

## Assessment of Principal Adverse Impacts (PAIs)

We are a dedicated impact fixed income manager managing portfolios that generate positive environmental and social impact for mainstream financial returns. We have a three-step investment process:

1. Verification: securities selected for inclusion in our investable universe are verified through our proprietary and independent verification process, the SPECTRUM® process. Further details of the process can be found at: <https://affirmativeim.com/process/>
2. Portfolio management: investments for our portfolios are selected from the impact investment universe created in Step 1.
3. Evidence: regularly report on both the financial returns and impact supported by the portfolios we manage. Our annual portfolio specific Impact Reports evidence the positive environmental and social impacts of the investments. It includes portfolio alignment with the UN Sustainable Development Goals and an assessment of portfolio greenhouse gas emissions avoided, as well as other quantitative and qualitative reporting. The latest Impact Reports are published at <https://affirmativeim.com/impact-report/>

We understand positive environmental and social impact to be investments that contribute to either meeting the Paris Agreement or the UN Sustainable Development Goals. Issuers must also pass our verification process from an environmental, social and governance perspective.

The UN Sustainable Development Goals are a collection of 17 interlinked global goals designed to achieve a better and more sustainable future for all. The 17 goals are: (1) No Poverty, (2) Zero Hunger, (3) Good Health and Well-being, (4) Quality Education, (5) Gender Equality, (6) Clean Water and Sanitation, (7) Affordable and Clean Energy, (8) Decent Work and Economic Growth, (9) Industry, Innovation and Infrastructure, (10) Reducing Inequality, (11) Sustainable Cities and Communities, (12) Responsible Consumption and Production, (13) Climate Action, (14) Life Below Water, (15) Life On Land, (16) Peace, Justice, and Strong Institutions, and (17) Partnerships for the goals. Each goal has a specific target to be achieved between 2020 and 2030. The Paris Agreement's goal is to avoid dangerous climate change by limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C. It also aims to strengthen countries' ability to deal with the impacts of climate change and support them in their efforts.

### Consideration of the Principal Adverse Impacts in our investment process

Principal Adverse Impacts (PAIs) are considered at the verification stage of our investment process, through our proprietary and independent verification process, SPECTRUM, and during our annual impact reporting cycle.

All PAIs on sustainability factors can be considered within our verification process SPECTRUM®. This process is underpinned by fundamental analysis on a case-by-case basis and incorporates PAIs depending on materiality and relevance. To access data on PAIs, we use multiple research methods including accessing third party data available from data providers, accessing publicly available information that the issuer has published, reviewing research and opinion pieces and direct engagement with the issuer. PAIs are considered in our research process at two levels:

1. adverse impacts that are associated with the use of proceeds of the bond and
2. adverse impacts associated with the issuer of the bond, but not necessarily coming from the stated use of proceeds. The 'responsible issuer' criteria within the SPECTRUM® analysis focuses on the issuer itself and whether it meets our standards from an ESG perspective. This includes

environmental, social and employee matters, respect for human rights, anticorruption and antibribery.

If an investment is associated with significant environmental or social harm, as identified through the PAI metrics or other research, it would fail to meet the SPECTRUM® criteria and would be excluded from the SPECTRUM Bond® universe. As a result, the issuance would not be eligible for purchase in the Fund. The SPECTRUM® process requires the analyst to consider whether there are direct or indirect environmental or social negative impacts resulting from the stated use of proceeds or the issuer.

**Mandatory and voluntary PAIs to be considered as part of our verification process, SPECTRUM, and to be reported on annually:**

PAI	Metric
Greenhouse gas emissions	Scope 1 GHG emissions
	Scope 2 GHG emissions
	Scope 3 GHG emissions
	Total GHG emissions
Carbon footprint	Carbon footprint
GHG intensity of investee companies	GHG intensity of investee companies
Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compares to renewable energy sources, expressed as a percentage
Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector
Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with site/operations located in or near to biodiversity sensitive areas where activities of those investee companies negatively affect those areas
Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average
Share of bonds not issued under EU legislation on environmentally sustainable bonds	Percentage alignment of use of proceeds invested in with the EU Taxonomy
Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
Lack of processes and compliance with mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
Board gender diversity	Average ration of female to male board members in investee companies
Exposure to controversial weapons	Share of investments in investee companies involved in manufacture or selling of controversial weapons

Human rights issues and incidents	Number of identified cases of severe human rights issues and incidents
<b>For sovereign issuers:</b>	
GHG intensity	GHG intensity of investee companies
Investee countries subject to social violations	Number of investee countries subject to social violations, as referred to in international treaties and conventions, United Nations principles and, where applicable, national law

A 'Statement on principal adverse impacts of investment decisions on sustainability factors' for each Article 9 fund we manage will be published annually at <https://affirmativeim.com/process/>. This will cover the period of 1 January to 31 December of the preceding year.

Please refer to our Responsible Investment Policy and Exclusionary Policy for additional details on our philosophy, impact, engagement and investment beliefs. Available here: <https://affirmativeim.com/policies/>

*Update: Friday 23 December 2022*

**Disclaimer:**

This document is being furnished on a confidential basis for discussion purposes only to a limited number of persons who may be interested in this type of investment and limited to those classified as eligible counterparties and professional clients. They are not available to retail clients. This document does not create any legally binding obligations on the part of Affirmative. Neither the information nor any opinion expressed in this document constitutes an offer, an invitation to offer, solicitation or a recommendation to enter into any transaction. The information in this document does not purport to be all inclusive or to contain all of the information that a recipient may deem material to its decision to invest. Any summaries of documents should not be relied on and references should be made to the full document. The information contained in this document is subject to change.

This document is not intended to be, nor should it be construed or used as an offer to sell, or a solicitation of any offer to buy shares or interests in any fund managed by Affirmative Investment Management Partners Limited. If any offer is made, it shall be pursuant to a definitive Confidential Private Offering Memorandum prepared by or on behalf of a specific hedge fund which contains detailed information concerning the investment terms and the risks, fees and expenses associated with an investment in that hedge fund. Neither the Financial Conduct Authority ('FCA') United States Securities and Exchange Commission ('SEC') nor any state securities administrator has approved or disapproved, passed on, or endorsed, the merits of these securities.

Nothing in this document constitutes accounting, legal, regulatory, tax, financial or other advice. Recipients should form their own assessment and take independent professional advice on the suitability and merits of investment and the legal, regulatory, tax and investment consequences and risks of doing so. Affirmative accepts no responsibility to any person for the consequences of any person placing reliance on the content of this information for any purpose.

The information contained in this document, including any data, projections and underlying assumptions, are based upon certain assumptions, management forecasts and analysis of information available as at the date hereof and reflects prevailing conditions and Affirmative's views as of the date of the document, all of which are accordingly subject to change at any time without notice, and Affirmative is under no obligation to notify you of any of these changes. In preparing this document, Affirmative has relied upon and assumed, without independent verification, the accuracy and completeness of all information available from public sources or which has been otherwise obtained and reviewed by Affirmative in preparing this document. While the information provided herein is believed to be reliable, Affirmative makes no representation or warranty whether express or implied, and accept no responsibility for, its completeness or accuracy or reliability. Affirmative shall not be liable for any loss or damage, whether direct, indirect or consequential suffered by any person as a result of any errors in or omissions from the document (or other information) or as a result of relying on any statement contained in this document (or other information).

Past performance information contained in this document is not an indication of future performance. It has not been audited or verified by an independent party and should not be seen as any indication of returns which might be received by investors in the Fund. Similarly, where projections, forecasts, targeted or illustrative returns or related statements or expressions of opinion are given ("Forward Looking Information") they should not be regarded by any recipient of this document as a guarantee, prediction or definitive statement of fact or probability. Actual events and circumstances are difficult or impossible to predict and will differ from assumptions. A number of factors, in addition to any risk factors stated in this document, could cause actual results to differ materially from those in any Forward Looking Information. There can be no assurance that the Fund's investment strategy or objective will be achieved or that investors will receive a return of the amount invested.

Affirmative Investment Management Partners Limited

Authorised and Regulated by the Financial Conduct Authority FRN 658030, the SEC CRD Number 282138

Registered in England & Wales no. 09077671

Registered Office 55 Baker Street, London W1U 7EU