Principal Adverse Impact Statement

Latest update: 30 November 2021

This a statement on due diligence policies with respect to the principal adverse impacts of investment decisions on sustainability factors as per Article 4 of SFDR (EU Regulation 2019/2088)

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1. Purpose and scope

This document addresses Article 4 of the Sustainable Finance Disclosure Regulation (“SFDR”), EU Regulation 2019/2088.

Article 4 of SFDR refers the consideration of Principal Adverse Impacts (“PAIs”) on sustainability factors at entity level. As mentioned in the Article 4(1) of the SFDR, financial market participants shall publish and maintain on their websites whether they consider principal adverse impacts of investment decisions on sustainability factors.

Lemanik, as a third party ManCo, is not making investment decisions, but rather engaging with our clients to enhance their practices, not limited, but mainly related to:

(i) Environmental matters, as per impact that clients might have on it and how to reduce it;
(ii) Social matters, promoting a positive social impact;
(iii) Good governance practices.

Lemanik is committed to maintaining and improving research to incorporate ESG aspects into activities and influence positively the Financial Market Participants we work with. Lemanik is acknowledging the risk of global warming resulting from anthropological activities and commit to both understanding how activities and investments contribute to its causes and determining what actions can be taken to help lower carbon emissions in a manner that is in line with objectives set out. On the operational basis, we have also enhanced our Risk Management Process by integrating sustainability Risks into our monitoring controls and reporting across a series of key risk indicators covering ESG factors. We also work to influence our customers positively in transitioning to a greener economy and increase their sensitivity to the necessity to adapt or formalise the way they integrate sustainability risk into their investment decision process.

Thus, Lemanik is considering principal adverse impacts on sustainability factors while engaging with portfolio managers on investment decisions and this statement aims to provide with details on this consideration and the due diligence policies with respect to the principal adverse impacts of investment decisions on sustainability factors required as per Article 4 of SFDR by 30 June 2021.

2. Identification and prioritization of PAIs

Lemanik is following a phased approach to integrate PAIs of investment decisions on sustainability factors aligned with the data availability and maturity of market practices. Consequently, considering current limitations, Lemanik is collecting PAIs related information on a best-effort basis.

For the above-mentioned scope of products, Lemanik has put in place due diligence policies with respect to those impacts including the analysis of the financial instruments including but not limited to bonds, equity bonds and shares.

For other instruments including but not limited to bond futures, credit default swaps, contract for differences, convertible bonds, forwards, options, structured products and synthetic bonds Lemanik is not currently able to collect principal adverse impacts of investment decisions on sustainability factors due to the lack of reliability and availability of the data.

For illiquid instruments, such as Private Equity, Real Estate or Infrastructure investments, we are working on a best effort basis with managers and advisors who are the initiator of the products. Specifically for article 8 and article 9 products under SFDR, we ensure at the set up of the Fund that adequate measurements are put in place to monitor and report on sustainable investment goals

For the monitoring of Investment Managers and Advisors:

Lemanik is performing due diligence and ongoing monitoring of IM and Advisor counterparties we work with.

Though, we are not a signatory, our supervision is based on 4 pillars inspired by PRI principles:

1- Review of Policy and Processes at entity level
2- Review of Policy and Processes at pre-investment level
3- Review of Policy and Processes at post-investment level
4- Review of Policy and Processes at Reporting level

3. Description of PAIs and indicators

The principal adverse impacts that Lemanik aims to monitor and measure for those products for which Lemanik is the 3rd Party ManCo are (non-exhaustive list): Pillar	Items monitored
General	Existence ESG investment policy, existence of exclusion list, Sector exposure (exposure to the following sectors: tobacco, armaments, firearms, alcohol, gambling genetic manipulation, fossil fuel), controversy monitoring (e.g., business ethics, tax fraud, diversity, and opportunity, environmental etc.)
Environmental	Sub-fund environmental score, carbon emissions, freshwater withdrawal, renewable clean energy products, renewable energy use ratio, water recycling ratio, energy efficiency, water efficiency
Social	Sub-fund social score, board gender diversity

Governance	Sub-fund governance score, existence of proxy voting policy, existence of engagement policy, PRI signatory

As per the final draft RTS, Lemanik is currently putting in place the necessary mechanisms to cover the following indicators from Annex I of the final draft RTS document

- Table 1 Annex I final draft RTS: Climate and other environment-related indicators
- Table 1 Annex I final draft RTS: Social and employee, respect for human rights, anti-corruption and anti-bribery matters
- Table 1 Annex I final draft RTS: Indicators applicable to investments in sovereigns and supranationals
- Table 1 Annex I final draft RTS: Indicators applicable to investments in real estate assets
- Table 2 Annex I final draft RTS: Selection of additional climate and other environment-related indicators
- Table 3 Annex I final draft RTS: Selection of additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

Please note, this processes will evolve adapting to any potential changes to be performed once the final RTS are released.

4. Actions in relation to PAIs, taken and planned

We have embraced the ESG cause and have put in place an ESG Committee which will be in charge of establishing an ESG Program for the Company which will adapt to the regulatory development and market demands

For the above-mentioned funds, Lemanik considers the principal adverse impacts (PAIs) on sustainability factors and has put in place due diligence policies with respect to monitoring those impacts.

Lemanik is setting up a due diligence process related to the principal adverse impacts. The due diligence policy includes a check for:

- Breaches related to the indicators considered
- Periodic reviews of compliance
- Ex-post monitoring of investment considering the standards defined for the consideration of PAIs

When a breach is identified, there is an existing process to report this information to the board of directors. Actions will be taken to mitigate the potential risk by engaging with clients and advising them of the measures they could put in place and providing recommendations.

As a third party ManCo Lemanik is not the investment decision maker but have ongoing discussions with portfolio managers and advisors to understand their ESG consideration and reduce potential reputation risks that might arise from a lack of engagement. Lemanik aims to improve clients' awareness about their activities and how to adapt them to actual environmental, social and governance challenges.

5. Application of the RTS

Following the postponement of the Regulatory Technical Standards ("RTS") from 1 January 2022 to 1 of January 2023, Lemanik aims to comply with the requirements of the final draft RTS regarding the disclosure of principal adverse impacts, subject to the approval of the European Commission (EC).

Lemanik is currently working to establish all the necessary mechanisms to be able to monitor the principal adverse indicators as per the final draft RTS.

6. Engagement policy

Lemanik Asset Management S.A. (the "Management Company") adheres to the rules laid down in the UCITS and AIFM Directives and their implementing measures. The Management Company has adopted a policy with defined Key Principles regarding the exercise of voting rights attached to the financial instruments held by the funds under management:

— Lemanik is an active asset manager; accordingly, it strongly believes in the monitoring of investee companies. Specifically, the Company only decides to invest in the shares of an investee company once it has gained an in-depth understanding of the said company's overall business strategy, risk exposure and share capital structure.

— Lemanik is conducting dialogue with investee companies. indeed, engagement includes an on-going communication between the Portfolio Management Department of the Company and the management teams of investee companies. In some cases, the Portfolio Management Department of the Company may take a more focused approach, depending on the circumstances of investee companies; such approach may extend to meetings with the management teams of investee companies.

— Lemanik, as a proactive manager recognizes that the exercise of voting rights is an important aspect of shareholder engagement, in particular if the shareholding is material with regard to the outstanding shares of an investee company.

Our engagement policy follows Article 3g of Directive 2007/36/EC. Lemanik implements independent sustainability risks controls for funds under management by sourcing ESG data from external data providers for liquid investments and by working with advisors and managers to obtain data for illiquid investments. Assessment of Sustainability Risks is complex and may be based on environmental, social, or governance data which is difficult to obtain and incomplete, estimated, out of date or otherwise materially inaccurate. Even when identified, there can be no guarantee that these data will be correctly assessed.

When Lemanik delegates the portfolio management and asset allocation functions, for invested assets which are listed and quoted on a stock exchange, and where no non-financial data are made available, Lemanik ensures to notify the delegates and encourage them to reach out to the issuer or by using their voting rights to influence investee companies to voluntarily embed the principles of responsible business conduct into their operations, and take into account ESG risks in a transparent manner.

Regarding investee companies, rules have been set up. They apply exclusively to the Company's shareholdings in investee companies (i) which have their registered office in a European Union Member State and (ii) the shares of which are admitted to trading on a regulated market situated or operating within a European Union Member State.

Moreover, a materiality principle is applied since there is a limited ability for Lemanik to exercise significant influence on investee companies in those circumstances where its shareholding is not material, it is the policy of the Company NOT to integrate shareholder engagement in its investment strategy:

(i) either if the aggregate shareholding of the Company amounts to less than 3% of all outstanding shares of any investee company
(ii) or if the shareholding of one of the Funds in any investee company amounts to less than 8% of the said Fund's total net assets.

More details of our engagement policy are available at: http://lux.lemanikgroup.com/corporate#policies-voting-rights

7. Business conduct codes and standards for due diligence and reporting

Lemanik adheres to responsible business conduct codes for due diligence and reporting following the requirements of the CSSF.

Additionally, Lemanik has put in place several layers of reporting. It allows Lemanik to have a tailor-made communication from bottom to top management. In other words, the alignment of the management line is guaranteed:

- Weekly internal meetings: top risk management
- Bi-monthly reporting: reporting from risk management to executive committee
- Monthly/Every two months internal committees: compliance function, internal audit, risk management and managing director representatives align on risk management and valuation

- ESG Committees are organized on a quarterly basis
- Quarterly internal committees: same as monthly/every two months meeting, in addition new products implementation and supervision are discussed
- Quarterly management company: board of director meetings to align between top risk management function and board of director

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