EASTSPRING INVESTMENTS (LUXEMBOURG) SA

NOTE ON INTEGRATION AND MONITORING OF SUSTAINABILITY RISKS IN THE INVESTMENT MANAGEMENT PROCESS

This note is presented as a summary of Eastspring investments (Luxembourg) SA (hereinafter ‘the Management Company”) Sustainability Risk Policy (hereinafter “the Policy”) established to describe the procedures for the monitoring of Sustainability risks, required under the EU Regulation 2019/2088, Sustainable Finance Disclosure Regulation (hereby referred to as “SFDR”).

Sustainability risk is defined in the SFDR (Article 2(22)) as an environmental, social or governance event or condition which, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

With the aim to comply with the SFDR requirements on sustainability-related disclosures in the financial sector, the Management Company has established the Policy to describe the procedures and methods used for the assessment, measurement and monitoring of environmental, social and governance characteristics and risks for Eastspring Investments SICAV / Eastspring Investments SICAV FIS (“the Funds”) managed by the Management Company.

The Policy also includes data sources, screening criteria for the asset universe and sustainability indicators used to measure the ESG characteristics of the Funds. This policy takes into consideration the EU Regulation 2019/2088 on SFDR as well as the EU Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment and amending EU Regulation 2019/2088.

Moreover, the Company follows the six United Nations Principles of Responsible Investments (“PRI”), adhering and engaging in providing regular reporting on the following commitment statements:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure of ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the principles.
6. We will report on our activities and progress towards implementing the principles.

Sustainability Risk Assessment and monitoring – Investment management

The Sustainability risk is initially assessed at the product design stage, which entails considerations relevant to the identification of SFDR categorisation, definition of ES characteristics, assessment of ESG investment factors as well as definition of sustainability indicators.

Following the fund launch, the sustainability risk monitoring is pursued with the contribution of the first and second line of defence.

Investment Management teams act as first line of defence. They use both quantitative and qualitative analyses to determine if investments are managed in line with the sub-Funds investment strategy and legal requirements. The SICAV sub-funds are managed either by the investment management teams of Eastspring Singapore (the appointed portfolio manager), or by sub-delegated managers appointed by the portfolio manager.

Although each investment management team from Eastspring Singapore and from sub-delegated managers have implemented its own processes and controls to integrate ESG criteria into their investment processes, the below tools and criteria are commonly used by all investment teams:

1. Use of external data providers

In assessing Sustainability risks in the research and portfolio construction process, Investment fund managers use a range of online third-party desktop research tools such as the MSCI ESG Research, Bloomberg, ISS, and others.

2. Investment selection process (due diligence and ongoing monitoring)

When investing in equity related instruments, Investment Management Teams strive to understand the ESG risks, controversies, and challenges specific to the company and its industry peer group. That includes assessment of target company's ESG performance relative to its peers, encouraging companies to disclose on ESG data, while for Fixed Income, the investment team has built its own evaluation criteria and has fully integrated ESG as a part of its credit analyses.

3. Exclusions, screening, engagement and due diligence

In line with the delegated portfolio manager's (Eastspring Investments (Singapore) Limited, hereinafter "EISG") Exclusions Policy, investments in companies dealing or generating revenue from tobacco, controversial weapons or the production of and electricity generation from thermal coal. On the opposite, Investment Management teams are also performing positive integration. They embrace active engagement to drive positive change along environmental (climate change mitigation, resource management), corporate governance (board independence, gender diversity) and social (inclusion, health and wellbeing, safety and security) objectives. Investment Management teams document their active dialogues with the companies and actively participate in proxy voting.

4. ESG exposure monitoring

EISG investment management teams score their sub-fund portfolios based on the taxonomy criteria and each team's own ESG Rating process assisted by third party data as well as their own quantitative and qualitative assessments. Criteria can be environmental risk (gas emissions, energy management, waste & pollution etc) social risk (workforce diversity, health & safety, human rights etc) as well as governance risk relevant (structure/oversight, transparency/reporting etc).

Sustainability Risk Assessment and monitoring – Risk management

Permanent risk management function, in its quality as second line of defense, relies on the following controls:

1. ESG scoring Tables

Established by EISG, serving as cornerstone within Eastspring's sustainability risk framework, used by as first layer of risk identification.

The ESG scoring table is updated monthly and scores evolution are monitored compared to previous quarter. In case of significant negative evolution, the PRMF performs additional controls to address the observed risks.

2. ESG Deep-dive

During the exercise, which is launched in cases of low ESG scores observed during the reference period, the PRMF may use various indicators leveraging MSCI data integrated in the front office system (Aladdin) such as the carbon emissions, corporate governance behaviour, human capital scores, etc.

3. Risk Profile

Sustainability risk is fully integrated into the Risk Profile Document (RPD) ensuring the inclusion of sustainability risk in a holistic risk assessment approach. The PRMF uses various key indicators (deviation of the ESG score from the benchmark, the Weighted Average Carbon Intensity (WACI) score, Human Capital score, Corporate Governance score etc.) to ensure that sustainability risks are properly assessed and managed.

4. Exclusion/Screening List

The PRMF controls the exposure to excluded sectors (such as Tobacco, Coal, Controversial weapons), and has determined in addition some non-ESG sectors in its screening activity (i.e Alcohol, Gambling, Artic Oil and Gas).

5. ESG DDQ

As part of the due diligence (DD) on the Investment Manager, the PRMF performs an ESG due diligence to ensure that sustainability factors are being considered at a high level in the investment process.

Limitations

The Management Company has identified limitations and challenges on the integration of sustainability risks in the investment decision making process. These are relevant to the performance and sustainability risks quantification metrics still being part of the ongoing market debate, the disparity between emerging and developed countries on ESG data and availability as well as the lack of standard guidelines providing harmonized methodologies for the valuation of ESG factors into the investment analysis.