

NEF Ethical Global Trends SDG  
Fund

# PAI DYNAMICS REPORT

20

23

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## Introduction

The EU regulations related to sustainability are essentially two: the regulation on sustainability-related disclosures in the financial services (known as “SFDR”) and the regulation 2023/2486 of 27 June 2023 (known as “Green Taxonomy”). Their goal is to establish clear criteria for evaluating the sustainability characteristics of a portfolio, enhancing the credibility of sustainable investments, and encouraging greater investment flows towards companies with more sustainable products and/or activities.

The SFDR defines the so-called Principal Adverse Impact (or “PAI”) factors, which measure the negative effects on sustainability of corporate activities, thus enabling an evaluation of the overall adverse impact of an investment portfolio.

The SFDR requires investment companies to assess and report on a series of PAI indicators for their funds, such as greenhouse gas emissions, hazardous waste disposal, and gender diversity on boards of directors.

It also mandates investment companies to show how the PAI factors in their portfolios evolve over time, indicating whether the negative effects of their investment choices are decreasing or not.

However, the structure of the EU-mandated analysis makes it impossible to distinguish improvements or deteriorations in PAI factors that are due to changes in the sectoral or geographical mix within the portfolio, from those improvements or deteriorations due to actions (or lack thereof) by the investee companies aimed at reducing the negative impact of their activities.

Indeed, the SFDR prescribes that the fund’s portfolio at any given time be compared with the same portfolio from previous periods, regardless of any portfolio changes in terms of stock holdings.

A significant share of the difference in negative impact could, therefore, be attributed to changes in the sectoral or geographical mix of the portfolio. For example, if a fund were to increase the weight of industrial and mining companies, which typically have high PAI factors, while reducing banks and technology companies, which generally have lower PAI factors, the overall portfolio result in terms of PAIs would clearly be negative. In the opposite scenario, the effect would be highly positive.

The bank with the highest CO<sub>2</sub> emissions will always be “cleaner” than the industrial company with the lowest emissions. However, investing in sectors with high PAI factors is not inherently negative if those sectors are vital to society (and are not evidently in conflict with sustainability goals, such as coal, oil, gambling, arms or tobacco). What matters is that the companies within those sectors do their utmost to reduce PAI factors, i.e., the negative impact of their activities on the community.

To make an apples-to-apples comparison, Niche AM has thus decided to prepare for NEF Ethical Global Trends SDG, in addition to the EU-mandatory PAI Statement, another report

that compares the PAIs of the fund's portfolio at a given time against the PAIs of exactly the same portfolio in previous periods.

This report, which we call Dynamic PAI Analysis, shows the extent to which the fund's portfolio is reducing its negative impact on sustainability over time (i.e.: showing an improvement in PAI factors). The report also highlights and measures the sustainability efforts and results of the companies in the portfolio (as well as the investment manager's work in focusing on virtuous companies), regardless of the sector in which they operate.

Our Dynamic PAI Report is produced annually, with the current report providing the analysis for 2023.

## Executive Summary

- Niche AM's PAI Dynamics report provides investors with a genuine assessment of the evolution across time of the sustainability characteristics of a given portfolio.
- This PAI Dynamics report evaluates the sustainability dynamics of NEF Ethical Global Trends SDG ("NEF EGT"), assessing a portfolio of 230 investee companies across 15 different Principal Adverse Impact indicators as of end 2023 vs 2021-2022.
- As of 31<sup>st</sup> of December 2023, 75% of the reported PAI indicators in NEF EGT's portfolio showed either improvement with 18% showing no significant change, and only 7% exhibiting unexplained negative trends which required further engagement with company management.
- A remarkable 76% of NAV-weighted investee companies were showing either better or broadly unchanged sustainability characteristics across *all and each* of the 14 quantitative metrics.
- The PAI indicators which showed the most significant progress were greenhouse gas emissions and board gender diversity.
- The most comprehensive disclosure pertains to greenhouse gas emissions data, while the disclosure related to water pollutant emissions is the most lacking among all PAI indicators.

## Description of the Principal Adverse Impacts Indicators

The mandatory indicators required by the SFDR are in the table below. Out of these, Niche AM selected 15 to be analysed at a stock level via our internal DNSH analysis. The indicators that have not been included in the DNSH analysis are covered by the sustainable investing policy of the fund, and therefore, do not require any further analysis. Niche AM's sustainable investing procedure can be found in the [Sustainability Process document](#).

PAI Indicators included / not included in Dynamic PAI Report			
Climate and other environmental-related indicators			
Adverse sustainability indicator			Niche AM DNSH Analysis
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	<b>Included</b>
		Scope 2 GHG emissions	<b>Included</b>
		Scope 3 GHG emissions	<b>Included</b>
		Total GHG emissions	<b>Included</b>
	2. Carbon footprint	Carbon footprint	<b>Not included as it is covered by 1. GHG emissions and 3. GHG intensity of investee companies</b>
	3. GHG intensity of investee companies	Scope 1+2 GHG intensity of investee companies	<b>Included</b> <i>(Scope 1+2 to revenue USD)</i>
		Scope 1+2+3 GHG intensity of investee companies	<b>Included</b> <i>(Scope 1+2+3 to revenue USD)</i>
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	<b>Not included as the responsible investment policy prevents investments these sectors.</b>

PAI Indicators included / not included in Dynamic PAI Report			
Climate and other environmental-related indicators			
Adverse sustainability indicator			Niche AM DNSH Analysis
Energy performance	5. Share of non-renewable energy in consumption and production	Share of non-renewable energy consumption and non-renewable energy production expressed as a percentage of total energy sources.	<b>Included</b>
	6. Energy consumption intensity per high impact sector Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	Energy consumption in GWh per million EUR of revenue, per high climate impact sector	<b>Included</b> <i>(Total energy consumption to revenue USD)</i>
Biodiversity	7. Activities negatively affecting biodiversity	Share of investment in investee companies with sites/operations negatively affecting biodiversity	<b>Included with variation to acknowledge the positive initiatives undertaken by the investee company</b>  <i>(Does the company report on its impact on biodiversity or on activities to reduce its impact on the native ecosystems and species, as well as the biodiversity of protected and sensitive areas?)</i>
Water, waste, and material emissions	8. Emissions to water	Tonnes of emissions to water per million EUR invested, expressed as a weighted average	<b>Included with variations for calculations</b> <i>(Tonnes of emissions in absolute figures and tonnes of emissions to water to USD revenue)</i>
	9. Hazardous and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste per million EUR invested, expressed as a weighted average	<b>Included with variations for calculations</b> <i>(Tonnes of hazardous waste in absolute figures and tonnes of hazardous waste to USD revenue)</i>

Indicators for social and employee matters & human rights, anti-corruption and anti-bribery matters			
Adverse sustainability indicator			Niche AM DNSH Analysis
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 UNGC principles or OECD Guidelines for Multinational Enterprises	<b>Covered by controversy analysis and screened by responsible investing policy</b>
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compliance 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 mechanism to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	<b>Covered by controversy analysis and screened by responsible investing policy</b>
	12. Unadjusted gender pay gap	Average unadjusted gender pay-gap of investee companies	<b>Included</b>
	13. Board gender diversity	Average ratio of female to male board members in investee companies expressed as a percentage of all board members	<b>Included</b>
	14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investment in investee companies involved in the manufacturing or selling of controversial weapons	<b>Not included as the responsible investment policy prevents investments these sectors.</b>

In addition to the above set of mandatory indicators, from 2024 Niche AM will add two optional ones, as set out in the table below. They were not included in the 2023 report because there is only 1-year dynamic to analyse.

<b>Additional climate and other environment-related indicators</b>			Niche AM DNSH
Water, waste and material emissions	7. Investments in companies without water management policies	Share of investments in investee companies without water management policies	<b>Included with variation</b>  Does the company have a policy to improve its water efficiency?
<b>Additional indicators of social and employee matters, respect for human rights, anti-corruption and anti-bribery matters</b>			Niche AM DNSH
Human rights	9. Lack of human rights policy	Share of investments in entities without a human rights policy	<b>Included</b>

*Niche AM's DNSH Analysis Indicators:*

CO2 Equivalent Emissions Direct, Scope 1	CO2 Equivalent Emissions Indirect, Scope 2	CO2 Equivalent Emissions Indirect, Scope 3	CO2 Equivalent Emissions Total	GHG Intensity Scope 1 + 2	GHG intensity Scope 1+2+3	
<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	
Share of non-renewable energy consumption and production	Total Energy Use To Revenues local currency	Activities negatively affecting biodiversitysensitive areas	Total Water Pollutant emissions tonnes	Water Pollutants emissions to Revenues Local	total hazardous waste tonnes	Total Hazardous Waste To Revenues local currency
<b>G</b>	<b>H</b>	<b>I</b>	<b>J</b>	<b>K</b>	<b>L</b>	<b>M</b>
Gender Pay Gap Percentage	Board Gender Diversity, Percent	Water management policy	Human Rights Policy	Violations of UN Global Compact principles and Organisation 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	
<b>N</b>	<b>O</b>	<b>P</b>	<b>Q</b>	<b>R</b>	<b>S</b>	



# Methodology

## Measurement and Classification of the Dynamics

To analyse the dynamics and smooth out the volatility of year-by-year changes, Niche AM analyses the dynamics by reviewing the data for the latest year compared to the average of the two previous years for each PAI indicator.

The indicator trends are classified into three categories: *Improvement, no significant change, and deteriorating*.

### Improvement

Firms classified as "Improvement" exhibit a positive trend in the latest year's data compared to the average of previous years or had improvements in their sustainability disclosure by having new disclosures on the data for the indicator. Other exceptional cases are also included as improvements in the case of specific indicators. Please see [here](#) for more details.

### No significant Change

Indicators classed as "No significant change" include two different cases.

In the first scenario, the data trend of the indicator can be classed as 'No significant change' if the percentage change of the most recent year compared to the average of the past two years lies within a  $\pm 2\%$  range over the past three years.

Secondly, indicators showing a negative quantitative trend, which is though satisfactorily explained or justified by analyst research or company engagement, are also classified as 'no significant change'.

For more information, refer to the [appendix](#).

### Deteriorating

Firms are classified as "Deteriorating" if a negative trend is sustained and no satisfactory explanation of the trend can be provided by either research or company engagement, or the company does not provide any response. This indicates a persistent negative dynamic that requires further engagement.

### Qualitative Indicator

For qualitative indicators, the data is recorded as either "True" or "False (no data)" based on the presence of relevant policies. The dynamics of these qualitative indicators are assessed as follows:

- **True:** Indicates the presence of a policy of biodiversity impact reduction.
- **False (no data):** Signifies the absence of such a policy or a deterioration in cases where the policy was previously reported but it is missing in the most recent data.

# Dynamics Analysis

## Portfolio Information

At the end of 2023, the portfolio comprised 274 holdings.

However, for the PAI Dynamic analysis, only those firms that remained in the portfolio as of July 31, 2024, were included (thus excluding 44 sold stocks, for which no new DNSH analyses were completed in 2024). Consequently, the analysis was conducted on a subset of 230 holdings.

The PAI Dynamic analysis is based on company reports for 2023. For 17 companies whose 2023 reports were not yet available at the time of the analysis, 2022 data were instead used.

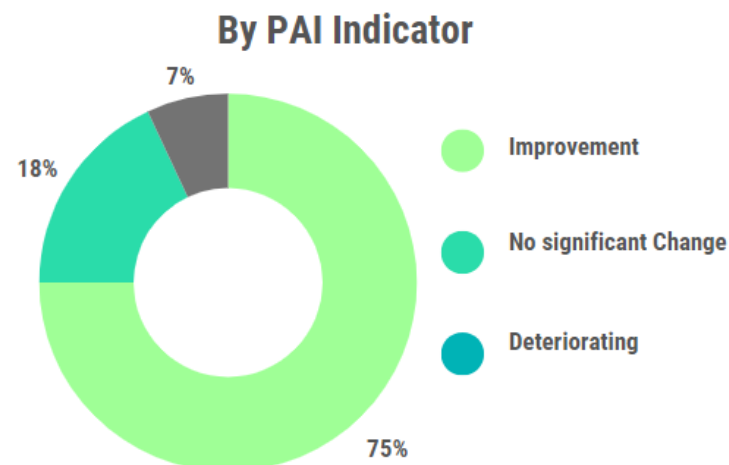
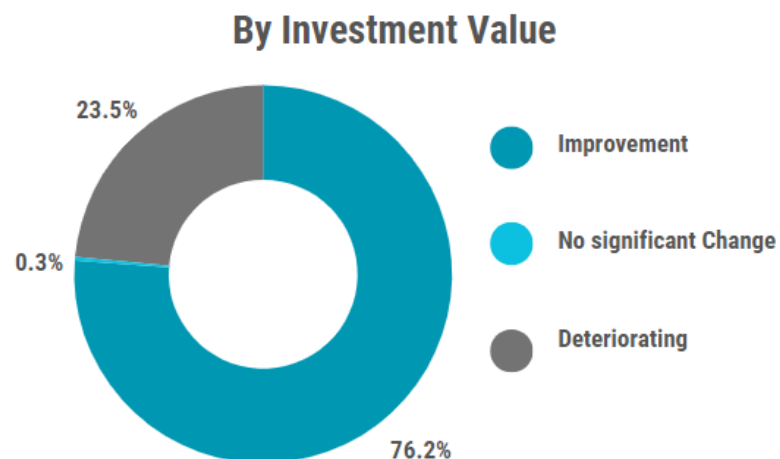
## Data Coverage

NEF Dynamics Summary	Scope 1	Scope 2	Scope 3	CO2 Equivalent Emissions Total	GHG Intensity Scope 1 + 2	GHG intensity Scope 1+2+3	Share of non-renewable energy	Energy Intensity High Impact Sector***
Coverage	98.7%	98.3%	92.1%	92.1%	98.3%	92.1%	74.9%	<b>29.3%</b>
NEF Dynamics Summary	Biodiversity	Total Water Pollutant emissions	Water Pollutant Emissions to Revenues	total hazardous waste tonnes	Total Hazardous Waste To Revenues	Gender Pay Gap Percentage	Board Gender Diversity, Percent	
Coverage	72.0%	18.7%	18.7%	54.0%	54.0%	41.0%	96.5%	

Coverage is calculated by weighting the investment value of the companies that disclose data for the indicator relative to the fund's Net Asset Value at the end of 2023 excluding cash, with adjustments made to reflect the holdings that remained in the portfolio as of July 31, 2024.

## Summary of PAI Indicators Dynamics

### PAI Indicator Dynamics



#### *By PAI Indicator*

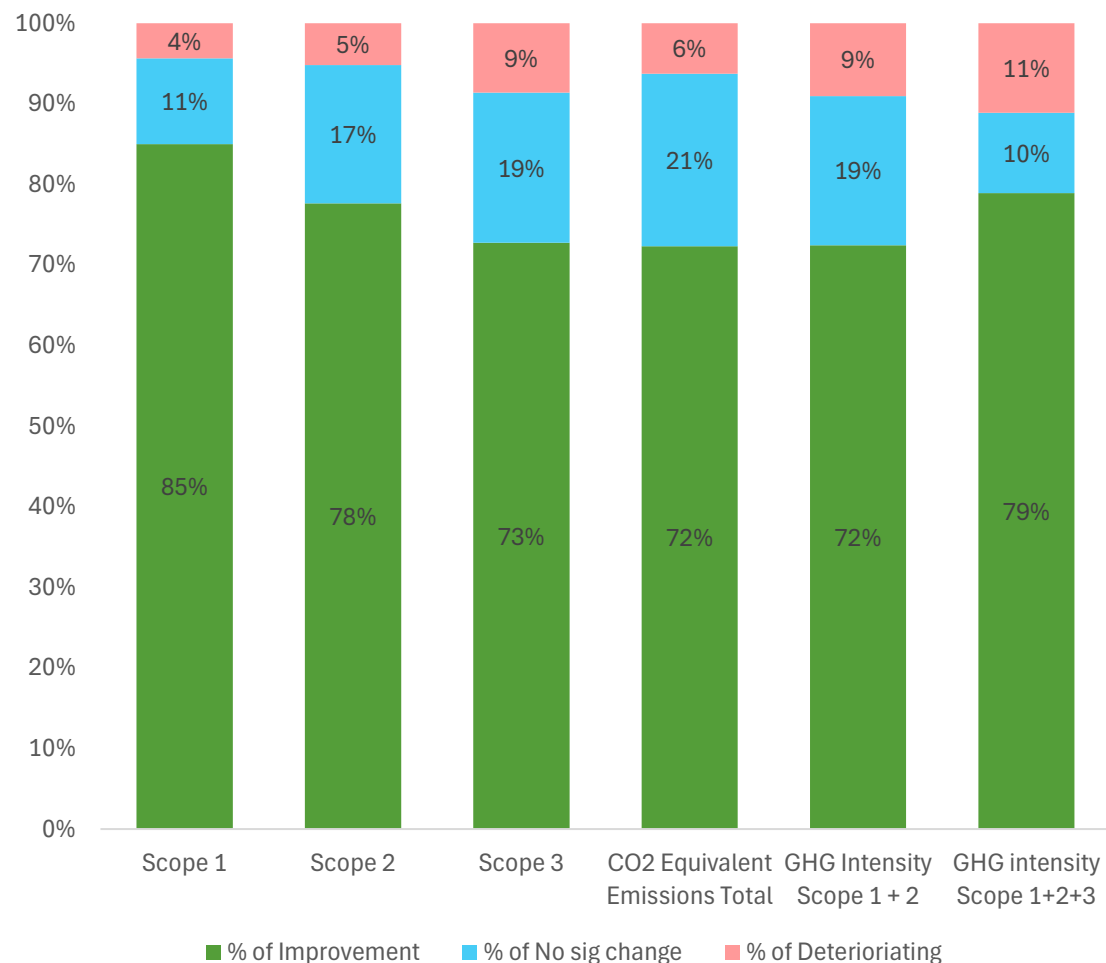
14 quantitative indicators have been used to analyse the dynamics of the PAI indicators. As of 31<sup>st</sup> December 2023, 75% of the indicators showed an improving trend whereas 18% of the indicators showed no significant change. The remaining 7% of the indicators exhibited unexplained negative trends. All details regarding the methodology and the portfolio information can be found [here](#).

#### *By Investment Value*

As of December 31, 2023, an analysis based on the weight of each firm relative to NAV, reveals that 76.2% of the companies exhibit positive sustainability trends. Conversely, 23.5% of the firms displayed at least one unexplained negative trend. There was one company that did not have either improvement or deteriorating data trend, which accounted for the 0.3% of NAV (Net Asset Value)..

## Dynamics Analysis: GHG Emissions

NEF Dynamics Summary	Scope 1	Scope 2	Scope 3	CO2 Equivalent Emissions Total	GHG Intensity Scope 1 + 2	GHG intensity Scope 1+2+3
Coverage	98.7%	98.3%	92.1%	92.1%	98.3%	92.1%



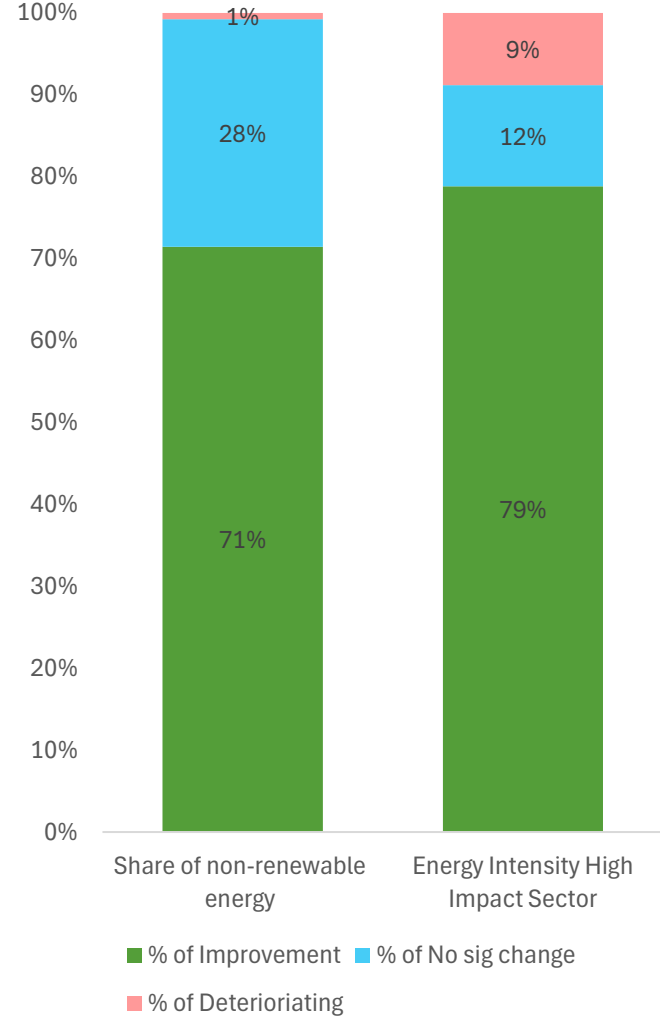
### GHG Emissions

Among the quantitative indicators, Scope 1 emissions exhibited the highest coverage, encompassing 98.7%, followed closely by Scope 2 emissions at 98.3%.

For the GHG intensity indicators, they are calculated by dividing emissions by revenues (in \$M). This is deemed important as, rather than only considering absolute emissions figures, it also considers the economic growth of the firms. Hence, by considering GHG intensity an investor can measure progress in reducing carbon emissions, even as total emissions may continue to increase.

# Dynamics Analysis: Share of renewable energy, Energy intensity

NEF Dynamics Summary	Share of non-renewable energy	Energy Intensity High Impact Sector*
<b>Coverage</b>	74.9%	<b>29.3%</b>



## Renewable Energy

The coverage of renewable energy consumption has increased significantly, rising from 46% to 69% in 2023 based on the NAV at the end of each year. However, when analysing the data trends, many companies were classified under 'No significant change,' where their performance either showed minimal variation within a  $\pm 2\%$  range or was explained through justifiable reasons. Several instances of negative trends were acknowledged as acceptable explanations due to high renewable energy consumption relative to industry thresholds, but with fluctuations caused by variations in overall energy consumption.

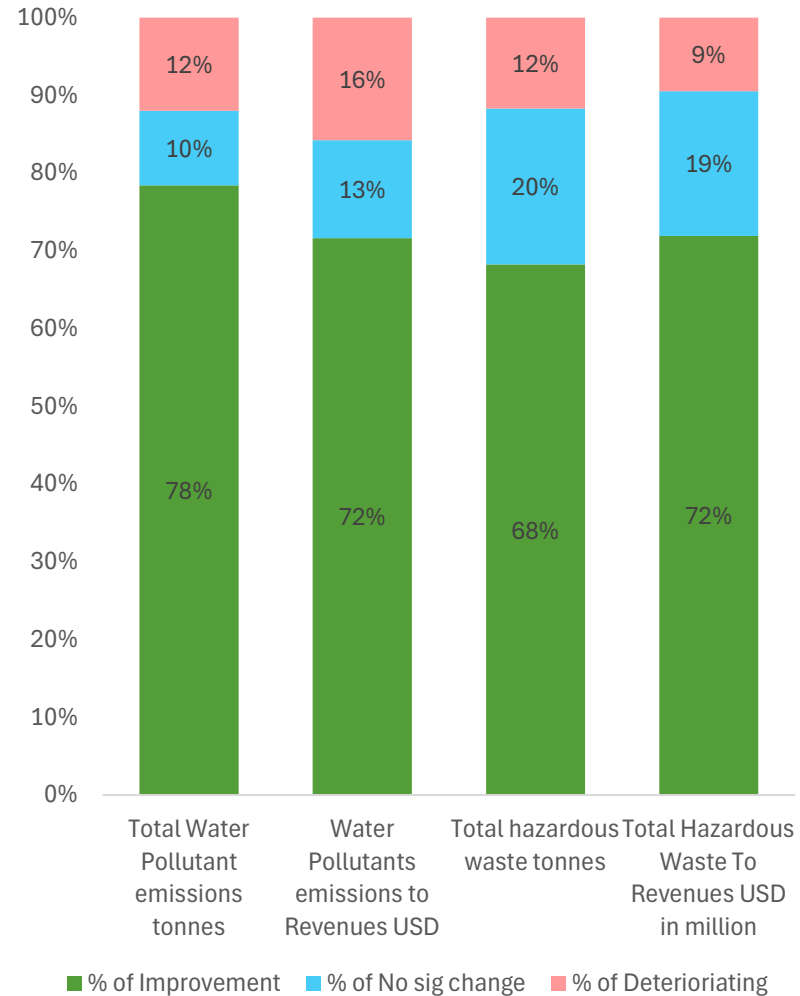
Additionally, the share of non-renewable energy typically does not decrease nor increase rapidly unless a company significantly increases its purchase of renewable energy. This is largely due to the complexities and time-intensive nature of installing renewable energy infrastructure. This leads to other nature of renewable energy, where the consumption by the company is also dependent on the availability of the grid. Consequently, while substantial improvements in this indicator are expected over time, the progress is likely to be gradual rather than immediate.

## Energy intensity High Impact Sector

The energy intensity indicator applies exclusively to companies within 'high impact sectors,' defined as those that contribute significantly to greenhouse gas emissions and overall environmental impact. The portfolio has approximately 29% exposure to these energy-intensive sectors, with 92% of companies in these high impact sectors having reported relevant data.

# Dynamics Analysis: Water Pollutants & Waste Management

NEF Dynamics Summary	Total Water Pollutant emissions tonnes	Total hazardous waste tonnes
Coverage	18.7%	54.0%



### Water Pollutant Emissions

The coverage of water pollutant emissions is the lowest among all indicators, at just 18.7%. This low coverage is primarily due to regional regulations that typically mandate water pollutant data disclosure only for specific sectors, such as chemical production, manufacturing, mining, and energy production. As of the end of 2023, only 26% of the portfolio was exposed to these sectors, which explains the limited coverage.

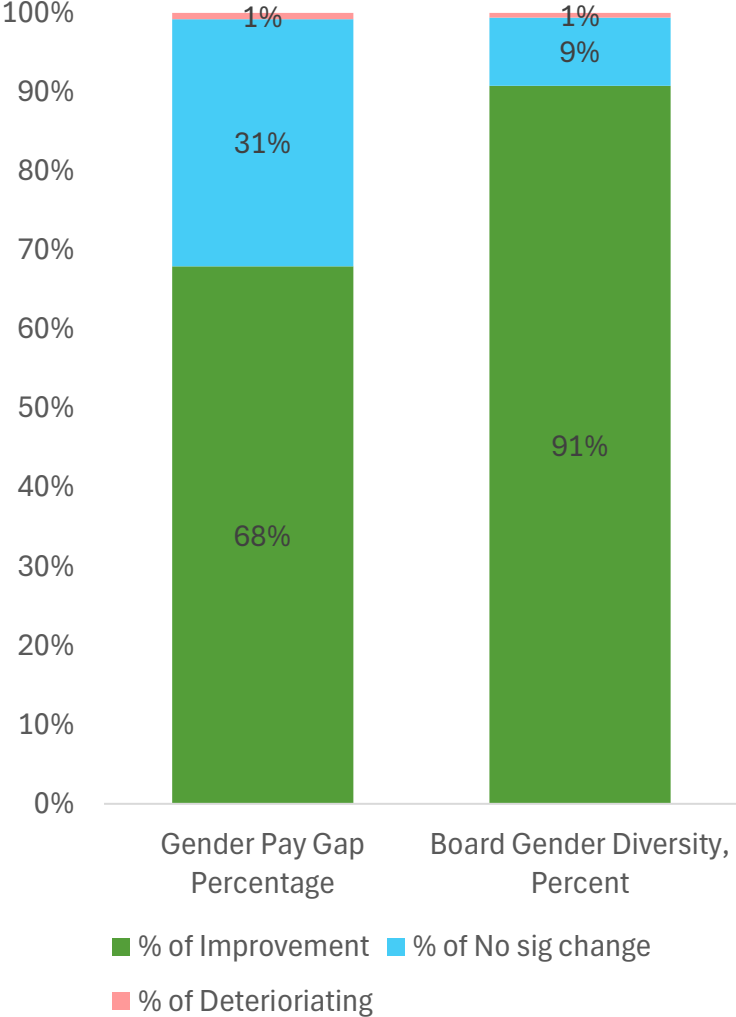
Globally, water pollutant emissions are among the least reported sustainability indicators, largely due to their relevance being mostly limited to industrial manufacturing sectors where materiality drives likelihood of reporting.

### Total Hazardous Waste

The portfolio's coverage percentage for hazardous waste stands at 54%. This indicator is particularly relevant to industrial companies, where its materiality significantly increases the likelihood of reporting. As a result, the overall coverage percentage remains relatively lower compared to other indicators.

# Dynamics Analysis: Gender Pay Gap, Board Gender Diversity

NEF Dynamics Summary	Gender Pay Gap Percentage	Board Gender Diversity, Percent
Coverage	41.0%	96.5%



### Gender Pay Gap

The coverage percentage for gender pay gap reporting within the portfolio is relatively low, at 41%. Although some companies do provide gender pay gap information, the low coverage can be attributed to several factors. Primarily, there were multiple instances where the reported information did not align with the calculation methodology we employ. Our approach utilizes the unadjusted gender pay gap as specified by the PAI, which measures the difference in hourly earnings between male and female employees without adjusting for factors such as job type or experience. However, in many cases, the necessary data for this calculation was either unavailable or the firms reported alternative metrics that do not match our criteria.

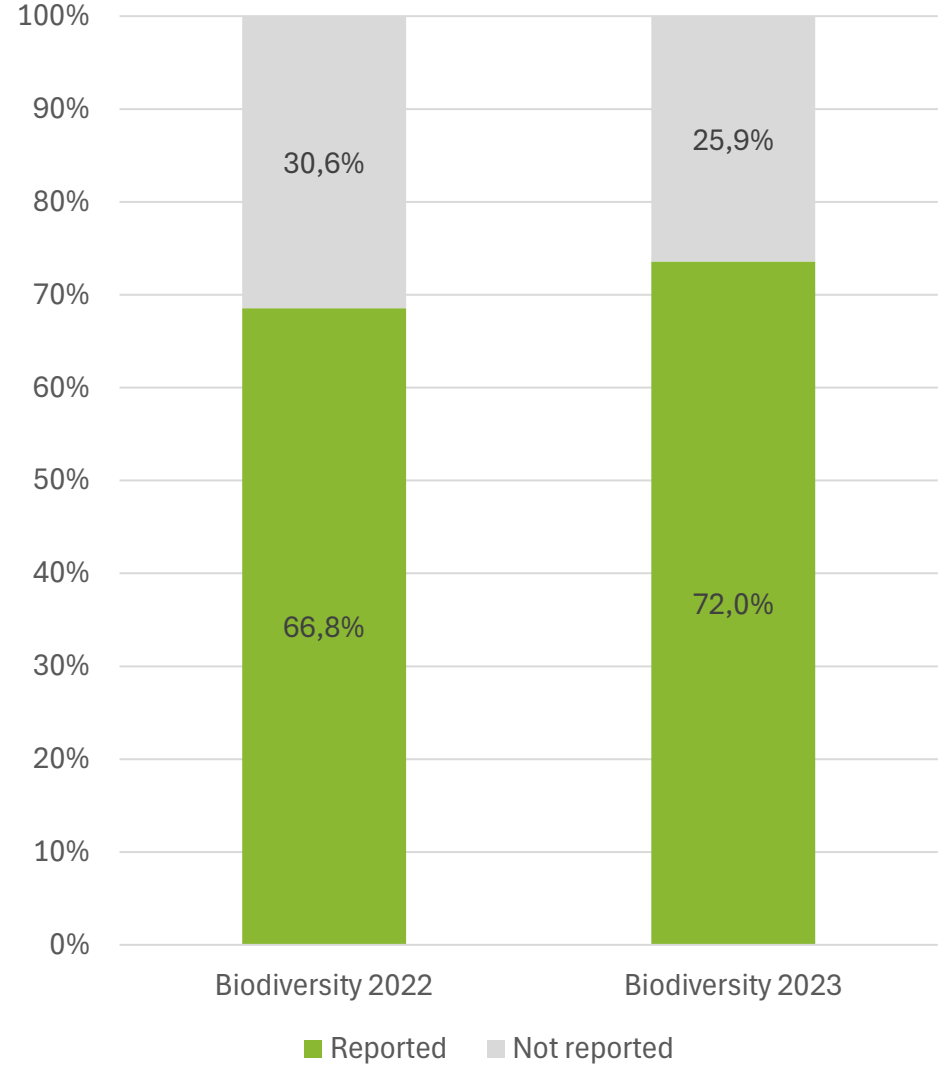
### Board Gender Diversity

The board gender diversity indicator showed strong coverage, with 97% of the portfolio reporting relevant data. This high coverage is largely due to regulatory requirements mandating the disclosure of director lists as part of transparent governance practices, which many firms adhere to. Additionally, this indicator demonstrated the highest improvement rate among the selected DNSH (Do No Significant Harm) indicators.



# Dynamics Analysis: Biodiversity Impact Reduction Reporting

NEF Dynamics Summary	Biodiversity
Companies with impact reduction reporting in place	72.0%



### Biodiversity Impact Reduction Reporting

For qualitative indicators, data is recorded as either "True" or "False (Evidence not found)" based on the presence or absence of relevant reporting. The dynamics of this qualitative indicator is evaluated as follows:

- **True:** Indicates the presence of the biodiversity impact reduction in place.
- **No Data:** Signifies either the absence of evidence for the policy or a deterioration in cases where the policy was previously reported but is no longer present in the most recent data.

This approach ensures that the analysis encompasses the entire portfolio, providing a clear indication of the proportion of the portfolio that has the relevant policies or frameworks in place.

There was an increase in the disclosure of biodiversity in 2023 from 67% to 72%.

# Appendix

## Appendix 1: Methodology for the Analysis

### 1. Analysis by Investment Value

#### Data Processing – Updating to the most recent data available

Conducting sustainability analysis presents distinct challenges compared to financial reporting. Unlike financial reporting, sustainability reporting is not mandatory for all companies across all regions and does not follow a standardized reporting period. Additionally, there are often delays between the publication of sustainability reports and their updates by third-party data providers due to necessary verification processes. These factors can result in discrepancies in data years, complicating the assessment of the portfolio’s sustainability performance.

During our analysis, we discovered that **128** companies had newly published their latest report, and the internal analysis had to be updated accordingly. To address this issue, we updated our internal analysis for all holdings to reflect 2023 data. In cases where third-party data was inconsistent with company reports or had not been updated with the latest information, we prioritized data gathered directly from the latest company reports by our analysts. This approach was applied to all companies, except those for which the analyses could not be updated to the targeted 2023 data. The companies with 2022 data have been included in the analysis with their respective 2022 data, as detailed below:

Asset Name	Reasons for not being able to update the internal analysis	High energy sector
Agc	The firm has the sustainability report published but did not publish its ESG fact book yet, which contains the latest sustainability data.	Yes
Big lots	2023 report not published yet. (Last check at 01/08/24)	
Brighthouse	2023 report not published yet. (Last check at 01/08/24)	
Citigroup	2023 report not published yet. (Last check at 01/08/24)	
Cj cheiljedang	2023 report not published yet. (Last check at 01/08/24)	Yes
Daelim industrial	2023 report not published yet. (Last check at 01/08/24)	Yes
Fresh del monte produce	2023 report not published yet. (Last check at 01/08/24)	Yes
Gilead sciences	2023 report not published yet. (Last check at 01/08/24)	
Macys	2023 report not published yet. (Last check at 01/08/24)	

Metropole television	2023 report not published yet. (Last check at 01/08/24)	
Millerknoll	2023 report not published yet. (Last check at 01/08/24)	Yes
Otsuka holdings	The firm has the integrated report published, but did not publish their ESG fact book yet, which contains the latest sustainability data.	
Paramount global	2023 report not published yet. (Last check at 01/08/24)	
Quest diagnostics	2023 report not published yet. (Last check at 01/08/24)	
Rtl group	2023 report not published yet. (Last check at 01/08/24)	
Shinhan financial group	The 2023 sustainability report is published, but 2023 data is not disclosed yet.	
The kraft heinz	2023 report not published yet. (Last check at 01/08/24)	Yes

## Portfolio Information

Sector %		Weight
	Industrials	15%
	Financials	22%
	Materials	9%
	Communication Services	13%
	Consumer Discretionary	10%
	Health care	10%
	Consumer Staples	7%
	Information Technology	7%
	Utilities	4%
	Real Estate	1%
	Energy	1%

Country %		Weight
	EU	38%
	ASIA	21%
	US & CANADA	24%
	UK	12%
	OTHER	5%

Size %		Weight
	Nano	0%
	Micro	1%
	Small	13%
	Mid	30%

Large	55%
Mega	1%

G/B Data %	Weight
G (Firms with no negative data trend)	76%
B (Firms with at least one negative data trend)	24%

Detailed analysis result can be found in the following page.

## Dynamics Analysis Table by Investment Value

	NEF Dynamics Summary	Scope 1	Scope 2	Scope 3	CO2 Equivalent Emissions Total	GHG Intensity Scope 1 + 2	GHG intensity Scope 1+2+3	Share of non-renewable energy	Energy Intensity High Impact Sector	Total Water Pollutant emissions tonnes	Water Pollutants emissions to Revenues USD	Total hazardous waste tonnes	Total Hazardous Waste To Revenues USD in million	Gender Pay Gap %	Board Gender Diversity %
Data Coverage	Coverage (rebased to 100%)	98.7%	98.3%	92.1%	92.1%	98.8%	92.1%	74.9%	29.3%	18.7%	18.7%	54.0%	54.0%	41.0%	96.5%
	Coverage (as a % of NAV)	91.1%	90.8%	85.0%	85.0%	91.2%	85.0%	69.1%	<b>27.1%</b>	17.2%	17.2%	49.8%	49.8%	37.8%	89.1%
Number	# firms - Improving data	183	174	155	151	168	153	102	70	38	36	89	95	55	155
	# firms - with no sig change	29	36	31	35	40	28	57	14	3	4	21	17	27	58
	# firms - worsening data	13	14	16	16	18	21	2	9	6	7	16	14	2	3
	# firms - No coverage	5	6	28	28	4	28	69	5	183	183	104	104	146	14
% of NAV	% of Improvement	77%	71%	62%	62%	66%	67%	50%	21%	14%	12%	34%	36%	25%	65%
	% of No sig change	10%	16%	16%	18%	17%	8%	19%	3%	2%	2%	10%	9%	13%	23%
	% of Deteriorating	4%	5%	7%	5%	8%	9%	1%	2%	2%	3%	6%	5%	0%	1%
	% of No coverage	1%	2%	7%	7%	1%	7%	23%	2%	75%	75%	42%	42%	54%	3%
Rebased to 100%	% of Improvement	84%	76%	67%	67%	72%	73%	54%	23%	15%	13%	37%	39%	27%	70%
	% of No sig change	11%	17%	17%	20%	18%	9%	21%	4%	2%	2%	11%	10%	14%	25%
	% of Deteriorating	4%	5%	8%	6%	9%	10%	1%	3%	2%	3%	6%	5%	0%	1%
	% of No Coverage	1%	2%	8%	8%	1%	8%	25%	3%	81%	81%	46%	46%	59%	4%
Rebased to coverage	% of Improvement	85%	78%	73%	72%	72%	79%	72%	79%	78%	72%	68%	72%	66%	73%
	% of No sig change	11%	17%	19%	21%	19%	10%	27%	12%	10%	13%	20%	18%	33%	26%
	% of Deteriorating	4%	5%	9%	6%	9%	11%	1%	9%	12%	16%	12%	9%	1%	1%
	% of No Coverage														

Number: Number of companies per category.

% of NAV: Weight considering all holdings, including other asset classes then equity.

Rebased to 100%: % of NAV rebased to 100%

## 2. Analysis by PAI Indicators

The second analysis focuses on the total reported indicators among the 14 key quantitative metrics. These indicators include:

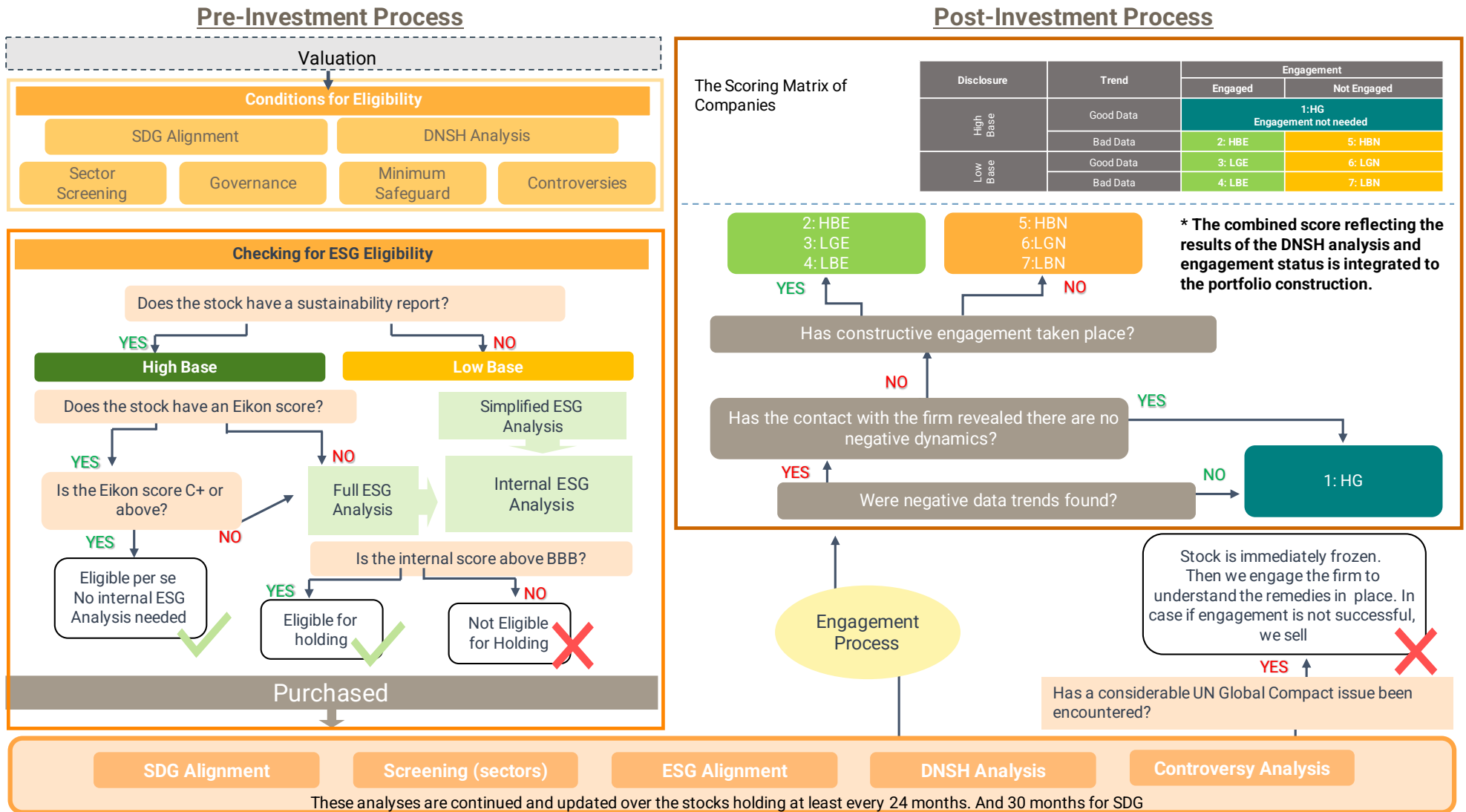
1. Scope 1 emissions
2. Scope 2 emissions
3. Scope 3 emissions
4. Total emissions
5. GHG intensity (Scope 1+2)
6. GHG intensity (Scope 1+2+3)
7. Consumption and production of non-renewable energy
8. Energy consumption intensity (for heavy impact sectors only)
9. Water pollutants
10. Water pollutants to revenue
11. Hazardous waste
12. Hazardous waste to revenue
13. Gender pay gap percentage
14. Board gender diversity

Out of these, 13 indicators are mandatory for all companies. As mentioned, the energy intensity is only applicable to companies within the high-impact sector. As of the 31<sup>st</sup> of July, there were 98 firms categorised under heavy impact sectors. In total, 3,088 data points were reviewed. Out of the total indicators, 29% of the firms did not provide data, leading to a rebasing of the figures to only the reported indicators.

The analysis results are summarized below.

Summary Dynamics – Total Indicators		Portfolio
# Indicators - Improving trend		1624
# Indicators - No significant change		400
# Indicators - Worsening data		157
# Indicators - No coverage		907
Including no coverage	Improving	53%
	No change	13%
	Deteriorating	5%
	No coverage	29%
Rebased to only reported indicators	Improving	74%
	No change	18%
	Deteriorating	7%

## Appendix 2: Niche AM's Sustainable Investment Process





## Appendix 3: Explaining and reclassifying PAI trends

Niche AM Sustainability Team assesses relevant data and engages with investee’s management to see if there is an explanation for a deteriorating dynamic on one or more PAI indicators. Occasionally these explanations can result in the reclassification of a PAI dynamic from deteriorating to either improving or not significantly changing.

Below are several examples illustrating how such explanations can prompt a shift in the categorization of a PAI indicator from deteriorating to improving.

From Deteriorating to Improving	
Case	Description
Intensity improvement	<p>Although absolute data are increasing, the intensity of the indicator is decreasing.</p> <p>Indicator intensity is measured by dividing absolute figures by revenue, providing insight into how efficiently a company is managing its emissions relative to its business operations. For industries where there is a relatively direct relationship between operations and emissions, intensity-based indicators are used to more accurately capture the impact of their sustainability efforts. This approach allows for a clearer understanding of how companies are improving their operational efficiency while managing their environmental footprint.</p>
Alternative intensity improvement	<p>The alternative intensity measure, such as emissions per unit of production, is showing a decreasing trend. This alternative indicator is considered more appropriate than the one currently employed by the DNSH analysis (revenue), as it more accurately reflects the efficiency improvements in industries where emissions are closely tied to production levels (e.g. when significant fluctuations in raw materials can make revenue analysis misleading, resulting in a more meaningful focus on volumes). By using this alternative metric, the assessment provides a clearer picture of how operational advancements are reducing environmental impact relative to production outputs.</p>

<p>Currency Fluctuation</p>	<p>The DNSH analysis utilized USD as the standard unit to ensure consistency across data for intensity metrics; however, this approach occasionally led to discrepancies in reflecting the true performance of companies due to fluctuations in exchange rates. In cases where local currency intensity showed a positive trend, these were classified as improvements, as they more accurately reflected the company's performance.</p> <p>To address this limitation, Niche AM has revised its methodology as of August 2024, transitioning to the use of local currency when calculating intensity indicators. This change aims to provide a clearer and more accurate representation of company performance, minimizing the impact of exchange rate variations.</p>
<p>New methodology (expansion)</p>	<p>The methodology and scope of indicator calculations have been expanded in the newly disclosed data, resulting in an apparent increase in quantitative data compared to previous years. This reflects companies' increased efforts to capture a more accurate and comprehensive picture of their environmental impact. Consequently, this expansion in reporting is considered an improvement, demonstrating a commitment to greater transparency and accuracy. A common example is firms expanding their reporting on Scope 3 emissions.</p>
<p>Reporting error-Improve</p>	<p>Although rare, there are instances where errors in sustainability report data are corrected in subsequent reports. When this occurs, the corrected figures often reveal a positive trend that was previously obscured by the inaccurate data. In such cases, the updated and accurate data reflect the firm's true progress, and therefore, this correction is regarded as an improvement.</p>
<p>Absolute decrease/intensity increase</p>	<p>In cases where absolute emissions decrease but intensity increases, particularly when emissions are not directly tied to business operations, such as in the case of banks, we focus on the absolute emissions indicator trend. This contrasts with situations where intensity indicators are more accurate and fairer in reflecting a firm's performance. For companies where there is no direct relationship between emissions and operational scale, intensity metrics may not provide a true picture of performance. Therefore, in these scenarios, the trend in absolute emissions is prioritized for evaluation.</p>

Below are several examples illustrating how such explanations can prompt a shift in the categorization of a PAI indicator from deteriorating to significantly not changing.

<b>From Deteriorating to Significantly Not Changing</b>	
BoD gender diversity above the national average	Although the board's gender diversity is showing a decreasing trend, the company's board composition remains above the national average for gender diversity.
Gender pay gap stayed above 90	The unadjusted gender pay gap remains above 90. Therefore, any further deterioration is considered as no significant change because the pay gap is already at a high level, indicating no negative dynamic.
Deterioration from high base levels	This classification is particularly relevant to the indicator measuring the share of renewable energy. It applies to cases where renewable energy usage exceeds 60% but shows a minimal decreasing trend. As noted in our analysis, the share of renewable energy can be influenced by various factors, resulting in slower progress. Therefore, if a company maintains a renewable energy consumption share above 60% but exhibits a decreasing trend, we do not consider this a negative trend. Instead, such cases are classified as 'no significant change,' reflecting the context of the situation.
Alternative metrics disclosure	The company discloses alternative metrics that is not comparable to the previous years; however, these are not considered improvements since they merely represent an alternative measurement. Consequently, these alternative metrics are not recognized as significant improvements in our assessment.
Commitment to improve	This approach is applied to very specific cases where there is a negative data trend, but the company provides a concrete plan for improvement after acknowledging the issue. This scenario typically occurs in the context of pre-engagement, where the firm must formally acknowledge the negative trend, explain the underlying reasons, and outline a clear strategy for future improvement. When these conditions are met, the negative data trend can be

	considered explained, and the firm's commitment to corrective action is recognized in the analysis and indicates that the dynamics are not negative.
Explanation of Reason	This classification is used when the reason for a negative trend is clearly explained, and is shown to not have a dynamic, but does not indicate an improvement. In such cases, the firm must provide a detailed explanation for the negative trend, outlining the underlying causes that analyst deems sufficient to not indicate a negative dynamic.
Gender pay gap above national average	This classification applies specifically to the gender pay gap percentage indicator. It addresses situations where there is a negative trend in the data, but the gender pay gap remains above the national average. Since the indicator measures the unadjusted gender pay gap, fluctuations in employee composition can influence the trend. Therefore, if the gender pay gap percentage is still above the national average despite the negative trend, the data can be considered explained, acknowledging that the observed change may result from shifts in workforce demographics rather than systemic inequality and indicating that the dynamics are not negative.
Increase in total board of directors	This explanation measure is specific to the board gender diversity indicator. It addresses cases where a decrease in board gender diversity occurs due to an increase in the total number of directors on the board. In such instances, the reduction in the percentage of female directors may not reflect an actual decline in gender diversity efforts but rather a change in board composition. This explanation recognizes that the observed decrease is a result of expansion rather than a reduction in female representation, thereby providing indicating that the dynamics are not negative.
Methodology change - non improvement	The firm has begun reporting different metrics; however, this does not constitute an expansion of scope. Since the newly reported metrics are merely alternatives and do not provide additional or broader insights, this change is not considered an improvement. The introduction of these alternative metrics does not enhance the overall analysis, and therefore, the firm's performance is viewed as unchanged.
No significant intensity increase	In cases where absolute emissions increase but intensity decreases by less than 2%, we classify the trend as showing no significant change. Although there is a reduction in intensity, the minimal decrease of less than 2% indicates that the change is not substantial enough to be considered an improvement. Therefore, the overall

	assessment remains neutral, recognizing that while there is some progress, it is not sufficient to indicate a meaningful improving trend.
Transition period temp decrease	The firm is in a transition phase, meaning a temporary deterioration within an indicator. However, the firm has indicated that this decline is solely due to a transition period, and improvements are expected in the near future. Until the positive results of the transition are demonstrated and reflected in the data, the current performance is classed as no significant change as there is no negative dynamic.
Pay gap due to different roles	Regarding the gender pay gap, companies sometimes explain the disparity by citing a lower number of senior female employees compared to men. While this explanation may account for the pay gap, it does not constitute an improvement. The unadjusted gender pay gap metric reflects both the pay gap and the composition of the workforce, so such reasons can explain the situation but do not indicate progress. Therefore, this explanation is acknowledged, but the underlying issue remains unresolved, and no improvement is recorded.

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