

## **Integration of Sustainability Risks**

This statement is issued by Cape Ann Asset Management Limited ("Cape Ann"), acting in its capacity as delegated Investment Manager in respect of The Cape Ann (Ireland) Trust, the Cape Ann Global Developing Markets (Ireland) Fund and the Cape Ann Global Developing Markets Sustainability (Ireland) Fund (each "a Fund" and together "the Funds"). This statement applies to each Fund to whom Cape Ann has been appointed delegated Investment Manager.

### **Sustainable Finance Disclosures Regulation**

The EU Sustainable Finance Disclosures Regulation (Regulation (EU) 2019/2088) requires firms that manage investment funds to disclose how they integrate sustainability considerations into the investment process with respect to the funds they manage.

### **Sustainable Investment Approach**

At Cape Ann we believe that integrating the consideration of sustainability risks into our investment process is part of our fiduciary responsibility and helps contribute to our overriding objective of securing long-term growth for our clients.

We recognise that a transitional approach to sustainability and decarbonization can provide potential investment opportunities and threats. Our overarching investment process therefore seeks to invest in equity securities that, in our opinion, possess fundamental investment value and as part of that we integrate Environmental, Social and Governance ("ESG") factors into our investment research.

### **Sustainability Risk and How We Integrate**

Our overarching investment decisions are based primarily on business and financial considerations, and we assess eight quality heuristics when examining the qualitative aspects of a company. Sustainability risks can be identified in any heuristic if we consider it likely to have a material impact on a company's present or future financial position and cash flows, or conflict with our ability to manage investments.

### **Information on How we Integrate Sustainability into the Investment Decision-Making Process**

We obtain information from several third party ESG specialist firms, which flag issues across the three main ESG pillars and their sub-components and assist our assessment of issues by industry and company, along with measuring risk exposures. We purchase access to specific services which allow monitoring of climate related issues, governance and accounting factors affecting the performance of public companies. We also monitor all portfolio and reserve list securities against the Office of Foreign Assets Control ("OFAC") sanctions program and other global sanctions regimes through an online screening tool.

Primary research is also a critical component of our fundamental analysis and will typically include direct discussions with company management about ESG issues which either we, or the company, consider relevant or which may have been raised by our third-party providers. We have also identified key risks and questions in each relevant industry and sector in which we invest and these are addressed in each company report. Detailed notes of primary company meetings are stored on a central database and made available to all investment managers and analysts.

Whilst the data and information collected from third party providers and companies on ESG related risks is crucial to our process, we believe it is only ever a stepping stone to further analysis. We use this primary data to identify environmental, social or governance risks within any of our eight predefined quality heuristics and assess its potential impact on the sustainability of a company's business model and its ability to impair future cash flow. We also assess the likelihood that an ESG risk will improve or deteriorate over time. We consider that business models which are dependent on unsustainable practices are likely to fall outside our quality criteria for investment consideration. For example, we see businesses that use enforced labour, child labour, uneconomic wage rates and/or unsafe or harmful business practices (such as polluting or harming the environment) as being unlikely to compound returns and perhaps more likely to suffer from permanent loss of capital. Companies engaging in unsustainable practices normally make unlikely investment candidates. We also consider companies operating in industries or countries that have poor environmental or social safeguards as being another uncertainty worthy of further analysis, but this will not rule out an investment, particularly if the company in question acknowledges these issues and has a structure and plan in place to resolve them.

We then integrate these ESG factors and sustainability risks which our identified into our investment research process and portfolio implementation decisions initially and on an ongoing basis for the duration of the period we hold an investment.

### Decision Making

Whilst we do not pursue an exclusionary approach when assessing the majority of ESG risks, we have excluded tobacco and weapons securities from all portfolios, and imposed additional fossil fuel security restrictions on our Global Developing Markets Sustainability portfolio, details of which are available in the respective fund prospectuses.

We consider superior performance lies in identifying marginal changes which could be made in a business and how we might help corporates develop rather than starve them of capital. This drives our approach to stewardship and engagement once the decision to invest has been taken.

Our overarching investment decisions are based primarily on business and financial considerations, and we assess eight quality heuristics when examining the qualitative aspects of a company. ESG risks can be identified in any heuristic if we consider it likely to have a material impact on a company's present or future financial position and cash flows, or conflict with our ability to manage investments. For instance, carbon related business risks might be identified within our Sound Operational Quality heuristic, or poor corporate governance within the Able and Honest Management section. Identification of an ESG issue within a quality heuristic prompts further analysis and allows us to consider appropriate risks, make a balanced judgment on the investment opportunity, and act in the best interest of our clients.

We also want to be aware of how and where our portfolio companies operate whilst recognising that the decision to operate legally, either directly or indirectly, in an unpopular jurisdiction or industry, to deal with difficult political environments or unfriendly regimes in different regions around the world, the implementation of a business plan, and the reputation risk involved, lies with the management of a company. These are important issues, but important alongside many others – product positioning, financing, sustainability of cash flows, competitive threats, advertising, promotion, human resources, corporate governance, and more. These are all the responsibility of management, although they remain of keenest interest to us as an investment manager, for instance where the approach taken by a portfolio company conflicts with global best-practice we may seek to collaborate with company management to encourage improvement or vote against certain proposals at company meetings. In summary, the possibility that a portfolio company may legally operate in a given industry, country or region alone does not cause a change in our investment process.

As with other capital allocation decisions, once we identify that a company has a permanent inability to improve on the identified ESG issues and after repeated engagement attempts, we may consider exiting the position.

For more details, please refer to the investment strategy of the specific Fund as set out in the Prospectus.

### Article 8 Funds

Cape Ann is appointed Investment Manager to certain Funds which promote environmental or social characteristics as set out below, but do not have sustainable investment as their objective (“**Article 8 Funds**”).

### Important Information

This Information Statement is issued for information purposes only. This Information Statement is not intended as investment advice and is not an offer or a recommendation about managing or investing assets and should not be used as the basis for any investment decision. The information contained herein is current as of the date of issuance and is subject to change without notice. We do not make any express or implied warranties or representations as to the completeness or accuracy or accept responsibility for errors. No risk management technique can guarantee the mitigation or elimination of risk in any market environment.

**Past performance is not a guarantee or a reliable indicator of future results and an investment could lose value. All investments involve risk, including the possible loss of capital.**

## Consideration of Principal Adverse Impacts of Investment Decisions on Sustainability Factors

This statement is issued by Cape Ann Asset Management Limited ("Cape Ann"), acting in its capacity as delegated Investment Manager in respect of The Cape Ann (Ireland) Trust, the Cape Ann Global Developing Markets (Ireland) Fund and the Cape Ann Global Developing Markets Sustainability (Ireland) Fund (each "a Fund" and together "the Funds"). This statement applies to each Fund to whom Cape Ann has been appointed delegated Investment Manager.

### Sustainable Finance Disclosures Regulation

The EU Sustainable Finance Disclosures Regulation (Regulation (EU) 2019/2088) requires firms that manage investment funds to disclose how they integrate sustainability considerations into the investment process with respect to the funds they manage. This disclosure aims to meet the requirements of Article 4 of SFDR applicable to Cape Ann regarding how we consider principal adverse impacts of investment decisions on sustainability factors.

For any Fund that is classified as Article 8 Fund our investment approach and decision-making processes are based on clearly defined investment objectives, investment policies, investment strategy, investment restrictions and risk management parameters, as contained in the relevant supplement for each specific sub-fund. Cape Ann is appointed Investment Manager to certain Funds which promote environmental or social characteristics as set out below, but do not have sustainable investment as their objective ("Article 8 Funds").

### Sustainable Investment Approach

At Cape Ann we believe that integrating the consideration of sustainability risks into our investment process is part of our fiduciary responsibility and helps contribute to our overriding objective of securing long-term growth for our clients.

We recognise that a transitional approach to sustainability and decarbonization can provide potential investment opportunities and threats. Our overarching investment process therefore seeks to invest in equity securities that, in our opinion, possess fundamental investment value and as part of that we integrate Environmental, Social and Governance ("ESG") factors into our investment research.

### Sustainability Risk and How We Integrate

Our overarching investment decisions are based primarily on business and financial considerations, and we assess eight quality heuristics when examining the qualitative aspects of a company. Sustainability risks can be identified in any heuristic if we consider it likely to have a material impact on a company's present or future financial position and cash flows, or conflict with our ability to manage investments.

### Consideration of Principal Adverse Impacts of Investment Decisions on Sustainability Factors

Principal adverse impacts ("PAI") are the impacts of investment decisions which result in negative effects on sustainability factors (environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters). [PAIs are not considered by Cape Ann when we make investment decisions.]

Instead, Cape Ann identifies and integrates ESG factors and sustainability risks into its investment research portfolio implementation process initially and on an ongoing basis for the duration of the period the Funds hold an investment.

When significant ESG or sustainability risks are identified we may look to reduce or avoid them when they are considered material and may contribute negatively to environmental objectives (taking into account the scope of Cape Ann's activities) by excluding companies from the portfolio.

However, when we take the decision to include such a company in the Fund's portfolio we will seek to engage with the management of the company, pursuant to our overarching ESG Policy, to understand and encourage steps to reduce the ESG or sustainability risk in question.

A more complete description of these activities can be found in our ESG and Proxy Voting Policy ([www.capeannam.com](http://www.capeannam.com)).

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## Article 10 Information Statement

This statement is issued by Cape Ann Asset Management Limited ("Cape Ann"), acting in its capacity as delegated Investment Manager in respect of The Cape Ann (Ireland) Trust - Cape Ann Global Developing Markets Sustainability (Ireland) Fund (the "Fund"). This disclosure aims to meet the website disclosure requirements of Article 10 of SFDR applicable to a fund which promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics.

### Sustainable Finance Disclosures Regulation

The EU Sustainable Finance Disclosures Regulation (Regulation (EU) 2019/2088) requires firms that manage investment funds to disclose how they integrate sustainability considerations into the investment process with respect to the funds they manage. This disclosure aims to meet the requirements of Article 5 of SFDR applicable to Cape Ann regarding how we consider principal adverse impacts of investment decisions on sustainability factors.

For any Fund that is classified as Article 8 Fund our investment approach and decision-making processes are based on clearly defined investment objectives, investment policies, investment strategy, investment restrictions and risk management parameters, as contained in the relevant supplement for each specific sub-fund. Cape Ann is appointed Investment Manager to certain Funds which promote environmental or social characteristics as set out below, but do not have sustainable investment as their objective ("Article 8 Funds").

### Overarching Sustainable Investment Approach

At Cape Ann we believe that integrating the consideration of sustainability risks into our investment process is part of our fiduciary responsibility and helps contribute to our overriding objective of securing long-term growth for our clients.

We recognise that a transitional approach to sustainability and decarbonization can provide potential investment opportunities and threats. Our overarching investment process therefore seeks to invest in equity securities that, in our opinion, possess fundamental investment value and as part of that we integrate Environmental, Social and Governance ("ESG") factors into our investment research.

### Article 10 Disclosures

#### 1. How are the environmental and/or social characteristics promoted by the Fund to be met?

The Fund's investment objective is to seek to achieve long-term growth through investing in a diversified portfolio of equity securities located in global developing markets. Cape Ann generally seeks to invest in a portfolio of equity securities that, in its opinion, possess fundamental investment value and the potential for long-term capital appreciation whilst exhibiting characteristics that support sustainable business practices.

The Fund will primarily consider investments in companies located in countries that are included in the MSCI Emerging Markets Index and the MSCI Frontier Markets Index. The Fund will generally not invest in developed market securities unless a particular company has significant exposure to developing markets. A developed market security is generally considered to be a security included in the MSCI United States Index, the MSCI Canada Index or the MSCI EAFE Index.

Cape Ann will seek to exclude from the Fund's portfolio investments in companies perceived by the Investment Manager to exhibit the most severe ESG risks, while seeking to maintain an overall portfolio profile that, in the Investment Manager's opinion, supports sustainable business practices. This assessment will be based on the Investment Manager's integrated approach to ESG investing, incorporating bottom-up fundamental analysis, use of the Database Screen, regulatory considerations, technological migration, engagement and monitoring. Within this broad structure the Investment Manager will also seek investment opportunities in companies with a business focus that contributes to at least one of six environmental objectives: (i) climate change mitigation; (ii) climate change adaptation; (iii) sustainable use and protection of water and marine resources; (iv) expanded recycling and reuse of resources (e.g. a "transition to a circular economy"); (v) pollution prevention and control; and (vi) protection and restoration of biodiversity and ecosystems. As part of its investment strategy, the Investment Manager will consider the Fund's total carbon footprint, defined as tons of carbon-dioxide emitted per million dollars invested (tCO<sub>2</sub>/\$M), and its alignment to a 2-degree Celsius pathway.

In addition, the Fund will promote environmental characteristics by avoiding making investments in companies which it determines to be fossil fuel securities. A fossil fuel security is defined as an equity ownership interest, either voting or non-voting, in any company whose primary business, as defined by reference to sales or assets and determined exclusively by the Investment Manager, is either i) the extraction of fossil fuels (e.g. thermal coal, oil or natural gas); or ii) the generation of fossil fuel-based energy. The Investment Manager utilises the Database Screen to assist with the foregoing determinations.

The Investment Manager will also promote social characteristics by avoiding making investments in companies which it determines to be tobacco securities, electronic cigarette securities or weapons securities. A tobacco security is defined as an equity ownership interest, either voting or non-voting, in any company whose primary business, as defined by reference to sales or assets and determined exclusively by the Investment Manager, is the manufacture of tobacco or tobacco products. An electronic cigarette security is defined as an equity ownership interest, either voting or non-voting, in any company whose primary business, as defined by reference to sales or assets and determined exclusively by the Investment Manager, is the manufacture of electronic nicotine delivery systems, electronic cigarette products or vaping products. A weapons security is defined as an equity ownership interest, either voting or non-voting, in any company whose primary business, as defined by reference to sales or assets and determined exclusively by the Investment Manager, is the manufacture of cluster bombs, landmines, nuclear weapons, depleted uranium weapons, biological or chemical weapons, incendiary weapons, or civilian firearms. The Investment Manager utilises the Database Screen to assist with the foregoing determinations.

**2. What methodologies are used to assess, measure and monitor environmental or social characteristics or the impact of sustainable investment selected for the fund, including its data sources, screening criteria for underlying assets and the relevant sustainability indicators used to measure the environmental or social characteristics or the overall sustainable impact of the Fund?**

As noted above, the Fund's investment guidelines restrict investment in certain securities which do not exhibit sustainable business practices as defined by Cape Ann. These include investments in fossil fuel, tobacco and weapons securities.

In addition these exclusions, Cape Ann uses the following indicators to assess, measure and monitor the Fund's environmental and social characteristics:

- Internal ESG score based on Cape Ann assessment of whether a company is improving, deteriorating or remaining static with respect to its ESG objectives and performance;
- Corporate engagements by Cape Ann's investment team with the management of portfolio companies;
- Weighted average carbon intensity;
- Overall portfolio carbon emissions;
- Alignment to a 2-degree Celsius pathway

**3. How are sustainability risks integrated into the investment decision making process?**

Cape Ann follows bottom-up fundamental stock picking using an intrinsic value approach. Cape Ann defines value as being the difference between the market capitalizations of a current or potential portfolio investment and the underlying economic value of its business. To determine the economic value of a business, the Cape Ann looks to assess the sustainable competitive advantage of the business and, ultimately, the improvement, persistence or fade of return on invested capital ("ROIC") compared to the cost of its entire capital structure. The analysis provides a reference point to compare the market capitalisation of a current or potential portfolio investment to the intrinsic value of a business. The Cape Ann aims to identify investments that can either sustain high returns relative to their sector peers for longer periods than currently anticipated by current market prices or deliver a significant improvement in economic returns within the period the Cape Ann envisages investing in them. Critical areas of assessment include market and political factors impacting the relevant industry sector, balance sheet and cash flow fundamentals and corporate governance.

Investments meeting the above criteria are identified by Cape Ann in part through the use of a database screen ("Database Screen"). The Database Screen utilised by Cape Ann is a bespoke research and ongoing monitoring screen which incorporates data points from third party data providers such as Factset and MSCI. The Database Screen captures both financial data, which includes financial and valuation ratios,

accounting data factors affecting the performance of public companies, and environmental, social and governance (“ESG”) data, which includes carbon emissions metrics and alignment with the 2-degree Celsius pathway, from the foregoing providers. Cape Ann carries out financial analysis on prospective investments and reviews their underlying business strengths and weaknesses, their plans, and their management. Investments that appear attractive according to the Cape Ann’s criteria generally will constitute a high proportion of the Fund’s investments.

**4. How will the assessment of the possible impacts of sustainability risks affect the returns of the Fund?**

Incorporating an assessment of sustainability risks into the investment research and decision making process may potentially impact the returns of the Fund. Consequently an Article 8 classified fund may generate different performance returns relative a similar fund which does not promote environmental or social characteristics.

A more complete description of these activities can be found in our ESG and Proxy Voting Policy ([www.capeannam.com](http://www.capeannam.com)).

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