

APS Ethical Cautious Fund

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Website disclosure in terms of Article 10(1) of Regulation (EU) 2019/2088 ("SFDR") for financial products that promote environmental and/or social characteristics referred to in Article 8(1) of SFDR

3rd September 2024

A. Summary

APS Ethical Cautious Fund (the "Sub-Fund") promotes environmental and social characteristics but does not have as its objective a sustainable investment.

The Sub-Fund invests in securities issued by corporates or governments that satisfy the (ethical) selection approach defined in the Ethical Policy. It promotes E, S and G characteristics by selecting securities issued by corporates or countries in a universe of issuers by:

- excluding issues by corporates and governments which do not pass the positive evaluation screening test on E, S and G components by the Investment Manager;
- limiting exposure to certain business activities, by excluding corporates deriving significant revenues from total revenue (>10%) from coal mining, tobacco production and distribution, military equipment and firearms, life termination services or products and human embryonic stem cell research, gambling operations and products, alcohol production and distribution and pornography and adult entertainment services; and
- excluding issues by governments which do not pass the (negative) screening tests on its civil and political rights.

The Sub-Fund may also invest in other funds provided that any underlying fund falls under Article 8 or 9 of the SFDR.

The Sub-Fund is actively managed by the appointed Investment Manager, ReAPS Asset Management Limited, and does not follow any index or benchmark. No reference benchmark has been designated to attain the environmental or social characteristics promoted by the Sub-Fund. The Investment Manager has the discretion to select the Sub-Fund's investments, provided they comply with the Ethical Policy and any restrictions set by the Sub-Fund's investment strategy.

B. No sustainable investment objective

The Sub-Fund promotes environmental and social characteristics but does not have sustainable investment as its objective.

C. Environmental or social characteristics of the financial product

The Sub-Fund invests in securities issued by corporates or governments that satisfy the (ethical) selection approach defined in the Ethical Policy. It promotes E, S and G characteristics by selecting securities issued by corporates or countries in a universe of issuers by:

- excluding issues by corporates and governments which do not pass the positive evaluation screening test on E, S and G components by the Investment Manager,
- limiting exposure to certain business activities, by excluding corporates deriving significant revenues from total revenue (>10%) from coal mining, tobacco production and distribution, military equipment and firearms, life termination services or products and human embryonic stem cell research gambling operations and products, alcohol production and distribution and pornography and adult entertainment services, and
- excluding issues by governments which do not pass the (negative) screening tests on its civil and political rights.

For corporate issues: The Investment Manager uses a best-in-class approach to select within each industry the corporates that have the best overall ESG score compared within its peers within the industry. For each

ESG pillar, several indicators are used (as detailed below). The weight of each E, S and G pillar depends on the materiality of each pillar for the industry of the corporation analysed.

For government issues: Issuing countries are classified according to the overall ESG score. The scoring is obtained by aggregating the score for each E, S and G pillar and (issues by) governments are included in the universe if they meet or exceed the minimum threshold.

The Investment Manager will, after undertaking this analysis, take steps to either include or exclude governments or corporates from the universe which is updated at least annually. Further monitoring continues to be made on a periodical basis, to confirm that the governments and corporations in the universe continue to adhere to the above criteria.

The Sub-Fund may also invest in other funds provided that any underlying fund falls under Article 8 or 9 of the SFDR.

The Ethical Policy is available at <https://www.apsfunds.com.mt/wp-content/uploads/2023/12/20240903-APS-Ethical-Cautious-Fund-Ethical-Policy.pdf>.

D. Investment strategy

The Sub-Fund's investment objective is to maximise total return, minimising volatility and to attain a desirable level of liquidity following ethical principles according to its Ethical Policy. It can invest in sovereign and corporate securities and may hold other funds, deposits, and cash. These securities may be denominated in any currency provided that the Sub-Fund is to maintain at least 50% of its total asset value in euro.

The Sub-Fund may be fully invested in government or corporate bonds rated investment grade by a reputable rating agency, or in the case of unrated bonds, are deemed to have an equivalent rating by the investment manager. It may invest up to 40% of its total assets in high yield bonds and also up to 40% of its total assets in direct equities (and equity-related securities) and/ or other Funds whose main exposure is in equities. The Sub-Fund may make use of exchange traded or OTC financial derivatives for the purpose of efficient portfolio management.

The Sub-Fund is actively managed and does not follow any index or benchmark.

More information on the general investment policy of the Sub-Fund can be found in the 'Investment Objective and Policy' section of the Offering Supplement.

The binding elements to the investment strategy consists of the following elements:

- The Sub-Fund must adhere to the Ethical Policy.
- The Sub-Fund will not invest in securities issued by corporates deriving significant revenue (>10%) from "excluded" activities. The excluded activities are:
 - coal mining
 - tobacco production and distribution
 - military equipment and firearms
 - life termination services or products
 - human embryonic stem cell research
 - gambling operations and products
 - alcohol production and distribution
 - pornography and adult entertainment services
- After the negative screening (as per above), the Sub-Fund may invest in issues of companies that satisfy the positive evaluation conducted by the Investment Manager.
- The Sub-Fund will also not invest in securities issued by governments which do not pass the (negative) screening tests on its civil and political rights.
- Issues by governments must then satisfy the positive evaluation carried out by the investment manager to be eligible for investment by the Sub-Fund.

The Sub-Fund may invest in other funds if these fall under Article 8 or 9 of the SFDR.

E. Proportion of investments

The Sub-Fund may invest directly up to 100% of its total assets in investment grade bonds. It may invest up to 40% of total assets in high yield bonds and up to 40% of total assets in equities. A moving cash balance and the use of financial derivative instruments with the purpose of hedging are also part of the planned asset allocation.

At least 70% of the investments is expected to be aligned with the E/S characteristics. These include exposure to issues by corporates and governments (including supranationals) related securities. The Sub-Fund may also invest in other funds if these fall under Article 8 or 9 of the SFDR. The maximum percentage of the investments not aligned with the E/S characteristics promoted 30%. This includes the 20% cash and 10% financial derivatives. The Sub-Fund does not intend to invest in sustainable investments, resulting in 0% of sustainable investments.

F. Monitoring of environmental or social characteristics

The Investment Manager monitors the portfolio's E and S indicators throughout the Sub-Fund's life cycle as defined in the Sub-Fund's Ethical Policy. Independent controls are carried out by the Investment Manager to ensure compliance with commitments. These indicators are embedded within the Investment Manager control framework, with responsibilities spread between the first-line of controls performed by the portfolio management team and the second-line of controls performed by the risk and compliance team, who monitor compliance with E or S characteristics promoted by the Sub-Fund on an ongoing basis, but also assuring the quality of inputs by conducting appropriate due diligence and data governance.

The portfolio management team will be required to develop a (exit) strategy to divest exposure to issuers which deviate from the Sub-Fund's Ethical Policy.

G. Methodologies

Corporations

Appraisal of corporations involves a two-fold assessment (i) a negative filtering and (ii) positive impact based on environmental, social and governance criteria.

- **Negative filtering:** Initially, a corporation under consideration is assessed against a negative filter. The Sub-Fund will avoid investing in corporations involved in certain industries including corporations that provide products or services to entities operating in these industries (indicated above). Other specific industries can be excluded from time to time after a careful analysis of the negative social effects produced by an activity.
- **Positive impact based on environmental, social and governance criteria:** Corporations which pass the negative filtering are analysed further on environmental, social and governance ("ESG") performance. The ESG performance is based on the ESG Overall Score obtained from an ESG data provider. The ESG Overall Score is determined by a "bottom-up" approach starting from the (individual) E, S and G Scores. The (individual) Scores for the environment (E), social (S) and governance (G) pillars are based on the industry specific E, S and G criteria. The ESG Overall Score is the Weighted Average of all E, S and G Scores. Using a best-in-class approach, the issuers are then ranked by the ESG Overall Score in descending order (higher the better) across the entire eligible universe.

Government & Supranational Issuers

Appraisal of governments and supranationals, is also based on a two-fold assessment (i) a negative filtering and (ii) positive impact based on environmental, social and governance criteria, yet allowing for specific adaptation since governments and supranationals, and corporations are organised and function differently.

Government Issuers

- **Negative filtering:** Each government is analysed on its performance in civil and political rights. Different aspects of these areas are examined. These would include religious liberties, respect for human rights, liberty to enjoy life, political liberties, liberty of expression etc. Each government is then scored for its performance on civil and political rights and ranked as either 'Free', 'Partially Free' and 'Restrained'. The Sub-Fund will only invest in countries classified as 'Free'. For a supranational to be included in the

Investable Universe, an analysis of the members and purpose of the organisation or body is carried out. The analysis is based on the general parameters in relation to governments.

- **Positive impact based on environmental, social and governance criteria:** Subsequently, ESG analysis is applied and scored according to different weightings in these areas. This involves obtaining independent scoring related to E, S and G component. The environmental component is based on the Environmental Performance Index; social component on the Human Development Index; and the Worldwide Governance Indicators for the governance component (as detailed in Section G). The scoring obtained for each E, S and G component is then aggregated to arrive at an ESG Overall Score (out of 100). The Investment Manager will be allowed to invest in instruments issued by countries that are considered eligible if the ESG Overall Score exceeds the ESG Minimum Score (of 50).

Supranational Issuers

- Countries determined to be eligible (as per above) is used to determine the eligible supranationals (i.e., international organisations or bodies whose memberships comprises more than one single state). A supranational is included if it satisfies the following conditions:
 - The scope/ purpose of the supranational does not go against the objective of the Ethical Policy, and
 - The majority of members (based on % shareholding) satisfy the analysis conducted on Government Issuers (as outlined above).

H. Data sources and processing

The data used is independently sourced from ESG data providers, including public data providers and third-party data vendors. Specifically:

- Moody's Investors Service, Inc. and Moody's Analytics, Inc. provide data on corporate issuers,
- Freedom House (www.freedomhouse.org) supplies data on government (and supranational) issuers for negative screening. For positive evaluation, data is obtained from:
 - Environmental Performance Index (<http://epi.yale.edu>) for environmental analysis,
 - Human Development Index (<http://hdr.undp.org>) for social analysis, and
 - Worldwide Governance Indicators (www.govindicators.org) for governance analysis.

The ESG data mentioned above is used directly to apply the methodologies described in the 'Methodologies' section according to the internal methodologies of the Investment Manager.

I. Limitations to methodologies and data

The limitations of the methodology are intrinsically linked to the use of ESG data. The ESG data universe is in the process of being normalised, which may have an impact on data quality; data coverage is also a limitation. Current and future regulations will improve standardised reporting and the company information on which ESG data is based. Although a thorough assessment is applied of data sources involved, there can be no guarantee that ESG data provided by the third parties is complete and accurate. Moreover, the potential lack of data provided by companies in which an investment is made represents a limitation of sources of data with regards to the promotion of environmental and social characteristics. In order to avoid a misrepresentation of the percentage of investments that promote environmental and social characteristics, whereby for some investments data is not available, such investments are excluded.

J. Due diligence

The Investment Manager performs both initial and ongoing due diligence on underlying assets using data from ESG data providers to ensure that investments promote environmental and social characteristics. In this regard, the Investment Manager will be investing in corporations or government issuers which are on the (latest) eligible universe generated by the Investment Manager according to the methodologies illustrated in the section Methodologies. The universe is monitored on an ongoing basis, at least annually. The Investment Manager will be required to develop a strategy to divest exposure to issuers which no longer features in the eligible universe.

K. Engagement policies

An engagement policy has not been established. In view of the size of the Sub-Fund the influence that the Investment Manager can exert on the investment behaviour of investee companies to be negligible. For

this reason, the Investment Manager does not currently exert any further influence on the investee companies beyond the pure allocation function of the amount invested which will be carried out in terms of the Voting Strategy Policy adopted by the Investment Manager.

L. Designated reference benchmark

No reference benchmark has been designated to attain the environmental or social characteristics promoted by this Fund.