

# SFDR Article 8 Sub-Funds – Website Disclosures

## Sections based on Articles 23 to 36 [SFDR](#)

### [Delegated Regulation \(EU\) 2022/1288](#)

**Full name of the Article 8 sub-fund:** The Eurozone Equity Fund (the “Fund”)

**Legal entity identifier:** U4Z7CBFJYILFT6UF8219

**Date of review:** 1 January 2023

*Disclaimer: The present working document may be subject to further regulatory changes.*

## Summary

The Fund is categorised as an Article 8 financial product for the purposes of SFDR, meaning it promotes environmental and / or social characteristics. The Fund does not have as its objective sustainable investment.

The Fund promotes a reduction in Carbon Emissions. It has a binding carbon reduction target, which is to reduce the Carbon Footprint of the Fund portfolio to at least 20% lower than the Fund's reference benchmark.

In order to achieve this target, the Principal Money Manager applies a binding decarbonisation overlay strategy to adjust the portfolio of the Fund, after the initial selection of the equity and equity related securities in line with the investment policy of the Fund.

It is expected that at all times at least 90% of the Fund's assets will be invested in equities or equity related securities, all of which will be subject to the binding elements of the Fund's investment strategy used to attain the environmental characteristic promoted by the Fund.

The Fund's environmental indicator is monitored on an ongoing basis. A third party data vendor, along with publicly available information, are used by the Principal Money Manager for the purpose of monitoring the environmental indicator. Estimated data may be used by the third party vendor where sufficient data coverage is not available for an issuer. Where estimation is relied upon, robust estimation methodologies are used by the data vendor, however, estimated may still result in lower quality data being relied upon for some issuers.

Engagement is not part of product's environmental strategy, however, the Principal Money Manager has an engagement process and may engage with issuers in the context of good governance assessments.

No index has been designated as a reference benchmark to determine whether the Fund is aligned with the environmental characteristics that it promotes.

## **No sustainable investment objective**

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.



## **Environmental or social characteristics of the financial product**

The Fund promotes a reduction in Carbon Emissions (as defined in the section below entitled 'Methodologies for environmental or social characteristics').

The Fund is actively managed with reference to the MSCI EMU Index (USD) – Net Returns (the “**Index**”). The Index is a broad market index and is not used by the Fund to attain the environmental characteristics promoted by the Fund.

## Investment strategy

In addition to the definitions set out elsewhere in this document, the following definitions shall apply:

"Decarbonisation Overlay Strategy" means the proprietary quantitative overlay strategy used by the Principal Money Manager in order to identify those securities that will allow the Fund to reduce its carbon exposure compared to the Index.

"Prohibited Coal Companies" means companies which derive more than 10 per cent. of their revenue from coal power generation or thermal coal production except for companies which either: (i) derive at least 10% of their power generation from renewable energy sources; or (ii) have made a public commitment to divest from their coal related activities or reach zero emissions by 2050, provided in each case that any such companies derive less than 25 per cent. of their revenue from coal power generation or thermal coal production.

### Decarbonisation Overlay Strategy

Following the selection of the equity securities, in line with the investment objective and policy of the Fund, the Principal Money Manager will apply a binding Decarbonisation Overlay Strategy to adjust the portfolio of the Fund so that it will always have no less than a 20 per cent lower aggregate Carbon Footprint compared to the Index.

The Decarbonisation Overlay Strategy uses quantitative data relating to Carbon Footprint and also involves an assessment of the involvement in the extraction of coal of each constituent of the Index to enable the Principal Money Manager to evaluate the carbon exposure of a particular constituent of the Index. Using the Decarbonisation Overlay Strategy, the Principal Money Manager will seek to reduce the Fund's exposure to companies which engage in carbon-intensive activities or which have a significant Carbon Footprint. The Decarbonisation Overlay Strategy uses a systematic optimisation strategy to: (i) exclude all Prohibited Coal Companies (which are prohibited from being held by the Fund); (ii) evaluate the carbon exposure of investee companies; and (iii) adjust the holdings of the Fund to reduce its aggregate carbon exposure relative to the Index.

The carbon exposure of an investee company (referred to in (ii) above) is evaluated using third-party Carbon Footprint data as well as data relating to the involvement of such company in the extraction of coal. Based on this evaluation, the Decarbonisation Overlay Strategy adjusts the holdings of the Fund to reduce its aggregate carbon exposure relative to the Index.

Non-financial analysis will be undertaken on at least 90% of the equity and equity related securities. This means that when the Principal Money Manager is evaluating the performance of the Fund's non-financial indicator (ie, Carbon Footprint), at least 90% of these securities will be subject to analysis and measurement. It may not be possible to analyse and measure the performance of certain assets, as data (or sufficiently high quality data) may not be available.

The Fund has a binding environmental target which is measured using the objective sustainability indicator (described below). The binding elements of the investment strategy used to achieve this target are set out below:

The Decarbonisation Overlay Strategy is binding and significantly integrated into the analysis undertaken by the Principal Money Manager when making investment decisions in respect of the Fund. The requirement to exclude all Prohibited Coal Companies from investment is binding on the Fund.

Investors should note that the application of the Decarbonisation Overlay Strategy will not necessarily result in a 20 per cent reduction in the aggregate Carbon Footprint of the Fund's portfolio as against the aggregate Carbon

Footprint of the Fund's portfolio prior to the application of the Decarbonisation Overlay Strategy (for these purposes, the latter will be referred to as the "Investable Universe"). The reason for this is that the 20 per cent carbon reduction target is made in reference to the aggregate Carbon Footprint of the Index and not the Fund's Investable Universe. The application of the Decarbonisation Overlay Strategy will nevertheless always result in a reduction in the aggregate Carbon Footprint of the Fund as compared to Investable Universe.

### **Good Governance**

The Fund will invest in corporations which follow good governance practices by international standards.

The Principal Money Manager utilises the services of a highly reputable third party data provider to identify corporations which are aligned to the United Nations Global Compact Principles ("**UNGC Principles**") and are therefore deemed by the Principal Money Manager as having good governance practices. This identification process includes a holistic assessment of core metrics for measuring good governance, including company responsibility, company management and the severity of impacts on stakeholders and/or the environment. The Principal Money Manager's default position, as regards the selection of investments, is that the Fund will not invest in corporations that are identified as breaching any of the UNGC Principles.

In cases where a corporation is deemed to have breached a UNGC Principle, the Principal Money Manager may elect to initiate an engagement and review process in respect of the relevant corporation's governance practices. Under this process, the Principal Money Manager will engage with the relevant corporation to understand why a breach of the UNGC Principles has been identified and to promote improvements in the governance practices within the corporation, if deemed necessary. Following this engagement process the Principal Money Manager may make a determination that the relevant corporation exhibits good governance practices, despite the initial assessment of the corporation, and can therefore form part of the portfolio of the Fund.

If a corporation held by the Fund is identified as having breached a UNGC Principle following the initial assessment described above, the Fund may continue to hold shares of the corporation, provided that the engagement and review process has been initiated and only until such time as it has been completed. If the relevant corporation refuses to actively engage with the Principal Money Manager or if at the end of the review period the corporation has not demonstrated sufficient good governance practices, the Principal Money Manager (or its delegate) will divest of its holdings in the corporation.

The Principal Money Manager has in place a robust governance process around decisions that are made following each engagement and review process outlined above, with each determination being overseen and managed by the Principal Money Manager's Global Exclusions Committee.

## Proportion of investments

It is expected that at all times at least 90% of the Fund's assets will be invested in equities or equity related securities, all of which will be subject to the binding elements of the Fund's investment strategy used to attain the environmental characteristics promoted by the Fund.

The remainder of the Fund's assets and their purposes are detailed below, and further in the Prospectus.

The Fund does not commit to investing in sustainable investments or investments aligned with the Taxonomy Regulation.

### Other investments:

Futures contracts will be used to hedge against market risk or gain exposure to an underlying market. Forward contracts will be used to hedge or gain exposure to an increase in the value of an asset, currency, commodity or deposit.

Options will be used to hedge or achieve exposure to a particular market instead of using a physical security.

Swaps (including swaptions) will be used to achieve profit as well as to hedge existing long positions.

Forward foreign exchange transactions will be used to reduce the risk of adverse market changes in exchange rates or to increase exposure to foreign currencies or to shift exposure to foreign currency fluctuations from one country to another.

Caps and floors will be used to hedge against interest rate movements exceeding given minimum or maximum levels.

Credit derivatives will be used to isolate and transfer the exposure to or transfer the credit risk associated with a reference asset or index of reference assets but will not be used until the Company's financial derivative instruments risk assessment plan has been amended to describe risk management methods for credit derivatives and cleared by the Central Bank.

No minimum environmental or social safeguards will be in place in relation to such holdings.

The Fund does not use derivatives for the purpose of attaining the environmental or social characteristics it promotes.

## Monitoring of environmental or social characteristics

The Carbon Footprint of the Fund and of the Index is monitored on a continuous basis by the Principal Money Manager's portfolio management systems.

The Prohibited Coal Company exclusions are coded into the Principal Money Manager's trade order management system. This serves as a systematic control for the Fund. When individuals authorised to trade on the Fund's behalf generate trade orders, these orders are automatically screened against the coded exclusion list. Any trades in securities on the exclusion list are flagged and halted from moving forward to trade execution. In this way, the Principal Money Manager can apply pre trade controls on the Fund. In addition, the order management system provides end of day/post trade exclusion monitoring, which is monitored by the same dedicated team. Any post trade exclusion violations are escalated to the appropriate compliance officers.

To facilitate external monitoring, the Principal Money Manager provides reporting to the Manager and to the Fund board on at least an annual basis.



## Methodologies for environmental or social characteristics

### **Characteristic: Reduction in Carbon Emissions**

*Indicator: Aggregate Carbon Footprint of the Fund portfolio at least 20% lower than the Index.*

The Fund's sustainability indicator is calculated using the same methodology as applied by the Index, as set out below:

“Carbon Footprint” means Carbon Emissions in metric tons of carbon dioxide equivalent (CO<sub>2</sub>-e), divided by company revenue (USD).

“Carbon Emissions” means:

- Scope 1 (direct emissions): activities owned or controlled by an organisation that releases carbon emissions straight into the atmosphere; and
- Scope 2 (energy consumption): carbon emissions being released into the atmosphere associated with consumption of purchased electricity, heat, steam and cooling. These are a consequence of a company's activity but which occur at sources the company does not own or control.

A 20% lower Carbon Footprint than the Index indicates that the Fund is attaining its environmental characteristic.

## Website section ‘Data sources and processing’

The Principal Money Manager will utilise data sourced from independent vendors as well as publicly available information which may include company reports. Carbon Footprint data is currently sourced from MSCI ESG Research Inc. UNGC Principle alignment data is sourced from Sustainalytics.

Prior to using data as part of any Fund’s investment strategy, the Principal Money Manager carries out data quality and coverage assessments. This ensures the quality of data in use is of an appropriate level. Once data has been integrated into a strategy, the Principal Money Manager relies on third party providers to manage data quality and any estimation methodologies applied.

Data is received from third party providers in a variety of file formats. Once the Principal Money Manager receives data from a provider, it is processed and stored in internal databases by the Principal Money Manager’s data integration team. At this point, the data is accessible to investment teams through a variety of tools and resources.

For Carbon Footprint data, the Principal Money Manager relies on the data directly from the provider with no further transformations or calculations completed. The Principal Money Manager does not complete any estimation of Carbon Footprint data. Any estimation that occurs is done at the provider level and follows its respective estimation methodology. Once the Principal Money Manager receives data from the provider, any underlying company that has missing data will remain that way.

Data quality controls exist at the following levels:

- (i) provider level;
- (ii) at the integration stage (by the data integration team); and
- (iii) as part of the portfolio analysis conducted within the investment teams.

## Limitations to methodologies and data

The primary limitation in the methodology described above for the attainment of the environmental characteristic of the Fund is that, in cases where data coverage is not available, the third party data provider may choose to apply an estimation methodology for ascribing a Carbon Footprint value to a company and thus the quality of the data used to measure the indicator may be a concern for companies without sufficient provider coverage. This is typically found among smaller issuers and those in less developed markets. Any security for which no data is received by the Principal Money Manager, will remain without a Carbon Footprint value ascribed to it.

The data provider uses robust estimation methodologies and is constantly improving its data quality and coverage levels. The Principal Money Manager does not conduct any Carbon Footprint imputation, which helps to ensure there are no inconsistencies among estimation methodologies within each respective dataset.

Another limitation to the methodology used, is that data provider's ability to deliver data accurately and in a timely manner.

The likelihood of these limitations having a material impact on the Fund's ability to achieve its environmental characteristic is considered by the Principal Money Manager to be minimal.

## Due diligence

Eligible securities are identified for the Fund by Investment Advisers based on a range of investment philosophies and research processes. The Principal Money Manager selects the Investment Advisers based on a range of factors including the integration of ESG criteria in their processes. The Principal Money Manager's research team is responsible for conducting due diligence on these Investment Advisers and they are monitored on an ongoing basis by the Principal Money Manager's investment teams. Due diligence is not carried out on investments specifically as part of the Fund's strategy for achieving the environmental characteristic. Instead, the environmental strategy reduces the scope of investments by applying the Decarbonisation Overlay Strategy.



## **Engagement policies**

Engagement is not part of product's environmental strategy, however, the Principal Money Manager has an engagement process and may engage with issuers in the context of good governance assessments.



## **Designated reference benchmark**

No index has been designated as a reference benchmark to determine whether the Fund is aligned with the environmental or social characteristics that it promotes.