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Sustainability Risk Policy

eastspring investments

A Prudential plc company

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1 Introduction

1.1 Context

Eastspring Investments (Luxembourg) S.A. (here defined as “ManCo” or “the Company”) is authorised by the Luxembourg financial supervisory authority, the Commission de Surveillance du Secteur Financier ("CSSF"), to act as a management company governed by Chapter 15 of the Luxembourg law of 17 December 2010 relating to undertakings for collective investment (the "UCI Law") and to further provide discretionary portfolio management services, in accordance with Article 101, paragraph 3 of the UCI Law and Market in Financial Instruments Directive requirements. In addition, the Company is authorised by CSSF to act as alternative investment fund manager and to perform several investment services provided for by article 5(4) of the Luxembourg law of 12 July 2013 on alternative investment fund managers (the "AIFM Law").

Eastspring Investments (Luxembourg) S.A. was incorporated on 20 December 2012 for an unlimited duration and is an ultimately wholly owned subsidiary of Prudential plc, UK. It is a public limited liability company incorporated under the laws of the Grand Duchy of Luxembourg and having its registered office at 26, Boulevard Royal, L-2449 Luxembourg, Grand-Duchy of Luxembourg. Since September 30, 2013, the Company is operating a branch based in the UK, as authorized by both CSSF and Financial Conduct Authority. The UK branch is not a separate legal entity, therefore any reference in this policy to ManCo includes its UK branch as well.

Eastspring Investments (Luxembourg) S.A. is acting as designated management company and alternative investment fund manager for Eastspring Investments and Eastspring Investments SIF-SICAV (collectively referred to as the "Funds" or the “SICAV”) and may act as such for further investment funds in future.

1.2 Policy Objectives

This policy has been established to describe the Management Company procedures with regards to Sustainability risk monitoring, particularly on the assessment of the governance practices of the SICAV and its investee companies as required under the Sustainable Finance Disclosure Regulation (“SFDR”).

Sustainability risk is defined in the SFDR as an environmental, social or governance event or condition which, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

With the aim to comply with the EU Regulation 2019/2088 on sustainability-related disclosures in the financial sector, the ManCo has defined this policy to describe the procedures and methods used for the assessment, measurement and monitoring of environmental, social and governance characteristics and risks as well as the impact of the sustainable investments decided and implemented for the Funds for which the Company acts as Management Company.

The policy also includes data sources, screening criteria for the asset universe and sustainability indicators used to measure the ESG characteristics of the Funds.

This policy takes into consideration the EU Regulation 2019/2088 on SFDR as well as the EU Regulation 2020/852 on the establishment of a framework to facilitate sustainable investment and amending EU Regulation 2019/2088.

Moreover, the Company follows the six United Nations Principles of Responsible Investments ("PRI"), adhering and engaging in providing regular reporting on the following commitment statements:

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure of ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the principles.
6. We will each report on our activities and progress towards implementing the principles.

1.3 Scope of Application

The Sustainability Risk Policy applies to the SICAV and to the SICAV-FIS portfolios managed by the Management Company.

1.4 Policy Owner and Review Information

This Policy is owned by the Permanent Risk Management Function ("PRMF") of the Management Company, namely the Conducting Officer responsible for the Risk Management function and the appointed Permanent Risk Manager.

All changes to this Policy shall be reviewed by the Conducting Officer in charge of Risk Management. Final approval is to be provided by the ManCo Board of Directors before this Policy can come into effect and be published.

2 Governance

The governance refers to the organizational structure and the roles and responsibilities established for the Sustainability risk management activities in relation to the SICAV and the SICAV-SIF.

2.1 Board of Directors

The Board of Directors of the Management Company sets the principles of this Sustainability risk policy. The Board is responsible for all risks and for the establishment of the appropriate risk governance structure and risk culture within the ManCo. The ManCo Board and the Fund Board shall ensure that effective Sustainability risk management and internal control systems are in place to appropriately identify, measure, monitor and manage all significant risks related to ESG which the Funds might be exposed to.

2.2 Management Committee

The Management Committee of the ManCo is responsible for the implementation of the Sustainability risk management policy, including the risk mitigation measures and decisions taken by the Board. The Management Committee ensures the establishment of an effective management-level governance structure, a regular reporting and timely escalation of current or emerging risk issues to the Board of the Management Company.

2.3 Risk Management and responsible Conducting Officer

The ManCo has appointed a Risk Management Conducting Officer (approved by CSSF), in charge of the day-to-day performance of the Risk Management Function.
The Risk Management Conducting Officer reports to the Managing Director of the Management Company and to the head of Investment Risk Management at Eastspring Singapore.

The PRMF conducts the day-to-day risk management activities in compliance with established risk management policies and procedures and applicable laws and regulations ensuring appropriate risk reporting and escalation to the Management Committee, the Board and relevant internal Committees.

The day-to-day risk management covers, among others, investment risk monitoring ensuring that PRMF manages and monitors the Sub-Funds in line with the Risk Profiles.

The PRMF is also responsible for updating this policy and other applicable related policies and procedures.

2.4 Risk Management Committee

The Risk Managemement Committee (RMC) serves as the main management forum for the regular formal consideration of risk issues and supports the Board of the ManCo and its Management Committee in performing their risk management duties. The scope of the RMC covers all risk matters in the business without limitation.

The primary objective of the RMC is to coordinate and focus on Luxembourg related risk management activities to ensure that risks are identified, measured, monitored, managed, escalated, and covered.

The functioning of the RMC is subject to terms of reference, which has been approved by the Board of the ManCo.

2.5 Monthly Risk Meeting

The Monthly Risk Meetings (MRM) serve as the first point of escalation for reporting any Sustainability risk level which is above the pre-defined thresholds in the Sub-Funds and or any mismatch between the ESG disclosures and the investee companies.

PRMF and Eastspring Singapore Investment Risk Management (EISG IRM) are the permanent members of this working group. Special guests, such as Investment Manager’s team members, shall be invited if appropriate.
The primary objective of this working group is to review and assess potential risk concerns.
During the MRM, it will be determined if and how any cases are escalated and agreed actions will be undertaken. The meetings are scheduled Monthly and are documented accordingly by the PRMF.

3 Sustainability Risk Monitoring

ESG and Sustainable investment considerations have required the Asset Managers to transition their investment practices from an approach mainly focused on financial returns to a new one which in addition integrates environmental, social, and governance factors in the investment decision making process. This transition has been boosted by increasing investor preferences and due to regulatory requirements that are still in development and not always clearly established.

The oversight monitoring of sustainability risk (as previously defined in section 1.2) is performed through either a 1st line approach or a second line risk-based approach, which will be described in the following sections.

The selection of the oversight approach on sustainability risk starts during the fund structure design.

3.1 Initial design process

The Sustainability risk is initially assessed at the product design stage, which entails the following considerations:

- Identify the appropriate SFDR categorization of the Sub-Fund, according to its foreseen investment strategy;
- define its promoted environmental and/or social characteristics;
- assess which 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;
- assess which is the ESG characteristic asset allocation planned for this financial product;
- Identify which ESG - investment factors the new product follows;
- define which are the sustainability indicators that are used to measure the attainment of each of the environmental or social characteristics promoted by the new financial product.

The fund manager, EISG product team, sales team, EISG operations team, EISG IRM and ManCo collectively assess Sustainability Investment Risk and report it to the Product Approval Committee for consideration and decision in designing the new product.

Following the fund implementation, the sustainability risk monitoring is pursued with the contribution of the first and second line of defence.

3.2 1st Line – Investment Management Teams

Investment Management teams act as first line of defence. They use both quantitative and qualitative analyses to determine if investments are managed in line with the sub-Funds investment strategy and legal requirements. The SICAV sub-funds are managed either by the investment management teams of Eastspring Singapore (the appointed portfolio manager), or by sub-delegated managers appointed by the portfolio manager.

Although each investment management team from Eastspring Singapore and from sub-delegated managers have implemented its own processes and controls to integrate ESG criteria into their investment processes, the below tools and criteria are commonly used by all investment teams:

1. Use of external data providers;
2. Investment selection process (due diligence and ongoing monitoring on targeted investments);
3. Exclusions, screening and engagement
4. ESG exposure monitoring
5. Due Diligence

Use of external data providers

In assessing Sustainability risks in the research and portfolio construction process, Investment fund managers use a range of online third-party desktop research tools such as the MSCI ESG Research, Bloomberg, ISS, and others.

Investment selection Process

When investing in equity related instruments, Investment Management Teams strive to understand the ESG risks, controversies, and challenges specific to the company and its industry peer group.

Using MSCI data and methodology, they assess the target company's ESG performance relative to its peers. They also encourage companies to disclose material ESG datapoints in a clear and consistent way (frequent, active discussions are core to the approach) and engage companies to improve their ESG performance and monitor their progress using internal scorecards. ESG research and engagement are documented in a consistent and transparent manner so that the approach remains detailed and comprehensive. The Fixed Income Team has built its own evaluation criteria and has fully integrated ESG as a part of its credit analyses. This helps to overcome issues such as incomplete and inconsistent ESG coverage by external providers. Their in-depth understanding of each company and industry dynamics allows them to raise any ESG issues and seek opportunities arising from new ESG trends. One of the main challenges comes to data quality, which appears to be lower in Asia and in emerging markets; however it is not an impediment for the investment team considering their long coverage period of the issuers. Where data is not public, they can be provided directly by the issuer upon request by the investment team, in consideration of their important relationship with the target companies as one of their main stakeholders.

Exclusion, engagement and screening

Investment exclusion lists, engagement and screening of target companies are also part of the investment managers sustainability risk assessment and monitoring.

Investment Management teams have adopted exclusion lists to be aligned with desired ESG policies (e.g. PCA products and conduct exclusions).

For SICAV Funds, in accordance with the Eastspring Investments (Singapore) Exclusions Policy, it has been decided not to invest in companies dealing or generating revenue from tobacco or controversial weapons, being our Responsible Investment beliefs.

Companies with 30% or more of their revenues derived from coal are systematically reported in the Risk Meeting to decide if further escalation is required. Screening is not only based on exclusion lists but also on the assessment of preparedness to Sustainability Risk factors and internal/external ESG scores. On the opposite, Investment Management teams are also performing positive integration. They embrace active engagement to drive positive change along environmental (climate change mitigation, resource management), corporate governance (board independence, gender diversity) and social (inclusion, health and wellbeing, safety and security) objectives. Investment Management teams document their active dialogues with the companies and actively participate in proxy voting.

ESG exposure monitoring

Eastspring's investment management teams score their sub-fund portfolios based on the taxonomy criteria. Each team has developed its own ESG Rating process with the help of data provided by third parties as well as their own quantitative and qualitative assessments. The main criteria are the following:

Environmental Risk

- Gas emission
- Energy Management
- Waste & Pollution
- Biodiversity, water use & land use
- Ecological impact
- Impact of climate change

Social Risk

- Workforce & Diversity
- Health & Safety management

• Human rights
• Customer privacy
• Communities & Social cohesion

Governance Risk

• Structure & Oversight
• Code, Ethics & Values
• Transparency & Reporting
• Cyber Risk & Systems

3.3 2nd Line: PRMF and EISG IRM

PRMF acts as second line of defence, in the sustainability risk monitoring, using the following tools:

1. ESG scoring Table

Eastspring Singapore has established an ESG Scoring Table which is used by both EISG IRM and PRMF in their sustainability risk management.

The ESG scoring table serves as the cornerstone within our sustainability risk framework and it is used as first layer of control and risk identification.

The PRMF analyse, monitors and reports the ESG scores and their historical evolution from a reporting period to another.

The results of its activity are reported to difference risk forums, including the RMC, Board of Directors and Management Committee meetings.

2. ESG Deep-dive

In case of identification of low ESG scores during the review of the ESG scoring table, the PRMF could decide to perform further analysis, running an ESG deep dive exercise.

During the exercise, the PRMF may use various indicators leveraging MSCI data integrated in the front office system (Aladdin) such as the carbon emissions, corporate governance behaviour, human capital scores, etc.

This deep dive exercise allows to enrich the initial analysis with more elements such as the relative sub-fund score performance in comparison with its relevant benchmark, or considering the fund specificities and investment universe, etc.

3. Risk Profile

The Risk Profile Documents (RPD) integrate the sustainability risk in addition to the other risk categories like the market risk, liquidity risk, operational risk etc. ensuring the inclusion of ESG considerations in the holistic risk assessment.

4. Exclusion/Screening List

The PRMF controls the exposure to excluded sectors (such as Tobacco, Coal, Controversial weapons), and has determined in addition some non-ESG sectors in its screening activity (i.e Alcohol, Gambling, Artic Oil and Gas).

5. ESG DDQ

An initial and ongoing Due Diligence Questionnaire designed to cover ESG matters, have been established by PRMF and EISG IRM with the purpose of verifying, reviewing, assessing and document ESG considerations integration and their monitoring performed by the Investment Management Teams and delegates. The filled in DDQ and its supporting documents are analysed by PRMF and Investment Risk team, saved in a dedicated folder and summarized in a table. The result of this exercise is communicated to the Senior Management of the Management Company, EISG IRM and Investment Management Teams, escalating any detected gap/weakness which requires correction.

3.4 Engagement

Sustainability risk monitoring is not limited to Risk scoring and screening. One key factor to monitor ESG is to engage with investee companies and help them to transition toward more suitable practices.

A long-term active dialogue between Investment Management Teams and investee companies on environmental, social and governance factors is performed.

An active dialogue offers the opportunity to discuss sustainability risks and opportunities with companies and to provides them with insights into investors' expectations of corporate behaviour. By this way, our Investment Management Teams encourage companies to adopt more sustainable practices. Companies with sustainable business practices can create a competitive advantage and are more likely to be successful over the long run, improving the risk/return profile of their securities. Effective engagement can therefore benefit companies, investors and society at large.

Engagement typically runs over a multi-year period, during which the Investment Management Teams have regular contact with company representatives and track progress against engagement objectives. They often combine their efforts in collaborative engagement initiatives with other institutional investors. The outcome of the engagement efforts is communicated to analysts, portfolio managers and clients, enabling them to incorporate this information into their investment decisions.

PRMF engages sub-funds through the annual ESG DDQ exercise. The information received from the ESG DDQs helps PRMF to perform its Sustainability Risk Assessment. The PRMF then focuses on engaging sub-funds with perceived higher ESG risks.

In addition, the PRMF considers Proxy Voting when assessing a Sub-Fund engagement with an investee company. Investment Managers consider as well environmental, social and governance factors in their shareholder voting decisions; the guidelines they use to reach and support those decisions may require in some cases a shift to include ESG-focused analytics.

3.5 Risk Management: Limitations

The Company has established the Sustainability Risk Policy to define general Sustainability Risk Management principles (Governance – Ownership – Sustainability risks identification and assessment – Escalation and Reporting) to monitor Sustainability risk in accordance with Regulations and best practices. However, limitations and challenges exist in the implementation of the investment decision and selection process and on the risk management framework.

The following points have to be considered in the assessment of the sustainability risk:

- The quantification metrics of the performance and therefore risks connected to the inclusion of ESG factors into the investment process is still part of the current market debate (there is no common standard and recognized approach). ESG factors may not directly translate into earnings growth of the issuer, especially considering its intrinsic long term horizon perspective.

- There is disparity in terms of ESG data quality and availability, especially between developed and emerging markets. The level of sustainability disclosures in Asia is relatively lower than in Europe. Metrics need to be normalized across countries and sectors to allow the investment managers to quantify and analyze ESG metrics appropriately. This limitation applies to the PRMF's ESG scoring table, considering there is limited data coverage for the selected 46 indicators.

- There are currently no standard guidelines which provide harmonized methodologies for the valuations of ESG factors into investment analysis. The Investment Management Teams use a combination of external ESG data (e.g. MSCI), internal research, proprietary ESG scoring, and engagement with investees to inform their ESG investment analysis. The PRMF, on the other hand, relies on MSCI data to perform ESG monitoring. Hence, there may be different results in the assessment of ESG factors. The PRMF may challenge the Investment Management Teams where the result differences are substantial, and rely on qualitative justifications as a mean to evaluate ESG risks.

4 Reporting and Escalation process

The Monthly Risk Meeting serves as the first escalation step to report any Sustainability risk level above their defined thresholds. ESG is a standard agenda item in this meeting as ESG scoring, screening results and engagements are discussed and assessed regularly.

Escalation to the Senior Management of the Management Company and to the head of EISG IRM is performed when:

- A Sub-fund reports a Sustainability risk scoring below 5.
- Screened Sub-Funds' investments deviate from the prospectus disclosures.
- Insufficient integration of Sustainability Risk Management in the investment decisions by the Investment Managers is spotted in the DDQs.

The risk monitoring activity summary, including ESG scoring table analysis and the outcome of Monthly risk meetings, is reported to the following recipients:

- The Lux Risk Management Committee (Quarterly).
- The Management Committee (Monthly).
- The ManCo Board and the Fund Board (Quarterly).

In case of significant events, the reporting frequency is increased depending on the situation. Where necessary, the oversight of the remediation process is conducted by the PRMF.

Records of Sustainability risk management processes are maintained by the PRMF.