Sustainability risks policy

Luxcara Group

Sustainability Risks Policy

10 March 2021

This document sets out the policies of the Luxcara Group and all related entities and initiated / managed investment products (the "**Firm**"), on the integration of sustainability in our investment decision-making process.

1. **Introduction**

1.1 The EU Sustainable Finance Disclosure Regulation ("**SFDR**") requires the Firm to formalise how sustainability is integrated into our business and processes, and to make new public and client-facing disclosures on sustainability matters.

1.2 Luxcara was founded by two women with a passion for sustainability and renewable energy. In 2009, directly after the financial crisis, their belief in the importance of sustainability, not only with respect to the asset class, but as a definition of how to invest and to do business, was entrenched. Luxcara is helping investors achieve their return goals with a sustainable, yield-driven investment strategy, thus contributing to the Sustainable Development Goals (SDG). We believe that only responsible behavior towards investors, employees and partners leads to sustainable success. Luxcara's ESG-Reporting complies with the new Sustainable Finance Disclosure (SFDR) and Taxonomy Regulation of the European Union.

1.3 This document sets out the Firm's policies in respect of the integration of sustainability risks in our investment decision-making process, as required by Article 3 SFDR. The policy applies to the Firm, and applies in respect of all portfolio management services, investment advisory services, and all other activities carried on by the Firm.

1.4 For reference, the Firm maintains other policies and documentation related to sustainability, including:

- Internal Code of Conduct
- Business Partner Code of Conduct
- Diversity and Inclusion Policy
- Renumeration Policy
- Principal adverse impacts – due diligence policy

1.5 This policy applies as from 10 March 2021.

2. **Purpose of this policy**

2.1 Under SFDR, "**sustainability risk**" means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.

2.2 This policy therefore approaches sustainability risk from the perspective of the risk that ESG events might cause a material negative impact on the value of our clients' investments. To give an example: if a firm's client has significant exposure to insurance or re-insurance companies, those insurers may face significant claims as policyholders face growing climate-related losses and disruption (*i.e., an environmental risk to the value of an investment in an insurer or re-insurer)*.

2.3 The Firm recognises that the world faces growing environmental, social, and governance-related risks. A key part of our role as a fiduciary is to act in the best interests of our clients, and this includes appropriately taking account of how those ESG risks could impact on our clients' investments. This policy therefore establishes our framework to identify, measure, manage and monitor ESG risks to our clients.

2.4 For the purposes of SFDR, sustainability risk is <u>not</u> concerned with the risk of harm that our investment decisions may do externally to sustainability factors. In other words, this policy covers "*value*" rather than "*values*". The external harm of investments is covered by a separate regime under SFDR, which considers the principal adverse impacts of a firm's investment decisions on sustainability factors. The Firm is compliant with the principal adverse impacts rules under Article 4 SFDR, and has separately implemented a due diligence policy on this matter.

2.5 In addition, SFDR is <u>not</u> specifically concerned with the risks that sustainability events may cause to the Firm's own balance sheet or prudential position.

3. <u>Governance and senior management responsibility</u>

3.1 The Firm's Board of Directors is ultimately responsible for the firm's policies and procedures in respect of sustainability risks.

3.2 In particular, the Board of directors, the members of the Governance and Responsibility, the Investment and the Risk committee have the responsibility for sustainability risk matters.

3.3 The Firm's Board of Directors and the relevant committees have approved this policy and the related procedures, including the Firm's sustainability risk appetite, and the Firm's integration of sustainability risks into investment decision making.

4. <u>Sustainability risk management</u>

4.1 As part of our broader risk management processes when investing, the Firm has implemented procedures to (i) **identify**, (ii) **measure**, (iii) **manage** and (iv) **monitor** sustainability risks.

4.2 The Firm's approach to sustainability risk management is based on (amongst other things) the time horizon for our investments, being long-term renewable energy infrastructure investments in the EEA.

(i) Identify

4.3 The Firm has separately reviewed the sustainability risks which are potentially likely to cause a material negative impact on the value of our clients' investments, should those risks occur. These are summarised below in section 5 of this policy, and are broadly divided into the three categories of environmental, social and governance risks.

(ii) Measure

4.4 The Firm measures sustainability risk in accordance with the following processes: An ESG and resilience due diligence review is conducted to assess the occurrence of sustainability risks by the Risk Committee. This includes an assessment highlighting the strengths and weaknesses of a project from an ESG perspective. The Risk Committee first assesses the likelihood of impacts of sustainability risks identified based on a combination of factors as specified in the Portfolio Risk Matrix and second quantifies, at a high level, the severity of impact of these risks to the value of the investments should the risk occur. The likelihood and the impact, should the risk occur, is reflected in the results and score in an ESG Performance Report. Where ESG data for a project is not available, such projects are identified and scored as having a data coverage risk factor. The ESG assessment is also completed with the results from our Invest Check with a third party service provider. The results of the overall ESG assessment are reflected in the ESG Performance Report and presented to the relevant committees. The committees then consider the conclusions of the ESG Performance Report in light of its operational strategies, which are designed to improve efficiency and resilience.

(iii) Management

4.5 The Firm manages sustainability risk by using the identified risk rating as stated in the ESG Performance Report for a particular investment as against the Firm's sustainability risk limits, each of which is also documented in the Firm's separate Portfolio Risk Matrix document.

4.6 The Firm applies Exclusionary Screening for particular geographies which it has identified as unusually high risk. These exclusions are specified in the Portfolio Risk Matrix document.

4.7 In addition, the Firm manages all of our strategies on a sustainability basis, with the specific purpose of pursuing particular ESG-focused outcomes or objectives, including long-term sustainable returns for investors and society. Due to the ESG focus of such investments, the Firm generally considers that ESG risks to the value of these portfolios will be lower.

4.8 The Firm's team members are provided with information on sustainability risks, and are encouraged to take sustainability risks into account when making an investment decision, particular as a high sustainability risk would by itself prevent the Firm from making any investment.

(iv) Monitoring

4.9 The Firm's Portfolio Risk Management team conducts periodic monitoring of the existing client portfolios, to check that positions remain within sustainability risk limits, and takes corrective action if those limits are breached

4.10 Additionally, as part of ongoing monitoring, the Firm's portfolio managers are required to engage in Active Ownership, with a view to reducing the Risk Rating of particular positions. Active Ownership is the process of exercising voting entering into dialogue with different stakeholders on ESG issues, with a view to monitor or influence ESG outcomes.

5. **<u>Relevant sustainability risks</u>**

5.1 As noted above at section 4 of this policy, the Firm has taken steps to identify each key environmental, social and governance risks which could, if it occurs, cause an actual or a potential material negative impact on the value of an investment. These are summarised in this section 5.

5.2 **Environmental** sustainability risks for the value of our clients' portfolios:

- Climate change
- Carbon emissions
- Air pollution
- Water pollution
- Energy inefficiency

5.3 **Social** sustainability risks for the value of our clients' portfolios:

- Human rights violations
- Human trafficking
- Modern slavery / forced labour
- Breaches of employee rights / labour rights
- Child labour
- Discrimination

- Restricted access to clean water, to a reliable food supply, and/or to a sanitary living environment
- Infringements of rights of local communities

5.4 **Governance** sustainability risks for the value of our clients' portfolios:

- Lack of diversity at Board or governing body level
- Inadequate external or internal audit
- Infringement or curtailment of rights of (minority) shareholders
- Bribery and corruption
- Lack of scrutiny of executive pay
- Poor safeguards on personal data / IT security (of employees and/or customers)
- Discriminatory employment practices
- Health and safety concerns for the workforce
- Workplace harassment, discrimination and bullying
- Restrictions on rights of collective bargaining or trade unions
- Non-compliance with minimum wage

6. **Disclosure of this policy**

6.1 SFDR requires that the Firm must publish on our website information about this policy. The Firm satisfies this requirement by disclosing this policy itself on our website .

6.2 SFDR also requires that the Firm must include, in the pre-contractual disclosures for our financial products, a description of the manner in which sustainability risks are integrated into our investment decisions. The Firm satisfies this requirement by disclosing this policy itself in pre-contractual disclosures

6.3 For these purposes, "pre-contractual disclosures" means the prospectus or offering document for a fund, and the investment management agreement or other terms and conditions for a portfolio management service.