ARCANO

Low Volatility European Income Fund

ESG Policy

September 2023

Index

1. Definition of ESG Investment Objectives and Commitment

As a long term credit investor in European corporates, the Arcano Low Volatility European Income Fund's (LoVEI) approach to ESG matters develops along two broad axis:

1- Integrating ESG screening, monitoring and engagement as a way to recognize, analyze and tackle factors of long term risk that may affect the financial performance of portfolio companies
2- Putting an ESG focus at the very core of the investment philosophy as a way to fostering a better capital allocation that not only takes into account short term financial return, but aims at creating a better society for the next generations

LoVEI's commitment to a responsible approach to credit investment is part of the broader ESG commitment of the firm. Indeed, Arcano prides itself to be the first Spanish Asset Manager to be UNPRI (United Nations Principles for Responsible Investment) compliant, being an UNPRI signatory since 2009, and having implemented ESG policies for more than 10 years.

This ESG policy has being granted the LuxFLAG ESG Label

The fund does not have a sustainable investment objective. It promotes the following environmental and social characteristics:

- Environmental characteristics: climate change, natural resource use, waste management and environmental opportunities.
- Social characteristics: human capital management, product safety, social opportunities, as well as supply chain management.

2. ESG Criteria and implementation

LoVEI's approach to portfolio construction is based on the three main categories of ESG investing as set out by the Global Sustainable Investment Alliance:

- ESG Integration
  - ESG is fully integrated in the investment decision process, with ESG matters described and discussed within any analyst's recommendation and in all Investment Committees.
  - ESG screening is applied to 100% of portfolio holdings and potential investments.
  - The Arcano ESG score assigned to each line is discussed in the committee and voted by consensus. This is exactly the same approach that the committee takes towards investment decisions.
- Negative screening
  - Any potential investment that does not pass our negative screening is immediately eliminated from the eligible universe.
  - Negative screening criteria are detailed in step 2 of our "5-step approach to ESG portfolio construction".
- Positive/best-in-class screening
  - The assignment of an Arcano ESG score to each single company in the portfolio allows sectors/companies with better or improving ESG performance to have a higher weight compared to other sectors/companies with a poor or deteriorating ESG performance

3. 5-step approach to ESG portfolio construction

1- Data gathering
2- Apply Arcano exclusionary screening
3- Assign Arcano ESG Scores
4- Calculate ESG weights
5- Monitoring and engagement

3.1. Data Gathering

The portfolio is mainly constructed bottom-up, with an individual company fundamental analysis approach. In the same way, our ESG approach is based on an in depth review of the ESG performance of every individual company we consider investing in.

Analysis is performed by dedicated investment analysts, not a separate ESG department.

Analysts benefit from the support of an internal ESG department to help increase the proficiency of our team's understanding and consideration of ESG factors in our analysis.

Members of the investment team are sector focused and are directly responsible for the ESG due diligence performed on individual companies. Main sources of data include for the due diligence include:

- Analysts direct conversations with companies' management
- Companies disclosure, press relating to company specific ESG issues
- Independent ESG due diligence performed on companies
- Banks/broker/dealers research

For a detailed overview of the points that are covered in our ESG due diligence please refer to section 3.3 and to Appendix III and IV

The detailed sector attribution by analyst is presented in the chart below:

The ESG department counts with a dedicated ESG Leader (Teresa Gonzalez Barreda - Head of Sustainability) and an ESG Specialist (Laszlo Bene Traun). Additionally, an ESG Lead is appointed for every investment strategy, who works closely together with the ESG Team. Alessandro Pellegrino, head portfolio manager, is the ESG lead for credit strategies.

The ESG Team, and the ESG leads within each investment team, are responsible for integrating ESG issues into their respective investment strategies. This team plays a central role in the investment process as its mission is to provide the management teams with an analysis that highlights the ESG risks to which underlying projects are exposed and, more importantly, the opportunities identified. New strategies, tools, and knowledge generated in the ESG area by this team are transferred to investment professionals so that the entire team can identify ESG risks and opportunities in the investment process. This team meets once a week and is based in the same office.

Furthermore, the Head and ESG Analyst are in charge of publishing a company-wide ESG report that monitors key milestones and progress updates for the firm and its underlying strategies as mentioned before. Our Head of ESG used to be part of Arcano's private equity team before she left to pursue jobs related to Corporate Social Responsibility. Prior to joining Arcano, she worked at Johnson and Johnson as a Corporate Social Responsibility Coordinator.

In addition to our internal ESG resources, we partner with external independent ESG Data Providers to supplement our existing processes.

- Current external pure ESG research providers:
  - RepRisk: RepRisk specializes in quantifying reputational risk exposures by leveraging event- driven news signals to score company performance. This score is called the RepRisk Index (RRI). In addition, RepRisk also provides a letter rating (AAA to D) called the RepRisk Rating, which is based on both an issuer's RRI and the country-sector average RRI for where the company operates. Reprisk is one of the data sources used by the JP ESG Eur HY Index.
  - Spread Research: a long established France-based provider of fundamental credit research, since 2019 the company leveraged their knowledge of European corporates to offer an in depth review of the environmental, social and governance performance for issuers under their coverage. The spread research ESG score (0 to 100) focuses on the analysis of companies' internal policies and track record in ESG.

Findox: a developer of data analytics software designed for the leveraged loan and High Yield markets. The company offers the leading ESG data gathering and reporting solutions for European credit managers.
The team aggregates ESG information on 100% of portfolio lines. The quantitative and qualitative information is summarized in an ESG risk score assigned to every instrument in the portfolio.

3.2. Arcano Exclusionary Screening

Any transactions which are not permitted due to our negative screening are immediately eliminated from the eligible universe. Issuers are excluded based on the below criteria:

- Any consolidated group to which the relevant obligor belongs whose Primary Business Activity is:
  - Production, sales, and distribution of controversial Weapons including anti-personnel mines, cluster munitions, chemical, biological weapons, white phosphorus, depleted uranium weapons and nuclear weapons;

  - Extraction of oil and gas, thermal coal mining;
  - Production, sales, and distribution of tobacco and related services;
  - Production of protected wildlife threatening substances which is banned by applicable global conventions and agreements;
  - Pornography or prostitution;
  - Gambling;
  - Subprime lending or payday lending activities; or
  - Companies violating the United Nations Global Compact (UNGC) principles, which do not demonstrate credible corrective action (see Appendix I);
- Issuers (or securities) listed in countries (or related to individuals or other entities in the country) included in the United Nations Security Council Sanctions or identified as high risk jurisdictions subject to a "Call for Action" by the Financial Action Task Force; or
- Issuers with an Arcano ESG score of less than (see next section);

For the purpose of application of the negative screening, business activity is defined as any relevant business, trade of production from which the obligor derives more than 20% of its revenues. This is with the exception of i) tobacco production, for which a threshold of 5% of total revenues applies; ii) for the sales and distribution of tobacco and related products, for which a threshold of 15% of total revenues applies; and iii) for the production, sales and distribution of controversial weapons, for which a zero tolerance principle applies.

3.3. Assign Arcano ESG Scores

Every instrument in the portfolio is assigned an Arcano ESG risk score. The scores range from 0 - 100, with 100 classified as the best possible score (best ESG performance and policies in place).

The ESG risk score takes into account both external scores and internal research. The main steps used in assigning an Arcano ESG scores are detailed below:

- Every company is scored against a country-sector benchmark that captures the ESG risk inherent to doing business in any specific industry and country
- Against this benchmark score, the committee evaluates company specific performance and policies to assign a company specific Arcano ESG Score. Company analysis is based on analysts' interaction with managements as well as on ESG intelligence gathered both internally and through external suppliers. The company specific analysis is meant to reflect our appreciation of the 3 following factors:

1- Quality: this factor reflects the insights from our analysts' direct analysis of the robustness of the company's ESG structure, policy and incentives. It includes a detailed analysis of Environmental, Social and Governance performance of the company.

a. Environmental factors we typically look for include:
   - CO_2 and GHG emissions per EUR revenues, and other emission intensity metrics; emissions reduction targets, Direct vs Indirect CO_2 emissions
   - Waste intensity, recycling rates, waste reduction policy and practices
   - Water intensity, water recycling, water management risk and strategies
   - Hazardous Material Management
   - Usage of Resource, resource efficiency, resource policy

b. Social factors we typically look for include:

- Human capital (Employee diversity, work conditions, safety standards, remuneration, child labour, extreme turnover)
- Regulatory Risk
- Community Relations
- Data and Privacy Issues
- Health & Safety standards

c. Governance factors we typically look for include:
   - Shareholding: we prefer transparent and reputable shareholding, be it in the form of listed companies, or by ownership by large institutional investors or large Private equity firms. A higher level of scrutiny applies to businesses that are family owned, or owned by small family offices/private investors. We also put particular emphasis on the analysis of minority Interests / unrestricted subsidiaries that could impact the overall transparency of operations.
   - Board & Executives: we look for chairman separation from CEO, number of independent members, experience and relevance of Board members, experience of C suite.
   - Auditor: Independence of Audit committe within the Board Proportion of total audit ancillary fees, length of relation with auditor
   - Other Tax evasion, fraud, anti-competitive practices, antitrust issues, corruption, bribary, conflict of interests

2- Improvement: this adjustment is meant to capture the expected forward evolution of ESG risk for the company not taken into account in the Quality score. Companies with a proactive ESG strategy and an improving risk profile benefit from a positive adjustment. Conversely, companies with a deteriorating ESG performance are penalized with a negative adjustment due to our perception of increasing future ESG risk exposure. Main factor we evaluate in this section include:

   a. Companies' ability to deliver on their internally set ESG objectives. We compare objectives (publicly disclosed or discussed by our analysts in engagement calls with management) with actual performance and favor companies that delivered on promises
   b. Formulation of clear and binding measures to address any ESG shortfalls detected by management

3- Transparency: Improving the quality and availability of information to allow the investment community to develop a better appreciation of the ESG risk linked to every issuer is one of our key long-term ESG objectives. Transparency in communication is pivotal in this perspective and is taken into account in our internal assessment. The main items we focus in our transparency analysis include:

   a. Company disclosure
   b. Availability of third party independent research on the company ESG performance
   c. Transparency in direct interaction with our analysts

In the cases where time constrains limit the analyst's ability to find information for all factors that feed into the ESG score (eg offerings in primary market with short notices), a preliminary assessment of the final ESG score is presented to the committee. This is based on available information at the time of the decision to invest and is later complemented with a more comprehensive set of data. Arcano ESG Scores are updated quarterly for each issuer.

3.4. Calculate ESG weights

Implementation of bands – Each issuer in the baseline index is bucketed into bands 1 – 5.

- Band 1 = Scores equal to or higher than 80
- Band 2 = Scores equal to or higher than 60, less than 80
- Band 3 = Scores equal to or higher than 40, less than 60
- Band 4 = Scores equal to or higher than 20, less than 40
- Band 5 = Scores less than 20

3.4.1. What do the bands represent

Each band functions as a scalar which is utilized in the overall ESG integration approach.

- Issuers in Band 1 have no weighting limitation.
- Issuers in Band 2 are assigned a maximum weight of 3.5% in the portfolio.
- Issuers in Band 3 are assigned a maximum weight of 2.75% in the portfolio. The sum of all issuers in band 3 shall not represent more than 45% of portfolio allocation.
- Issuers in Band 4 will have a maximum weight of 2% in the portfolio. A formal justification and enhanced monitoring will be required for any issuer accounting for more than 1.5% of the fund falling in band 4. The sum of all issuers in band 4 shall not represent more than 15% of portfolio allocation.
- Band Issuers in Band 5 will be excluded and will not be eligible for investment. If, subsequent to investment, any company in the portfolio falls into Band 5 due to the emergence of new information/a change in the committee appraisal of its ESG risk, the portfolio manager has no more than 1 month to dispose the totality of the position.

3.4.2. Monitoring

- Changes to scores can be proposed by the responsible analyst, the portfolio manager, or by the investment committee.
- Scores are reviewed quarterly or punctually due to news, events or by proposal of analyst/portfolio managers/ committee members.
- A quarterly ESG review is performed following the publication of results, when companies have the opportunity to disclose/update information regarding ESG risks and policies.

3.4.3. Engagement

- At the time of the assignment of the Arcano ESG risk score, the committee sets engagement targets.
- This depends on the appreciation of the main company/industry/country ESG risk.
- The analyst following the company is in charge of maintaining discussions with the management team and reporting semi-annually to the committee on the progress made by the company on ESG risk policies.

4. Sustainable Investments and Principal Adverse Impacts

4.1. Sustainable Investments

Instruments considered Sustainable Investments will fall into band 1. The fund will maintain at all times a minimum proportion of 5% of sustainable investments. These investments are subject to enhanced monitoring and reporting standards, including:

- Mandatory reporting of 14+2 Principal Adverse Impact indicators, as reflected in the fund's prospectus
- Reporting of the contribution that instruments make to environmental or social objectives
- Where available, recollection of a larger sample of third party ESG ratings from independent sources
- Where the instruments is a "green" or "sustainability linked", a review of the legal language and of the quantitative objectives described in the indenture.

4.2. Principal Adverse Impact indicators

The fund ensures that its investment do not cause significant harm to any environmental or social sustainable investment objective through the analysis and reporting of Performance Adverse Impact Indicators (PAIs).

The Principal Adverse Impacts, or PAIs, are measured by an assortment of 14 mandatory corporate indicators, with two additional indicators for sovereigns and two real-estate specific indicators. The lineup is expanded by a list of 46 additional voluntary indicators, of which firms must select at least two additional indicators to report on. These indicators cover a broad scope of environmental and social metrics, including scope one, two, and three GHG emissions, biodiversity impacts and gender pay gap ratios. The fund reports PAIs on 100% of portfolio holdings, although by prospectus PAI reporting is only mandatory for investments considered to be sustainable.

5. ESG Investment Committee

5.1. ESG Committee Discussion and Tools

The Investment Committee is the ultimate responsible for the assignment of an Arcano ESG score to every company in the portfolio and to validate sustainable investments. The attribution of an ESG score requires the unanimous vote of all Investment Committee members. ESG strength and weaknesses are discussed along with financial performance and explicitly included in the final investment decision. A detail review of committee members is presented in Appendix II.

The sector analyst is responsible for preparing and presenting to the Investment Committee a detailed review of the ESG performance of the credit and to propose an ESG score. Also, the analyst is responsible to keep track of the evolution of ESG scores for credits under coverage and to detail the rationale for any change in score.

The 2 main tools used to present the information to the committee include:

1- ***ESG Master Monitoring***: a spreadsheet detailing in a summarized format all sub-scores and issues detected in the due diligence process, as well as the final score proposed. This document is mainly used for the purpose of cross-company comparison, in order to insure consistency in the methodology (see APPENDIX II)
2- ***Sustainable Instruments Monitoring***: a spreadsheet detailing in a summarized format the due diligence made on the investment, including its contribution to environmental or social objectives, and the performance indicators used to insure that investment do not cause any significant harm to any environmental or social sustainable objective. (see APPENDIX IV)

3- ***Company ESG Snapshot:*** a company specific one pager detailing all strengths and weaknesses detected (see APPENDIX III)

The portfolio manager is responsible for presenting the aggregate portfolio score and to brief the committee about the evolution of the portfolio ESG score.

6. Treatment of special situations

6.1. Issuers not covered by research

To ensure every issuer has a score, we apply a waterfall logic based on an issuer's region and sector. If a corporate issuer is not covered by our ESG providers, then the region-sector average score is utilized as a proxy. In this case the IC adjustment may account for up to 30 points (upward or downward).

6.2. Indices

Index based products (including ETFs, CDS indices, etc…) are assigned an Arcano ESG score that reflects the average score of the components of the index.

6.3. Derivatives

Derivatives on a single name have the same Arcano ESG score as the underlying name. Derivatives on a basket of names have an Arcano ESG score equal to the weighted average of the underlying names. Derivatives on an index have the same ESG score as the underlying index.

6.4. CLOs

.

CLO instruments are assigned an ESG score and a band in the same way corporate bonds are. The ESG analysis of CLOs hinges on two different steps:

1) ESG analysis of the CLO manger. This analysis focuses on a review of the ESG policies at issuer level and includes the following items:
    a. Existence of an ESG policy
    b. Existence of an exclusion policy
    c. Existence of a fully integrated ESG approach

2) ESG analysis of the CLO. This analysis focuses on a review of the ESG features included in the prospectus of the instrument and includes the following items:
    a. Inclusion of ESG restrictions in the prospectus
    b. Inclusion of a fully integrated ESG approach in the prospectus

6.5. Government Bonds

ESG score for government bonds are assigned based on four main steps:

- An exclusionary screening applies to countries included in the United Nations Security Council Sanctions
- An exclusionary screening applies to countries identified as high risk jurisdictions subject to a "Call for Action" by the Financial Action Task Force
- Countries are assigned a score based on the Transparency International - score for perceived level of public sector corruption
- The specific security is assigned a score based on its ESG characteristics (Sustainability linked, Green, or other)

6.6. Other Funds

The fund is allowed to invest no more than 10% of AUMs in other UCITS funds:

- Funds classified as Art 9 under the SFDR disclosure are included in Band 1 and considered sustainable investments.
- Funds classified as Art 8 are generally included in band 2, 3 or 4 depending on :
    - Robustness of the negative screening policy
    - Integration of ESG screening for all lines in the portfolio and/or commitment to engagement activities
    - Commitment to realize a % of sustainable investments
- Funds classified as Art 6 are generally included in band 4 or 5 depending on:
    - % of investments in sectors that are included in the fund's negative screening list (no more that 10% exposure is allowed)

6.7. Treatment of green bonds and ESG labelled instruments

Our methodology increases the weight of green bonds/ESG labelled instruments to incentivize sustainable financing aligned with ESG solutions. If an instrument is categorized as a "green bond" by the Climate Bonds Initiative (CBI), or labelled as ESG by any label provider that follows the standards proposed by Eurosif or the Global Sustainable Investment Alliance the security will receive a two-notch Band upgrade.

For example, any green bond issued by an issuer in Band 4 will be raised to Band 2, whereas conventional bonds issued by the same issuer will remain in Band 3. Green bonds by issuers already in Band 1 will not receive any further upgrade.

This approach effectively provides positive screening benefits to green bond issuance by increasing their weights relative to conventional bonds issued by the same entity.

7. Appendix :

7.1. Appendix I - UN Global Compact Principals

The UNGC principles are widely accepted corporate sustainability principles that meet fundamental responsibilities in the areas of anti-corruption, human rights, labor and the environment.

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

7.1.1. Human Rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights
- Principle 2: Make sure that they are not complicit in human rights abuses

7.1.2. Labor

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining
- Principle 4: The elimination of all forms of forced and compulsory labor
- Principle 5: The effective abolition of child labor
- Principle 6: The elimination of discrimination in respect of employment and occupation

7.1.3. Environment

- Principle 7: Businesses should support a precautionary approach to environmental challenges
- Principle 8: Undertake initiatives to promote greater environmental responsibility
- Principle 9: Encourage the development and diffusion of environmentally friendly
- technologies

7.1.4. Anti-Corruption

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

7.2. *Appendix II - Master Monitoring*

7.2.1. Negative Screening

Instrument Info				Negative screening									Positive Adjustment	
Name	**Analyst**	**Instrument Type**	**ISIN**	**Tobacco**	**Coal Energy**	**Weapon**	**Production of Hazardous Substances**	**Pornography or Prostitution**	**Gambling**	**Subprime Lending**	**UNGC Violator Flag**	**RRR>80?**	**Green Bond?**	**ESG Labelled?**
United Group BV	JM	Bond	XS1647815775	✓	✓	✓	✓	✓	✓	✓	✓	✓	✗	✗

7.2.2. Arcano ESG Analysis

	Quality					
Name	**Arcano Environmental**	**Arcano Social**	**Arcano Governance**			
			Shareholding	**Board & Executives**	**Auditors**	**Other**
United Group BV	No significant issues detected	Health issues may be related to use of antenna sites & phone use (OM).	Company owned by BC Partners (PE Firm). Low Risk	Some deficiencies in their internal controls over financial reporting detected by external auditors (OM).	No issues with auditors	Company currently involved in a number of legal proceedings that are mostly ordinary course of our business, including disputes related to intellectual property rights

7.2.3. Assign Arcano ESG Weights

Instrument Info			RepRisk Assessment								Arcano ESG Assessment	Final ESG Score
Name	**Analyst**	**Instrument Type**	**Current RRI**	**RRI Trend**	**Peak RRI**	**Peak RRI Date**	**Country**	**Country Sector Average**	**RepRisk Rating**	**Rep Risk Rating to Score**	**Arcano Adjustment**	**Final Arcano ESG Score**
United Group BV	JM	Bond	0	+0	0	2016-08-05	Serbia	45	AA	**22,5**	10	32,5

7.2.4. Monitoring and engagement

Name	**Engagement**
United Group BV	We are engaging with company regarding their audit deficiencies and expect to have more clarity from management on the issue in the short term

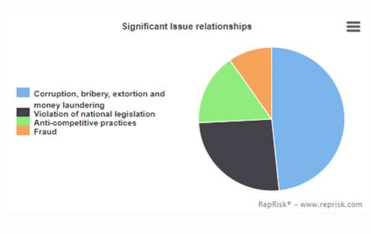
7.3. Appendix III - Company ESG Snapshot

ARCANO CREDIT

Analyst	Instrument Type	ISIN
JM	Bond	XS1647815775

United Group B.V. provides subscription television services. The Company offers cable, DTH, and over the top media, as well as broadband and voice call services. United Group serves clients in South East Europe.

Main ESG Risks detected for Telco in Balcans



Negative screening									Instrument	
Tobacco	Coal Energy	Weapon	Production of Hazardous Substances	Pornography or Prostitution	Gambling	Subprime Lending	UNGC Violator Flag	RRR>80?	Green Bond?	ESG Labelled?
✓	✓	✓	✓	✓	✓	✓	✓	✓	×	×

RepRisk Assessment				Arcano ESG Assessment	
Country	Country Sector Average	RepRisk Rating	Rep Risk Rating to Score	Arcano Adjustment	Final Arcano ESG Score
Serbia	45	AA	22,5	10	32,5

Quality		
Environmental	Social	Governance
No significant issues detected	Health issues may be related to use of antenna sites & phone use (OM).	Company owned by BC Partners (PE Firm). Low Risk Some deficiencies in their internal controls over financial reporting detected by external auditors (OM). No issues with auditors Company currently involved in a number of legal proceedings that are mostly ordinary course of our business, including disputes related to intellectual property rights

Transparency		
Third Party ESG Research	Company Disclosure	Analyst direct conversation with company
Their business may be adversely affected by the alleged health risks of antenna sites and the use of mobile telephones. They are aware of allegations that there may be health risks associated with the effects of electromagnetic signals from antenna sites, mobile telephones and other telecommunications devices.	- Private Company but good quality disclosure in AR and OM	Good level of interaction and openness, although interactions have been limited to analyst calls and group meeting in selected conferences.

Improvement	
Company measures to address Risks	Execution on mgmt internally set ESG objectives
No measure taken so far in regards to the detected internal audit deficiencies	na

Monitoring and Engagement
We are engaging with company regarding their audit deficiencies and expect to have more clarity from management on the issue in the short term

Arcano Capital S.G.I.I.C. S.A.U.
C/ José Ortega y Gasset, 29
28006 Madrid. – Spain
+34 91 700 38 80

INVESTOR RELATIONS

Pedro Hamparzoumian phamparzoumian@arcanopartners.com
Jaime Gil-Delgado jgildelgado@arcanopartners.com
Luis Roy lroy@arcanopartners.com
Carlos Osés coses@arcanopartners.com

Signatory of: PRI Principles for Responsible Investment