined in the Directive 2011/61/EU

interpretation is that this is the method expected by the European Commission and the European Supervisory Authorities. QAM's approach may be amended in case regulatory guidance prescribes a different method.

## 2. Approach to single lines (equities and bonds)

### 2.1 General approach

An equity or corporate bond needs to meet the three pillars listed in section 1.1 in order to qualify as a sustainable investment. The general approach to each of the three pillars is described in the table below.

SFDR Sustainable Investment pillar	QAM Approach
1. Contribution to an environmental or social objective	<p>As there is limited quantitative market data available on this topic, QAM has opted for using different "lenses" to evidence such contribution by leveraging on different data sets, each capturing potential contributions in different ways. The following data sets have been selected for that purpose:</p> <ul style="list-style-type: none"> <li>1. EU Taxonomy alignment<sup>3</sup>;</li> <li>2. Sustainable activities or Transition themes;</li> <li>3. Strong performance on carbon emissions and risks; and</li> <li>4. Companies active in healthcare and education.</li> <li>5. UN Sustainable Development Goal alignment (SDG)</li> </ul> <p>Companies are considered meeting the requirements of the first pillar if they have significant revenue alignment with the EU Taxonomy alignment (<math>&gt;=25\%</math>), or significant revenue involvement in sustainable activities (<math>&gt;= 25\%</math>), or significant revenue alignment to at least one transition theme (<math>&gt;=33\%</math> for equities/corporate bonds or <math>&gt;=75\%</math> for impact bonds) or low carbon intensity combined with low carbon risks and good performance on ESG factors, or derive a majority of their revenues from healthcare or education, or significant revenue alignment to at least one SDG (<math>&gt;=25\%</math>).</p>
2. Do no significant harm (DNSH)	<p>In line with the requirements described in the SFDR Delegated Regulation, our framework relies on two key elements to assess whether companies don't do significant harm:</p> <ol style="list-style-type: none"> <li>1. Compliance with the UN Global Compact principles, including compliance with the OECD guidelines for SMEs and UN Guiding Principles for Business &amp; Human Rights.</li> <li>2. Taking into account the Principal Adverse Impacts (PAIs) listed in Annex I of the SFDR Delegated Regulation that are considered relevant to assess potential significant harm. The regulation does not prescribe a specific way to do this. QAM's current interpretation is that a prudent approach is to set quantitative thresholds for relevant PAIs, which need to be met to demonstrate no</li> </ol>

<sup>3</sup> Environmentally sustainable activities which meet the criteria set forth in Article 3 of Regulation 2020/852 on the establishment of a framework to facilitate sustainable investments (EU Taxonomy Regulation).

	significant harm. Where sufficient robust data is available QAM has set PAI-specific thresholds. For some PAIs where currently data is limited and/or considered insufficiently reliable - which does not allow to set meaningful thresholds for the indicators themselves – QAM considers an appropriate proxy, which also has a PAI-specific threshold. In cases where an appropriate proxy is not available, Quintet doesn't set a threshold for the PAI at this point and will continue to review the availability of (reliable) data or proxies, as well as regulatory guidance on how to address such cases.
3. Good governance	QAM uses external research related to governance controversies to identify companies that do not meet good governance practices. The good governance requirement is considered to be met when companies are not involved in severe controversies related to governance matters such as sound management structures, employee relations, remuneration of staff and tax compliance. In addition, QAM expects the companies to comply with the UN Global Compact principles, which include commitments to anti-corruption and labour relations to satisfy the good governance pillar.

QAM has interpreted the regulation to be based on a pass-fail method. As such, only when a company successfully meets the requirements in all three pillars, the investments instruments related to that company are considered sustainable investments. Such a holding is then considered a 100% sustainable investment. The percentage of sustainable investments in QAM financial product is subsequently calculated by adding up the weights of all investments that are considered sustainable investments.

## 2.2 Green bonds

QAM uses a separate approach for Green Bonds, as these are debt instruments where the funds raised are used exclusively to fund green projects. Green bonds are by nature focused on individual projects and cannot be used for general corporate purposes of the issuer. Applying the framework to the issuer of these bonds is therefore not an accurate assessment of whether or not the investment instrument is a sustainable investment based on SFDR.

To determine whether there is contribution to an environmental objective (pillar I), we consider any green bonds (both corporate and sovereign) that are part of the Bloomberg MSCI Global Green Bond Index to meet the requirements of pillar I.

Furthermore, it is our interpretation that good governance requirement applies at company level rather than project level, so we believe it would not be needed to assess good governance for green bond instruments. However, at this point the regulation is not clear about this. Therefore, as long as there is no regulatory guidance or established market practices on this, QAM will apply a precautionary approach in this regard. This approach entails that in order to consider Green Bond holdings as sustainable investments, these holdings also need to satisfy the good governance requirement either through the index construction by the index provider or through additional checks by QAM (in line with the checks done for non-green bonds, as described in the table). This does not apply to sovereign green bonds as the good

governance requirement only applies to investments in companies. In addition, as part of the precautionary approach, the do no significant harm (DNSH) requirement is also applied to green bonds – again, either through the index construction by the index provider or through additional checks conducted by QAM.