

## **SUSTAINABILITY RISKS POLICY**

### **1. Introduction**

SPA Financial Services (the “Company”) is a limited liability company with share capital, incorporated in accordance with the Laws of the Republic (registration number HE 270133). The Company is regulated as an alternative investment fund management company (“AIFM”) by the Cyprus Securities and Exchange Commission (“CySEC”) with license number AIFM53/56/2013.

In the framework of the entry in force of the Sustainable Finance Disclosure Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (the “SFDR”), the Company intends to ensure a clear definition of relevant factors and controls relating to sustainability risks.

Art. 2 (22) of the SFDR defines “sustainability risk” as every environmental, social or governance (‘ESG’) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

### **2. Scope and objectives**

The Sustainability Risks Policy (the “Policy”) describes the Company’s approach, handling and monitoring of sustainability risks, which may arise during the investment decision making process relating to the AIFs/RAIFs (the “Funds”) it manages and that are in scope of SFDR. Within the Policy, the Company sets the framework for the manner in which sustainability risks are integrated into its investment decisions and describes the approach taken to manage and monitor sustainability risks which may have a material influence on a managed Fund based on the portfolio management activities performed by the Company.

Therefore, the Policy explains the approach of the Company to integrating the following sustainability considerations as part of its internal processes and procedures:

- Sustainability risks,
- Principal adverse impacts (“PAIs”) of the Company’s decisions on sustainability factors,
- A (potential) investor’s sustainability preferences and sustainability related objectives.

### **3. Ownership and oversight**

Oversight and management of the Policy are incorporated into the Company’s governance structure and risk management framework. The Board has the overall responsibility for the Policy and receives regular updates on matters affecting the Company’s integration of the Policy. The Board has delegated oversight of the Policy to the executive directors and has appointed the Compliance Officer responsible for the implementation of the Policy.

Day to day implementation of the Policy is supported by the Investment Committee which makes the ultimate investment decisions for the Funds and to the control functions – i.e., the compliance officer and the risk manager of the Company.

#### **4. Integration of Sustainability Risks into the Investment Decision Process**

The medium-term strategy of the Company is to not manage any Funds which are classified under Article 8 or Article 9 of the SFDR, being Funds that promote environmental or social characteristics or have sustainable investments as an objective respectively.

The aim of including sustainability risks in the investment decision making process is to identify the occurrence of these risks as soon as possible and to take appropriate measures to minimize the impact on the investments or the overall portfolio of the Funds.

At the pre-investment stage, the Company implements the mandatory Exclusion List of business into which the Company will not knowingly make direct investments on the grounds of inherent sustainability risks (the “Exclusion List”):

- 1) Directly manufacture, distribute or sell:
  - a) Anti-personnel landmines,
  - b) Nuclear, chemical or biological weapons, or
  - c) Cluster bombs or munitions.
- 2) Which systematically use harmful or exploitative forms of forced or child labor.
- 3) Whose principal activity (i.e., more than 20% of total revenue) is:
  - a) The direct manufacturing of arms, ammunition or tobacco, or
  - b) Coal and/or oil upstream (i.e., exploration, extraction and/or production).
- 4) Which generates the majority (i.e., more than 50% of total revenue) of its revenue from coal and/or oil upstream activities.
- 5) At the time of the investment entry, they are headquartered or have their principal activity in jurisdictions which FATF public statement classifies as having strategic AML/CFT deficiencies subject to a FATF call.
- 6) At the time of the investment entry, they are headquartered or have their principal activity in jurisdictions that the relevant EU Regulation lists as high-risk third countries.
- 7) At the time of the investment entry, they are headquartered or have their principal activity in jurisdictions that the relevant EU Regulation lists as non-cooperative tax jurisdictions.
- 8) At the time of the investment entry, they are headquartered or have their principal activity in jurisdictions that have a score of under 30 in the Corruption Perception Index.

Further sustainability risk considerations may be incorporated within the constitutive documents of the Fund which should function incrementally to the Exclusions List defined within this Policy.

The Company will describe the manner in which sustainability risk considerations are integrated in the investment decisions made for the Funds based on the below three possible operating models:

#### Company performs Portfolio Management function:

The Company generally performs the portfolio management function internally without engaging an investment adviser or portfolio manager and therefore the investment decision is made internally and in the sole discretion of the Company. In doing so, investment decisions taken by the Company's portfolio management function are duly assessed against regulatory, fiduciary/legal and risk management requirements before their execution (pre-trade assessment).

As part of the pre-trade assessment process this Policy ensures that no investment that is a business of a type identified in the Exclusion List can be put forward to the Investment Committee for a Fund managed. Such Investment Committee will consider the completed due diligence procedure as part of its overall assessment of the likely risks associated with investment pursuant to the relevant product's investment policy and objectives before making any investment decision.

On an ongoing investment monitoring basis, the Investment Committee will evaluate whether the investment portfolio of the Fund continues to comply with the Exclusion List and where material issues are identified, the Investment Committee may request further action, including the unlikely scenario of divestment.

#### Company delegates Portfolio Management function:

The Company will not normally delegate the Portfolio Management function to third party portfolio managers. In the remote scenario this operational model is implemented the initial due diligence on the delegated portfolio manager will ensure that the sustainability risks implemented at the Company are defined as minimum requirements in the investment operations of the delegated portfolio manager

The ongoing and periodical due diligence of the Company towards the delegated portfolio manager will ensure the ongoing compliance with the Policy in addition to the ongoing sustainability risk management of the Fund which will remain a function of the Company.

#### Company performs Portfolio Management function and involves external investment advisers:

There could be cases where the Company performs the Portfolio Management function of a Fund, where it will involve an investment adviser, who provides specific assistance and support to the investment decision making process of the Company. The final investment decision is nevertheless at the sole discretion of the Company. Therefore, investment proposals from investment advisers are duly assessed against regulatory and legal requirements before their execution (pre-trade assessment).

As part of the pre-trade assessment process this Policy ensures that no investment that is a business of a type identified in the Exclusion List can be put forward to the Investment Committee for a Fund managed. Such Investment Committee will consider the completed due

diligence procedure as part of its overall assessment of the likely risks associated with investment pursuant to the relevant product's investment policy and objectives before making any investment decision.

On an ongoing investment monitoring basis, the Investment Committee will evaluate whether the investment portfolio of the Fund continues to comply with the Exclusion List and where material issues are identified, the Investment Committee may request further action, including the unlikely scenario of divestment.

## **5. Sustainability risk management**

When performing the risk management function on behalf of the managed Funds, the Company will incorporate sustainability risks into the risk profiles of the Funds, which will identify, assess, monitor, and manage sustainability risks. Given the nature of the investment strategies of the Funds of the Company, a substantial part of the risk management framework is performed at an ex-ante basis with the pre-trade assessment. As part of the process, the Risk Manager of the Company will reserve the right to veto-object the investment decision recommended by the Investment Committee where such investment proposal is in clear violation of the Policy and/or of the constitutive documents of the Funds.

The Risk Management function regularly reports on the overall risk exposure of the Funds to the Company's Board of Directors depending on the defined risk profiles. As part of this periodical and ongoing risk monitoring, the Risk Manager will ensure that the investment portfolio continues to comply with the investment restrictions/limits – i.e., with the Exclusions List; in addition to any sustainability risk considerations stipulated in the constitutive documents. The Risk Manager may also monitor and/or report any non-binding sustainability risk considerations as assessed fit depending on the Fund-specific circumstances.

The assessment and monitoring of risk profiles on the basis of the above allows the Company to effectively monitor sustainability risks and report any (material) increase/breach of the limits set to the portfolio management function to allow mitigating actions to be taken.

## **6. Consideration of PAIs on sustainability factors**

The Company does not consider the PAIs of its investment decisions on sustainability factors in the manner prescribed by Article 4 of the SFDR in respect of any of its products. This is because the company is not, in its view, currently in a position to obtain and/or measure all the data which it would be required by the SFDR to report, or to do so systematically, consistently and at the reasonable cost with respect to all the investments and strategies. This is in part because underlying investments are not widely required to, and may not currently, report by reference to the same data. Notwithstanding the Company's decision not to comply with the PAI regime in respect of the Funds, the Company is committed to consider sustainability issues as part of its investment due diligence process as described in Section 5 above.

## **7. Consideration of sustainability preferences and sustainability related objectives**

Having in mind the overall strategy of not managing Article 8 and Article 9 Funds, the Company has integrated sustainability considerations as part of its suitability assessment procedures. The Company will collect information on potential investors in relation to their sustainability preferences to be considered as part of its initial and ongoing suitability assessments.

Accordingly, and as part of the Company's product governance, the Company will use that information when marketing and distributing its Funds to potential investors to ensure that any preferences or expectations of promoted ESG characteristics (Article 8) and sustainable investments (Article 9) will not be met by the Funds offered by the Company. Conversely it will clarify to the potential investors that sustainability risks have been integrated in the investment due diligence and risk management process of the Company.

## **8. Conflict of interest**

The Company is committed to identify and where possible prevent or manage potential, actual or perceived conflicts of interest. It has in place a Conflicts of Interest Policy which sets out the types and examples of conflicts that may arise and on how the Company manages them.

Similar to the financial risks faced by the Funds, such conflicts may arise as a result of sustainability risk integration in the investment decision making process or sustainability preferences integration as part of product governance and the Conflict-of-Interest Policy becomes effective along with all the documentation and management stipulated therein.

## **9. Policy Review & Monitoring**

The Compliance Officer in collaboration with the Risk Manager will monitor and review the Policy on an annual basis and on an ad-hoc basis in the event of major changes to the policy framework of the Company and will proceed to changes where and as needed.

The policy will be acknowledged by the Board of Directors of the Company after every review and/or material changes to its content.