

Luxembourg Selection Fund - Arcano Low Volatility European Income

Sustainability-related disclosures

Summary

The Luxembourg Selection Fund – Arcano Low Volatility European Income Fund – ESG Selection (the “Subfund”) is an Article 8 financial product for the purposes of Regulation (EU) 2019/2088 (“SFDR”) which promotes environmental or social characteristics, but does not have as its objective sustainable investment. The Subfund will have a minimum proportion of 5% of sustainable investments with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy (Regulation (EU) 2020/852) (the “EU Taxonomy”) and with a social objective.

The Subfund’s investment objective is to offer a balanced low volatility investment strategy that generates attractive returns. The Subfund promotes and attains the environmental and/or social characteristics by a different approaches, depends of the instrument, well defined in its investment strategy, see below. To assess whether the Subfund’s investments do no significant harm, the portfolio manager applies the indicators as mentioned below. 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 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 do not demonstrate credible corrective action and companies which are rated with an insufficient Arcano ESG score.

The Subfund is expected to dedicate 80% to investments, that are aligned with the environmental or social characteristics promoted. A minimum of 5% of these aligned investments are sustainable. The portfolio manager assigns an Arcano ESG score to every potential investment based on the data collected. The scores range from 0 to 100, with 100 classified as the best possible score. Beside a quarterly review of the investments any ad-hoc indication can trigger a revision of the applied ESG scoring. The portfolio manager performs exclusions and applies an ESG score to potential investments as outlined under Investment Strategy.

For the monitoring and engagement of the environmental or social characteristics promoted by the financial product, 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).

The Subfund follows the methodology depending on the implemented ESG scoring band assigned to the issuer, see below further described in section “Methodologies”.

Regarding data sources and processing, the portfolio manager uses data from independent ESG research providers - when available - to evaluate ESG factors. In addition to the due diligence performed by external providers, the portfolio manager collects data on the ESG performance of potential investments by performing an internal ESG due diligence on them. The proportion of data estimated is approximately 30% of the total data used for the Arcano ESG Score.

Furthermore, he uses data sources from external service providers and performs own due diligence and research. Accuracy of data is also dependent on 3rd party providers, coverage of data sources can be less than 100% due to uncovered asset types, incomplete or inconsistent data and gaps in the coverage of these 3rd party providers.

The principal limitations to the methodologies or data sources that the Subfund faces is mainly the lack of information disclosure some companies of the portfolio can display. To ensure such limitations do not affect how the environmental or social characteristics are promoted, when a company misses any relevant KPIs we measure, it is considered by the transparency criteria defined in section “Investment Strategy”,

Due diligence is carried out based on in-house ESG scoring and data providers. The environmental or social characteristics are considered as part of the investment selection process. Furthermore, the Subfund consider engagement targets.

The Subfund is actively managed. No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Subfund.

No sustainable investment objective

The Subfund promotes environmental or social characteristics, but does not have as its objective a sustainable investment.

To ensure that the Subfund is not causing significant harm to any sustainable environmental or social investment objectives; the Subfund will report the Principal Adverse Impacts (PAIs) as set out in the Delegated Regulation (EU) 2022/1288 of the European Commission. These PAIs will be reported on an annual basis during the life of the Subfund. One of the criteria applied for the construction of the Subfund's portfolio, is the exclusion of issuers that present a verified non-compliance with the established standards, taking as a basic normative framework the United Nations Global Compact Principles, the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles for Business and Human Rights. These principles rule out investment in companies that, for example, violate human rights or international laws, engage in forced or child labor, or that are involved in ongoing environmental violations.

Environmental or social characteristics promoted by the financial product

The Subfund promotes the following environmental and social characteristics:

- Environmental characteristics: environmental governance and compliance, renewable energy utilization, carbon footprint and climate impact, energy efficiency, waste management and environmental responsibility and reputation.
- Social characteristics: human resource management and leadership, human rights compliance, gender diversity and inclusion and social responsibility and reputation.

Investment strategy

The Subfund has defined a specific approach to the promotion of environmental and social characteristics for the different instruments it invests in.

For investments in bonds issued by corporations or financial institutions, the Subfund promotes and attains the environmental and/or social characteristics through 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 business activity (as defined below) of which entails controversial practices, including at least but not limited to:

- a) Production, sales, and distribution of controversial weapons including anti-personnel mines, cluster ammunitions, chemical, biological weapons, white phosphorus, depleted uranium weapons and nuclear weapons,
- b) Extraction of oil and gas, thermal coal mining,
- c) Production, sale, and distribution of tobacco and related services,
- 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.

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 sale and distribution of tobacco and related products, for which a threshold of 15% of total revenues applies; and iii) for the production, sale and distribution of controversial weapons, for which a zero tolerance principle applies.

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 do not demonstrate credible corrective action and companies which are rated with an insufficient Arcano ESG score.

3. Application of positive criteria/Assignment of an Arcano ESG score: The portfolio manager assigns an Arcano 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 Arcano ESG 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 investment 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:
 - 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 as well as of the specific characteristics of the instrument (including an analysis of green/sustainability-linked features).
 - 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 Arcano 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 Arcano 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.

For investments in CLO and ABS in general the Subfund promotes and attains the environmental and/or social characteristics by assigning an Arcano ESG score and a scoring band to every instrument.

The ESG analysis of these instruments hinges on two (2) different steps:

1. ESG analysis of the manager issuing the instrument: 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 instruments itself: 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

For investments in bonds issued by governments or government related agencies, the Subfund promotes and attains the environmental and/or social characteristics by assigning an Arcano ESG score and a scoring band to every instrument.

ESG scores for government bonds are assigned based on four (4) main steps:

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

For investments in UCITS and other UCIs (mainly money market funds and monetary type of UCITS and other UCIs within the limit set out by the 2010 Law), the Subfund promotes and attains the environmental and/or social characteristics by assigning an Arcano ESG score and a scoring band to every instrument.

1. Funds classified as Article 9 under SFDR are included in Band 1 and considered sustainable investments.

2. Funds classified as Article 8 under SFDR are generally included in band 2, 3 or 4 depending on:

- a) Robustness of the negative screening policy;
- b) Integration of ESG screening for all lines in the portfolio and/or commitment to engagement activities;
- c) Commitment to realize a percentage of sustainable investments;

3. Funds not classified as Article 8 or Article 9 under the SFDR (Article 6 funds) are generally included in band 4 or 5 depending on the percentage of investments in sectors that are included in the Subfund’s negative screening list (no more than 10% exposure is allowed).

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 (UNG) 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.

Proportion of investments

The Sub-Fund is expected to dedicate 80% to investments, that are aligned with the environmental or social characteristics promoted. From this 80%, up to a 30% might be an indirect investment.

A minimum of 5% of these aligned investments are sustainable.

Monitoring of environmental or social characteristics

For the monitoring and engagement of the environmental or social characteristics promoted by the financial product, 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 Arcano 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.

Methodologies

The Subfund follows the following methodology depending on the implemented ESG scoring band assigned to the issuer:

- 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 Subfund 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.

Data sources & processing

Regarding data sources and processing, the portfolio manager uses data from independent ESG research providers - when available - to evaluate ESG factors. In addition to the due diligence performed by external providers, the portfolio manager collects data on the ESG performance of potential investments by performing an internal ESG due diligence on them. External providers that are integrated in our process:

- SpreadResearch: 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 data from the external ESG research providers forms 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). To ensure data quality, we conduct thorough reviews of the data, and if there are any discrepancies that may indicate an error, we consult directly with the data provider or engage with the company in question for clarification. The data is processed using an internal tool

that consolidates all sources of information from third-party providers, public domain, and directly obtained from the companies. Based on this comprehensive dataset, we calculate the ESG score. The proportion of data estimated is approximately a 30% of the total data used for the Arcano ESG Score.

Limitations to methodologies and data

The principal limitations to the methodologies or data sources that the Subfund faces is mainly the lack of information disclosure some companies of the portfolio can display. To ensure such limitations do not affect how the environmental or social characteristics are promoted, when a company misses any relevant KPIs we measure, it is considered by the transparency criteria defined in section "Investment Strategy", more specifically in the point: "3. *Application of positive criteria/Assignment of an Arcano ESG score*", which affects the overall Arcano ESG Score.

Due diligence

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).

Engagement policies

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 oversees maintaining discussions with the management team and reporting semi-annually to the committee on the progress made by the company on ESG risk policies.

Information on the proxy voting policy, which will be performed by UBS Asset Management AG, can be found here:

<https://www.ubs.com/global/en/assetmanagement/capabilities/sustainable-investing.html>

Designated reference benchmark

The Subfund is actively managed. No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Subfund.