

Annex 4 - Template pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Product name: LUXEMBOURG SELECTION FUND – Arcano Legal entity identifier:
 Low Volatility European Income Fund – ESG Selection (the “Subfund”) 549300J3812DUD4QWP56

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?	
<input checked="" type="radio"/> <input checked="" type="radio"/> <input type="checkbox"/> Yes	<input checked="" type="radio"/> <input type="radio"/> <input checked="" type="checkbox"/> No
<input type="checkbox"/> It will make a minimum of sustainable investments with an environmental objective: ___% <ul style="list-style-type: none"> <input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy 	<input type="checkbox"/> It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of <u>5</u> % of sustainable investments <ul style="list-style-type: none"> <input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy <input checked="" type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy <input checked="" type="checkbox"/> with a social objective
<input type="checkbox"/> It will make a minimum of sustainable investments with a social objective: ___%	<input type="checkbox"/> It promotes E/S characteristics, but will not make any sustainable investments



What environmental and/or social characteristics are promoted by this financial product?

The Subfund 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.

No reference benchmark has been designated for the purpose of attaining the environmental and social characteristics promoted.

Sustainability indicators measure how the environmental or social characteristics promoted by the financial product are attained.

- ***What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?***

The above characteristics are measured using the following indicators respectively:

- Environmental indicators:
 - I. Existence of an environmental policy: measuring if they have no environmental policy: some environmental engagements or a policy with quantitative objectives.
 - II. Capex in risk locations: measuring if they have capex in risky environmental locations or not at all.
 - III. Energy consumption: calculated as a combination of gross value, trend and peers comparison.
 - IV. Greenhouse gas emissions: calculated as a combination of gross value, trend and peers comparison.
 - V. Geographic exposure to natural disasters: measuring if it is extremely high or very low (passing through an intermediate range).
 - VI. Level of environmental controversies: measuring if they have major controversies or no controversies at all (passing through an intermediate range).
- Social indicators:
 - I. Importance of human resources: measuring if they have a group HR director, no director or the HR director is a member of the Executive Committee.
 - II. % of the workforce in countries with Human Rights problems: measuring if it is extremely high (>50%) or 0% (passing through an intermediate range).
 - III. Staff turnover: calculated as a combination of gross value, trend and peers comparison.
 - IV. Frequency of occupational accidents: calculated as a combination of gross value, trend and peers comparison.
 - V. Restructuring of provisions as a % of Ebitda: ranging from >50% to <5% (passing through an intermediate range).
 - VI. Level of social controversies: measuring if they have major controversies or no controversies at all (passing through an intermediate range).

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

- ***What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?***

The objectives of the sustainable investments that the financial product partially intends to make is to contribute to the environmental and social characteristics promoted by the Subfund.

- ***How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***

For the sustainable investments the Subfund partially intends to make, the Portfolio Manager adheres to the relevant indicators for principal adverse impacts on sustainability factors and adherence to global norms, i.e. UN Global Compact (UNGC) Principles, OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights. Adherence to the relevant indicators in this question are checked quarterly by a third party. The Portfolio Manager is informed of any breaches and will take corrective actions in case needed.

– How have the indicators for adverse impacts on sustainability factors been taken into account?

The Subfund considers adverse impacts of its investments on society and the environment through a combination of portfolio management decisions, active ownership activities, and exclusion of companies or sectors associated with controversial conduct or activities. The indicators for adverse impacts on sustainability factors that the Subfund focuses on include (but are not limited to) exposure to controversial weapons and violation of UN Global Compact Principles. Adherence to the relevant indicators in this question are checked quarterly end by a third party. The Portfolio Manager is informed of any breaches and will take corrective actions in case needed.

– How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:

Companies violating the United Nations Global Compact (UNGC) principles, who do not demonstrate credible corrective action do not qualify as sustainable investments within the portfolio will be excluded from the investment universe. Adherence to the relevant indicators in this question are checked at quarter by a third party. The Portfolio Manager is informed of any breaches and will take corrective actions in case needed.

The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.



Does this financial product consider principal adverse impacts on sustainability factors?

Yes

The Subfund shall exclude any exposure to issuers involved in controversial weapons and war materials. Issuers violating global norms such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights and who do not demonstrate credible corrective action do not qualify as sustainable investments within the portfolio. Adherence to the relevant indicators in this question are checked quarterly by a third party. The Portfolio Manager is informed of any breaches and will take corrective actions in case needed.

More information on the principal adverse impacts on sustainability factors will be made available in the periodic report in accordance with Article 11(2) of the SFDR.

No



What investment strategy does this financial product follow?

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

The Fund promotes and attains the environmental and/or social characteristics by a five-step approach well defined in its investment strategy.

The five-step approach is the following:

1. **Data gathering:** The portfolio manager collects data on the ESG performance of potential investments by performing an ESG due diligence on them. In addition to the internally performed due diligence, ESG factors are evaluated by the portfolio manager using data - when available- from independent ESG research providers, which form part of the portfolio manager’s investment analysis. Based on the data gathered, the investment analysts of the portfolio manager determines the ESG compliance of companies in accordance with both negative and positive criteria (i.e. negative criteria which, if present,

prevent the Subfund from making a certain investment) and positive criteria (i.e. criteria which are considered with respect to a potential investment in order for the Subfund to be allowed to make the investment).

2. Application of negative criteria: The portfolio manager applies a negative screening policy by which it excludes from the Subfund's investment universe securities directly or indirectly linked to companies the primary business activity (as defined below) of which entails controversial practices, including at least but not limited to:
- a) Production of or trade in weapons and firearms,
 - b) Extraction of oil and gas, thermal coal mining,
 - c) Tobacco,
 - d) Production of protected wildlife threatening substances which is banned by applicable global conventions and agreements,
 - e) Pornography or prostitution,
 - f) Gambling,
 - g) Subprime lending or payday lending activities.

Primary business activity is defined as any relevant business, trade or production from which the obligor derives more than 50% of its revenues.

The portfolio manager also excludes from the investment universe, companies which do not comply with the ten principles of the United Nations Global Compact (an UN corporate sustainability initiative formed on 26 July 2000) and which are rated with an insufficient internal ESG score.

3. Application of positive criteria/Assignment of an internal ESG score: The portfolio manager assigns an internal ESG score to every potential investment on the basis of the data collected. The scores range from 0 to 100, with 100 classified as the best possible score.

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

- The country/sector score assigned to every issuer by external independent ESG Data Providers is used as the base for our ESG risk assessment.
- Based on analysts' interaction with the company and on all internally gathered ESG information.
- The investment committee may propose a downward or upward adjustment of up to 20 points to the external independent ESG score. This is meant to reflect the portfolio manager appreciation of the 3 following factors:
 - Quality: this factor reflects the insights from the portfolio manager 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. Improvement: this adjustment is meant to capture the expected forward evolution of ESG risk for the company not taken into account in the initial ESG 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.

- **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.

To calculate ESG weights, the portfolio manager uses the implementation of scoring bands. Each issuer in the baseline index is bucketed into bands 1 – 5:

- Band 1 = Scores equal to or higher than 80
- Band 2 = 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 Scores
- Band 5 = Scores lower than 20

Each band functions as a scale which is utilized in the overall ESG integration approach as further described below.

4. **Impact of ESG scores on investment allocation:** The internal ESG score limits the possible maximum exposure of the Subfund to (i) a certain potential investment, and (ii) total investments with regards to a certain category of investments. Please refer to next question for further details. Regardless of the maximum exposure determined by the Subfund, the limits set by applicable regulatory laws and rules apply to each of the potential investments.
 5. **Monitoring and engagement:** Reviews of assigned scores are carried out quarterly and may in addition occur on a punctual basis (triggered by any ESG related news, events or by proposal of the competent persons as determined by the portfolio manager). At the time of the assignment of the ESG score, the portfolio manager sets engagement targets, upon which companies' performance is evaluated quarterly. In the event of any ESG related news or events affecting a company whose securities are held in the portfolio of the Subfund, the company's performance is reviewed and the portfolio manager makes the relevant decision.
- ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

The Subfund does not invest in companies:

- For which the negative exclusion criteria apply.
- That do not comply with the ten principles of the United Nations Global Compact.

In addition, the Subfund follows the following binding investment restrictions depending on the implemented ESG scoring band assigned to the issuer:

- Issuers in Band 1 have no weighting limitation (subject to the general investment restrictions set out in the prospectus and in the 2010 Law).
- Issuers in Band 2 may represent a maximum weight of 3.5% in the portfolio (per issuer).
- Issuers in Band 3 may represent a maximum weight of 2.75% in the portfolio (per issuer). The sum of all issuers in Band 3 shall not represent more than 45% of portfolio allocation.
- Issuers in Band 4 may represent a maximum weight of 2% in the portfolio (per issuer). 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.
- 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 one (1) month to dispose the totality of the position.

● ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

Not applicable.

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

Good governance practices include sound management structures, employee relations, remuneration of staff and tax compliance.

Good corporate governance is a key driver of sustainable performance and is therefore embedded in the portfolio manager's investment strategy. The portfolio manager uses the results of internal and external assessments to exclude companies perceived to violate key issues related to 'Good Governance', with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

The assessment of good governance includes consideration of board structure and independence, remuneration alignment, transparency of ownership and control, and financial reporting.

Companies violating the United Nations Global Compact (UNGC) principles, which do not demonstrate credible corrective action will be excluded from the investment universe. The Portfolio Manager applies a proprietary ESG risk assessment that combines multiple ESG data sources from internal and recognized external providers to identify companies with material ESG risks. The detailed internal ESG scoring is conducted before making any investment decision.



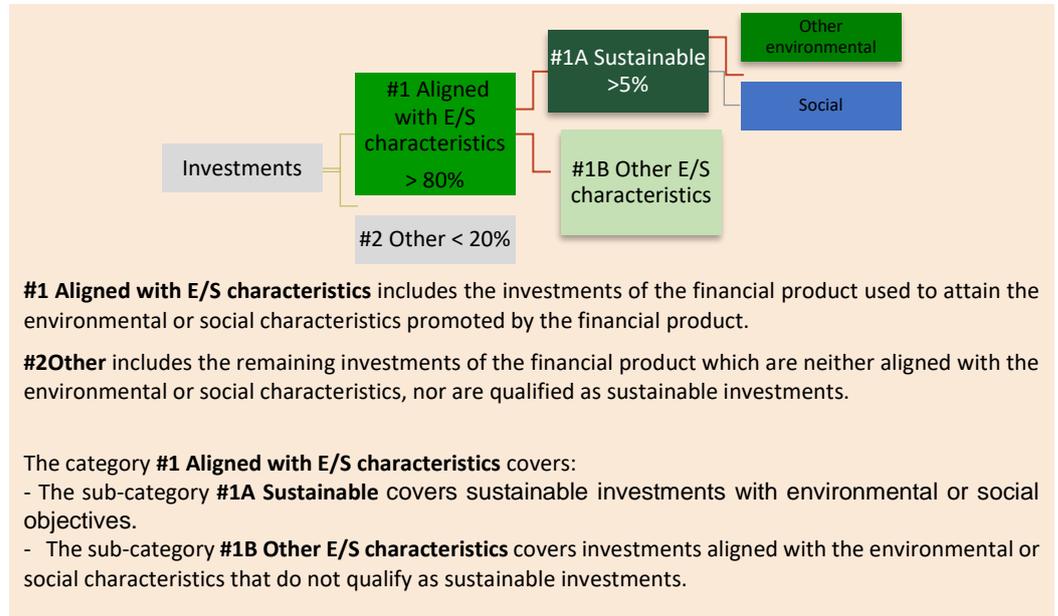
Asset allocation describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

What is the asset allocation planned for this financial product?

As of today, the minimum asset allocation in #1 is 80% (with a minimum asset allocation in #1A of 5%) and the maximum allocation in #2 is 20%. The Subfund intends to increase the allocation to “#1 Aligned with E/S characteristics” should the investible universe evolve to allow a higher level of investment.



● **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

Where the Subfund makes use of financial derivative instruments for investment purposes, the portfolio manager applies a look through approach in order to evaluate the ESG score of the instrument based on the underlying exposure. For financial derivative instruments based on a single name underlying, an ESG review of the underlying corporate is carried on. For financial derivative instruments based on a basket of underlying names, the ESG score assigned to the instrument will be equal to the weighted average score of the underlying names.



To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

The Subfund does not currently commit to invest in any “sustainable investment” within the meaning of the Taxonomy Regulation. However, the position will be kept under review as the underlying rules are finalised and the availability of reliable data increases over time.

Sustainable investments with an environmental objective aligned with the EU Taxonomy are a minimum of 0%.

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

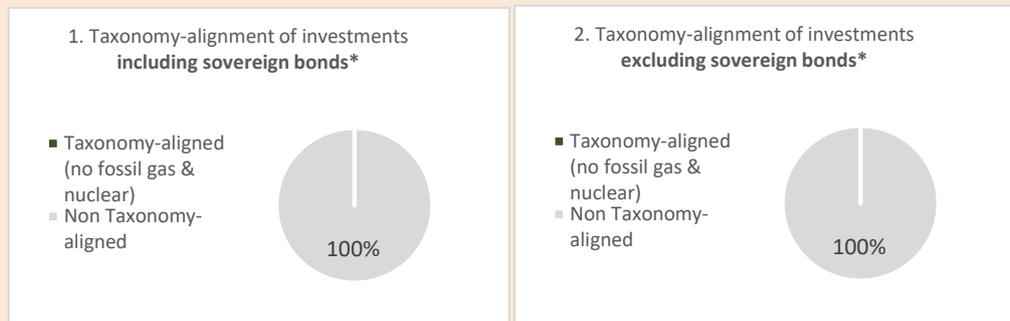
- **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy⁸?**

Yes:

In fossil gas In nuclear energy

No

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.*



* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.

- **What is the minimum share of investments in transitional and enabling activities?**

As the Subfund does not commit to invest any “sustainable investment” within the meaning of the Taxonomy Regulation, the minimum share of investments in transitional and enabling activities within the meaning of the Taxonomy Regulation is therefore also set at 0%.



What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

⁸ Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do not significantly harm any EU Taxonomy objective – see explanatory note in the left-hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.



are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.

The Subfund invests in economic activities which are environmentally sustainable but not EU Taxonomy aligned, this is due to the absence of the required implementing legislation and in particular the absence of the necessary taxonomy-related data provided by the investee companies and of a well-defined calculation methodology. The Subfund targets a minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy greater than 0%.



What is the minimum share of socially sustainable investments?

The Subfund targets a minimum share of socially sustainable investments greater than 0%.



What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?

“Other” Investments may include investments in liquid assets (cash and cash equivalents) held for the purposes of servicing the day-to-day requirements of the Subfund, commercial paper and other money market instruments, money market funds and monetary type of UCITS and other UCIs (within the limit set out by the 2010 Law), bonds including floating rate notes or investments for which there is insufficient data to be considered ESG-related Investment.



Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

Not applicable as no reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Subfund.



Where can I find more product specific information online?

More product-specific information can be found on the website: <https://www.fundinfo.com/>