



## Pharus-MV7 Dynamic Allocation

### General information relating to Sustainability risks integration.

#### 1.1 EU Regulation 2019/2088 (SFDR)

Pursuant to EU Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (the “SFDR”), the Sub-Funds are required to disclose the manner in which sustainability risks within the meaning of SFDR are integrated into the investment decision and the results of the assessment of the likely impacts of sustainability risks on the returns of the Sub-Funds.

Unless, differently stated in the relevant appendices related to Sub-Funds particulars, the Management Company and each of the Investment Managers/Investment Advisors of the Sub funds have implemented sustainability risks of the Sub funds into their investment decisions as set out in this section.

For the purposes of this section a 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 the investment.

The Fund recognizes that various sustainability risks can threaten the investments at individual asset level and portfolio level. These sustainability risks may include climate change transition and physical risks, natural resources depletion, waste intensity, labor retention, turnover and unrest, supply chain disruption, corruption and fraud and reputational concerns associated with human rights violations. The Investment Manager is responsible for the incorporation of materially relevant sustainability risks into due diligence and research, valuation, asset selection, portfolio construction, and ongoing investment monitoring alongside with other material risk factors. To do this, the Investment Manager leverages the following information and resources:

- A) Target companies disclosed information (which may include a company’s quarterly financials, earnings calls, general company reporting and / or disclosures, including sustainability-related disclosures);
- B) publicly available data (such as news reports or industry data); and
- C) Third-party research and data.

#### 1.2 Sustainability risks as part of the investment process

Additionally, the Investment Manager conducts top-down sustainability investment risk analysis of all portfolios. This includes exposure to sustainability risks (using third party ratings and data), controversial business exposures, compliance with UN Global Compact, and the potential impact of different climate change and transition risk scenarios. Furthermore, as needed and requested, the risk team collaborates with the investment teams to conduct analyses on the sustainability risk on selected portfolio themes and companies.

The Fund also recognizes that the universe of relevant sustainability risks will grow and evolve over time. The materiality of such risks and financial impacts on an individual asset and on a portfolio as a whole depends on industry, country, asset class, and investment style.

Investors shall note that the assessment of sustainability risk does not mean that the investment manager aims to invest in assets that are more sustainable than peers or even avoid investing in assets that may have public concerns about their sustainability. Such integrated assessment shall consider all other parameters used by the investment manager and it can e.g. be deemed that even a recent



event or condition may have been overreacted in its market value. Similarly, a holding in an asset subject to such material negative impact does not mean that the asset would need to be liquidated. Furthermore, it is deemed that sustainability risks will similarly be assessed for investments that are deemed to be sustainable, e.g. a 'green bond' will be subject to similar sustainability risks as a non-green bond even where the other one is deemed to be more sustainable.

### **1.2.1 Instrument specific considerations**

(i) equity and equity-like instruments such as corporate bonds that are bound to the performance of the company are deemed to be investments that inherently carry highest level of sustainability risks. The market value of an equity instrument will often be affected by environmental, social or governance events or conditions such as natural disasters, global warming, income inequality, anti-consumerism or malicious governance. The Sub funds that invest or may invest heavily in equities will be deemed to have inherently high level of sustainability risks.

(ii) The market value of fixed-rate corporate bonds or other bonds that are not bound to the performance of the company, will inherently carry same or similar sustainability risks. As such instruments are effectively affected by the foreseen solvency of the company, the risks may be somewhat lower than in direct equity instruments and in some cases the more long-term conditions do not affect the solvency as likely as more sudden events do. The Sub funds that invest heavily in corporate bonds will be deemed to have inherently moderate level of sustainability risks.

(iii) Government and other sovereign bonds are subject to similar sustainability risks as equities and corporate bonds. While nations and other sovereign issuers are subject to seemingly sudden events, the underlying conditions are often well-known and understood and already priced-in to the market value of such assets. The Subfunds that invest mostly in government and other sovereign bonds will be deemed to have an inherently low level of sustainability risks.

(iv) currencies, investments in currencies and the currency effect against the base currency of any Sub-fund, regardless of if such risk is hedged or not, shall not be subject to assessment of sustainability risk. The market value fluctuations of currencies are deemed not to be affected by actions of any specific entity where a materiality threshold could be exceeded by a single event or condition.

(v) investments where the market value is solely bound to commodities are left outside of sustainability risk assessment. While some commodities may inherently be subject to various sustainability risks, it looks likely that the sustainability risks are either effectively priced-in in the market value of a commodity or there is a lack of generally approved sustainability risk metrics.

(vi) Investment decisions in bank deposits and ancillary liquid assets will be subject to an assessment of governance events which is an inherent part of the analysis for such instruments where the market value of the asset is bound only or mostly to a counterparty risk were the counterparty fails to fulfill its usually contractually or otherwise predetermined obligations.

(vii) investments in diversified indices, other UCIs and diversified structured products are generally understood to be instruments where any event or condition in one underlying asset should unlikely have a material impact on the investment due to the diversification. The sustainability risks of such instruments are generally only assessed on a high level e.g. where such instrument has only or mostly underlying assets that would be subject to same conditions or events.

(viii) sustainability risks derived from financial derivative instruments such as futures, forwards, options, swaps etc. will be assessed based on the underlying of such derivative. Investors shall note that for the purposes of this section, the sustainability risks are only assessed from the point of view of material negative impact. This means that material positive impact will not be assessed. Consequently, it means that any derivative instruments (even where not used purely for hedging purposes) that has a negative correlation to the ultimate underlying asset e.g. short selling will not be subject to a risk assessment where due to negative correlation a negative impact on the value of the underlying asset would not create a negative impact on the market value of the asset.

Notwithstanding anything set out above, investments intended for hedging purposes will not be



subject to additional assessment of sustainability risks. The purpose of hedging is to fully or partially hedge against existing risks in the portfolio of the Subfund and should generally not add to sustainability-related risks.

### **1.2.2 Sustainability related data**

The prospective investors shall note that while sustainable finance is among the most important recent themes in the field of investment management globally, and companies around the world have largely adopted different feasible, defensible and verifiable practices in order to create public data and control mechanisms in order to verify such data, the quality and availability of the data may still not be comparable with the general quality of more standardised and traditional financial data that is presented in annual financial statements or other financial reports that comply with any accounting standards the reliability of which has been tried and tested for a longer period of time.

More information about the policies on integration of sustainability risks in the investment decision process and information on adverse sustainability impacts is available on [pharusmanagement.com](http://pharusmanagement.com) (see “sustainability-related product disclosure”).

### **2.1 Investment Process and Sustainability considerations**

The Sub-Fund has been categorized as a financial product falling under the scope of article 8 of the SFDR. As such, the Sub-Fund will solely invest in instruments from issuers meeting the Investment Manager’s Sustainability policy. The investments of the Sub-Fund will notably be restricted to issuers evidencing a sound Sustainability rating and which follow good governance practices. The Investment Manager will actively monitor the investee companies and issuers, on the basis of publicly available information or by relying on third party data providers.

The investment process is aimed to promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made follow good governance practices. The Sub-fund considers principal adverse impacts on sustainability factors by adhering to a dedicated ESG policy, including value-, norm- and/ or business conduct exclusion.

ESG Ratings are defined relying on industry leading data providers.

The exclusions applied to the investment universe rely on a two-levels approach:

1. Controversial activities and Jurisdictions (including but not limited to jurisdictions mentioned in United Nations Security Council Sanctions, Tobacco Production, Gambling, banned weapons, coal-based business models or sovereign bonds offered by countries with documented severe human right violations.); and
2. All entities displaying weak ESG ratings.

On top of those exclusions, the Investment Manager applies ESG scores to analyze issuers and to monitor investments.

In general, the identified sustainability risks are not expected to affect the Sub-Fund’s target returns.



Further information are available on the website of the Management Company ([www.pharusmanagement.com](http://www.pharusmanagement.com)), as well as in the Fund's annual report.

## **2.2 Consideration of adverse sustainability impacts**

The Management Company delegates the portfolio management function of the Sub-Fund to the Investment Manager and as such does not consider directly at its level adverse impacts of investment decisions on sustainability factors (PASI) according to Art. 4 of the SFDR.

At the date of this Prospectus, the Investment Manager continues to review and consider its obligations with respect to whether it considers principal adverse impacts of investment decisions on sustainability factors with respect to the Sub-Fund as set out in Art. 7 of the SFDR. In particular, the Investment Manager awaits the further consultation and/or guidance on the Level 2 regulatory technical standards (the "RTS"), and the finalisation of the RTS, which are expected to enter into force during 2022. The decisions and disclosures in relation to Art. 7 of the SFDR will be made taking into account the deadlines of the SFDR and similarly any disclosures will be included in a future version of the Prospectus, as required.