Sustainable Finance Disclosures (SFDR EU 2019/2088)

Table of contents

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1. Introduction

Renta 4 Luxembourg S.A. (hereinafter "R4L" or the "IFM"), is an investment fund manager authorised by the Luxembourg supervisory authority, i.e. the *Commission de Surveillance du Secteur Financier* ("CSSF"), as a management company pursuant to Chapter 15 of the Luxembourg law of 17 December 2010 on undertakings for collective investment (hereinafter "UCI Law") and as an alternative investment fund manager pursuant to article of the Luxembourg law of 12 July 2013 on alternative investment fund managers (hereinafter "AIFM Law").

Within the scope of its regulatory authorization, R4L manages funds that qualify as undertakings for collective investment in transferable securities ("UCITS") or alternative investment funds ("AIF").

2. Legal framework

2.1. Sustainability-related disclosures for the financial market participants – application

Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector (hereinafter "SFDR") entered into force on 10 March 2021.

The main objective of the SFDR is to enhance transparency on:

- the integration of sustainability risks,
- the consideration of adverse sustainability impacts,
- the sustainable investment objectives, and
- the promotion of environmental or social characteristics, in investment decision-making and in advisory processes.

In accordance with Article 2 of the SFDR, the IFM is a financial market participant, thus, these transparency requirements apply to both: the IFM and the managed products.

3. Transparency of sustainability risk policies

3.1. Sustainability risk: Definition and interrelation with traditional risk categories

According to article 2 (22) of the SFDR, sustainability risk means an environmental, social or governance (hereinafter "ESG") event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

Both the UCI Law and the AIFM Law, are the result of the transposition into national law of the relevant European directives (i.e. the so-called "UCITS Directive" and "AIFM Directive"), supplemented by delegated regulations and directives, notably (i) the Commission Directive 2010/43/EU of 1 July 2010 as amended notably by the Commission Delegated Directive (EU) 2021/1270 of 21 April 2021 (for UCITS) and (ii) the Commission Delegated Regulation (EU) No 231/2013 of 19 December 2012 amend notably by Commission Delegated Regulation (EU) 2021/1255 of 21 April 2021 (for AIFM). These regulatory frameworks also define the relevant risk categories that the IFM must assess and monitor on an ongoing basis for the sub-funds under its management.

These risk categories are represented by:

- market risk
- liquidity risk

- counterparty risk
- credit risk
- operational risk
- sustainability risk

Sustainability risks may have an impact on all others risk categories listed above.

The IFM manages sustainability risks that may arise when making investment decisions as well as on an ongoing basis during the management of existing investments as follows:

- on an ex-ante basis, as part of the investment decision-making process; and
- on an ex-post basis, as part of the ongoing monitoring of the investments made.

The IFM is aware and fully concerned of the potential impact that sustainability risks may have on the managed sub-funds and their risk-return profiles.

3.2. Sustainability risk: Integration in the investment decision-making process

The IFM is responsible for exercising the portfolio management function for the managed sub-funds, acting on behalf of the managed SICAVs. The exercise of the portfolio management function of the sub-funds is structured as follows:

i. the portfolio management function is performed by the IFM itself (with/without the involvement of an investment advisor); and

ii. in some cases, the portfolio management function is delegated to a qualified investment manager.

The following principles **apply regardless of** how the portfolio management function is structured in relation to the managed sub-funds:

- The sustainability risks are divided into environmental, social and governance aspects. While environmental aspects include, for example, climate protection, social aspects include, for example, the consideration of internationally recognised labour law requirements. Governance aspects include, for example, the consideration of anti-corruption and anti-bribery requirements as well as data protection. The specific sustainability risks that are considered may vary depending on the investment strategy and/or investment theme of a relevant sub-fund.

- The IFM is aware of the potentially significant impact that sustainability risks can have on the managed sub-funds and considers sustainability risks to be relevant for all managed sub-funds.

- The sustainability risks deemed relevant are integrated in the investment decision-making process.

- Sustainability risks can be assessed both qualitatively and quantitatively.

- The investment manager's consideration of sustainability risks aims to identify the occurrence of these risks as early as possible and to take appropriate measures to minimise the impact on the affected assets, as sustainability risks can have a negative impact on the overall risk-return of the managed sub-fund.

- The risk management function of the IFM and the investment manager perform an ongoing monitoring on sustainability risks for all managed sub-funds. Sustainability risks are considered and monitored using information and ESG and impact scores sourced from Clarity AI Europe S. L.

("Clarity AI"), an ESG information provider of recognized prestige and with extensive experience in the analysis and compilation of this type of information.

- The consideration of sustainability risks and their ongoing assessment may lead to the disinvestment of certain investments in the event of an increase in the sustainability risk and consequent negative impact on the return of a concerned sub-fund.

i. Integration of sustainability risk in the investment decision-making process when the portfolio management activity <u>is performed by the IFM</u>:

The sustainability risks deemed relevant for any sub-fund, based on the relevant investment strategy, are taken into account in the investment decision-making process in accordance with the provisions described in the investment process of the IFM.

The risk management function performs analysis at position level for each sub-fund, taking into account: the instrument types (equities, bonds, money-market instruments, cash or financial derivative instruments), sector activity and geographical exposure.

ii. Integration of sustainability risk in the investment decision-making process when the portfolio management activity <u>is delegated</u>:

The IFM may delegate the portfolio management activity to a qualified investment manager. The delegate investment manager will be responsible for investment decisions and the consideration of sustainability risks within the investment decision-making process.

The risk management function performs analysis at position level for each sub-fund, taking into account: the instrument types (equities, bonds, money-market instruments, cash or financial derivative instruments), sector activity and geographical exposure.

The IFM monitors the quality of the services provided by a delegated investment manager on an ongoing basis. In order to comply with its legal obligations, the IFM implements a contractual arrangement and an appropriate due diligence process to verify that investment decisions made by a delegated investment manager comply with regulatory and legal requirements.

The IFM continuously monitors the integration of sustainability risks at following levels:

- By performing review of the investment decision-making process of the delegated investment manager as part of the periodic due diligence; and

- By continuous monitoring of the sustainability risks associated to the sub-funds managed by the delegated investment manager.

3.3. Sustainability risk: Ongoing monitoring

The ongoing monitoring of sustainability risks is ensured by the risk management function of the IFM through the integration of the applicable sustainability risks within the risk profile of each managed sub-fund by considering relevant sustainability risk indicators/factors.

The identification and selection of the relevant sustainability risk indicators/factors and their application to the relevant sub-fund is based on:

- investment strategy of the relevant sub-fund,
- adequate data and information (quantitative) as sourced from Clarity AI.

The risk profiles, relevant metrics and escalation process are described in the risk management procedure of the IFM, as amended from time to time.

The IFM defined internal risk limits in relation to sustainability risks for the sub-funds managed. The risk limits describe the maximum risk to which a sub-fund may be exposed with respect to a certain risk type.

The IFM accesses information from external data sources (e.g. Clarity AI) to calculate the overall sustainability (risk) exposure of a sub-fund portfolio based on the defined sustainability factors. The results of the assessment are compiled and constantly monitored by the risk management function against the limits set in the sub-fund risk profile.

In case the overall sustainability risk exposure of the relevant sub-fund is above the limits for a sustainability factor of an investment, it will be directly reported to the IFM's competent conducting officer and the relevant investment manager.

3.4. Sustainability risk: Reporting

The risk management function of the IFM reports periodically to the executive committee of the IFM (the "Executive Committee") and the board of directors of the IFM and the funds (the "Board of Directors") on the overall risk exposure of the sub-funds based on the results of the ongoing monitoring performed on the applicable risk indicators, as defined in the risk profile. Such reporting is performed on sub-funds managed internally as well as by delegated investment managers.

The portfolio management function and compliance function of the IFM report regularly to the Executive Committee and the Board of Directors on the results of due diligence and ongoing monitoring regarding the delegated investment managers.

4. Transparency of adverse sustainability impacts

Principal adverse impacts ("PAIs") of investment decisions on sustainability factors in accordance with article 4 (1) of the SFDR are not considered by the IFM at entity level as they are either (i) directly considered by the delegated investment manager at product level or (ii) not relevant in view of the financial products' investment policies. Indeed, for the sub-funds managed internally by the IFM, at the date of publication of this document, the IFM performs portfolio management activities only for feeder funds that follow the strategy of the master funds, or for an alternative fund for which the consideration of PAIs is not deemed relevant in view of its investment policy.

At financial products level however, PAIs of investment decisions on sustainability factors are considered for sub-funds managed by delegated investment manager. For these sub-funds, the IFM only monitors the PAIs. More information on the PAI consideration by the investment manager can be found on the investment manager's website, i.e. *https://www.renta4gestora.com/quienes-somos/prim*

5. Transparency of promotion of environmental or social characteristics and of sustainable investments

The description of the environmental and social characteristics and/or the sustainable objective of the relevant SICAV/sub-funds managed by R4L is published on our website.

Pre-contractual disclosures are available in the special section of the prospectus of the relevant SICAV for the relevant sub-fund.

Periodic reports are included in the relevant fund's annual reports (sustainability section).

6. Transparency of remuneration policies in relation to the integration of sustainability risks

R4L's remuneration policy can be found on our website.

SFDR requires R4L to include in its remuneration policy information on how its policy is consistent with the integration of sustainability risks.

R4L's remuneration policy is consistent with and promotes sound and effective risk management and does not encourage risk-taking (including sustainability risks) inconsistent with the risk profile, rules or instruments of incorporation of the sub-funds managed. The remuneration policy is in line with the business strategy, objectives, values and long-term interests of IFM, such as sustainable growth prospects, and is consistent with the principles relating to the protection of clients and investors in the course of services provided.

When the IFM delegates the portfolio management of sub-funds, the delegate(s) will ensure that their respective remuneration policy is also consistent with the integration of sustainability risk.