

## Investments

### Introduction

ESG and socially responsible investing are important themes because they allow investment capital to be directed towards socially responsible companies and projects. As this investment trend develops, there has been a rise in the requirements for defining the sustainability criteria a product should meet. These issues are addressed by the Sustainable Finance Disclosure Regulation (SFDR), which seeks greater transparency on how financial institutions take so-called ESG (environmental, social and governance) criteria into account in their investment decisions and recommendations. The SFDR determines how end clients should be informed about the inclusion of sustainability risks, adverse impacts on sustainability, sustainable investment objectives and/or the promotion of environmental or social characteristics in investment decision-making and other advisory processes.

PARTNERS INVESTMENTS supports sustainable investing and is able to tailor investments to environmental and social goals. To achieve specific ESG objectives, the following investment strategies have been developed: Conservative ESG, Balanced ESG, Dynamic ESG and Thematic. This document summarizes the approach to sustainability in a product and presents specific ESG criteria that both investment instruments and the portfolios themselves must meet. In future, our clients will also be receiving transparent information from us on ESG compliance in our company.

### Financial product specifications under the SFDR

PARTNERS INVESTMENTS offers its clients portfolio management services. The portfolios offered are classified according to the SFDR as follows:

- **Conservative, Balanced, Dynamic and Real Estate portfolios** not factoring sustainability criteria in their investment strategies. These portfolios are not considered sustainable within the meaning of the SFDR.
- **Conservative ESG, Balanced ESG, Dynamic ESG and Thematic portfolios ("ESG portfolios")** promote environmental and social characteristics. Sustainable investing is not the main objective of these products - they are so-called light green products within the meaning of Article 8 of the SFDR.

### ESG portfolio investment strategies

ESG portfolios are based on the long-term passive investing principle. In terms of investment focus, they are looking for broadly diversified global strategies that take ESG factors into account. They seek to create exposure on world markets crucial in terms of size and importance for the global economy. The focus is primarily on market-wide instruments with selection limited to responsible companies (based on ESG scores).

ESG portfolios focus on acquisition of primary ETF (exchange-traded funds) instruments. Variants of those investment instruments are chosen for ESG portfolios, which themselves promote environmental and social characteristics (more details below). Issuers usually identify such instruments either as ESG (environmental, social and governance) or SRI (socially responsible investing). This designation lets issuers demonstrate that the investment takes certain forms of sustainability into account.

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### Promoted environmental and social characteristics

ESG portfolios support the environmental and social characteristics under Article 8 of the SFDR by assessing the significance of environmental, social and governance (ESG) risks and opportunities for the underlying assets. The sustainability indicators defined below assess whether an investment instrument meets the environmental and social characteristics those products supposedly support.

Like other portfolios, standard criteria are taken into account when selecting suitable investment instruments. These include the underlying tracked index, the issuer's reputation, the internal cost of the instrument (ICI), the amount of money under management (AUM), market liquidity, spreads and the way the index is replicated.

Besides them, sustainability indicators or 'ESG criteria' are also considered in ESG portfolios, which are based on each investment instrument's sustainability data either their issuers or the MSCI company provide. Investment instruments whose investment policy aims to avoid or reduce sustainability risks are selected.

In particular, the following indicators are considered for sustainability purposes when selecting appropriate instruments:

- **Product Classification under the SFDR**
- **ESG rating**
- **Carbon intensity**
- **Absence of controversial sectors.**

### SFDR Classification

Data on how the SFDR classifies investment instruments under the SFDR are taken from the websites of their issuers. ESG portfolios include investment instruments classified under either Article 8 ("light green" funds) or Article 9 ("dark green" funds).

### ESG rating

Each company and country is assigned an ESG rating to by MSCI, a reputable company that indexes stock, bonds and real estate in addition to other services. MSCI rates companies' ESG using a valuation model that identifies and evaluates significant environmental, social and governance opportunities and risks in light of the company's future financial performance. Funds are assigned so-called ESG Fund Rating by MSCI according to the weighted average of the ESG ratings from all the companies whose securities are held in a particular fund.

MSCI's ESG ratings vary from AAA, the best, to CCC, the worst. Based on them, MSCI categorizes companies as Leaders (AAA, AA), Average (A, BBB, BB) or Laggards (B, CCC). ETF funds in ESG portfolios must be rated either BBB or higher. To be considered sustainable, investment instruments are required to have an ESG fund rating equal to AAA.

### Carbon intensity

Another sustainability indicator taken into account is carbon intensity. It is expressed in tons of carbon dioxide emissions per million dollars of sales of a company and then translated to a scale where the lower the value, the better the rating. Like the ESG ratings, this data is sourced either from the issuers themselves or MSCI. The latter uses the weighted average carbon footprint of issuers of the securities included in the fund. Investment instruments whose carbon footprint is significantly lower than found in standard instruments are selected for ESG portfolios.

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### Absence of controversial sectors

In creating ESG portfolios, the emphasis is on eliminating sectors directly at odds with sustainability principles:

#### Environmental:

- Companies whose main source of income lies in any of the following areas are excluded from the portfolios:
  - Defense (conventional and nuclear)
  - Unconventional oil and gas extraction
  - Coal mining
- The following sectors are likewise excluded as much as possible:
  - Genetically modified organisms
  - Nuclear energy
  - Tar sand extraction
  - Conventional oil and gas extraction
  - Heat energy
  - Coal and tar sand storage
  - Companies with high greenhouse gas emissions.

#### Social

- Companies whose main source of income lies in any of the following areas are excluded from the portfolios:
  - Tobacco
  - Domestic firearms
  - Conventional weapons
  - Nuclear weapons

In addition, other sustainability criteria are taken into account when deciding on the inclusion of an investment instrument in ESG portfolios:

- Percentage of income generated from fossil fuels
- Percentage of income generated from green sources (e.g. alternative energy sources)
- Supervisory board independence
- Representation of women in company management
- MSCI's most serious controversial factors
- Factoring in of the UN Global Compact initiative

## Strategic allocation of ESG portfolios

In terms of strategic allocation, ESG portfolios with dynamic strategies should hold only equity and those with conservative and balanced strategies should hold both equity and bonds. These portfolios aim to approximate their structure, and thus their performance, as much as possible to the global market portfolio, taking into account the number of responsible companies, where they are located around the world and their market capitalization.

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### Portfolio composition and selected instruments

The objectives are to create globally diversified equity-bond portfolios that factor in ESG and to gain exposures for them on key global markets in terms of global market capitalization. They should achieve exposure in all major trendsetting regions in global equity markets, specifically in the United States, Europe and Japan. In addition, for a truly globally diversified investment strategy, it is desirable to select instruments also covering stock markets in developing countries, which provide significant diversification and contribute toward mitigating a global portfolio's volatility, as proven by research. A portfolio is strategically allocated across these four areas according to both importance and size (in terms of market capitalization) of individual regions and the distribution and size of responsible, sustainable companies around the world. They are found mostly in developed countries and usually are characterized by high market capitalization.

In order to achieve the target exposure, ETFs from ESG leaders - Blackrock (ishares), Amundi, UBS and Xtrackers were selected, taking into account mainly exposure, liquidity and sustainability criteria.

### Target portfolio structure and chosen instruments

#### Conservative ESG strategy

ISIN	Security	MSCI carbon intensity (tCO2 / \$m sales)	MSCI green based revenues	MSCI fossil fuel revenues	MSCI ESG rating	Board independence	Board diversity
IE00BJK55C48	iShares EUR High Yield Corp Bond ESG UCITS ETF EUR (Acc)	137,5	3,60%	0,60%	AA	79,20%	37,30%
IE00BMCZLH06	iShares \$ Development Bank Bonds UCITS ETF EUR Hedged (Acc)	4,5	0,00%	0,00%	AAA	87,70%	42,00%
IE00BMDFDY08	iShares \$ High Yield Corp Bond ESG UCITS ETF EUR Hedged (Acc)	171,8	2,50%	0,60%	AA	78,30%	28,60%
LU1215461325	UBS (Lux) Fund Solutions – Bloomberg MSCI US Liquid Corporates Sustainable UCITS ETF (hedged to EUR) A-acc	37,8	2,90%	0,10%	AAA	83,40%	35,00%
LU1974696418	UBS (Lux) Fund Solutions – J.P. Morgan USD EM IG ESG Diversified Bond UCITS ETF (hedged to EUR) A-acc	380,8	2,80%	5,60%	BBB	65,40%	20,40%
LU1273488715	UBS (Lux) Fund Solutions – MSCI Japan Socially Responsible UCITS ETF (hedged to EUR) A-acc	35,9	4,10%	0,00%	AAA	47,20%	18,90%
LU1437018168	AMUNDI INDEX EURO CORPORATE SRI - UCITS ETF DR (C)	93,3	4,80%	0,20%	AAA	84,30%	39,60%
LU1861137484	AMUNDI INDEX MSCI EUROPE SRI PAB - UCITS ETF DR (C)	60,2	5,80%	0,00%	AA	85,70%	40,30%
LU2153616599	AMUNDI INDEX MSCI USA SRI PAB - UCITS ETF DR - HEDGED EUR (C)	43,7	8,70%	0,00%	AAA	85,00%	33,40%
LU2109787551	AMUNDI MSCI EMERGING ESG LEADERS - UCITS ETF DR (C)	216,5	5,30%	2,50%	AA	63,10%	17,60%

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### Balanced ESG strategy

ISIN	Security	MSCI carbon intensity (tCO <sub>2</sub> / \$m sales)	MSCI green based revenues	MSCI fossil fuel revenues	MSCI ESG rating	Board independence	Board diversity
IE00BJK55C48	iShares EUR High Yield Corp Bond ESG UCITS ETF EUR (Acc)	137,5	3,60%	0,60%	AA	79,20%	37,30%
IE00BMCZLH06	iShares \$ Development Bank Bonds UCITS ETF EUR Hedged (Acc)	4,5	0,00%	0,00%	AAA	87,70%	42,00%
IE00BMDFDY08	iShares \$ High Yield Corp Bond ESG UCITS ETF EUR Hedged (Acc)	171,8	2,50%	0,60%	AA	78,30%	28,60%
LU1215461325	UBS (Lux) Fund Solutions – Bloomberg MSCI US Liquid Corporates Sustainable UCITS ETF (hedged to EUR) A-acc	37,8	2,90%	0,10%	AAA	83,40%	35,00%
LU1974696418	UBS (Lux) Fund Solutions – J.P. Morgan USD EM IG ESG Diversified Bond UCITS ETF (hedged to EUR) A-acc	380,8	2,80%	5,60%	BBB	65,40%	20,40%
LU1273488715	UBS (Lux) Fund Solutions – MSCI Japan Socially Responsible UCITS ETF (hedged to EUR) A-acc	35,9	4,10%	0,00%	AAA	47,20%	18,90%
LU1437018168	AMUNDI INDEX EURO CORPORATE SRI - UCITS ETF DR (C)	93,3	4,80%	0,20%	AAA	84,30%	39,60%
LU1861137484	AMUNDI INDEX MSCI EUROPE SRI PAB - UCITS ETF DR (C)	60,2	5,80%	0,00%	AA	85,70%	40,30%
LU2153616599	AMUNDI INDEX MSCI USA SRI PAB - UCITS ETF DR - HEDGED EUR (C)	43,7	8,70%	0,00%	AAA	85,00%	33,40%
LU2109787551	AMUNDI MSCI EMERGING ESG LEADERS - UCITS ETF DR (C)	216,5	5,30%	2,50%	AA	63,10%	17,60%

### Dynamic ESG strategy

ISIN	Security	MSCI carbon intensity (tCO <sub>2</sub> / \$m sales)	MSCI green based revenues	MSCI fossil fuel revenues	MSCI ESG rating	Board independence	Board diversity
IE00BYVJRP78	iShares Sustainable MSCI Emerging Markets SRI UCITS ETF	121,8	5,40%	0,60%	AA	66,60%	19,70%
IE00B52VJ196	iShares MSCI Europe SRI UCITS ETF EUR (Acc)	63	6,30%	0,50%	AA	85,40%	40,50%
IE00BYVJRR92	iShares Sustainable MSCI USA SRI UCITS ETF	65,2	7,90%	0,90%	AAA	85,40%	33,30%
IE00BG36TC12	Xtrackers MSCI Japan ESG UCITS	55,6	5,60%	0,00%	AAA	49,00%	18,50%

### Portfolio benchmark choice

In view of the broad global focus desired from the investment strategies, their composition and the choice of individual instruments, wide-ranging, globally-oriented benchmarks should be chosen in order to compare performance.

**The benchmarks for ESG portfolios** are indices synthetically generated from the publicly available indices listed in the table below.

**A dynamic ESG portfolio benchmark** should be an index synthetically generated from two publicly available reputable company indices created by MSCI. These are the MSCI WORLD SRI NET EUR and MSCI EM SRI Select Reduced Fossil Fuels Net USD Index and they focus on responsible companies from developed and emerging countries respectively. The synthetically generated benchmark combines these two indices in a ratio of equities from developed and emerging countries.

**The Conservative ESG portfolio benchmark** is a synthetic index consisting of the following indices

Index	Weight
Bl. Barcl. MSCI Global Agg Sust. TR Index Value Unh. USD	80%
MSCI ACWI SRI Net Total Return USD Index	20%

**The Balanced ESG portfolio benchmark** is a synthetic index consisting of the following indices

Index	Weight
Bl. Barcl. MSCI Global Agg Sust. TR Index Value Unh. USD	40%
MSCI ACWI SRI Net Total Return USD Index	60%

### EU Taxonomy

ESG portfolios, as financial products, do not take into account the EU criteria for environmentally sustainable economic activities defined by the EU Taxonomy.

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### Adverse impacts on sustainability factors (PAI)

Currently, investment strategies indirectly take into account the substantial adverse impacts on sustainability factors (PAI) by considering the impact on ETF issuers included in the investment strategies specified below.

	Conservative ESG	Balanced ESG	Dynamic ESG
<b>Greenhouse gas emissions</b>	Yes	Yes	Yes
<b>Biodiversity</b>	Yes	Yes	Yes
<b>Water protection</b>	Yes	Yes	Yes
<b>Hazardous waste</b>	Yes	Yes	Yes
<b>Social and employment factors</b>	Yes	Yes	Yes

### Data sources

Specific information on ESG characteristics, sustainable investment objectives and methodologies, and how individual investment instruments are assessed for sustainability was provided either by the issuers or obtained from MSCI. The websites are listed below:

<https://www.blackrock.com/corporate/about-us/investment-stewardship#guidelines>

<https://about.amundi.com/esg-documentation>

<https://www.ubs.com/global/en/assetmanagement/capabilities/sustainable-investing.html>

<https://etf.dws.com/en-gb/IE00BG36TC12-msci-japan-esg-ucits-etf-1c/>

<https://www.msci.com/our-solutions/esg-investing/esg-fund-ratings-climate-search-tool>