

SUSTAINABLE INVESTMENT POLICY

1. Introduction

The Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) lays down harmonised transparency rules for financial market participants on how to integrate environmental, social and good governance factors into investment decisions and financial advice and on their overall and product-related sustainability ambition.

SFDR distinguishes disclosure requirements for:

- financial products that claim to have ‘Sustainable Investment’ as their objective (in the case of environmental objectives these are often referred to as ‘dark green’ financial products). The transparency required for these products is described in Article 9 of the Disclosure Regulation. The European Commission has indicated that Article 9 funds should have 100% exposure to “Sustainable Investments”;
- financial products that claim to be promoting social or environmental characteristics (often referred to as ‘light green’ financial products). The transparency required for these products is described in Article 8 of the Disclosure Regulation.

2. Definition of Sustainable Investment

A “Sustainable Investment” is understood within the context of the broader legislative framework regulating sustainable finance as an investment through which a positive contribution may be achieved. The European Commission clarified that the SFDR does not set out minimum requirements that qualify concepts such as contribution, do no significant harm, or good governance. Financial market participants must carry out their own assessment for each investment and disclose underlying assumptions.

Sustainable Investment is a judgment call for each market participant and hence there is a potential for natural disagreements in the outcome of the analysis between financial market participants. A financial product having Sustainable Investment as its objective must only invest in “Sustainable Investments” except for cash and hedging derivatives.

The SFDR defines sustainable investment as:

- an investment in an economic activity that contributes to an environmental or social objective;
- the investment does not significantly harm any environmental or social objective; and
- investee companies follow good governance practices in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

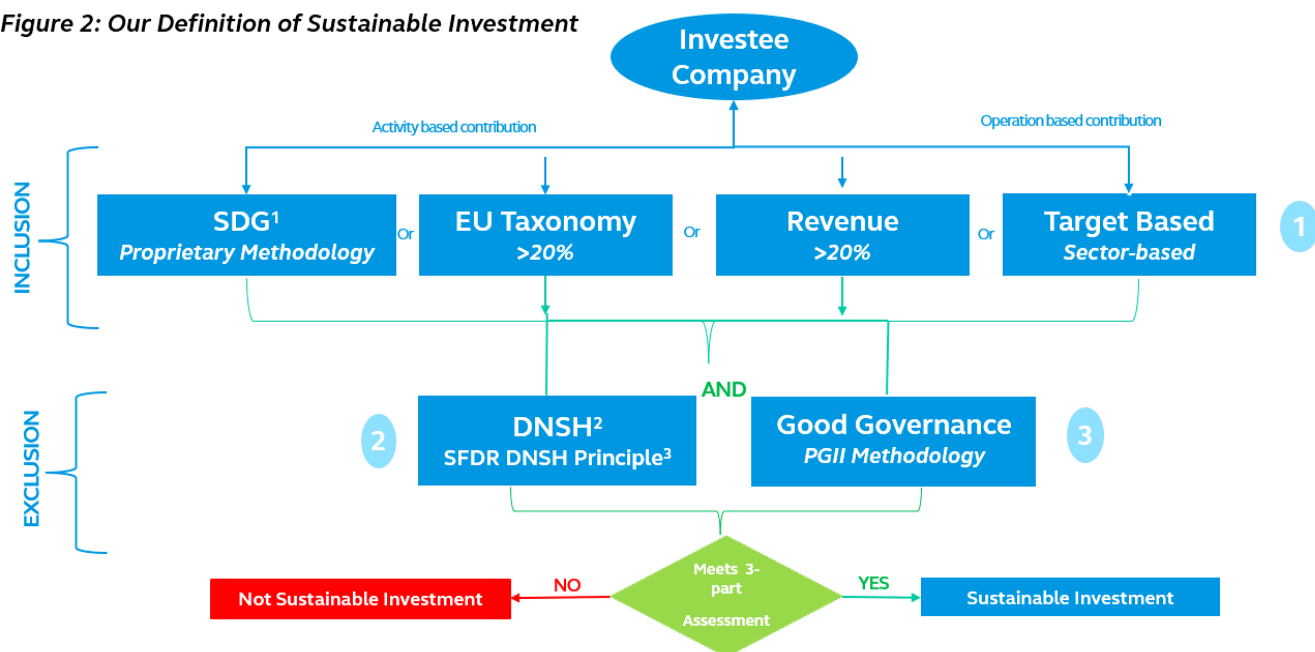
Figure 1: SFDR Definition Guidance



3. Identification of A Sustainable Investment

For funds that make sustainable investments, determination of sustainable investments is broken down into a three-part assessment and it is necessary for an investment to meet all three parts of this test to be considered a Sustainable Investment.

Figure 2: Our Definition of Sustainable Investment



¹ Sustainable Development Goals ² Do No Significant Harm ³ SFDR DNSH principle consists in taking into account the mandatory Principal Adverse Impacts and complying with the Minimum Safeguards Requirement (OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business & Human Rights).

4. Identification Of Contribution to an Environmental or Social Objective

An investment must meet at least **one of the following** criteria described below in order to be considered as contributing to an environmental or social objective.

4.1.SDG Alignment

The United Nations Sustainable Development Goals (UN SDGs) build on decades of work by countries and the UN with the objective to promote sustainable development, to improve human lives and protect the environment and hence set out a holistic approach and areas of focus.

An investment is considered sustainable if it has more than 20% of the investee company's:

- revenue is attributable to products and/or services contributing to SDG objectives, and/or
- Capital Expenditure (CapEx) is attributable to contributing to SDG objectives, and/or
- Operational Expenditure (OpEx) is attributable to for maintaining or improving SDG, and/or
- business activity is aligned with the focus SDGs of the Fund

4.2.Revenue Alignment

An investee company will be considered sustainable if more than 20% of its revenues is attributable to the environmental or social objective. In order to classify securities as being

aligned, a % threshold needs to be set for the minimum % of economic activities of a company before it is considered aligned. Principal sets a minimum % revenue threshold of 20%. This level has been chosen for the following reasons:

- *Regulators tend to accept 20% as an exposure above which it is considered material.*
- *Several sustainability labels require an excess of 20% in order to consider exposures to be material.*

4.3. Taxonomy Alignment

The EU taxonomy is a classification system, establishing a list of environmentally sustainable economic activities. The Taxonomy Regulation establishes six environmental objectives - climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control and the protection and restoration of biodiversity and ecosystems. All six environmental objectives have been properly defined in technical guidelines as of summer 2023.

In order to classify securities as being taxonomy aligned, a % threshold needs to be set for the minimum % of economic activities of an investee company before it is considered aligned. An investee company considered sustainable is set at a minimum % revenue and/or CapEx or OpEx or turnover threshold of 20%. Once the challenges associated with the classification of an activity as aligned with the taxonomy are less complex and finding non estimated data is worked upon with vendors, we shall develop a taxonomy alignment calculation methodology.

4.4. Target Based

The alignment of investee companies with the objective of maintaining the global temperature rise is becoming a key priority for asset owners, distributors and asset managers alike. Investee companies in high GHG emission sectors (materials, energy, industrials, utilities, etc) that are transitioning their business models to align with net zero (implied temperature rise <1.5°C) are considered to be contributing to an environmental objective and therefore part of Sustainable Investment definition.

5. DNSH Check

Once an investee company have been identified as making a positive contribution, the regulation requires an assessment that the investee company does not significantly harm (DNSH) any other environmental or social objectives. Therefore, investee companies go through a fundamental analysis as per below:

- i. Not significantly harm any other environmental or social objective: Since the use of principal adverse impact indicators is mandatory to demonstrate that an investment qualifies as a sustainable investment, Principal Ireland funds demonstrate DNSH through measurement of PAI indicators. The PAI indicators used are the mandatory ones in Table 1 of Annex 1 and any relevant indicators to each Fund in Tables 2 and 3 of Annex I.
- ii. DNSH is also demonstrated by evaluating whether investments meet minimum safeguard by screening against norms-based principles such as OECD (Organisation for Economic Co-operation and Development) Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the

International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

Investment Managers have the ability to override these negative indicators for DNSH in certain circumstances based on further qualitative review. In case of lack of data, fundamental analysis will be undertaken to allow us to assess the DNSH criteria.

While the definition of sustainable investments in the SFDR is linked to economic activities, the assessment is at an investee entity level, and therefore not at economic activity level. This means that if there are issues with DNSH (or Good Governance), it applies to the whole company, rather than assessing DNSH by individual economic activity like in the case of the EU Taxonomy.

6. Good Governance Check

Once an investee company has been identified as making a positive contribution, the regulation requires an assessment that the investee company follows good governance practices. The investee company should follow good governance practices with respect to sound management structures, employee relations, remuneration of staff and tax compliance. This would entail consideration of management indicators on the specific governance items, such as policies and management practices around bribery and corruption, board independence, staff remuneration and so on, as well as relevant controversies on governance-related topics and this is achieved by the investee company being compliant with the ten principles of the UN Global Compact and is not on the non-compliance list.

Where assessment (through third party data vendor) identifies potential issues with regards to good governance of an investee company and the Investment Manager agrees with the assessment, the Investment Manager must review the investee company to ensure that the investee company has either taken remediation actions or will take remedial actions within a reasonable time frame based on the Investment Manager's direct engagement with the investee company.

Good governance practices do not apply in case of investments in government bonds.

7. Regulatory Sources

- i. Sustainable Finance Disclosure Regulation - <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088>
- ii. Taxonomy Regulation - <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852>
- iii. European Commission Clarification - <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX%3A52023XC0616%2801%29>

8. Governance

The PGII Board has delegated the execution of the Policy to the management function Regulatory Compliance and Investment Management Oversight.

The Policy will be reviewed and updated at least annually.

Additional Terms and Definitions:

- i. ESG: Environmental, Social and Governance.
- ii. PAI: Principal Adverse Impact indicators
- iii. SFDR: Sustainable Finance Disclosure Regulation
- iv. Environmental Objective: as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy.
- v. Social Objective: an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities.
- vi. PRI - Principles for Responsible Investment

Disclaimer

This policy is applicable to the who fall under the scope of SFDR within PGI Ireland. We are actively working to include in our methodology across Fund of Funds non-listed assets, as well as derivatives and sovereigns.

The investments in the funds are subject to market fluctuations and the risks inherent in investments in securities. The value of investments and the income they generate may go down as well as up and it is possible that investors will not recover their initial outlay, the funds described being at risk of capital loss. For a Complete description and definition of risks, please consult the last available prospectus and KIID of the funds.

About SFDR Categorisations:

- I. "Article 6" products either integrate environmental, social and governance (ESG) risk considerations into the investment decision-making process or explain why sustainability risk is not relevant, but do not meet the additional criteria of Article 8 or Article 9 strategies.
- II. "Article 8" products promote social and/or environmental characteristics. These may invest in sustainable investments but do not have sustainable investing as a core objective.
- III. "Article 9" products have a sustainable investment objective.