**Sustainability - Related Disclosures**

**Fulcrum UCITS SICAV - Fulcrum Climate Change Fund (the Fund)**

**Fulcrum Asset Management LLP (the Investment Manager)**

*December 2022*

**Transparency of the Promotion of Environmental or Social Characteristics of Sustainable Investments on Websites ("Product level Disclosure")**
**(Article 10, Regulation (EU) 2019/2088)**

## 1. Introduction

This statement seeks to address the website financial product level disclosures requirements prescribed in Article 10 of EU SFDR and in line with the final Regulatory Technical Standard template that was published on 22nd October 2021 by ESMA.

## 2. Summary

The Fulcrum UCITS SICAV - Fulcrum Climate Change Fund ("the Fund") is a long-only, global equity strategy that explicitly seeks to mitigate climate change through investment in listed companies. The Fund investment manager will seek to hold a diversified portfolio consistent with achieving its investment objective and overall climate alignment goal.

The Fund aims to select companies, across all sectors, whose ambitions in terms of reducing their greenhouse gas emissions are deemed to be in line with the goals of climate change mitigation as outlined in the international Paris Agreement on climate change.

The security selection will use two primary criteria: fundamental analysis of the underlying companies as well as the companies' alignment with the two-degree global warming scenario of the Intergovernmental Panel on Climate Change.

The first of the security selection criteria is based on the Investment Manager's analysis of public information regarding the companies. The second of the selection criteria utilises a range of tools at the Investment Manager's disposal including, but not limited to, publicly available information, and proprietary analysis through specialist environmental data.

The Fund has the following characteristics:

- It is constructed using temperature alignment metrics created by environmental experts.
- It is designed to bring climate considerations to the heart of portfolio construction by only investing in firms aligned with research published by the Intergovernmental Panel on Climate Change.

## 3. No significant harm to the sustainable investment objective

***The overall fund philosophy is aligned with the objective to reduce adverse sustainability impacts***

By design, the Fund aims to select companies making efforts to align their businesses with global efforts to mitigate climate change. This is primarily measured in terms of the implied temperature alignment of issuers, which in turn is most closely linked to the greenhouse gas (GHG) emissions impact indicators, as companies are not likely to be included in the Fund if their emissions targets and track record are misaligned with the global or sectoral required pathways.

The Investment Manager recognises the challenge of potential adverse impacts in this area – for example, a rapid shift to renewable energy and electric vehicles, necessary to decarbonise electricity and transport, may require a temporary increase in the emissions of the steelmakers in their value chain. The choice of temperature alignment as a primary metric aims to address this challenge, by adopting differentiated emission pathways for certain sectors.

***Thematic fund construction overview***

The selection of individual stocks is derived from the choice of investment themes, which aim to capitalise on positive sustainability and/or market trends. As illustrated below, there is significant overlap, on a qualitative level, between many of the themes driving fund construction (e.g., clean energy, waste & water management, transport disruption) and the objective of mitigating adverse impacts (e.g. by reducing the share of non-renewable energy consumption in the global economy, reducing waste and water usage).

| Theme | Companies per theme | Most relevant principal adverse sustainability impact indicator |
|---|---|---|
| Aerospace | 7 | |
| Agricultural Technology | 7 | 6 |
| Athleisure | 9 | |
| Automation | 4 | 3, 6 |
| Base Metals | 13 | 1,3,6,7 |
| Broadband | 10 | 5 |
| Building Materials | 8 | 18 |
| Clean Energy | 22 | 1, 6, 7 |
| Cloud Services | 20 | 3, 5, 6 |
| Commercial Real Estate | 12 | 18 |
| Commodity Banks | 4 | |
| Digital Payments | 8 | |
| Energy Transition | 18 | 1,2,3,4,5,6,7 |
| Exchanges | 10 | |
| Freight | 16 | 6 |
| Global Banks | 39 | |
| Health Insurers | 5 | |
| Household | 15 | |
| Insurers | 29 | |
| IT Disruptors | 4 | 3, 5, 6 |
| Luxury | 5 | 3, 8, 9 |
| Med Tech | 7 | |
| New Media | 7 | |
| Pharmaceuticals | 8 | |
| Power Grid | 8 | 1, 6, 7 |
| Protein | 4 | 6 |
| Residential Real Estate | 11 | 18 |
| Retailers | 4 | |
| Timber & Forestry | 7 | 6 |
| Transport Disruption | 5 | 2, 3, 6, 7 |
| Waste & Water | 8 | 8, 9 |

*Table shows the themes in the portfolio as of $30^{th}$ November 2022. Numbers refer to the order of the 18 principal indicators in the joint Final Report on draft Regulatory Technical Standard, JC 2021 03.*

While the Investment Manager does not directly select securities based off their performance on PAIs, it is already monitoring, as part of regular risk reporting, metrics corresponding to indicators 1-3, aiming to capture the scope 1, 2, 3 and total emissions of investee companies, in both absolute terms and relative to total investments, as well as the carbon intensity of companies relative to their revenues. The Investment Manager does not have large holdings of corporate debt, and therefore does not currently use measures of enterprise value in its calculations.

Firm-wide, Investment Manager monitors PAI #14, by excluding companies involved in the production of controversial weapons from its investment universe, using an exclusion list provided by MSCI.

The Investment Manager is currently in the process of expanding their fund monitoring capabilities with a broader set of indicators, including more PAIs. The Investment Manager is reviewing the data and is working to incorporate it into the fund construction process.

*Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?*

The Fund seeks to avoid companies involved in predatory lending and tobacco, in line with the spirit of international conventions and guidelines on responsible business practices, as well as companies involved in controversial weapons, whose disproportionate impact on civilians the Manager deems to be misaligned with such guidelines.

Recognising the importance of establishing minimum safeguards, the voting recommendations the Manager receives from proxy advisor Glass Lewis include a third-party 'GC Score' from ESG data provider Arabesque which is based off the four main areas of the UN Global Compact Principles (Human Rights, Labour, Environment, and Anti-Corruption), and they inform the Manager's voting decisions. The updated policy from the proxy advisor, in force as of 2023, will recommend a "vote against the chair of the board in instances where companies who are not signatories or participants in the United Nations Global Compact ("UNGC") or that have not adopted a human rights policy that is aligned with the standards set forth by the International Labour Organization ("ILO") or the Universal Declaration on Human Rights ("UDHR")."

Going forward, the Manager will explore the suitability of recently obtained additional datasets relating to PAIs (including OECD and UN guidelines) as a basis for negative screening during the idea generation process for this and relevant other strategies.

**4. Sustainable investment objective of the financial product**

The Fund represents a long-only, global equity strategy that explicitly seeks to mitigate climate change through investment in listed companies.

**5. Investment strategy**

The investment strategy used to attain the sustainable objective is through a highly diversified, thematic approach to selecting equity companies. It aims to provide:

- strong diversification across regions and sectors with moderate levels of tracking error relative to traditional global equity market indices,
- exposure to a wide range of long-term themes that include the green economy whilst also allowing investors to take a diversified and global perspective in tackling the challenges of climate change

In terms of the 'G' of 'ESG', the governance practices of the investee companies of the fund, including with respect to sound management structures, employee relations, remuneration of staff and tax compliance, are assessed 1) from discussions with their management at company meetings, 2) using analysis from proxy advisor, Glass Lewis and 2) based on governance-related metrics provided by Sustainalytics, including newly obtained (in Q3 2022) datasets on PAIs.

The voting policy codifies expectations relating to key principles of good governance, such as avoiding director 'overboarding' and promoting director independence (particularly on key board committees) as well as board diversity and the alignment of pay and performance. Companies falling short of the Investment Manager's expectations may receive a vote against. The Investment Manager aims to vote shareholdings consistently; all of Fulcrum's votes – as well as the rationale for votes cast against management - made publicly available at: https://viewpoint.glasslewis.com/WD/?siteId=Fulcrum, with additional information in annual Stewardship Reports, available on Fulcrum's website.

**6. Proportion of investments**

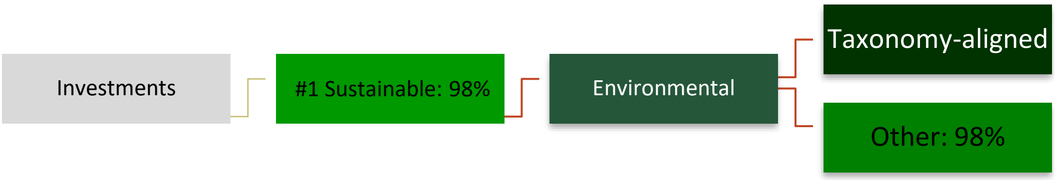
The Fund seeks to only invest in companies with an implied temperature rise (ITR) of below 2°C, as per the goals of the Paris Agreement. This means that it is selecting companies demonstrating higher levels of ambition, in terms of reducing their emissions, compared to the average ITR of the global economy and the global listed equity markets[1].

[1] See, for example, https://sciencebasedtargets.org/news/g7-stock-indexes-science-based-targets and https://www.iea.org/commentaries/cop26-climate-pledges-could-help-limit-global-warming-to-1-8-c-but-

All the single-stock names selected within the Fund are aligned to the Paris Agreement temperature target of below 2ºC. As of December 2022, the fund has an average ITR of 1.5°C.

As illustrated above, the Fund invests across a number of different themes. Some, such as clean energy, are explicitly linked to the provision of environmental solutions, while in other themes (e.g. global banks and insurers) the issuers selected are likely to have higher environmental performance relative to their peers, even if their primary business activity is not directly climate-related.

The Investment Manager considers 100% of the single-stock names selected for the Fund to represent sustainable investments (understood as meeting the ITR objective). This represents circa 98% of the fund, as the Manager aims to hold c. 2% of the Fund in cash and futures used for hedging and efficient portfolio management purposes.




In addition, the Investment Manager notes that its assessment is conducted primarily on an *issuer level*. It further notes that the EU 'Taxonomy' sets out an additional level of granularity as concerns revenues from environmentally sustainable activities; currently, most listed companies do not break down their revenues or capex by activity in an accessible format.

Estimates it has obtained on a 'best efforts' basis from different data providers suggests between 11-45% of the companies in the Fund are generating revenues from Taxonomy-eligible activities. (Sources: Bloomberg, Sustainalytics). However, given that reducing sustainability impacts beyond GHG emissions/temperature does not form part of the fund's contractual obligations, the Investment Manager recognises the possibility that performance against these metrics may fluctuate over time.

Please see section 2 above for further information on Principal Adverse Impact and alignment with the global guidelines.

### 7. Monitoring of sustainable investment objective

The sustainability objective of maintaining an ITR of below 2°C at all times is monitored continuously as it forms a core part of portfolio construction, with the temperature of the portfolio disclosed in monthly factsheets. Independent to the investment team, the Risk team monitors the ITR of each stock within the portfolio.

As mentioned above, the Investment Manager is already monitoring a suite of metrics – including carbon metrics broadly corresponding to PAI indicators 1-3 – and it is currently expanding the suite of fund monitoring metrics.

### 8. Methodologies

In order to measure the attainment of the sustainability objective, the Fund uses the ITR metric. As described by the Manager's data provider, S&P Trucost, the main dataset used "assesses company-level alignment with the Paris Agreement goal to limit global warming to well below 2 degrees Celsius from pre-industrial levels. The

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implementing-them-will-be-the-key for assessments of the implied temperature of major indices and the global economy.

approach taken by Trucost is a transition pathway assessment, which examines the adequacy of emissions reductions over time in meeting a 2 degrees C carbon budget".

Source: https://www.marketplace.spglobal.com/en/datasets/trucost-paris-alignment-(186)

There are currently two main approaches used to derive temperature calculations S&P Trucost, adapted from methodologies highlighted by the Science-Based Targets initiative: the Sectoral Decarbonization Approach (SDA) and the Greenhouse Gas Emissions per unit of Value Added (GEVA) method. "The SDA is applied to companies with high-emitting, homogeneous business activities, while GEVA is applied to those with lower emitting, heterogeneous business activities."

- The SDA's core principle is "that companies in each industry must converge toward emissions intensities consistent with a 2°C scenario by 2050 from their unique starting points. It uses industry-specific 2°C scenario pathways, with companies measured using industry-specific emissions intensities and physical production levels (e.g., $tCO_2$ e per gigawatt hours (GWh) or per ton of steel). Inflation, therefore, does not affect the calculation. Industry-specific transition pathways may be faster (e.g., power), or slower (e.g., cement) depending on an industry's available technologies, specific mitigation potential and costs of mitigation."
- The GEVA approach "recognizes that many companies have diverse business activities, most of which do not have distinct transition pathways defined in climate scenarios. For these companies, GEVA entails applying a contraction of carbon intensity principle. Under this principle, a company should make emissions reductions consistent with rates required for the overall economy, from each company's unique base year emissions intensity. It uses a non-industry specific, economy-wide 2°C scenario and emissions intensities with a financial, not physical or production, denominator"

The Manager uses the Task Force on Climate-related Financial Disclosures (TCFD) calculation methodology for the calculation of the carbon footprint and weighted average carbon intensity statistics. The main carbon metrics it monitors for equities are listed below:

- Carbon Intensity Net (tons $CO_2e$/$M revenue)
- Carbon Intensity Gross (tons $CO_2e$/$M revenue)
- WACI Net (tons $CO_2e$/$m revenue)
- WACI Gross (tons $CO_2e$/revenue)
- Total Emissions Scopes 1 & 2 (tons $CO_2e$)
- Total Emissions Gross Scopes 1 & 2 (tons $CO_2e$)
- Emissions Scope 1 & 2& 3 (tons $CO_2e$/e)
- Emissions Scope 1 & 2 & 3 Gross (tons $CO_2e$/e)
- Emissions Scope 3 (tons $CO_2e$/e)
- Emission Scope 3 Gross (tons $CO_2e$/e)
- Total Emissions per Min Invested (tons $CO_2e$/$M invested)
- Emissions per Min Invested Scope 1 & 2 & 3 (tons $CO_2e$/$M invested
- Emissions MI Invested Scope 3 (tons $CO_2e$/$M invested)

### 9. Data sources and processing

The primary data source for attaining the sustainability objective – temperature alignment - is provided by S&P Global Trucost.

Where a wider range of ESG factors are considered or for standard carbon foot-printing metrics, as illustrated above, data is provided by Sustainalytics and MSCI.

The measures taken by the Investment Manager to ensure data quality are as follows:

- Regular meetings with data providers to understand their methodological and data updates.
- Putting checks in place to compare data sets with previous versions.
- Applying independent judgement on the alignment of companies within the Fund based on the Manager's understanding of their business.

Data is reviewed on an annual basis to ensure high quality of data and processing. This responsibility sits with the Fulcrum Responsible Investment Committee and the internal Risk teams.

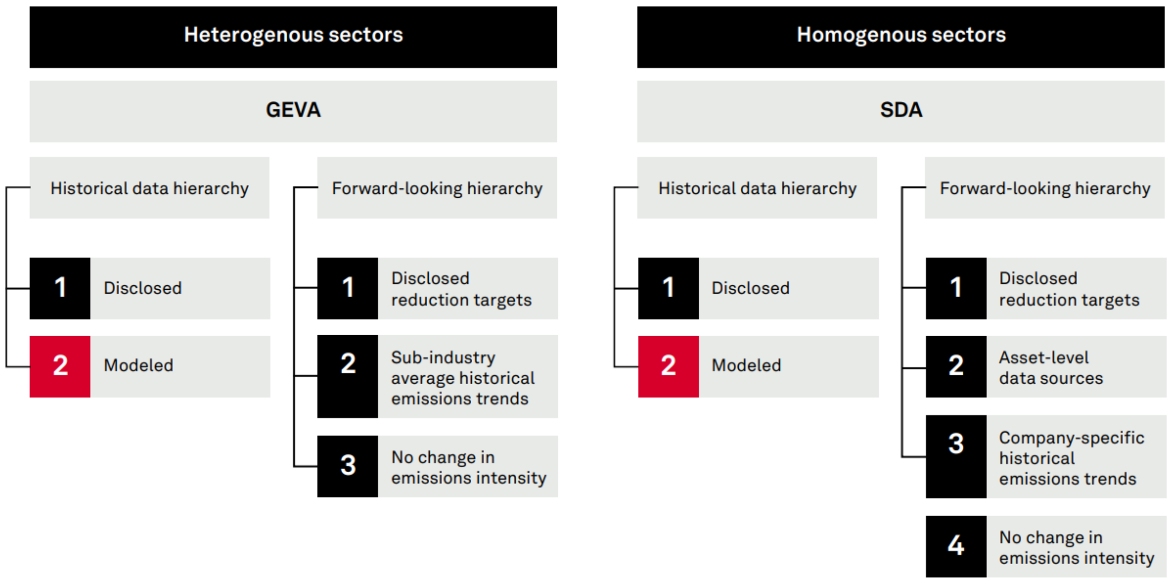
The fund's universe of securities consists of all companies that have temperature alignment data provided by S&P Global Trucost. Hence, The Manager has full alignment coverage for all securities in the Fund.

### 10. Limitations to methodologies and data

Temperature alignment calculations represent a relatively new area of the market, which is constantly evolving. The Investment Manager's ambition is to integrate best practice as it develops.

Whenever possible, the data provider seeks to rely on disclosed data (both historical and forward-looking) from companies, as regards their past emissions and future emission targets/projected changes in their asset mix, as illustrated below:

**Figure 5: Data hierarchy per approach**




Source: S&P Global Trucost (2021)

The underlying assumption is that the emissions profile of companies is not expected to change, absent any indication from companies themselves or changes in industry emission trends. The Investment Manager appreciates this is, to a degree, a simplification as companies are constantly revising their business strategies, but it believes it is not an unreasonable one, given that a) global emissions have historically been on an continuously upward trend since the industrial revolution; and b) the alignment calculations place higher emphasis on the near-term evolution of the emissions profile of companies, which is thus unlikely to witness significant 'organic' variation (i.e. emission reductions not derived from the sale of assets or external shocks taking production offline).

Over the shorter term, thus, unless management specifically indicates a desire to change course (e.g. by announcing emissions targets), the Investment Manager believes it is reasonable to assume that past emissions performance can be a guide to future emission performance. A similar assumption implicit in the methodology is that the listed companies existing today will continue to exist in the future. Whilst, strictly speaking, this assumption does not reflect the process of 'creative destruction' that is inherent in market competition, the Investment Manager notes the similarities to other aspects of forward-looking modelling that are standard practice in finance. Estimates of the future cashflows of an issuer, for example, do not generally take into account scenarios such as the emergence of a disruptive competitor or of substantial fines relating to the uncovering of hidden accounting irregularities that would render a company out of business.

More broadly, simplifying assumptions and estimates will be needed in any attempt to conduct modelling amid a complex, non-linear system like the global climate. Despite substantial advances in climate science, attempts to link a given level of atmospheric emissions to a global temperature outcome remain probabilistic – for example, the Intergovernmental Panel on Climate Change publishes different carbon budgets which reflect higher or lower chances of global average temperatures not exceeding a given level of warming[2]. Similarly, simplifying assumptions (such as those mentioned above) will be needed to allocate a global carbon budget to individual sectors or companies. As such, whilst one may consider 100% of the ITR output data to be ultimately modelled or estimated (since they represent forward-looking information) – they aim to reflect, as described above, substantial information about companies' disclosed emissions and targets, as well as aspects of climate science. However, the lack of standardised carbon emissions disclosure by companies means that estimates must be also used where carbon data is not available.

Despite the assumptions and challenges, the Investment Manager believes that the use of temperature alignment currently provides a good balance between allocating capital and balancing a firm's role within the climate change mitigation ecosystem. As the data, disclosure and transparency improve, the Investment Manager believes some of the challenges above will be mitigated.

The Fund aims to reallocate capital within and between companies and sectors in order to facilitate the transition to a low carbon economy that furthers the Paris Agreement. Given that the majority of the world's companies and countries are currently not on track to meet the Paris goals, the Investment Manager believes that ITR metrics can support this objective.

Reputable, widely used climate scenarios from the Intergovernmental Panel on Climate Change and the International Energy Agency, from which ITR metrics are derived, bring an element of consistency and scientific rigour that support the Investment Manager's choice of metric.

As a firm, the Investment Manager believes that supporting the Paris Agreement's objective of 'making finance flows consistent with a pathway towards low greenhouse gas emissions'[3] will involve, first and foremost, a reallocation of capital away from the most misaligned issuers, alongside increased investment in aligned companies, and engagement with those companies that are transitioning between the two.

The absence of perfect climate data, in the Investment Manager's view, should not discourage investors from beginning to take action today. The Investment Manager recognises this is a fast-changing area – and, as mentioned below, aims to stay apprised of best practice as it evolves.

The Investment Manager engages with both companies and data providers around the issue of data quality and seeks to cross-reference the data against reputable benchmarks from the International Energy Agency and Science-Based Targets initiative. It aims to stay abreast of best practice, by working with different data providers and comparing their outputs and solutions, by reviewing the academic and industry research on climate change, and by forming its own independent judgment on the numbers, through in-depth research of companies and of the global macroeconomic environment.

[2] Source: https://www.carbonbrief.org/analysis-what-the-new-ipcc-report-says-about-when-world-may-pass-1-5c-and-2c/

[3] Paris Agreement, article 2.1 (c)

**11. Due diligence**

A disciplined investment process ensures that there are minimum market capitalisation and liquidity requirements. The strategy typically invests in highly liquid companies with market capitalization in excess of $500m and daily liquidity of more than $1m.

Single name idiosyncratic risk is limited by a maximum single stock position of 3.5% to help protect against overconcentration in single names.

RiskMetrics by MSCI is the main system used for independent risk oversight and as a supplementary system used by portfolio managers. We use Risk Metrics risk model settings that are customised to capture the specific risks of the instruments traded and of the strategy. Data from records maintained by the Operations team is uploaded into RiskMetrics software-as-service setup. Risk analytics data is then stored in SQL database and used for reporting and monitoring. Independent risk analysis results are available daily and, as needed, whenever Fund positions change materially.

The temperature alignment data set is subject to a further quality check by the Risk team before being used.

These reports are the basis of an ongoing daily interaction, which focuses on aggregate level exposures, strategy-level exposures, contributions to risk from various themes and trades, and the level of portfolio diversification. On an at least weekly basis, the Risk Committee reviews risk report summaries. The CIO attends the weekly meetings of the Risk Committee and responds to queries or provides further information, calling in portfolio managers, as needed.

**12.Engagement policies**

**Engagement policies for the sustainable objective website section**

We conduct regular direct and collective engagement with companies, regulators and stakeholders to help accelerate climate action, with a particular focus on requiring investee companies to set Science-Based Targets.

Our engagement is backed by the Investment Manager's voting policy: the adoption of Glass Lewis' Climate Overlay service (which results in more stringent ESG voting standards, compared to their "house" proxy advice, as illustrated below) has been an important development in strengthening the Investment Manager's voting stance and holding companies accountable for their sustainability strategy.

Over the 2020-21 proxy voting season, Fulcrum supported circa 70% of key environmental and social proposals – compared to an average of c. 35% for the world's 6 largest asset managers, and to an average level of 44% 'for' recommendations from proxy adviser Glass Lewis[4]. In addition, during the 2022 voting season, Fulcrum has supported over 50% of ESG shareholder proposals, in addition to casting over 400 votes against directors for insufficient ESG disclosure, oversight or targets.

In addition, Fulcrum has joined investor networks focused on climate change, such as the Institutional Investor Group on Climate Change, CDP and Climate Action 100+, to better engage with corporate issuers, governments, and other investors. In 2021, the Investment Manager co-signed multiple letters to governments in advance of key political events (G7 summit, COP26) to encourage accelerated climate action, and supported CDP's campaign calling on 1600 of the world's largest companies to adopt Science-Based Targets.

Further information can be found in Fulcrum's Responsible Investment Policy, Engagement Policy and Stewardship Report, available on the Investment Manager's website.

**13. Attainment of the sustainable investment objective**

As mentioned above, by using ITR the Fund aims to invest in companies whose efforts in reducing GHG emissions are aligned with the objective of the Paris Agreement to keep global temperature rise to below 2 degrees relative to pre-industrial times. The Fund has not adopted a Climate Transition or Paris-Aligned Benchmark as defined in Regulation (EU) 2016/1011, as the Investment Manager believes year-on-year emission reduction targets cannot be applied uniformly across all sectors, irrespective of the progress of the real economy. We believe the use of

[4] Sources: ShareAction, Glass Lewis, Fulcrum Asset Management LLP

temperature alignment provides a more nuanced method that reflects the different rates at which sectors and regions will decarbonise whilst keeping within global climate goals.

Nevertheless, the Investment Manager believes there is overlap with certain key recommendations of that regulation, including as they relate to:

- Art. 2: reference temperature scenario
  The IPCC scenario with no or limited overshoot is the 1.5°C scenario chosen by the Investment Manager's data provider, alongside other scenarios which see temperatures reaching or breaching 2°C, which are used to compare companies' emissions performance.

- Art. 3: equity allocation constraint
  The Investment Manager does not seek to achieve improvements in the carbon footprint of the Fund through the ex-ante exclusion of (large parts of) entire sectors but seeks to achieve diversification that mirrors the broader market.

- Art. 4: calculation of emissions
  The Investment Manager seeks to calculate the different emissions metrics, both absolute and intensity-based, outlined in Q8 above, based on a standard currency for the Investment Manager's underlying assets. The Investment Manager is now calculating these metrics on a daily basis to reflect changes in positions, although the Investment Manager recognises that carbon data is not updated as frequently.

- Art. 5: Phase-in of Scope 3 emissions data
  The Investment Manager is currently monitoring Scope 3 emissions data from investee companies but recognise there are still substantial challenges in obtaining accurate Scope 3 data across the value chain of issuers. Moreover, the Investment Manager is working with its data providers so that they incorporate scope 3 emissions within their estimates of GHG emissions.

- Art. 6: Disclosure and targets
  The Fund is designed to reward companies embarking upon more ambitious decarbonisation pathways. The Investment Manager monitors the number of underlying companies with Science-Based Targets and encourages investee companies to accelerate progress in this area.