PAI Due Diligence Policy

SETANTA Asset Management

This document sets out the investment due diligence policy of **Setanta Asset Management Limited** (the "**Firm**"), in respect of the principal adverse impacts of our investment decisions on sustainability factors.

1. Introduction

The EU Sustainable Finance Disclosure Regulation ("**SFDR**") requires the Firm to make a "comply or explain" decision whether to consider the principal adverse impacts of our investment decisions on sustainability factors. The Firm has decided to comply with that regime.

"Sustainability factors" are defined in the SFDR as meaning environmental, social and employee matters, respect of human rights, and corruption and anti-bribery matters.

The Firm believes that it is incumbent on us as an investment manager to consider and monitor how companies we invest in operate with regard to all stakeholders as well as the environment. We recognise that companies that are aware of their effect on the environment are more likely to make a greater contribution to society. We believe that companies can play an important role in the wellbeing of society overall, as do governments and individuals. We also recognise that sustainability factors (environmental, social and governance ("ESG")) can impact the performance of investment portfolios.

This document sets out the Firm's investment due diligence policies in respect of the principal adverse impacts of our investment decisions on sustainability factors, as required by Article 4 SFDR. The policy applies to all investment professionals of the Firm, and applies in respect of all portfolio management services and UCITS management carried on by the Firm, but subject to the product-specific exceptions noted in section 3 of this policy.

For reference, the Firm maintains other policies and documentation related to sustainability, including:

- Responsible Investment Policy
- Engagement Policy
- Sustainability Risks Policy
- Conflicts of Interest Policy
- Voting Policy

In addition, the Firm is governed by the Irish Life Group Remuneration Policy which includes sustainability disclosures as required by Article 5 SFDR.

This policy applies as from 10 March 2021.

Article 4 of SFDR requires that regulatory technical standards will be published, to supplement the high-level requirements of Article 4. As at 10 March 2021, those regulatory technical standards have not yet come into force. As such, this policy adopts the approach of principles-based compliance with Article 4. This policy will need to be reviewed and updated once the regulatory technical standards are finalised[1].

[1] On 4 February 2021, the European Supervisory Authorities (the ESAs) published an updated draft version of the Regulatory Technical Standards (RTS). The RTS is expected to come into force on 1 January 2023.

2. Purpose of this policy

The Firm's investment professionals must apply the due diligence measures specified in this document, whenever they are making any investment decision, subject to the exceptions described below in section 3 of this policy. This is to enable the Firm to identify and prioritise principal adverse sustainability impacts and indicators. This policy approaches sustainability from the perspective of the harm that our investment positions might do externally to sustainability factors, and what steps we take to mitigate that harm.

For the purposes of SFDR, the regime around principal adverse impacts is not concerned with the risk that ESG events could impact on the value of our clients' investments. In other words, this policy covers "*values*" rather than "*value*". The impact of sustainability risks on our clients' investments is covered by the Firm's separate Sustainability Risks Policy.

3. Product-specific exceptions

The SFDR permits certain financial products not to comply with the firm-wide principal adverse impacts policy, even where the management entity is generally complying with the principal adverse impacts regime. The Firm has decided that, while it will generally comply with the principal adverse impact regime across our product range, certain products will be excepted from compliance.

Products which may be excepted include, for example:

› products involving portfolio management strategies where it is not possible to conduct detailed diligence on the principal adverse impact of our investments on sustainability factors, including passively managed, tracker strategies, algorithmic, quantitative and macro strategies.

› asset classes where sustainability metrics are not relevant, including derivatives and foreign exchange.

› products where the client expressly instructs us not to follow the firm-wide policy.

› products for which it would be unlawful or contrary to applicable regulation to follow the firm-wide policy, for example a legal regime which requires the firm to prioritise only economic factors when investing for certain types of client.

› products existing as at the date of this policy (or new products launched within 3 months of such date), the terms of which do not contemplate or permit the application of this firm-wide policy, including where regulatory or client consents or amendments would be required to apply this policy at product level.

The Firm's process for excepting a particular product or excluding a particular product from the firm-wide approach must apply the following product governance framework:

› The product proposal to be presented to the Firm's Product Governance Committee (SPGC) which meets quarterly and is responsible for the Firm's Product Governance Framework.

› On approval the product proposal to be presented to the Firm's Responsible Investment Committee (SRIC) for final approval.

› All products excluded from the firm-wide approach will be recorded to a schedule of the SRIC minutes.

› All products excluded from the firm-wide approach will be reviewed by Setanta Responsible Investment Committee on an annual basis.

4. Governance and senior management responsibility

The Firm's Executive Management Committee is ultimately responsible for the firm's policies and procedures in respect of sustainability.

In particular, the Firm's Responsible Investment Committee has overall responsibility for investment due diligence on ESG matters.

The Firm's Board of Directors has approved this policy.

5. Principle adverse indicators – diligence phase

This section of the policy applies to all products managed by the firm, <u>except</u> for those products which have been carved-out under section 3.

Prior to making any investment decision, our portfolio managers (referred to below as the "relevant investment professional") are required to conduct investment due diligence on the proposed investment position. This investment due diligence will evaluate a variety of factors including (for the purposes of this policy) an assessment of how the proposed investment position is assessed against the three sustainability indicators which are specified below. The table below specifies the sustainability metrics which must be reviewed, the detail of the metric, and the data sources which are available to the investment professionals.

No.	Indicator	Detail	Data Sources
1	Carbon emissions, broken down by Scope 1 and 2 emissions	Scope 1 carbon emissions: emissions generated form sources that are controlled by the company that issues the underlying assets. Scope 2 carbon emissions: emissions from the consumption of purchased electricity, steam, or other sources of energy generated upstream from the company that issues the underlying assets.	Sustainalytics
2	Signatory to UN Global Compact	Whether the investment target has committed to the UNGC principles (Yes / No).	Sustainalytics
3	Severe controversies / breaches of UN Global Compact	Whether the investment target has been involved with severe violations of the UNGC principles (Yes / No).	Sustainalytics

Non-availability of data: The investment professional must use reasonable efforts to obtain the required data, from the sources indicated above. If the data is not reasonably available, that fact shall be recorded instead of the quantitative data point.

Non-relevance of sustainability metrics: Investment professionals may conclude, using their reasonable judgment, that a particular metric is not commercially relevant to the assessment of a particular proposed investment, given the asset class of that proposed investment or the proposed investment strategy. For example, many of these metrics may not be relevant to investments in commodity derivatives, real estate, sovereign debt, macro positions, or index positions. Where the investment professional reaches the conclusion that sustainability metrics are not relevant, that conclusion shall be recorded instead of the quantitative data point.

Recording the sustainability metrics: Having completed the diligence exercise, these data points must be recorded in the investment research report. Such a record will show either:

- the relevant quantitative data point or,
- confirmation that the data is not reasonably available or,
- conclusion that the metric is not relevant to the proposed investment.

This diligence assessment then feeds into the investment phase, as outlined at section 6 of this policy, below.

6. Principal adverse impacts – investment phase

Having completed the diligence assessment as noted under section 5, the relevant investment professional is then required, when evaluating the merits of a proposed investment, to determine the extent to which the results of the diligence exercise should weigh on our investment decision, taking into account our sustainability values as articulated below.

The Firm's policy is to allow the relevant investment professional to exercise their subjective judgment as to whether and how the results of the diligence process impact on the investment decision, as against the Firm's sustainability values:

- **Environmental:** We generally aspire to invest in investment positions which do relatively less adverse impact to environmental sustainability (as compared to competitors in the same sector), as measured by carbon emissions, carbon footprint, use of non-renewable and renewable energy, and energy consumption intensity.
- **Social:** We generally aspire to invest in companies which meet fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption, as measured by reference to the UN Global Compact.

The relevant investment professional is required to subjectively assess, using their reasonable judgment, if the proposed investment does significant adverse impact, in light of those sustainability values.

- If the conclusion is that there is no significant adverse impact, then that shall be recorded in the investment research report.
- If the conclusion is that there is a risk of significant adverse impact, then the investment professional is further required to determine what the consequences of that shall be for our investment decision.
- The investment professional shall have complete discretion as to what decision to take, and these steps may include the following mitigating actions (amongst other things):
    - Making a decision <u>not</u> to invest in the proposed investment.
    - Making a decision to invest, but with a limited position size.
    - Making a decision to invest, but with an intention to engage with the management of the company to improve their business from a sustainability perspective.
    - Making a decision to invest, but with an intention to make offsetting investments to balance or hedge the adverse impact being done through this investment.

The investment professional shall be required to record their decision on what mitigating actions, if any, are appropriate to take.

7. Disclosure of this policy

SFDR requires that the Firm must publish on our website information about this policy, along with certain other information relating to the actions taking in relation to sustainability impacts, summaries of our shareholder engagement policies, and references to our adherence to responsible business codes. The Firm satisfies this requirement by disclosing this policy itself on our website, along with those other documents.

SFDR also requires that the Firm must include, in the pre-contractual disclosures for our financial products which adhere to this policy, a description of how the product considers the principal adverse impacts on sustainability factors. The Firm satisfies this requirement by either disclosing this policy itself in pre-contractual disclosures, or disclosing a separate summary of this policy in pre-contractual disclosures, whichever is deemed most appropriate.

For any financial product which is excepted from this policy under section 3, we must instead include an explanation that the relevant financial product does not consider the principal adverse impacts on sustainability factors, and the reasons for that approach.

For these purposes, “pre-contractual disclosures” means the prospectus or offering document for a fund, and the investment management agreement or other terms and conditions for a portfolio management service.