

November 2024

Status under the EU Sustainable Finance Disclosure Regulation (SFDR)

Merill High Income Fund



Merill High Income Fund (The Fund)

The Fund is categorised as one which meets the provisions set out in Article 8 of SFDR as a product which promotes environmental and/or social characteristics.

A. Summary

This financial product promotes environmental or social characteristics. The Fund does not have a sustainable investment objective. The Fund promotes climate change mitigation. The Fund also seeks to avoid investments in certain activities with the potential to cause harm to human health and wellbeing by applying exclusions. The Fund does not use a reference benchmark to attain its environmental or social characteristics.

The binding elements of the investment strategy described below are implemented as exclusionary screens which are included in the compliance module of the Fund's order management system utilising Clarity AI (third-party data provider) on an ongoing basis. The exclusionary screens are implemented on both a pre and post - trade basis enabling the portfolio Fund to block any proposed transactions in an excluded security and identify any changes to the status of holdings when the third-party data is periodically updated.

The good governance practices of investee companies are assessed prior to making an investment and periodically thereafter, in accordance with the Sustainability Risk Policy ("Policy").

A minimum of 80% of the investments of the financial product are used to meet the environmental or social characteristics promoted by the financial product.

The sustainability indicators used to measure the attainment of each of the environmental or social characteristics promoted by this financial product are as follows:

Carbon – Total Carbon Intensity Scope 1&2&3 - This represents the company's most recently reported or estimated Scope 1 + Scope 2+ Scope 3 greenhouse gas emissions normalized by sales, which allows for comparison between companies of different sizes. Water Usage which represents the average amount of water consumed and reclaimed by the investee companies (in cubic meters) per million EUR of revenue of investee companies and Water Recycling this represents the weighted average percentage of water recycled and reused by investee companies

- Overall UNGC Compliance Status
- ESG Exclusionary screens - Investment Decision process of the Investment

The Fund uses an ESG scoring provided by its third-party data provider which takes into account the E & S & G individually and also the average of the 3 in order to achieve the promoted characteristics. The Fund applies pre-agreed thresholds set by the ESG Committee. An overall ESG score of 50 (out of a 100) or better is considered as part of the inclusion list i.e. will be part of the investable universe. The Fund may only invest in companies that would be excluded by the screens described above if the Fund believes, based on its own research and if approved by its ESG Committee. Classification of issuers is primarily based on activity identification fields supplied by the Fund's third-party ESG data provider. This classification is subject to an investment research override in cases where sufficient evidence exists that the third-party data field is not accurate or appropriate. The Principal Adverse Impacts (PAIs) as referenced further down are being assessed inside the investable universe, and companies that are above the 50th percentile compared to their industry peers are preferred, but it is not an automatic exclusion criteria. Furthermore, if an existing investment becomes ineligible based on such criteria, it will either divest of such investment within a reasonable period, alternatively where it would be in the Fund's best interest to do so, retain the investment, notwithstanding this may decrease the percentage of investments that a Fund holds that meet the environmental or social characteristics promoted by such Fund, below the percentage threshold set by it for such investments.

B. No Sustainable Investment Objective

This financial product promotes environmental or social characteristics but does not have as its objective sustainable investment.

C. Environmental or Social Characteristics of the Financial Product

The Fund promotes climate change mitigation. The Fund also seeks to avoid investments in certain activities with the potential to cause harm to human health and wellbeing by applying exclusions. The Fund does not use a reference benchmark to attain its environmental or social characteristics.

D. Investment Strategy

The investment objective of the Fund is to achieve a high overall yield and potential for capital growth.. The fund has no reference to a specific benchmark.

The binding elements of the investment strategy described below are implemented as exclusionary screens which are included in the compliance module of the Funds order management system utilising third-party data provider(s) on an ongoing basis. The exclusionary screens are implemented on both a pre and post - trade basis enabling the Fund to block any proposed transactions in an excluded security and identify any changes to the status of holdings when third-party data is periodically updated.

E. Proportion of Investments

A minimum of 80% of the investments of the Fund are used to meet the environmental or social characteristics promoted by the Fund.

Furthermore, if an existing investment becomes ineligible based on such criteria, it will either divest of such investment within a reasonable period, alternatively where it would be in the Fund's best interest to do so, retain the investment, notwithstanding this may decrease the percentage of investments that a Fund holds that meet the environmental or social characteristics promoted by such Fund, below the percentage threshold set by it for such investments.

Other assets, that are not used to meet the environmental or social characteristics, may include cash or cash equivalents, investments in sovereign issuers, securitised assets, derivatives for efficient portfolio management, or derivatives for investment purposes other than those used to gain exposure to direct issuers.

F. Monitoring of Environmental or Social Characteristics

The sustainability indicators used to measure the attainment of each of the environmental or social characteristics promoted by this financial product are:

- Carbon - Carbon Intensity Scope 1&2
- Overall UN GC Compliance Status
- ESG Exclusionary screens - see "G. Methodologies for environmental or social characteristics?" below for details on the exclusions

Controversy Monitoring

Description: Continuous monitoring of investee companies for involvement in controversies ensures that the Fund can quickly address any issues that arise and take appropriate action to mitigate risks.

Implementation:

- **Data Collection:** Information on controversies is collected from Clarity AI, as well as through media monitoring and other sources.
- **Risk Assessment:** Identified controversies are assessed for their potential impact on the company's ESG performance and overall sustainability.
- **Remediation Actions:** Based on the severity of the controversy, the Fund may engage with the company, adjust its investment, or divest entirely.

G. Methodologies for Environmental or Social Characteristics

The Fund uses an ESG scoring provided by its third-party data providers which takes into account the E & S & G individually and also the aggregation of the 3 in order to achieve the promoted characteristics. The Fund applies pre-agreed thresholds set by the ESG Committee. An overall score ESG of 50 (out of a 100) or better is considered as part of the inclusion list i.e. will be part of the investable universe. The Fund may only invest in companies that would be excluded by the screens described above if the Fund believes, based on its own research and if approved by its ESG Committee. Classification of issuers is primarily based on activity identification fields supplied by the Fund's third-party ESG data providers. This classification is subject to an investment research override in cases where sufficient evidence exists that the third-party data field is not accurate or appropriate. The PAIs described below are being assessed inside the investable universe, and companies that are above the 50th percentile compared to their industry peers are preferred, but it is not an automatic exclusion criterion.

H. Data Sources and Processing

The Fund has chosen Clarity AI as its primary data source for ESG.

When data from the primary source is not available, other ESG data providers coupled with desk research of the Fund may be utilized to supplement the ESG research. This approach ensures that consistent data and methodologies are applied for each security type's ESG measures, allowing for accurate comparisons in the portfolio construction process.

I. Limitations to Methodologies and Data

Data coverage is directly driven by the coverage of the underlying Third-Party Provider. It is important to note that the level of disclosure of ESG and Sustainability data is typically more limited for small companies than it is for large companies. As a result, the third-party provider makes estimates where data is missing.

The Fund is aware of the existing gaps in data coverage. However, the Fund is optimistic that these gaps will diminish as more companies begin reporting under the Corporate Sustainability Reporting Directive (CSRD).

J. Due Diligence

1. Initial Screening

- **Description:** The initial screening phase involves evaluating potential investments against the fund's exclusion criteria and ESG standards.
- **Implementation:**
 - **Exclusionary Screens:** Investments are screened for involvement in activities such as violations of UN Global Compact (UNGC) principles.
 - **ESG Scoring:** Companies are assessed based on ESG scores provided by Clarity AI and other data vendors. Only those with scores above a certain threshold are considered for investment.
 - **Data Sources:** Primary data is sourced from Clarity AI, supplemented by additional ESG data vendors.
- **Outcome:** Companies that do not meet the exclusion criteria or have low ESG scores are excluded from the investable universe.

K. Engagement Policies

The Fund, where possible actively engages with investee companies to promote better sustainability practices and mitigate PAIs. This includes direct dialogues and proxy voting.

L. Designated Reference Benchmark

The Fund does not use a reference benchmark to attain its environmental or social characteristics.

M. Principal Adverse Impacts

All mandatory principal adverse impacts on sustainability factors (PAIs) are considered within an ESG scoring model provided by the third-party provider, which also considers and includes in the ESG score of an investee company or issuer, the two voluntary PAIs chosen by the Fund due to their alignment with the Fund's objectives, which are the water usage and recycling for companies and average human rights performance for sovereigns. These factors are evaluated holistically by the third-party service provider, and the ESG score provided by the said platform on the basis of the aforementioned PAIs, influences the overall sustainability assessment of each investee company or issuer.

Investments within the investable universe are further evaluated based on specific PAIs, as shown in the table below, which are most relevant to the Fund's investment strategy.

	Name	Description	How is PAI Considered?
COMPANIES			
Environmental			
CARBON_EMISSIONS	M1 - Total GHG emissions	Company's carbon emissions (Scope 1 + 2 + 3) multiplied by the % of the company owned (calculated based on the enterprise value). It is considered a 1M Euro invested in the company for the calculation of this PAI	Exclusionary screens
WATER_USAGE	O6.1 - Water usage	Average amount of water consumed and reclaimed by the investee companies (in cubic meters) per million EUR of revenue of investee companies	Exclusionary screens
WATER_RECYCLING	O6.2 - Water recycling	Weighted average percentage of water recycled and reused by investee companies	Exclusionary screens
Social			
UNGC_OECDGME_VIOLATIONS	M10 - Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises	<p>At company level: Has the company been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises?</p> <p>At portfolio level: Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises</p> <p>Notes: 1. A "yes" value at company level indicates that such company has been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises. 2. The aggregation of this PAI is carried out by the sum of "yes" values.</p>	Exclusionary screens
GOVERNMENTS			
Social			
HUMAN_RIGHTS_SOVEREIGNS	O20 - Average human rights performance	Measure of the degree of respect for workers' rights using five domains: civil liberties, the right to establish or join unions, trade union activities, the right to collective bargaining and the right to strike.	Exclusionary screens