Sustainability disclosure at IFM Independent Fund Management AG

EU disclosure ordinance 2019/2088

1. Preamble

IFM Independent Fund Management AG ("IFM") was incorporated on October 29, 1996, as the first bank-independent management company pursuant to Liechtenstein law. IFM is subject to supervision by the Liechtenstein Financial Market Authority (FMA).

It is authorized as a management company pursuant to the Act dated June 28, 2011, on Certain Undertakings for Collective Investment in Transferable Securities (UCITSA) to manage undertakings for collective investment in securities (UCITS), according to the Investment Undertakings Act dated December 2, 2015, to manage investment undertakings and, as an Alternative Investment Fund Manager ("AIFM") pursuant to the Act dated December 19, 2012, on the managers of alternative investment funds (AIFMA) to manage Alternative Investment Funds ("AIF").

IFM holistically integrates the sustainability topic in many domains of the company. A considerable part of the effort is the integration of ESG (Environment, Social, Governance) information in the fund management process. With the integration of ESG data, IFM makes an effective contribution to the global mobilization of capital for sustainable business growth. IFM is convinced that with the consideration of ESG information, better investment decisions can be made and opportunities as well as risks can be better monitored in the realm of sustainability. IFM integrates a comprehensive set of ESG criteria to measure the sustainability performance of its funds. The focus is on a holistic corporate ESG rating that in addition to company-specific themes also considers topics such as transparency and product contributions. Integrated ESG information allows IFM's customers and partners to measure and optimize the sustainability performance of their funds as well as to rate and minimizes the relevant opportunities and risks. With the provision of ESG information, IFM makes an active contribution to a more sustainable economy. As an independent management company/AIFM, IFM considers the negative impact of sustainability risks in the context of the objectives of the investment policy of the respective fund's assets.

Sustainability risks can be split into two essential categories of physical risks and transition risks. Physical risks are, among others, extreme weather events which can have negative financial impacts due to their damage potential. On the other hand, long-term climate changes and their consequences for individual regions (increasing drought, rise of sea levels, etc.) can make areas uninhabitable or disrupt economic resources or upset the economic system.

Transition risks can emerge on the basis of political decisions intended to enable the transformation to a more sustainable, efficient, and climate-friendly economy. Controlling transformation can bring with it new regulations, make certain goods more expensive or more rare, which in turn can result in higher costs. Such interventions can have serious negative financial consequences for market participants which in turn, via market price trends, can impact financial products.

IFM welcomes the "Sustainable Finance Disclosure Regulation (SFDR)" because it offers a fair and standardized approach for sustainable investments. SFDR is a new set of European standards for sustainability-related disclosure obligations for the financial services sector. Within the scope of asset management, it is intended to make the sustainability profile of funds easier to understand and compare while classifying them by certain articles that determine the degree of sustainability information that must be disclosed.

2. Legal fundamentals

2.1. SFDR disclosure ordinance

The European Union issued Ordinance (EU) 2019/2088 concerning sustainability-related disclosure obligations in the financial services sector (SFDR):

https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:02019R2088-20240109

SFDR gives financial market participants a framework for reporting how environmental, social, and governance-related factors (ESG factors) are handled within the overall company as well as for individual products.

This allows customers to more easily compare how financial market participants deal with important sustainability topics such as climate change.

Financial market participants will report in greater detail how sustainable their financial products are, which improves comparability. This includes:

- Consideration of sustainability risks such as the risk of value losses of the basic assets of the fund portfolio based on environmentally related or social incidents;
- Consideration of the most important negative effects of investment decisions on sustainability with respect to environmental, social, and human resources but also in conjunction with human rights, corruption, and bribery.
- Sustainable investments in business activities that contribute to the attainment of ecological and social goals. This includes activities that are deemed sustainable pursuant to EU taxonomy.

2.2. Taxonomy ordinance

The ordinance (EU) 2020/852 of the European Parliament and of the Council dated June 2020 concerning the provision of a framework for simplifying sustainable investments and amending ordinance (EU) 2019/2088 (in brief: Ordinance (EU) 2020/852 is an EU ordinance that defines the specifications for sustainable investments.

The taxonomy ordinance contains criteria for determining whether a business activity is classified as ecologically sustainable (taxonomy) to be able to assess the degree of sustainability of an investment. It is a central legal act which by promoting private investments in green and sustainable projects is intended to make a contribution to the European Green Deal.

The European Green Deal is a concept presented by the European Commission with the objective of reducing the net emission of greenhouse gases to zero in the European Union by 2050, thus making it the first climate-neutral continent.

With the ordinance, financial market participants such as AIFM and UCITS management companies that wish to market a financial product (undertakings for collective investment "UCI") as ecological are obliged to report the share of ecologically sustainable investments in their UCI as specified in the ordinance.

https://eur-lex.europa.eu/legal-content/EL/TXT/PDF/?uri=CELEX:02020R0852-20200622

2.3. Level 2 regulation on SFDR

The three European financial market authorities EBA, EIOPA, and ESMA – collectively the European Supervisory Authorities (ESA) presented the European Commission on October 22, 2021, with their final report containing drafts for technical regulation standards (RTS drafts) concerning the ordinance on the disclosure of sustainable financial products (Sustainable Finance Disclosure Regulation – SFDR) in the applicable taxonomy ordinance.

The disclosures relate to financial products that execute sustainable investment that contribute to environmental objectives.

The RTS drafts that contain templates for precontractual and periodic product data are intended

- to disclose information related to investments of financial products in ecologically sustainable business activities by providing comparable information for sound investment decisions

- to introduce a unified set of rules for the disclosure of sustainability information within the scope of the SFDR and the taxonomy ordinance.

https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32022R1288

3. Subject

This SFDR specifies harmonized directives for financial market participants and financial advisors concerning transparency in the inclusion of sustainability risks and the consideration of disadvantageous sustainability effects in your processes and in the provision of information related to the sustainability of financial products (Article 1 EU 2019/2088).

4. Financial market participants

Pursuant to Art. 2 SFDR, IFM Independent Fund Management AG is a financial market participant according to the following definitions:

- Alternative investment fund manager (AIFM) Article 2, section 1, lit. e SFDR);
- Management company for undertakings for collective investment in securities (UCITS management company) (Article 2, section 1, lit. i SFDR).

and is thus subject to the appropriate provisions

IFM delegates investment decisions concerning the management of the respective fund asset to prudentially supervised asset managers who with regard to the ESG provisions of a UCI have a significant influence on the investment decision. These asset managers are responsible for ESG integration, i.e. the explicit involvement and documentation of ecology-related, social, and governance aspects (ESG) with regard to the risks and opportunities in business analyses and investment decisions. In their integration, the asset managers refer to the ESG approaches specified in the respective constitutive documents. In this context, IFM has higher-echelon responsibilities with respect to monitoring and reporting.

5. Transparency of strategies for handling sustainability risks

In accordance with Article 3 SFDR, financial market participants are obliged to publish on their websites information concerning their strategies to include sustainability risks in their investment decision processes.

5.1. Development of asset management function and integration of sustainability risks

For IFM and its asset management agents, the sustainability topic is a clear commitment to the development of long-term robust investment solutions and the social responsibility of the financial industry. In particular, this includes the consideration and integration of sustainability risks in our fund products. The constitutive documents provide guidance on how sustainability risks can be included in the investment decision and outline to which extent the evaluation of expected consequences of sustainability risks impacted the yield of the UCI.

In the context of the SFDR, a "sustainability risk" means an event or a condition in the domains of environment, social, or corporate governance whose occurrence could actually or potentially have a negative impact on the value of the investment.

IFM wishes to more strongly focus on sustainability risks and to broaden and further develop strategies for the inclusion of sustainability risks in all investment decision processes. Needless to say, compliance with legal regulations is an obligation.

To attain the investment objective of a UCI according to Art. 8 or Art. 9 SFDR, a multi-level sustainability process will be applied, consisting of clearly defined and measurable exclusion and positive criteria.

5.2. Inclusion of sustainability risks in investment decisions

Investment decisions for UCIs are made on the basis of a fundamental research process (cash flow, among others). The principle of ESG integration is also anchored in all investment decisions for UCIs according to Art. 8 and Art. 9 SFDR. ESG integration is the systematic inclusion of sustainability factors in the key steps of the investment process.

Sustainability embraces environmental (E), social (S), and governance (G) factors. The respective UCI pursues an overall ESG approach with which the sustainable alignment of the respective UCI is assured by considering various sustainability factors. Among others, sustainability factors include employee, social, and environmental issues, the observance of human rights, and the prevention of corruption and bribery. The selected approach can be a combination of the following elements and is accurately defined in the constitutive documents.

5.2.1. Exclusion criteria

Investments in companies that in the view of the management company or the AIFM do not fulfill the sustainability standards of the UCIs are excluded. The management company or the AIFM has defined exclusion guidelines that among other aspects specify company exclusions and tolerance thresholds for activities involving alcohol, tobacco, gambling, weapons, and adult entertainment.

5.2.2. Analysis (positive criteria)

As a responsible management company and AIFM, we consider it part of our obligation as trustees to actively manage ESG risks and opportunities. We procure ESG-related analyses alongside conventional financial analyses to identify sustainability risks of target companies within the investment universe (corporate bonds and stock positions). To fulfill ecological and social factors, the assets of the UCI are subject to an ESG rating. The ESG rating shows the exposure of each company to the key ESG factors. It is based on a detailed list of business activities, main products and segments, locations, assets and income as well as other relevant parameters such as outsourced production, etc.

5.2.3. Implementation of the SDGs in the sustainability strategy

Further, for individual UCIs, particularly positive companies can be filtered out that generate sales with products or services which make a contribution to the attainment of one or several of the United Nations' 17 Sustainable Development Goals (SDGs). The attainment of SDGs should help make progress in important domains for humanity and the planet. Important domains are humanity itself, our planet, prosperity, peace, and a global partnership to mutually attain the goals and implement them.

5.2.4. Active ownership

We are convinced that actively exercising voting rights contributes to the values and conduct of corporations. With our commitment, we encourage companies to adopt best-practice corporate governance standards. In exercising voting rights, IFM considers internal directives involving voting rights policies according to which voting and creditor rights are basically exercised when the number of votes in a company, consolidated at the level of the management company or AIFM, amounts to more than one percent of the voting capital. As it designs commitments with companies, IFM closely collaborates with proxy voting providers and combines their analyses with the investment policy of the respective UCI. For further information, please consult our directive "Voting rights policy" of IFM Independent Fund Management AG.

https://www.ifm.li/files/attachments/Stimmrechtspolitik.pdf?t=061221181423

6. Consideration of sustainability factors within the scope of the investment decision

The key sustainability risks will be analyzed by the asset managers of the respective UCI, thus expanding the classic fundamental analysis by financially relevant sustainability risks. The analysis of the sustainability risks is performed on the basis of publicly available information of the issuer (e.g. business and sustainability reports) or internal research as well as the use of data and ESG ratings by research and rating agencies.

7. Possible effects of sustainability risks on yield

In the long term, the consideration of sustainability factors can have a significant influence on the value trend of an investment. Issuers with insufficient sustainability standards may be exposed to event, reputation, regulation, legal, and technology risks. Among others, these risks in the domain of sustainability can impact operational activities, the brand and corporate value, and the continuity of the company or of the investment. The occurrence of these risks can result in a negative rating for the investment that in turn can influence the yield of the UCI.

8. Transparency of remuneration policies in conjunction with the consideration of sustainability risks

Pursuant to Art. 5 SFDR, the financial market participants, within the scope of their remuneration policy, indicate the extent to which they comply with the inclusion of sustainability risks.

IFM has specified a remuneration policy that reconciles with its business and risk policy. In particular, no incentives for entering into undue risks are in place. The remuneration for the provision and implementation of the sustainability strategy is included in the fixed salary component of the Sustainability Officer. The calculation of performance-linked remuneration is based either on the overall result generated by IFM and/or the personal performance of a staff member and his or her department.

https://www.ifm.li/files/attachments/IFM-Verguetungsgrundsaetze-637402668434566837.pdf?t=030122155455

9. Transparency in the promotion of ecological and social characteristics in precontractual information

UCIs classified according to Art. 8 SFDR have ecological and/or social characteristics, can partially invest in sustainable instruments, and promote investments in companies that pursue good governance practices.

The following description is contained in every prospectus and in a shorter format in the KIIDs of all UCIs of the Art. 8 category:

- Information on how these characteristics are fulfilled;
- If an index was determined as a reference value: information as to whether and how this index can be reconciled with these characteristics;
- The way in which sustainability risks are considered in their investment decisions; and
- The results of the valuation of the expected effects of sustainability risks on the yield of the financial products that they provide.

10. Transparency in precontractual information involving sustainable investments

UCIs classified according to Art. 9 SFDR pursue sustainable investments under the premise that the investment does not materially harm any ecological or social goal and promote investments in companies that pursue good governance practices. Unless it is the reference indicator, the investment universe for the purpose of performance measurements in the domain of sustainability is specified as is the method used for calculating it. A goal concerning CO2 emissions, if applicable, is mentioned as well.

The following description is contained in every prospectus and in a shorter format in the KIIDs of all UCIs of the Art. 9 category:

- Information on how the specified index is aligned with the intended goal;
- Notes indicating why and how the specified index aligned with the respective goal differs from a board market index;
- The way in which sustainability risks are considered in their investment decisions;
- The results of the valuation of the expected effects of sustainability risks on the yield of the financial products that they provide;
- If a financial product is intended to reduce CO2 emissions, the information to be disclosed shall explain in detail how the goals of reduced CO2 emissions assure the long-term climate goals of the Paris Accords.

11. Transparency in the promotion of ecological and social characteristics and on websites for sustainable investments

The description of ecological and social characteristics and/or the sustainable investment goal is published on an ongoing basis and integrated in our website. Product-specific information can be downloaded from www.ifm.li.

12. The ESG principles and processes of our funds at a glance

ESG analysis	ESG analysis system for equities and bonds
Exercising voting rights	Exercising of voting and creditor rights when the share of votes in a company, consolidated at the level of the management company or the AIFM, amounts to more than one percent of the voting stock
Filtering	Fund-specific negative and positive screening and reduction of investment universe
CO2 policy	Strategy-dependent
Reporting	Annual report and monthly ESG report
Classification	• Art. 6 (possible ESG integration) • Art. 8 (environmental and social factors) • Art. 9 (sustainable investment goals / impact)

Schaan, 2nd August 2024