

## ALKEN FUND – Small Cap Europe

Template pre-contractual disclosure for 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

### 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

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 lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with

Product name:

*Alken Fund – Small Cap Europe (the “Sub-Fund”)*

Legal entity identifier:

*549300353V37QUFNJU68*

## 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 20% 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 financial product promotes environmental and social characteristics by using the Investment Manager’s own in-house ESG methodology. This ESG methodology uses a combination of the Global Reporting Initiative (GRI) Standards, of the Sustainability Accounting Standards Board (SASB) ESG metrics, of the Sustainable Development Goals (SDGs) objectives as well as of the UN Global Compact Principles. This allows the Investment Manager to identify the most material environmental and social characteristics against the security issuer’s industry.



### Sustainability indicators

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

The most prevalent cross sectorial environmental and social characteristics are listed as follows:

- **Top 10 of the cross sectorial characteristics pertaining to the environment:**

1. Air, water, ground pollution – SDG15
2. Greenhouse gases emissions – SDG13
3. Energy use, efficiency, and renewables – SDG7 combined with PRINCIPLE 9 UN Global Compact: Businesses should encourage the development and diffusion of environmentally friendly technologies
4. Raw materials consumption – SDG12
5. Sustainable transportation – SDG12
6. Water management – SDG6 and SDG14
7. Waste management – SDG15 and SDG14
8. Biodiversity and its protection – SDG15 and SDG14
9. Lifecycle impacts – SDG12
10. Noise pollution – SDG15

- **Top 10 of the cross sectorial characteristics pertaining to the social pillar:**

1. Impact on local community - SDG1 and SDG11
2. Working conditions – including health and safety – SDG10 and SDG3
3. Diversity programmes- SDG5 combined with PRINCIPLE 6 UN Global Compact: Businesses should uphold the elimination of discrimination in respect of employment and occupation
4. Retention rate – SDG8
5. Relationships with stakeholders (unions, NGOCs, communities etc) combined with PRINCIPLE 3 UN Global Compact: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
6. Supply Chain Management – SDG12
7. Materials sourcing – SDG12
8. Product Safety, quality, and labelling
9. Customer privacy & information security
10. Access to health and medicine – SDG10

According to the Investment Manager's ESG mapping, it shall primarily focus on the **three most material environmental and social factors identified for each sector** (and sub-sector if relevant). For instance:

**Environmental characteristics promoted for the consumer discretionary sector:**

1. Clean water and sanitation, in line with SDG6
2. Responsible consumption and production, in line with SDG12
3. Encouraging the development and diffusion of environmentally friendly technologies, in line with Principle 9 of the UNGC

**Social characteristics promoted for the same consumer discretionary sector:**

1. Decent work and economic growth, in line with SDG8
2. Industry, innovation, and infrastructure, in line with SDG9
3. Supply chain management, in line with SDG12

Overall, the Investment Manager will use this in-house ESG mapping in order to:

- **Exclude issuers:** limiting investments in companies whose environmental and social characteristics are considered to present too much risk and where companies have failed to mitigate those;
- **Screen issuers:** applying screening processes, including both best-in-universe and best-in-class companies, based on the issuers' performance on those environmental, social and governance characteristics combined;
- **Rate issuers internally:** reviewing the ESG risk profiles of issuers, identifying their potential exposure to industry specific ESG concerns as well as ESG opportunities;
- **Engage with issuers:** engaging with issuers to encourage improvements on the identified environmental and social characteristics to be mitigated or improved;
- **Review controversies:** analysing potential environmental or social failures and reviewing the level of risk that can be tolerated.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics that it promotes

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

The Sub-Fund has implemented the following sustainability indicators in order to measure the effective promotion of the environmental and social characteristics:

1. The percentage of investments in securities that are on the exclusion list as a result of the application of the Investment Manager's exclusion policy;
2. The percentage of securities that are being covered either by an internal ESG research review or by an external ESG research review;
3. The number of companies that are failing or that are under the watch list of the United Nations Global Compact Principles ("UNGCS");
4. The number of companies that are subject to controversies considered to be severe as a result of the application of the Investment Manager's ESG integration policy;
5. The number of companies that went through a thorough ESG engagement process using the Investment Manager's ESG methodology.

● ***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?***

The Sub-Fund intends to invest a minimum of 20% of its net asset value in companies which contribute to "climate change mitigation". "Contributing to climate mitigation" means encouraging the reduction of emissions of issuers and/or encouraging the stabilization of the current levels of heat-trapping greenhouse gases in the atmosphere, and whilst doing so, also encouraging issuers to publicly commit to those reduction or stabilization targets.

In order to select companies which contribute to “climate change mitigation” as described above, the Investment Manager applies the pass/fail approach which methodology and thresholds are being detailed in the below.

#### Step 1: Environmental contribution test

To be considered as contributing to the defined environmental objective, companies must meet both a) and b) requirements as detailed below:

##### **a) Companies demonstrated a climate mitigation intent:**

The Investment Manager uses companies’ disclosures of their carbon reduction targets to established climate platforms or outside:

- MSCI’ CDP disclosures, looking for the “YES” indicator OR;
- MSCI SBTi disclosures SBTi APPROVED, looking for the “YES” indicator OR;
- MSCI’ carbon emissions reduction targets, looking for anything but the “No target”.

⇒ **Quantitative threshold:** the Investment Manager considers that a YES to any of those three conditions qualifies as a PASS.

**AND**

##### **b) On top of their commitments, companies demonstrated concrete actions to climate mitigation:**

The Investment Manager uses companies’ carbon reduction Key Performance Indicators (KPIs). At least one of the four conditions below must be met to qualify as a PASS:

- Companies that have an above average taxonomy alignment (using MSCI’ taxonomy alignment estimated revenues)
  - ⇒ **Quantitative threshold:** any percentage above 20% of taxonomy alignment qualifies as a PASS.
- Companies that have reduced or mitigated their carbon risk exposure (using MSCI’ Carbon Emissions Management Score).
  - ⇒ **Quantitative threshold:** any score above 2/10 qualifies as a PASS
- Companies that are using alternative energy as a percentage of their revenues (using MSCI’s field on “alternative energy”. This indicator is a percentage).
  - ⇒ **Quantitative threshold:** any percentage above 20% qualifies as a PASS.
- Companies that have embedded the use of energy from renewable sources within their business strategy (using MSCI’s “renewable energy use” indicator. This field is a YES/NO indicator).
  - ⇒ **Quantitative threshold:** Any YES to this indicator qualifies as a PASS.

Both sections a) and b) must be PASSED in order to consider that a company is considered as contributing to the defined environmental objective.

Contributing companies shall also successfully PASS the below Step 2 (DNSH Test) and Step 3 (good corporate governance practices) to be considered as a sustainable investment in the portfolio.

Step 2: Do no significant harm test – the contributing companies cannot perform negatively on selected principal adverse impact (“PAI”) indicators. The following section

on PAI details the methodology applied to ensure contributing companies are immune from causing PAI.

Step 3: Good governance test – the contributing companies must meet minimum corporate governance standards. The section on “*assessing good governance practices*” details the methodology applied to ensure contributing companies apply good governance practices.

If successfully passing Steps 1, 2 and 3, the company respectively the issuer of a financial instrument is then considered a (100%) sustainable investment. The percentage of sustainable investments in the portfolio is subsequently calculated by adding up the weights of all investments that are considered sustainable investments.

● ***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?***

The Investment Manager relies on a number of indicators provided by its external data provider to ensure that those climate change mitigation contributing issuers are not at the same time causing harm to any other environmental or social sustainable objective (STEP 2 mentioned above). The section below details which indicators were chosen to identify any potential harm that could be caused by issuers.

— — — — ***How have the indicators for adverse impacts on sustainability factors been taken into account?***

Extracted from the Investment Manager’s data provider’s platform, the following indicators are being stored and monitored via the internal ESG interface in order to identify any potential adverse impacts:

- a) **No harm shall be caused to PAI 1:** The company’s economic activities shall not be part of the worst sectorial performers when it comes to their level of carbon emissions.
- b) **No harm shall be caused to PAI 13:** The company’s economic activities shall not be part of the worst sectorial performers when it comes to ensuring a minimum level of female directors on the Board.
- c) **No tolerance to high degree of ESG risks:** The company’s economic activities shall not be part of the worst global performers when it comes to general E, S and G matters, using our internal ESG scoring. Note we have identified the worst performers to be the internal category: RED/ C-. Also note companies subject to this category can be upgraded according to a strict internal process.
- d) **No tolerance to high degree of controversy:** The company’s economic activities shall not be part of the worst performers when it comes to being subject to controversies.
- e) **No tolerance to controversial weapons:** The company’s economic activities shall be immune from any type of involvement with controversial weapons.
- f) **No tolerance to large fossil fuel revenue share exposures:** The company’s economic activities shall be capped at 30% maximum of revenues generated by thermal coal or shale oil activities.

How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?

The Investment Manager uses its external data provider's research to be alerted about any serious controversy on notable failures or events which it believes would include issues relating to the OECD Guidelines for Multinational Enterprises and to the UN Guiding Principles on Business and Human Rights.

Besides, the Investment Manager's ESG internal assessment includes a number of elements raised by the OECD Guidelines and by the UN Guiding Principles. For instance, the internal review may require to verify the respect of human rights, compliance with minimum international labour rights, to evaluate issuers' environmental performance and to monitor the key governance practices of a given issuer.

*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?

☒ Yes

☐ No,

The negative impact of investments on sustainability factors is taken into consideration as an integrated part of the investment process.

The Investment Manager uses its ESG material map to assess whether an investee company has caused or could cause principal adverse impacts, or whether it has contributed or could contribute to principal adverse impacts, or whether principal adverse impacts are or would be directly linked with the investee company's operations, products, or services as far as relevant data can be obtained.

The Responsible Investor and Impact Statement Report available on the Investment Manager's website elaborates on the methodologies to identify and manage PAIs: [Alken Asset Management | Legal \(alken-am.com\)](#)

**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

In addition, information on how the principal adverse impacts on sustainability factors have been considered over the year will be available in the annual report of the financial product.



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

### **What investment strategy does this financial product follow?**

The Sub-Fund is an actively managed strategy and will invest at least 75% of its net assets in equities and equity related securities issued by companies that are headquartered in Europe, or conduct the preponderant part of their activity in Europe, which are small-caps (capitalisation of less than EUR 3 billion) and mid-caps (market capitalisation of around more than EUR 3 billion but less than EUR 10 billion).

The Sub-Fund's investment process is supported by a proprietary investment model which combines financial and non-financial analysis.

Covering the four key ESG themes: environment, social, governance and human rights, the responsible investing approach is based on global criteria with quantitative and qualitative rating, recommendations and ranking of the companies, irrespective of their sectors, capitalizations, or financial ratings. The responsible investing approach assessment is based both on the asset manager's proprietary ESG analysis and on information gathered from external ESG providers.

The portfolio will contain a limited selection of securities considered as offering the greatest potential. Selection will comprise a mixture of "growth" and "value" stocks believed to have the potential to provide enhanced returns relative to the market.

### **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 Sub-Fund promotes the aforementioned environmental and social characteristics by following the Investment Manager's binding ESG process, described below.

1. The Sub-Fund's portfolio shall comply with the Investment Manager's Exclusion Policy (which can be retrieved from the Investment Manager's website). This policy seeks to exclude from its investable universe products or business practices which the Investment Manager considers to be detrimental or incompatible with its investment ESG philosophy.
2. The Sub-Fund shall have at least 90% of its assets (excluding ancillary liquid assets) covered by the ESG analysis based on its ESG internal proprietary reviews or on its external provider of ESG research.
3. The Investment Manager monitors investments in companies that are in breach or on the "watch list" of the UNGCs. The monitoring can lead to divestment if the ESG Committee confirms the presence of high ESG risks that cannot be resolved.
4. The Investment Manager monitors investments in companies that are in breach or on the "watch list" of the UNGCs. For this the data provider's "Watch" or "Fail" alerts are being used.. The monitoring and subsequent

review of the situation can lead to divestment if the Investment Manager's ESG Committee confirms the presence of high ESG risks that cannot be resolved.

5. The Investment Manager monitors investments in companies that are subject to severe controversies. For this the data provider's controversy scores that fall below 3/10 are used. The review of those investment can lead to divestment if the Investment Manager's ESG Committee confirms the presence of high ESG risks that cannot be resolved.
6. The Investment Manager limits exposure to elevated sustainability risk investments by identifying the worst ESG rated issuers according to the internal scoring system. The worst ESG rated issuers belong to the "C-"/"RED" category according to the internal grid system. The maximum tolerated exposure to those instruments is strictly defined in the Investment Manager's ESG Integration Policy available on its website: 10% or 25% tolerance depending on the strategy.

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

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

There are no minimum percentage commitments to reduce the scope of investments.

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

The Investment Manager screens the general good governance structure and practices of the investee companies based on governance datapoints provided by the external data provider.

The Investment Manager's also performs a general ESG internal review which includes a verification of the key pillars of governance such as Corruption and Bribery Prevention, Remuneration Policies, Audit and Internal Controls, Ownership Structure, Level of Transparency, Voting Structure, Independence of the Board and Independence of the Committees.

Additionally, an internal thorough review is performed where a heightened governance risk is identified to evaluate the potential risk.





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

### Asset allocation

describes the share of investments in specific assets. Taxonomy-aligned activities are expressed as a share of:

#### - Turnover

reflecting the share of revenue from green activities of investee companies

#### - Capital

**expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.

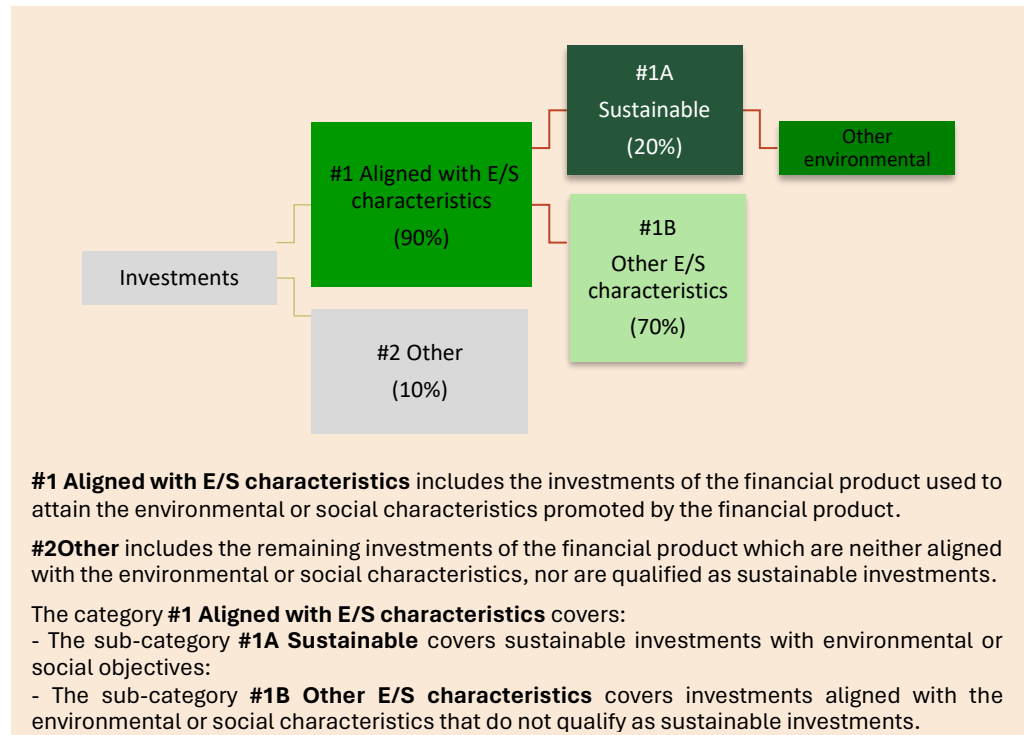
#### - Operational

**expenditure** (OpEx) reflecting green operational activities of investee companies.

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to

1. All exclusions putting limits on E or S defined characteristics are coded in the operational process through which investing in an excluded asset is prevented.
2. The limits set for investment in poor ESG companies is also similarly coded in the operational process.
3. Any UNGC watch or fail events, any new controversy and any new poor ESG credentials are notified to the ESG team members internally via an alert system. The operations and compliance teams are also alerted of any non-reviewed alerts.
4. A minimum threshold of 20% for sustainable investment promoting an environmental objective and/or a Taxonomy-alignment is also coded internally.
5. The remaining percentage goes through the Investment Manager's usual ESG integration process, where E, S and G factors are carefully reviewed on a best-effort basis.
6. ESG internal analysis and engagement results are all logged in a common internal platform.
7. The risk management team monitors compliance with the defined ESG thresholds (including the monitoring of the Sub-Fund's exposition to heightened ESG risks and strict compliance with the ESG exclusions lists).
8. Every week the ESG Committee is given the opportunity to review potential holdings with elevated sustainability risk rating, controversy, or tied to UNGC failures.

The remaining proportion is used for investment purposes, or for instruments which are mainly used for liquidity or for risk balancing purposes, efficient portfolio management, and/or hedging purposes, notably cash, deposits and derivatives.



Minimum safeguards are not considered for investments included under this category.

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

N/A



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

N/A

- **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>1</sup>**



Yes:



In fossil gas



In nuclear energy

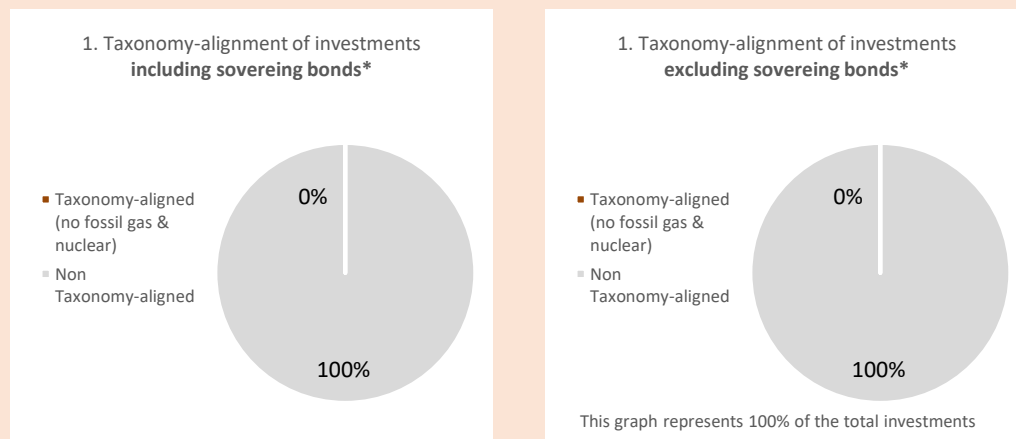
**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**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>1</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.

**X** No

**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?**

N/A



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?**

N/A



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

N/A



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

'#2 Other' refers to Investments that are not expected to promote environmental and/or social characteristics, as well as ancillary assets such as cash and other balance sheet items. These remaining proportion is used for investment purposes, or for instruments which are mainly used for liquidity or for risk balancing purposes, efficient portfolio

management, and/or hedging purposes, notably cash, deposits and derivatives. Minimum environmental or social safeguards are not considered for investments included under this category.



**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?**

N/A



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

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

- 1) The Management Company: [AFFM](#)
- 2) The Investment Manager: [Alken Asset Management | Legal \(alken-am.com\)](#)

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