

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 service 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, among other things, to create transparency,

- how sustainability risks are incorporated into investment decisions; and
- whether the key adverse impacts of investments decisions on sustainability factors are taken into account (following a so-called “comply or explain” principle)

These transparency requirements apply to both the management company and the investment funds it manages.

2 Responsibility and Goals

As a new independent capital management company and Alternative investment fund manager (“AIFM”), sustainable action has always been a central component of our value foundation. We understand sustainability not as a trend, but as a strong lever for preserving and improving our current and future living conditions. This concerns every individual and is influenced daily by each one of us.

Sustainability, or the areas of environment, social affairs, and good corporate governance (“ESG”), is therefore integrated as a fixed component in the individual management of investment funds at HAFS.

This ESG Risk Policy (hereinafter “Policy”) is intended to express how sustainability aspects are integrated into HAFS's processes and, in accordance with the requirements of Article 3 SFDR, serves to describe how sustainability risks are considered in the investment decision-making process. It further describes how HAFS incorporates sustainability risks in connection with fund management.

HAFS is aware of the potential negative impacts that sustainability risks, as well as events or conditions in the areas of environment, social issues, or corporate governance, may have on the value of an investment, and consequently, on the managed investment funds and their risk-return profiles.

In this context, this Policy presents the integration of sustainability risks within the investment decision-making process (ex-ante), as well as ongoing monitoring (ex-post). The Policy also serves to document the recognition of the extended fiduciary duties of the management company towards the investors of the managed investment funds. This Policy has been developed by all relevant departments of HAFS and approved by the management board.

It is regularly subject to a content check and updated if necessary, as well as adapted on an ad-hoc basis in the event of relevant changes. Relevant changes may include, for example, the adaptation of the organisational structure of the management company or changes to the regulatory framework.

3 Sustainability risk – overview of the regulatory requirements

3.1 Regulatory background

On March 8, 2018, the European Commission published the "Action Plan: Financing Sustainable Growth," which is based on the final report of the expert group ("High-Level Expert Group") for sustainable finance. The final report itself makes two key demands for sustainable finance:

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

In particular, the action plan of the European Commission aims to:

- redirect capital flows towards sustainable investments in order to achieve sustainable and inclusive growth;
- to manage financial risks arising from climate change, resource scarcity, environmental destruction, and social issues; and
- to promote transparency and long-term orientation in financial and economic activities.

In this context, the SFDR represents an essential implementation tool with regard to the disclosure of how sustainability risks are taken into account by the financial sector.

3.2 Definition of sustainability risk according to the SFDR

Article 2 (22) of the SFDR defines sustainability risk as an environmental, social or governance events or a condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

3.2.1 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.

3.2.2 Connection to Principle Adverse Impacts¹

The SFDR establishes a link between Article 3 SFDR, which addresses the consideration of sustainability risks in the investment decision-making process, while Article 4 of the SFDR establishes the principle of "Principal Adverse Impacts" (hereinafter "PAIs") of investment decisions on sustainability factors¹, fostering transparency through its requirements.

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.

The sustainability indicators underlying the PAI are defined by Delegated Regulation (EU) 2022/1288 (hereinafter "Regulatory Technical Standards").

¹ According to Article 2 (24) SFDR sustainability factors mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

However, neither the Regulatory Technical Standards nor the SFDR itself specify binding sustainability indicators or adverse impacts that must be used as a basis for the management company's 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 www.hauck-aufhaeuser.com/en/legal-notice/.

3.3 SFDR relevant requirements for this Policy

The SFDR imposes transparency requirements on the IFM as well as 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 on product-level within the investment decision-making process.

The text of the SFDR sets forth the following:

SFDR Article	Summary of requirements	Level	Implementation
Art. 3 (1) SFDR	Description how the sustainability risks are integrated in the investment decision-making process and subsequent public disclosure on the website of the financial market participant.	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 manner 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.

4 Sustainability risk – integration in the investment decision-making process

4.1 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 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 8² or;
- Article 9³ SFDR;

Sustainability risks can be assessed both qualitatively and quantitatively⁴.

4.1.1 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 HAFS, which is why investment proposals from investment advisors are properly reviewed against regulatory and legal requirements by HAFS 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.

Due to the lack of standardization options and the complexity and individual risks associated with each Real Asset investment, the investment decision-making process in the Real Assets sector explicitly involves the risk management department – Real Assets.

² 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.

³ The investment objective of the investment fund is to invest in sustainable assets in accordance with the definition of Article 2 (17) SFDR.

⁴ 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. A qualitative approach, especially in the area of Real Assets, is not currently used to ensure process controls as laid out in this Policy.

4.1.2 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 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.

4.2 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 or 9 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 minimum 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.

4.3 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 concept of sustainability-related risk factors, shall mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters in accordance to Article 2 (24) SFDR.

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.

The aim 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 minimize negative effects on affected investments or the overall portfolio of the investment fund, since sustainability risks can have a negative impact on the value or price of an asset of the investment fund.

4.4 Sustainability risk – Integration in the investment decision-making process

The following table provides an overview of the processes in which sustainability risks are taken into account by the IFM:

		Key processes of the IFM considering sustainability risks			
SFDR classification of investment funds	Integration of sustainability risks	Portfolio Management not delegated	Portfolio Management delegated	Risk Management	Considerations
Article 6 (Non-sustainable)	Consideration of sustainability risks as part of a "baseline approach" ⁵	<ul style="list-style-type: none"> Fund set-up / inception 			Pre-contractual information as per Art. 6 (1) SFDR
		<ul style="list-style-type: none"> Integration of external data/information (e.g. through data provider) Investment decision-making process 	<ul style="list-style-type: none"> Due Diligence process 	<ul style="list-style-type: none"> Integration in the risk profile of the fund, considering the general risk exposure of the investment fund 	
↓		Additional/modified/complemented process content for the processes presented above			↓
Article 8 SFDR (Promotion of environmental or social characteristics)	Complementing the „baseline approach“ with specific sustainability factors	<ul style="list-style-type: none"> Consideration of requirements for sustainable investments according to Art. 2 (17) SFDR and applicability of the EU Taxonomy Regulation (EU) 2020/852 (if relevant) in processes 		<ul style="list-style-type: none"> Control of investment restrictions (ex-ante) Control of investment restrictions (ex-post) Control of ESG limits in Risk Profile ESG stress tests 	Disclosure of pre-contractual information according to Article 6 (1) SFDR and disclosure of binding ESG-/ sustainability criteria according to Article 8 SFDR and Article 9 SFDR
Article 9 SFDR (Sustainable Investments)		<ul style="list-style-type: none"> Reporting Escalation 			

⁵ Depending on the available data, the "baseline approach" can consider quantitative and/or qualitative sustainability factors.

5 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;
- Disclosure pursuant to Article 8 or 9 of the SFDR; and
- Availability of adequate data and information (quantitative, qualitative).

The identified sustainability risk indicators/factors are defined in the risk profile taking into account the overall risk rating of the respective investment fund. The risk management function is responsible for the ongoing monitoring⁶ of compliance with the limits defined in the risk profile as well as the compliance with the restrictions set forth in the pre-contractual information.

5.1 Sustainability risk – Escalation

- If the investment fund is flagged during the ongoing monitoring conducted by the risk management function (includes sustainability stress-tests) the risk management function generally assumes the following responsibilities, depending on the severity of the issue: Escalation to the portfolio manager and critical evaluation of the portfolio manager's statement. Information to the HAFS board member responsible for the risk management function on an ad hoc basis or as part of the monthly reporting and, if applicable, the investment fund's board of directors;
- Agreement on a plan (measures, timeline, etc.) for resolving a breach regarding the sustainability risk indicators/ factors defined in the pre-contractual information and close monitoring of the plan.
- In case of a fund being flagged regarding the thresholds defined in the risk profile or regarding sustainability stress tests close interaction with the portfolio manager regarding possible next steps;
- Documentation and inclusion in reporting.

⁶ The frequency of the continuous monitoring depends, among other things, on the investment strategy and the invested assets (liquid, illiquid) of the investment fund.

6 Sustainability risk – reporting

The risk management function reports periodically to the Management Board of HAFS as well as to the board of directors of the investment funds on the status of the risk profiles (overall risk exposure) and breaches regarding the restrictions in the pre-contractual information of the managed investment funds.

The portfolio management function regularly reports on the results of the due diligence and ongoing monitoring measures conducted with regards to the delegated portfolio managers.