HAUCK
AUFHÄUSER
FUND SERVICES

Information regarding the consideration of sustainability risks

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1. Introduction

Hauck & Aufhäuser Fund Services S.A. (hereinafter "HAFS" or "Investment Fund Manager – IFM") is a management company authorized by the Luxembourg supervisory authority Commission de Surveillance du Secteur Financier (hereinafter "CSSF") pursuant to Chapter 15 of the Luxembourg law of 17 December 2010 on undertakings for collective investment (hereinafter "UCI Law") and is also authorised as an alternative investment fund manager pursuant to the Luxembourg law of 12 July 2013 on alternative investment fund managers (hereinafter "AIFM Law").

Within the scope of its regulatory authorization, HAFS manages funds that qualify as undertakings for collective investment in transferable securities ("UCITS") or alternative investment funds ("AIF") (hereinafter "investment funds").

1.1 Sustainability related disclosures in the financial services sector

On 27 November 2019, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector (hereinafter "SFDR") was published and entered into force on 10 March 2021. The main objective of the SFDR is to create transparency on how sustainability risks are considered in the management of investment funds. These transparency requirements apply to both the IFM and the managed investment funds.

2. Purpose of the policy

This policy describes how HAFS manages sustainability risks[1] that may arise during the management of the investment funds:

- ex-ante – as part of the investment decision-making process; and
- ex-post – as part of the ongoing monitoring.

The IFM is aware of the potential impact that sustainability risks may have on the managed investment funds and their risk-return profiles. The procedure described in this policy regarding the integration of sustainability risks as part of the initial investment decision-making process as well as on an on-going basis, also serves to document the fulfilment of the extended fiduciary duties of HAFS towards the investors of the managed investment funds.

3. Governance of the policy

- The policy was written on behalf of the Board of Directors by a dedicated department within HAFS and approved afterwards through the Board of Directors.
- The Board of Directors is responsible for the appropriateness of the policy as well as for the adequate overall implementation of the requirements set out in this policy.
- The Board of Directors is responsible for the approval of all related directives and processes that are relevant for the implementation of the policy.
- The policy will be updated on a regular basis or if needed on an ad hoc basis, considering organizational and regulatory changes within the updates of the policy.
- Additions, revisions, amendments, and the suspension of the policy shall be approved by the Board of Directors.

[1] The purpose of this policy is to outline how the requirements of Article 3 SFDR will be implemented by the IFM (see Section 3 of this policy for further details).

- This policy will be reviewed and updated on a regular basis, but at least annually. A review will also occur when necessary due to changes within the fundamentals of this policy (e.g., due to a new investment strategy) and in the event of regulatory changes that may affect this policy. Furthermore, the Board of Directors will take note of the policy.
- Adjustments to the policy will be published on the website of the IFM in accordance with the requirements of the SFDR.

4. Sustainability risk – overview of the regulatory requirements

4.1 Regulatory background

On 8 March 2018 the European Commission published the "Action Plan for Financing Sustainable Growth" (hereinafter "EU Action Plan").

The EU Action Plan was significantly influenced by the climate change goals of the Paris Agreement[2] (December 2015)[3] and the UN Agenda 2030 (17 Sustainable Development Goals). The European financial system plays a key role in achieving these goals. The European Commission created a "High-Level Expert Group" (hereinafter "HLEG") on sustainable finance at the end of 2016.

The HLEG's final report was published in January 2018 and sets out two key requirements for sustainable finance:

- The improvement of the financial sector's contribution to sustainable and inclusive growth by financing society's long-term needs;
- Strengthening financial stability by considering environmental, social and corporate governance factors in investment decisions.

The SFDR, alongside the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment ("EU Taxonomy Regulation"), represents a key implementation tool of the European Union.

4.2 Definition of sustainability risk according to the SFDR

According to article 2 (22) of the SFDR sustainability risk means an environmental, social or governance (hereinafter "ESG") event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

4.2.1 Interaction with other risk categories

The UCI Law as well as the AIFM Law are based on the relevant European Directives (i.e. UCITS Directive, AIFM Directive) and further supplement by delegated regulations. These regulatory requirements also define the relevant risk categories to be considered by an IFM for the managed investment funds, namely (i) market risk, (ii) liquidity risk, (iii) counterparty risk, (iv) credit risk and (v) operational risk. Sustainability risk does not currently form a separate risk category but rather impacts the other risk categories, most prominently the market risk.

4.2.2 Connection to "Principal Adverse Impacts"

Article 4 of the SFDR establishes the principle of "Principal Adverse Impacts" (hereinafter "PAIs") of investment decisions on sustainability factors[4]. For the various categories of sustainability factors, different underlying sustainability indicators can be used for the assessment. Sustainability indicators also form the basis for the identification and assessment of sustainability risks.

HAFS´ handling of PAIs in accordance with the requirements of article 4 SFDR is disclosed separately on the corporate website.

4.3 SFDR relevant requirements for this policy

The SFDR imposes transparency requirements on the IFM and the managed investment funds in connection with sustainability risks. The transparency requirements dictate that both the IFM and the managed investment funds describe how sustainability risks are considered and integrated within the investment decision-making process.

[2] The Paris Agreement is the first universal and global climate treaty that has as one of its key objectives the limitation of global warming to significantly less than 2 °C.
[3] Formal ratification by the European Union in October 2016.
[4] According to article 2 (24) SFDR sustainability factors mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

Article	Summary of requirements	Level	Implementation
Art. 3 (1) SFDR	Description how the sustainability risks are integrated in the investment decision-making process.	IFM	Description in this policy taking into consideration article 6 (1) SFDR
Art. 6 (1) SFDR	Description in pre-contractual disclosures with respect to (i) the way sustainability risks are integrated into the investment decisions; and (ii) the results of the assessments of the likely impacts of sustainability risks on the return of the managed investment funds. Where sustainability risks are not deemed relevant, the pre-contractual disclosures shall include a clear and concise explanation of the reasons therefor.	Investment Fund	Principle description how the portfolio manager considers sustainability risks throughout the investment decision-making process in pre-contractual disclosures according to art. 6 (1) SFDR.

5. Sustainability risk – integration in the investment decision process

5.1 Organisational setup of the portfolio management function

The IFM is in principle responsible for exercising the portfolio management function for the managed investment funds. The exercise of the portfolio management function of the investment funds can in principle be structured as follows:

1) the portfolio management function is performed by the IFM itself (with or without the involvement of an investment advisor);
2) the portfolio management function is delegated to a qualified third party.

The following principles are relevant irrespective of which portfolio management setup is chosen for the individual investment funds:

- The IFM is aware of the potentially significant impact that sustainability risks can have on the managed investment funds and considers sustainability risks to be relevant in principle for all managed investment funds – regardless of the setup of the portfolio management function;
- sustainability risks which are deemed relevant are integrated in the investment decision-making process, taking into account the disclosures in the pre-contractual information of the respective investment fund pursuant to article 6 (1) SFDR and the (potential) qualification of the respective investment fund pursuant to article 8 or 9 SFDR;
- sustainability risks can be assessed both qualitatively and quantitatively[5];
- for all managed investment funds, the risk management function is always performed by the IFM itself, thus ensuring the ongoing monitoring of the sustainability risks of the managed investment funds (cf. section 6).

5.1.1 Portfolio Management Function performed by HAFS

In case HAFS performs the portfolio management function itself, it may be supported by investment advisors to help in the investment decision-making process. The investment decision is the sole responsibility of the IFM, which is why investment proposals from investment advisors are properly reviewed against regulatory and legal requirements by the IFM prior to execution. The review of an investment proposal can differ depending on whether it is a UCITS or AIF, the underlying investment strategy and which assets (liquid, illiquid) are to be acquired.

Sustainability risks deemed relevant according to the investment policy are integrated in the investment decision-making process, considering the pre-contractual disclosures of the investment fund pursuant to article 6 (1) SFDR and the investment fund's qualification pursuant to article 8 or 9 SFDR.

5.1.2 Delegation of the Portfolio Management Function

The IFM may delegate the portfolio management function to qualified third parties. In the event of delegation, the delegated portfolio manager shall be responsible for the investment decision-making process

[5] The possibility to quantitatively measure sustainability risks largely depends on the availability of corresponding information in the market. The necessary data might not be available in a sufficient quantity and required quality for all assets in which the managed investment funds invest.

and the consideration of sustainability risks. Sustainability risks deemed relevant shall be integrated within the investment decision process, considering the disclosures in the prospectus of the investment fund pursuant to article 6 (1) SFDR and the qualification of the investment fund pursuant to article 8 or 9 SFDR.

By law the IFM is required to monitor the quality of the services provided by a delegated portfolio manager on an ongoing basis. In order to fulfil its obligations, HAFS established a contract with each delegated portfolio manager and furthermore implemented an appropriate process for the on-going monitoring of the delegate in order to verify that the investment decisions made by the delegated portfolio manager comply with regulatory and legal requirements.

HAFS will assess the integration of sustainability risks in the investment decision-making process as part of the (periodic) due diligence and ongoing monitoring of the delegated portfolio manager.

5.2 Integration in the investment decision – making process: procedure

In accordance with the requirements of article 6 (1) SFDR, each investment fund must disclose in the pre-contractual information whether and how ("comply or explain") sustainability risks are considered in the investment decision-making process, whereby it is already covered throughout the product development phase. The consideration of sustainability risks does not necessarily imply a reduced investment universe.

An investment fund that meets the requirements of article 8[6] or 9[7] SFDR shall disclose in the pre-contractual information the binding ESG/sustainability criteria used in the investment decision-making process (e.g. exclusion of certain sectors/practices ("negative screening"), integration of ESG ratings, proportion of sustainable investments in accordance with the legal definition of article 2 (17) SFDR) ensuring the appropriate consideration of sustainability risks. Those considerations will lead to a reduction of the investment universe.

5.3 Correlation between sustainability factors and sustainability risk

The objective of the portfolio manager's consideration of sustainability risks is to identify the occurrence of these risks as early as possible and to take appropriate measures to minimise the impact on the affected assets or the overall portfolio of the investment fund, as sustainability risks can have a negative impact on the value or price of an asset of the investment fund.

The sustainability factors that can be responsible for a negative impact on the return of the investment fund are divided into environmental, social and corporate governance aspects.

Hereunder is an example for each aspect:

- environmental aspects – e.g. climate protection;
- social aspects – e.g. the consideration of internationally recognised labour law requirements
- corporate governance aspects – e.g. the consideration of anti-corruption and anti-bribery requirements as well as data protection.

The specific sustainability factors that are considered may vary between investment funds, as they depend on the respective investment strategy.

The impact of sustainability factors on an investment fund (asset, portfolio) is monitored throughout the life cycle of the investment and may therefore lead to the disinvestment of certain investments in the event of an increase of sustainability risks or decrease in return of a specific investment or the investment fund's portfolio.

[6] Promotion of environmental and/or social characteristics or a combination of these characteristics under the condition that the investee company applies good corporate governance practices.
[7] The investment objective of the investment fund is to invest in sustainable assets in accordance with the definition of Article 2 (17) SFDR.

5.4 Overview: Integration in the investment decision-making process

The following table provides an overview of the processes in which the IFM will in principle consider sustainability risks:

SFDR classification of investment funds	Integration of sustainability risks	Key processes of the IFM considering sustainability risks: Portfolio Management not delegated	Portfolio Management delegated	Risk Management	Consideration
Non-sustainable (Art. 6)	Consideration of sustainability risks as part of a "baseline approach"[8]	• Fund set-up / inception			Pre-contractual information as per art. 6 (1) SFDR
		• Integration of external data/ information (e.g. through data provider) • Investment decision-making process	• Due diligence process • On-going monitoring (Delegation oversight; risk profile)	• Extension of the risk profile, considering the general risk exposure of the investment fund	
		Modified / extended processes in addition to the processes described above for non-sustainable investment funds according to Art. 6 SFDR			
Art. 8	Extension of the "baseline approach" with specific sustainability factors	• Consideration of the process requirements for sustainable investments according to art. 2 (17) SFDR and the application of the EU Taxonomy Regulation (if relevant) • Consideration of PAIs (if relevant) • Extension of all processes according to specific requirements of the investment policy (ESG characteristics) and control of the defined investment universe			Binding ESG/ sustainability criteria according to pre-contractual information (art. 8 / 9 SFDR)
		• Control of investment restrictions (ex ante)	• Control of investment restrictions (ex ante)	• Control of investment restrictions (ex post)	
Art. 9		• Reporting			
		• Escalation			

[8] Depending on the available data, the "baseline approach" can consider quantitative and/or qualitative sustainability factors.

6. Sustainability risk – ongoing monitoring

The ongoing monitoring of sustainability risks is ensured through the IFM by integrating the identified sustainability risks in the risk profiles of the managed investment funds.

Relevant sustainability risk indicators/factors will be integrated in the risk profile. The identification and selection of the relevant sustainability risk indicators/ factors and their application to the investment fund and individual investments is in principle influenced by the following elements:

- Investment strategy of the investment fund (e.g. sector, geography);
- disclosure on the consideration of sustainability risks in the pre-contractual information pursuant to article 6 (1) SFDR;
- classification of the investment fund as "non-sustainable", Art. 8 or 9 according to SFDR;
- availability of adequate data and information (quantitative, qualitative).

The definition of the tolerated limits of the identified relevant sustainability risk indicators/factors is considering the overall risk classification of the respective investment fund. The risk profiles and escalation levels as well as the measures are discussed by the risk management function of the HAFS with the portfolio manager. The risk management function is responsible for the ongoing monitoring[9] of compliance with the limits defined in the risk profile..

6.1 Ongoing monitoring: Escalation

As described in section 6, the risk management function is responsible for the continuous monitoring of compliance with the limits defined in the risk profile of the respective investment funds. If these limits are reached and/or exceeded, the risk management function has in principle the following responsibilities:

[9] The frequency of the continuous monitoring depends, among other things, on the investment strategy and the invested assets (liquid, illiquid) of the investment fund.

- Escalation of reaching and/or exceeding the limit(s) to the portfolio manager and critical assessment of the portfolio manager´s statement concerning the breach as well as providing information to the conducting officer responsible for the risk management function;
- establish a plan (measures, timing) to return the sustainability risk indicators/factors to the limits set in the risk profile;
- monitoring of the effective reduction of the sustainability risk indicators/factors back to the limits defined in the risk profile;
- documentation and consideration in the reporting

7. Reporting

The risk management function reports periodically to the Board of Directors on the status of the risk profiles (overall risk exposure) of the managed investment funds.

The portfolio management function regularly reports on the results of the due diligence and ongoing monitoring measures conducted w.r.t. delegated portfolio managers.