

## Vontobel Fund II – mtx Emerging Markets Sustainability Champions

### Summary

#### **No significant harm to the sustainable investment objective**

The Investment Manager applies do no significant harm test (DSNH). The Investment Manager applies a process to take into account all the mandatory adverse impact indicators and any relevant additional adverse impact indicators.

The sustainable investments of corporate issuers are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

#### **Sustainable investment objective of the financial product**

The Sub-Fund aims to contribute to the United Nations Sustainable Development Goals (UN SDGs) by investing in emerging market securities that the Investment Manager identifies as Sustainability Champions. The 17 UN SDGs are a universal call to action to address the world's most pressing long-term challenges. The UN SDGs provide a shared blueprint for peace and prosperity for people and the planet, now and into the future. The UN SDGs recognize that ending poverty and other deprivations must go hand-in-hand with strategies that improve health and education, reduce inequality, and spur economic growth – all while tackling climate change and working to preserve our oceans and forests. The private sector can play an important role in advancing the UN SDGs' agenda. Additionally, the identification of Sustainability Champions offers an attractive investment proposition by preserving and enhancing the long-term value of their assets.

Sustainability Champions are companies that:

- (i) Contribute significantly to at least one of the UN SDGs; and
- (ii) Pass a detailed evaluation of their environment, social and governance (ESG) operational performance; and
- (iii) Comply with extensive exclusion criteria set to avoid economic activities that are harmful to society or the environment.

#### **Investment Strategy**

While considering the Sub-Fund's investment objective and policy in the Special Part of the Sales Prospectus in order to attain the environmental and social characteristics, the Sub-Fund applies the following ESG framework: SDG evaluation, exclusion approach, monitoring of critical controversies, screening, and carbon related commitments.

#### **Proportion of investments**

The Sub-Fund invests at least 80% of its NAV directly in issuers that qualify as sustainable investments with an environmental objective, under normal market conditions. The Sub-Fund invests at least 20% of its NAV in sustainable investments with an environmental objective not aligned with the EU Taxonomy. The Sub-Fund will also invest at least 20% in sustainable investments with a social objective.

The Sub-Fund may invest directly and indirectly up to 20% of its net assets in other investments that include the remaining investments of the Sub-Fund which do not qualify as sustainable investments.

#### **Monitoring of sustainable investment objective**

The securities will be analyzed based on the binding elements prior to investment and monitored on a continuous basis. The securities in the portfolio have their sustainability performance periodically reevaluated using the above-described sustainability framework. If a security does not comply with the binding criteria described below, the Investment Manager divests from such an issuer within a time period to be determined by the Investment Manager without exceeding in principle three months after such breach was detected, considering prevailing market conditions, and taking due account of the best interests of the shareholders.

#### **Methodologies**

To attain the sustainable investment objective, the Sub-Fund applies the following Sustainability frameworks: SDG evaluation, ESG integration, exclusion approach, monitoring of critical controversies, and carbon related commitments.

SDG evaluation:

- The Sub Fund analyses potential issuers for their alignment to the UN SDGs using the Investment Manager's proprietary UN SDG Alignment Framework (SAF). A company must have at least 50% revenues positively aligned with one or more

SDG to be considered aligned and all companies in the Sub-Fund must meet this threshold. In certain cases, exceptions are used as explained in more detail below.

- Percentage of investments in companies that pass the minimum ESG score (as evaluated using the Minimum Standards Framework (“MSF”), being the Investment Manager’s proprietary ESG evaluation framework; minimum is set at 2.4 out of 5) set for this Sub-Fund. A passing score also entails that there is no overriding “Fail Score” using the Investment Manager’s “F-Score Framework” (described further below under “ESG integration”).

**Exclusion approach:**

The Sub-Fund excludes issuers that do not comply with the exclusion "Level 3" of Vontobel's Exclusion framework. Details about this framework can be found under <https://www.vontobel.com/esg-library>.

As the financial product holds the Febelfin Toward Sustainability Label, additional exclusion criteria set out by the Towards Sustainability Quality Standard Criteria label may apply, which are available at <https://towardssustainability.be>.

**Monitoring of critical controversies:**

- The Investment Manager has established a monitoring process to track incidents or ongoing situations in which an issuer's activities may have adverse effects on environmental, social, and governance aspects. This process intends to ensure the alignment with global norms such as the UN Global Compact principles, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights. This process is initially based on the utilization of third-party data and subsequently entails a comprehensive structured review conducted by the Investment Manager. Securities of issuers are excluded where the Investment Manager has concluded that they (i) violate the norms and standards promoted by the Sub-Fund or (ii) are involved in critical controversies, including those related to governance matters. Where an investment team disagrees with the conclusion of an ESG rater, deep research is conducted, and the case is adjudicated upon by the Investment Manager's Investment Risk Committee. However, the Investment Manager recognizes that excluding such issuers from the Investment Manager's investments may not always be the best approach to mitigate the adverse effects of their activities. In these cases, the Investment Manager will monitor these issuers, where the Investment Manager believes that reasonable progress can be attained, for example, through active ownership activities, provided the issuer demonstrates good governance.

**ESG Integration:**

- The Sub-Fund invests in securities of corporate issuers that pass the Investment Manager’s ESG assessment using its “Minimum Standards Framework” (“MSF”), which is based on a proprietary methodology. To qualify for investment, the company must achieve an overall minimum score. By doing so, the Investment Manager seeks to identify and exclude companies that are worst prepared to meet and manage idiosyncratic shocks to which their sector is uniquely exposed or whose operational practices or whose products pose too great a risk to society or the environment.
- The Sub-Fund also does not invest in securities of corporate issuers that have an F-Score score, which may be given where a critical ESG event occurs. The Investment Manager has developed an F-Score framework to provide a clear decision tree to assess the real-world and business impact of incidents against evidence-based criteria. Thereby, there are hard redlines preventing investment in companies that have highly negative impact on society or the environment, even where the business case is unaffected.

**Carbon related commitments:**

- The Sub-Fund will maintain a carbon footprint that is at least 20% lower than its benchmark (MSCI Emerging Markets Total Returns Net (USD)). The carbon footprint of the Sub-Fund and the issuers is calculated using the scope 1 and scope 2 GHG emissions of each invested company divided by the company’s enterprise value including cash (EVIC).

Additionally, the Sub-Fund follows an active ownership approach, which considers relevant environmental, social and governance matters. The Investment Manager conducts these activities to support the attainment of the sustainable investment objective of the Sub-Fund. The Sub-Fund is covered by the Investment Manager’s stewardship program, which additionally benefits from a collaboration with a stewardship partner.

***Data sources and processing***

The investment process uses data from external ESG providers (e.g., Sustainalytics, MSCI), issuers, media, NGOs, and international organizations. The mentioned data sources are used to implement the ESG framework as described in detail in the Investment Strategy section. The Investment Manager ensures data quality through regular reviews, multiple sources, and issuer engagement for gaps. Estimates are used when necessary, with a low to medium reliance on estimated data.

***Limitations to methodologies and data***

The implementation of the ESG strategy of the Sub-Fund relies on third-party data and/or internal analyses, which may be incomplete or inaccurate. There is no guarantee of accuracy, completeness, or proper application of ESG criteria.

***Due diligence***

The internal Investment Control unit conducts pre-trade checks, allowing portfolio managers to simulate and verify trades against restrictions. Automated checks highlight potential breaches before order execution to ensure compliance.

***Engagement policies***

The Investment Manager prioritizes direct engagement with investee companies and sovereigns, addressing business strategy, governance, and ESG issues. It also collaborates with Columbia Threadneedle Investments (reo©) for broader engagement and voting influence. This partnership enables greater impact, resource access, and collaboration, focusing on poor ESG practices, thematic issues, and controversies.

***Attainment of the sustainable investment objective***

No index has been designated as a reference benchmark to attain the environmental and social characteristics promoted by this Sub-Fund.

### No significant harm to the sustainable investment objective

To ensure that the Sub-Fund does not cause significant harm to any environmental or social investment objective, the Sub-Fund takes into account all the mandatory indicators for adverse impacts, subject to data limitations as described further below, and ensures that the Sub-Fund's investments are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights as further outlined below.

The Investment Manager takes into account the principle adverse impacts on sustainability factors via a series of commitments (exclusions, exclusion or engagement for critical esg events, significant SDG alignment, minimum ESG score, engagement and voting and PAI screening). The Investment Manager identifies investments that are exposed to principal adverse impacts based on in-house research. Data sources include issuer data, ESG data providers, news alerts, brokers and other reputable data sources. Where no reliable third-party data is available, the Investment Manager may make reasonable estimates or assumptions.

Where the Investment Manager identifies an investment as having a critical and poorly managed impact in the considered principal adverse impacts areas, and where no signs of remedial action or improvement have been observed, an action by the Investment Manager must be taken. Action mechanisms include exclusion, active ownership, and tilting. Actions to address or mitigate principal adverse sustainability impacts depend on the severity, materiality and exceptionality of these impacts. These actions are guided by the financial product's ESG integration criteria and exclusion policies, as well as the investment manager's engagement and voting strategy.

The Sub-Fund, *subject to certain criteria described in the methodologies section below*, has a presumption to exclude companies that are involved in **Critical ESG Events**. Such events are A) where companies are evaluated to have breached international norms and standards as codified in the i) UN Global Compact; ii) OECD Guidelines for Multinational Enterprises; iii) UN Guiding Principles on Business and Human Rights (UNGP); iv) International Labor Organization's Conventions; as well as iv) underlying conventions and treaties of the above-named codes and a long list of other international conventions, norms and instruments. And B) companies involved in the most severe category of controversies as evaluated by either one of the Investment Manager's two major ESG service providers: MSCI and Sustainalytics.

### Sustainable investment objective of the financial product

The Sub-Fund aims to contribute to the United Nations Sustainable Development Goals (UN SDGs) by investing in emerging market securities that the Investment Manager identifies as Sustainability Champions.

Sustainability Champions are companies that:

- (i) contribute significantly to at least one of the UN SDGs as evaluated by the Investment Manager using its proprietary UN SDG evaluation framework; and
- (ii) pass a detailed evaluation of their environment, social and governance (ESG) operational performance using the Investment Manager's proprietary ESG framework; and
- (iii) comply with the extensive exclusion criteria that the Investment Manager has set to avoid investments in certain economic activities that are harmful to society and environment.

The Sub-Fund invests in high quality emerging market companies positioned to materially contribute to the UN Sustainable Development Goals (SDGs). The SDGs are a universal call to action to address the world's most pressing long-term challenges from poverty alleviation, universal healthcare, climate action, education, inequality, economic growth and more. The SDGs provide a blueprint for fair globalization: opportunity for all on a healthy planet. The private sector can play an important role in advancing the 2030 Agenda. We believe that identifying Sustainability Champions presents an attractive investment proposition by preserving the long-term value of their assets while contributing solutions to sustainable development challenges.

### Investment strategy

To attain the sustainable investment objective, the Sub-Fund applies the following sustainable investment strategy: SDG evaluation, ESG integration, exclusion approach, monitoring of critical controversies, carbon related commitments.

#### SDG evaluation:

The Sub-Fund analyses potential issuers for their alignment to the UN SDGs using the Investment Manager’s proprietary UN SDG Alignment Framework (SAF). The three-step framework starts with a potential eligibility mapping – a quantitative mapping of an extensive taxonomy of >1700 revenue segments to the 17 UN SDGs. In the secondary alignment step, financial analysts provide more detailed insights on exactly what (and where) a company does. In the final step, ESG analysts conduct rigorous bottom-up research to examine the alignment of each business segment to the 169 SDG sub-targets. A company must have at least 50% of revenues positively aligned with one or more SDG to be considered SDG aligned and all companies in the Sub-Fund must meet this threshold. In certain cases, operational factors or alternative proxies to revenue (e.g. loan book allocation in the case of financials) may be taken into account where these are highly material to identifying alignment with the SDGs.

### We apply a three-step proprietary approach

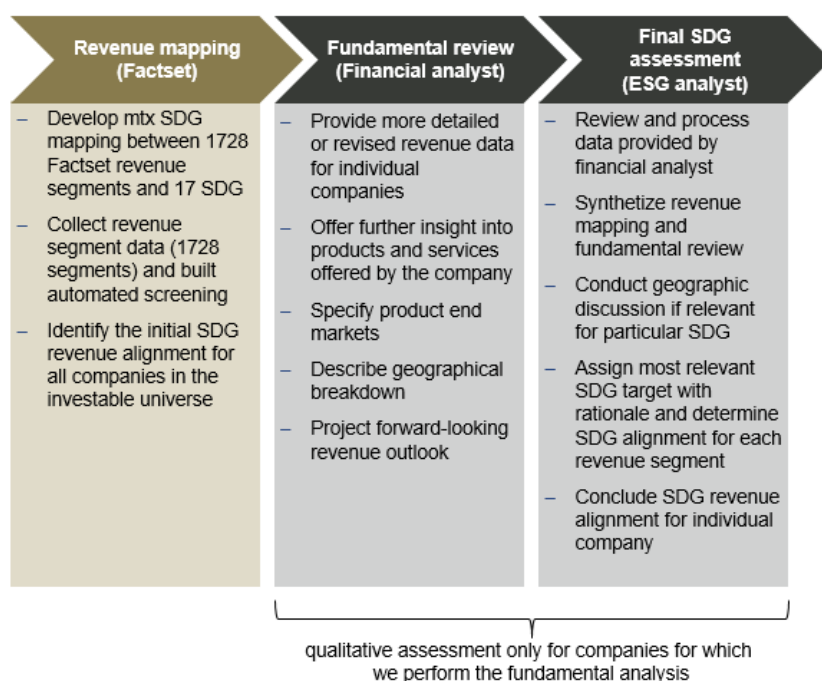


Figure 1 The Investment Manager’s proprietary Three step SDG approach (Source: Vontobel Asset Management)

#### ESG Integration

The Sub-Fund invests in securities of corporate issuers that pass the Investment Manager’s ESG framework, its “Minimum Standards Framework” (“MSF”). To pass requires a score of 2.4/5, which is based on the Investment Manager’s proprietary methodology. This score is sector-specific and supports a rigorous assessment of companies on their most material ESG issues, in terms of impact on future cash flows. Sustainability indicators have been defined for each sector with refined performance thresholds for scoring and issue weights tailored by sector. These issues are translated into ca. 15-30 sustainability indicators (depending on the sector) and performance thresholds are predefined for each of these indicators. The Environment, Social and Governance pillars are weighted according to the relevance for each industry sector. In order to qualify for investment, the company must achieve an overall minimum score (2.4). By doing so, the Investment Manager seeks to identify and exclude companies that are worst prepared to meet and manage idiosyncratic shocks to which their sector is uniquely exposed or whose operational practices or products pose too great a risk to society or the environment. The MSFs are in turn based on mtX’s in-depth sectoral ESG assessments. The sector papers are designed as a practitioners’ guide, highlighting the key ESG issues that the sector faces and mtX’s approach towards these risks. The sector papers and the MSFs are subject to periodic review to update with current knowhow, evolving trends and best practice. In total, there are 11 sector papers and 14 MSFs

The Sub-Fund does not invest in securities of corporate issuers that have an overriding Fail Score. A prospective investee will be given a Fail ” if it is involved in critical controversies that have highly negative impacts on society or the environment even if the issuer would otherwise attain a pass MSF mark.

The Sub-Fund also divests from existing investees that have an F-Score score, which may be given where a Critical ESG Event occurs. The Investment Manager has developed an F-Score framework to provide a clear decision tree to assess the real-world and business impact of incidents against evidence-based criteria. The Investment Manager has established hard rules for whether the finding leads to divestment or engagement. Thereby, there are hard redlines preventing investment in companies that have highly negative impact on society or the environment even where the business case is unaffected. The framework provides an assessment approach for categorizing the impact on society/ environment (assessments on scale and nature of impact, and culpability) and the impact on business (the business resilience to withstand the financial impacts of the controversy). If a company is assessed in 4/6 impact categories as "Severe" or all impact categories are evaluated as "High" impact then the company must be divested from within set timeframe. Likewise, if the financial impact is severe then the company is given an F Score.

*Monitoring of critical controversies*

The Investment Manager has established a monitoring process to track incidents or ongoing situations in which an issuer's activities may have adverse effects on environmental, social, and governance aspects. This process intends to ensure the alignment with global norms such as the UN Global Compact principles, the OECD Guidelines for Multinational Enterprises, and the UN Guiding Principles on Business and Human Rights. This process is initially based on the utilization of third-party data and subsequently entails a comprehensive, structured review conducted by the Investment Manager. Securities of issuers are excluded where the Investment Manager has concluded that they (i) violate the norms and standards promoted by the Sub-Fund or (ii) are involved in critical controversies, including those related to governance matters. However, the Investment Manager recognizes that excluding such issuers from the Investment Manager's investments may not always be the best approach to mitigate the adverse effects of their activities. In these cases, the Investment Manager will monitor these issuers, where the Investment Manager believes that reasonable progress can be attained, for example, through active ownership activities, provided the issuer demonstrates good governance.

*Exclusion approach:*

The Sub-Fund excludes issuers that do not comply with the exclusion "Level 3" of Vontobel's Exclusion framework. Details about this framework can be found under <https://www.vontobel.com/esg-library>.

As the financial product holds the Febelfin Toward Sustainability Label, additional exclusion criteria set out by the Towards Sustainability Quality Standard Criteria label may apply, which are available at <https://towardssustainability.be>.

*Carbon related commitments:*

The Sub-Fund will maintain a carbon footprint that is at least 20% lower than its benchmark (MSCI Emerging Markets Total Returns Net (USD)). The carbon footprint of the Sub-Fund and the issuers is calculated using the scope 1 and scope 2 GHG emissions of each invested company divided by the company's enterprise value including cash (EVIC).

*Binding elements:*

In summary, the binding elements of the investment strategy used to select the investments to achieve the sustainable investment objective are as follows:

- Corporate issuers must have at least 50% of their revenues (save where alternatives are used) derived from economic activities that are aligned with one or more of the UN SDGs.
- Companies must achieve a minimum qualifying ESG score (2.4/5)
- The Sub-Fund excludes certain products and/or activities listed above.
- Companies must not have a Fail or a "F-score", which is awarded where companies are involved in critical controversies that have highly negative impact on society or the environment and/or will materially impact the financial assessment.
- The Sub-Fund will have a carbon footprint at least 20% lower than that of the benchmark.
- The application of the binding elements leads to the exclusion of at least 20% of potential investments.
- The ESG analysis coverage will be guaranteed for 100% of the Sub-Fund's securities (excluding cash and other hedging instruments).

*Policy to assess good governance practices of the investee companies<sup>1</sup>:*

The Investment Manager will use its ESG framework, the MSF, to assess good governance practices of the investee companies. Common corporate governance indicators include, but are not limited to, independence, structure and quality of the board, independence of the audit committee, ownership structure and related rules, and remuneration fairness (including transparency, quantum, oversight, rules). Wider governance factors such as relating to human capital management and business ethics are also covered in the Social pillar of mtx's ESG Framework, the MSF.

The Sub-Fund further ensures good governance of the investee companies via active ownership. Key to this are engagement activities conducted directly by the Investment Manager, engagement activities conducted by the manager's specialist third-party engagement partner and voting activities, where the Investment Manager works with a proxy advisory firm and systematically considers all company ballots with ESG principles in mind.

*Does the financial product consider Principal Adverse Sustainability Impacts? If yes, which areas/indicators are considered and how?*

Yes    No

The Investment Manager takes into account all the mandatory adverse impact indicators and any relevant additional adverse impact indicators by applying the following process:

The Investment Manager identifies issuers that are exposed to principal adverse impacts on sustainability factors based on in house research; data sources include ESG data providers, news alerts, and the issuers themselves. When no reliable third-party data is available, the Investment Manager may make reasonable estimates or assumptions.

Where the Investment Manager identifies an investment as having a critical and poorly managed impact in one of the considered principal adverse impacts areas, and where no signs of remedial action or improvement have been observed, an action by the Investment Manager must be taken. Action mechanisms may include: exclusion, active ownership, tilting.

Information on how principal adverse impacts on sustainability factors were considered will be made available in the periodic reporting of the Sub-Fund.

The Investment Manager considers Principal Adverse Sustainability Impacts Indicators<sup>2</sup>:

<sup>1</sup> including with respect to sound management structures, employee relations, remuneration of staff and tax compliance

<sup>2</sup> As set out in Table 1, 2 and 3 of Annex 1 of Regulation (EU) 2022/1288

## Proportion of investments

*What is the asset allocation planned for this financial product?*

INVESTMENTS	PERCENTAGE (OF NET ASSETS)	TYPE OF EXPOSURES
#1 Sustainable covers sustainable investments with environmental or social objectives.	At least 80%	Only through direct exposures
Environmental objective (not aligned with EU Taxonomy)	At least 20%	Only through direct exposures
Social objective	At least 20 %	Only through direct exposures
#2 Not sustainable includes investments which do not qualify as sustainable investments	Up to 20%	Only through direct exposures

Under "2", the Sub-Fund will be invested in accordance with the investment objective of the Sub-Fund, including in cash and cash equivalents for liquidity purposes and use of derivatives for the purposes set out in the Special Part. While these instruments are not expected to detrimentally affect the achievement of the Sub-Fund's achievement of the Sub-Fund's sustainable investment objectives, no minimum environmental or social safeguards are applied. .

## Monitoring of sustainable investment objective

*What sustainability indicators are used to measure the attainment of the sustainable investment objective of this financial product?*

The attainment of the sustainable investment objective is measured through the following list of sustainability indicators:

- Percentage of investments in securities of corporate issuers companies whose economic activities are aligned with one or more of the UN SDGs as evaluated using the UN SDG Alignment Framework (SAF), the Investment Manager's proprietary UN SDG evaluation framework
- Percentage of investments in companies that pass the minimum ESG score (score 2.4/5) (as evaluated using the "Minimum Standards Framework", the Investment Manager's proprietary ESG evaluation framework) set for this Sub-Fund.
- Percentage of investments in securities of corporate issuers that derive a non-negligible part of their revenues from products and/or activities excluded by the Sub-Fund.
- Percentage of investments in companies evaluated as having an overriding Fail Score under the "Minimum Standards Framework".
- Percentage of investments in companies with an F-Score evaluated under the F-Score Framework, the Investment Manager's proprietary tool for evaluating critical controversies.
- Percentage of investments in securities of issuers that are in violation of certain global norms and standards promoted by the Sub-Fund or that are exposed to critical controversies (unless the Investment Manager believes reasonable progress can be attained, for example, through active ownership activities). Such controversies may be related to environmental, social or governance issues.
- The Sub-Fund's carbon footprint relative to the benchmark (evaluated on the basis of each issuer's scope 1 and 2 GHG emissions normalized by the company's enterprise value including cash (EVIC) and multiplied by its weight in the portfolio). The sum of such weighted average carbon footprint is calculated and then compared to that of the benchmark (MSCI Emerging Markets Total Returns Net (USD)).
- Percentage of securities covered by ESG analysis.

*How are the attainment of the sustainable investment objective and the sustainability indicators monitored throughout the lifecycle of the financial product? What are the related internal/external control mechanisms?*

The information used for the implementation of the ESG framework, and consequently the attainment of the sustainable investment objective, are reviewed on a regular basis.

If a security does not comply with the binding criteria described above, the Investment Manager divests from such an issuer within a period to be determined by the Investment Manager without exceeding in principle three months after such breach was detected, considering prevailing market conditions, and taking due account of the best interests of the shareholders. The Board of Directors or the Management Company of Vontobel Fund may decide to further postpone the rectification of such a breach or decide to carry out the divestment in several instalments over a longer period in exceptional cases, provided this is considered to be in the best interests of the shareholders.

Compliance with the binding elements applied by this Sub-Fund is monitored by the investment teams. For the elements that are in scope of the Sub-Fund's investment guidelines and subject to investment controls, the internal Investment Control unit has post-trade checks mechanisms in place. The independent Investment Control team conducts a daily post-trade review of portfolios using our portfolio management system. Should Investment Control and the respective portfolio manager fail to agree whether a breach has occurred (e.g. in case of a different interpretation of regulatory investment restrictions), Compliance analyses the case and then informs Investment Control of its assessment, which then follows up accordingly. The pre- and post-trade checks are parametrized either based on data retained directly from third-party ESG data provider (listed below in the section on data sources) or from the Investment Manager directly, especially where the followed approaches are based on proprietary methodologies of the Investment Manager. For documented ESG processes and controls, first line of defense controls are confirmed and self-assessed annually by the business owners via the Operation Risk and Control Self-Assessment process. This process is a systematic and regular business process aimed at reviewing specific inherent operational risks that Asset Management investments are exposed to, as well as an assessment of the control environment that is in place to mitigate those risks. Second line functions like Compliance carry out spot checks on some first line of defense controls.

## Methodologies

Our approach is to use proprietary frameworks as tools for systematic analysis. These frameworks have been developed on basis of extensive research by our team of ESG specialists and are periodically reviewed and updated as needed. The frameworks are described above. Below we provide some additional detail on how they are integrated into the investment approach.

### *SDG evaluation:*

To identify leading Emerging Market companies whose products or services are aligned with delivering the SDGs, we built our own SDG Alignment Framework (**SAF**). This framework is a three-step approach to identify companies with material (more than 50%) revenue alignment with the SDGs. The process (outlined in *Figure 1 Three step SDG approach*) drills into the specifics of what a company does, where it produces goods and where these are sold. It includes relevant KPIs and geographic tests, as well as overarching guiding principles to ensure authentic alignment of the company's business activities with the UN SDGs.

SAF deliberately focuses on the positive contribution a company makes, as negative impacts of operations and products are evaluated in: our ESG framework (the MSF), the evaluation of Principle Adverse Impacts, the extensive exclusions, and to some extent in the SAF itself.

Acknowledging that the SDGs were originally designed with countries not companies in mind as the agents of change, we recognize that some interpretation is needed to translate the goals to corporate deliverables. To ensure consistency and authenticity of that interpretation, we developed a set of overarching guiding principles and have a final step of panel debate for overall governance of the alignment process.

While our main approach is to identify revenues of products and services that positively contribute to the SDGs, this may be via the end-use of those goods or services, or it may be the wider contribution made by their technological innovation. For example, we may identify companies with leading technological capabilities that are advancing innovation, R&D and overall high value-add industrialization in emerging market countries. For example, a state-of-the-art, emerging market semi-conductor company, may produce chips which are sold to high-end consumer goods, yet we consider not just the end use of the product but also the company's technological leadership in the integrated circuits market. We consider factors such as strategic focus on R&D, efficiency, cost, contribution to low-carbon transition and to higher value-added economic growth, as well as the wider support that the products bring to computation capacity mega-trends such as 5G capabilities and High Performing Computing related applications. An alternative example could be a retail platform for consumer goods. On the face of it, it may not seem that fast-moving consumer goods add much social value, however, we could assess such a company on the basis of the platform access that they provide - enabling an access to market for many micro entrepreneurs and small businesses, provided that they make up a dominant share of its marketplace.

In the Financials sector, we typically use the loan book customer breakdown to identify the proportion of business serving under-served clients (micro-entrepreneur, SME, and individual loans in emerging markets where the UN country statistics demonstrate low penetration of banked population). The loan book breakdown is used as a proxy for the business' overall exposure to different customer types as this information is not typically provided for all revenue streams

Occasionally operational factors are used to qualify a company as aligned. For example, SDG 8.2<sup>3</sup> focuses on technological upgrading and innovation with special focus on high value-add types of productivity yet we need to translate this from national

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<sup>3</sup> SDG 8.2 Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors

goals to company deliverables. We have examined innovative companies who demonstrate technological edge, and we compare the company’s revenue per capita to the relevant countries’ GDP per capita. Where the company figure has a significant multiple over the national one, we would consider it a highly value add company that is contributing to the country’s advancement of SDG 8.2. This would normally be counted only as a supporting factor to other product/service related SDG alignment.

*ESG integration:*

The ESG Minimum Standard Frameworks (**MSFs**) are a series of sector specific frameworks to guide detailed, systematic qualitative and quantitative analysis of a potential investee’s Sustainability Risks<sup>4</sup> (impact of society/environment on the company) and Sustainability Factors<sup>5</sup> (impact of the company on society/environment). These concepts are the two sides of “double materiality” – the ways in which a company affects and is affected by the environment and society in which it operates. The following chart explains how we think about this concept and how it helps us to define our understanding of sustainability and our ambitions.

Our investment approach understands that companies which actively engage on ESG issues tend to have more sustainable shareholder returns and are better at managing their real-world impacts.

**The concept of “double materiality” helps us to define our understanding of sustainability and our ambitions.**

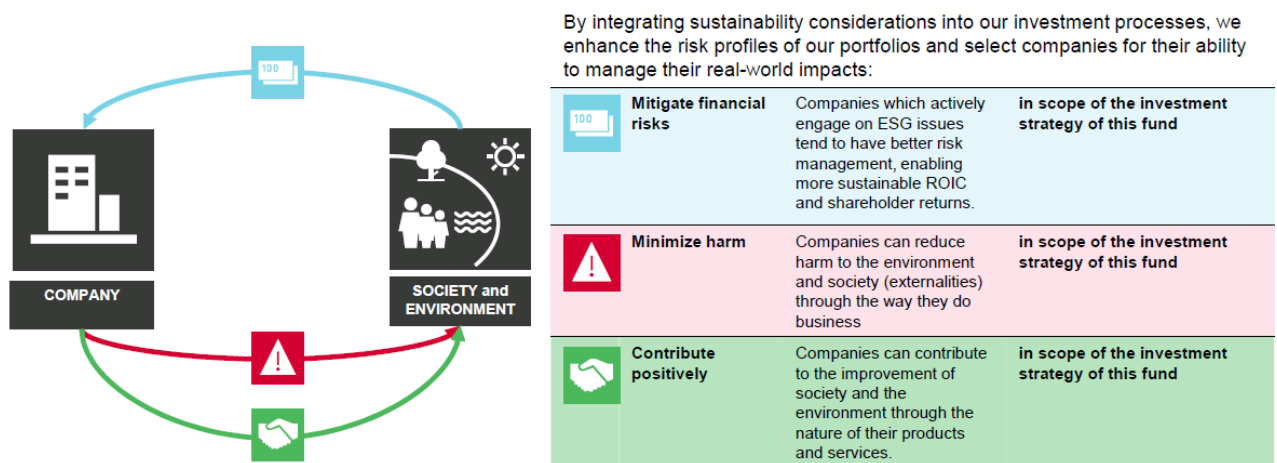


Figure 2 Double materiality at mtx (Source: Vontobel Asset Management)

At mtx the sustainability analysis is fully integrated into company evaluations and enables the analysts to reach decisions based on a holistic understanding of each company. Mtx strongly believes an effective identification of material ESG opportunities requires thorough analysis. To maximize efficiency and expertise, the sustainability analysis is conducted by mtx’s ESG analysts in collaboration with the financial analyst for the sector. A prospective investment will initially be subject to a first view to assess if it is likely to pass the MSF and therefore warrant more detailed financial modelling. Before investment, a full MSF must be completed, and the company must attain a passing score. Our focus is not to maximize the MSF score, nor to perfect the scoring but to use the framework to focus on any critical issues that warrant deeper investigation. The Investment Manager finds that active investors, with in-house ESG expertise can add real value in differentiating what is financially relevant from irrelevant ESG noise. Critical too is a direct dialogue with companies to overcome information gaps, particularly so in Emerging Markets.

The following chart provides an overview of the sustainability process, which is integrated along the entire investment process. For reasons of effectiveness and efficiency, mtx does not work with a predefined ESG universe. However, the more the Investment Manager becomes convinced of a company during the analysis process, the more in-depth the ESG analysis becomes. The chart below shows both where and how sustainability factors apply and how many companies per annum (p.a.) are typically evaluated at each stage.

<sup>4</sup> **Sustainability Risks** means an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment. Such risks include: climate-related and environmental risks (such as environmental product stewardship, footprint, natural resource management, alignment with local and international targets and laws, effects of climate change); social risks evaluated as material for the sector (such as welfare and development of employees, supply chain management, data security and privacy, business ethics, or human rights violations); governance risks (including, rights of minority shareholders, board and ownership structures, strength of independent oversight, related party transactions, executive pay, and audit and accounting oversight); severe sustainability controversies, and violations of international norms.

<sup>5</sup> **Sustainability Factors** mean a company’s material impact on environmental, social and employee/labor matters, which includes, *inter alia*, respect for human rights, anti-corruption, and anti-bribery matters.

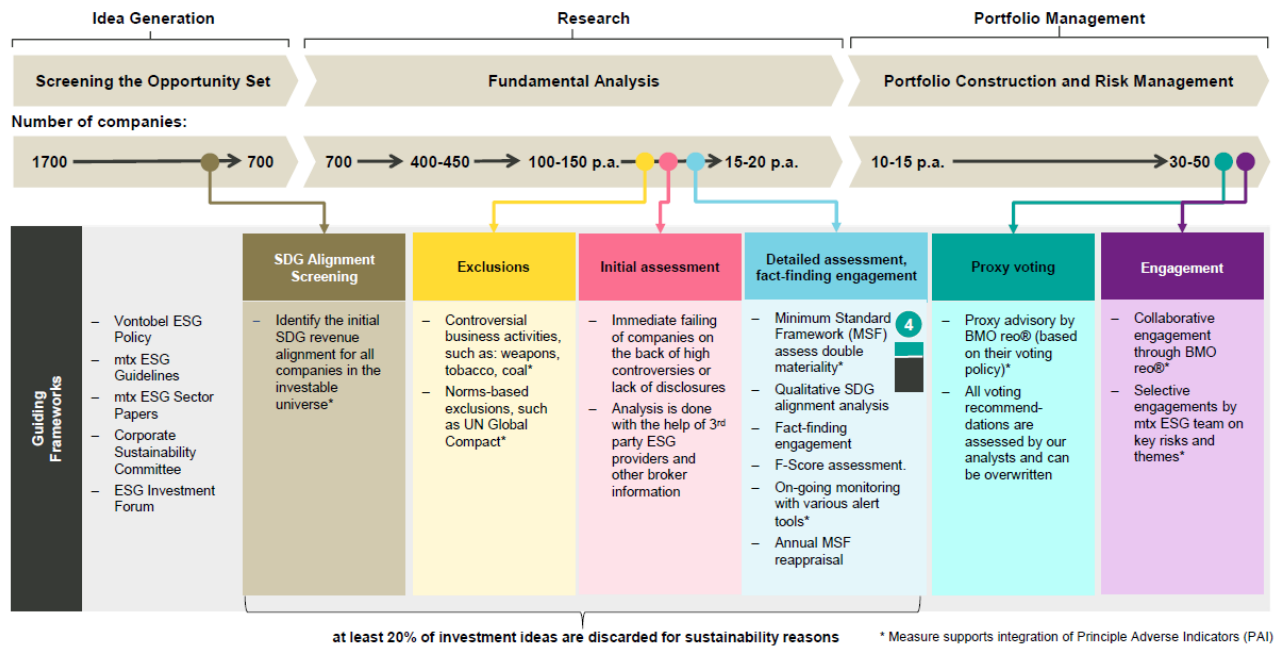


Figure 3: Sustainability Analysis integrated into the Sub-Fund's entire investment process (Source: Vontobel Asset Management)

**Data sources and processing**

What are the data sources used to attain each of the sustainable investment objective, including the measures taken to ensure data quality, how data is processed and the proportion of data that is estimated?

The following data sources are used for the implementation of the sustainability investment process:

- External ESG data providers: Sustainalytics, MSCI, ISS (corporate governance data), Syntao Green Finance (focused on China A Shares), Bloomberg, Alpha Sense, WIND, and RepRisk as well as many 'sell side' analysts with strong ESG insights
- Information directly provided by the issuers, public information, information obtained via direct engagement

Where no reliable third-party data is available, the Investment Manager may make reasonable estimates or assumptions. Additionally, third party ESG data provider may use estimates themselves. The proportion of data that is estimated by the Investment Manager is indicated to be low to medium, depending on the data type.

To ensure data quality, the Investment Manager regularly reviews data, uses multiple data sources and frequently directly engages with issuers when material data gaps occur.

**Limitations to methodologies and data**

What are the limitations to the methodologies and data sources?

In assessing the eligibility of an issuer based on ESG research, there is a dependence upon information and data from third party ESG research data providers and internal analyses, either of which may be based on false, misleading or inaccurate information, assumptions, calculations or hypothesis that render it incomplete or inaccurate. As a result, there is a risk of inaccurately assessing a security or issuer. There is also a risk that the Investment Manager may not apply the relevant criteria of the ESG research correctly or that the financial product could have indirect exposure to issuers who do not meet the relevant criteria. This poses a significant methodological limit to the strategy of the financial product. Neither the financial product, nor the management company nor the investment manager make any representation or warranty, express or implied, with respect to the fairness, correctness, accuracy, reasonableness, or completeness of an assessment of ESG research and the correct execution of the strategy. To maintain confidence that the sustainable investment objective is met, the investment manager may also engage with investees to fill data gaps or may use complimentary data from additional providers or directly from investee disclosures.

## Due diligence

*What is the due diligence carried out on the underlying assets at initial investment and what are the internal and external controls in place?*

To qualify for initial investment, the investments aligned with the sustainable investment objective must comply with the binding elements applied by the Sub-Fund. This compliance must be ensured by the Investment Manager. For the elements that are in scope of the Sub-Fund's investment guidelines and subject to investment controls, the internal Investment Control unit has pre-trade checks mechanisms in place. The pre-trade checks allow portfolio managers to simulate trades and check each trade against restrictions, prior to placing orders, to prevent the occurrence of breaches. When submitting orders an automated check of the investment guidelines restrictions is performed, generating a warning to the portfolio managers, highlighting potential breaches that would materialize in case the orders would be executed.

## Engagement policies

*Is engagement part of the environmental or social investment strategy?*

Yes  No

The Investment Manger believes that voting and engagement is core to its fiduciary responsibilities to clients. Material ESG issues can impact the future success of a company and therefore its investment potential. As long-term investors, these are seen as important tools to help steer companies towards internationally accepted norms and practices, which is ultimately for the long-term benefit of the company as well as its wider stakeholders. The Investment Manager understands this is an iterative process of on-going dialogue and we regularly work with outside partners to leverage our voice with other shareholders to elicit positive change.

Mtx considers active ownership as central to sustainable investing. As such, the team follows a comprehensive engagement strategy that enables the use of its role as shareholders to support companies in becoming more sustainable. It consists of both direct engagements, which are undertaken by our analysts and portfolio managers, and indirect engagements through a partnership with Columbia Threadneedle Responsible Engagement Overlay (REO).

The analysts and portfolio managers directly engage with the management of companies on relevant topics as part of their fundamental research activities. The mtX team carry out informal fact-finding engagements as part of a structured ESG research process – either due to data gaps or to better understand a company's performance and policies. These engagements address material ESG issues that might impact the companies' future cash flow. Sustainability indicators have been defined for each sector with refined performance thresholds for scoring and issue weights tailored by sector. Additionally, for areas flagged as key ESG risks, the Investment Manager seeks to understand the company's plans to manage and mitigate them. Through these consultations, companies are encouraged to improve their risk management practices and specific ESG areas of improvement are referenced where needed. Where an invested company is flagged for serious controversies, a regular review of the evolving situation is maintained, ever vigilant of the potential need to divest if the situation is not remedied.

Mtx has established a long-term engagement strategy with a selected list of investee companies (periodically updated) that have high exposure to sustainability risks or impacts as well as on a thematic approach. With these companies mtX builds a longer-term engagement plan with milestones targeted. An engagement log is maintained, examples of these engagements are provided to clients in various means, such as Vontobel Asset Management's yearly voting and engagement report.

For indirect engagement, the Investment Manager works with REO. Such collaborative engagements enables the exercise of greater influence than the size of holdings would otherwise permit and benefits from REO's specialist resources and experience. An additional major benefit is that REO establishes a long-term engagement plan with objectives and milestones, and this persists irrespective of investment inflows and outflows by REO clients. i.e., it can take a truly long-term perspective and will maintain regular pressure throughout the life of the issue engagement. We regularly observe that the type of engagement which helps drive structural changes is most effective in the context of long-established dialogue and a relationship of trust. REO conducts engagement activities based around three approaches:

- i) Bottom-up approach – they engage with companies that have exceptionally poor ESG practices or critical ESG controversies ("priority companies");
- ii) Top-down approach – they select companies for which practices should be improved based on thematic focus areas (e.g. climate risk management); and
- iii) Continuous risk management –they engage in response to controversies and breaches in global norms.

Finally, voting is also a key element of the active ownership approach and is part of our fiduciary duty. Analysts receive alerts of upcoming company meetings along with REO's and ISS' voting recommendations and supporting research. These are then reviewed by the ESG team and relevant financial analyst, and a decision is made whether to support the voting recommendations based on the analyst's in-depth knowledge of a company and its management. Unless overruled in specific cases, voting is based on standardized policies agreed by REO and Vontobel. Mtx has a dedicated process in place to ensure that all ballots are assessed by ESG and Financial analysts before votes are executed. The process is audited quarterly by independent auditors, Ernst and Young. Vontobel Asset Management's voting records are published on a yearly basis under <https://am.vontobel.com/en/esg-investing>.

**Attainment of the sustainable investment objective**

*Has a reference benchmark been designated for the purpose of attaining the sustainable investment objective of the financial product?*

Yes  No

**Important information**

Subscriptions of shares of the fund should in any event be made solely on the basis of the fund's current sales prospectus (the "Sales Prospectus"), the Key (Investor) Information Document ("K(I)ID"), its articles of incorporation and the most recent annual and semi-annual report of the fund and after seeking the advice of an independent finance, legal, accounting and tax specialist. If you are in any doubt about the contents of this document or have any question, you should consult your professional and/or investment advisers.

The information in this document might have been revised either after the 1st of January 2023 (when the SFDR RTS came into effect) or following the launch of the financial product. The updates could have been made to offer more clarity on specific subjects or to align with any alterations in the financial product's ESG approach. You can locate the applicable date for this document at the top of the page and in the file name of this document.