



Disclosure on the implementation of the requirements of Article 4 (1) of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector regarding the transparency of adverse sustainability impacts at the level of Hauck & Aufhäuser Fund Services S.A.

1. Introduction

Hauck & Aufhäuser Fund Services S.A. (hereinafter “HAFS” or “investment fund manager – IFM”) is a management company authorized by the Luxembourg supervisory authority Commission de Surveillance du Secteur Financier (hereinafter “CSSF”) pursuant to Chapter 15 of the Luxembourg law of 17 December 2010 on undertakings for collective investment (hereinafter “UCI Law”) and is also authorised as an alternative investment fund manager pursuant to the Luxembourg law of 12 July 2013 on alternative investment fund managers (hereinafter “AIFM Law”).

Within the scope of its regulatory authorization, HAFS manages funds that qualify as undertakings for collective investment in transferable securities (“UCITS”) or alternative investment funds (“AIF”) (hereinafter mutually called “investment funds”).

1.1 Sustainability – related disclosures in the financial services sector

On 27 November 2019, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector (hereinafter “SFDR”) was published and entered into force on 10 March 2021.

The main objective of the SFDR is to create transparency on

- how sustainability risks are considered in the management of investment funds; and
- if principal adverse impacts of investment decisions on sustainability factors (“comply or explain”) are considered in the management of investment funds.

These transparency requirements apply in principle to both the IFM and the managed investment funds.

2. Purpose of this policy

This policy describes the decision of HAFS with respect to the requirements of article 4 (1) SFDR regarding the consideration of principal adverse impacts (hereinafter “PAIs”) of investment decisions on sustainability factors.

HAFS has chosen to consider principal adverse impacts of investment decisions on sustainability factors for the managed investment funds that are pursuing a sustainable investment strategy, respectively are allocating part of their portfolio in sustainable investments as defined by article 2 (17) SFDR.

Further the IFM is part of a large financial group as referred to in article 3 (7) of Directive 2013/34/EU. The reporting on principal adverse impacts of HAFS will be included in the consolidated reporting of Hauck Aufhäuser Lampe Privatbank AG, Frankfurt.

3. Governance of the policy

This policy will be reviewed and updated annually, and on an ad hoc basis in case of changes to its underlying basic principles, e.g. changes to the organizational structure of the IFM, in case of amendments to the regulatory framework governing this policy or if otherwise deemed necessary.

HAFS expects to conclude its first review of this policy, before the Regulatory Technical Standards with regard to the content, methodologies and presentation of disclosures pursuant to article 2a (3), article 4 (6) and (7), article 8 (3), article 9 (5), article 10 (2) and article 11 (4) of the SFDR shall be applied.

4. Principal Adverse Impacts – Regulatory framework & context

4.1 Principal Adverse Impacts – context of the SFDR

Principal adverse impacts are to be understood as those impacts of investment decisions that result in negative effects on sustainability factors (recital 20 of the SFDR). The SFDR is requiring both, the IFM as well as the managed investment funds, in article 4 (1) respectively 7 of the SFDR to decide if PAIs are to be considered.

There are no further clarifications or definitions to be found in the SFDR with respect to the concept of principal adverse impacts.¹

4.2 Principal Adverse Impacts – link to sustainability factors and sustainability indicators

According to article 2 (24) SFDR sustainability factors mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. For each sustainability factor different underlying sustainability indicators can in principle be identified (e.g. carbon footprint, wage equality, compliance with the requirements of the General Data Protection Regulation, Regulation (EU) 2016/679).

The SFDR neither defines a mandatory list of sustainability indicators to be considered nor for which sustainability indicators principal adverse impacts are applicable.

4.3 Principal Adverse Impacts – link to sustainability risk

The SFDR establishes a link between the requirement to consider sustainability risks² in the investment decision-making process (article 3 SFDR) and the consideration of principal adverse impacts of investment decisions on sustainability factors (article 4 SFDR). Both concepts are based on the same foundation, i.e. the starting point in each case is the identification and consideration of relevant sustainability indicators.

In general, the identification and consideration of relevant sustainability indicators are inter alia dependent on the investment strategy as well as the geographical and sectoral focus of the managed investment funds. The monitoring of relevant sustainability indicators allows to establish a better and more informed understanding regarding the identification of (potential) sustainability risks. Further the assessment of certain sustainability indicators may be prioritized within the investment decision-making process to eliminate or at least mitigate sustainability risks..

4.4 Principal Adverse Impacts – relevant SFDR requirements for this policy

As of 10 March 2021, the SFDR imposes transparency requirements only on the IFM concerning the consideration of PAIs. The transparency requirements dictate that the IFM explains how PAIs are considered at IFM level. In case the IFM complies with article 4 (1) of the SFDR no further disclosure for the managed investment funds with respect to article 7 (2) SFDR is required.

¹ Further clarifications will be provided by the Regulatory Technical Standards with regard to the content, methodologies and presentation of disclosures pursuant to article 2a (3), article 4 (6) and (7), article 8 (3), article 9 (5), article 10 (2) and article 11 (4) of the SFDR. These Regulatory Technical Standards are expected to be applied as from 1 January 2022.

² Article 2 (22) of the SFDR defines sustainability risk as 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.

	Requirements	Level	Implementation
Art. 4 (1) (a) SFDR	Publication on the website where the IFM considers principal adverse impacts of investment decisions on sustainability factors and a statement on due diligence strategies with respect to those impacts, taking due account of the IFM's size, the nature and scale of the IFM's activities and the types of financial products it makes available.	IFM	Description in this policy
Art. 4 (2) SFDR	In the publication made in accordance with article 4 (1) (a) SFDR the IFM shall include at least the following: <ul style="list-style-type: none"> a) information about the strategies on the identification and prioritisation of principal adverse sustainability impacts and indicators; b) a description of the principal adverse sustainability impacts and of any actions in relation thereto taken or, where relevant, planned; c) brief summary of the engagement policy in accordance with Article 3g of the Shareholder Rights Directive II (Directive 2007/36/EC), where applicable; d) a reference to the adherence to responsible business conduct codes and internationally recognised standards for due diligence and reporting and, where relevant, the degree of the alignment with the objectives of the Paris Agreement. 	IFM	Description in this policy

5. Principal Adverse Impacts – Integration in the investment decision-making process

5.1 Principal Adverse Impacts – organisational setup of the portfolio management function

In its role as IFM, HAFS is principally responsible for performing the portfolio management function for the managed investment funds.

The organization of the portfolio management function of the investment funds can be structured as follows:

1. Portfolio management function is performed by the IFM itself (with or without the support of an investment advisor);
2. Portfolio management function is delegated to a qualified third party.

5.2 Principal Adverse Impacts – scope of application and current inherent limitations

The IFM considers principal adverse effects of investment decisions on sustainability factors.

The ability to consider principal adverse impacts depends substantially on the availability of relevant data and information for the invested assets. The availability and quality of relevant data and information for the systematic assessment of sustainability indicators and the consideration of principal adverse impacts is currently not deemed adequate for all asset classes in which the managed investment funds are exposed to.

The IFM will initially focus its consideration of principal adverse impacts of investment decisions on sustainability factors of managed investment funds that, according to their pre-contractual disclosures, pursue sustainable investment strategies. Bespoke funds can either qualify

- as article 9 funds under the SFDR (pursuing a sustainable investment strategy); or
- as article 8 funds under the SFDR and are allocating part of their portfolio in sustainable investments as defined by article 2 (17) SFDR.

HAFS will regularly reassess the availability and quality of relevant data and information with the aim to expand the consideration of principal adverse impacts.

5.3 Principal Adverse Impacts – Identification and prioritisation of Principal Adverse Impacts

As outlined in sections 4.2 and 4.3 of this policy, the identification and prioritisation of principal adverse impacts of investment decisions on sustainability factors require the consideration of various elements and are determined by the following factors:

	Factor (non-exhaustive)	Relevant element (non-exhaustive)
Identification & prioritisation of PAIs	Regulatory minimum requirements	SFDR
		EU Taxonomy Regulation (EU) 2020/852
	Investment strategy	Asset classes
		Listed assets vs. unlisted assets
		Geographical focus
		Sectoral investment focus
	SFDR classification	Qualification of the investment fund under article 9 SFDR
		Qualification of part of the portfolio to sustainable investments as defined by article 2 (17) SFDR
	Sustainability strategy (taking into consideration the investment strategy and SFDR classification)	Description of the sustainability strategy ³
		Identification of relevant sustainability indicators to be considered in the investment decision-making process
		Prioritisation of sustainability indicators that are essential to the delivery of the sustainability strategy
		Definition of relevant limits for the relevant sustainability indicators
		Definition of the binding elements of the sustainability strategy in the investment decision-making process
Quantitative or qualitative assessment of the relevant sustainability indicators		
Disclosure	Integration in the pre-contractual and website disclosures (article 8, 9, 10 SFDR)	

³ i.e. focus of the strategy on defined environmental and/or social aspects provided that good governance practices are adhered to.

For the identification and prioritization of relevant sustainability indicators, the portfolio manager is considering different external sources (e.g. data provider, materiality map provided by the Sustainability Accounting Standards Board) during the investment management due diligence process. Based on this assessment, the relevant sustainability indicators that are identified as material for the delivery of the sustainability strategy are prioritized and in accordance with SFDR provisions reflected in the pre-contractual and website disclosures as per article 8 and 9 SFDR respectively article 10 SFDR.

Relevant sustainability indicators that can be taken into consideration may include greenhouse gas emissions, energy consumption from non-renewable sources, violations of the UN Global Compact principles or considerations of convictions and fines for the violation of anti-corruption and anti-bribery laws.

5.4 Principal Adverse Impacts – description of the principle adverse sustainability impacts and of any related actions taken or planned

The requirement to consider principal adverse impacts of investment decisions on sustainability factors applies as of 10 March 2021. Potentially related actions will be based on the results and the assessment of the first full reporting period

5.5 Principal Adverse Impacts – engagement policy

HAFS has published its engagement policy in accordance with the requirements of article 3g of Directive 2007/36/EC (Shareholder Rights Directive II) on its website.

5.6 Principal Adverse Impacts – compliance with corporate governance, due diligence and reporting requirements

The IFM is authorized and supervised by the CSSF and thus is subject to substantial regulatory provisions (EU, Luxembourg, CSSF) which in detail address the requirements of business conduct, due diligence and reporting.