

APS Ethical Fund

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Website disclosure in terms of Article 10(1) of Regulation (EU) 2019/2088 ("SFDR") for financial products that promote environmental and/or social characteristics referred to in Article 8(1) of SFDR

19th July 2023

A. Summary

APS Ethical Fund (the "**Fund**") promotes environmental and social characteristics but does not have as its objective a sustainable investment. The Fund may only invest in government or corporate entities as provided by the Fund's Ethical Policy which promotes environmental, social and governance characteristics as part of the selection process in identifying an Investible Universe for the Fund by:

- First, applying a negative filter by excluding corporations involved in certain industries and, governments and supranationals which do not protect civil and political rights. Their performance is then analysed further on the basis of environmental (E), social (S) and governance (G) criteria.
- ReAPS Asset Management Limited (the "**Investment Manager**") makes use of the service provided by Etica Sgr S.p.A.¹ (the "**Service**") in case of corporations (as detailed in Section G), 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 a government or corporate entity which the Fund has invested in deviate from the Fund's ethical principles, the Investment Manager will develop a strategy to divest of that investment in an appropriate way, and within a reasonable timeframe.

The Fund may be fully invested in government or corporate bonds rated investment grade by a reputable rating agency, or in the case of unrated bonds, deemed to have an equivalent rating by the Investment Manager to be of similar credit quality. It may invest in government bonds both fixed and floating, inflation linked, rated and unrated. The Fund may make use of exchange traded or OTC financial derivatives for the purpose of efficient portfolio management.

The Fund is actively managed and does not follow any index or benchmark. No reference benchmark has been designated to attain the environmental or social characteristics promoted by this Fund. The Investment Manager has discretion to select the Fund's investments.

¹ Etica Sgr S.p.A. is an asset management company established in Italy, which has developed a proprietary methodology (ESG EticApproach®) in the analysis of issuers in the environmental, social and governance fields, also through support of international providers of ESG research and services. The Service provided by Etica Sgr S.p.A. consists of providing the Investment Manager with an Investible Universe of companies listed in regulated markets with a corporate social responsibility and environmental profile compliant, at delivery time, to the ESG (environmental, social and governance) criteria defined by the Investment Manager in the Fund's Ethical Policy.

B. No sustainable investment objective

The Fund product promotes environmental or social characteristics but does not have as its objective sustainable investment.

C. Environmental or social characteristics of the financial product

The Fund applies an Ethical Policy to promote environmental and social characteristics and may only invest in government and corporate entities as approved by the Ethical Policy. The Ethical Policy is available at <https://apsfunds.com.mt/fund/ethical-fund/>.

Section G outlines the process adopted in screening government and corporate entities to ensure the Fund continues promoting environmental and social characteristics.

D. Investment strategy

The Fund endeavours to maximise the total return to investors, minimising volatility whilst seeking to attain a desirable level of liquidity following ethical principles according to the Fund's Ethical Policy. It will seek to achieve this objective by investing primarily in a diversified portfolio of government and corporate bonds, equities, collective investment schemes, fixed term deposits and cash.

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The Fund may be fully invested in government or corporate bonds rated investment grade by a reputable rating agency, or in the case of unrated bonds, are deemed to have an equivalent rating by the Investment Manager to be of similar credit quality. It may invest in government bonds both fixed and floating, inflation linked, rated and unrated.

The Fund may also invest up to 40% of its total net assets in high yield bonds. The Fund may invest in bonds both having fixed and floating coupon rates and may also invest in inflation linked government bonds. The Fund may also invest up to 40% of its total net assets in direct equities or collective investment schemes whose main exposure is in equities.

The Fund may make use of exchange traded or OTC financial derivatives for the purpose of efficient portfolio management. For example, the Fund may use forward currency transactions to hedge foreign exchange risk. The Fund will maintain at least 50% of total net assets in Euro.

The Fund is actively managed and shall not follow any index or benchmark. The Investment Manager has discretion to select the Fund's investments. There is no geographic limitation to the Investment Universe. The Fund will be broadly diversified by industry and issuer. The allocation ranges are subject to change as market evolves.

E. Proportion of investments

Based on the Fund's investment strategy, the Fund will promote environmental and social characteristics by investing only in governments and/ or corporations that follow the Fund' Ethical Policy however is not committed to making one or more sustainable investments. Investment will be made directly in the investee companies or instruments issued by governments and supranational.

F. Monitoring of environmental or social characteristics

To ensure that environmental and social characteristics are met on an ongoing basis, the Investment Manager has identified Etica Sgr S.p.A. as its supplier for an Investible Universe of companies that may be invested by the Fund. This applies for corporations. Etica Sgr S.p.A. provides an updated Investible Universe at least on an annual basis. The Investment Manager shall also reassess the list of countries showing as acceptable level of ESG performance for the purpose of government-related investments. This is reviewed at least annually.

The Investment Manager is required to develop a strategy to divest exposure to corporations or governments which deviate from the Fund's Ethical Policy within a reasonable timeframe.

G. Methodologies

CORPORATIONS

Appraisal of corporations involves a two-fold assessment (i) a negative filtering and (ii) positive impact based on environmental, social and governance criteria. The Investment Manager uses the Service of Etica Sgr S.p.A. to provide ratings for investments in corporations which are made by the Fund. Etica Sgr S.p.A. utilizes a proprietary methodology in the analysis of issuers in the environmental, social and governance fields, also through support of international providers of ESG research and services. This methodology, represented by the internationally registered trademark ESG EticApproach®, is protected by industrial and intellectual property rights. Further monitoring continues to be made on a periodical basis, to confirm that the corporation continues to adhere to the criteria below.

The analysis is conducted on listed companies with small, medium and large market capitalization and with primary issue in the following countries: Australia, Austria, Belgium, Brazil, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Mexico, Netherlands, New Zealand, Norway, Portugal, Singapore, South Africa, South Korea, Spain, Sweden, Switzerland, UK, United States of America.

(i) Negative filtering

Initially, a corporation under consideration is assessed against a negative filter. The Fund will avoid investing in corporations involved in certain industries including corporations that provide products or services to entities operating in these industries. The excluded industries are:

- **Life Termination Services or Products** – production of abortifacients and provision of healthcare services that may include the procurement of abortion.

- **Pornography and Adult entertainment services** - involvement in the provision of adult entertainment services and supply of pornographic material.
- **Alcoholic Beverages** - alcohol production or sale of alcohol (both wholesale and retail) with a related turnover equal or higher than 10% of total turnover. The Fund will not invest in corporations whose sole operation is the production and distribution of alcoholic beverages with high alcoholic content.
- **Gambling** - involvement in gambling operations or provision of key products or services for the gambling industry with a related turnover equal or higher than 10% of total turnover.
- **Military Equipment and Firearms** - production of key parts or services for conventional weapons for a related turnover higher than 10% of total turnover, provision of full weapons systems and platforms for conventional weapons for a related turnover higher than 10% of total turnover, provision of full weapon systems and platforms or other key parts and services for controversial weapons, or production of secondary parts or services for weapons or production of other major products or services for military users with a related turnover equal or higher than 10% of total turnover.
- **Tobacco** - production or distribution of tobacco with a related turnover equal or higher than 10% of total turnover.

Other specific industries can be excluded from time to time after a careful analysis of the negative social effects produced by an activity.

(ii) *Positive impact based on environmental, social and governance criteria*

Corporations which pass the negative filtering are analysed further on environmental, social and governance ("**ESG**") criteria. Etica Sgr S.p.A. determines a weighting for each measurement criterion, then assesses the corporations' performance against each criterion, based on the data obtained from data providers. The final score is a sum-product of the criteria ratings and the criteria weightings. Etica Sgr S.p.A. scoring system is industry-specific, it assesses issues that are deemed material to the industry at large. An entry threshold is applied across all industries and countries: only corporations with a score above the threshold become part of the Investible Universe. Finally, Etica Sgr S.p.A. translates the score into a rating from A to D, where A is the best ESG rating within a particular industry.

Environmental: Each corporation is assessed based on its environmental impact according to the industry it operates in. The following factors considered as part of the evaluation: (i) Environmental Strategy and Eco-design; (ii) Protection of Biodiversity; (iii) Emissions and Energy Management; (iv) Environmental Impact of Production; (v) Environmental Impact of Products; (vi) Water Management; (vii) Waste Management; and (viii) Animal Welfare Management.

Social: Each corporation is also assessed based on its social impact. The following factors are considered as part of the evaluation: (i) Career Management; (ii) Health and Safety Management; (iii) Labour Rights Protection; (iv) Customer Relationships; (v) Product Safety; (vi) Supply Chain Management; (vii) Human Rights Protection; (viii) Social Impact of Products; (ix) Promotion of Social and Economic Development; and (x) Community Relationship Management.

Governance: In determining if a corporation follows good governance (such as sound management structures, employee relations, staff remuneration and tax compliance)

the following factors are considered: (i) Audit and Internal Controls, (ii) Board of Directors, (iii) Directors' Remuneration Management, (iv) Shareholders Rights, (v) Anti-Competitive Practices Prevention, (vi) Corruption Prevention, and (vii) Responsible Lobbying.

GOVERNMENTS AND SUPRANATIONALS

Appraisal of governments and supranationals, is also based on a two-fold assessment (i) a negative filtering and (ii) positive impact based on environmental, social and governance criteria, yet allowing for specific adaptation since governments and supranationals, and corporations are organised and function differently.

(i) Negative filtering

Each government is analysed on its performance in civil and political rights. Different aspects of these areas are examined. These would include religious liberties, respect for human rights, liberty to enjoy life, political liberties, liberty of expression etc. Each government is then scored for its performance on civil and political rights and ranked as either 'Free', 'Partially Free' and 'Restrained'. The Fund will only invest in countries classified as 'Free'. For a supranational to be included in the Investable Universe, an analysis of the members and purpose of the organisation or body is carried out. The analysis is based on the general parameters in relation to governments.

(ii) Positive impact based on environmental, social and governance criteria

Subsequently ESG analysis is applied and scored according to different weightings in these areas. This involves obtaining independent scoring related to E, S and G component. The environmental component is based on the Environmental Performance Index; social component on the Human Development Index; and the Worldwide Governance Indicators for the governance component (as detailed in Section G). The scoring obtained for each E, S and G component is then aggregated to arrive at an overall ESG score (out of 100). The Investment Manager will be allowed to invest in instruments issued by countries that are considered eligible if the overall score exceeds the minimum score (of 50). Only those governments/ supranationals which achieve an acceptable performance are included in the Investable Universe of the Fund.

Environmental: Environmental factors are focused on how a country is managing its natural capital so that it can be more resilient over the long term: (i) Environmental Health; (ii) Air Pollution; (iii) Water effects on ecosystem; (iv) Biodiversity; (v) Agriculture, subsidies, and pesticide regulations; (vi) Forestry changes and Losses (vii) CO2 emissions; and (viii) Renewable electricity.

Social: Each government is then assessed in terms of average achievement in key dimensions of human development. The different areas which are analysed are: (i) Health; (ii) Education, and (iii) Living standards.

Governance: The governments are assessed in terms of country policy and institutional quality in the areas of: (i) Government Effectiveness (ii) Political Stability and absence of Violence; (iii) Rule of Law; (iv) Corruption perception; and (v) Regulatory quality.

H. Data sources and processing

For corporations the Investment Manager uses the Service provided by Etica Sgr S.p.A.. Etica Sgr S.p.A. utilises data obtained from recognised third-party ESG research and data providers using a plurality of sources, specialized databases containing reliable and up-to-date information; associated partners such as the ICCR (Interfaith Center on Corporate Responsibility), PRI (Principles for Responsible Investments), CDP (Carbon Disclosure Project), EUROSIF (European Social Investment Forum) and SfC (Shareholders for Change) in addition to examining research studies in the specialist press and the company's corporate publications (financial statements, sustainability reports, etc.) and evaluation of information obtained from direct dialogue with the companies². The data is used as an input for the ESG assessment of the corporations to determine the Investible Universe (as detailed in 'Methodologies').

For governments and supnationals, the data used to conduct the negative filtering is derived from Freedom House (www.freedomhouse.org) while the data used for the ESG analysis is obtained from:

- Environmental: Environmental Performance Index (<http://epi.yale.edu>)
- Social: Human Development Index (<http://hdr.undp.org>)
- Governance: Worldwide Governance Indicators (www.govindicators.org)

I. Limitations to methodologies and data

The primary limitation to the methodology or data source is the limited availability of accurate ESG data by governments and corporations. In addition, in relation to corporations Etica Sgr S.p.A. utilizes data obtained from third-party ESG data providers. Although a thorough assessment is applied of data sources involved, there can be no guarantee that data provided by the third parties is complete and accurate.

J. Due diligence

The Investment Manager will be investing in corporations which are listed in the Investible Universe (as provided by Etica Sgr S.p.A.³) and will carry out pre-trade checks to ensure that the company is within such universe and also on an ongoing basis provided that a company no longer featuring in the Investible Universe will be divested. The list of Investible Universe will be updated by Etica Sgr S.p.A. at least on an annual basis. In addition, the Investment Manager will be required to invest in instruments issued by governments of countries considered eligible (as detailed in 'Methodologies'). The list of countries is reviewed at least annually. The Investment Manager will be required to develop a strategy to divest exposure to governments which no longer features in the eligible list of countries.

²<https://www.eticasgr.com/en/responsible-investment/selection-of-securities>

³Etica Sgr S.p.A. provides the Service with accuracy, professionalism, due diligence and in good faith. The final selection of investment products, the decision to follow the indications provided by Etica Sgr S.p.A. regarding issuers, including a decision about giving a certain transaction order, entry into a product or service contract or assumption of any other financial obligation are the responsibility of the Investment Manager.

K. Engagement policies

An engagement policy has not been established. In view of the size of the Fund the influence that the Investment Manager can exert on the investment behaviour of investee companies to be negligible. For this reason, the Investment Manager does not currently exert any further influence on the investee companies beyond the pure allocation function of the amount invested which will be carried out in terms of the Voting Strategy Policy adopted by the Investment Manager.

L. Designated reference benchmark

No reference benchmark has been designated to attain the environmental or social characteristics promoted by this Fund.