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**Regular Income**  
**Ethical Fund**  
Financially smart and ethical at heart

# ETHICAL POLICY

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# CONTENTS

## 2

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### **INTRODUCTION**

## 3

---

### **ETHICAL POLICY FOR CORPORATIONS**

- > Introduction
- > Negative Filtering  
Criteria for Investments by Industry
  - Military Equipment and Firearms
  - Tobacco
  - Pornography and Adult Entertainment Services
  - Alcoholic Beverages  
Gambling
  - Life Termination  
Services or Products

## 4

---

### **ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ANALYSIS**

- > Environmental Strategy
- > Social and Labour Strategy

## 5

---

### **GOVERNMENTS, STATES AND SUPRA NATIONALS ETHICAL POLICY**

- > Introduction
- > Negative Filtering Criteria for government investment
  - The protection of civil and political rights

## 6

---

### **ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ANALYSIS**

- > Environment
- > Social
- > Governance

## 7

---

### **SUPRANATIONAL INVESTMENTS**



## **Introduction**

Decisions are influenced by values which individuals develop over the years, reflecting their insights, observations, beliefs, experiences, and interactions with others.

Yet when making investment choices, people rarely adhere to their set of values. More precisely, few of us know that our investment choices can effectively be reconciled with our values.

We believe that individuals have a responsibility in making the right decisions for their own benefit, and for that of society at large. The APS Group, as an institution, adheres to this philosophy in its day-to-day dealings. The Group offers several services at reduced charges, and assists targeted socio-economic groups according to specific needs.

Ethical Investment is an approach designed to support companies which bring about positive change, thereby permitting the investor to align his or her values with the investment.

APS Funds SICAV p.l.c., through the APS Regular Income Ethical Fund, provides an opportunity to participate in an investment which provides both financial and social benefits.

This document provides investors in the Fund with an analysis of the ethical principles adopted by the APS Regular Income Ethical Fund. The document is composed of two sections and supersedes the previous ethical policy document. Section One comprises the first set of ethical policies issued when APS Regular Income Ethical Fund was launched, but it is now clarified that this section of the policy focuses on the ethical analysis which is carried out in relation to commercial corporations. Section Two expands the ethical policy further, to cover the analysis which the Fund carries out in relation to bonds and other investment possibilities issues by Governments, States and Supranationals.

APS Bank Ltd, as the manager of the Fund, makes use of a specialised ethical rating agency, Etica Sgr, as well as a number of reputable monitors to provide ethical ratings for investments which are made by the Fund. At the initial stage investments are screened to ensure that they respect the principles laid out in the Ethical Policy. Further monitoring continues to be made on a periodical basis, to confirm that an investment continues to adhere to the ethical criteria. Should an organisation in which the Fund has invested deviate from the Fund's ethical principles, the fund manager will develop a strategy to divest itself of that investment in an appropriate way, and within a reasonable time-frame.

The Fund has set challenging ethical targets. Yet it is acknowledged that this is not an easy task, given that not all activities are known or published. In this scenario no effort will be spared to adhere to these investment ethical principles, through monitoring of the investments in which the Fund invests. Moreover, should it transpire that an error of judgment was made in good faith, the Fund will proceed to initiate an exit strategy with a view to divesting itself of that investment in a sound way and within a reasonable period.

It should be clarified that this Ethical Policy does not set guide-lines on duly licenced banks where, from time to time, the Fund deposits liquid money, even for a term, either as part of its general investment strategy, or to provide for appropriate liquidity.

This document should be read in conjunction with the Prospectus, since the latter provides the investment principles governing the modus operandi of the Fund.

## **Section One**

### ***Ethical Policy for Corporations***

#### **Introduction**

This part of the ethical policy deals with the ethical analysis of corporations. By corporations we are referring to all commercial entities or non-profit organisations which have issued investment opportunities. The list may include both listed and unlisted companies.

The ethical process envisages a two-fold assessment:

1) **Negative Filtering Criteria**

Initially, when an investment in a company is under consideration, the company's activities and revenue are screened. Companies which exceed a maximum tolerable threshold are excluded. This decision process will filter out companies that cause harm to society by producing harmful products, acting irresponsibly towards society, or using incorrect and harmful processes. We, as potential stakeholders, would consider ourselves partially responsible for the harm caused, and we would not want to be complicit in such activities.

2) **Positive impact, on the basis of social, environmental and governance criteria**

The performance of companies which pass the initial test are analysed further on environmental, social and governance criteria (ESG). The best-performing companies in these three areas are considered for investment. Through the ESG analysis we search for companies that make a positive contribution, by creating and adopting methods that set new and better standards. In our view, these will be tomorrow's best-run companies. When possible the Fund will use its communication channels with a company to re-direct its operation where all concerned would benefit. Our main interest is to protect the investments we make in each company, in the comfort that our investments will benefit both current shareholders and future generations.

### ***Negative Filtering Criteria for Investments by Industry***

Companies breach the APS Ethical Negative Criteria when they belong to an industry sector as detailed below. This is not an exhaustive list of industries which will be excluded. Other specific industries can be excluded from time to time after a careful analysis of the negative social effects produced by an activity.

The Fund will specifically avoid any investment in the APS negative criteria industries as detailed below. However we are aware that many companies operate to support or to provide services to these industries. Accordingly, the Fund will not make any investments in companies that provide products or services to companies operating within the negative criteria list when these derive significant revenue from such sales or services. Any amount exceeding 10% of total revenue would constitute a significant amount of revenue. Large contractual sales or services are usually disclosed either separately or in the financial reports of the companies. Ethical rating agencies specifically research such contracts.

### **Military Equipment and Firearms**

Military conflict causes hardship to several people. The Fund will not invest in companies that produce military equipment. To further explain our investment philosophy, we will invest in companies producing products that might be used in industries in the negative criteria list, only if their revenue does not exceed a significant amount. For example we will invest in tyre manufacturers, aware that some of these might be used in military aircraft. However if a tyre manufacturing company has a significant amount of revenue from sales to suppliers of military aircraft, then we will avoid investing in such companies. This means that we shall not invest in any manufacturer producing specific military equipment, as well as a manufacturer that derives significant revenue from products utilised by military equipment manufacturers.

### **Tobacco**

The use of Tobacco products is a direct cause of around 5 million deaths annually. Several cardiovascular and respiratory diseases cause pain and hardship to millions of others at a large cost to national health funds. Companies that derive significant revenues from tobacco products are excluded. Nicotine patches producers are not excluded from investment due to their therapeutic purpose.

### **Pornography and Adult Entertainment Services**

Pornographic material and adult entertainment venues depict human relationships in a vile and unsuitable manner. The use of such material and services may cause abuse and incite illegal and non-consensual relations, increase domestic violence and child abuse. Companies operating in this sector are excluded from our investible universe.

### **Alcoholic Beverages**

Alcohol consumption is among the highest risks in industrialised countries and a growing concern in developing countries. Significant harm is derived from the excessive use and dependency of alcoholic beverages. Drink driving is a major cause of traffic accidents and traffic mortality. Apart from the social cost, there are economic costs in healthcare and social welfare systems.

The Fund will not invest in organisations whose sole operation is the production and distribution of alcoholic beverages with high alcoholic content.

### **Gambling**

Activities related to gambling are excluded from our portfolios. These include casinos, lottery organisations, betting shops, race track betting, and the supply of gaming or prize machines.

### **Life Termination Services or Products**

Companies (hospitals, clinics or doctor surgeries) that practice abortion or euthanasia are excluded from our investment universe. Companies producing abortifacients are also excluded.

## **Environmental, Social and Governance (ESG) Analysis**

Our philosophy promotes industries that set the standard for future generations. We look at companies that are most likely to be leaders in their segment and offer sustainable products and/or services. We classify these organisations as those that meet present needs, without compromising the ability of future generations to meet their own needs. The investment manager will, after undertaking this non-financial analysis, take steps to either include or exclude an organisation from the investable universe of the Fund. This extra analysis is undertaken to ensure that organisations taking positive steps for future generations will be rewarded while those providing negative social returns will be penalised. In considering these investments we will review the following issues:

## **Environmental Strategy**

The strategy adopted should respect current legislation on environmental issues, and we favour those companies that go a step further, and feel a responsibility towards their ecological impact, and are committed to maximising the use of resources.

Climate change is the greatest challenge that we shall have to face in the coming decades. Our investments will focus on the use of renewable and alternative energy sources and a reduction of the pollution generated by current technologies. We value human life and support actions which contribute towards a better life and increased longevity. However, we strongly believe that the use of animal testing for cosmetics is deplorable.

Each organisation is assessed on the basis of its environmental impact according to the industry to which it belongs.

In assessing investments for environmental strategies we will review the following issues:

- Environmental Impact
- Environmental Management
- Biodiversity
- Chemicals
- Climate Change
- Animal testing for use in cosmetics

## **Social and Labour Strategy**

We recognise the impact that companies have in all their relationships with their employees, customers and society, not only in terms of their products or services but also through their behaviour towards all stakeholders. We seek to invest in those companies that are aware of this potential impact, consciously adopt best practices in their operations, demonstrate a commitment to international standards, and generally make a positive contribution to society.

## **Section Two**

### ***Ethical Policy for Governments, States and Supra Nationals***

#### **Introduction**

It is our firm belief that one's values should remain steadfast, regardless of the type of issuer and attractiveness of an investment. However, when analysing governments, states and supranational issuers, the criteria used need to be modified, given that States and commercial entities are organised and function differently. This has been done without compromising on our key values.

The term "government and states" shall comprise all countries, state entities as well as local governments. For ease of reference it will be assumed that any reference to government in this document shall also include all the various public bodies, federal states and local governments within a sovereign State.

A government is screened first by applying negative screening and then by subjecting it to ESG analysis. Negative screening and ESG analysis have been designed to enable an appropriate analysis of the 'ethicalness' of a government, and to support only those countries which have the wellbeing of present and future society at heart.

It is beyond the ability of the fund to carry out its own primary and direct analysis of individual states. Therefore it will necessarily rely on analysis of this nature made by reputable monitors. The list of monitors used for this purpose is available to shareholders on request.

## **Negative Filtering Criteria for government investments**

The protection of civil and political rights

Each government is analysed on its performance in the area of civil and political rights. Different aspects of these areas are scrutinised in order to arrive at a final score. These would include religious liberties, respect for human rights, liberty to enjoy life, political liberties, liberty of expression etc. After this exercise each government is scored for its performance on civil and political rights and ranked as:

1. Free
2. Partially Free
3. Restrained

The fund will only invest in countries which are classified as Free. Furthermore the fund manager will divest within a reasonable time-frame of any government investment which is no longer classified as a free country.

## **Environmental, Social and Governance (ESG) Analysis**

Subsequently ESG analysis is applied to the governments which have classified as free and scored according to different weightings in these areas. Each government is scored according to its performance in the areas of environment, social and governance. Only those governments which achieve an acceptable performance are included in the investable universe of the fund.

### **Environment**

We believe that governments should lead by example as regards to their fiduciary role of ensuring a better environment for this and future generations. Therefore an integral part of the ESG analysis is undertaken vis-à-vis the various aspects of the environmental performance of the country. The different facets of the environmental performance analysed are:

- Environmental Health, including environmental burden of disease, air pollution and access to drinking water and sanitation
- Air Pollution
- Water effects on ecosystem
- Biodiversity and habitat
- Agriculture, subsidies and pesticide regulations
- Forestry changes and Losses
- Over fishing
- Coastal shell fishing pressure
- CO2 emissions
- Renewable electricity

## **Social**

The standard of living of a country is also partly reflected through measures that regulate the social wellbeing and access to the labour market. Another area which has a huge bearing on whether to include a government within the investible universe is the social aspect. The different areas which are analysed are:

- Health
- Education
- Living standards

## **Governance**

The government's performance in the area of governance and the quality of its institutions is reviewed and eventually graded. The score is computed by a comprehensive analysis of the following sections:

### *Government Effectiveness*

This indicator reflects the perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government commitment to such policies.

### *Political Stability and absence of Violence*

This indicator reflects the perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism.

### *Rule of Law*

This indicator reflects the perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.

### *Corruption perception*

This indicator reflects the perceptions of the extent to which public power is exercised for private gain, considering both petty and grand forms of corruption, as well as the "capture" of the state by elites and private interests.

### *Regulatory quality*

This indicator reflects the perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.

After these different analyses are completed and each government is scored against its performance in the three sections, only the governments showing an acceptable level of ESG performance are added on to the acceptable list of investments. This list is reviewed annually.

## **Supranational Investments**

By Supra Nationals we refer to international organisations or bodies whose membership comprises more than one single State. For a Supra National to be included in the investible universe, an analysis of the members and purpose of the organisation or body is carried out. Broadly speaking the analysis will be based on the general parameters set out in this policy in relation to States, to the extent that they are compatible. This analysis is carried out annually and the fund manager will divest within a reasonable time frame from any holdings in Supra Nationals which would have been struck off the list of investible investments.