

## TENAX HEALTH CARE FUND (“THE FUND”) – ESG CHARACTERISTICS

### TRANSPARENCY OF THE PROMOTION OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS AND OF SUSTAINABLE INVESTMENTS

#### 1 Introduction

1.1 Article 10 of the EU Sustainable Finance Disclosure Regulation (“SFDR”) requires financial market participants to publish and maintain on their websites the following information for each financial product referred to in Article 8(1) and Article 9(1), (2) and (3):

- 1) a description of the environmental or social characteristics or the sustainable investment objective;
- 2) information on the methodologies used to assess, measure and monitor the environmental or social characteristics or the impact of the sustainable investments selected for the financial product, including its data sources, screening criteria for the underlying assets and the relevant sustainability indicators used to measure the environmental or social characteristics or the overall sustainable impact of the financial product;
- 3) other relevant information required by SFDR.

1.2 Against this background, the following is designed to summarise the Fund’s approach to integration of environmental, social & governance (“ESG”) characteristics. For further details, please refer to the Prospectus Supplement.

1.3 In what follows, Tenax Capital Limited is referred to throughout as “the Investment Manager”.

#### 2 What approach does the Fund take to the integration of ESG characteristics?

2.1 The Fund aims to promote certain ESG characteristics, and to comply with SFDR Article 8 . But it will not have sustainable investment or impact investing as objectives. It is not designed to be SFDR Article 9-compliant.

#### 3 What specific ESG characteristics are promoted by the Fund, and how are they integrated into the proposed investment strategy?

##### *ESG focus*

3.1 The investment objectives and strategy of the Fund promote social, rather than environmental, characteristics. SFDR Recital 1 makes clear that the disclosure framework set out in SFDR needs to be viewed within the over-arching framework of the 2016 UN Sustainable Development Goals (“SDG”). The investment objectives and strategy of the Fund are directly relevant to SDG 3 (‘Good Health and Well-Being’) and SDG 9 (‘Industry, Innovation and Infrastructure’), as well as to the detailed targets and indicators for SDG 3 and SDG 9 subsequently published by the UN in 2017.

- 3.2 The Fund will promote sustainable development by supporting investment in the healthcare and biotechnology sectors, with a particular focus on investments with strong, independent ESG ratings and/or where fundamental and quantitative analysis suggests a strong ESG rationale for making the investment. Healthcare and biotechnology companies can achieve significant social value by providing life saving and quality of life enhancing drugs, particularly where these can be made available to the wider population.
- 3.3 The Fund will promote environmental and social characteristics by focusing on investments in the healthcare, medicine and biotechnology sectors that promote safe, high-quality healthcare for as many people as possible.
- 3.4 The Fund does not have, as its objective, sustainable investment in the technical sense that this term is used in SFDR Article 9. However, the Fund may invest in healthcare and biotechnology companies that would qualify for inclusion in an Article 9-compliant fund as part of a balanced portfolio.

*Investment strategy*

- 3.5 The Investment Manager's team has over 40 years' combined experience of investment analysis which includes the healthcare and biotechnology sectors. The Investment Manager believes that a detailed knowledge of stock specifics is a key driver of superior stock performance. The Investment Manager will undertake analysis and research, including analysis of relevant ESG ratings, to evaluate the environmental and social characteristics of potential investee companies. Further details on the approach to use of ratings are set out below.
- 3.6 The Fund will promote sustainable development by supporting investment in the healthcare and biotechnology sectors, with a particular focus on investments with strong, independent ESG ratings and/or where fundamental and quantitative analysis suggest a strong ESG rationale for making the investment.
- 3.7 The Fund will be actively managed and will employ a predominantly bottom-up, research-based approach. In practice, this means that potential investee companies will be evaluated with the greatest emphasis on their ability to generate long-term capital growth. The Investment Manager will undertake this research using its own proprietary quantitative models to screen stocks within the investment universe. Based on the outcome of this research, and in accordance with the investment policies above, the Investment Manager will determine the overall allocation between securities.
- 3.8 The Investment Manager may also use top-down analysis to identify global or sectoral trends that could give rise to suitable investment opportunities. The proprietary quantitative models the Investment Manager uses to screen the investment universe also incorporate macro-economic variables, such as interest rates, equity risk premium, and GDP growth. The investment team will track and analyse macro-economic data in order to assess how the economic cycle can affect the relative and absolute performance of the health care sector.
- 3.9 The Investment Manager will typically invest a minimum of 55% of the Fund's Net Asset Value in securities deemed to promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics, issued by companies that follow good governance practices. To this end, the Fund will take due account of ESG factors in its investment strategy. In particular, the Fund will consider a range of environmental and social characteristics when making or monitoring its investment decisions. Environmental characteristics include, but are not limited to, mitigation of and adaptation to

climate change, water and waste management, and biodiversity, while social characteristics include, but are not limited to, health and well being, labour conditions, workplace safety, employee welfare and the integrity of supply chains. The Fund will aim to comply with the investor disclosure provisions of SFDR Article 8 to demonstrate how it takes account of ESG characteristics to existing and prospective investors.

- 3.10 While the Fund intends to invest primarily on a long only basis, it may also have synthetic short exposure through the use of financial derivative instruments (“FDIs”). This shorting strategy is intended to reduce exposure to a particular asset without having to sell some or all of the Fund's holdings.

#### **4 What use, if any, will the Fund make of ESG ratings?**

- 4.1 The Fund intends to make use of ESG ratings and primary research (fundamental and quantitative analysis) to select suitable investments. Examples of the ratings providers utilised by the Investment Manager include Sustainalytics and MSCI; such ratings will be an essential component of the Investment Manager’s ESG analysis. Sustainalytics provide analytical ESG research, ratings and data to institutional investors and companies. MSCI’s ESG ratings are designed to measure a company's resilience to long-term, material ESG risks; MSCI uses a rules-based methodology to identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers. Within the healthcare universe, 55% of companies are above or equal to A rating and 78% are above or equal to BBB. The Fund will use quantitative analysis to rank and score investment opportunities. ESG ratings will be one of the essential components of the Fund’s scoring system.

#### **5 Will the investment strategy be aligned with the EU taxonomy?**

- 5.1 The EU taxonomy is primarily relevant to investments that promote environmental characteristics. The Fund promotes social characteristics, in line with SDG 3 and SDG 9 (see above). To the extent that investment in the healthcare and biotechnology sectors also promotes environmental characteristics, there may be a degree of alignment with the EU taxonomy, but we would expect this to be less than for a fund mainly intended to promote environmental characteristics.

#### **6 How will the Fund evaluate sustainability risk?**

- 6.1 Sustainability risks include any potential or actual material negative impact on the value of an investment because of an ESG event or condition. Sustainability risks can either represent a risk of their own, or have an impact on other risks, such as market risk, operational risk, liquidity risk or counterparty risk. Sustainability risk may also have an impact on long-term risk adjusted returns for investors. Assessment of sustainability risks is complex and may be based on ESG data which are difficult to obtain and incomplete, estimated, out of date, or otherwise materially inaccurate. Even when identified, there can be no guarantee that these data will be correctly assessed.
- 6.2 A wide range of sustainability-related risks apply to companies operating in the healthcare and biotechnology sectors. Environmental risks include, but are not limited to: the ability of companies to mitigate and adapt to climate change, exposure to increasing water scarcity and potential for higher water prices, waste management challenges, and the impact of production and research activity on global and local ecosystems. Social risks include, but are not limited to: patient welfare, risks associated with fragile public health systems, supply chain management, labour standards, health and safety, human rights, data privacy, and regulation of technology. Governance risks include board composition and effectiveness, management incentives, conflicts of interest, management quality and alignment of management with

shareholders. Failure to manage these risks effectively can lead to a deterioration in financial outcomes, as well as a negative impact on society and the environment. The Investment Manager has established a due diligence and monitoring process to evaluate these risks. However, prospective investors should note that the Investment Manager cannot guarantee that investee companies will invariably manage these risks effectively.

- 6.3 Equity and equity-like instruments that are bound to the performance of a company are deemed to be investments that inherently carry the highest level of sustainability risk. The market value of an equity instrument will often be affected by environmental, social or governance events or conditions such as natural disasters, global warming, income inequality, anti-consumerism or malicious governance and this may have an impact on the Fund's returns.
- 6.4 The market value of securities of issuers in the healthcare and biotechnology sectors may be adversely affected by factors such as rising costs of medical products and services, pricing pressure, changes to government regulation, media coverage of health issues, the response of governments to health emergencies, restrictions on government reimbursement for medical expenses, costs associated with obtaining and protecting patents, product liability and other claims, changes in technologies and other market developments.

**7 What use, if any, will the Fund make of benchmarks?**

- 7.1 This Fund does not have a reference benchmark designated for the purpose of attaining the environmental or social characteristics promoted by the Fund. However, the Fund's environmental and social characteristics are measured relative to the MSCI AC World Health Care Index.

**8 How will the use of derivatives help the Fund to promote environmental or social characteristics?**

- 8.1 While derivatives will be permitted, we envisage that their use will be limited. For further details on how derivatives may be used, please refer to the Prospectus Supplement.

**9 What sustainability indicators are used to measure the attainment of the environmental or social characteristics promoted by this Fund?**

- 9.1 As part of the investment process, it is intended that the Fund will develop a range of relevant sustainability factors to use in conjunction with ESG ratings and fundamental bottom-up research. The Investment Manager's current thinking on this is summarised below. However, this is a work-in-progress and the Investment Manager intends to refine its methodology prior to, and after, the launch of the Fund.

*Binding exclusion criteria*

- 9.2 The intention is to make use of certain 'binding' sustainability exclusion criteria. Involvement by an issuer in the activities specified below would normally result in the investment being ineligible. These exclusions will be applied on a best-efforts basis, drawing on information from independent ESG rating providers and recognised third party sources.
- 9.3 The following activities will be excluded:

- Production of, or trade in, any product or activity deemed illegal under applicable local or national laws or regulations, or subject to internationally agreed phase-outs or bans as defined in global conventions and agreements, such as certain:
    - hazardous chemicals, pharmaceuticals, pesticides and waste;
    - ozone-depleting substances;
    - endangered or protected wildlife or wildlife products; and
    - unsustainable fishing methods such as blast fishing and drift net fishing in the marine environment using nets more than 2.5 kilometres in length.
  - Production of, or trade in, arms (i.e. weapons, munitions or nuclear products, primarily designated for military purposes).
  - Production of, use of, or trade in, unbonded asbestos fibres.
  - Production of, or trade in, atomic energy or radioactive materials.
  - Prostitution.
  - Production or distribution of marijuana.
  - Crypto-assets.
  - Any business, if any of the following activities represent more than a de minimis proportion of its revenue:
    - gambling, gaming casinos and equivalent enterprises;
    - tobacco or tobacco related products;
    - pornography / adult entertainment.
  - Any business assessed as having seriously breached the United Nations Global Compact (the “UN Global Compact”). The UN Global Compact is a special initiative of the United Nations Secretary-General which calls on companies worldwide to align their operations and strategies with ten principles in the areas of human rights, labour rights, the environment and anti-corruption. Further information is available at [www.unglobalcompact.org](http://www.unglobalcompact.org).
- 9.4 These excluded activities are set out in the Investment Manager’s Responsible Investing Policy, a copy of which is available on request from the Head of Compliance & Risk.

*Non-binding criteria*

- 9.5 The Fund will also use certain ‘non-binding’ ESG criteria to aid the investment decision making process. These will be integrated into both the top-down and bottom-up screening approach for all investments in the Fund. Please see the slide overleaf for more detail.

## BOTTOM UP ESG ANALYSIS



- Beyond Sustainalytics and MSCI ESG screening the Fund use proprietary analysis to further strengthen his ESG policy.
- The Pharmaceutical and Health Care sector presents a number of topics that have ESG relevance
- For each investment ESG criteria are evaluated on a bottom up basis

Inputs	ESG Criteria
Customers	Productlabelling Customer satisfaction Customer access to necessities (access to medicines).
Product	Productsafety (including impact from usage).
Supply Chain	Sustainableprocurement. Supplychain disclosures- transparency to customer.
Human Capital	Health and safety. Education- secondary, tertiary % of workforce.
Reputation	Corporate governance Risk Management in respect of all the above.

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### *Trigger events*

- 9.6 Should the ESG rating of an investment held by the Fund change to negative, or breach the sustainability exclusion criteria detailed above, the Investment Manager will determine how best to either liquidate the position, if appropriate, or where applicable take action to remediate the situation through active engagement with the issuer. The Investment Manager will abstain from investing in similar investments going forward until the identified ESG issue(s) is resolved.

### **10 What is the policy to assess good governance practices of the investee companies?**

- 10.1 Since the Fund does not include impact investing among its objectives, we do not envisage routine engagement with investee companies. However, we consider the strength of corporate governance to be a key driver of sustainable performance, and will therefore embed this within the investment strategy, together with consideration of any adverse information about business integrity issues.
- 10.2 For those issuers considered eligible, the assessment of good governance will include transparency of ownership and control, board structure and independence, alignment of remuneration, and accounting matters. We will also take account of compliance with generally accepted standards of business integrity. The Investment Manager will seek to satisfy itself that good governance practices are in place.

### **11 What asset allocation is planned for the Fund?**

- 11.1 The Investment Manager will typically invest a minimum of 55% of the Fund's Net Asset Value in



securities deemed to promote, among other characteristics, environmental or social characteristics, or a combination of those characteristics, issued by companies that follow good governance practices. See the section on the Fund's investment strategy above for further details.

**12 Does this Fund take into account principal adverse impacts on sustainability factors?**

12.1 As the Fund does not have sustainable investment as one of its objectives, it does not plan to make formal use of principal adverse impacts. A range of indicators will be used to assess whether investments (actual or potential) are likely to promote ESG characteristics.

**13 Where can I find further details on the investment strategy?**

13.1 Further information on the ESG policy of the Fund and the Company's corporate approach to sustainability can be found at <https://www.tenaxcapital.com/Legal/ESG>.