Principal Adverse Impact Report

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Purpose & scope

This is the Principal Adverse Sustainability Impact Report of Aescap Life Sciences Fund (the Fund) covering the reporting period from **January 1, 2023 until December 31, 2023,** as per SFDR article 4.

This report provides insights into the sustainable investment objective of the fund. This is not marketing material. This report is required by law and 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 Life Sciences Fund (LEI: 724500AO3EDDBEC5LI13) 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 principal adverse impacts on sustainability factors of the Fund's underlying investments. This report concerns the reference period of **1 January 2023 to 31 December 2023**.

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. In the context of the Sustainable Finance Disclosure Regulation ("SFDR"), the Fund is classified as an article 8 Fund. 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.

While the Fund strives 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 on sustainability factors. These negative impacts are also called adverse impacts, whereby the most significant adverse impacts are referred to as principal adverse impacts by the SFDR. 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 address, by avoiding or reducing, principal adverse sustainability impacts wherever possible when investing.

In this report we provide more information on the Fund's overall approach to identifying, prioritising, and addressing principal adverse impacts of its investment decisions on various sustainability factors. 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. The Portfolio Manager analyses the principal adverse impacts of the proposed investment as well as any mitigating factors and decides on the needed engagement actions. The overall investment approach and process is reviewed annually by the investment oversight team.

The report consists of the following sections:

A. Description of the principal adverse impacts on sustainability factors
   This section documents the indicators related to principal adverse impacts on sustainability factors over the reporting period. This is done by way of an explanatory matrix containing both the mandatory and voluntary PAI datapoints, as well as how each specific indicator is embedded in the data collection and monitoring process. In addition, the matrix 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 on sustainability factors.
   This section provides information about the Fund's approach to investing and relevant policies on the identification and prioritisation of principal adverse sustainability impacts and indicators. PAI, 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 principal adverse impact 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 cannot be responsible for a breach of human rights in the past 3 years, as stated in the UNGC principles and OECD Guidelines for Multinational Enterprises. 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

A. Description of the Principal Adverse Impacts on Sustainability Factors

The following section describes the principal sustainability indicators related to principal adverse impacts on sustainability factors and how the Fund intents to report on each indicator. The indicators related to principal adverse impacts on sustainability factors, additional indicators the Fund intends to report on as well as how each specific indicator is embedded in FMO's data collection and monitoring process.

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 many cases, this was prompted in part by the Portfolio Manager's requests for information.

All collected and applied PAI information is based on what the Portfolio Manager can collect and record from its portfolio companies. Most of the PAIs were already considered by the Portfolio Manager to be material for its investments in some form. But given the differences in methodologies, existing data could not be reliably grandfathered into the PAI report.

Even though the gathering of the data and/or information is challenging, the Portfolio Manager and the Fund fully underscore the intentions of the EU regulation. Progress is being made to gather more data and comparability should improve as quality and availability of datapoints increases.

As this is the Fund's second PAI report, historical comparisons to last year are available.

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**	**2023**	**Data coverage (% of portfolio companies)**	**2022**	**Explanation**	**Actions taken**
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS							
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	84.67	57%	231.71	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 sum of scope 1, scope 2 and scope 3 emissions.	Company reporting on emissions has improved with over half of the portfolio companies now reporting on scope 2 and over two-fifths also reporting scope 3. Quality and coverage remain 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	41.18	52%	68.78		
		Scope 3 GHG emissions	1313.47	43%	2250.10		
		Total GHG emissions	1439.34	57%	2550.59		

						The total GHG emissions is the of scope 1, scope 2 and scope 3 emissions. Metrics in tCO2e	
	2. Carbon footprint	Carbon footprint	13.98	57%	9.95	The carbon footprint are emissions expressed as tonnes of scope 1, 2 and 3 emissions per EUR million invested (tCO2/€M).	More companies in the portfolio are becoming aware of and report on their emissions and fossil fuel use.
	3. GHG intensity of investee companies	GHG intensity of investee companies	66.86	57%	96.76	GHG intensity is expressed in tCO2/€1 million revenue).	More companies in the portfolio are becoming aware of and report on their emissions and fossil fuel use, the aggregated GHG emissions intensity decreased as a result of depressed market valuations.
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	None	100%	None	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	69%	30%	78%	The Fund's investments produce no energy. Of the 30% of portfolio companies that reported, an average 69% of their energy consumption was from non-renewable sources.	Reporting on this datapoint improved and non- renewable energy consumption decreased. There are significant differences between companies however.

	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	0.564	27%	0.043	Relevant NACE sector is C21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations. 26% of the portfolio companies manufacture products they either developed themselves or act as a contracted manufacturer for others.	The production of pharmaceutical ingredients 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%	100%	0%	Investee companies reported that they are not located in or near critical habitats.	
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	427.39	9%	0.266	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.	While only one new company started reporting on this datapoint over the period, it is one of the largest companies in the sector and has a significant manufacturing business. This caused an increase in the reported number. 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	1.62	35%	60.15	The portfolio company responsible for most of the reported waste produced last year was divested from the portfolio, thereby lowering the aggregated datapoint significantly. 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.	One investment company was responsible for most of last period's waste generation number. This company was divested at the start of this reporting period. 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 1) Diesel 2) Fuel Oil 3) Natural Gas 4) Non-renewable electricity	1) 0.031% 2) 12% 3) 41% 4) 47%	9% 22% 22% 9%	N/A	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 reporting is coming along slowly. 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	Share of investments in investee companies that have been involved	0%	100%	0%	The Fund applies the UNGC and OECD Guidelines for Multinational Enterprises and the	

	principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises				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%	100%	0%	The Fund applies the UNCG and 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	0%	N/A	None of the portfolio companies reported comparable data.	Finding quality reported data on this topic remains challenging. 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	0.54	100%	0.62	For every one male identifying board member at the portfolio companies, there were 0.54 female identifying board members. Compared to the last reporting period the number worsened slightly and none of the companies had a female majority anymore.	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%	100%	0%	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%	100%	0%	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 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 on sustainability factors

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 throughout the investment process. Investments made by the Fund are screened against the principal adverse impacts 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 principal adverse impacts of its investment decisions on sustainability factors 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.

The Fund requires, that all investee companies be willing to communicate and share information regarding the principal adverse impacts and risk factors, and not responsible for a breach of human rights standards in the past 3 years.

With respect to the management of environmental factors, the primary standards that guide the Fund's analysis of investee companies are all standards set by government and local regulatory agency related to environmental issues. Standards that guide the Fund's analysis of social factors are the OECD Guidelines on Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and any standards set by government and local regulatory agency related to social issues.

The Fund Manager reviews the Fund's ESG investment policy regularly. 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 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.

The prioritization of the principal adverse impact factors 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 principal adverse impacts 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 members 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 so as to fit with the Fund's engagement policy. The Portfolio Manager exercises its voting rights acting, in its belief, in best interests of shareholders/stakeholders.

Engagement on disclosure and reporting

The Portfolio Manager engages with all investee companies to collect the required data on ESG risks that is needed in the investment analysis process. In addition, the information to test the binding requirements outlined above is also collected. Data requests for collecting the principal adverse impact metrics goes 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 on 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 borrower 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 because 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 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. 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.

Engagement activities

As the fund engaged with companies on ESG topics in 2023, it became clear that awareness within the industry for sustainability are much more common than it was the prior year. More companies publish either a corporate responsibility report or a full-fledged ESG report, thereby establishing a standard for reporting and reference for future years.

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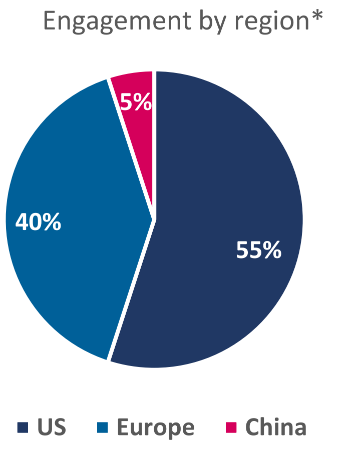
Below are some figures on the ESG engagement process the fund has gone through in 2023:



*by official headquarters of invested companies

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Portfolio companies engaged with on ESG topics

Engagement cases by topic	2023
Environment	19
Social	18
Corporate Governance	3
SDGs	18

In 2023 we engaged with 20 of 23 portfolio companies that were in the portfolio as of the end of the year. Of the three companies we did not engage with, one of them provided all the information required for our assessment in its ESG reporting, while the other two were added late in December and there was no time to effectively engage. Interaction with these two companies has been planned for 2024.

Just from the sample of the fund's portfolio, larger organizations have more advanced and established ESG reporting methods and vision. Smaller companies, some of which were not yet revenue generating, were less aware of the standards and topics the fund brought forward in its ESG engagement. On one hand, this is justifiable by the smaller headcount, restricted resources, and limited footprint of these companies, that in most cases only rent office space and perhaps a laboratory. On the other hand, at Aescap we believe that where possible companies should start early with tracking their environmental and societal impacts, starting with transparency on measures that deemed by the fund as "very important". In the analysis, the fund considered each company's stage and situation during the sustainable investment investigation.

The intersection of these two aspects represented the most prominent challenge in our engagement with companies. Some companies hide behind their 'early stage' status to postpone the reporting and action on ESG topics. While sometimes justified, on topics such as gender pay gap the company's size and number of resources should not be an obstacle.

The fund will continue to engage with reluctant companies, as we believe that continued interaction together with the rest of the investor community will put a positive pressure in advancing ESG practices and reporting in our industry. We are aware that in most cases the fund is not large enough to directly influence decisions on ESG topics, but simply engaging and bringing them forward in our discussion with portfolio companies and potential investments gives a meaningful contribution.

Another challenge the fund faced during engagement is the difference in standards of reporting. For example, many companies report a number accounting for the gender pay gap. However, the calculation behind it does not always match the standard brought forward by the Principal Adverse Impacts (PAI) that the fund applies. Some companies are not always willing to share the exact formula or method with which the gender pay gap was calculated. Others simply state that the gender pay gap analysis was run by a third-party organization and that the results did not bring up any inequalities. These differences are where engagement can make a difference: by expressing the value the fund attributes to transparency on ESG measures, we hope to steer our portfolio companies in the right direction. Our efforts, together with more stringent regulatory standards, will hopefully provide the "push and pull" necessary for better ESG reporting across our industry.

Engagement stories

Not all companies in our industry are receptive to the ESG issues and standards the fund promotes. As an example, a portfolio company took several months before replying to our ESG inquiry, despite several reminders sent to management and its investor relation department. When the answers finally came through, it became clear that it was the first time the company had to conduct a review of its operations to reply to the ESG questions. It was good to see that the fund triggered such an internal review, and management confirmed in a later meeting that they would allocate the proper internal resources to be up to date in their ESG reporting.

Another portfolio company was reluctant to conduct the work necessary to provide the data requested by the fund on ESG metrics. Through several calls and written communication, the fund has continued with the requests. Despite the progress in these interactions, the information received by this company still does not meet the standards set by the fund. Further interactions have been planned to continue to push for more and more transparent ESG data disclosure.

D. Reference to international standards

The Fund 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)

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 Fund's second report, the historical comparison includes data from 2022.

Adverse Sustainability Indicator	**2023**	**2022**
1.GHG Scope 1 GHG Scope 2 GHG Scope 3 Total GHG	84.67tCO2e 41.18tCO2e 1373.37tCO2e 1499.22tCO2e	231.71 68.78 2250.10 2550.59
2. Carbon footprint	14.56tCO2e/€M invested	9.95
3.GHG intensity	69.28tCO2/€M revenue	96.76
4.Exposure to companies active in the fossil fuel sector	None	None
5.Share of non-renewable energy consumption and production	69%	78.4%
6.Energy consumption intensity per high impact climate sector	0.56	0.043
7.Activities negatively affecting biodiversity sensitive areas	0%	0%
8.Emissions to water	427.39	0.266
9.Hazardous waste ratio	1.62	60.15
Optional: Share of energy from non-renewable sources *1) Diesel* *2) Fuel Oil* *3) Natural Gas* *4) Non-renewable electricity*	1) 0.031% 2) 12% 3) 41% 4) 47%	N/A
10.Violations of UNCG and OECD	0%	0%
11.Lack of systems to monitor compliance with UNCG and OECD	0%	0%
12.Unadjusted gender pay gap	N/A	N/A
13.Board gender diversity	0.55	0.62
14.Controversial weapons	0%	0%
Optional: Insufficient whistleblower protection	0%	0%