SUSTAINABILITY DUE DILIGENCE POLICY

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1. INTRODUCTION

1.0 Definitions

CFIL: Cantor Fitzgerald Ireland Ltd.
Climate risk: Business risks associated with climate change, including regulatory developments relating to the transition to a low carbon economy, growing natural resource scarcity and potential reputational damage, as well as the direct impacts of climate change on the environment.
DD Policy or Policy: Due Diligence Policy
ESG: Terminology used in investing that sets specific criteria for assessing how companies address environmental, Social and Governance risks and opportunities.
FSB: Financial Stability Board.
ISS: Institutional Shareholder Services Ltd.
PAIs: Principal Adverse Impacts.
RI Policy: Responsible Investment Policy.
SFDR: Sustainable Finance Disclosure Regulation (2019/2088/EU).
SIF Ireland: Sustainable & Responsible Investment Forum Ireland.
Sustainability: Ability to maintain a balance of healthy environmental, social, and economic systems.
Sustainable Development: Economic growth that happens without the depletion of natural resources while meeting human development goals.
SRF: Sustainability Risk Framework.
SRI Team: The Sustainability and Responsible Investing team.
Task Force on Climate-Related Financial Disclosures (TCFD): An industry-led task force, established by the FSB, charged with helping to identify information required by investors, lenders, and insurance underwriters to understand material risks in relation to climate change.

1.1 Overview and Objectives

This Policy is in alignment with the SFDR and summarises the "how-to" of our responsible investing approach, which is based on our CFIL SRF. The SRF is designed to manage sustainability risks as well as identify and prioritise PAI of investment decisions. With this Policy, we provide information on how we manage PAIs, how we engage with companies and the extent to which we integrate internationally recognised standards for responsible business practices. Through this Policy we support the transparency and consistency of disclosure practices advocated in the SFDR.

1.2 Scope

This Policy complements our Responsible Investment Policy and describes our approach to due diligence of sustainability factors during investment and advisory activities as well as product origination. Where clients of our fixed income and equity trading and brokerage activities make their own investment decisions (execution-only), they fall outside the scope of our sustainability policies.

2.0 MAIN BODY

2.1 Roles and Responsibilities

This policy requires Board and its sub-Committee review and approval. Compliance with this Policy is reviewed annually via internal reporting, monitoring, and client engagement. The outcomes of this review are presented to the Executive Committee on an annual basis. Our ESG Steering Committee provides feedback on the implementation of this policy and includes members of our executive team, compliance, senior managers, and specialists in sustainable investing across CFIL. The SRI Team works in close collaboration with all staff members and teams managing ESG risks and opportunities. Our marketing team works with all brokers and investment teams as well as the SRI Team communicating our responsible investment approach and reporting to relevant stakeholders through periodic reporting, conferences/webinars, etc.

2.2 Sustainability Risk Framework (SRF)

Our SRF is the foundation on which our due diligence of sustainability risks and impacts on sustainability factors is built. It describes the processes, governance, and responsibilities within CFIL to identify, evaluate, and manage the sustainability risks and impacts associated with our investing, and advisory activities as well as product distribution. Our SRF allows us to monitor sustainability data as a means to manage risk-taking while remaining cognisant of the impact our investment decisions have on the world. The SRF is supported by our Cantor Risk Management Framework and our Responsible Investment and corporate governance policies.

Our sustainability policies are available on our website. Our corporate governance policies, such as our code of conduct, anti-bribery and corruption policy, anti-money laundering policy, diversity and inclusion, and whistleblowing policy, and any other policies supporting the SRF are available internally on the intranet.

All our sustainability policies are approved by the Board. We undertake a policy review annually, or more frequently if required. Any proposed changes are presented to the Executive Committee for their approval.

2.2.1 Internal Control Framework

CFIL follows a three-line of defence approach to support the implementation and oversight of sustainability risks and impacts from our investment activities. The first line of defence is enforced by our Investment Committee, Product Approval Committee, first line assurance and investment teams, financial advisors, and brokers.

We have integrated sustainability considerations into our processes and procedures to inform the selection of investments and corresponding monitoring, and to ensure clients are appropriately informed of the attributes of ESG products according to the client's sustainability preferences. We use our own ESG scoring methodology to help us identify companies that are most exposed to severe risks of ESG and their impacts on sustainability factors. Our first line of defence has responsibility for managing this flow of information and ensuring the controls are operating effectively. Our first line of defence is supported by the expertise of the SRI Team in managing ESG issues arising from our investment activities and reporting of same to our second line of defence.

Our risk and compliance function are our second line of defence. The second line provides independent review and challenge of the First Line's management of sustainability risks and impacts. Our compliance team reviews all client-facing material and monitors the correct labelling of all ESG products, as well as our alignment with regulatory requirements, including those supporting the implementation of the EU Action Plan on Financing Sustainable Growth.

Lastly, our third line of defence is enforced by our internal audit function and provides assurance to the Board and senior management on how effectively CFIL assesses and manages sustainability risks.

2.3 Sustainability Risks and Impacts

Our approach to responsible investment seeks to reduce risk and create value for investors while offering strategies that support companies making a positive contribution to the world. Examples of the ESG factors that are considered by this sustainability risk framework are:

- Environmental risks
    - Climate change and fossil fuels exposure
    - Greenhouse gas emissions
    - Energy performance
    - Biodiversity
    - Water
    - Pollution and waste
- Social risks
    - Data protection and privacy
    - Human rights
    - Child labour
    - Labour management
    - Controversial weapons – land mines and cluster bombs
- Governance risks
    - Fraud and bribery
    - Diversity of board of directors
    - Audit and board committee structure

2.4 Identifying and Prioritising Sustainability Risks and Impacts

CFIL's due diligence in how it manages sustainability risks and impacts is based on the PDCA cycle (Plan, Do, Check and Act) for problem solving and continuous improvement. Each step utilises tools and information that are collected routinely and reported internally for monitoring and review. Our process ensures that we systematically conduct checks and reviews of how our strategies are impacting the world.

We subscribe to third party ESG research to identify leaders and laggards in ESG. Although investment is discouraged in companies with low scores (considered high risk), it is ultimately at the discretion of the portfolio manager, or the client to proceed or not with the investment. Investment in companies with low ESG scores/poor PAI performance is monitor by the SRI team as part of our due diligence and compliance with our sustainability policies.

2.4.1 Promotion of Environmental and Social Characteristics and Sustainable Investment

CFIL products aligned with Article 8 and Article 9 specifications under the SFDR have their own separate documentation detailing how they promote better environmental and social practices.

Depending on our clients' sustainability preferences, we use a number of investment styles that allow us to meet their needs while ensuring we remain cognisant of the sustainability impacts of investment decisions. These includes:

- ***Negative screening***: All our Article 8 and 9 products apply a negative screening before comprehensive fundamental company analysis is conducted. The extent of the exclusions varies according to client preferences and takes steps to mitigate potential negative effects of investment decisions on people and the environment. Criteria include controversial weapons, human rights violations, child labour, and companies involved in specific economic activities such as coal, tobacco and so on.
- ***Positive screening***: Investment is encouraged in companies that are enabling or driving the shift towards sustainable business practices, such as those reducing the use of plastics, improving energy efficiency, etc. We use revenue-based criteria and other data points to identify companies offering sustainable impact solutions.
- ***ESG integration***: This investment style looks at the whole investment universe and integrates financially material ESG factors alongside financial analysis to improve risk management and decision-making. Companies are then monitored on a systematic and ongoing basis, including periodic monitoring of controversies and material ESG events.
- ***Positive impact investing***: We use impact investing strategies extensively in our discretionary mandates, and follow a three-pillar approach:
  (1) The *intentionality* of addressing an environmental or social challenge using the guidance of the UN Sustainable Development Goals
  (2) *Additionality* which ensures additional social or environmental value that would have not been created without the investment
  (3) *Measurement* which consists of measuring and reporting on the social and environmental impact of the strategy.

2.4.2 Engagement

Engagement with companies is an important tool when dealing with sustainability risks and adverse impacts of sustainability. We engage in active and constructive dialogue, when possible, always acting in the best interest of our clients. We have identified three key areas where we feel we can have most impact:

- ***Through voting*** – For funds like the Green Effects Fund we use ISS, a leading, independent provider of proxy voting advice and administrative services to process proxy voting instructions. At the individual security level, clients can contact our corporate actions team for advice on a specific voting deadline and / or meeting date. We facilitate this service through third-party provider Broadridge which offers a digital platform that enables us to register a client's interest to attend a meeting and / or vote via proxy.
- ***Step-by-step engagement process*** – Engagement with investee companies is considered where we hold a substantial share interest. In such cases, we arrange to meet the management of these companies on a regular basis, where possible. Areas of discussion include, but are not limited to, operational, financial and non-financial performance, company strategy, capital structure and ESG issues.

- *Collaboration within the industry in matters of sustainable finance* – We seek to engage in consultation processes on all aspects of sustainable finance, particularly those organised by the European Commission. This ensures our clients are represented in these important forums, but also ensures that effective supportive mechanisms, such as policy and regulation, are in place to enable a smooth and just transition to a more sustainable future. We are founding members of the SIF Ireland, the national platform for policy makers, capital providers and intermediaries to advance the sustainable finance and ESG agenda across all asset classes.

A more detailed explanation of the CFIL engagement policy is available **here**.

2.5 Principal Adverse Impacts (PAIs) of Sustainability

We acknowledge our products and services can have adverse impacts on the world around us. Understanding the extent of those impacts allows us to take steps to mitigate and manage them. The most significant adverse impacts are referred to as PAIs. We consider all 18 mandatory PAI indicators in investment decisions in a manner appropriate to CFIL's size and the nature and scale of its activities. Below are a number of adverse impacts on sustainability which are critical to internal control framework and are therefore closely monitored.

2.5.1 Climate Change

Climate change is the defining issue of our time. Scientific evidence indicates that if left unchecked, climate change will be disastrous and life threatening. The Paris Agreement set an ambitious target to limit the increase in temperature from global warming to below 2˚C. While policymakers and governments play a key role in achieving this goal, investors are instrumental in driving the global transition to a low carbon future. It is estimated that $120 trillion will need to be invested in the energy transition. This represents a unique investment opportunity across different industries and sectors.

Climate change also presents a challenge to our investments. Both physical impacts as well as the transition risk from a radical change in policy to reduce carbon emissions could result in losses to asset values. Some sectors are more exposed than others and we therefore review exposure to climate risk on a case-by-case basis. Some of the criteria considered include carbon emissions, emissions reduction targets and how long-term business strategy is adapting to a low carbon, increasingly regulated future. Climate change is a concern for a considerable number of our clients, some of whom have been divesting from fossil fuels assets from as early as 2017.

2.5.2 Human Rights

It is an obligation of governments to protect human rights; however, many countries still don't respect basic human rights, such as freedom of speech, with developing countries found to be most at risk (although not exclusively). Businesses with operations in exposed countries are therefore at risk and are expected to have systems in place to allow them to monitor and prevent any negative involvement in these issues.

For guidance on these issues, we follow the United Nations Guiding Principles on Business and Human Rights and look at companies' exposure to controversies in these areas. Controversies can be structural, which indicate negligence in how the company deals with these issues, or non-structural, which indicate a one-off event.

2.5.3 Labour Rights

Another key adverse impact of sustainability is issues of labour. Forced labour and child labour still persist in today's global supply chains as they extend to distant regions where controls and labour standards are not upheld.

Discrimination and workforce diversity are further areas of focus in our analysis. Research has shown that companies with non-discriminatory practices that support diversity and inclusion in the workforce have access to better skilled talent, while reducing exposure to reputational risks and legal liability. We acknowledge that the availability and quality of data in these areas remains an issue, and we remain vigilant of developments of additional sources that can allow us to obtain a more complete assessment.

2.5.4 Anti-Corruption and Anti-Bribery

Bribery and corruption are a criminal offence in most countries. They negatively impact society and can have serious consequences for companies operating in countries where law enforcement is weak. The World Bank estimates that 0.5% of GDP is lost to corruption each year. Cantor Fitzgerald Ireland Managers have zero tolerance towards corrupt or illegal practices and utilise criteria that allow the managers assess a company's and/or country's practices to prevent and combat corruption.

2.6 Monitoring of Principal Adverse Impacts

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. We undertake a review of all direct holdings in the Cantor book quarterly in order to assess our exposure to PAIs and prepare the corresponding annual reporting of mandatory indicators. We acknowledge that relevant and accurate ESG data required for PAIs reporting remains a challenge for ESG data providers, and we endeavour to deploy a best-effort approach in our reporting of same.

From a private markets' perspective, PAI data management remains an even more significant challenge that requires direct engagement with investee companies, while also making reasonable assumptions. This is a process that we have initiated with a number of investee companies and that we will continue to develop, as more guidance becomes available from regulators.

Examples of sustainability factors reviewed are greenhouse gas emissions and climate risk as well as compliance with UN Global Compact Principles and International Labour Organisation (ILO) Conventions. We use external market research providers and while there remain significant disclosure gaps for some PAIs, we endeavour to review this data through both company-reported data, and data points that are not reliant on company disclosure.

2.7 Training

All staff are provided training on sustainability issues, whether it is on our own ESG practices or the attributes of ESG products offered to clients. Training sessions are mandatory to all relevant teams while all new staff receive training in our sustainability policy and firm-wide CSR programme. KPIs on how we deliver training sessions during the year are tracked and reviewed at the end of the year as part of the continuous improvement approach of our Sustainability Risk Framework.

2.8 Adherence to Internationally Recognised Standards

CFIL have adopted the TCFD recommendations as our preferred standard for managing and reporting climate-related risks and opportunities. In addition to disclosure requirements, the TCFD guidelines cover aspects of governance, strategy, risk management and metrics and targets related to climate risks. Transparency regarding climate-related risks and opportunities is crucial as it enables better communication of these topics with stakeholders while allowing investors a better understanding of the implications of climate change.