



CONFLUENCE IMPACT FUND

Principal Adverse Impacts Statement

June 2024

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Background & Scope

The Confluence Impact Fund Limited (“Confluence”) invests in companies with the goal to deliver a commercially compelling market rate of return to its Shareholders, while also supporting the delivery by businesses of Net Positive Impacts on the environment and/or society in the non-BRIC Global Emerging Markets. This statement has been produced to describe how we may take into consideration principal adverse impacts of our investment decisions on sustainability factors on a product level under Article 4 of the SFDR directive, subject to data availability.

The following terminology within this document are defined as;

- **‘Sustainable Finance Disclosure Regulation (SFDR)’**: Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, as amended from time to time;
- **‘Principal adverse impact (PAI)’**: The negative impact, caused by an investment decision or investment advice, on these factors;
- **‘Sustainability factors’**: Environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters as in article 2 (24) SFDR;
- **‘Sustainability risk’**: An environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment, as in article 2 (22) SFDR.

This statement covers the reference period from 1 January 2023 to 31 December 2023. It will be reviewed at least annually.

Description of Principal Adverse Sustainability Impacts

The following section outlines the principal adverse impacts based on sustainability factors that are currently monitored and evaluated, subject to data availability, as part of the investment process to ensure that the investments do no significant harm to any environmental or social objective. The framework includes fourteen mandatory indicators, plus two optional factors to further enhance the sustainability risk of each investee company. Please note that the list is not exhaustive as other sustainability risk indicators may be identified through research carried out.

In order to evaluate each indicator, data is collected from;

- Company reporting; and
- Third party data providers.

We will periodically review available products to ensure we are using appropriate and quality tools for data collection and processing.

Summary of Principal Adverse Indicators

Mandatory indicators

Adverse sustainability indicator	Metric
Climate and other environment-related indicators	
1. Greenhouse gas emissions (GHG)	Scope 1 Scope 2 Scope 3
2. Carbon footprint	Carbon footprint
3. GHG intensity of investee companies	GHG intensity of investee companies
4. Exposure to companies active in the fossil fuel sector	Share of investments 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 a percentage of total energy sources
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
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
8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average

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Mandatory indicators

Adverse sustainability indicator	Metric
Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery 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
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
12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members
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

Voluntary indicators

Adverse sustainability indicator	Metric
15. No carbon reduction initiatives	Share of investments in investee companies that do not have a published carbon footprint reduction initiative
16. Number of identified cases of severe human rights issues and incidents	Number of identified cases of severe human rights issues and incidents

Description of policies to identify and take into account principal adverse sustainability impacts in investment approach

Responsible Investment Policy

Confluence invests in companies with the goal to deliver a commercially compelling market rate of return to its Shareholders, while also supporting the delivery by businesses of Net Positive Impacts on the environment and/or society in the non-BRIC Global Emerging Markets. We assess companies against ESG and impact criteria a pre-investment and ongoing monitoring basis, as outlined in the Responsible Investment Policy which is available on our website.

Investment Exclusions

To avoid certain anticipated adverse sustainability impacts, Confluence will not invest in equities of companies that the Investment Manager assesses to have more than a de minimis activity in the following sectors (classification where practical by the MSCI Global Industry Classification standard GICS©): alcohol producers (GICS 30201010 – Brewers, GICS 30201020 Distillers & Vintners), tobacco producers (GICS 30203010 Tobacco), gambling (GICS 25301010 Casinos & Gaming), adult entertainment, military weapons (GICS 20101010 Aerospace & Defence), Oil, gas or Coal production and services (GICS 10101010 Oil & Gas Drilling, GICS 10101020 Oil & Gas Equipment & Services, GICS 10102010 Integrated Oil & Gas, GICS 10102020 Oil & Gas Exploration & Production, GICS 10102050 Coal & Consumable Fuels), nuclear energy, or metals and mining (GICS 151040 Metals & Mining). From a technical perspective the restriction on the Fund is that it may not invest in the equities of companies reported as being active in the restricted business classification section available on Refinitiv in the above GICS codes; in practice it will be typical for the Investment Manager to have a deeper understanding of whether a company has any activity in the above sectors and make a more detailed evaluation.

Engagement Policy

Confluence believes that engagement with investee companies, including the ability to vote, can have a positive and long-lasting impact on investment results and sustainability issues. Our investment team prioritises and addresses identified adverse impacts when applying engagement to engage with companies.

- **Corporate engagement** – We may communicate with relevant stakeholders of investee companies and participate in shareholder group forums; informal groups, discussions regarding proxy voting decisions in line with our Proxy Voting policy; participation in AGM/EGMs, joint shareholder meetings with a company. A company may be identified as an engagement case according to their positive and/or negative performance against PAI indicators and regulatory standards and frameworks during our post-trade monitoring processes.
- **Investor and stakeholder engagement** – We may hold regular discussion meetings with investors and stakeholders to ensure the identification and alignment of environmental, social and governance factors and promote long-term shareholder value.