Principal Adverse Impact Report

Aescap Genetics

Purpose & scope

This is the Principal Adverse Sustainability Impact Report of Aescap Genetics Fund, LEI: 894500QH8OYTAUTITP32 (the Fund) covering the reporting period from **January 1, 2022 until December 31, 2022,** as per SFDR article 4.

This is not marketing material. This report gives insight into how each Principal Adverse Impacts (PAI), mandatory and voluntary was addressed and reported on by the Fund during the reporting period.

This report concerns all classes of units of the Fund.

Summary

Aescap Genetics Fund (LEI: 894500QH8OYTAUTITP32) considers the principal adverse impacts (PAI) of its investment decisions on sustainability factors as part of its investment due diligence process and procedures. The present report contains the aggregated PAI of the Fund's underlying investments. This report concerns the reference period of **1 January 2022 to 31 December 2022**.

As defined in article 8 of the SFDR, The Fund promotes a social characteristic, hereby aiming to provide investors with an attractive financial return while at the same time focussing its investment selection on companies that research, develop, or produce treatments/solutions for diseases with a high unmet medical need (HUMN). This is defined as: types of diseases characterised by limited or inadequate available treatments, severity of impact on the patient and severity of impact on the healthcare system. Attainment is measured in percentage of the portfolio that aligns with the characteristic. The related pre-contractual disclosure is available on the Fund's website, the website of the Fund Manager and as an annex to the Fund's prospectus.

In addition to striving to select companies that align with its objective, it is part of the Fund's investment approach to aim to mitigate the negative impacts of its investment decisions. These impacts can occur in different areas, such as related to environmental, social and employee matters, human rights, corruption, or bribery matters. The Fund aims to integrate PAI wherever possible when investing.

In this report the Fund's overall approach to identifying, prioritising, and addressing the PAI is detailed. In line with the Fund's strategy, the Portfolio Manager is responsible for sourcing the investments as well as the analysis of PAI, the collection of related data and engagement. Prior to making its investment decision, the Portfolio Manager analyses the PAI of the proposed investment as well as any mitigating factors and engagement actions. The overall investment approach and process is reviewed annually by the Portfolio Manager in collaboration with the Fund Manager.

The report consists of the following sections:

A. Description of the principal adverse impacts on sustainability factors
   This section documents the indicators related to PAI on sustainability factors over the reporting period. This is done by way of an explanatory table containing both the mandatory and voluntary PAI datapoints. In addition, the table contains information regarding the actions taken and planned by the Fund to obtain missing information or further improve the data quality.

B. Description of policies to identify and prioritise principal adverse impacts
   This section provides information about the Fund's approach to investing and relevant policies on the identification and prioritisation of PAI. These, alongside alignment with the social objective and ESG risks are considered throughout the investment process. All investments made by the Fund are screened against the PAI.

   Given the targeted nature of the Fund's investments, PAI prioritization is standardized and applied in the analysis of each potential investment. For each investment, the environmental, social and governance risks are assessed, and possible improvements are identified.

C. Engagement policies
   The Portfolio Manager has a long history of investing in- and engaging with biotech companies. Engagement with small-cap companies can be very effective and can have a concrete and direct impact on their policies and practices. Engagement starts at the earliest phase and uses the

outcomes of the initial PAI analysis and ESG risk score to prioritize environmental, social and governance issues to focus on.
Given the limited or incomplete reporting on ESG issues and PAI data in the sector, quality and completeness of reporting are always part of the engagement track.

D. References to international standards
The Fund's ESG policy requires that companies responsible for a breach of human rights in the past 3 years, as stated in the UN Global Compact principles and OECD Guidelines for Multinational Enterprises, may not be included in the portfolio. Also, companies need to demonstrate adequate disclosure of defects and safety issues and otherwise comply with all locally enforced relevant standards for the healthcare sector. The assessment of good governance practices is informed by the standards of the Sustainability Accounting Standards Board (SASB).

E. Historical comparisons
As this is the Fund's inaugural PAI report, no comparisons to previous years are available.

A. Description of the Principal Adverse Impacts on Sustainability Factors

The following section describes the PAI and the Fund's reporting on each indicator. The indicators related to PAI, additional indicators the Fund reports on as well as the actions taken and planned by the Fund to obtain missing information or further improve the data quality.

It should be noted that a large part of the Fund's investments is made in companies with a small market capitalisation, that are relatively young, and headquartered outside the EU. As a result, many of the Fund's investments are not in scope of the EU Sustainable Finance Regulation and thus are not required to disclose information. Also, most companies lack the capacity or knowledge to extensively report on ESG issues and have just started the process of doing so in the past years. In many cases, this was prompted in part by the Portfolio Manager's requests for information.

All collected and reported PAI information is based on what the Portfolio Manager collected and recorded from its portfolio companies to the best of its ability. As the regulation is new, specific details remain in flux and companies' reporting is still catching up in terms of coverage, quality, and standardisation, investors are advised to consider the reported PAI of the Fund in the same light.

In below overview no distinction is made between direct and indirect investments as the Fund only invests in publicly traded shares of biopharmaceutical companies and potentially also diagnostics and/or medical device companies.

	Indicators applicable to investments in investee companies						
Adverse Sustainability Indicator		Metric	Impact 2022	Impact 2021	Data Coverage (% of portfolio companies)	Explanation	Actions taken
	CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	7.42	N/A	31.6%	Amount of greenhouse gases (GHG) emitted through the organisation's operations from direct emissions sources during the reporting period (scope 1), amount of GHG emitted through the organisation's consumption of purchased electricity, heat, or steam during the reporting period (scope 2), amount of GHG emitted by the organisation's suppliers and suppliers of suppliers during the reporting period, except from direct energy providers (scope 3). The total GHG emissions is the of scope 1, scope 2 and scope 3 emissions. Metrics in tCO_2e	Company reporting on emissions is just starting and varying calculations make aggregation on Fund level challenging. As more companies start reporting and the quality of their reporting improves, so will the coverage and quality of the Fund's reporting. GHG emissions are an important criterion for investment and part of the ongoing engagement process. But as this datapoint is not designated as 'very important' (see section B) other datapoints may be engaged on first.
		Scope 2 GHG emissions	6.36	N/A	31.6%		
		Scope 3 GHG emissions	125.29	N/A	26.3%		
		Total GHG emissions	139.07	N/A	31.6%		
	2. Carbon footprint	Carbon footprint	11.62397	N/A	31.6%	The carbon footprint are emissions expressed as tonnes of	

						scope 1, 2 and 3 emissions per EUR million invested (tCO2/€M).	
	3. GHG intensity of investee companies	GHG intensity of investee companies	55.20	N/A	31.6%	GHG intensity is expressed in tCO2/€1 million revenue). The portfolio companies that manufacture either products they developed themselves or act as a contracted manufacturer for others will naturally have a higher GHG intensity. Given requirements for safety and quality, it may not always be easy to lower the GHG intensity.	
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	None	N/A	100%	The Fund does not invest in companies active in the fossil fuel sector.	
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as percentage	76%	N/A	21.1%	The Fund's investments produce no energy. Of the 21.1% of the investments that reported, 76% of their energy consumption was from non-renewable sources.	Greening of investee companies' energy consumption is part of the engagement on GHG emissions.
	6. Energy consumption	Energy consumption in GWh per million EUR of	0.421	N/A	26.3%	Relevant NACE sector is C21 - Manufacture of basic	The production of pharmaceutical ingredients

	intensity per high impact climate sector	revenue of investee companies, per high impact climate sector				pharmaceutical products and pharmaceutical preparations. 26.3% of the portfolio companies manufacture either products they developed themselves or act as a contracted manufacturer for others.	may be energy-intensive by regulatory requirement to ensure quality and safety. While part of the GHG engagement process, improvement could be challenging.
Biodiversity	7. Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	0%	N/A	100%	Investee companies are not located in or near critical habitats based on company reporting.	The Fund is in the process of implementing a more detailed screening.
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	0	N/A	0%	Investee companies that produce pharmaceutical ingredients are expected to at minimum adhere to governmental Environment, Health, Safety (EHS) Guidelines as well as any standards set by their local regulatory agency.	Water emissions are an important criterion for investment and part of the ongoing engagement process. But as this datapoint is not designated as 'very important' (see section B) other datapoints may be engaged on first.
Waste	9. Hazardous waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	1.01	N/A	26.3%	Investee companies that produce pharmaceutical ingredients are expected to at minimum adhere to governmental Environment, Health, Safety (EHS) Guidelines as well as any standards set by their local regulatory agency.	Waste generation is an important criterion for investment and part of the ongoing engagement process. But as this datapoint is not designated as 'very important' (see section B) other

							datapoints may be engaged on first.
	Optional Environmental PAI: Breakdown of energy consumption by type of non-renewable sources of energy	Share of energy from non-renewable sources used by investee companies broken down by each non-renewable energy source	N/A	N/A	0%	Biotechnology companies may improve their carbon footprint by considering the scope of their use of non-renewable energy in office buildings, research centres and production facilities where applicable. By requesting this datapoint from the portfolio companies, the Fund aims to increase awareness and support improvement.	This level of specification is new to the sector and there is no standard yet. This causes issues when aggregating the data on the Fund level. Multiple companies have started reporting however and the fund will continue engagement to improve coverage and comparability.
	SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTIONAND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0%	0%	100%	The Fund applies the OECD Guidelines for Multinational Enterprises and the UNGC principles in its analysis. Violations of these standards cover Disclosure, Human Rights, Employment and Industrial Relations, Environment, Combating Bribery, Bribe Solicitation and Extortion, Consumer Interests, Science and Technology, Competition and Taxation. Companies that are found to have violated these standards within the past 3 years are excluded from investment.	

	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0%	0%	100%	The Fund applies the OECD Guidelines for Multinational Enterprises and the UNGC principles in its analysis.	
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	N/A	N/A	0%	None of the portfolio companies reported comparable data.	Some of the portfolio companies reported a number, but this either did not fit the definition or was based on a different time period. Also, multiple companies have performed an analysis of the gender pay gap but only reported qualitative information. Engagement with the portfolio companies is needed to enable the collection of comparable data in the future.
	13. Board gender diversity	Average ratio of female to male board members in investee companies	0.48	N/A	100%	For every one male identifying board member at the portfolio companies, there were 0.48 female identifying board members	While portfolio companies on average have made progress on this datapoint, there are significant differences

							between companies. Engagement with companies that have the lowest ratios is a focus point.
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0%	0%	100%	The Fund does not invest in companies involved in the manufacture or selling of controversial weapons.	
	Optional Social PAI: Insufficient whistleblower protection	Share of investments in entities without policies on the protection of whistle blowers	0%	0%	100%	Product and research quality, safe and responsible clinical trials and strong relations with patients, employees and other stakeholders are the foundation for all companies in the healthcare sector. Strong whistle blower policies and protection is a clear indicator of a company's commitment to high standards in this area and therefore one of the main focus points of the Fund's analysis.	While all portfolio companies have policies on whistle blower protection, improvements are always possible and learnings from elsewhere in the sector and across sectors should be applied to keep policies current.

B. Description of policies to identify and prioritise principal adverse impacts

This section provides information about the Fund's approach to the identification and prioritisation of principal adverse impacts and indicators. As the Fund aims to partly make sustainable investments, sustainability indicators, factors and risks are considered during throughout the investment process. Investments made by the Fund are screened against the PAI to determine if they do any significant harm and if so, may not be counted towards the Fund's total sustainable investment reporting.

Identifying principal adverse impact

The Fund considers PAI as part of its investment due diligence process and procedures. For sustainable investments this means ensuring that the investments do no significant harm to any environmental or social objective. By mapping the Portfolio Manager's extensive knowledge of standards and regulations that apply to the biotechnology sector, each investment is screened on potential significant harm.

Full details are available in the Fund's ESG Policy. The Fund Manager is the owner of this policy and reviews it at least annually. In addition, the Fund Manager reviews the processes and policies to identify and prioritize principal adverse impacts as well as their application in Fund investments on an annual basis.

Prioritizing principal adverse impact

Considering the Fund's focus on biotechnology, the Fund assesses the material ESG risks as identified by SASB for this sector. For each of the SASB risks, the Portfolio Manager developed a more granular description to better align with biotechnology terminologies.

Human Rights & Community Relations = Inclusion of patients in need and outreach to lower income countries in clinical trials	Product Quality & Safety = Counterfeit products and product recalls
Access & Affordability = Access and affordability of medicines	Customer Welfare = Patient follow up and support
Selling Practices & Product Labelling = Ethical marketing	Supply Chain Management = Bioethics and Supply chain management
Employee Engagement, Diversity & Inclusion = Diversity & inclusion in the biotech industry	Business Ethics = Business Ethics

A below average performance on the management of these risks identifies where improvements can and should be made and informs the engagement plan. In some cases, an investee company may fall under a different SASB sector, resulting in different material ESG risks.

The material ESG risks also inform which PAIs which are deemed to be most material for the Fund's analysis. The voluntary social PAI (Insufficient whistleblower protection) is selected based on the same principle. It is related to multiple material SASB ESG risks as product and research quality, safe and responsible clinical trials and strong relations with patients, employees and other stakeholders are the foundation for all companies in the healthcare sector. Strong whistle blower policies and protection is a clear indicator of a company's commitment to high standards in this area and therefore selected as the voluntary social PAI.

The voluntary environmental PAI (Breakdown of energy consumption by type of non-renewable sources of energy) is informed by the Portfolio Manager's belief that biotechnology companies may generate improvement of their carbon footprint by considering the scope of their use of non-renewable energy in office buildings, research centres and production facilities where applicable. By requesting this datapoint from the portfolio companies, the Fund aims to increase awareness and support improvement.

Mapping the PAIs to the SASB material risks for the biotechnology sector results in the following prioritization of principal adverse impact factors:

- Very important
  - Violations of UN Global Compact principles and Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
  - Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
  - Unadjusted gender pay gap
  - Board gender diversity
  - Insufficient whistleblower protection
- Important
  - GHG emissions
  - Carbon footprint
  - GHG intensity of investee companies
  - Share of non-renewable energy consumption and production
  - Energy consumption intensity per high impact climate sector
  - Activities negatively affecting biodiversity-sensitive areas
  - Emissions to water
  - Hazardous waste and radioactive waste ratio
  - Breakdown of energy consumption by type of non-renewable sources of energy
- Not applicable
  - Exposure to companies active in the fossil fuel sector
  - Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons, and biological weapons)

The two PAI deemed not applicable are due to the Fund's investment strategy which limits the investable universe to biopharmaceutical companies and diagnostics and/or medical device companies only, thereby excluding activities in the two sectors above.

While the selected voluntary PAI always remain applicable, investee companies that fall under a different SASB sector may have a different prioritization of PAIs. This is determined on a case-by-case basis.

If the Portfolio Manager's analysis concludes that an investment is at risk of doing significant harm on more than 1 of the very important indicators or on 5 or more of the important indicators, then the investment cannot be classified as sustainable. If data about the company's commitments, processes, or policies on a PAI is not directly available from the company, industry databases or public news sources, the company is assumed to be at risk of doing significant harm on that PAI. Currently the Portfolio Manager does not consider third-party data in their analysis.

C. Engagement policy

The portfolio manager has a long history with investing in- and engaging with biotech companies. Engagement on sustainability issues with small-cap companies can be very effective and can have a concrete and direct impact on their policies and practices. This not only benefits the company, but all stakeholders and ultimately society at large. Progress is reported on annually in the Fund's engagement report.

The prioritization of the PAI as outlined above directly informs the Fund's focus points for engagement. Depending on how far along the company is in its progress, engagement will first focus on disclosure and reporting and subsequently on improvement of outstanding issues. As the implementation of the SFDR and the required data collection remains ongoing, these tracks will run simultaneously and actively inform each other.

Additionally, a third engagement track exists for investee companies that have breached one or more of the Fund's binding requirements related to:

- Willingness to communicate and/or share information regarding the relevant topics and risk factors
- Suspected of a breach of human rights as stated in the UNGC principles and OECD Guidelines
- Suspected of inadequate disclosure of defects of safety issues relating to one or more of its products

The Portfolio Manager accepts that when it first starts working with an investee company, the disclosure on ESG issues and the PAI indicators as well as the company's mitigation of PAI and ESG material risks may not yet be as desired. The Portfolio Manager does, however, expect performance to improve over time according to the agreed timeline. Which timelines are appropriate depend on the severity and the available mitigation options of the issue.

The Portfolio Manager engages with a company through meetings and calls with the company's management or Chairperson, email communications with the investor relations team or other company representatives on specific matters, company site visits, interactions with external industry experts or other industry participants and action through formal voting when deemed necessary. Engagement is then factored into the overall investment process to ensure that the investee company can deliver returns at an acceptable level of risk as well as provide the improvements needed to reach an acceptable level of ESG integration to fit with the Fund's engagement policy.

Engagement on disclosure and reporting

The Portfolio Manager engages with all potential investee companies to collect the required data on ESG risks that is needed in the investment analysis process. Data requests for collecting the PAI are send out soon after investment. Reporting on any kind of sustainability related data is still a new exercise for many companies, especially those companies with a small market capitalisation, that are relatively young, and headquartered outside the EU. Therefore, a large part of this engagement track consists of educating companies to these new datapoints.

Engagement on improvement of outstanding issues

The focus points of the engagement process may vary depending on how the company performs in its ESG risk and principal adverse impact analysis. If the company passes the principal adverse impact analysis the company may be classified as sustainable. Having passed that hurdle, the Portfolio Manager will target improvement of the remaining indicators with a prioritization of the very important indicator.

The engagement focus for investee companies that have not passed the principal adverse impact analysis depends on the outcome of the analysis and their capacity to improve. If a company missed passing the principal adverse impact analysis by a small margin, then the Portfolio Manager may focus on the very important or important indicators that will bring the company to a passing score first. Thereafter the other indicators are targeted for improvement.

If an investee company missed passing the principal adverse impact analysis by a large margin, but has the capacity to significantly improve, the Portfolio Manager may target the very important indicators first. This will allow for a significant improvement over a short timeframe. Investee companies that need to make a lot of improvements to pass the analysis but have limited capacity to do so will receive an engagement plan consisting of smaller steps, targeting the indicators they feel most comfortable tackling first.

Engagement on breaches of binding requirements during the holding period

While unlikely to occur as companies that breach the binding requirement prior to investment are excluded, it may be possible that an investee company becomes unwilling to collaborate with the engagement efforts. In that case, the Portfolio Manager will attempt to bring the company back on track within a reasonable timeframe.

If suspicions of a breach of the UNGC principles or OECD Guidelines or suspicions of inadequate disclosure of defects of safety issues come to light, the Portfolio Manager will engage with the investee company to understand the issue and discuss mitigation or reparation efforts. If these are not possible and a breach is irreversible, divestment will be the ultimate result.

Industry and Public Policy Engagement

The Portfolio Manager is convinced that combining portfolio management and engagement within the same team as opposed to separate teams improves the engagement outcomes and further improves the understanding of the investee company's business fundamentals as well as industry developments. The portfolio management team has a deep understanding of the company's inner workings and possible operational challenges to improving the ESG performance. In addition, the portfolio management team already has an established rapport with the investment companies' boards and management teams as a result of their engagement on financial issues. At the industry level, they understand existing regulations and standards, broad sector issues and challenges as well as developing perspectives and standards. This leads to the team being a valued discussion partner that can present a well informed engagement plan. It is the Portfolio Manager's experience that this improves the quality of discussions with the investee company update and accelerates the update of suggestions and improvement. A holistic approach to engagement is therefore achieved by combining the portfolio management and engagement activities.

The Fund does not directly engage in any industry or public policy engagement at the moment. Given the Portfolio Manager's capacity this is currently not feasible. Industry-wide initiatives to improve disclosure on sustainability related topics and to establish standards are monitored closely however and if an initiative fits with the Fund's engagement targets and capacity it will align and support.

D. Reference to international standards

The Fund's requires all investee companies to comply with applicable healthcare industry specific regulations in their home and host countries. In addition, any governance, environmental, social and human rights laws must also be followed. In its investment selection process and sustainability analysis, the Fund applies the following standards, as applicable:

- OECD Guidelines on Multinational Enterprises
- UN Guiding Principles on Business and Human Rights
- Sustainability Accounting Standards Board (SASB)
- UN Global Compact

With respect to the investigation of good governance, the primary standards that guide the Fund's analysis are the OECD Guidelines on Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and the material governance risks for the biotechnology sector identified by SASB. A breach of the OECD Guidelines on Multinational Enterprises or the UN Guiding Principles on Business and Human Rights in the past three years is grounds for exclusion for prospective investments. For investee companies that breach these standards while in the portfolio, this triggers the relevant engagement track and if no remediation is possible within a reasonable timeframe, the ultimate result is divestment from the Fund.

The material governance risks for the biotechnology sector identified by SASB consider two main issues:

- Proper management of the investee company's supply chain. It addresses issues associated with environmental and social externalities created by suppliers through their operational activities. Such issues include, but are not limited to, environmental responsibility, human rights, labour practices, and ethics and corruption.
- Ethical conduct of business including fraud, corruption, bribery and facilitation payments, fiduciary responsibilities, and other behaviour that may have an ethical component.

E. Historical comparisons

As this is the Funds inaugural report, the earliest historical comparison will be provided in June 2024.