

SFDR Annex - Environmental and/or social characteristics

SFDR ANNEX II Template pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Product name: Discretionary management via Merclan Bond Fund

Legal entity identifier: 724500D8WOYCL1BUCB80

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?	
<input checked="" type="radio"/> <input checked="" type="radio"/> <input type="checkbox"/> Yes	<input checked="" type="radio"/> <input type="radio"/> <input checked="" type="checkbox"/> No
<input type="checkbox"/> It will make a minimum of sustainable investments with an environmental objective: ___% <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> It will make a minimum of sustainable investments with a social objective: ___%	<input type="checkbox"/> It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ___% of sustainable investments <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> with a social objective <input checked="" type="checkbox"/> It promotes E/S characteristics, but will not make any sustainable investments



What environmental and/or social characteristics are promoted by this financial product?

The financial product promotes **environmental characteristics** related to **climate change mitigation and climate change adaptation** by avoiding exposure to:

- x Mining coal for electricity generation and selling it;
- x The unconventional oil & gas extraction;
- x Electricity production by companies that do not have an SBTi. SBTi are science-based targets that provide thorough analysis of emissions and reduction plans.

No specific sustainability index has been designated as a reference benchmark for the purpose of attaining the above environmental characteristics.

The financial product promotes the **social characteristics** related to **ethical values and a healthier and safer world** by avoiding exposure to:

- x Companies with a 'fail' status on the UN Global Compact or that violate the OECD Guidelines for Multinational Enterprises;
- x Companies with a red flag for controversy;

- x Tobacco;
- x All types of weapons: controversial weapons, nuclear weapons, (un)conventional weapons and civilian weapons;
- x Pornography.

No specific sustainability index has been designated as a reference benchmark for the purpose of attaining the above social characteristics.

Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

● **What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?**

The following sustainability indicators are used for the purpose of measuring attainment of the respective environmental and social characteristics:

Environmental sustainability indicators:

- x **Exposure to companies in the fossil fuel industry** is used because this indicator is closely related to the ecological characteristics that the financial product promotes. Moreover, such companies run the risk of stranded assets. It is not grounds for complete exclusion if companies are active in the fossil fuel industry, but a reduced allocation to these companies is being pursued to limit this risk.

Social and governance sustainability indicators:

- x Exclude companies that **violate UNGC principles and OECD Guidelines;**
- x Exposure to **controversial weapons** (anti-personnel mines, cluster munitions, chemical weapons and biological weapons).

Firm level exclusions:

- x Companies with a 'fail' status on the **UN Global Compact**
- x Companies that violate the **OECD Guidelines for Multinational Enterprises**
- x Companies with a **red flag for controversy**
- x Turnover from **tobacco production** >0%, distribution > 5%, services >20%
- x Turnover from **thermal carbon** >5%
- x Turnover from **unconventional oil & gas extraction** >5%
- x Turnover from **controversial weapons** >0%
- x Turnover from **nuclear weapons** >0%
- x Turnover from **conventional arms** >5%
- x Turnover from **civilian arms** >5%
- x Turnover from **pornography** >5%
- x **Electricity producing companies without SBTi**

● **What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?**

Not applicable

● **How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?**

Not applicable

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

How have the indicators for adverse impacts on sustainability factors been taken into account?

Not applicable

How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

Not applicable

The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.



Does this financial product consider principal adverse impacts on sustainability factors?

- Yes, _____
- No

The financial product considers principal adverse impacts on sustainability factors through the specific sustainability indicators it uses to assess the extent to which its (proposed) investments contribute to the environmental and social characteristics it promotes, which include principal adverse impact indicators. These indicators are embedded in the financial product’s ESG investment process, which is based on the following ‘pillars’: negative screening and norms-based screening. The due diligence and monitoring of the financial product includes from Annex 1 table 1, the PAI (Principal Adverse Impact Indicator) 4 on exposure to the fossil fuel sector, PAI 10 on violations of the principles of the UN Global Compact or of the OECD guidelines for multinational companies on social and human resources issues and PAI 14 on exposure to controversial weapons.



What investment strategy does this financial product follow?

The v will mainly invest in euro bonds of companies with an investment grade rating. Up to a maximum of 25% may be invested in bonds with a rating lower than BBB- or without a rating. The ESG process is based on the following pillars: negative screening and norms-based screening.

What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?

Exclusion & Avoidance:

Exclusion and Avoidance is about avoiding harm, i.e. not investing in companies associated with controversial activities, including certain key adverse effects. The financial product excludes companies based on negative and norm-based screening.

Norms-based screening:

Excluded by the norms-based screening:

- x Companies with a 'fail' status on the UN Global Compact
- x Companies that violate the OECD Guidelines for Multinational Enterprises

Negative screening:

The financial product applies negative screening. It promotes the prevention of serious harm by excluding products or activities believed to be too harmful to people or the planet:

- x Companies with a **red flag for controversy**
- x Turnover from **tobacco** production >0%, distribution >5%, services >20%
- x Turnover from **thermal carbon** >5%
- x Turnover from **unconventional oil & gas extraction** >5%
- x Turnover from **controversial weapons** >0%
- x Turnover from **nuclear weapons** >0%

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

x	Turnover from conventional arms	>5%
x	Turnover from civilian arms	>5%
x	Turnover from pornography	>5%
x	Electricity producing companies without SBTi	

● **What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?**

Not applicable

● **What is the policy to assess good governance practices of the investee companies?**

Good governance includes the presence of good: management structures, relations with employees and remuneration of the personnel involved. Compliance with tax legislation is also part of good governance.

We do not invest in: companies with a 'fail' status on the UN Global Compact, companies that violate the OECD Guidelines for Multinational Enterprises or in companies with a red flag for controversy. In this way, companies with bad good governance practices are avoided.

Good governance practices include sound management structures, employee relations, remuneration of staff and tax compliance.



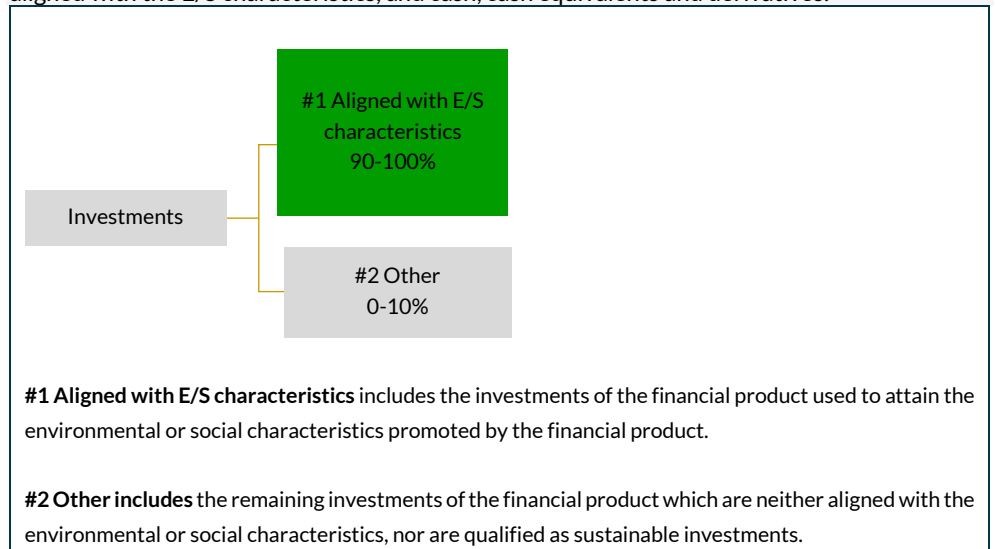
Asset allocation describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

What is the asset allocation planned for this financial product?

At least 90% of the investments of the financial product are aligned with the E/S characteristics. The investments in the category 'Other', estimated between 0-10%, include investments not aligned with the E/S characteristics, and cash, cash equivalents and derivatives.



● **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

Not applicable, the financial product doesn't use derivatives.

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.



Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

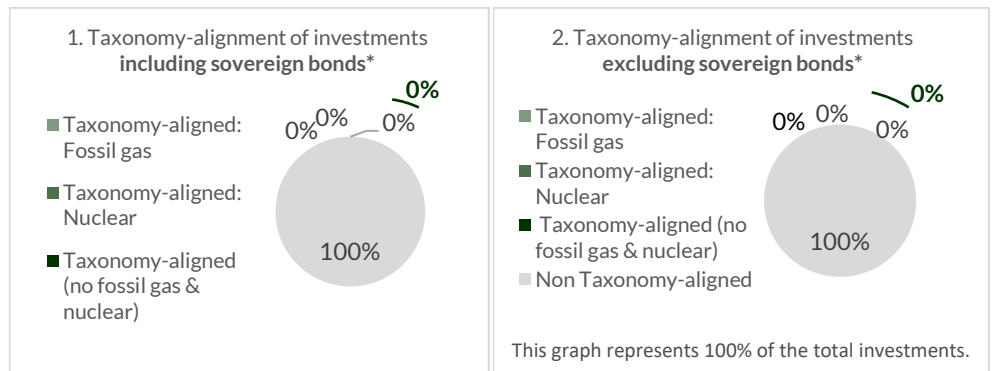
To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

0%

Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy ¹?

Yes
 in fossil gas in nuclear energy
 No

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.



*For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

What is the minimum share of investments in transitional and enabling activities?

0%

What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

0%

What is the minimum share of socially sustainable investments?

0%

What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?

The “#2 Other” category may consist of investments held for liquidity (ancillary liquid assets) and/or rebalancing purposes. No minimum environmental or social safeguards will be in place in relation to such holdings.

Where can I find more product specific information online?

More product specific information can be found in the ESG Policy & Process document on the website: www.vanlanschotkempen.com/investment-management by selecting the financial product and accessing the ESG Information section and on the website of the investment manager www.merciervanlanshot.be.

are sustainable investments with an environmental objective that do not take into account the criteria for environmentally sustainable economic activities under the EU Taxonomy.



¹ Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do not significantly harm any EU Taxonomy objective - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.



INVESTMENT MANAGEMENT

Beethovenstraat 300
1077 WZ Amsterdam
P.O. Box 75666
1070 AR Amsterdam

T +31 20 348 80 00
vanlanschotkempen.com/investment-management