

1741 Fund Management AG | Bangarten 10 | 9490 Vaduz

Musterfirma XY
z.H. Herr Max Mustermann
Musterstrasse 85
9490 Vaduz
Liechtenstein

Contact
Mr. Markus Wagner
+423 237 46 66
markus.wagner@1741group.com

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| EU Sustainability Provisions

Dear Sir or Madam
Dear XX Team

1741 took the current discussions about the subject of sustainable investment as an opportunity for an analysis of the impact of the relevant sets of rules on the business of our partners and our own company. On this basis, we would like to share our current knowledge with our partners.

In what follows, we would like to provide you with information, from a 1741 perspective, on the new EU provisions and the associated practical impact thereof, and we will also point out any current and future steps to be taken in this regard.

Objectives pursued by the EU

Good things first: In the future the EU will not forbid investments which are based on your own investment idea and it will not be the case that every asset manager will be turned into a sustainability manager. Rather, 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 will not be mandatory, rather the mandatory minimum standard to be achieved is to disclose significant harm to sustainability objectives and the fact that sustainability risks are taken.

Sustainability risk means an environmental, social or governance (ESG) event that, if it occurs, could cause a significant negative impact on the value of the investment.

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 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 the specifications set forth in the Regulation.

Even though a great number of provisions have not yet been published and/or the bases of data collection are not yet clear, we would like to give you a summary of the current state of affairs even at this early stage and if you have any questions, please do not hesitate to contact us.

EU Provisions

(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 prospectuses 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\(europa.eu\)](#)

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.

No applicable national provisions such as guidelines have been enacted in Liechtenstein to date, because even the Liechtenstein FMA is waiting for further details from the EU Commission at Level II.

Direct impact:**(1) On financial market participants**

The provisions described above are binding on all financial market participants with activities in the EU/EEA (in this regard, see the definitions below) and there is no opt-out option. They are thus of course applicable to us as an AIFM and as a UCITS management company, and to all asset managers and investment advisers of the funds under our management.

a) Asset managers with their head offices in the EU/EEA and thus also in Liechtenstein

They are subject to the SFDR Disclosure Regulation and any associated provisions which have not yet been promulgated in the EU/EEA, and they are consequently also required to make disclosures, as set forth in the SFDR Disclosure Regulation, on their own home pages, in the documents of the funds under their management as well as in the distribution information, and to make adequate considerations in risk management and in the course of their own reporting. At the moment, all asset managers and investment advisers based in Liechtenstein continue to benefit from the fact that the related provisions have not yet been incorporated into the EEA Agreement.

Currently and/or following the incorporation of the SFDR Disclosure Regulation into national law, Liechtenstein asset managers need to take the following action immediately¹:

- They need to adjust their own websites as set forth in Art. 3 of the SFDR Disclosure Regulation which provides as follows: Financial market participants shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making processes. This is a general description of the integration of sustainability risks and the associated risks into investment decisions;
- They need to draw up and publish a sustainability policy (ESG policy) with regard to the integration of sustainability risks (if any) and the management thereof, or a statement that sustainability criteria have no impact on their own investment strategy. In the latter case, however, an explanation of the reasons for the non-integration must be provided, and a lack of data justifies the non-integration of sustainability risks only in the short term. If there is no integration of sustainability risks, any such non-integration will have to be highlighted in the future by including warnings in the prospectus and in other product information as well as in marketing documents;
- They need to provide information as to what extent their own remuneration policy is compatible with the integration of sustainability risks and they need to publish such information on their own websites;
- They need to provide information on the products under their management with regard to the manner in which they integrate sustainability risks in their investment decisions and with regard to their impact on the success of

¹ This is an exemplary and a non-exhaustive enumeration. In any case, we take the liberty to refer to the information provided in the SFDR Disclosure Regulation.

the product and/or the returns². If sustainability risks are not integrated, any such non-integration will have to be highlighted in the future by including warnings in the prospectus and in other product information as well as in marketing documents.

In terms of providing information on their own products, the partners of 1741 naturally benefit from the fact that, in our capacity as AIFM or UCITS management company, we are directly subject to all ESG provisions both in the field of risk management and in the field of the disclosure of sustainability information, and from the fact that we will thus work together on the information necessary for disclosure purposes, and we will also cause the relevant publications to be made in the documents and on the websites under our responsibility.

b) Asset managers with their head offices outside of the EU, e.g. in Switzerland

No decision has been made at the EU level to date to answer the question as to what extent asset managers from third countries who manage products on behalf of 1741 or sell products via 1741 in the EU are also subject to the SFDR Disclosure Regulation, but we expect that this will be fully the case. In any event, in all cases in which a delegation as defined by the Liechtenstein Law concerning specific undertakings for collective investment in transferable securities (UCITSG) or the Liechtenstein law concerning the Managers of Alternative Investment Funds (AIFMG) has been made, reporting and disclosure of information to the management company (1741) will be mandatory. Consequently, there will be an indirect obligation for asset managers based in Switzerland, for example, to provide sustainability information.

Only asset managers who manage and sell financial products exclusively outside the EU/EEA are not subject to the provisions set forth in the SFDR Disclosure Regulation and are therefore under no obligation to make relevant adjustments on their own homepages or in their own set of rules. This is particularly the case, because the SFDR Disclosure Regulation currently contains no third country provisions.

However, we fully expect that third countries, including Switzerland, will incorporate a comparable regime in their legal systems and that, for reasons of equivalence alone, they will impose very similar provisions on asset managers very soon.

(2) On the products under management

Any and all funds under the management of the 1741 group will have to be gradually adjusted due to the changes described above. A particular reason for this is that the said provisions will have an impact on each product offered in the EU/EEA area, irrespective of whether sustainability criteria were a material investment criterion in the past or are a material investment criterion now.

Even if this has not been set out explicitly in the past, we are fully convinced that sustainable investment has always been part of the investment policy or the investment objective of the subfunds concerned, which is why we suggest that the following initial amendments to the constituent documents be made:

«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 an investment. Sustainability risks can have a direct influence on the value of the investments by increasing other risks of relevance to the subfund such as market risks, credit and counterparty risks, liquidity risks, legal risks, reputational risks or operational risks. Sustainability risks can, inter alia, result in a significant deterioration of the financial profile, the profitability or the reputation of an enterprise and, consequently, have a significant impact on the value of the enterprise. The portfolio managers will integrate sustainability risks (if any) in their investment decisions and, on a continuous basis, during the duration of the investments. Within the framework of the investment decisions for the subfund, the principal adverse impacts on sustainability factors (principal adverse impacts of investment

² This is done together with us as the management company, because this information must be disclosed in the funds' prospectuses.

decisions on sustainability factors - PAI), as set forth in the criteria of the EU Taxonomy Regulation for environmentally sustainable economic activities, will not yet be considered, because the systematic data base required for this purpose is currently still not available and because, due to a lack of relevant disclosure with regard to the target investments, it is currently not yet possible to carry out a direct adequate assessment of the potentially principal adverse impacts.

The current assessment of the sustainability risks shows that sustainability risks in the subfund might have a negative impact on market risks, credit and counterparty risks, liquidity risks, legal risks, reputational risks and operational risks, and this might have a negative impact on the value of the investments and the returns of the subfund.»

Of course, it is currently possible to negate the integration of sustainability criteria in investment decisions altogether, but this would be unreasonable and not beneficial, rather this would give rise to the obligation to include warnings in all product information, which is why we would currently advise you against not integrating sustainability risks.

If asset managers want to highlight the sustainability of their product for marketing purposes and if they actively promote it as one of the material decision-making criteria for the investment policy (so-called article 8 and article 9 SFDR funds), in addition to the general requirements set out above (for all funds pursuant to article 6 of the SFDR Disclosure Regulation), the SFDR Disclosure Regulation requires additional information (statement on the further course of action, inclusion of a sustainability benchmark/sustainability rating, presentation of proof in terms of content, etc.). We would like to discuss this with you in each individual case and make the relevant arrangements.

(3) On risk management/reporting in the future

Financial market participants will be faced with significant additional duties in the areas of risk management/reporting, in particular, irrespective of whether they are the managers of a product or whether they are active in the field of discretionary management. For this reason, 1741 is currently working hard to be able to rise to the new challenges in the ESG field. We expect that, on the basis of the new Level II provisions and on the basis of the already existing SFDR Disclosure Regulation, all financial market participants will be not only under the obligation to provide information, but, specifically, also under substantial reporting obligations.

With regard to the management of the funds under the management of 1741, we will coordinate the required information and/or the reports closely with you and we expect that our collaboration will allow us to meet any future challenges both of us will face.

(4) On asset management in the future

The crucial question however is whether free investment within the EU/EEA will continue to be allowed in the future, or whether certain investments not in line with the EU sustainability criteria will be forbidden. The EU will continue to advocate a free market economy and therefore no ban on certain unsustainable investments has been planned. However, with the do-no-significant-harm principle, the EU is clearly attempting to create a framework for the market which discourages investments in certain unsustainable industries or segments.

What the managers and/or product providers in the harmonised EU/EEA area must expect, however, is the fact that the impact or non-impact of compliance with certain sustainability criteria on each financial instrument must be presented in a transparent manner. Therefore, the sustainability criteria are very likely to have an indirect impact on investment decisions, because any financial products/financial policies offered for sale will compete with sustainability funds.

FAQ

Do I have to deal with sustainability/ESG?

Yes, each and every financial market participant will have to deal with it. Ignorance is impossible, even if you act passively, there will be a violation of EU provisions.

Can I ignore it in cases in which I do not consider myself a sustainability manager and my clients even don't want it?

See the information provided above. You can't ignore the subject, even if you don't integrate sustainability in investment decisions, you'll have to communicate this prominently and give reasons for this. General reasons such as missing data, a lack of experience, etc. won't be accepted.

Where do the data which form the basis of sustainability/ESG reporting come from?

As of June 2021, all undertakings with more than 500 employees will be required to publish certain ESG data and/or information on the achievement of clearly defined environmental objectives. This information will then form the basis to determine the material adverse impacts of investment decisions and, in turn, it will also form the basis of the financial market participants' reporting. We expect that the large data providers have long been working on making these data available.

How can I get data from undertakings with fewer than 500 employees or which are not subject to the EU rules? Am I allowed to invest in these undertakings at all or is this forbidden altogether? What about private equity, private debt and other alternative investments?

Of course, the EU is hoping that all undertakings around the world will bow to the pressure to publish ESG data for themselves. However, in order to derive the information necessary for an investment, it is also possible to use what is called taxations. This approach could be met with concerns from large institutional investors, because these are likely to make their investments dependent on the existence of accepted ESG criteria.

If I promote myself or a product under my management as what is called an "ESG article 8 product", where do I get the relevant indices as a basis of investments which meet the requirements?

Several benchmarks have already been made available which meet the new EU provisions on sustainability indices and pursue different ESG objectives. For example, there are indices which focus exclusively on "debrowning" (so-called Paris alignment). Work is also being undertaken on indices which are designed to reflect the new EU terminology on sustainability (so-called taxonomy alignment). We expect that all large index providers will make available relevant benchmark indices.

Can I also put together my own "sustainability benchmark" as set forth in article 8 of the SFDR Disclosure Regulation?

Generally, this is possible, but each sustainability index must meet the regulatory requirements as set forth in the EU Benchmark Regulation. The latter contains requirements to be met by the benchmark provider and in terms of the index composition and the sustainability criteria to be considered, and it requires that sustainability be understood and applied as set forth in the EU Taxonomy Regulation (see above).

What are the next steps?

We expect the following next steps for Liechtenstein in the implementation process:

- Incorporation of the SFDR Disclosure Regulation into the EEA Agreement and, as a consequence, direct entry into force in Liechtenstein. As from this incorporation onwards, your own website must in any case include the necessary information, the product information must be amended and there must be an ESG policy.
- Entry into force of the Taxonomy Regulation and Level II provisions in the EU/EEA. At this point, at the latest, we expect effective and detailed information and reporting requirements. Their specific terms have, however, not yet been finalised.

- From June 2021, all undertakings domiciled in the EU/EEA with more than 500 employees will be required to publish figures and facts on clearly defined sustainability factors in their periodic reports.

In connection with the implementation of the EU rules in practice, we believe that the type of data and information made available via the large providers in the future will be of vital importance. As a consequence, we need to wait a little bit longer before we can tackle the detailed reporting and reporting requirements.

Definitions:

PAI	Principal Adverse Impact (PAI) or principal adverse impacts of investment decisions on sustainability factors pursuant to article 7 of the SFDR Disclosure Regulation;
ESG	E=Environmental, S=Social and G=Governance;
Sustainable investment	means 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	means 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	are environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

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Yours sincerely,
1741 Fund Management Ltd.

Markus Wagner
Chairman of the Executive Board

Stefan Schädler
Member of the Executive Board