

**Pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852**

**Product name:** Alquity Asia Fund

**Legal entity identifier:**  
5493007MOUB6W5G8T620

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

## Environmental and/or social characteristics

### Does this financial product have a sustainable investment objective?

☒ ☒ ☐ **Yes**

☒ ☐ ☒ **No**

☐ It will make a minimum of **sustainable investments with an environmental objective**: \_\_\_\_%

☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☐ It will make a minimum of **sustainable investments with a social objective**: \_\_\_\_%

☐ It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of \_\_\_\_% of sustainable investments

☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy

☐ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

☐ with a social objective

☒ It promotes E/S characteristics, but **will not make any sustainable investments**



### What environmental and/or social characteristics are promoted by this financial product?

The sub-fund has the following E/S characteristics:

1. The fund promotes certain minimal environmental and social standards and therefore applies exclusion criteria using its Red Flags approach, which includes both sectors and business practices that Alquity believes are detrimental to society and incompatible with sustainable investment strategies. These are detailed below:

#### Exclusions

We exclude companies with 5% of its revenue or profits attributed to the production or distribution of:

- Tobacco
- Alcohol (including beer)
- Narcotics
- Nuclear power
- Adult entertainment
- Fur trade
- Armaments
- Gambling
- Gas/oil exploration and production
- Coal mining
- Hydrogen power (unless green hydrogen)

Suppliers, lenders and retailers of these companies or products are not excluded providing these sectors are non-core to the overall business purpose and represent a minority of their revenue.

#### **Environmental Red Flags**

- a) No disclosure on water usage/conservation levels for significant users (e.g. beverages)
- b) High risk industry company not publicly providing emissions data or when requested
- c) Ongoing business controversies and unresolved scandals
- d) Commercial fishing, unless demonstrably sustainable (MSC certification is not sufficient in itself)
- e) Palm oil cultivation, unless demonstrably sustainable e.g. with regard to zero deforestation and regard to biodiversity (RSPO certification is not sufficient in itself)

#### **Social Red Flags**

- a) High risk industry company without a Health & Safety policy
- b) Zero tolerance for "controversial weapons"
- c) Ongoing business controversies and unresolved scandals
- d) Non-pharma animal testing, unless it is required by law and regardless must be a
- e) substantial minority (<20%) of overall sales
- f) Fast fashion, where a majority of revenue is derived from the retail of cheap, low-quality, and effectively disposable clothing which encourages unsustainable and excessive consumption

#### **Governance Red Flags**

- a) No independently audited accounts
- b) Company doesn't meet investors or arrange regular open-access calls
- c) Company refusing to provide identity of majority shareholders
- d) Ongoing business controversies and unresolved scandals

2. The sub-fund promotes internationally accepted principles set by the UN PRI (Principles for Responsible Investing), and applies proxy voting in line with Alquity's Principles of Governance.
3. The sub-fund thoroughly assesses the Environmental, Social and Governance risk profile of companies using its own proprietary methodology and excludes any companies that fail to meet the minimum standards set out in this methodology. Full details of this methodology are provided later in this product disclosure.
4. 10% of the revenue generated from fund fees are donated to positive environmental and social projects that deliver direct impact in the regions where the sub-fund's investee companies operate.

The sub-fund's environmental and social characteristics are referenced against the Asia ex Japan Index. This is a general market index, representing the investment universe, and is not consistent with the E/S characteristics promoted by the sub-fund.

**Sustainability indicators** measure how the environmental or social characteristics promoted by the financial product are attained.

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

The fund has the following sustainability indicators:

1. The fund specifically targets a lower Scope 1 and 2 GHG emissions intensity (CO2 tonnes/\$m invested) and Water Intensity (tonnes/\$m invested) than the reference index.
2. The % of holdings that disclose critical environmental and social data. These are detailed in Key Progress Indicators developed using the principles enshrined in the UN Global Compact which show how the fund's engagement activity has supported increased environmental and social transparency within investee companies. The Key Progress indicators being tracked are:

#### **Environmental**

- a) Emissions and/or climate impact disclosure
- b) Water usage and mitigation efforts disclosure
- c) Production of waste material disclosure
- d) Disclosure of environmental impact reduction plan over a defined period
- e) Prevention of biodiversity loss actively considered in the strategic plan
- f) Reporting in line with TCFD recommendations

#### **Social**

- a) Health & Safety policy
- b) Equal Opportunities Policy
- c) Staff training policy in place
- d) Staff turnover data disclosure
- e) 'Lost Time Injury' rates available
- f) Gender diversity policy at senior management and board level

#### **Governance**

- a) Whistleblowing policy available to all employees
- b) Percentage of independent directors on the board  $\geq$  than the free floating share percentage of the holding
- c) Management remuneration packages disclosure

The fund reports the cumulative donations generated by investments into the fund (in US\$) and the direct impact the projects this funding supports has delivered in lives transformed (both directly and indirectly). These indicators are defined as follows:

1. **Direct Lives Transformed:** We define a "life transformed: as one where the intervention has made a significant, tangible and lasting improvement in the life and future prospects for that individual". This is defined with specific metrics for each project. For large projects, we expect representative sample data to enable us to confidently state the number of lives transformed.
2. **Indirect Lives Impacted:** We define a "life impacted" as one where the intervention has directly or indirectly improved the life or future prospects for that individual. We will define this for each project along with metrics already provided by the charity partner.

- **What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?**

N/A

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

N/A

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

- How have the indicators for adverse impacts on sustainability factors been taken into account?
- 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 EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.*

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

*Any other sustainable investments must also not significantly harm any environmental or social objectives.*



## **Does this financial product consider principal adverse impacts on sustainability factors?**

X

Yes, the sub-fund considers principal adverse impacts on sustainability factors. Environmental

The fund has established a target to reduce the GHG emissions intensity by 60% (from the 2019 base year) by 2030. This target was set using Paris Aligned Investment Initiative Net Zero Investment Framework to align the fund’s emissions intensity reduction target with IPCC special report on global warming of 1.5°C. The disclosure of GHG emissions intensity is a specific Key Progress Indicator (KPI) for our engagement activity and we target for 100% of holdings to disclose this. We have also set the production of a defined plan for reduction of environmental impact as a KPI, once GHG emissions intensity data has been disclosed.

The fund targets to ensure that at all times the water usage intensity of the portfolio is lower than the relevant index and where this data is currently not disclosed, engages with the fund holdings to provide this information. The disclosure of water usage intensity is a specific Key Progress Indicator for our engagement activity and we target for 100% of holdings to disclose this.

Additionally the fund has established KPIs for the following environmental principal adverse impacts:

1. Waste production disclosure

2. Prevention of biodiversity loss incorporated into strategic planning
3. Reporting produced in accordance with TCFD reporting standards

Social: We consider the following principal adverse impacts in relation to social factors:

1. Working conditions: We have established KPIs in relation to Health and Safety policy disclosure, employee training and reporting of workplace incidents through "lost time injury rates" disclosure
2. Diversity and Equality: We have established KPIs in relation to disclosure of an Equal Opportunities policy with a plan for ensuring implementation. In addition, we seek gender diversity policies and targets for senior management and board level roles.
3. Corruption: We have established a KPI for the disclosure of anti-corruption and whistleblowing policies.

No



## What investment strategy does this financial product follow?

The sub-fund will primarily focus on companies that will benefit from the long-term growth opportunities in the Asian region. This will include investing in frontier markets, small and mid-cap companies, as well as large-cap companies where the investment manager identifies unrecognized investment opportunities.

### The investment strategy

guides investment decisions based on factors such as investment objectives and risk tolerance.

### ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

The E/S characteristics are implemented on a continuous basis as part of the investment process and include:

1. **Exclusionary criteria "Red Flags".** ESG analysis is a critical component of Alquity's investment process. There are certain practices we believe are inconsistent with long-term financial returns and an overall positive societal impact. We have identified 16 red flags, which are standards expected from every company we invest in: and we will not consider any company that fails one or more of these criteria. These are described in full earlier in this disclosure.
2. **Proprietary ESG ratings methodology.** Our ESG analysis is holistic and exhaustive with equal importance placed on each aspect. In other words, we will not over-ride poor social or governance standards, just because a company places a heavy focus on environmental issues alone. Ultimately, we are concerned with material ESG issues and the analysis must provide us with sufficient comfort on all of these before an A-C rating is achieved.

We review behaviours and practices across the firm in the context of global or regional best practice. As a discipline, and for comparability, we then assign a rating to each institution, which captures risk and the quality of management judgement and decision making. Only those companies rated C or better can be included in the portfolio. To be clear, this means that we will only invest in firms where there is satisfactory quality and alignment of management. Moreover, we are interested not only in the absolute standard of "ESG quality", but also the ability of a firm to improve its judgement, communication and efficiency over time. Investors should not, therefore, expect our portfolios to have any bias between A, B and C rated companies.

Investing across Emerging and Frontier markets presents multiple challenges as the economic, social, political and regulatory environments can differ significantly between countries. We take this into account in our ratings by focusing our ratings on relative ESG performance to peers. For high-risk industries, we believe that to get an A rating, the company must display global best practice whereas for low-risk industries we seek regional best practice. This ensures we manage the ESG risks appropriately whilst remaining pragmatic about the circumstances for each company. ESG analysis is undertaken through

a combination of desk- based research, meetings with management, site visits, and industry research. The definitions for each of our ratings are as follows:

#### **A Rating**

High risk industry demonstrating global best practice performance in ESG  
Lower risk industry demonstrating regional best practice in ESG

#### **B Rating**

High risk industry demonstrating regional best practice in ESG  
Lower risk industry with satisfactory ESG performance better than regional peers; or in-line with regional peers but with a demonstrable intention to improve on material KPIs

#### **C Rating**

High risk industry with satisfactory ESG performance, in line with regional peers, but demonstrating a meaningful commitment to improve on material KPIs  
Lower risk industry with satisfactory ESG performance in-line with or better than regional peers, but with no demonstrable intention to improve on material KPIs

3. Portfolio construction is targeted to produce a lower GHG and water intensity than the index and for GHG emissions to reduce in line with IPCC 1.5 degree scenario.
4. Active engagement with investee companies in accordance with Key Progress Indicators (described earlier) which are based upon specific environmental and social characteristics
5. Voting policy based upon Alquity Principles of Governance which are aligned with the Key Progress Indicators

### ● ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

There is no committed minimum rate to reduce the scope of investments prior to application of investment process. There is a commitment to exclude a minimum of 20% of the investible universe (after minimum market capitalisation and thematic filters have been applied).

### ● ***What is the policy to assess good governance practices of the investee companies?***

Alquity's proprietary ESG ratings methodology includes a detailed assessment of governance practices in investee companies including, but not limited to board independence and diversity, auditor independence, historical controversies, management character and policies including equal opportunities and remuneration. Further progress on good governance is supported through engagement tracking through Key Progress Indicators and voting using the Alquity Principles of Governance.

**Good governance**  
practices include sound management structures, employee relations, remuneration of staff and tax compliance.

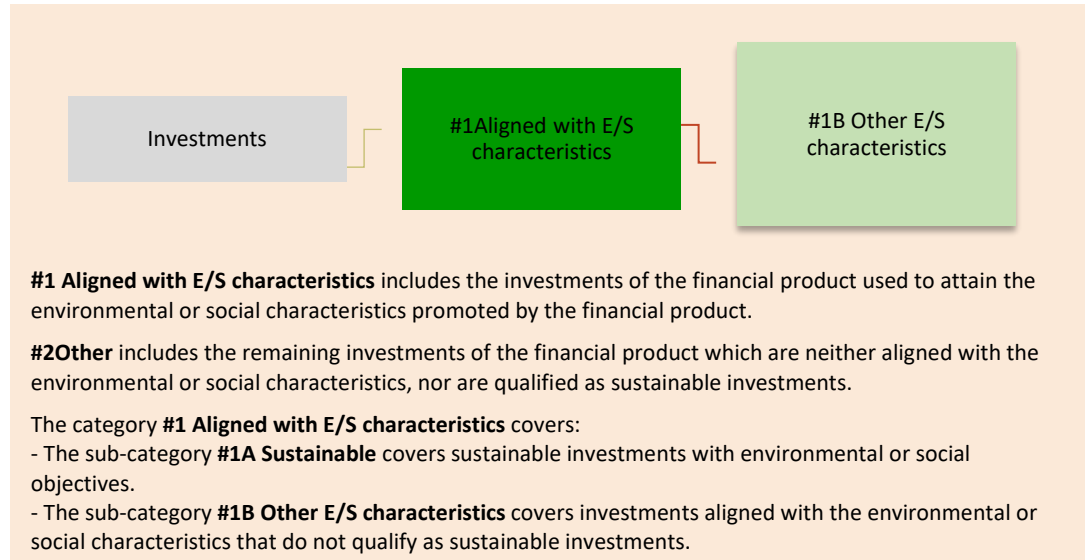


### **What is the asset allocation planned for this financial product?**

100% of investments in the sub-fund must pass the Red Flags exclusionary criteria and be rated between A-C using Alquity's proprietary ESG Rating methodology and are therefore aligned with the environmental and social characteristics promoted.

### Asset allocation

describes the share of investments in specific assets.



### How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?

The sub-fund does not make use of derivatives.



### To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

No minimum / zero.

### Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>3</sup>?

☐

Yes

☐

In fossil gas

☐

In nuclear energy



No

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

#### Enabling activities

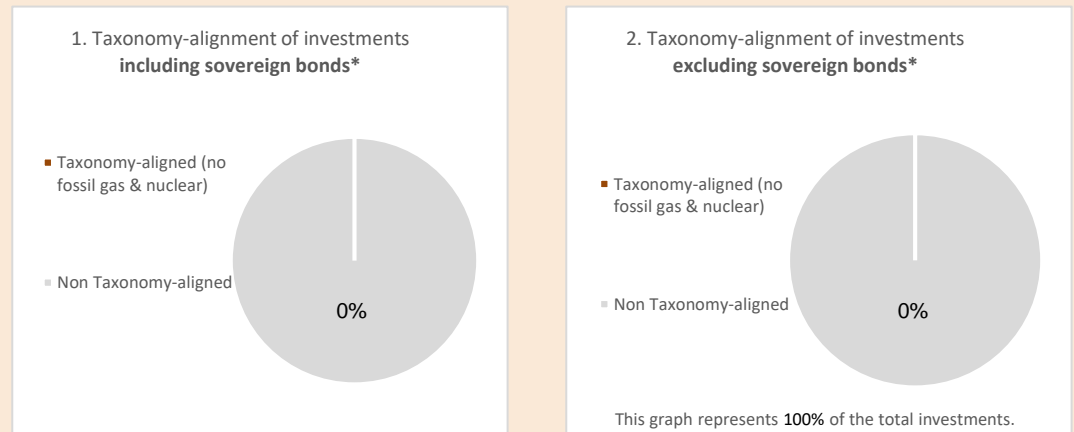
directly enable other activities to make a substantial contribution to an environmental objective.

#### Transitional activities

are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

<sup>3</sup> Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objective – see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

**The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.**



\* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

● **What is the minimum share of investments in transitional and enabling activities?**

No minimum share.

are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.



**What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?**

No minimum share.



**What is the minimum share of socially sustainable investments?**

No minimum share.



**What investments are included under "#2 Other", what is their purpose and are there any minimum environmental or social safeguards?**

N/A

**Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?**

*The reference index is a general market index, representing the investment universe, and is not consistent with the E/S characteristics promoted by the sub-fund.*

● **How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?**

N/A

● **How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?**

N/A



**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.



- ***How does the designated index differ from a relevant broad market index?***

N/A

- ***Where can the methodology used for the calculation of the designated index be found?***

N/A



**Where can I find more product specific information online?**

**More product-specific information can be found on the website:**

More details on the sub-fund can be found at [www.alquity.com](http://www.alquity.com). The following links guide you to specific fund and investment strategy related documents: [Alquity Investment Process](#), [Impact Report 2022](#) and [Alquity Principles of Governance](#)