

# Bellevue Sustainable Entrepreneur Europe (Lux)

## EU SFDR Disclosure (2019/2088) Sustainability preferences (MiFID II)

May 2023

The following information summarizes the regulatory requirements of the EU Disclosure Regulation 2019/2088 (EU SFDR) and the sustainability preferences (MiFID II) with respect to individual funds and groups of funds summarized thereafter.

# Bellevue Sustainable Entrepreneur Europe (Lux)

## I Definition of ESG characteristics (EU SFDR)

### a) Summary

The investment strategy takes into account social, environmental as well as governance-related characteristics (ESG) as part of the implementation of its investment objectives, in accordance with the provisions of Article 8 of the EU Disclosure Regulation 2019/2088 (EU SFDR).

### b) No sustainable investment objective

The investment strategy takes into account social, environmental or governance-related characteristics, but does not pursue a sustainable investment objective. The fund invests to some extent in sustainable investments. While the adverse impacts on sustainability goals mentioned in Annex I of the RTS are not explicitly taken into account until the RTS is ratified, harmful ESG practices are evaluated by means of involvement in controversial business areas, ESG ratings, and by taking into account the standards of the UN Global Compact, the UN Guiding Principles for Business and Human Rights, and Conventions 1 and 2 of the International Labor Organization (ILO).

### c) Environmental or social characteristics of the fund

The fund takes into account social as well as environmental characteristics. These essentially comprise the following elements:

- 1) Exclusion of serious violations of global norms
- 2) Exclusion of very serious controversies
- 3) Value-based exclusions based on revenue thresholds
- 4) ESG integration with a focus on positive criteria – ESG Rating, ESG Rating Trend and Low Carbon Transition (LCT)
- 5) ESG stewardship through constructive corporate dialogue (engagement) and the exercise of voting rights (proxy voting)

### d) Investment strategy

The investment objective of the fund is to achieve long-term capital growth by investing in equities and other equity securities. In doing so, the sustainability characteristics described under c) are taken into account as follows:

Serious violations of global standards in the areas of the environment, human rights and ethical business practices are excluded. This is measured by compliance with the principles of the UN Global Compact Compliance, UN Guiding Principles for Business and Human Rights, and standards of the International Labor Organization.

Very serious controversies (category red, score = 0) according to MSCI ESG Research data are excluded. A controversy is defined as an incident or an ongoing situation where a company's business activities and/or products are claimed to have a negative impact on the environment, on society and/or the company's corporate governance. Controversies are rated by MSCI ESG on a scale from 0 to 10 depending on the severity of their consequences. This scale groups controversies into the categories of very severe, severe, moderate and minor.

In contrast to exclusions based on violations of global standards, value-based exclusions are based on social, ethical and moral views. Percentages of sales per business segment are defined which a company must not exceed in controversial business areas such as conventional

weapons, thermal coal or tobacco production. Issuers whose annual sales exceed the defined tolerance limits are excluded.

In addition, Bellevue Asset Management AG (hereinafter "BAM") follows an "ESG integration approach" in its investment process with the sub-aspects environment ("E" for Environment), social ("S" for Social) and good governance ("G" for Governance).

Further information on the application of its sustainability approach can be found here: <https://www.bellevue.ch/ch-en/private/esg/sustainability>

The investment process of the Bellevue Sustainable Entrepreneur Europe (Lux) Fund takes MSCI ESG Research's ESG ratings, ESG rating trends and low carbon transition scores into account in this context.

#### e) Proportion of investments

In principle, BAM aims to invest the entire assets of the above-mentioned funds in a sustainable manner. However, as there is not yet a sufficient amount of data available in every asset class and some companies do not yet have an ESG rating, a minimum percentage allocation to investments with sustainable characteristics of 75% is defined. Investments that do not fully meet the criteria of BAM's ESG integration approach are allocated a maximum permissible residual share (25%).

The use of own target funds that comply with BAM's sustainability policy is permitted. The selection of sustainable target funds from third parties also takes into account sustainability aspects. For each target fund, BAM reviews the sustainability approach of the respective provider and its implementation in the respective target fund. The following criteria are assessed:

- Does the asset manager apply exclusion criteria?
- Does the asset manager have one of the following sustainable investment approaches: ESG integration, best-in-class, sustainable thematic investments (themes) or impact investing?
- Does the target fund have a minimum MSCI ESG fund rating of BB?
- Does the provider have a voting policy that incorporates ESG criteria?

A target fund must meet at least half of the required criteria to be rated as an investment with sustainable characteristics by BAM. If a target fund does not meet the aforementioned criteria, it must be classified under the residual quota.

For a derivative with one underlying instrument, the underlying instrument as well as the issuer must meet the asset manager's criteria for an investment with sustainable characteristics as described above. Otherwise, it is allocated to the portion of the assets that is classified under the residual quota.

For a derivative with several underlying instruments (e.g. index, basket), the underlying instruments of the derivative on average as well as the issuer must meet the asset manager's criteria for an investment with sustainable characteristics as described above. Otherwise, it is allocated to the portion of the assets that is classified under the residual quota.

The Bellevue Sustainable Entrepreneur Europe (Lux) Fund was awarded the FNG Label. The minimum requirements of the FNG Label must be met at all times. Further information can be found at: <https://fng-siegel.org/kriterien/>.

#### f) Monitoring of environmental or social characteristics

The ESG characteristics mentioned are recorded and documented at least on a quarterly basis. Compliance with the specifications with regards to the global standards as well as the value-

based exclusions is checked by Bellevue Risk Management. Exposure regarding value-based controversial business areas, potential/assumed ESG laggards (MSCI ESG rating CCC or B), as well as current engagement and voting activities are discussed with the portfolio management teams during internal reviews. A quarterly summary of key ESG characteristics of the individual funds is provided to the Executive Board of Bellevue Asset Management AG as well as to the Board of Directors of Bellevue Group.

#### g) Methodology

##### Global norms

Compliance with the given ESG characteristics is checked using various methodologies. Compliance with global standards, including compliance with the exclusion of controversial weapons, is measured against the standards and principles of the UN Global Compact, the UN Guiding Principles for Business and Human Rights, and Conventions 1 and 2 of the International Labour Organization (ILO). Based on assessments by leading ESG research providers (currently MSCI ESG), BAM maintains an exclusion list which is updated quarterly and approved by the Chief Compliance Officer.

##### Norms-based exclusions

Business areas that are controversial in terms of ethical and moral values are excluded if their sales exceed the tolerance limits for annual sales defined below:

Business area	Threshold
Controversial weapons	0%
Conventional weapons	5%
Uranium mining	5%
Nuclear power	5%
Thermal coal	5%
Fracking/oil sands	5%
Production of tobacco	5%
Sale of tobacco	20%
Adult entertainment	5%
Gambling	5%
Palm oil	5%

##### ESG integration

BAM uses the following three issuer-specific elements as the basis for integrating sustainable policy criteria into its investment decision process:

##### ESG rating

ESG ratings are based primarily on data from third-party providers (currently MSCI ESG Research Inc.) and they are derived from various sub-scores. A company's ESG ratings may be better or worse than the average for its industry peers, which can be an indication of weakness or strength regarding the respective sustainability criteria. In the event of a weak reading, BAM will apply its own fundamental research to determine whether there is a good reason for the below-average scores or whether the below-average scores can be traced to the absence of publicly available information or to endogenous shortcomings of the given ESG methodology.

Most ESG rating methodologies are based on a rigidly defined systematic approach that does not always result in an objective or "fair" assessment of a company's overall ESG profile. In fact, such methods often systematically disadvantage start-ups and small cap companies relative to

large cap companies. A lack of manpower and experience in handling ESG issues can result in a company being underrated, and the rating methodology used might not be equally applicable to every company in a given sector.

BAM determines the ESG criteria it considers to be relevant (for example, measurement and disclosure of a company's environmental footprint, working conditions, employee training and development, product safety, board independence and board compensation) based, among other factors, on their relevance in relation to sustainability risks and opportunities. The ESG criteria are then holistically integrated into the stock selection process together with quantitative and qualitative inputs derived from its own fundamental research.

If BAM finds that there is a legitimate reason for an issuer's below-average score based on the sustainability criteria relevant to that issuer, its securities may be excluded from or underweighted in the fund's portfolio. The findings resulting from the ESG integration approach can lead to a constructive dialogue (engagement process) with the company's management to discuss the identified weaknesses in the field of ESG. If BAM discovers that there is not a legitimate reason for a below-average score based on the sustainability criteria relevant to that issuer, its own assessment will be juxtaposed with that of the external ESG provider and documented. In such cases, an investment in a purported ESG laggard with an ESG rating of B may be warranted. BAM may also invest in purported ESG laggards with B ratings if its in-house research reveals that their company management has rectified the identified weaknesses in the relevant sustainability criteria and that this action will likely have a positive impact on their ratings in future assessments by the external ESG provider. Companies with CCC ratings are excluded from the Bellevue Sustainable Entrepreneur Europe (Lux) Fund's investment universe.

The evaluation of good corporate governance practices, such as viable management structures, employee relations, and compensation models, is included in the overall assessment of ESG ratings as well as in conjunction with global standards. As an active, fundamentals-oriented asset manager, good corporate governance is also an integral part of its company analyses.

Please visit: [www.msci.com](http://www.msci.com) or search for MSCI ESG metrics calculation methodology for more information on MSCI ESG ratings methodology.

#### ESG rating trend

The ESG rating trend shows the ESG rating change from the prior period/assessment to the current period/assessment and a distinction is made between upgrades, neutral and downgrades. The ESG rating trend adds a dynamic element to BAM's ESG integration process and also permits investments to be made in purportedly weaker-rated companies (B ratings) that have a positive or at least a neutral rating trend. Companies that are still in the early stages of their corporate development, small-cap and even mid-cap companies are systematically disadvantaged by the typical rating methodologies relative to large companies. A lack of manpower and experience in ESG issues may result in a company being underrated. Another contributing factor is the application of a set of criteria dictated by the methodology that cannot be reliably applied to every company in a given sector.

#### Low-carbon transition

The 2018 United Nations Environment Program (UNEP) Emissions Gap Report confirmed that limiting global warming to 1.5 °C as set out in the Paris Agreement will necessitate unprecedented and urgent action accelerating the "low-carbon transition". Low-carbon transition refers to the necessary process by which the global economy transitions from high-carbon business operations and energy sources to low-carbon or zero-carbon operations and energy sources. In the event of a low-carbon transition, demand for carbon-intensive products would decline in favor of low-carbon/zero-carbon products, exposing carbon-intensive companies and industries (such as coal-fired power plants, coal mining, manufacturers of fossil-

fuel powered vehicles, etc.) to the risk of asset stranding. Such companies and industries would be potential laggards in the global transition to a low-carbon economy. Conversely, companies and industries whose products and business operations are well positioned for this transition (e.g., renewable energy companies, electric vehicle manufacturers, etc.), could be at the vanguard of the low-carbon transition and would likely experience increased demand for their products and services.

There could be shifts in demand within one industry, from one company to another (e.g. electric power producers), or from one industry to another industry (e.g. from coal miners to solar cell manufacturers), which could change the risk-return profile of the companies concerned. The methodology developed by MSCI ESG Research (Carbon Delta) is therefore designed to identify potential leaders and laggards not only within a specific industry, but also across industries.

The fund's investment team therefore uses low-carbon transition data from MSCI ESG Research and relies on its low-carbon transition categories. Companies classified in the category of "Asset Stranding" are excluded from the fund's investment universe. The other categories, product/operational transition, neutral, and solutions, and the associated LCT scores (0-10), are referenced when building and managing the fund's portfolio. A balanced mix is sought and companies with higher scores are preferred during the stock selection process.

In addition, the aggregated Scope 1 + 2 CO<sub>2</sub> intensity<sup>1</sup> of the fund and, if available, of the relevant benchmark is measured and published on a quarterly basis.

#### **h) Data sources and processing**

The fund uses various data sources to assess and measure ESG characteristics. Primarily, data from MSCI ESG Research is used as a basis for compliance with global norms and value-based controversial business areas. The same applies to the measurement of CO<sub>2</sub> intensities and the assessment of overall ESG ratings. Based on insights from our proprietary fundamental analysis, aggregated ESG ratings from external providers are assessed. In some cases, suspected ESG laggards are subject to additional analyses. Both our own analyses and the sustainability data made publicly available via Bloomberg (ESGD) are suitable for this purpose. The determination of an internally revised ESG rating does not take place due to a lack of external traceability. Information on the degree of coverage of external ESG research is published in the fund reporting.

#### **i) Limitations of the methodology and data**

The data sources used may be incomplete or may not lead to an appropriate assessment of the ESG characteristics described in all cases as a result of systematic weaknesses in the ESG methodology of third-party providers. For example, in the case of biotechnology companies, MSCI ESG heavily weights the "access to healthcare" criterion. Innovative biotech companies that are only at the research stage cannot, by definition, fulfill this criterion or can only do so inadequately and are thus systematically undervalued.

Isolated data gaps and any objective misjudgments resulting from weaknesses in the ESG rating methodologies are filled to the best of our knowledge and belief by our own assessments from fundamental stock analysis or by consulting other data sources and third-party providers (e.g. Bloomberg). Issuers without ESG research coverage are automatically allocated to the quota for which an assessment of the social or environmental characteristics cannot be made in full.

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<sup>1</sup> Scope 1 emissions: Direct emissions caused by a company's activities; Scope 2 emissions: The second group includes all emissions caused by the production of energy used by a company.

#### j) Due diligence

The due diligence of the portfolio and the processes described are part of Risk Management's area of responsibility. Control mechanisms for compliance with sustainability requirements are implemented in the portfolio management system. Further ESG risk reviews are part of the regular review meetings with the portfolio management team. The Compliance Office is responsible for the oversight and review of all compliance-related topics, in particular the issuance, monitoring and updating of sustainability-related directives, both at portfolio level and at corporate level. Relevant ESG issues are periodically discussed by representatives of Risk Management, Product/Sustainability Management and Compliance.

The Bellevue Sustainable Entrepreneur Europe (Lux) Fund has also been certified with the FNG Label. Compliance with the related requirements is reviewed within the scope of an annual audit process by independent consultants.

#### k) Engagement policy

Portfolio managers engage in an active and constructive dialogue with the management or other relevant representatives of the portfolio companies with regard to environmental, social and governance aspects. If there are indications of controversial sustainability aspects in the run-up to the company discussions, these are constructively raised with the company and progress (e.g. strategy, process adjustments, improvement of ESG rating) is documented over time. Furthermore, BAM represents the long-term interests of its investors by actively exercising its voting rights at the general meetings of portfolio companies through proxy voting.

#### l) Designated reference benchmark

Unless otherwise stated in the fund documents or on the website, a standard benchmark is used for the respective fund to measure relative performance. This standard benchmark is used as a reference value in the monthly factsheets and quarterly ESG reports.



## II Definition of sustainability preferences (MiFID II)

With the amendment of the MiFID II Directive as part of the implementation of the EU Action Plan Financing Sustainable Growth, the consultation of clients' sustainability preferences in investment advisory will become mandatory as of August 2, 2022. Financial instruments that may target (potential) clients with sustainability-related objectives according to Art. 9 (9) UA 1 MiFID II-DRL are required to apply one or more of the following three concepts:

- a) a financial instrument where the (potential) client determines that a minimum proportion is to be invested in environmentally sustainable investments within the meaning of the Taxonomy Regulation (Art. 2 No. 1);
- b) a financial instrument for which the (potential) client determines that a minimum proportion shall be invested in sustainable investments within the meaning of the Disclosure Regulation 2019/2088 (Art. 2 No. 17);
- c) a financial instrument where the main adverse impacts on sustainability factors ("PAI") are taken into account, whereby the qualitative or quantitative elements demonstrating this consideration are determined by the (potential) client.

### Sustainable investments within the meaning of the Disclosure Regulation (SFDR)

In its implementation, BAM applies the [concept b\)](#) of sustainable investments as defined in the Disclosure Regulation (SFDR), which entails the following requirements:

- ESG strategy with share of sustainable investments as defined by the SFDR, using specific percentages
- No severe violations of the UN Global Compact and democracy/human rights
- Product provider (BAM) takes into account recognized industry standard (UN PRI)

Art. 2 No. 17 of the Disclosure Regulation 2019/2088 defines a "Sustainable Investment" as an investment in an economic activity that contributes to the achievement of an environmental and/or a social objective while not significantly harming any of these objectives. Furthermore, the invested companies must apply practices of good corporate governance ("Good Governance").

For an investment to qualify as a "Sustainable Investment", BAM applies the 17 UN Sustainable Development Goals (SDGs). These sustainable development goals are general, universal goals for all UN member states, which were adopted in September 2015 as the successor to the Millennium Goals. All people in the world should be able to live in a fairer, more prosperous and more peaceful society by 2030. ESG research provider MSCI ESG measures the target contribution of companies to each of the SDGs and categorizes them as "Strongly Aligned", "Aligned", "Neutral", "Misaligned" and "Strongly Misaligned". As soon as there is a positive impact on at least one of the 17 SDGs ("Aligned" or "Strongly Aligned"), and one or more other SDGs are not negatively impacted at the same time ("Misaligned" or "Strongly Misaligned"), BAM assumes a positive alignment with a sustainable objective, i.e. these companies are added to the quota of "Sustainable Investments".

Investments are assigned to the "Sustainable Investment"-quota if, on the one hand, they exhibit a positive target contribution as described above and, on the other hand, they meet the sustainable investment characteristics described under I (including UN Global Compact compliance) which also ensures that good governance practices are applied.

BAM has been a signatory of the UN Principles for Responsible Investment (UN PRI) since August 20, 2019, and thus meets the required and globally recognized industry sustainability standard.



The minimum proportion of "Sustainable investments" for the Bellevue Sustainable Entrepreneur Europe (Lux) Fund is 50%.

Further information on MSCI ESG's SDG Alignment Methodology can be found on the following website: [www.msci.com](http://www.msci.com)

### Principle Adverse Impact Indicators ("PAI")

Furthermore, [concept c](#)), and thus the most important adverse sustainability impacts ("PAIs"), is applied. The consideration of adverse sustainability impacts is largely dependent on the availability of relevant information. Relevant data is not always available in sufficient quantity and quality for all assets in which Bellevue Asset Management invests. Consequently, the list of PAI indicators considered is continuously expanded depending on data availability and data quality.

In a first step, the PAI data is made available to the sustainability specialists from the product management team. Based on internal sustainability guidelines, experience values and differentiated views of sustainability developments and trends, they assess any outliers and then define the further procedure in connection with the PAI indicator concerned together with the responsible investment teams. Possible measures include regular monitoring, the exercise of voting rights on a designated agenda item at a general meeting, the initiation of an ESG engagement with the company, or the reduction or exit of the position. Prioritization is based, among other things, on the size of the position and relative comparative data with direct peer companies in the same industry.

The following table shows which mandatory and optional PAI indicators are currently taken into account. The applicable definitions of the individual indicators are listed in Annex 1 to the EU SFDR RTS Level 2 regulation.

Mandatory indicators				
PAI Nr.	Adverse Sustainability Indicator	Consideration within BAM ESG framework		Specific ESG or proxy criteria
		Exclusion list	MSCI ESG Rating	
1	GHG emissions		X	
2	Carbon footprint		X	
3	GHG intensity of investee companies			X
4	Exposure to companies active in fossil fuel sector*	X		
5	Share of non-renewable energy consumption and production			n.a. <sup>1)</sup>
6	Energy consumption intensity per high impact climate sector			n.a. <sup>1)</sup>
7	Activities negatively affecting biodiversity-sensitive areas			n.a. <sup>1)</sup>
8	Emissions to water			X
9	Hazardous waste and radioactive waste ratio			X
10	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	X		
11	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises			n.a. <sup>1)</sup>
12	Unadjusted gender pay gap			n.a. <sup>1)</sup>
13	Board gender diversity			n.a. <sup>1)</sup>
14	Exposure to controversial weapons	X		
Additional climate and other environment-related indicators				
4	Investments in companies without carbon emission reduction initiatives			X
Additional indicators for social and employee matters				
1	Investments in companies without workplace accident prevention policies			X

<sup>1)</sup> The PAIs indicated cannot be evaluated at present due to insufficient data quality or availability. The data situation is reassessed periodically.

PAI indicators No. 1 and No. 2 are taken into account as part of an issuer's overall ESG rating. Depending on the industry affiliation, the weighting or relevance of the individual indicator may vary. Companies with exposure to PAI indicators No. 4 (5% annual sales threshold), No. 10 (zero tolerance) and No. 14 (zero tolerance) are part of our quarterly updated exclusion list and are excluded from the investment universe. For the assessment of PAI indicators No. 3, No. 8 and No. 9 as well as for the additional PAI indicators in the area of environment (No. 4) and social affairs (No. 1), specific criteria provided for this purpose are applied. MSCI ESG research is used as a data source.

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