

1741 Fund Management Ltd.

ESG Guideline

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List of abbreviations

1741 FM	1741 Fund Management Ltd., Vaduz
1741 FS	1741 Fund Solutions Ltd., St. Gallen
1741 Group	1741 FM and 1741 FS
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMG	Law concerning the Managers of Alternative Investment Funds of 19 December 2012
AIFMV	Ordinance concerning the Managers of Alternative Investment Funds of 22 March 2016
CO	Compliance Officer
ESMA	European Securities Market Authority
ESG	E=Environmental, S=Social and G=Governance
ESMA	European Securities and Markets Authority with its headquarters in Paris
FMA	Liechtenstein Financial Market Authority
EB	Executive Board
LAFV	Liechtenstein Investment Fund Association
Leg & Co	Legal & Compliance
Sustainable investment	an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance
Sustainability risk	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
Sustainability factors	environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters
UCITS	undertakings for collective investment in transferable securities
PAI	Principal Adverse Impact (PAI) or principal adverse impacts of investment decisions on sustainability factors pursuant to article 7 of the SFDR Disclosure Regulation
DI	Directive
RM	risk management, risk manager

UCITSG	Law concerning specific undertakings for collective investment in transferable securities of 28 June 2011
UCITSV	Ordinance concerning specific undertakings for collective investment in transferable securities of 5 July 2011
BOD	Board of directors
CA	Chartered accountant

1. Initial situation

When the EU Member States ratified the Paris Agreement on climate change, they committed in particular to a significant reduction of carbon emissions in the next few years. In order to fulfil the objectives of the Paris Agreement and to achieve a significant reduction of the risks and impact of climate change on society as a whole, the objective pursued around the world is to keep a global average temperature rise well below 2 degrees Celsius compared to pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius above pre-industrial levels.

In this context, the EU increases the accountability not only of industrial nations and their manufacturers but also of all financial market participants who make investment decisions, offer advisory services in this regard or develop financial products.

Against this background, the EU, through the legislative commission, not only required all undertakings with more than 500 employees to disclose their own environmental data (ecological footprint), but, by establishing different disclosure provisions (see the current state below), the EU also increased the accountability of financial market participants who must disclose and report information to investors with the aim to create a foundation for them to integrate ESG criteria into their investment decisions. In particular, this obligation includes the disclosure, assessment and provision of information on the sustainability risk associated with the relevant product and its impact on the investment returns, as well as the disclosure of what is called the principal adverse impacts of the investments on sustainability factors and sustainability objectives.

These EU rules are applicable to all asset managers (including advisors) with activities in the EU/EEA, to UCITS management companies and AIFMs (such as 1741), as well as to all financial products launched or sold in the EU/EEA (for more details, see below). There is no opt-out provision. Any products and managers who/which pursue and also promote (or, e.g., highlight in a prospectus of a fund) an investment policy which is explicitly sustainable are subject not only to the general disclosure and reporting requirements but also to additional obligations in order to make the impact of the sustainable investment policy measurable in line with specifications in the Regulation.

In this context, sustainability risk means an environmental, social or governance (ESG) event or condition that, if it occurs, could cause a material negative impact on the value of the investment.

The express objective pursued by the EU with regard to sustainability issues can be described by the ***principle of “do no significant harm”*** to sustainability objectives.

2. Legal bases of the present policy

Article 3 of the SFDR Disclosure Regulation requires financial market participants to disclose a policy on the integration of sustainability risks in their investment decision-making processes. With the present policy, the 1741 group complies with the relevant legal basis.

3. EU Provisions

One thing first: The 1741 group takes the liberty to point out that, as of now, the European harmonised ESG provisions have not yet been incorporated into the EEA Agreement. Therefore, they are not yet applicable in Liechtenstein. Against this background, the legal provisions below have been taken

exclusively from the EU legal acts which will be incorporated into national law and/or further specified therein at a later point in time¹.

(1) SFDR Disclosure Regulation

REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector:

<https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=CELEX:32019R2088&from=DE>

The Sustainable Finance Disclosure Regulation (SFDR) serves as foundation for the harmonisation, across the EU/EEA, of information to end investors on the integration of sustainability risks, on the consideration of adverse sustainability impacts and sustainable investment objectives or on the promotion of environmental or social characteristics in investment decisions (and in the advisory processes). It requires financial service providers to disclose their management and integration of sustainability risks in investment decisions on their websites and in information on financial products/funds, such as in a prospectus and in annual reports.

The Regulation has already entered into force in the European Union. It thus already has impacts on Liechtenstein funds which are sold across the EU. In Liechtenstein, the EEA incorporation process in respect of the Sustainable Finance Disclosure Regulation has not yet been completed, which is why it is not yet directly applicable (it being an EU Regulation, no transposition in Liechtenstein is required, and after its incorporation, it will be directly applicable).

(2) Taxonomy Regulation

REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020 on the establishment of a framework to facilitate sustainable investment:

<https://eur-lex.europa.eu/legal-content/DE/TXT/PDF/?uri=CELEX:32020R0852&from=DEent/EN/TXT/PDF/?uri=CELEX:32020R0852&from=DE>

The Taxonomy Regulation constitutes the actual framework and, in particular, includes targets in the field of sustainability objectives. It thus serves as foundation for the significant actual challenge for market participants which is the classification of sustainable conduct and/or investment and their translation into concrete information.

(3) Level II Draft (the actual implementing provisions)

Final report on draft Regulatory Technical Standards with regard to the SFDR Disclosure Regulation:

[jc 2021_03 joint esas final report on rts under sfdr.pdf \(europa.eu\)](https://www.esas.europa.eu/consultations/2021/03/joint-esas-final-report-on-rts-under-sfdr.pdf)

The Level II Standards elaborate the provisions set forth in the SFDR Disclosure Regulation in detail. This elaboration is likely to have the most significant effect on the concrete implementation by the market participants in the future, given that the disclosure requirements and the standards for the assessment of significant adverse impacts are very specific.

¹ See in this regard also the information provided by the FMA at <https://www.fma.li/de/finanzplatz/nachhaltigkeit-in-der-finanzwirtschaft.html>

4. The role of the 1741 group

As a UCITS management company and/or AIFM, 1741 FM Ltd. is a financial market participant pursuant to article 2 of the SFDR Disclosure Regulation and is therefore subject to the relevant provisions.

Given that, under the unchanged business model, the 1741 group delegates the investment decision in its (both internal and external) funds to asset managers authorised for this purpose and given that the ESG provisions exert significant influence on the financial market participants responsible for the investment decision, the 1741 group's role in communication and working together with our current and future partners is of even greater importance.

The 1741 group thus believes that its role is even more that of a link between the regulators, structural implementation and joint communication with managers and/or investors.

5. Objective pursued by the rules

The express objective pursued by the EU in the area of sustainability/ESG is to introduce the principle of “do no significant harm” to sustainability objectives. The idea of the EU is to make the managers prevent significant harm to environmental objectives in their investment decisions. This is not be mandatory, but the minimum standard to be achieved is to disclose significant harm to sustainability objectives and the fact that sustainability risks are taken.

The pressure in this regard is to come not (only) from the legislator itself, but in particular also from the investors who, in their investment decisions and/or selection of financial products, shall receive the necessary transparency through the mandatory disclosure of information on the management of sustainability risks.

In particular, the aim is to increase the transparency of individual financial instruments, in our case, of funds, not only in the form of widely known topics but also through the disclosure of the integration of ESG factors in the investment process, and the influence of sustainability risks on the returns of the fund.

In summary, it is expected that every fund will be subject to an ESG classification in the future, regardless of whether or not compliance with ESG criteria pursuant to articles 8 and 9 of the SFDR Disclosure Regulation is used for fund promotion purposes.

6. Implementation by the 1741 group in practice

In a first step, the 1741 group is striving to analyse the relevant provisions immediately in order to be able to duly implement the steps required by the law and the regulators. This primarily results in the following implementing steps:

- Development of know-how within the 1741 group
- Sharing the 1741 group's understanding of ESG and the relevant rules with current and future partners
- Communication with the partners on further steps to be taken
- Elaboration of a policy on the management and disclosure of ESG criteria and communication via its own website
- Amendment of the constituent documents of the funds of 1741 FM after consultation with the managers

- Integration of the consideration of ESG risks in internal risk management
- Implementation of its own ESG policies in the internal processes

7. Handling of the lack of current ESG data

The financial market participants need data and corresponding data sources for the integration and, in particular, assessment of sustainability risks, ESG factors and the principal adverse impacts on sustainability factors (PAI). Given that these data include information on companies, indices and financial instruments with regard to potential investments, it is expected that the large data providers have already started to collect and, accordingly, publish or provide the relevant ESG data of individual companies, financial instruments, etc.

In this context, it will be decisive to know what kind of Level II provisions the financial market participants will be faced with, which will give rise to individual specific criteria and factors to measure sustainability risks and to determine the PAIs.

The question which will arise in this regard is how to deal with companies with fewer than 500 employees or with their head offices outside of the EU/EEA which are under no automatic obligation to publish ESG data in accordance with the EU provisions. In particular, private equity and private debt investments will thus not be covered by the publication requirement. However, given that investment in private equity and private debt will continue to be allowed in the future without having to come out as “non-sustainable”, solutions will be found in this field as well. It will be possible, among other things, to use what is called taxations to derive the information necessary for an investment.

8. Review and update

In order to keep abreast with the ongoing current changes in the ESG field, we will continuously monitor and amend the present policy.

9. Entry into force

The present policy entered into force upon resolution by 1741 FM’s Executive Board of 15 April 2021.