

## Summary

This disclosure is made by the Polar Capital Funds plc – Smart Energy Fund (the ‘**Fund**’) and Polar Capital LLP, the investment manager of the Fund, (the ‘**Investment Manager**’) pursuant to Article 10 of the Sustainable Finance Disclosure Regulation (EU) 2019/2088 (‘**SFDR**’).

The Fund has as its sustainable investment objective investment in a portfolio of companies worldwide that support, through their technology solutions and services, the decarbonisation and thereby electrification of the global energy sector.

The Investment Manager will seek to achieve the sustainable investment objective of the Fund by investing in companies that are exposed, in revenue terms, to sub-themes of the energy sector that are key to the decarbonisation and electrification of the global energy sector and by excluding those companies that, in the Investment Manager’s view, would violate the ‘do no significant harm’ principle and that are exposed to sub-themes of the energy sector that do not align with the sustainable investment objective.

The Investment Manager will primarily invest in equity securities for the Fund, although the Fund may hold derivative instruments where they are obtained as a result of a corporate action by a company or where they are required for risk management purposes. Further, the Fund may hold cash instruments for providing liquidity.

The Investment Manager carries out due diligence on the companies within the investment universe using a range of data sources coming either directly from those companies (e.g. financial reports or company meetings) or from third parties (e.g. third party data or research providers).

Where it feels it is appropriate to do so, the Investment Manager will engage with companies within the Fund’s investment universe in pursuance of the sustainable investment objective or to address any material ESG issues prevalent in that company.

## Description of the Sustainable Investment Objective

This Fund has sustainable investment as its objective. Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The Fund has as its sustainable investment objective investment in a portfolio of companies worldwide that support, through their technology solutions and services, the decarbonisation and thereby electrification of the global energy sector.

Examples of investments that support the Fund’s sustainable investment objective are companies that address sustainability challenges related to the global rise in energy demand, and the negative impact on the environment from unsustainable sources. The Fund invests along the whole clean

energy value chain, ranging from renewable power generation, energy infrastructure and storage, to energy efficiency solutions.

As a consequence of the Fund's sustainable investment objective, as defined above, the Fund will contribute to the following United Nations Sustainable Development Goals: Affordable and Clean Energy (SDG7), Industry, Innovation and Infrastructure (SDG 9), Sustainable Cities and Communities (SDG 11), Responsible Consumption and Production (SDG 12) and Climate Action (SDG 13).

The UN SDGs are part of the United Nations' 2030 Agenda for Sustainable Development, adopted by all UN member states in 2015, and comprise 17 goals which aim to tackle the world's approach to the environment, through considerations such as responsible consumption and production, and social matters, such as ending poverty and ensuring children receive quality education. The full list of the 17 UN SDGs can be found on the UN's website here – <https://sdgs.un.org/goals>.

### **Description of the Investment Strategy**

The Investment Manager shall pursue the sustainable investment objective of the Fund by investing in companies that operate in one or more of the sub-themes of the clean energy sector which, in the Investment Manager's belief, are key to the transformation and decarbonisation of the global energy sector.

The Investment Manager constructs the initial investment universe of the Fund by identifying companies that operate within the industries closest to the Fund's sustainable investment objective. The Investment Manager believes that these industries are utilities, energy, materials, semiconductor & semiconductor equipment, technology hardware & equipment, and capital goods.

Companies within these industries are complemented by the addition of companies that, in the Investment Manager's view, are linked to the Fund's sustainable investment objective, but that are not within the industries outlined above.

The Investment Manager then excludes from the initial investment universe of the Fund those companies that have exposure to activities not aligned with the Fund's sustainable investment objective or that participate in activities linked to the Investment Manager's exclusions, as outlined below.

The Investment Manager's analysis and exclusions causes a reduction of the Fund's initial investment universe by at least 20% and creates the Fund's eligible investment universe which, in the Investment Manager's belief, is formed of companies that make a significant contribution to the Fund's sustainable objective through their exposure to the key sub-themes identified by the Investment Manager.

These key sub-themes include, but might not be restricted to, renewable energies (for example, wind and solar energy), energy transmission and distribution (for example, infrastructure suppliers), energy management (for example, power conversion or energy storage) and energy efficiency (for example, ensuring energy is used efficiently in buildings).

For companies within the eligible investment universe of the Fund, the Investment Manager will then carry out a high-level analysis on the companies within the eligible investment universe to determine what sustainability drivers are impacting the industry from a macro perspective. The Investment Manager shall use this macro analysis to reduce the Fund's eligible investment universe down further.

Lastly, the Investment Manager undertakes a fundamental analysis of the companies that remain within the eligible investment universe of the Fund. This fundamental analysis includes the integration of sustainability, such as analysis of the company's management of risks and opportunities associated with the Fund's sustainable investment objective and of the sustainability criteria material to the relevant company.

Factors that may be assessed by the Investment Manager as part of this fundamental analysis include, for example, a company's supply chain management, human capital management, its capacity for innovation, its environmental and social impact, including any ESG controversies and its corporate governance structure.

Where the Investment Manager is satisfied with the fundamentals of a company, from both a financial and a sustainability perspective, and believes that the valuation of the company is reasonable, after consideration of the financial metrics that the Investment Manager deems relevant and of the Investment Manager's own scenario analysis, the company will be a candidate for inclusion in the Fund.

The Investment Manager will only invest in companies for the Fund that fall within the eligible investment universe outlined above. For the avoidance of doubt, the Investment Manager's investment strategy does not apply to those investments, such as cash and money market funds, that are held for liquidity purposes.

Further, as part of the Investment Manager's commitment to the "Do No Significant Harm" (DNSH) principle, as outlined within both the SFDR and the Taxonomy Regulation, the Investment Manager excludes companies from the Fund on the basis of controversial behaviour or controversial products.

This includes norm-based exclusions on social or environmental issues, as well as exclusions based on controversial activities (tobacco, military contracting, controversial weapons, firearms, alcohol, gambling and adult entertainment).

The Investment Manager's investment strategy is implemented continuously as each company is required to pass all stages of the process outlined above prior to its inclusion in the fund.

The Investment Manager monitors investee companies extensively during the period of the Fund's investment, and the sustainability impact of these companies is systematically reassessed after any perceived or real change to the company's strategy, capital allocation, end-markets exposure, etc.

The Investment Manager monitors such real or perceived changes by following the investee companies' press, financial and sustainability releases, as well as by assessing potential changes from peers or sector news. This reassessment of the sustainability positioning of an investee company may lead the Investment Manager to divest from the investee company.

The Investment Manager also monitors the performance of the Fund, both from a financial and sustainable perspective, by comparing it to the performance of the eligible investment universe as a whole (i.e. those companies that fall within the sub-themes outlined above, or any other sub-theme that the Investment Manager believes is key to achieving the sustainable investment objective).

The eligible investment universe of the Fund is used to create an internal benchmark, weighted according to the companies' market capitalisations. This internal benchmark provides the Investment Manager with a tool to continually monitor the performance of the Fund against its eligible investment universe and, in turn, the performance of the eligible investment universe against the global landscape.

The Investment Manager's assessment of the governance practices of investee companies is carried out at the sustainability due diligence phase of the investment strategy outlined above and is monitored and reassessed after any perceived or real change to the company's strategy, capital allocation and end-markets exposure, etc.

The Investment Manager will assess the corporate governance structure of companies within the Fund's eligible investment universe, or of investee companies within the Fund, according to the good governance criteria as outlined in the SFDR (sound management structures, employee relations, staff remuneration, tax compliance). Where relevant, the Investment Manager may assess additional governance factors, such as business ethics, transparency, board independence, quality, diversity and accountability, shareholders' rights and ownership structure.

#### **Explanation of No Significant Harm to the Sustainable Investment Objective**

In line with the Fund's sustainable investment objective of focusing on companies that have a direct positive contribution to the electrification and transformation of the energy sector, the Investment Manager applies specific thematic exclusion criteria to the initial investment universe of the Fund.

Companies involved in the exploration, production and distribution of oil, natural gas, coal, and the first generation of biofuels (derived from food crops) are excluded. Also excluded are utilities with fossil fuel or nuclear power generation, as well as natural gas transmission & distribution utilities.

Further, the Investment Manager excludes companies on the basis of controversial behaviours or controversial products. This includes norm-based exclusions on social or environmental issues including controversies that violate the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles of Business and Human Rights.

The Investment Manager applies other exclusions based on controversial activities including tobacco, military contracting, controversial weapons, firearms, alcohol, gambling and adult entertainment.

The mandatory PAIs set out under the SFDR are also monitored by the team, but are not reported on under Article 7 SFDR.

### **Description of the Portion of Sustainable Investments in the Article 9 Fund**

In pursuance of its financial and sustainable investment objectives, the Fund will invest in a global portfolio of publicly listed companies that have exposure to the sustainable themes of the Fund. At least 51% of the Fund's gross assets will be invested on a continuous basis in equity participations. All investments held by the Fund in equity participations will be used to attain the fund's sustainable investment objective, in line with the investment strategy above.

Although the Fund is permitted to invest in financial derivative instruments, the Investment Manager will not generally seek to invest in these instruments in order to achieve its sustainable investment objective.

However, financial derivative instruments may be held by the Fund for risk management purposes or where they have been received from an investee company pursuant to a corporate action (e.g. an issue of warrants or share options).

Any cash investments held by the Fund will be for the purpose of providing the Fund with sufficient liquidity to invest in new ideas or meet redemption requests from its investors.

### **Description of how the Sustainable Investment Objective and the Sustainability Indicators are Monitored**

The Investment Manager will measure the Fund's attainment of its sustainable investment objective on a quantitative and qualitative basis by:

1. The alignment of the Fund's investments with the Fund's eligible investment universe, as described in the 'Investment Strategy' section below, which only includes those companies that derive a significant portion of their current or future revenue from activities that are in line with the objective.

2. The alignment of the Fund's investments with the Investment Manager's exclusion list for the Fund as defined in the 'Investment Strategy' Section below.

The Investment Manager will continuously monitor the exposure, in revenue terms, of companies within the Fund and the investment universe to the Fund's theme, as well as the performance of those companies from a broader sustainability perspective and their compliance with the Investment Manager's screens from a 'Do No Significant Harm' perspective.

The Investment Manager may re-evaluate the eligibility of specific companies for the Fund and may eliminate companies from the Fund and the investment universe that fall below the Investment Manager's exposure threshold and add companies to the Fund and/or eligible investment universe that reach the Investment Manager's exposure threshold.

The Investment Manager's monitoring process is achieved through reviewing public sources of information, meetings with company management teams and third-party data providers analysis. The Investment Manager's monitoring process is supported by central risk and compliance monitoring.

#### **Description of Measurement Methodology**

To ensure the Fund meets its sustainable investment objective, the Investment Manager will only invest in companies that make a significant contribution to the sustainable objective through their exposure, in revenue terms, to the Fund's key sub-themes.

The Investment Manager selects companies for the eligible investment universe of the Fund that have at least 30% of their current or future revenues (which are hereby defined as the estimated revenues in 5 years) attributed to the Fund's key sub-themes, as defined above.

The Investment Manager believes that the application of this measurement process ensures that the Fund has, on average, at least 50-60% of its investee companies' current weighted revenues attributable to the theme.

#### **Description of Data Sources and Data Processing**

The Investment Manager assesses and identifies companies that are eligible for the Fund's thematic universe through its proprietary process, which is based on the Investment Manager's deep thematic and sector knowledge.

The Investment Manager examines how the energy sector is transitioning and revolutionising through analysing industry insights, researching and monitoring industry trends, as well as being very forward looking and identifying new technology and product innovations.

Examples of methods and sources of information used by the Investment Manager include:

- Interaction and engagement with senior management.
- Company annual reports and filings.
- Company visits.
- Field research at international trade fairs.
- Expert and consultants' networks, industrial and scientific journals.
- Collaborations with external organisations and universities.
- Polar Capital's proprietary sustainability framework and methodology.
- Sell-side broker research.

### **Description of Limitations to Methodologies and Data**

The Investment Manager's approach to evaluating the companies within its investment universe may be constrained by the availability, quality and relevance of thematic and sustainability related data available to the Investment Manager.

The availability, quality and relevance of data relating to sustainability and thematic exposure within the investment universe may be limited, both in an absolute sense and in a relative sense when considering particular markets or sectors within the investment universe, due to a lack of sustainability related regulations and reporting standards, changes in sustainability related regulations and reporting standards, inconsistencies in sustainability related regulations and reporting standards between jurisdictions, a lack of historic information available on sustainability for companies, low coverage on, or inconsistencies with respect to the evaluation of, particular companies by third party research and data providers or material inaccuracies in the sustainability related information reported by companies.

Limitations in the availability, quality and relevance of the sustainability related data outlined above may make it difficult for the Investment Manager to ascertain the exposure of a company to the Fund's sustainable investment objective, to assess the progress of a company in the context of the sustainable investment objective over a certain time frame, to carry out consistent analysis on companies from the perspective of the sustainable investment against its industry peers in the same or other jurisdictions or to verify the Investment Manager's assumptions and calculations concerning a particular company.

### **Description of Due Diligence on Underlying Assets**

As part of the Investment Manager's fundamental analysis and going beyond the pre-checks of the "Do No Significant Harm" principles as outlined within both the SFDR and the Taxonomy Regulation, the Investment Manager will analyse how well an investee company manages its material ESG issues, and integrate this in the Fund's holistic company assessment. ESG factors are important, can have a fundamental influence on a given company's operations and its ability to generate value for shareholders and will vary between industries.



Factors that may be assessed include, for example, a company's supply chain management, human capital management, its capacity for innovation, its environmental and social impact, including any ESG controversies and its corporate governance structure.

The Investment Manager bases its ESG analysis for the Fund on its own proprietary approach and may from time to time use a mix of independent inputs to the ESG data from third party sources. The Investment Manager believes that it has better insights into some of the variables than some of the data providers given the experience and expertise of the investment team on sustainability research, as well as their constant interaction and engagement with management teams and thorough research process.

For example, significant concerns and controversies on a company's business ethics, governance structure or poorly-designed management remuneration structure may create undesirable downside risk for shareholders which the Investment Manager may be unwilling to accept.

Similarly, controversies on social issues such as human rights issues, labour disputes, workplace safety or community engagement may also harm a company's reputation, potentially negatively to sales, liabilities and litigation. This sustainability analysis complements the Investment Manager's investment thesis qualitatively but may also impact the quantitative assessment of a company, for example by affecting growth, profitability and cost of capital assumptions.

Finally, the investment recommendation is established by bringing together the financial and sustainability aspects with an overall positive, neutral or negative assessment of the given company.

### **Description of Engagement Policies**

Active Stewardship, consisting of proxy voting and engagement, is an important part of the Investment Manager's approach to the management of the Fund and is aimed at improving the risk/return profile of investee companies, while positively impacting and contributing to society. The Investment Manager believes that sustainable corporate behaviour can be enhanced by actively exercising our shareholder rights.

The Investment Manager's approach is not only designed to encourage robust corporate governance structures for the Fund's investee companies, but also to ensure that the rights of shareholders are protected as well as advocating for good environmental and social practices.

The Investment Manager has direct dialogue with portfolio companies and engage with them to discuss material ESG issues relevant to the specific business case, how they manage and respond to ESG risks and seize business opportunities related to certain sustainability challenges (for example on environmental-related engagement topics). The Investment Manager also receives operational support from a third-party solution provider that is used to inform its voting decisions. The Investment Manager views significant sustainability related controversies that may have a material impact on a company's performance as potential topics for engagement with companies. Once the Investment Manager identifies a significant ESG controversy or risk, it may reach out to the company and engage with management, track and monitor the company's progress in addressing the



controversy and report on the outcome. In the case of unsatisfactory performance in addressing the controversy, the Investment Manager may divest from the company.

#### **Description of the Attainment of the Objective**

The reference index, the MSCI AC World Index, is a general market index, and does not take into account environmental, social and governance factors. The index is used for performance objectives and performance measurement. Its methodology can be found by the index provider:

The construction of the eligible investment universe takes place through the selection of companies that comply with the Investment Manager's thematic exposure criteria (i.e. by deriving a significant portion of their current or future revenue from activities that are in line with the Fund's sustainable investment objective) and with the Investment Manager's exclusion list for the Fund. The Investment Manager monitors the attainment of the sustainable investment objective on a quantitative and qualitative basis.