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mintos

SUSTAINABLE FINANCE DISCLOSURE REGULATION

1. GENERAL BACKGROUND

Regulation (EU) 2019/2088 (the Sustainable Finance Disclosure Regulation or 'SFDR') is part of the EU Action Plan on sustainable finance, which aims to reorient investments towards a more sustainable economy, imposing new sustainability-related disclosures and reporting requirements on financial market participants, including Mintos. As an investment firm, we believe in sustainable business practices and sustainable investments., We also have a legal obligation to assess sustainability risks when providing some of our services or products to our clients.

Over the last few years sustainability and ESG (*Environment, Social, Governance*) have been of increased importance and are expected to remain so. But what do these terms really mean?

<u>What is understood by sustainability and ESG and what is their co-relation?</u>

Sustainability and ESG are closely related matters and one can look at ESG as a framework for assessing and implementing sustainable practices in businesses and investments. Sustainable business practices are ones that take into consideration:

Environmental considerations: These involve practices that reduce negative impacts on the natural environment, such as reducing carbon emissions, conserving water, and ensuring sustainable resources.

Social responsibility: The treatment of people within and outside the organization. This includes employee rights and welfare, community engagement, and considering the societal impact of business activities.

Governance practices: Governance in terms of how a company is run, including leadership, executive pay, audits, internal controls, and shareholder rights. Good governance practices ensure accountability and transparency, contributing to sustainable business operations.

By not taking these considerations into account when investing, one might put themselves towards sustainability risk, i.e.:

<u>An environmental, social, or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.</u>

By not taking into account these risks, one might experience a loss on the investment made.

From an investment perspective, there are two things at which to look at:

- Minimizing sustainability risks, hence preserving the value of the investment.
- Facilitating more sustainable investments[1], which overall makes the world more sustainable and has an indirect impact on risk reduction.

Implementing sustainability into investments is a process, not a single event.

At Mintos, we understand that perspectives on ESG and sustainability from different stakeholders are continuously evolving, just like the related legislation and available data. We recognize that finding a solution to reduce sustainability risks and increase sustainable investments is a gradual, iterative process rather than the result of a single event. This approach involves ongoing adjustments to our procedures and strategies over time.

While the criteria for what constitutes sustainable practices continue to evolve, we recognize that the current availability and quality of information and data are significant challenges in incorporating sustainability into investment decisions. Additionally, mindful of the risk of "greenwashing" – the practice of falsely presenting products or practices as more sustainable than they are – our approach to integrating these requirements is careful and deliberate. Throughout this process, we consistently adhere to the principle of "do no harm", to ensure integrity in our sustainability efforts.

Categorizing investments for sustainability purposes

The SFDR currently outlines various investment types in funds, each categorized by their degree of sustainability, providing a useful framework for evaluating investments.

Article 6 Fund: These funds do not significantly integrate sustainability into their investment decisions. Although not classified as "sustainable" investments, they must still disclose how they address sustainability risks and the expected impact of these risks on returns.

Article 8 Fund: Often termed as "light green" funds, these promote environmental or social characteristics but do not primarily focus on sustainable investment. Article 8 funds integrate ESG (Environmental, Social, and Governance) factors to a certain degree in their investment decisions and are required to disclose how they meet these characteristics.

Article 9 Fund: Known as "dark green" funds, these have sustainable investment as their core objective. These funds are dedicated to achieving positive environmental or social impacts and must adhere to more stringent disclosure requirements about their sustainability goals and methods for attaining them.

[1]According to EU regulations, a 'sustainable investment' is defined as an investment in an economic activity that substantially contributes to an environmental objective. This contribution can be measured through indicators such as efficiency in using energy, renewable energy, raw materials, water, and land, the production of waste, greenhouse gas emissions, impacts on biodiversity, and promoting the circular economy. Alternatively, it can be an investment that contributes to a social objective, particularly those that aim to address inequality, enhance social cohesion and integration, improve labor relations, or invest in human capital or communities that are economically or socially disadvantaged. Crucially, such investments must not significantly harm any of these objectives and should ensure that the companies being invested in adhere to good governance practices. This includes robust management structures, healthy employee relations, fair staff remuneration, and compliance with tax regulations.

2. SFDR DISCLOSURES

a. SFDR Article 3 Disclosure

Currently, Mintos does not have its own policy on the integration of sustainability risks in its investment-making decision process.

b. SFDR Article 4 Disclosure

Currently, Mintos does not have a detailed policy on considering the adverse impacts of investment decisions on sustainability factors on an instrument-by-instrument basis.

For our investments in ETF Portfolios, we invest in funds managed by fund managers who are obliged to provide detailed disclosures about these matters, adhering to Regulation (EU) 2022/1288. We are currently engaged in analyzing these disclosures and integrating them into our decision-making process.

For our portfolios composed of Notes backed by Loans, we intend to conduct an analysis to evaluate any potential adverse sustainability impacts these investments might have.

c. SFDR Article 5 Disclosure

Mintos Remuneration Policy promotes sound and effective risk management with respect to sustainability risks, ensuring that the structure of remuneration does not encourage excessive risk-taking with respect to sustainability risks.

d. SFDR Article 6 Disclosure

For ETF portfolio products we currently integrate sustainability risks into investment decisions in the following manner:

When deciding to create an ETF Portfolio, we first review the fund manager. A key factor in our evaluation is their commitment to the United Nations Principles for Responsible Investment (PRI), the most extensive global ESG initiative in the asset-management industry. We prefer ETFs issued by managers who endorse these principles.

Secondly, we examine the underlying ETFs, reviewing their ESG assessments conducted by independent third parties. However, our analysis is currently limited by the availability of information in the market. Although the quality and quantity of this data are improving, it still falls short of the comprehensive assessment required by EU regulations on sustainable investments. Nonetheless, when choosing between similar funds, we give preference to those compatible with SFDR Article 8 or 9.

For our Loan portfolio products, we currently do not incorporate sustainability risks into investment decisions. As for the portfolios consisting of Notes backed by Loans, offered through our portfolio management services, they have not yet been specifically evaluated for sustainability risks, given the relatively novel nature of this asset class. However, we are committed to developing and implementing a methodology to facilitate such assessments in the future

Mintos acknowledges that integrating ESG factors and considering sustainability risks in investment decisions should, in theory, yield better risk-adjusted returns over the long term. However, the current data and studies on this topic are not definitive, particularly since ESG is a relatively recent consideration. Moreover, the global shocks experienced in recent years have sometimes led to improved returns in investments traditionally not seen as sustainable. Although these studies encompass a range of products beyond those offered on Mintos, we have no reason to believe that the findings would significantly differ in our context.

Given this landscape, we have opted for a more cautious approach until more comprehensive data becomes available. Consequently, we are not actively promoting sustainable investments or their specific characteristics at this time. Nonetheless, we are continuously evaluating how the portfolio management services we offer might align more closely with sustainability-promoting activities as defined by EU regulations.