Vontobel Fund – Sustainable Emerging Market Debt

Legal Document:
SFDR Website Disclosure for Article 8 financial products

Summary

The Sub-Fund promotes environmental and social characteristics by investing in issuers that the Investment Manager considers well-prepared to handle financially material environmental and/or social challenges. Issuers will be selected based on the Investment Manager's ESG framework.
In addition, the Sub-Fund partially targets securities of issuers that provide solutions to environmental and social challenges, namely to at least one of the actionable themes: climate change mitigation, responsible use of natural resources, addressing basic needs, empowerment.

In order to attain the environmental and social characteristics, the Sub-Fund applies the following ESG framework: exclusion approach, exclusion of critical controversies, screening, partial investments in sustainable investments by investing in securities of issuers that provide solutions to environmental and social challenges.

Exclusion approach:
The Sub-Fund excludes:

- securities of corporate issuers involved in products and activities related to: unconventional / controversial weapons (0%), conventional weapons (10%), nuclear weapons (0%) coal (extraction, steel makin and thermalg 10%), coal-based utilities (25%), tobacco (5%), alcohol (10%), gambling (10%), soft drinks (10%), palm oil (10%), nuclear energy (25%). The percentage indicated reflect the revenue thresholds applied related to the production of such products and/or activities. For selected products and/or activities, additional limits apply as described below.
- Securities of sovereign issuers that are considered non-democratic, based on a proprietary methodology.

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 in-tends 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 con-ducted 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, pro-vided the issuer demonstrates good governance.

Screening:

- The Sub-Fund invests in securities of corporate issuers that pass the minimum ESG rating, which is based on the Investment Manager's proprietary methodology. The model consists of a two-level approach: (1) enriching corporate's ESG scoring from a third party ESG Research provider by the company's country ESG rating (except for supranational issuers) based on the Investment Manager's proprietary country ESG scoring framework, (2) applying an adjustment factor based on the Investment Manager's company's sector classification of positive, neutral or negative external ESG sectorial effects. Securities of corporate issuers with an ESG rating in the lowest ten percent are not eligible.
- The Sub-Fund invests in municipal and governmental issuers that pass the minimum ESG rating, which is based on the Investment Manager's proprietary methodology. The model includes criteria measuring the wellbeing of the relevant country (Gross National Income per capita, life expectancy, etc.) taken versus the resources spent to achieve it, as well as social and institutional factors (income distribution, human rights, etc.).

Partial investments in sustainable investments:

- The Sub-Fund invests at least 20% of its net assets in securities of issuers that provide solutions to environmental and social challenges, namely to at least one of the actionable themes: climate change mitigation, responsible use of natural resources, addressing basic needs, empowerment. The assessment will be conducted by the Investment Manager and based on quantitative ESG indicators and qualitative assessment of products, technologies, services, or projects. The qualitative assessment considers research related to peer group and scientific studies. To qualify for investment, the issuer should either already provide solutions to at least one of the actionable themes, or on the way to launch such solutions. The Investment Manager requires a minimum threshold of revenues, capital expenditure or allocated funding.

Sub-Fund level commitments:

- The Sub-Fund will have at least the same ESG rating (the Investment Manager's proprietary ESG scoring model and based on third-party ESG research provider) as the Benchmark, namely J.P. Morgan ESG EMBI Global Diversified Index.

Additionally, the Sub-Fund follows an active ownership approach, which takes into account relevant environmental, social and governance matters. The Investment Manager sees these activities as a way to support the attainment of the environmental and social characteristics promoted by the Sub-Fund. The Sub-Fund is covered by the engagement pool of the Investment Manager's stewardship program, which is mainly based on a collaboration with a stewardship partner. The Investment Manager has limited influence on the steward-ship partner's engagement program.

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 revaluated 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. 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 of time in exceptional cases, provided this is considered to be in the best interests of the shareholders.

Finally, in an effort to measure the attainment of each of the E/S characteristics promoted, the Sub-Fund will report on the defined sustainability indicators as part of its annual periodic reporting. The sustainability indicators are derived from the binding elements of the investment strategy used to select the investments to achieve the promoted E/S characteristics.

No sustainable investment objective

This financial product promotes environmental or social characteristics but does not have as its objective a sustainable investment.

While the Sub-Fund does not have as its objective a sustainable investment, it will invest at least 20% in sustainable investments by investing in securities of issuers that provide solutions to environmental and social challenges, namely to at least one of the actionable themes: climate change mitigation, responsible use of natural resources, ad-dressing basic needs, empowerment. The assessment methodology is described below.

In order to ensure that the sustainable investments that the Sub-Fund intends to make do not cause significant harm to any environmental or social investment objective, the Sub-Fund takes into account all the mandatory indicators for adverse impacts 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.

How have the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?

For the portion of sustainable investments, 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 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.

How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

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 in-tends 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 con-ducted 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.

Environmental or social characteristics of the financial product

The Sub-Fund promotes environmental and social characteristics by investing in issuers that the Investment Manager considers well-prepared to handle financially material environmental and/or social challenges. Issuers will be selected based on the Investment Manager’s ESG framework.
In addition, it partially invests in sustainable investments by targeting securities of issuers that provide solutions to environmental and social challenges, namely to at least one of the actionable themes: climate change mitigation, responsible use of natural resources, addressing basic needs, empowerment.

Investment strategy

What investment strategy does this financial product follow to select the investments to attain the environmental and social characteristics, and what are the binding elements of this investment strategy?

In order to attain the environmental and social characteristics, the Sub-Fund applies the following ESG framework: exclusion approach, monitoring of critical controversies, screening, partial investments in sustainable investments in securities of issuers that provide solutions to environmental and social challenges.

Exclusion approach:
The Sub-Fund excludes involvement in the products and business activities listed in the table below – subject to the permitted revenue thresholds next to it. The Investment Manager obtains data from a third-party data provider to analyze an issuer's exposure to the activities listed below. To qualify for potential investment, the issuer must not breach any of these exclusion criteria.

EXCLUSION[1]	CRITERIA	EXCEPTIONS APPLIED?
Sector/business activity-based exclusions		
Alcohol	Upstream: 25% of revenues Production: 5% of revenues Downstream: 25% of revenues	No
Conventional weapons, incl. firearms	Production: 10% of revenues	No
Coal (thermal) extraction	Production: 10% of revenues	No
Coal (thermal) power	Production: 25% of revenues	No
Gambling	Upstream: 25% of revenues Production: 5% of revenues	No
Nuclear energy	Production: 25% of revenues	No
Nuclear weapons	Production: 0% of revenues	No
Palm Oil	Production: 10% of revenues	No
Soft Drinks	Production: 10% of revenues	No
Steelmaking coal	Production: 10% of revenues	No
Tobacco	Upstream: 25% of revenues Production: 5% of revenues Downstream: 25% of revenues	No
Unconventional / controversial weapons	Production: 0% of revenues	No
Sovereign exclusions		
International sanctions	UN or international sanctions	No

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 in-tends 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 con-ducted 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.

For sovereigns, the Sub-Fund will consider the level of democracy and it is at the discretion of the Investment Manager to exclude sovereign issuers which are un-democratic/autocratic based on a proprietary methodology.

[1] The Investment Manager may apply exclusions to any three parts of the value chain or a combination. For example, Upstream could be financing including significant ownership of activities in the sector. Downstream could be distribution of products and services from the sector. The categories 'Upstream', 'Production', and 'Downstream' are used in the European ESG Template, and are included in this report for consistency.

Screening:
The Sub-Fund invests in securities of corporate issuers that pass the minimum ESG score (lowest decile excluded), which is based on the Investment Manager's proprietary methodology, i.e., securities of corporate issuers with an ESG score in the lowest ten percent of the ESG distribution are not eligible. The model for corporates consists of a two-level approach:

- enriching corporate's ESG scoring from a third party ESG Research provider by the company's country ESG rating (besides for supranational issuers) based on the Investment Manager's proprietary country ESG scoring framework,
- applying an adjustment factor based on the Investment Manager's company's sector classification of positive (i.e. promotion to obtain a higher score), neutral (i.e. no adjustment) or negative (i.e. demotion to lowest decile and thus excluded) external ESG sectorial effects.

The Sub-Fund invests in municipal and governmental issuers that pass the minimum ESG score (lowest decile excluded), which is based on the Investment Manager's proprietary methodology, i.e., securities of municipal and governmental issuers with an ESG score in the lowest ten percent of the ESG distribution are not eligible.
The model for municipalities and governments includes criteria measuring the wellbeing of the relevant country (Gross National Income per capita, life expectancy, etc.) taken versus the resources spent to achieve it, as well as social and institutional factors (income distribution, human rights, etc.).

Partial investments in sustainable investments:
The Investment Manager identifies securities of issuers that provide solutions to environmental and social challenges, namely to at least one of the actionable themes: climate change mitigation, responsible use of natural resources, addressing basic needs, empowerment. To qualify for investment, the issuer should either already provide solutions to at least one of the actionable themes, or on the way to launch such solutions:

- The Investment Manager conducts the assessment based on quantitative ESG indicators and qualitative assessment of products, technologies, services, or projects. The qualitative assessment considers research related to peer group and scientific studies.
- The Investment Manager requires a minimum threshold of 20% of revenues, capital expenditure or allocated funding.

Sub-Fund level commitments:
The Sub-Fund will have at least the same ESG score (the Investment Manager's proprietary ESG scoring model and based on third-party ESG research provider) as the Benchmark, namely J.P. Morgan ESG EMBI Global Diversified Index.

Binding elements:
The binding elements of the investment strategy used to select the investments to achieve the E/S characteristics promoted are as follows:

- The Sub-Fund excludes securities of corporate issuers that derive a non-negligible part of their revenues from excluded products and/or activities listed above.
- The Sub-Fund excludes securities of sovereign issuers that are considered as non-democratic (based on a proprietary methodology).
- The Sub-Fund excludes securities of sovereign issuers with substantial UN or international sanctions.
- The Sub-Fund excludes 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 invests in securities of corporate issuers that pass the minimum ESG rating that has been set for this Sub-Fund (based on a proprietary methodology, lowest decile is excluded).
- The Sub-Fund invests in securities of sovereign issuers that pass the minimum ESG rating that has been set for this Sub-Fund (based on a proprietary methodology, lowest decile is excluded).
- The Sub-Fund partially invests in securities of corporate issuers that demonstrate to either already provide solutions to the environment or social challenges or on the way to launch such solutions.
- The Sub-Fund will have at least the same ESG rating (the Investment Manager's proprietary ESG scoring model and based on third-party ESG research provider) as the Benchmark, namely J.P. Morgan ESG EMBI Global Diversified Index.
- The ESG analysis covers 90% of the Sub-Fund's securities. The use of ESG data may be subject to methodological limits.

What is the policy to assess good governance practices of the investee companies [2]?

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 in-tends 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 con-ducted 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.

The Sub-Fund further intends to ensure good governance of the investee issuers via active ownership. The Investment Manager puts best effort in engaging with regards to ESG policies and to promote sustainability awareness.

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

☒ Yes ☐ No

The Investment Manager considers the list of principal adverse impacts on sustainability factors mentioned in the table below.

For the partial sustainable investments the Investment Manager considers all mandatory principal adverse impact indicators. For the part of non-sustainable investments there is no regulatory requirement to consider all principal adverse impact indicators.

The Investment Manager identifies issuers that are exposed to these principal adverse impacts on sustainability factors based on in-house research; data sources include ESG data providers, other resources, 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.

[2] including with respect to sound management structures, employee relations, remuneration of staff and tax compliance

The following *Principal Adverse Sustainability Impacts* Indicators[3] are considered in the investment strategy:

TABLE	#	PRINCIPAL ADVERSE IMPACT INDICATOR
	Greenhouse gas emissions	
1	1	Total GHG emissions (scope 1 and 2)
1	1	Scope 1 GHG emissions
1	1	Scope 2 GHG emissions
1	2	Carbon footprint (scope 1 and 2)
1	3	GHG intensity of investee companies (scope 1 and 2)
	Energy	
1	4	Exposure to companies active in the fossil fuel sector
1	5	Share of non-renewable energy consumption and production
1	6	Energy consumption intensity per high impact climate sector
	Biodiversity	
1	7	Activities negatively affecting biodiversity-sensitive areas
	Water	
1	8	Emissions to water
	Waste and resources	
1	9	Hazardous waste and radioactive waste ratio
	Controversial weapons	
1	14	Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)
	Social and employee rights	
1	10	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
1	11	Lack of processes and compliance mechanisms to monitor UN Global Compact Principles and OECD Guidelines for Multinational Enterprises
1	12	Unadjusted gender pay gap
1	13	Board gender diversity
	Environmental aspects - sovereigns and supranationals	
1	15	GHG intensity of investee countries
	Social aspects - sovereigns and supranationals	
1	16	Investee countries subject to social violations

[3] 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 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.	At least 80%	Only through direct exposures
#1A Sustainable Covers sustainable investments with environmental or social objective	At least 20%	Only through direct exposures
Environmental objective		
Environmental objective (EU Taxonomy aligned)	At least 1%	Only through direct exposures
Other environmental	At least 2%	Only through direct exposures
Social objective	At least 1%	Only through direct exposures
#1B Other E/S characteristics Covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments	Up to 80%	Only through direct exposures
#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.	Up to 20%	Through direct exposures for unscreened investments, through indirect exposures for hedging instruments.

Under “#2 Other”, the Sub-Fund may hold ancillary liquidity and use financial derivative instruments for the purpose of hedging. While these instruments are not expected to detrimentally affect the attainment of the Sub-Fund’s environmental and social characteristics, no minimum environmental or social safeguards are applied. Other investments include also unscreened investments for diversification purposes or investments for which ESG data is lacking. For such instruments the monitoring process of critical controversies is applied.
Derivatives are not used for the purpose of attaining the environmental and/or social characteristics promoted by the Sub-Fund.

Monitoring of environmental or social and governance characteristics

What sustainability indicators are used to measure the attainment of the environmental or social characteristics promoted by this financial product?

The attainment of the environmental and social characteristics is measured through the following list of sustainability indicators:

– 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 (excluded products and/or activities are indicated under the investment strategy section)
– Percentage of investments in securities of sovereign issuers that are considered as non-democratic (based on a proprietary methodology)
– Percentage of investments in securities of sovereign issuers with substantial UN or international sanctions
– Percentage of investments in securities of corporate issuers that pass the minimum ESG rating that has been set for this Sub-Fund (determined based on the lowest decile, based on a proprietary methodology)
– Percentage of investments in securities of sovereign issuers that pass the minimum ESG rating that has been set for this Sub-Fund (determined based on the lowest decile, based on a proprietary methodology)
– 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
– Percentage of investments in securities of issuers that provide solutions to at least one of the actionable themes (climate change mitigation, responsible use of natural resources, addressing basic needs, empowerment) and that qualify as sustainable investments
– Sub-Fund’s ESG rating compared to its Benchmark (J.P. Morgan ESG EMBI Global Diversified Index), based on the proprietary ESG scoring model and based on third-party ESG research provider
– Percentage of securities covered by ESG analysis

The application of the binding elements, as described above, leads to the exclusion of at least 20% of the investments considered prior to the application of the investment strategy (i.e., emerging markets debt market).

How are the environmental or social characteristics and the sustainability indicators monitored throughout the lifecycle of the financial product and the related internal/external control mechanism?

The information used for the implementation of the ESG framework, and consequently the attainment of the environmental and social characteristics, are reviewed on a regular basis.

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. 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 of time 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 actually 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 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 defence controls are confirmed and self-assessed annually by the business owners via the Operation Risk and Control Self-Assessment (RCSA) process. The RCSA process is a systematic and regular business process aimed at reviewing specific inherent operational risks that Asset Management investments are ex-posed 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 defence controls.

Methodologies

What are the methodologies used for the implementation of the ESG framework?

Exclusion approach:
The Investment Manager retains data from third-party data provider in order to analyze an issuer's exposure to activities excluded by the Sub-Fund, based on pre-defined thresholds. In order to qualify for initial investment, the issuer must not breach any of these exclusion criteria. The third-party data providers are MSCI and Sustainalytics.
The Investment Manager evaluates the democratic status of a sovereign issuer based on a proprietary methodology that is based on data from third-party data provider as well as in-house proprietary research. In order to qualify for initial investment, the issuer must not be classified as non-democratic. The third-party data providers are Political Risk Services (PRS) Group, MSCI and Sustainalytics.

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 in-tends 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 con-ducted 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.

For sovereigns, the Sub-Fund will consider the level of democracy and it is at the discretion of the Investment Manager to exclude sovereign issuers which are un-democratic/autocratic based on a proprietary methodology.

Screening:
The Sub-Fund invests in securities of corporate issuers if their ESG score is not in the lowest decile, which is based on the Investment Manager's proprietary methodology. Securities of corporate issuers with an ESG score in the lowest ten percent of the ESG distribution are not eligible. The model consists of a two-level approach:

- based on ESG scores from the third-party researcher Sustainalytics, the Investment Manager selects securities from corporate issuers that manage their sustainability risks in a more efficient way for a given level of sustainability risk exposure. The Investment Manager defined Sustainalytics' ESG Management Score as the relevant ESG factor and enriches this score by the company's country ESG rating based on the Investment Manager's proprietary country ESG scoring framework (except for development banks issuers as the Investment Managers classifies their sector as positive),
- applying an adjustment factor based on the Investment Manager's company's sector classification of positive (i.e. promotion to obtain a higher score), neutral (i.e. no adjustment) or negative (i.e. demotion to lowest decile and thus excluded) external ESG sectorial effects. The sector classification (positive, neutral, negative) are as follows but not limited to:

SECTORS WITH POSITIVE ESG EFFECTS	**SECTORS WITH NEUTRAL ESG EFFECTS**	**SECTORS WITH NEGATIVE ESG EFFECTS**
– Development Banks	– Banks	– Casino and Gaming
– Water Utilities	– Consumer Products	– Weapons
– Renewables	– Telecommunications	– Coal Mining
– Insurance and Reinsurance	– REIT	– Coal-based Utilities
	– Rail Transport	– Soft Drinks
	– Airports	– Alcohol
	– Conglomerates	– Tobacco
	– Textile	

The Sub-Fund invests in sovereign issuers (municipals and governments) if their ESG score is not in lowest decile. Securities of sovereign issuers in the lowest decile are excluded. The ESG score is based on the Investment Manager's proprietary methodology. The model evaluates how efficiently countries' resources are being used to improve the quality of life of the population. The model for municipalities and governments includes criteria measuring the wellbeing of the relevant country (Gross National Income per capita, life expectancy, etc.) taken versus the resources spent to achieve it, as well as social and institutional factors (income distribution, human rights, etc.).

Partial investments in sustainable investments:
The Investment Manager identifies securities of issuers that provide solutions to environmental and social challenges, namely to at least one of the actionable themes: climate change mitigation, responsible use of natural resources, addressing basic needs, empowerment. To qualify for investment, the issuer should either already provide solutions to at least one of the actionable themes, or on the way to launch such solutions.

- The Investment Manager conducts the assessment based on quantitative ESG indicators and qualitative assessment of products, technologies, services, or projects. The qualitative assessment considers research related to peer group and scientific studies.
- The Investment Manager requires a minimum threshold of 20% of revenues, capital expenditure or allocated funding.

Sub-Fund level commitments:
The Sub-Fund will have at least the same ESG score (the Investment Manager's proprietary ESG scoring model and based on third-party ESG research provider) as the Benchmark, namely J.P. Morgan ESG EMBI Global Diversified Index.

Data sources and processing

What are the data sources used to attain each of the environmental or social characteristics 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 investment process:

- External ESG data providers including Sustainalytics, MSCI ESG Research, Political Risk Services (PRS) Group, Refinitiv.
- Information provided directly by the issuers, media, NGOs, international organizations

In order to ensure data quality, the Investment Manager:

- Regularly reviews data
- Uses multiple data sources
- May directly engage with the issuers when data gaps occur

The data sources mentioned above are used in order to implement the ESG framework as described in detail in the Investment Strategy section.

The Investment Manager may make reasonable estimates, when data is lacking. 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.

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 which may be based on certain assumptions 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 Sub-Fund could have indirect exposure to issuers who do not meet the relevant criteria. This poses a significant methodological limit to the ESG strategy of the Sub-Fund. Neither the Sub-Fund, 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 ESG strategy.
In order to maintain confidence that social and environmental characteristics are met, the investment manager may also engage with investees in order 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?

In order to qualify for initial investment, the investments aligned with the environmental and social characteristics must comply with the binding elements applied by the Sub-Fund. This compliance has to 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, in order 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

If so, what are the engagement procedures?

The Fixed Income Boutique considers direct engagement to be an important element of its investment activities. As an active manager, the Investment Manager generally prefers to engage with the management of investee companies and sovereigns directly. We do not have a standalone engagement team, since we believe that the direct contact between investee decision makers and investment professionals such as portfolio managers and analysts who have the specific expert knowledge and understanding of the context in which the company or the sovereign have been selected as an investment.

Reasons to engage with an investee company or sovereign can include business strategy, corporate governance issues, change in the capital structure, remuneration issues, and identified environmental and social factors. Engagement includes on-going communications between the investment team and the decisions makers of the investee companies or sovereign and can range from ongoing updates and questioning of the current and future business model, to engagement on specific issues that may cover ESG concerns.

Moreover, engagement helps the Investment Manager to mitigate data quality issues and problems arising from differences in reporting and corporate governance standards especially in high yield and emerging markets.

In addition to direct engagement activities, the Investment Manager also partners with a service provider, namely BMO Responsible Overlay reo©. The Investment Manager sees many advantages in working with a partner on voting and engagement. By pooling the assets in an engagement partner tool, the scale that is necessary to be present and visible towards management teams and boards in dialogues and engagement activities can be reached. This enables the Investment Manager to exert greater influence than our own investment volume would allow, and at the same time, to target a broader range of companies through the access to more resources. Finally, it facilitates Investment Manager’s collaboration with other investors. The stewardship partner, namely reo, conducts engagement activities structured around three approaches:

– Bottom-up approach – the stewardship partner engages with companies that have exceptionally poor ESG practices or critical ESG controversies (“priority companies”);
– Top-down approach – the stewardship partner selects companies for which practices should be improved based on thematics focus areas (e.g. climate risk management);
– Continuous risk management – the stewardship partner engages in response to controversies and breaches in global norms.

The Investment Manager has limited influence on the stewardship partner's engagement program.

Designated reference benchmark

Has a reference benchmark been designated for the purpose of attaining these characteristics promoted by 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.

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