

## SFDR Sustainability Risks Policy Statement

10 March 2021

This statement summarises the policies of Sova Asset Management (CY) LTD (hereinafter - “**Sova AM**”) on the integration of sustainability in its investment decision-making process.

### 1. **Introduction**

- 1.1 The EU Sustainable Finance Disclosure Regulation (hereinafter - “**SFDR**”) requires Sova AM to formalise how sustainability is integrated into its business and processes, and to make new public and client-facing disclosures on sustainability matters.
- 1.2 In overview, Sova AM regards sustainability in the investment context as understanding and incorporating environmental, social and governance (ESG) factors into its investment analysis and decision-making. These sustainability risks are included in Sova AM’s risk inventory of investment risks, i.e. risks which may directly affect investment returns. Sova AM will continue to work towards implementing the standards into its risk management framework.
- 1.3 Sova AM has adopted a separate Sustainability Risk Policy (hereinafter – the “**Policy**”). The Policy is in respect of the integration of sustainability risks in Sova AM’s investment decision-making process, as required by Article 3 of SFDR. The Policy applies to Sova AM and its delegated investment managers and applies in respect of all portfolio management services, investment advisory services, and AIF management carried on by Sova AM. This document provides summary information on the Policy, and is published on Sova AM’s website.
- 1.4 The Policy applies as from 10 March 2021.

### 2. **Purpose of the Policy**

- 2.1 Under SFDR, “**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 an investment.
- 2.2 The Policy therefore approaches sustainability risk from the perspective of the risk that ESG events might cause a material negative impact on the value of clients’ investments.
- 2.3 Sova AM recognises that the world faces growing environmental, social, and governance-related risks. A key part of Sova AM’s role is to act in the best interests of its clients, and this includes appropriately taking account of how those ESG risks could impact on clients’ investments. Sova AM acknowledges that sustainability risks may represent investment opportunities rather than an inevitable negative impact of value. The Policy therefore establishes Sova AM’s framework to identify, measure, manage and monitor ESG risks to its clients.
- 2.4 For the purposes of SFDR, sustainability risk is not concerned with the risk of harm that investment decisions may do externally to sustainability factors. In other words, the Policy covers “*value*” rather than “*values*”. The external harm of investments is covered by a separate regime under SFDR, which considers the principal adverse impacts of Sova AM’s investment decisions on sustainability factors. Sova AM is entitled to make a decision whether or not to implement the principal adverse impact arrangements

under Article 4 of SFDR and has elected not to comply for now. Sova AM is separately publishing a public statement to explain the decision not to implement such arrangements.

2.5 In addition, SFDR is not specifically concerned with the risks that sustainability events may cause to the Sova AM's own balance sheet or prudential position.

### 3. **Governance and senior management responsibility**

3.1 Sova AM's Board of Directors is ultimately responsible for Sova AM's policies and procedures in respect of sustainability risks.

3.2 In particular, the Risk and Compliance Committee has overall responsibility for sustainability risk matters.

3.3 Sova AM's Board of Directors, Risk and Compliance Committee, Investment Strategy Committee and Operations Committee have approved the Policy and the related procedures, including Sova AM's sustainability risk appetite, and Sova AM's integration of sustainability risks into investment decision making.

### 4. **Sustainability risk management**

4.1 As part of Sova AM's broader risk management processes when investing, Sova AM has implemented procedures to (i) **identify**, (ii) **measure**, (iii) **manage** and (iv) **monitor** sustainability risks.

4.2 Sova AM's approach to sustainability risk management is based on (amongst other things) the time horizon for its investments being held for example, long-term fundamental analysis on a particular name versus trading, the types of assets in which Sova AM invests, the sectors, geographies in which it invests, and the investment strategies it manages.

#### **(i) Identify**

4.3 Sova AM has separately reviewed the sustainability risks which are potentially likely to cause a material negative impact on the value of clients' investments, should those risks occur. They are broadly divided into the three categories of environmental, social and governance risks.

4.4 Sova AM treats sustainability risk as both a standalone risk, and also a cross-cutting risk which manifests through many other established principal risk types (such as financial risks, operational risks, credit risks, etc).

#### **(ii) Measure**

4.5 Sova AM measures sustainability risk according to two metrics. The first is likelihood of occurrence of each risk, within the typical investment horizon for Sova AM's clients. The second is severity of impact to the value of a client's investments, should the risk occur. When it is in a position to do so, it is the intention of Sova AM to increase the number of metrics, to assign the rating scores from a third-party data source e.g., Bloomberg, and record in Sova AM's risk register.

4.6 When measuring sustainability risk, Sova AM utilises its own internal analysis and assessment.

4.7 In measuring sustainability risk, Sova AM takes account of the “physical” or tangible risks of a sustainability event (for example, the impact of severe climate events leading to business disruption or losses for investment positions). In addition, Sova AM also takes account of the “transition” risk, which focuses on the risk to investments as the world moves towards a more sustainable environmental and social model. For example, the move towards mandatory use of electric vehicles may negatively impact the value of manufacturers of combustion engines.

**(iii) Manage**

4.8 Sova AM recognises sustainability risk against Sova AM’s sustainability risk appetite, which is documented in Sova AM’s Risk Appetite Statement.

4.9 While Sova AM’s portfolio managers and analysts are provided with information on sustainability risks and are encouraged to take sustainability risks into account when making an investment decision, sustainability risk would not by itself prevent Sova AM from making any investment. Instead, sustainability risk forms part of the overall risk management processes, and is one of many risks which may, depending on the specific investment opportunity, be relevant to a determination of risk. However, Sova AM does not currently apply any absolute risk limits or risk appetite thresholds which relate exclusively to sustainability risk as a separate category of risk. However, when it is in a position to do so, it is the intention of Sova AM to apply limits or risk appetite thresholds which will relate exclusively to sustainability risk as a separate category of risk.

4.10 Sova AM’s three lines of defence (front-office, risk management/compliance, and audit) all have an active role in managing the risk inventory of Sova AM including ESG.

**(iv) Monitor**

4.11 Where applicable to the mandate and as part of ongoing monitoring, Sova AM’s portfolio managers are encouraged to engage in “active ownership”, with a view to reducing or mitigating sustainability risks of particular investments. Active ownership is the process of exercising voting rights attached to securities and/or entering into dialogue with issuers on ESG issues, with a view to monitor or influence ESG outcomes within the issuer.

4.12 In determining how to exercise voting rights attached to securities, Sova AM relies on its own internal analysis and assessment.

**SOVA ASSET MANAGEMENT (CY) LTD**

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