## SFDR ANNEX

**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.

**Product name:**
**RQI Global Diversified Alpha Fund**

**Legal entity identifier:**
2549000SCT1EHSSKVD75

# Environmental and/or social characteristics

**Does this financial product have a sustainable investment objective?**

●● ☐ **Yes**

●○ ☒ **No**

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 lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

☐ It will make a minimum of **sustainable investments with an environmental objective: %**

- ☐ In economic activities that qualify as environmentally sustainable under the EU Taxonomy
- ☐ In economic activities that do not qualify as environmentally sustainable under the EU Taxonomy.

☐ It will make a minimum of **sustainable investments with a social objective: %**

☐ 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

- ☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
- ☐ With an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
- ☐ With a social objective

☒ It promotes E/S characteristics, but **will not make any sustainable investments**

**Sustainability indicators** measure **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.

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

The environmental characteristics promoted by the Fund are: carbon intensity no greater than that of the Fund's benchmark (as measured by total scope 1 and 2 carbon/sales); fossil fuel exposure, and oil sands exposure.

The social characteristics promoted by the Fund are: exclusions of certain activities with adverse social impacts such as tobacco and controversial weapons.

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

| Environmental Indicators | |
|---|---|
| Carbon Intensity | Scope 1, and 2 GHG emissions/sales |
| Fossil fuel exposure | Thermal Coal revenues |
| Oil Sands exposures | Oil Sands mining extraction |
| Social Indicators | |
| Adverse social impacts | No companies which primarily operate in the tobacco industry |
| Human rights | No companies that are involved in the production or development of cluster munitions, anti-personnel mines, biological weapons, chemical weapons or depleted uranium munitions |
| | |

***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.

*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 no 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 main 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,**



**What investment strategy does this financial product follow?**

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

The Investment Manager seeks to produce risk-adjusted returns and aims to outperform the MSCI All Country World Index. A quantitative (or systematic) strategy is utilised, whilst incorporating the Investment Manager's awareness of Environmental, Social and Governance ("ESG") issues. The quantitative strategy utilises a diverse range of Signals assessed against short, medium and long-term time horizons, along with ESG screens and a carbon intensity overlay.

The Investment Manager believes that markets are not perfectly efficient, meaning that there may be mispricing of companies. As a result of this mispricing, the Investment Manager applies a mathematical model-based approach to identify mispriced companies. To determine the weight of a position selected for the portfolio, the Investment Manager considers Value Signals (cheap companies may outperform expensive stocks), Momentum Signals (companies with strong price momentum may outperform companies with low price momentum) and Quality Signals (low quality companies may underperform).

The Investment Manager believes that acting on the above Signals can potentially lead to returns above that of the market over a long term time horizon.

Key ESG factors are embedded across the strategy, informing the Investment Manager's investment views, the risks of those views, and the final positions taken in the portfolio. The portfolio is constructed to align with the characteristics promoted by the Investment Manager relating to carbon intensity, thermal coal and oil sands exposures, and a negative screen applied on stocks involved in controversial munitions and the tobacco industry. This takes the form of:

i. ESG Signals: As noted above, and in addition to the other mispricing Signals, the ESG Signals considered by the Investment Manager will include the following:

   a) Within its scoring of management quality, the Investment Manager incorporates a governance metric comprising a proprietary selection of the most material governance indicators;

   b) Carbon intensity is measured (Scope 1 and Scope 2 $CO_2$-equivalent emissions in tonnes per million dollars of sales) and change in carbon intensity is used as an indicator of a company's productivity via their management of variable inputs;

   c) Gender diversity across both board and management, as empirical research by the Investment Manager demonstrates that more diverse teams result in greater profitability to a company.

Each stock is scored against each Signal and the score will impact the final weight of the stock within the portfolio.

ii. ESG screens and exclusions: The Investment Manager excludes (a) companies whose primary business is the manufacture of tobacco products, (b) companies involved in the manufacture of certain types of controversial weapons (anti-personnel mines, cluster weapons, biological and chemical weapons, depleted uranium, certain nuclear weapons and white phosphorus munitions) (c) companies whose revenue from thermal coal production exceeds 10% of its overall revenue, and d) companies whose oil sands extraction exceeds 10% of its overall mining/extraction.

iii. Carbon intensity: The Fund will seek to maintain a maximum carbon intensity equal to 100% of the Benchmark's carbon intensity, by reducing (including to zero) exposure to companies with relatively higher carbon intensity.

In determining the final composition of the portfolio, the Investment Manager considers a number of different factors including the Signal score assigned to each stock, a risk model, the ESG screens and exclusions, the carbon intensity (as described above) and trading costs. These are combined using an

optimisation process that seeks to maximise exposure to the Signals whilst maintaining risk tolerances, minimising trading costs and satisfying all exclusions and constraints. The aim of doing so is to achieve a portfolio that transfers the greatest extent of the mispricing Signals into the final portfolio.

The Investment Manager will engage with companies where the Investment Manager is of the view that the investee company is not making sufficient progress on the environmental and social characteristics promoted by the Fund.

- ***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?***

  The Fund supports and monitors the global transition to net zero emissions in line with the goals of the Paris Climate Agreement. The Investment Manager expects investee companies to be prepared for the transition to a low carbon economy and to be transparent about their strategies and processes to achieve this outcome. As such, the Investment Manager will engage with companies where the Investment Manager is of a view that the investee company is not making sufficient progress on climate related issues. Our full climate statement can be found here

https://www.firstsentierinvestors.com.au/au/en/institutional/our-funds/realindex-investments/responsible-investment.html

The following are binding elements of the investment strategy for the Fund:

**Greenhouse gas emissions** – The fund seeks to maintain a maximum carbon intensity of the fund equal to 100% of the benchmark's carbon intensity. This is measured at each rebalance.

**Coal** – the Fund does not invest in companies whose thermal coal revenue exceeds 10% of overall revenue.

Oil Sands - the Fund does not invest in companies whose oil sands extraction exceeds 10% of its overall mining/extraction.

Human health - tobacco – the Fund does not invest in companies whose primary business is the manufacture of cigarettes and other tobacco products.

**Human rights** – controversial weapons – the Fund does not invest in companies that are involved in the production or development of certain types of controversial weapons (anti-personnel mines, cluster weapons, biological and chemical weapons, depleted uranium, certain nuclear weapons and white phosphorus munitions).

Companies held by the Fund are subject to ongoing monitoring using the Investment Manager's exclusion policy, threshold limit checks, and bottom up research performed by the Investment Manager, augmented with information from external data providers.

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

  The Fund has no committed minimum rate by which the scope of investments are reduced prior to applying the Fund's investment strategy.

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

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

  The Investment Manager assesses and monitors investee companies relevant ESG risks including corporate governance risks, practices and issues as outlined in its Responsible Investment and Stewardship Policy. The Investment Manager adopts a principles-based assessment of good corporate governance practices which is guided by four governance pillars – Accountability, Independence, Transparency and Stewardship. Each pillar is described in the Responsible Investment and Stewardship Principles adopted by the Investment Manager's corporate group and are aligned with the broader stewardship approach taken by the Investment Manager. The Investment Manager applies a systemized and transparent rules based approach to assessing good governance practices. The considerations applied by the Investment Manager therefore include controversy flags and good management practices across ESG themes. These considerations and Aassessments of good governance may include, for example, taking into account indicators and assessment of good governance may include, for example, taking into account indicators such as ownership profile, board structure, board independence, and remuneration of staff. Where an escalation event or engagement trigger occurs and the Investment Manager is in a position to engage with a company's management and board, the Investment Manager will endeavour to engage with such company with a view to making clear any expectations or preferences for improvements in the company's corporate governance practices.

**What is the asset allocation planned for this financial product?**

The Fund invests primarily (at least 80% of its Net Asset Value) in a diverse portfolio of equity securities or equity-related securities which form part of the MSCI All Country World Index.

**Asset allocation** describes the share of investments in specific assets.




**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2 Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

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.

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

  The Fund may only use derivatives for purposes of hedging and efficient portfolio management. It is not intended that the Fund will use derivatives for investment purposes.

  - ***Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy1?***

    ☐ Yes

    ☐ In fossil gas ☐ In nuclear energy

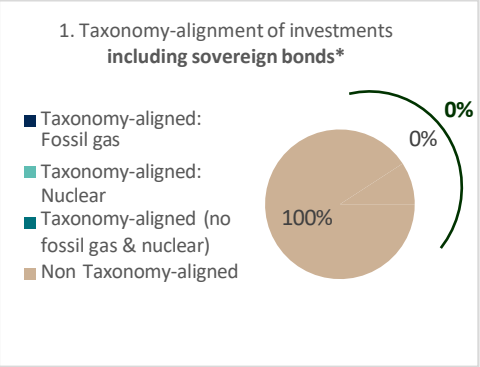
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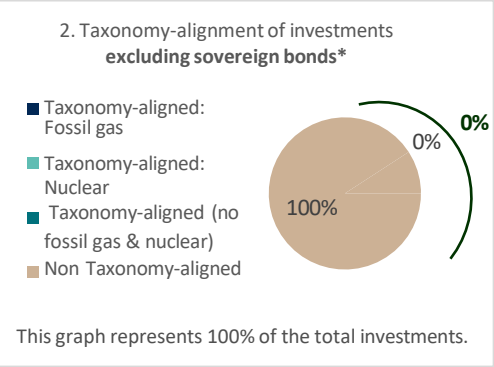
**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**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?**

*The two graphs below show in navy 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?***

Not Applicable.

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

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

Not Applicable.

**What is the minimum share of socially sustainable investments?**

Not Applicable.

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

The "#2 Other" assets are cash and near-cash assets held pending investment, to meet liquidity requirements, or assets held in order to allow efficient operational exit of positions. Cash is held by the depositary.

The Fund's service providers for these assets are reviewed and assessed for compliance with First Sentier Group's modern slavery policy.

**Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?**

Yes. The commitment to maintain carbon intensity no greater than the Fund's benchmark is measured with reference to the MSCI All Country World Index. The MSCI All Country World Index is not a benchmark which promotes E/S characteristics.

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

- ***How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?***

  Not applicable.

- ***How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?***

  Not applicable.

- ***How does the designated index differ from a relevant broad market index?***

  Not applicable.

- ***Where can the methodology used for the calculation of the designated index be found?***

  https://www.msci.com/index-methodology

**Where can I find more product specific information online?**

More product-specific information can be found on the website:

https://www.firstsentierinvestors.com/uk/en/institutional/responsible-investing/regulatory-disclosures.html