EUROPEAN
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ANNEX 2

ANNEX

to the

Commission Delegated Regulation (EU) .../....

supplementing Regulation (EU) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of 'do no significant harm', specifying the content, methodologies and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports

Framseld reglugerð framkvæmdastjórnarinnar (ESB) .../....

til viðbótar við reglugerð Evrópuþingsins og ráðsins (ESB) 2019/2088 með tilliti til tæknilegra eftirlitsstaðla sem tilgreina upplýsingar um innihald og framsetningu upplýsinganna í tengslum við meginregluna "að gera ekki verulega neikvæðan skaða", þar sem tilgreint er innihald, aðferðafræði og framsetning upplýsinganna í tengslum við sjálfbærnivísa og skaðleg sjálfbærniáhrif, og innihald og framsetning upplýsinganna í tengslum við kynningu á umhverfis- eða félagslega eiginleika og sjálfbær fjárfestingarmarkmið í skjölum fyrir samninga, á vefsíðum og í reglubundnum skýrslum

ANNEX II

Template pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Product name: Stefnir – Sustainable Arctic Fund **Legal entity identifier:** 254900K10OSE3KP43337

Environmental and/or social characteristics

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Does this financial product have a sustainable investment objective?

☐ **Yes**	☒ **No**
☐ It will make a minimum of **sustainable investments with an environmental objective:** ___% ☐ in economic activities that qualify as environmentally sustainable under the EU Taxonomy ☐ in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	☒ It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of **50%** of sustainable investments ☐ with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy ☒ with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy ☒ with a social objective
☐ It will make a minimum of **sustainable investments with a social objective:** ___%	☐ It promotes E/S characteristics, but **will not make any sustainable investments**

What environmental and/or social characteristics are promoted by this financial product?

Sustainability indicators measure how the sustainable objectives of this financial product are attained.

The fund promotes environmental and social characteristics by ESG assesment and screening.

Exclusion filters are applied to the portfolio construction process to exclude investments in companies and issuers with significant exposure to certain activities deemed to be detrimental to the environment or the society at large.

The environmental and/or social characteristics of this fund include:

Environmental

- Climate change and greenhouse gas emissions
- Resource depletion, including water

- Waste and pollution

Social

- Working conditions, including no child labour or slavery
- Health and safety
- Employee relations and diversity

What sustainability indicators are used to measure the attainment of each of theenvironmental or social characteristics promoted by this financial product?

To measure the attainment of the environmental or social characteristics, the investment manager will use climate-, other environmental and social indicators to the extent that relevant data is available. Indicators used are for example, but not limited to:

- Carbon emission score
- Carbon emission performance relative to peers
- Water Stress Score Quartile
- Natural Capital Theme Score
- Pollution & Waste Theme Score
- MSCI Toxic Emissions & Waste Score Quartile
- BESG Waste Management Issue Percentile
- Company's Social Pillar Score Quartile
- MSCI Social Pillar Score
- MSCI Health & Safety Exposure Score
- MSCI Labor Management Employee Satisfaction Score

The assessment is currently conducted with data from third party providers as well as self-reported data from companies invested in when available. Companies are excluded based on a minimum ESG rating by external rating agencies. The seeks to not invest in companies with a lower rating than B (MSCI ESG Rating) and/or a higher risk score than 36 (Sustainalytics ESG Risk Rating). No minimum scores are on individual sub parameters, but they contribute to the overall rating and scores.

What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?

The Sustainable Investments pursued by the fund may involve various objectives, either individually or in combination, or be associated with environmental or social goals through the utilization of issue proceeds. These objectives encompass:

Environmental Objectives:

- Climate risk mitigation
- Climate risk adaptation

Social Objectives:

- Inclusive and sustainable communities, with a focus on increased female executive representation
- Inclusive and sustainable communities, emphasizing increased female representation on boards of directors

The alignment with these objectives is determined through the following criteria:

Products and Services Sustainability Indicators: This includes factors such as the percentage of revenue derived from products and/or services contributing to the relevant sustainable objective. For instance, a company engaged in the production of renewable energy meeting the Investment Manager's specified thresholds for climate risk mitigation is considered to contribute. The minimum threshold for revenue is set at 20%, and if met, the entire holding in the issuer is classified as a Sustainable Investment.

Use of Proceeds: If the use of proceeds from the issue is designated to be linked to a specific environmental or social objective, it contributes to the alignment with Sustainable Investments.

How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?

As part of the process to identify sustainable investments, companies are screened to ensure that they do no significant harm (DNSH test) on any PAI indicators or other social or environmental objectives. Such considerations include climate change, protection of water and marine resources, transition to a circular economy, pollution and protection of biodiversity and ecosystems. The Investment Manager also applies a screen that seeks to identify and exclude those issuers that the Investment Manager considers to be in violation of the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights based on data supplied by third party service providers.

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

How have the indicators for adverse impacts on sustainability factors been taken into account?

The relevant indicators in Table 1 of Annex 1 of the EU SFDR Regulatory Technical Standards consist of 9 environmental and 5 social and employee related indicators. The environmental indicators are listed at 1-9 and relate to green-house gas emissions (1-3), exposure to fossil fuel, share of non-renewable energy consumption and production, energy consumption intensity, activities negatively affecting biodiversity sensitive areas, emissions to water and hazardous waste (4-9 respectively).

Indicators 10 – 14 relate to an issuers social and employee matters and cover violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises, lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles, unadjusted gender pay gap, Board gender diversity and exposure to controversial weapons respectively. The Investment Manager also takes into account PAI 16 in relation to Investee countries subject to social violations.

The Investment Manager's approach includes quantitative and qualitative aspects to take the indicators into account. It use particular indicators for screening, seeking to exclude issuers that may cause significant harm. It uses a subset for engagement seeking to influence best practice and it uses certain of them as indicators of positive sustainability performance, by applying a minimum threshold in respect of the indicator to qualify as a Sustainable Investment.

The data needed to take the indicators into account, where available, may be obtained from investee issuers themselves and/ or supplied by third party service providers (including proxy data). Data inputs that are self-reported by issuers or supplied by third-party providers may be based on data sets and assumptions that may be insufficient, of poor quality or containbiased information. The Investment Manager cannot guarantee the accuracy or completeness of such data nor the fact that many PAI indicators can only be assessed post investment due to the nature of the specific indicator.

Companies that do not pass the thresholds that are defined by the investment manager, will not qualify as a sustainable investment. This includes companies that are involved in severe human rights incidents, severe controversies related to biodiversity or violations of the UNGC and OECD principles.

How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights?

Alignment of the sustainable investments with the OECD guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights is confirmed as part of the process to identify sustainable investments using the Violations of the UNGC and OECD principles indicator based on third party data.

The EU Taxonomy sets out a "do not significant harm" principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The "do no significant harm" principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.

Does this financial product consider principal adverse impacts on sustainability factors?

✖ Yes, For informational and data tracking reasons, the Investment manager assesses the performance of the investments across multiple PAI indicators. The specific PAI indicators that are observed are subject to data availability and may evolve with improving data quality and availability.

☐ No

What investment strategy does this financial product follow?

The fund seeks to invest in quality growth companies with focus on companies that possess competitive advantage, high profitability and an agreeable management along with long term prospect for internal growth.

Prior to qualitative assessment of the reduced investment universe, the fund applies ESG criteria through a selective approach, resulting in that at least 20% of the original universe of potential investments is removed based on ESG rating from independent rating agencies. On top of that, the fund applies exclusion process as follows:

ESG is integrated into the strategy by excluding companies and issuers due to their exposure to certain activities that have been deselected based on ESG considerations (UN Global Compact violation).

Primary components applied are the following:

Consideration of controversies, i.e. non-financial information in regard to the issuers of securities.

Exclusion of companies that are involved in the manufacturing, use or possession of controversial weapons.

Voting at general meetings of investee companies where the threshholds of the proxy voting policy of the investment manage are met. Engaging in active discussions with investee companies.

Following exclusion process based on ESG considerations, companies are evaluated based on quantitative and qualitative measures as well as ESG measures for ranking within viable investment universe.

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

The criteria that investments must meet in order to be selected are determined based on independent external research that has been validated internally and are linked to compliance with the principles of the United Nations (UN) Global Compact (principles relating to respecting human rights, labour standards, environmental standards and anti-corruption standards).

It follows therefore that companies that do not comply with the UN Global Compact and that would encounter major controversies are excluded from the portfolio.

Good governance practices include sound management structures, employee relations, remuneration of staff and tax compliance.

Nevertheless, after a thorough analysis of the situation and/or when active discussions have led to a satisfactory resolution or management of the controversy encountered by the issuer, a security may be maintained in a portfolio following approval by an independent committee within the Investment Manager.

Business controversies include industrial accidents, significant environmental pollution, convictions for corruption, money laundering, serious violations of UN human rights conventions and structurally damaging governance problems.

Controversies are assessed based on their impact, in particular in regard to their severity, frequency and the company's reaction to the controversy.

In addition, companies operating in controversial sectors will be excluded.

In regard to controversial weapons, securities are screened so that the fund does not invest in securities issued by a company whose activity consists of the manufacture, use or possession of controversial weapons (anti-personnel mines, fragmentation bombs, biological and chemical weapons, depleted uranium).

The effective execution of voting rights in investee companies provided for as part of the third component and the engagement in active discussions with investee companies will be implemented in practice on a case-by-case basis, notably by ensuring that the interests of the end investor and ESG objectives are safeguarded.

- ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

Sector- or value-based exclusions prevent investments into activities that are deemed to be inappropriate for the strategy. The fund employs negative screening (does not invest in) on fur production and animal experiments, gambling, nuclear power, coal and oil sands processing, pornography, loan sharking, activities which violate basic human rights, e.g. slavery and Arms manufacturing. It employs positive screening (looks to companies who are driving positive development in the sector and outperform peers according to ratings agencies and internal assessment.) on alcohol producers, mining and oil production. It employs best in class screening (companies that perform best among its peers on ESG measures, according to internal measures and based on third party ratings agencies) on animal testing intended for drug development and tobacco production. Internal assessment is performed on companies' publications, the different parameters published by rating agencies and in some cases dialog with companies' representatives. More information on the methodology is available in the sustainability-related website information here: https://www.stefnir.is/english/sustainability/ Stefnir's Responsible Investment Policy applies to the fund.

- ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

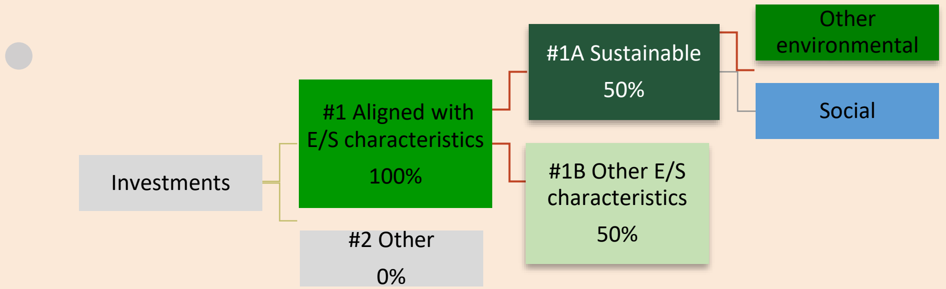
The fund will integrate ESG criteria through a selective approach, resulting in that at least 20% of the original universe of potential investments will be removed based on ESG rating from an independent rating agency

What is the policy to assess good governance practices of the investee companies?
Good governance practices of investee companies is addressed in the security selection process and on an ongoing basis. Public data from investee companies and other sources are analyzed and third party (MSCI, Sustainalytics and Bloomberg) reports, analysis and ratings on governance practices are also a factor in the process. Amongst others, companies are screened for good governance by assessing their employee relations, pay practices and management structure and diversity.

Asset allocation describes the share of investments in specific assets.

Taxonomy-aligned activities are expressed as a share of:
- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

What is the asset allocation planned for this financial product?



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:
- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?
The fund does not use derivatives for the attainment of its environmental or social characteristics.

To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

The fund has no minimum share of investments aligned with the EU Taxonomy, i.e. 0 % minimum target.

Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy[1]?

[1] Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objectives

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to fully renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

Enabling activities directly enable other activities to make a substantial contribution to an environmental objective.

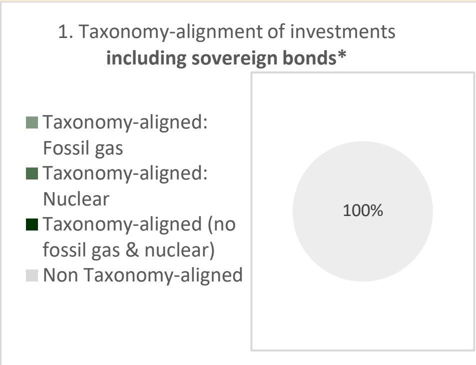
Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas

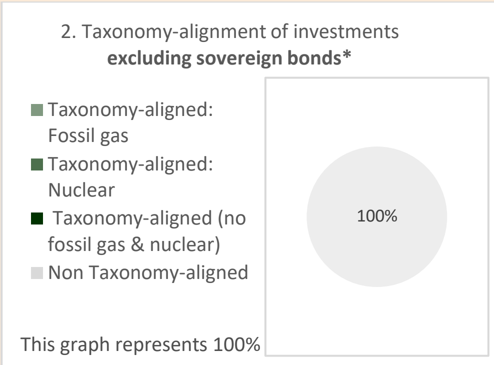
☐ Yes:

☐ In fossil gas ☐ In nuclear energy

☒ No

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.





* *For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.*

What is the min What is the minimum share of investments in transitional and enabling activities?

The minimum share of investments of the fund in transitional activities is 0 %. The minimum share of investments of the fund in enabling activities is 0 %.

What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

N/A

What is the minimum share of socially sustainable investments?

N/A

What investments are included under "#2 Other", what is their purpose and are there any minimum environmental or social safeguards?

"Other" investments include cash, cash equivalents, investments for diversification purposes for which data is lacking and does not follow any minimum environmental or social safeguards.

- see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

N/A

Reference benchmarks are indexes to measure whether the financial product attains the sustainable investment objective.

Where can I find more product specific information online?

More product-specific information can be found on the website:

https://www.stefnir.is/sjalfbaerni/

are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentaly sustainable economic activities under the EU Taxonomy.