ETHICAL CAPITAL OPPORTUNITY ADVISORS
NEWSLETTER — Q1 2021

March 31st, 2021

FUND PERFORMANCE SUMMARY — Q1 2021

PROTEA UCITS II – ECO ADVISORS ESG ABSOLUTE RETURN FUND	MTD	QTD	YTD	Since Inception
F Class EUR (net of fees)	1.31%	-1.82%	-1.82%	2.81%
F Class GBP (net of fees)	1.36%	-1.69%	-1.69%	4.09%
F Class USD (net of fees)	1.39%	-1.63%	-1.63%	0.20%
P Class EUR (net of fees)	1.31%	-1.82%	-1.82%	0.40%

Monthly Performance (1yr)	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan 2021	Feb	Mar
F Class EUR (net of fees)	1.23%	-0.66%	0.87%	0.58%	0.63%	0.80%	-1.18%	0.16%	-1.04%	-0.53%	-2.58%	1.31%
F Class GBP (net of fees)	1.28%	-0.63%	0.91%	0.61%	0.66%	0.86%	-1.14%	0.20%	-1.00%	-0.48%	-2.54%	1.36%

Inception dates: F Class EUR and F Class GBP - July 8th, 2019
F Class USD - Oct 1st, 2019. P Class EUR - Jan 6th, 2020
Performance is shown net of all fees. Source: ECO Advisors, FundPartner Solutions Europe (SA)

ESG Portfolio Metrics

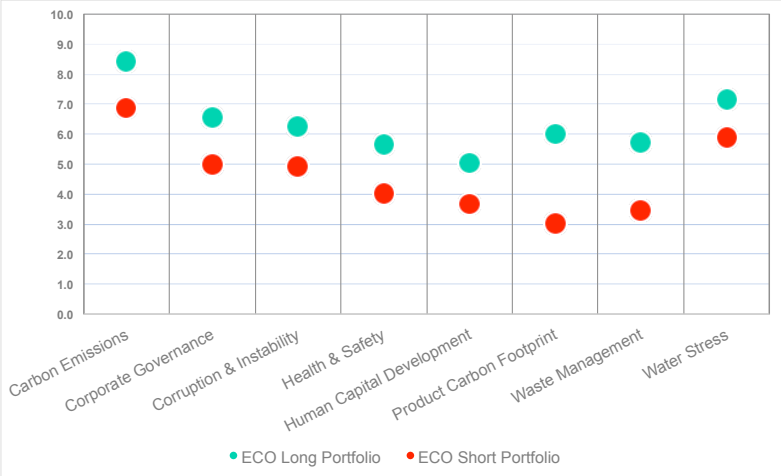


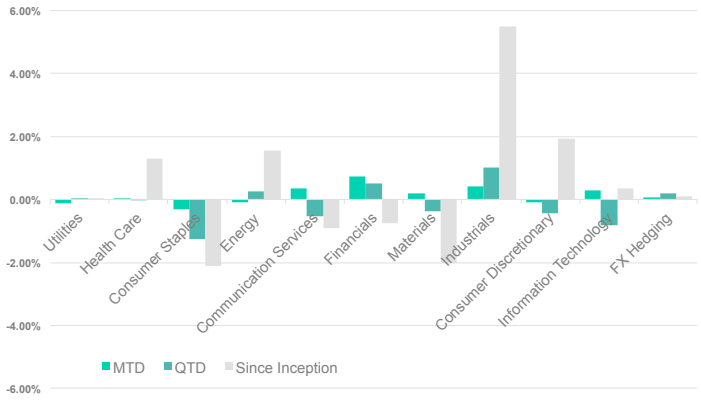
Chart illustrates weighted average score of selected MSCI ESG key issue scores for both our long and short portfolios. Source: ECO Advisors, MSCI

Gross Performance Summary

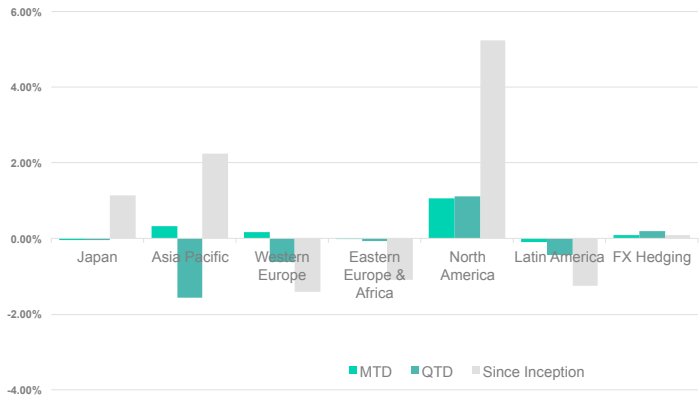
PROTEA UCITS II – ECO ADVISORS ESG ABSOLUTE RETURN	MTD	QTD	YTD	Since Inception
Gross Return	1.43%	-1.48%	-1.48%	4.93%
Long Contribution	2.98%	5.87%	5.87%	21.62%
Short Contribution	-1.64%	-7.52%	-7.52%	-16.79%
FX Hedging	0.08%	0.18%	0.18%	0.09%

The above figures are gross estimates of the fund's performance. Components may not sum due to compounding and rounding effects. Source: ECO Advisors

Gross Performance Attribution - Sectors



Gross Performance Attribution - Regions



The above figures are estimates, gross of fees. Source: ECO Advisors

PROTEA UCITS II – ECO ADVISORS ESG ABSOLUTE RETURN FUND
PORTFOLIO PERFORMANCE AND ATTRIBUTION Q1 2021

PERFORMANCE SUMMARY

Over the quarter, the Fund's GBP F class declined -1.7%, the EUR F class declined -1.8% and the USD F class declined -1.6%.

GROSS ATTRIBUTION SUMMARY

On a sector basis, Consumer Staples (-125bps) and Information Technology (-80bps) detracted, whilst Industrials (+100bps) contributed. On a regional basis, Asia Pacific (-160bps) and Latin America (-45bps) detracted, whilst North America (+110bps) contributed. The long book contributed ca. +590bps, whilst the short book detracted ca. -750bps. The cumulative contribution of risk factors such as sector, style, country and residual beta was negligible over the quarter, with the primary driver of negative return emanating from stock selection (-170bps), particularly from the short-side.

Global equity markets gained over the quarter with the MSCI World TR Index $ gaining +4.9%, buoyed by the commencement of COVID-19 vaccination programs, continued recovery in economic indicators and clear commitment to continued monetary and fiscal stimulus from policy makers. The strength of the market outlook for risk assets, coupled with a commitment to low short term rates for an extended period from the Fed, made this one of the worst quarters for bond investors in decades as yield curves steepened at a rapid pace. Global bond yields increased with the US 10yr treasury yield ending Q1 at 1.74%, up from 0.91% at the start of the period.

Under the surface, equity market conditions in Q1 proved to be very challenging for long/short alpha generation, and our ESG focused long/short strategy was not immune to the environment. Whilst the long side of the portfolio posted a solid return, several extreme market phenomena worked against our short security selection process, particularly in January and February. We did see evidence that these conditions moderated in March, with short side performance improving, and the strategy partially recovering from the declines suffered earlier in the quarter. We analyse this in more detail below.

A challenging environment for ESG short positions On the short side, we focus on companies that exhibit inferior Environmental, Social and Corporate Governance metrics. These companies often have more risky business practices and lower quality management and governance. Q1 2021 saw market dynamics that have been rewarding higher risk, lower quality companies that are typically less resilient through the cycle. We also witnessed the market rewarding more carbon intensive businesses (both across and within sectors), a marked deviation from the general trend rewarding carbon efficiency since the 2015 Paris accord. Ultimately, we view ESG security selection as a method to evaluate "management quality" and thus a means to potentially indirectly identify characteristics which normally differentiate long run corporate performance. Put simply, our short book tends to be populated with companies displaying traits which have been rewarded by the equity market in the recent period. Whilst we control for a number of these traits in our construction process where they manifest as technical or fundamental risk factors (for example leverage, beta & quality factors), some are simply core features of "low ESG" companies, which should lead to long run underperformance on the short side.

Increasing influence of retail flows on security pricing Retail flows became much more important in Q1, leading to an unexpected and significant increase in single stock risk, predominantly in the US and Asia. The huge rise in flows associated with retail investors in recent months clearly impacted our short portfolio. Such flows have typically been highly speculative, and often focused on companies with a high risk profile. The most visible manifestation of this phenomenon was the well publicised "Gamestop saga" and associated "meme stock" volatility in late January. While the fund did not hold a position in Gamestop, it was clear that similar, albeit less extreme speculative flows were impacting a large number of companies, including some within our short portfolio. Such names detracted ca. -75bps during the January period.

Echos of 1998-2000 The impact of this retail dynamic on idiosyncratic risk on the short side was unexpected. Unusually large idiosyncratic performance shocks went hand in hand with a wider speculative appetite for risk and discounting of effective corporate risk management. We have memories of the 1998-2000 tech boom and some of the market behaviour we have witnessed in Q1 reminds us of that period. Not since then have we seen such an embrace of high risk speculative investments, significant involvement of retail investors and, of course, a complete disregard for corporate governance factors by the equity market.

All these factors contributed to an unusually challenging backdrop for ESG investing, in particular, ESG focused short-side investing. We monitor and track the performance of a variety of ESG aligned investment approaches, and it is evident that the challenges faced were not unique to our strategy. Illustrations of the challenging environment for ESG focused investing are plentiful. We note that in Q1, a number of simple and/or passive approaches to ESG investing we monitor underperformed significantly.*

**A long only MSCI World Governance-focused index underperformed the MSCI World Index by -1.7% YTD, a long only MSCI World Environment focused index underperformed MSCI World by -7.7% and a US listed ETF which compiles some of the most poorly behaved ESG actors (VICE) outperformed the S&P 500 by 6.2% YTD.*

PORTFOLIO PERFORMANCE AND ATTRIBUTION Q1 2021

In the face of such abnormal and extreme environment during the quarter, we took the decision to move forward our portfolio rebalancing to February and, as part of this process, increased the number of names and diversification within the short book (from 105 to 150 names) in recognition of the extreme tail risk environment for shorts. We also reduced the portfolio gross exposure level from ca. 160% to ca. 110%.

Despite the neglect of ESG considerations reflected in equity prices in recent months, underlying ESG concerns (which we felt were likely to influence share prices in our short book) continued to build up. Indeed, we witnessed numerous examples in our short book, ranging from health and safety issues disrupting mining operations (Norilsk Nickel), extreme weather events disrupting utility supply markets (NRG Energy), and of course an increasing number of questionable business practices that had gone unpunished (TAL Education and New Oriental Education). In March however, we did see evidence of such ESG drivers re-emerging, both in our short book and most visibly in the IPO of Deliveroo. This no doubt contributed to a recovery in the Fund's performance.

It is certainly true that the duration and extent of the market's embrace of low ESG companies and the resultant impact on our short book over the last six months has surprised us. However, we are encouraged by signs of normalisation in March, with investors appearing more focused on valuation, risk, management quality and ESG. Identifying exact timing and catalysts is always difficult, but it was perhaps the normalisation in bond yields or the 'return to work'** which helped to cool some of the most excessive speculative behaviours seen in January and February.

We had sought to ensure that the Fund was well positioned to withstand an environment of rising bond yields and outperformance of value stocks, which we saw as inevitable given the post-COVID-19 economic recovery and potential for a sharp rebound in nominal GDP growth. Indeed, the positive performance against the backdrop of sharply rising treasury yields in late February and March reassured us that as the most speculative excesses of market behaviour are moderated, the strategy is well positioned to profit from what now appears to be marked under-appreciation of ESG risks and opportunities against the backdrop of the unfolding post COVID-19 economy where ESG factors remain at the forefront of economic, political and regulatory developments.

We are pleased to communicate that the Fund has continued gaining new investors in Q1 2021, and the AUM has increased from €131m to €147m since the beginning of the year. We remain focused on and committed to our core ESG investment process, and will continue to monitor the gross exposure of the portfolio to ensure it is appropriate for the market conditions and our mandate.

This chart of the JPMorgan High Short Interest index illustrates the challenges faced by short sellers in Q1 2021. The performance of a basket of US companies with high short interest was extreme compared to recent history, in part driven by retail investor flows. Source: JPMorgan, Bloomberg, ECO Advisors

**https://www.ft.com/content/0b4e6799-13c5-43ec-8963-67ac2a5bc2d6

LONG PORTFOLIO - SIGNIFICANT CONTRIBUTORS

> CLEAN ENERGY FUELS (+75%) The US renewable natural gas provider gained +75% over the quarter. In early March, Clean Energy Fuels and Total, its largest shareholder, formed a joint venture to develop carbon-negative renewable natural gas (RNG) production facilities in the United States. The company also won a contract with The Los Angeles County Metropolitan Transportation Authority to fuel the US' largest transit bus fleet. The stock has also benefited from anticipation that the Biden presidency will be able to push through significant green energy legislation over the coming years.

> APPLIED MATERIALS (+55%) Applied Materials gained +55% over the quarter. The company is set to benefit from a sharp increase in Capex in the sector, in particular from one of its key customers Taiwan Semiconductor Manufacturing (TSMC). TSMC forecast $25bn to $28bn in capital expenditures in 2021 to satisfy overwhelming demand. Applied Materials Q1 earnings & revenue beat estimates in February plus and the company announced a $7.5bn share buyback program. Applied Materials scores well relative to peers in both Corporate Governance and HR practices such as employee training and development.

SHORT PORTFOLIO - SIGNIFICANT DETRACTORS

> NATIONAL BEVERAGE CORP (+50%) The US soft drinks maker was impacted by speculative flows outlined above. In a huge volume surge in late January, the stock traded significantly higher as the retail investor community bought shares & call options in companies they believed to have high short interest. Whilst Gamestop shares were the main target of retail investors, there was spillover into many high short interest names including National Beverage Corp. We reduced or removed position sizes in a number of shorts that we thought were most susceptible to continued extreme speculation, including National Beverage Corp. The company lags peers in a number of ESG areas material to its business including packaging waste management and corporate governance.

> NEWS CORP (+42%) News Corp gained after earnings beat expectations amidst significant cost cutting and growth in digital subscriptions. The company also reached an agreement with Google for content payment which could serve as a model in other countries. News Corp lags peers in a number of key ESG areas, notably in a range of Corporate Governance practices.

SFDR - PROTEA UCITS II - ECO ADVISORS ESG ABSOLUTE RETURN FUND

SFDR, part of a broader legislative package under the European Commission's Sustainable Action Plan, came into effect on 10th March 2021.

ECO Advisors integrates sustainability risks and opportunities into its research, analysis and investment decision-making processes. The Fund it manages does so in a way to promote, among other characteristics, a combination of environmental and social characteristics (as provided under Article 8 of the SFDR).

Full details regarding the Investment Manager's approach to integrating sustainability in the investment process can be found in the Fund prospectus available in the Investor Portal area of our website and in the SFDR disclosure area on the website of the UCITS Management Company, Pictet Fund Partner Solutions, SA.

https://www.group.pictet/asset-services/esg-disclosures?isin=LU2002381171

ESG RESEARCH SPOTLIGHT: HUMAN CAPITAL, EMPLOYEE SATISFACTION, & SHAREHOLDER VALUE

Employees have always been understood as one basic element of what defines a corporation. However, perspectives on the role of the employee in corporate value creation have evolved significantly over time: from mere "inputs" in a production process or a "resource" to be managed, to an essential component critical for innovation and corporate success. As management and financial theory have continued to develop, the role of staff satisfaction as a driver and differentiator of corporate value creation is becoming clearer. New research and recent empirical work underline its materiality for investment outcomes, and not just for the employees themselves. This quarter's Research Spotlight reviews the evolution of thinking about this topic in the literature, some recent developments, and how ECO Advisors reflects this ESG theme in our investment portfolio.

The topic of staff satisfaction, labor relations, and employment practices as important components of ESG's "S pillar" is not new; in our Q1 2020 newsletter we discussed how companies that implement best practices in labour management (including, for example, flexible policies or paid leave) were better equipped to manage crises like the COVID-19 pandemic. The transmission mechanism comes from risk reduction, as such companies are less likely to need to rely on conditional loans or grants, or be regulated into bearing unexpected and unbudgeted staff-related costs. In this instance, the case for ESG materiality focuses on risk mitigation. However, the case for the value of "staff satisfaction" goes far beyond risk mitigation alone. Studies have found that employee satisfaction ratings and metrics were effective signals to help differentiate long term value creation, and that high levels of staff satisfaction can drive innovation, customer retention, and help to build and retain a company's critical intangible assets.[1]

[1] Edmans, Alex. "Does the Stock Market Fully Value Intangibles? Employee Satisfaction and Equity Prices." Journal of Financial Economics, vol. 101, no. 3, 2011, pp. 621–640., doi:10.1016/j.jfineco.2011.03.021.

HUMAN CAPITAL, EMPLOYEE SATISFACTION, & SHAREHOLDER VALUE (CONT.)

Accounting for People: A Changing Perspective on Human Resources Traditional approaches to labour in economic models of the firm are based on the capital-intensive firm of the early 20th century, which focused on cost efficiency and modeled employees as an input cost.[2] Zingales discusses the type of firm modeled by these theories as the "traditional business corporation": typically an asset-intensive and highly vertically integrated firm, with a tight control over its employees.[3] Under these models, employees perform largely "unskilled tasks" and have no special status, and can be modeled like other inputs such as raw materials. Management's goal is to extract maximum output while minimizing their cost. "Satisfaction" arises if employees are overpaid or underworked, both of which are seen as sub-optimal and to reduce firm value. This way of thinking is grounded in what Alex Edmans refers to as a zero-sum, "pie splitting mentality", which can still be observed in the business pages of the 21st century, not just the 20th.[4]

Despite the historical conception of labor as simply an input cost to be minimised, mainstream views of corporate value creation have been evolving since Taylor's work in the early 20th century. Human relations theories developed to view employees as organizational assets, rather than expendable commodities,[5] [6] and more contemporary theories of the firm focus on employees as key assets, while some view human capital as the most crucial asset of all.[7] [8] Such notions are consistent with modern-day labor markets that no longer view labour as a replaceable commodity subject only to cost-minimisation.

From Risk Mitigation to Value Creation: Happiness, Employee Behaviour, and Innovation Researchers theorised that employee satisfaction may improve employee retention, loyalty, motivation, and productivity, all of which should benefit the firm and should provide a competitive advantage. Research began to focus on what factors and conditions lead to more satisfied employees. In a well known study, Herzberg sought to determine what makes employees happy. He found that job characteristics have the capacity to gratify such needs as achievement, competency, status, personal worth, and self-realization, thus making one happy and satisfied. On the other hand, dissatisfaction resulted from unfavorable assessments of such job-related factors as company policies, supervision, salary, interpersonal relations on the job, and working conditions. Studies also began to link employee satisfaction and enthusiasm with value creation; one recent study found that "the more enthusiastic the workers are, the better operating results they achieve for the company."[9] [10]

One intuitive consequence of high employee satisfaction is reduced employee turnover. Companies on Fortune's list of 100 Best Companies to Work For tend to have significantly less employee turnover than average.[11] One survey suggests that unsatisfied employees are *eleven times* more likely to move to a new organisation in the following year.[12] Another highlights that employees that don't feel recognized for their work are much more likely to have interviewed for a job in the last three months, compared to those that do feel recognized.[13] As Herzberg noted, employees are more likely to show loyalty to their firm when they feel validated. For a company, the costs of headhunting, retraining, and lost productivity associated with a high turnover rate can have significant financial implications. A study by Employee Benefits News on employee retention found that the average cost of losing an employee is 33% of their annual salary.[14]

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[2] Taylor, Frederick Winslow. The Principles of Scientific Management. Harper & Brothers, 1911.

[3] Zingales, Luigi. "In Search of New Foundations." American Finance Association, 2000, doi:10.3386/w7706.

[4] Edmans, Alex. Grow the Pie: How Great Companies Deliver Both Purpose and Profit. Cambridge University Press, 2020.

[5] Herzberg, Frederick, et al. The Motivation to Work. Wiley, 1959.

[6] McGregor, Douglas M. "THE HUMAN SIDE OF ENTERPRISE." Readings and Exercises in Organizational Behavior, 1985, pp. 28–35., doi: 10.1016/b978-0-12-054752-4.50008-7.

[7] Ian Carlin, Bruce, and Simon Gervais. "Work Ethic, Employment Contracts, and Firm Value." The Journal of Finance, vol. 64, no. 2, 2009, pp. 785–821., doi:10.1111/j.1540-6261.2009.01449.x.

[8] Zingales, Luigi. "In Search of New Foundations." American Finance Association, 2000, doi:10.3386/w7706.

[9] Vorina, Anton, et al. "An Analysis of the Relationship Between Job Satisfaction and Employee Engagement." Economic Themes, vol. 55, no. 2, 2017, pp. 243–262., doi:10.1515/ethemes-2017-0014.

[10] The study measured "enthusiasm" for their jobs as being derived from the following metrics: satisfaction with the amount of salary, satisfaction with relations between employees, satisfaction with the leadership and communication of supervisor, satisfaction with working conditions, satisfaction with organisation and division of labour, satisfaction with the top management, satisfaction with the working time, and satisfaction with the chance of promotion.

[11] https://learn.greatplacetowork.com/rs/520-AOO-982/images/GPTW-Fortune-100Best-Report-2016.pdf

[12] https://www.forbes.com/sites/stevecooper/2012/07/30/make-more-money-by-making-your-employees-happy/?sh=5bccba35266e

[13] https://www.tinypulse.com/blog/17-surprising-statistics-about-employee-retention

[14] https://www.benefitnews.com/news/avoidable-turnover-costing-employers-big?brief=00000152-14a7-d1cc-a5fa-7cffccf00000&utm_content=socialflow&utm_campaign=ebnmagazine&utm_source=twitter&utm_medium=social

HUMAN CAPITAL, EMPLOYEE SATISFACTION, & SHAREHOLDER VALUE (CONT.)

Research also provides solid evidence for the intuitive idea that happy employees are also more productive and motivated employees. One recent study by De Neve, Ward, and Bellet (2019) found a clear causal effect of happiness on productivity. Happy employees not only worked faster, but also achieved 13% higher sales than their less-happy colleagues.[15] This result is consistent with prior behavioral economics results from Oswald, Proto and Sgroi (2015) that provide empirical evidence for a clear link between happiness and productivity.[16]

One reason Zingales cited human capital as one of a company's most important assets is that employee behaviour is an important determinant of innovation, as employees can create substantial value by inventing new products, or building client relationships.[17] Daniel Simon and Jed DeVaro also suggest that motivated employees design better products and are more positive in their customer interactions. This, in turn, leads to better customer satisfaction. Using data from both the American Customer Satisfaction Index and Fortune Magazine's lists of Best Companies, they examined the relationship between making the '100 Best' list and customer satisfaction and found strong evidence that firms on the list earn higher customer satisfaction ratings than firms not on the list.[18]

The theoretical and empirical literature provide support for linking employee satisfaction with firm value and competitive advantage. Can a focus on this factor help investors to choose the right companies that can outperform their peers over the cycle?

REFINITIV ESG WORKFORCE SCORE:
(SCALE 0-100, 100 BEST)

64	44
LONG BOOK	SHORT BOOK

The workforce category score measures a company's effectiveness towards job satisfaction, healthy and safe workplace, maintaining diversity and equal opportunities, and development opportunities for its workforce. Metrics are weighted average portfolio scores as of Mar 31st, 2021. Source: Refintiv, ECO Advisors

MSCI ESG "HUMAN CAPITAL" THEME SCORE:
(SCALE 0-10, 10 BEST)

5.5	3.4
LONG BOOK	SHORT BOOK

The MSCI Human Capital Theme score assesses companies on a range of related MSCI ESG key issues such as human capital development, labour management, employee health & safety and labour standards in the supply chain, weighted by industry materiality. Scale 0-10, 10 best. Metrics are weighted average portfolio scores as of Mar 31st, 2021. Source: MSCI ESG, ECO Advisors

OWL ANALYTICS COMPENSATION AND EMPLOYEE SATISFACTION KPI:
(SCALE: 1ST %TILE IS BEST, 100%TILE IS WORST)

36th %ile	54th %ile
LONG BOOK	SHORT BOOK

The OWL Analytics Compensation and Employee Satisfaction KPI aggregates data involving how well a company creates loyalty in the workplace through fair pay, benefits, and other practices that encourage employee growth and productivity. %tile scores are created on a Sector normalised basis. Source: OWL Analytics, ECO Advisors

STAFF SATISFACTION & INVESTMENT PERFORMANCE

Modern research does support a relationship between employee satisfaction and shareholder value. In an important study focused on the link between employee satisfaction and financial performance, Edmans examined twenty-six years of data from Fortune Magazine's "100 Best Companies to Work For". He found that these companies' stock returns beat their peers by an average of 2.3% to 3.8% per year over a twenty-eight-year period. Initially he expected that employee satisfaction would be higher in sectors that are more dependent on highly skilled employees (who are particularly scarce). However, he found that the returns to being a "Best Company to Work For" were similar across manufacturing and service industries, high-tech and low-tech industries, as well as in sectors such as retail where the labour market is less tight.[19] The importance of employee satisfaction for investors is not limited to only "high skilled" industries. Similarly to human relations theorists, Edmans interprets measures of employee satisfaction as reflecting firms' intangible assets.

Other studies utilising different approaches have also established similar findings to Edmans' conclusion. The emerging realm of "alt data" has proven fruitful for researchers. Since 2008, there have been over two million employee reviews on Glassdoor.[20]

[15] Bellet, Clement, et al. "Does Employee Happiness Have an Impact on Productivity?" SSRN Electronic Journal, 2019, doi:10.2139/ssrn.3470734.

[16] https://wrap.warwick.ac.uk/63228/7/WRAP_Oswald_681096.pdf

[17] McGregor, Douglas M. "THE HUMAN SIDE OF ENTERPRISE." Readings and Exercises in Organizational Behavior, 1985, pp. 28–35., doi:10.1016/b978-0-12-054752-4.50008-7.

[18] Simon, Daniel H., and Jed DeVaro. "Do the Best Companies to Work for Provide Better Customer Satisfaction?" Managerial and Decision Economics, vol. 27, no. 8, 2006, pp. 667–683., doi:10.1002/mde.1303.

[19] Edmans, Alex. Grow the Pie: How Great Companies Deliver Both Purpose and Profit. Cambridge University Press, 2020.

[20] Glassdoor reviews span across an overall rating of an employee's experience working at a company, plus subcategories such as work/life balance, culture, career opportunities, compensation, senior management, whether employee recommends, company outlook and CEO review.

HUMAN CAPITAL, EMPLOYEE SATISFACTION, & SHAREHOLDER VALUE (CONT.)

A recent study from Green et al. using Glassdoor data found that firms experiencing improvements in crowdsourced employer ratings significantly outperformed firms with declines, and documented an annualized alpha of 3.1%.

They conclude that employer rating changes are associated with growth in sales and profitability, and help forecast one-quarter-ahead earnings announcement surprises.[21,22] Studies like Green demonstrate a strong link between employee satisfaction and company performance — one that can be reflected in security prices.

One of the newest and most interesting pieces of research in this area is a 2020 study by Welch and Yoon examining the relationship between a firm's ESG profile, employee satisfaction, and shareholder value.[23] The study highlights that prior literature examining employee satisfaction indicates that satisfaction can help forecast stock returns, but how ESG efforts by a company may be related to employee satisfaction and firm value is still under-researched. For example, corporate commitments to ESG may themselves instil a sense of purpose in and motivate employees, which leads to productivity, and may enhance firm value.[24] Welch and Yoon's work finds that employee satisfaction *coupled* with ESG has a stronger impact on firm value than employee satisfaction alone, and that ESG leads to enhanced shareholder value when there are employees that are more satisfied and engaged in the efforts of the firm. Specifically, they find that firms with high ratings on both ESG and employee satisfaction outperform those with low ratings on both, as well as those with high employee satisfaction alone.

At ECO Advisors we strongly believe in the relevance and materiality of employee satisfaction and human capital for companies, and in our investment process. In the sidebar on page 6, we highlight ESG metrics which demonstrate how these factors are reflected in our portfolio, and share some stock specific examples below.

HUMAN CAPITAL & EMPLOYEE SATISFACTION: POSITION CALLOUTS

ESG LEADER *(LONG)*:

Microsoft Corporation develops, manufactures, licenses, sells, and supports software products

- ✔ Strong managerial and leadership development training initiatives
- ✔ Conducts annual engagement surveys to monitor employee satisfaction
- ✔ Glassdoor best place to work 2020
- ✔ Forbes Best Employers List 2016

ESG LAGGARD *(SHORT)*:

OBIC Co., Ltd. provides computer system integration, office automation, consultation, and system support services primarily for small and medium size companies

- ✖ No engagement surveys to monitor employee satisfaction
- ✖ Poor compensation practices
- ✖ No employee stock ownership program
- ✖ Employee turnover not disclosed

[21] Green, T. Clifton, et al. "Crowdsourced Employer Reviews and Stock Returns." Journal of Financial Economics, vol. 134, no. 1, Oct. 2019.

[22] Green et al. found that when compared to industry-matched benchmarks, the alpha remained a statistically significant 2.1% during the study period. The results were also robust when controlling for firm characteristics, different weighting methodologies, and adjusting for outliers.

[23] Welch, Kyle, and Aaron Yoon. "Corporate Sustainability and Stock Returns: Evidence from Employee Satisfaction." SSRN Electronic Journal, 2020, doi:10.2139/ssrn.3616486.

[24] Bode, Christiane, et al. "Corporate Social Initiatives and Employee Retention." Organization Science, vol. 26, no. 6, 2015, pp. 1702–1720., doi: 10.1287/orsc.2015.1006.

APPENDIX:

Q1 2021 PORTFOLIO OVERVIEW

EXPOSURES

GICS SECTOR EXPOSURE	LONG	SHORT	NET	GROSS
Communication Services	3.5%	-3.6%	-0.1%	7.1%
Consumer Discretionary	8.4%	-6.9%	1.5%	15.3%
Consumer Staples	1.7%	-4.1%	-2.5%	5.8%
Energy	2.8%	-2.3%	0.5%	5.1%
Financials	11.6%	-6.3%	5.2%	17.9%
Health Care	6.7%	-4.4%	2.2%	11.1%
Industrials	9.7%	-8.3%	1.4%	18.0%
Information Technology	7.5%	-4.8%	2.7%	12.3%
Materials	5.3%	-4.1%	1.2%	9.5%
Utilities	3.3%	-2.3%	1.0%	5.6%
TOTAL	**60.4%**	**-47.4%**	**13.1%**	**107.8%**

Source: ECO Advisors. Data as of March 31st 2021

REGIONAL EXPOSURES	LONG	SHORT	NET	GROSS
Japan	8.2%	-7.7%	0.4%	15.9%
Asia Pacific	5.5%	-2.9%	2.5%	8.4%
Western Europe	11.3%	-6.3%	5.0%	17.6%
Eastern Europe & Africa	1.0%	-0.6%	0.5%	1.6%
North America	34.2%	-29.3%	4.9%	63.4%
Latin America	0.2%	-0.6%	-0.3%	0.8%
TOTAL	**60.4%**	**-47.4%**	**13.1%**	**107.8%**

Source: ECO Advisors. Data as of March 31st 2021

KEY METRICS

STRATEGY VALUATION METRICS (WEIGHTED AVERAGE)	LONG	SHORT
P/E (1FY)	16.3	17.6
P/B	2.1	2.1
Net Debt / EBITDA	1.3	2.5
Dividend Yield	2.0%	1.7%
Free Cash Flow Yield	6.5%	4.0%
Return on Equity	5.2%	1.6%
Beta Adj Exposure (vs. MSCI World, ex-ante)	0.11	
Ann. volatility (ex-ante)	3.4%	
1 day VAR (99% monte carlo)	-0.50%	
1 month VAR (99% monte carlo)	-2.2%	

KEY PORTFOLIO METRICS	LONG	SHORT
No. of positions	119	152
Largest position size	0.81%	-0.52%
Top 10 positions weight	7.1%	-4.8%

Source: Bloomberg, MSCI, ECO Advisors.
Data as of March 31st 2021

Note: Strategy valuation metrics are weighted averages, and not all metrics are necessarily comparable across companies in different sectors. Outliers can have a material impact on aggregate statistics.

KEY FUND INFORMATION

TERMS	PROTEA UCITS II - ECO ADVISORS ESG ABSOLUTE RETURN FUND
Management Fee (M) share class	1.1% management fee
Performance Fee (P) share class	0.60% mgt. fee, 15% perf. fee (HWM + rate hurdle)
Founder's (F) share class	0.60% management fee (in perpetuity)
Administration and other fees	0.39%
Investor liquidity	Daily
Share class currencies	EUR, GBP, CHF, SEK, USD
Domicile	Luxembourg
Launch date	July 8th, 2019
Vehicle	Protea UCITS II SICAV
Distribution type	Accumulation
SERVICE PROVIDERS	
Administrator	FundPartner Solutions (Europe) S.A.
UCITS management company	FundPartner Solutions (Europe) S.A.
Depositary	Pictet & Cie (Europe) S.A.
Prime brokers	JP Morgan, Goldman Sachs

SHARE CLASS	ISIN	HEDGED
F Class EUR	LU2002381171	n/a
F Class GBP	LU2002381254	Yes
F Class USD	LU2002381502	Yes
P Class EUR	LU2002382492	n/a
M Class EUR	LU2002381684	n/a
M Class GBP	LU2002381767	Yes
M Class CHF	LU2002382062	Yes

OTHER INFORMATION	
Corporate engagement	ESG driven voting & engagement for longs
Fund AUM (EUR)	€146.9m as of March 31st 2021
ESG long book exclusion policy	Tobacco, weapons, adult entertainment, gambling, thermal coal, tar sands, arctic drilling, UNGC violations
Morningstar category	Alt - Market Neutral - Equity

German, UK, Austrian, Belgian tax reporting available upon request.

The Key Investor Information Document and Prospectus are available at www.ecoadvisors.eu and investors should read these documents prior to investing. F Class shares are open for subscriptions from existing F Class investors only. P & M Class shares are open to subscription from new investors.

For further information, please contact ECO Advisors:
email: info@ecoadvisors.eu, tel: +44 203 903 5371

WWW.ECOADVISORS.EU

PRI Principles for Responsible Investment

ESG LUXFLAG Label

UKSIF UK Sustainable Investment and Finance Association

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To ensure you understand whether this fund is suitable for you, please read the Key Investor Information Document 'KIID' and the Prospectus, which can be obtained from our website www.ecoadvisors.eu or by emailing <info@ecoadvisors.eu>.

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