

Implementing SFDR in our climate ETFs

By Jason Smith, CIO

December 2022

We aim to create best-of-breed climate ETFs

Our Paris-Aligned ETFs are classified as Article 9 and commit to a minimum of 70% sustainable investments

Our range of Paris-Aligned ETFs are designed to help investors align their fixed income portfolios with the Paris goals and broader ESG considerations. In preparation for level 2 of the SFDR, our CIO Jason Smith sets out our broad approach to fund classification, and our approach to three key components of the regulation:

- Principal Adverse Impacts
- Calculation of sustainable investments
- Alignment with the EU Taxonomy

Fund classifications

Tabula's Paris-Aligned ETFs are classified as Article 9 under SFDR because they have a clear sustainable investment objective of reducing carbon emissions, as referenced in SFDR Article 9 (3). There is also an expectation that Article 9 funds should include only "sustainable investments". However, the definition of sustainable investments under SFDR Article 2 (17) is not clear and the rules for Paris Aligned Benchmarks (PAB) do not explicitly incorporate it.

The industry is awaiting clarification both on the definition of sustainable investments and the classification of PABs. In the meantime, we are retaining our Article 9 classifications and have developed a methodology to calculate sustainable investments (see below). Our PAB ETFs commit to a minimum 70% allocation to sustainable investments, which we believe is achievable with our existing indices without significant tracking error.

We are ready to adjust our index methodologies and classifications as needed. However, we believe that it is in investors' interest to avoid multiple changes in classifications and documentation and prefer to make any necessary changes once the situation is clearer.

1. Principal Adverse Impacts (PAIs)

The PAIs are a set of indicators to help investors and portfolio managers monitor and reduce the negative impact of investments on sustainability factors. There are 14 mandatory indicators and a range of optional indicators.

Given our size and the nature of some of our ETFs, Tabula does not consider PAIs at group level i.e. across our whole fund range. However, for our Article 9 ETFs, we consider PAIs at the fund level. Each ETF considers the 14 mandatory PAIs plus one optional climate-related PAI (Investments in companies without carbon emission reduction initiatives). The following PAIs are formally considered within the index rules:

- PAI 1. GHG emissions
- PAI 4. Exposure to companies active in the fossil fuel sector
- PAI 10. Violations of UN Global Compact Principles and OECD Guidelines for Multinational Enterprises
- PAI 14. Exposure to controversial weapons

The remaining PAIs are not incorporated in the index rules, so cannot be formally considered in the day-to-day investment process. However, we monitor them on a quarterly basis. We also consider all PAIs in annual reviews with index providers, to assess whether the quality and availability of data is sufficient to incorporate them. We will publish the first PAI reporting for each fund (for FY 2022) on our website by 30 June 2023.

Capital is at risk.

The value of your investment may go down as well as up and you may not get back the amount you invested.

Sustainable investments

We aim to calculate the percentage of sustainable investments in our ETFs in accordance with the three tests specified in Article 2(17) of the SFDR regulation. Issuers meeting all three standards are deemed sustainable.

Test	Our approach
1. Contribution to environmental or social objectives	<p>For PABs, there is an objective of emissions reduction, which is aligned with the EU environmental objective of climate mitigation. We use a number of climate- and emissions-related criteria to assess an issuer's contribution, including but not limited to the following:</p> <ul style="list-style-type: none"> • Positive alignment with SDG 13 (Climate Action) • YoY emissions reduction of 7% or more • Science-based target for emissions reduction (committed to or approved)
2. Not significantly harming any environmental or social objective	<p>We use a combination of the 14 mandatory PAIs and the DNSH indicators already built into the index methodology (as per the PAB rules), as follows:</p> <ul style="list-style-type: none"> • PAIs 1-3 (greenhouse gas emissions): targets for aggregate ETF emissions are already built into the index rules. However, we also consider the emissions of individual issuers (see above under Test 1). • PAI 4 (fossil fuel exposure): screening is already built into the index as per PAB rules, with maximum revenue thresholds. • PAIs 5-9 (other environmental): data availability for these PAIs is mixed and in some cases it is also difficult to establish meaningful minimum or maximum thresholds. Instead, we use the "significant environmental harm" screen already built into the index under the PAB rules. • PAI 10 (UNGC and OECD Guidelines violations): screening is already built into index • PAIs 11 & 12 (Process for monitoring UNGC and OECD Guidelines, Gender pay gap): low level of disclosure so we use MSCI ESG Governance Controversy as a proxy • PAI 13 (Board diversity): screen applied using MSCI data • PAI 14 (Controversial weapons): already built into index as per PAB rules
3. Good governance	<p>Our index methodologies already include screens that incorporate governance. For example, MSCI ESG Controversy and ISS Norms Research are both aligned with the OECD Guidelines for Multinational Enterprises, which incorporate governance.</p> <p>In addition, we use MSCI data to check for Governance and Labour Rights Controversies at each portfolio rebalance:</p> <ul style="list-style-type: none"> • Issuers with a red flag are excluded • Issuers with an orange flag are reviewed by the CIO on a case-by-case basis

EU Taxonomy alignment

The EU Taxonomy is a detailed taxonomy of environmentally sustainable activities. Under SFDR, Article 9 funds must disclose their % alignment with the Taxonomy, from a revenue, opex and capex perspective, and must also commit to a minimum % alignment. Currently, the Taxonomy only covers some sectors and activities, and data available is poor or estimated. As a result, it is difficult to build Taxonomy alignment into the methodologies of broad market indices. Therefore, our ETFs currently commit to a minimum alignment of 0%. We will review this commitment regularly, and will publish each ETFs actual alignment in our periodic reporting. We expect that the situation should improve as more corporates start to make disclosures under the recently approved CSRD.

Find out more

Pre-contractual disclosures for Tabula's Article 9 and Article 8 ETFs are now included in the Supplements for each ETF, available at tabulaim.com. Additional website disclosures will be published on our website before 31 December 2022. We are happy to discuss our approach with investors.

Contact us

IR@tabulagroup.com
+44 20 3909 4700

Tabula Investment
Management
55 Strand
London, WC2N 5LR

tabulagroup.com

Important information

This document is issued by Tabula Investment Management Limited ("Tabula"), on behalf of Tabula ICAV, an umbrella Irish collective asset-management vehicle incorporated in Ireland, authorised and regulated by the Financial Conduct Authority ("FCA"). Tabula is a private limited company registered in England and Wales (Registered no. 11286661). Registered address: 10 Norwich Street, London EC4A 1BD. Business address: 6th Floor, 55 Strand, London WC2N 5LR. The Strategy ("the Fund") is not yet launched and is subject to regulatory approval. It is intended that the Fund will be a sub-fund of Tabula ICAV, an open-ended investment company with variable capital and segregated liability between its sub-funds, organised under the laws of Ireland and authorised by the Central Bank of Ireland. In certain EU jurisdictions this document is issued on behalf of KBA Investments Limited ("KBA"). KBA is licensed in terms of the Investment Services Act (Cap 370) as an Investment Firm and regulated by the Malta Financial Services Authority (Authorisation ID KIL2-IF-16174). KBA Investments Limited ("KBA") is distributor for all funds under the Tabula ICAV umbrella. Registered Office: Trident Park, Notabile Gardens, No 2 – Level 3, Zone 2, Central Business District, Birkirkara, Malta. Registered in Malta No. C97015. A list of EU jurisdictions where KBA acts as distributor is available at www.mfsa.mt/financial-services-register/. For details please contact IR@tabulagroup.com

The information in this document, especially as regards portfolio construction and parameter, reflects the current thinking of Tabula, and may be changed without further notice to you and should not be relied on for investment decisions. Investment in the products mentioned in this document may not be suitable for all investors. **Past performance is not a guide to future performance and should not be the sole factor of consideration when selecting a product. The price of the investments may go up or down and the investor you may not get back the amount invested. Your income is not fixed and may fluctuate.** The value of investments involving exposure to foreign currencies can be affected by exchange rate movements. We remind you that the levels and bases of, and reliefs from, taxation may change. In respect of the products mentioned this document is intended for information purposes only and does not constitute investment advice or an offer to sell or a solicitation of an offer to buy the securities described within.

© 2022 Tabula Investment Management Limited®