



# Bellevue Healthcare Trust plc WS Bellevue Healthcare Fund

## EU SFDR Disclosure (2019/2088) Sustainability preferences (MiFID II)

December 2022

**The following information summarizes the regulatory requirements of the EU Disclosure Regulation 2019/2088 (EU SFDR) and the sustainability preferences (MiFID II) with respect to individual strategies and groups of strategies summarized thereafter.**

## I Definition of ESG characteristics (EU SFDR)

### a) Summary

The investment strategy takes into account social, environmental as well as governance-related characteristics (ESG) as part of the implementation of its investment objectives, in accordance with the provisions of Article 8 of the EU Disclosure Regulation 2019/2088 (EU SFDR).

### b) No sustainable investment objective

The investment strategy takes into account social, environmental or governance-related characteristics, but does not pursue a sustainable investment objective. The strategy invests to some extent in sustainable investments. While the adverse impacts on sustainability goals mentioned in Annex I of the RTS are not explicitly taken into account until the RTS is ratified, harmful ESG practices are evaluated by means of involvement in controversial business areas, ESG ratings, and by taking into account the standards of the UN Global Compact, the UN Guiding Principles for Business and Human Rights, and Conventions 1 and 2 of the International Labor Organization (ILO).

### c) Environmental or social characteristics of the strategy

The strategy takes into account social as well as environmental characteristics. These essentially comprise the following elements:

- 1) Exclusion of serious violations of global norms
- 2) Value-based exclusions based on revenue thresholds
- 3) ESG integration into fundamental company analysis
- 4) ESG stewardship through constructive corporate dialogue (engagement) and the exercise of voting rights (proxy voting)

### d) Investment strategy

The investment objective of the strategy is to achieve long-term capital growth by investing in equities and other equity securities. In doing so, the sustainability characteristics described under c) are taken into account as follows:

**Serious violations of global standards** in the areas of the environment, human rights and ethical business practices are excluded. This is measured by compliance with the principles of the UN Global Compact Compliance, UN Guiding Principles for Business and Human Rights, and standards of the International Labor Organization.

In contrast to exclusions based on violations of global standards, **value-based exclusions** are based on social, ethical and moral views. Percentages of sales per business segment are defined which a company must not exceed in controversial business areas such as conventional weapons, thermal coal or tobacco production. Issuers whose annual sales exceed the defined tolerance limits are excluded.

In addition, Bellevue Asset Management (UK) Ltd Ltd follows an "ESG integration approach" in its investment process with the sub-aspects environment ("E" for Environment), social ("S" for Social) and good governance ("G" for Governance).

Further information on the application of its sustainability approach can be found here: <https://www.bellevue.ch/uk-en/institutional/esg/sustainability>

**e) Proportion of investments**

In principle, Bellevue Asset Management (UK) Ltd aims to invest the entire assets of the above-mentioned strategies in a sustainable manner. However, since some companies do not yet have an ESG rating, a minimum percentage allocation to investments with sustainable characteristics is defined. Investments that do not fully meet the criteria of Bellevue Asset Management (UK) Ltd’s ESG integration approach are allocated a maximum permissible residual share.

The minimum proportion of investments with sustainable characteristics is determined as follows:

Strategies	Minimum proportion of investments with sustainable characteristics	Maximum residual allocation (residual quota)
Bellevue Healthcare Trust plc	50%	50%
WS Bellevue Healthcare Fund	50%	50%

For a derivative with one underlying instrument, the underlying instrument as well as the issuer must meet the asset manager’s criteria for an investment with sustainable characteristics as described above. Otherwise, it is allocated to the portion of the assets that is classified under the residual quota.

For a derivative with several underlying instruments (e.g. index, basket), the underlying instruments of the derivative on average as well as the issuer must meet the asset manager’s criteria for an investment with sustainable characteristics as described above. Otherwise, it is allocated to the portion of the assets that is classified under the residual quota.

**f) Monitoring of environmental or social characteristics**

The ESG characteristics mentioned are recorded and documented at least on a quarterly basis. Compliance with the specifications with regards to the global standards as well as the value-based exclusions is checked by Risk Management. Exposure regarding value-based controversial business areas, potential/assumed ESG Laggards (MSCI ESG rating CCC or B), as well as current engagement and voting activities are discussed with the portfolio management teams during internal reviews. A quarterly summary of key ESG characteristics of the individual strategies is provided to management of Bellevue Asset Management (UK) Ltd.

**g) Methodology**

**Global norms**

Compliance with the given ESG characteristics is checked using various methodologies. Compliance with global standards, including compliance with the exclusion of controversial weapons, is measured against the standards and principles of the UN Global Compact, the UN Guiding Principles for Business and Human Rights, and Conventions 1 and 2 of the International Labor Organization (ILO). Based on assessments by leading ESG research providers (currently MSCI ESG), Bellevue Asset Management (UK) Ltd maintains an exclusion list which is updated quarterly and approved by the Compliance Office.

## Norms-based exclusions

Business areas that are controversial in terms of ethical and moral values are excluded if their sales exceed the tolerance limits for annual sales defined below:

Potential issue/controversy	Threshold
Unconventional weapons	0%
Conventional weapons & military contracts	2%
Thermal coal	2%
Other fossil fuels	2%
Nuclear power	2%
Palm oil	5%
Responsible mineral sourcing	2%
Environmentally damaging agricultural chemicals	10%
Alcohol production (beverages)	2%
Tobacco production	2%
Tobacco sales	10%
Cannabis-based products <sup>1)</sup>	n/a
Pornography	2%
Gambling	2%
Predatory lending practices	2%
Animal testing and related animal welfare issues <sup>2)</sup>	n/a
Genetic research <sup>3)</sup>	n/a
Use of embryonic stem cells <sup>4)</sup>	n/a

<sup>1)</sup> The investment manager can invest, and has invested, into holdings that offer therapeutic products derived from, or containing cannabinoids. However, the investment manager would not knowingly invest into a holding involved in the production or supply of recreational cannabis products.

<sup>2)</sup> The use of animal disease models in pharmaceutical R&D and the undertaking of pre-clinical testing in animal species are integral parts of the regulatory pathway for approving new medicines. Given the risks involved in unproven medicines and the human suffering such products alleviate, we agree such testing is morally and ethically justified at the current time due to the absence of credible alternatives. We therefore limit our focus to ensuring that investee companies adhere to the highest standards of welfare in respect of the animals that are used for such purposes.

<sup>3)</sup> Whilst we appreciate that some investors find the manipulation of genetic material in animals or human cell lines to be controversial, it has the potential to greatly enhance our understanding of human disease and, via gene therapy, gene editing and gene silencing to be directly deployed as a therapeutic intervention, particularly in areas of high unmet need. As such, we do not consider this to be controversial, as long as research follows accepted ethical guidelines and is appropriately supervised.

<sup>4)</sup> Whilst the utilization of embryonic stem cells is undoubtedly controversial, it also has the potential to greatly enhance our understanding of human disease and there are not currently viable alternatives in many cases. There are ethics guidelines (most notably those of the US

National Institutes of Health, 2009) and our focus is to ensure that, where such research is undertaken, it is performed in line with these guidelines.

<b>Governance considerations</b>	<b>Threshold</b>
Dealing with oppressive regimes <sup>5)</sup>	n/a
Bribery & corruption <sup>6)</sup>	n/a
Equitable access to products for dev. countries <sup>7)</sup>	n/a
Human capital development and diversity <sup>8)</sup>	n/a

<sup>5)</sup> Whilst it may be unpalatable to deal with corrupt or oppressive regimes, it would only compound the misery and suffering of the oppressed people if they were also denied access to healthcare products and services. As such, we do not judge our companies on who they chose to supply lifesaving products and services to.

<sup>6)</sup> The investment manager is committed to investigating serious allegations of bribery or corruption made against investee companies and discussing these with management.

<sup>7)</sup> Within the healthcare sector, affordable access to products for less developed countries is rightly highlighted as a controversial area and an important topic. We do engage with management teams around this topic. However, you cannot supply regulated products into markets where those products have not yet been approved and this point is often misunderstood in certain external ESG ratings, with smaller companies unfairly penalised when they only have approvals in a handful of developed countries.

<sup>8)</sup> It is laudable that external rating agencies focus on human capital development and diversity. However, one must be pragmatic and take into account the size and geographic focus of a company. A small, research stage entity based in one location is simply not going to be able to match the diversity of a broad-based multinational, nor will it be at a stage where it is hiring inexperienced people with a view to training them up. We see inappropriate comparisons being made in these areas all too frequently.

**ESG Integration**

In addition, Bellevue Asset Management (UK) Ltd pursues an "ESG integration approach" in its investment process - supplementing traditional financial analysis - with the sub-aspects environment ("E" for Environment), social ("S" for Social) and good governance ("G" for Governance). The environmental aspect includes, for example, whether a company systematically measures and discloses its carbon footprint. The area of society includes, for example, product quality, data security and employee development. Good governance includes, for example, the independence as well as compensation of the board of directors, and business ethics.

Based on the assumption that sustainability risks can have a negative impact on returns, this approach aims to identify ESG risks in order to take them into account in the investment process. The analyses are then also used by Bellevue Asset Management (UK) Ltd to anticipate developments in the area of sustainability and to incorporate/integrate these findings in its investment decisions.

As a basis for integrating the criteria for sustainable action in the investment decision process, we use an ESG rating per issuer, which consists of various sub-scores. The scores are based on data from independent third-party providers (currently MSCI ESG Research Inc, [www.msci.com](http://www.msci.com)). Only companies with a minimum rating of BB according to MSCI ESG are considered in the sustainable investment quota.

Further information on MSCI ESG's Rating Methodology can be found at: [www.msci.com](http://www.msci.com) or under the search term MSCI ESG Metrics Calculation Methodology.

In a next step, the asset manager uses ESG factors relevant for the respective industry or company, which MSCI ESG defines for each industry and evaluates accordingly. These so-called "key issues" show how a company compares with competitors from the same industry. While Corporate Governance is always an important key issue regardless of industry classification, social or environmental key issues can differ significantly, depending on the industry. The overall ESG assessment is qualitatively integrated into the common fundamental analysis and contributes to an integral decision regarding stock selection and position weighting.

Our website contains further information on this subject: <https://www.bellevue.ch/uk-en/institutional/esg/sustainability/sustainability-portfolio>

The evaluation of good governance practices, such as sound management structures, employee relations, compensation practices and tax compliance, is included in the overall assessment of ESG ratings and compliance with global standards. As an asset manager focusing on bottom-up stock selection, good corporate governance is also an essential part of any company analysis.

In addition, the aggregated Scope 1 + 2 CO<sub>2</sub> intensity<sup>1</sup> of the strategy measured and published on a quarterly basis.

#### **h) Data sources and processing**

The strategy uses various data sources to assess and measure ESG characteristics. Primarily, data from MSCI ESG Research is used as a basis for compliance with global norms and value-based controversial business areas. The same applies to the measurement of CO<sub>2</sub> intensities and the assessment of overall ESG ratings. Based on insights from our proprietary fundamental analysis, aggregated ESG ratings from external providers are assessed. In some cases, suspected ESG laggards are subject to additional analyses. Both our own analyses and the sustainability data from external providers are suitable for this purpose. The determination of an internally revised ESG rating does not take place due to a lack of external traceability. Information on the degree of coverage of external ESG research is published in the client reporting.

#### **i) Limitations of the methodology and data**

The data sources used may be incomplete or may not lead to an appropriate assessment of the ESG characteristics described in all cases as a result of systematic weaknesses in the ESG methodology of third-party providers. For example, in the case of biotechnology companies, MSCI ESG heavily weights the "Access to Healthcare" criterion. Innovative biotech companies that are only at the research stage cannot, by definition, fulfill this criterion or can only do so inadequately and are thus systematically undervalued.

Isolated data gaps and any objective misjudgments resulting from weaknesses in the ESG rating methodologies are filled to the best of our knowledge and belief by our own assessments from fundamental stock analysis or by consulting other data sources and third-party providers (e.g. Bloomberg, Sustainalytics). Issuers without ESG research coverage are automatically allocated to the quota for which an assessment of the social or environmental characteristics cannot be made in full.

#### **j) Due diligence**

The due diligence of the portfolio and the processes described are part of Risk Management's area of responsibility. Control mechanisms for compliance with sustainability requirements are implemented in the portfolio management system. Further ESG risk reviews are part of the regular review meetings with the portfolio management team. The Compliance Office is responsible for the oversight and review of all compliance-related topics, in particular the issuance, monitoring and updating of sustainability-related directives, both at portfolio level and

---

<sup>1</sup> Scope 1 emissions: Direct emissions caused by a company's activities; Scope 2 emissions: The second group includes all emissions caused by the production of energy used by a company.

at corporate level. Relevant ESG issues are periodically discussed by representatives of Risk Management, Product/Sustainability Management and Compliance of Bellevue Asset Management AG.

#### **k) Engagement policy**

Portfolio managers engage in an active and constructive dialogue with the management or other relevant representatives of the portfolio companies with regard to environmental, social and governance aspects. If there are indications of controversial sustainability aspects in the run-up to the company discussions, these are constructively raised with the company and progress (e.g. strategy, process adjustments or improvement of ESG rating) is documented over time. Furthermore, Bellevue Asset Management (UK) Ltd represents the long-term interests of its investors by actively exercising its voting rights at the general meetings of portfolio companies through proxy voting.

#### **l) Designated reference benchmark**

Unless otherwise stated in the strategy documents or on the website, a standard benchmark is used for the respective strategy to measure relative performance. This standard benchmark is used as a reference value in the monthly factsheets and quarterly ESG reports.

## II Definition of sustainability preferences (MiFID II)

With the amendment of the MiFID II Directive as part of the implementation of the EU Action Plan Financing Sustainable Growth, the consultation of clients' sustainability preferences in investment advisory will become mandatory as of August 2, 2022. Financial instruments that may target (potential) clients with sustainability-related objectives according to Art. 9 (9) UA 1 MiFID II-DRL must apply one or more of the following three concepts:

- a) a financial instrument where the (potential) client determines that a minimum proportion is to be invested in environmentally sustainable investments within the meaning of the **Taxonomy Regulation** (Art. 2 No. 1);
- b) a financial instrument for which the (potential) client determines that a minimum proportion shall be invested in **sustainable investments within the meaning of the Disclosure Regulation** 2019/2088 (Art. 2 No. 17);
- c) a financial instrument where the main **adverse impacts on sustainability factors ("PAI")** are taken into account, whereby the qualitative or quantitative elements demonstrating this consideration are determined by the (potential) client.

### Sustainable investments within the meaning of the Disclosure Regulation (SFDR)

In its implementation, BAM applies the **concept b)** of **sustainable investments as defined in the Disclosure Regulation (SFDR)**, which entails the following requirements:

- ESG strategy with share of sustainable investments as defined by the SFDR, using specific percentages
- No severe violations of the UN Global Compact and democracy/human rights
- Product provider takes into account recognized industry standard (UN PRI)

Art. 2 No. 17 of the Disclosure Regulation 2019/2088 defines a "Sustainable Investment" as an investment in an **economic activity that contributes to the achievement of an environmental and/or a social objective while not significantly harming any of these objectives**. Furthermore, the invested companies must apply practices of good corporate governance ("**Good Governance**").

For an investment to qualify as a "Sustainable Investment", Bellevue Asset Management (UK) Ltd applies the **17 UN Sustainable Development Goals (SDGs)**. These sustainable development goals are general, universal goals for all UN member states, which were adopted in September 2015 as the successor to the Millennium Goals. All people in the world should be able to live in a fairer, more prosperous and more peaceful society by 2030. ESG research provider MSCI ESG measures the target contribution of companies to each of the SDGs and categorizes them as "Strongly Aligned", "Aligned", "Neutral", "Misaligned" and "Strongly Misaligned". As soon as there is a **positive impact on at least one of the 17 SDGs ("Aligned" or "Strongly Aligned")**, and **one or more other SDGs are not negatively impacted at the same time ("Misaligned" or "Strongly Misaligned")**, Bellevue Asset Management (UK) Ltd assumes a positive alignment with a sustainable objective, i.e. these companies are added to the quota of "Sustainable Investments".

Investments are assigned to the "**Sustainable Investment**"-quota if, on the one hand, they exhibit a positive target contribution as described above and, on the other hand, they meet the sustainable investment characteristics described under I (including UN Global Compact compliance) which also ensures that good governance practices are applied.



The minimum percentage of “**Sustainable Investments**” is determined as follows:

<b>Strategy</b>	<b>Minimum proportion of Sustainable Investments</b>
Bellevue Healthcare Trust plc	25%
WS Bellevue Healthcare Fund	25%

Further information on MSCI ESG's SDG Alignment Methodology can be found on the following website: [www.msci.com](http://www.msci.com)

## Principle Adverse Impact Indicators ("PAI")

Furthermore, **concept c**), and thus the most important adverse sustainability impacts ("PAIs"), is applied. The consideration of adverse sustainability impacts is largely dependent on the availability of relevant information. Relevant data is not always available in sufficient quantity and quality for all assets in which Bellevue Asset Management invests. Consequently, the list of PAI indicators considered is continuously expanded depending on data availability and data quality.

In a first step, the PAI data is made available to the sustainability specialists from the product management team. Based on internal sustainability guidelines, experience values and differentiated views of sustainability developments and trends, they assess any outliers and then define the further procedure in connection with the PAI indicator concerned together with the responsible investment teams. Possible measures include regular monitoring, the exercise of voting rights on a designated agenda item at a general meeting, the initiation of an ESG engagement with the company, or the reduction or exit of the position.

Prioritization is based, among other things, on the size of the position and relative comparative data with direct peer companies in the same industry. The following table shows which mandatory and optional PAI indicators are currently taken into account. The applicable definitions of the individual indicators are listed in Annex 1 to the EU SFDR RTS Level 2 regulation.

Mandatory indicators				
PAI Nr.	Adverse Sustainability Indicator	Consideration within BAM ESG framework		Specific ESG or proxy criteria
		Exclusion list	MSCI ESG Rating	
1	GHG emissions		X	
2	Carbon footprint		X	
3	GHG intensity of investee companies			X
4	Exposure to companies active in fossil fuel sector*	X		
5	Share of non-renewable energy consumption and production			n.a. <sup>1)</sup>
6	Energy consumption intensity per high impact climate sector			n.a. <sup>1)</sup>
7	Activities negatively affecting biodiversity-sensitive areas			n.a. <sup>1)</sup>
8	Emissions to water			X
9	Hazardous waste and radioactive waste ratio			X
10	Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	X		
11	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises			n.a. <sup>1)</sup>
12	Unadjusted gender pay gap			n.a. <sup>1)</sup>
13	Board gender diversity			n.a. <sup>1)</sup>
14	Exposure to controversial weapons	X		
Additional climate and other environment-related indicators				
4	Investments in companies without carbon emission reduction initiatives			X
Additional indicators for social and employee matters				
1	Investments in companies without workplace accident prevention policies			X

<sup>1)</sup> The PAIs indicated cannot be evaluated at present due to insufficient data quality or availability. The data situation is reassessed periodically.

PAI indicators No. 1 and No. 2 are taken into account as part of an issuer's overall ESG rating. Depending on the industry affiliation, the weighting or relevance of the individual indicator may vary. Companies with exposure to PAI indicators No. 4 (5% annual sales threshold), No. 10 (zero tolerance) and No. 14 (zero tolerance) are part of our quarterly updated exclusion list and are excluded from the investment universe. For the assessment of PAI indicators No. 3, No. 8 and No. 9 as well as for the additional PAI indicators in the area of environment (No. 4) and social affairs (No. 1), specific criteria provided for this purpose are applied. MSCI ESG research is used as a data source.

The information and data contained in this document do not constitute an offer to buy or sell or a solicitation of an offer to subscribe for securities or financial instruments. The information, opinions and estimates reflect an assessment at the time of issue and may be changed at any time without notice. No liability is assumed for the accuracy and completeness of the content. This information does not take into account the specific or future investment objectives, financial or tax situation or individual needs of the individual recipient. In particular, tax treaties are dependent on individual circumstances and are subject to change. This document cannot serve as a substitute for independent judgment. Interested investors are advised to seek professional advice before making any investment decision. The information in this document is provided without warranty or representation of any kind, is for informational purposes only and is intended for the personal use of the recipient only. This document may not be reproduced, redistributed or republished without the written permission of Bellevue Asset Management (UK) Ltd.