Policy implementing the requirements of Article 3 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector to take account of sustainability risks

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1. Legal framework

Preval S.A. (hereinafter “Company“) is a management company authorised by the Luxembourg supervisory authority "Commission de Surveillance du Secteur Financier" pursuant to Chapter 15 of the Luxembourg law of 17 December 2010 on undertakings for collective investment (hereinafter "UCI Law") and is also authorised as an alternative investment fund manager pursuant to the Luxembourg law of 12 July 2013 on alternative investment fund managers (hereinafter "AIFM Law").

Within the scope of its regulatory authorisation, the Company manages funds that qualify as undertakings for collective investment in transferable securities ("UCITS") or alternative investment funds ("AIF") (hereinafter "investment funds").

1.1 Sustainability-related disclosures in the financial services sector

On 27 November 2019, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector (hereinafter "SFDR") was published and entered into force on 10 March 2021. The main objective of the SFDR is to create transparency on how sustainability risks are taken into account in the management of investment funds. These transparency requirements apply to both the Company and the managed investment funds.

2. Purpose of the policy

This policy describes how the Company manages sustainability risks that may arise during the management of the investment funds as required by article 3 SFDR:

- ex-ante, as part of the investment decision-making process; and
- ex-post, as part of the ongoing monitoring.

The Company is aware of the potential impact that sustainability risks may have on the managed investment funds and their risk-return profiles. The procedure described in this guideline for the integration of sustainability risks as part of the investment decision-making process and the ongoing consideration of these risks also serves to document the fulfilment of the extended fiduciary duties of the Company towards the investors of the managed investment funds in accordance with the SFDR.

3. Policy review

This policy will be reviewed and updated annually, and on an ad hoc basis in case of relevant changes to the organizational structure of the Company, in case of amendments to the regulatory framework governing this policy or if otherwise deemed necessary.

4. Sustainability risk – Regulatory framework

4.1 Sustainability risk – Definition of the SFDR

According to article 2 (22) SFDR sustainability risk means an environmental, social or governance (hereinafter "ESG") event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

4.1.1 Sustainability risk – Interaction with traditional risk categories

The UCI Law as well as the AIFM Law are based on the relevant European Directives (i.e. UCITS Directive, AIFM Directive) and further supplement by delegated regulations. These regulatory requirements also define the relevant risk categories to be considered by the Company for the managed investment funds, namely (i) market risk, (ii) liquidity risk, (iii) counterparty risk, (iv) credit risk and (v) operational risk. Sustainability risk does not form a separate risk category, but the effects of sustainability risks are manifesting themselves in the different risk categories, mainly in the market risk.

4.1.2 Sustainability risk – Relationship with „Principal adverse impacts"

Article 4 of the SFDR establishes the principle of "Principal adverse impacts" (hereinafter "PAIs") of investment decisions on sustainability factors. For the assessment of the different categories of sustainability factors[1], various underlying sustainability risk indicators can be used. Sustainability risk indicators also form the basis for the identification and assessment of sustainability risks.

The Company's handling of PAIs in accordance with the requirements of article 4 of the SFDR is disclosed separately on the website.

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

4.2 Sustainability risk – Requirements of the SFDR relevant for this policy

The SFDR imposes transparency requirements on the Company and the managed investment funds in connection with sustainability risks. The transparency requirements require that both the Company and the managed investment funds describe how sustainability risks are considered and integrated within the investment decision-making process.

	Summary of requirements	Level	Implementation
Art. 3 (1) SFDR	Description how the sustainability risks are integrated in the investment decision-making process.	Company	Description in this policy taking into consideration article 6 (1) SFDR
Art. 6 (1) SFDR	Description in pre-contractual disclosures with respect to (i) The manner in which sustainability risks are integrated into the investment decisions; and (ii) The results of the assessments of the likely impacts of sustainability risks on the return of the managed investment funds. Where sustainability risks are not deemed relevant, the pre-contractual disclosures shall include a clear and concise explanation of the reasons therefor.	Investment funds	Principle description in the pre-contractual disclosures of the respective investment fund, how sustainability risks are taken into consideration within the investment decision-making process.

5. Sustainability risk – Integration in the investment decision-making process

5.1 Sustainability risk – Organisational setup of the portfolio management function

The Company is responsible for exercising the portfolio management function for the managed investment funds.

The following principles are for each individual investment funds:

- the Company is aware of the potentially significant impact that sustainability risks can have on the managed investment funds and considers sustainability risks to be relevant in principle for all managed investment funds – regardless of the setup of the portfolio management function in the managed investment funds;
- the sustainability risks deemed relevant are integrated in the investment decision-making process, taking into account the disclosures in the pre-contractual information of the respective investment fund pursuant to article 6 (1) SFDR and the (potential) qualification of the respective investment fund pursuant to article 8 or 9 SFDR;
- sustainability risks can be assessed both qualitatively and quantitatively;
- the risk management function for all managed investment funds is always performed by the Company itself, thus ensuring the ongoing monitoring of the sustainability risks of the managed investment funds (cf. section 6).

The Company shall perform the portfolio management function itself. In doing so, the Company may be supported by investment advisors in the investment decision-making process, irrespective of such potential support the investment decision is and remains the sole responsibility of the Company. Therefore, investment proposals made by investment advisors are duly reviewed by the Company with respect to regulatory and legal requirements prior to execution.

The sustainability risks deemed relevant in accordance with the investment strategy are taken into account in the investment decision-making process, considering the pre-contractual disclosures of the investment fund pursuant to article 6 (1) SFDR and the investment fund's qualification pursuant to article 8 or 9 SFDR.

5.2 Sustainability risk – Integration in the investment decision-making process as required by the SFDR

In accordance with the requirements of article 6 (1) of the SFDR, each investment fund must disclose in the pre-contractual information whether and how ("comply or explain") sustainability risks are considered in the investment decision-making process. The consideration must not lead to a limitation of the investable universe.

An investment fund that meets the requirements of article 8 or 9 SFDR shall disclose in the pre-contractual information the binding ESG/sustainability criteria used in the investment decision-making process (e.g. exclusion of certain sectors/practices ("negative screening"), integration of ESG ratings, proportion of sustainable investments in accordance with the legal definition of article 2 (17) SFDR) ensuring the appropriate consideration of sustainability risks. The consideration leads to a limitation of the investable universe.

5.3 Sustainability risk – Integration in the investment decision-making process and the consideration of sustainability factors

The objective of the portfolio manager's consideration of sustainability risks is to identify the occurrence of these risks as early as possible and to take appropriate measures to minimise the impact on the affected assets or the overall portfolio of the investment fund, as sustainability risks can have a negative impact on the value or price of an asset of the investment fund.

Sustainability factors are relevant risk indicators that can manifest themselves as sustainability risks. The sustainability factors that can be responsible for a negative impact on the return of the investment fund are divided into environmental, social and corporate governance aspects. While environmental aspects include, for example, climate protection, social aspects include, for example, the consideration of internationally recognised labour law requirements. Corporate governance aspects include, for example, the consideration of anti-corruption and anti-bribery requirements as well as data protection.

The specific sustainability factors that are considered may vary between investment funds, as they depend on the respective investment strategy.

The impact of sustainability factors on an investment fund (asset, portfolio) is monitored throughout the life cycle of the investment and may therefore lead to the disinvestment of certain investments in the event of an increase in the sustainability risk and a negative impact of the return of a specific investment or the investment fund's portfolio.

6. Sustainability risk – Ongoing monitoring

The ongoing monitoring of sustainability risks is ensured by the Company by integrating the identified sustainability risks into the risk profiles of the managed investment funds by considering relevant sustainability risk indicators/factors.

The identification and selection of the relevant sustainability risk indicators/factors and their application to the investment fund and individual investments is in principle influenced by the following elements:

- investment strategy of the investment fund (e.g. sector, geography);
- disclosure on the consideration of sustainability risks in the pre-contractual information pursuant to article 6 (1) SFDR;

- classification of the investment fund as "non-sustainable", Art. 8 or 9 according to SFDR;
- availability of adequate data and information (quantitative, qualitative).

The definition of the tolerated values of the identified relevant sustainability risk indicators/factors is considering the overall risk classification of the respective investment fund. The risk profiles and escalation levels and measures are discussed by the risk management function of the Company with the portfolio manager. The risk management function is responsible for the ongoing monitoring of compliance with the values defined in the risk profile.

6.1 Sustainability risk – Ongoing monitoring & escalation

As described in section 6, the risk management function is responsible for the continuous monitoring of compliance with the values defined in the risk profile of the respective investment funds. If these values are reached and/or exceeded, the risk management function has in principle the following responsibilities:

- escalation to the Conducting Officer responsible for the risk management function;
- escalation of reaching and/or exceeding the value(s) to the portfolio manager;
- agreeing on a plan (measures, timing) to return the sustainability risk indicators/factors within the values set in the risk profile;
- monitoring of the effective reduction of the sustainability risk indicators/factors within the values defined in the risk profile;
- documentation and consideration in the reporting of the respective investment fund.

7. Reporting

The risk management function of the Company reports periodically to the Management Committee and the Board of Directors/Managers on the overall risk exposure of the investment funds based on the results of the risk categories as defined in the risk profile.

The portfolio management function of the Company reports regularly on the results of due diligence and ongoing monitoring regarding the delegated portfolio managers.