

**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 lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

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:** Total Return Diversified Credit ESG Fund **Legal entity identifier:** 5493003832XKD0ZGES66

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

☒ ☐ ☐ Yes ☒ ☐ ☒ No

<input type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective</b> : __%	<input type="checkbox"/> It <b>promotes Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it will have a minimum proportion of __% of sustainable investments
<input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy	<input type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy
<input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy	<input type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective</b> : __%	<input type="checkbox"/> with a social objective
	<input checked="" type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>



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

The environmental and social characteristics promoted by the Sub-Fund consist in favouring investment in issuers whose business activities and/or conduct take an appropriate and responsible approach to ESG.

On the environmental front, where relevant, this includes, but is not limited to, appropriate and responsible management of climate change and waste. The social characteristics promoted by the Sub-Fund where relevant include, but are not limited to, appropriate and responsible management of employee relations and health and safety practices.

Via the promotion of the above environmental and social characteristics, the Sub-Fund aims to achieve a reduction of harmful impact on the environment and/or society by:

- Conducting an ESG evaluation of issuers in scope based on a proprietary framework and setting a minimum ESG risk rating for a security to be considered an eligible investment (ESG Integration), resulting in the exclusion of any issuers with a 'very high' ESG Risk Rating (either at an overall ESG level, or on the 'governance' pillar specifically).

- Conducting engagement with issuers on ESG matters, by prioritising those with scope to improve management of key ESG issues, including but not limited to, ethical business conduct, labour and human rights as well as environmental issues such as climate change (ESG Engagement).
- Excluding in-scope fixed income securities and issuers involved in selected controversial activities (ESG Exclusion / Negative Screening and ESG Norms Based Screening approaches). The following issuers<sup>1</sup> are excluded<sup>2</sup>

Corporate		<u>&gt;0% of revenues from production</u>
	<b>Adult Entertainment</b>	<u>&gt;10% of revenues from distribution and/or retail</u>
	<b>Controversial Weapons</b>	Producers of cluster munitions and anti-personnel landmines, chemical & biological weapons, depleted uranium and nuclear weapons, undetectable fragmentation weapons, incendiary weapons, blinding laser weapons
	<b>Fossil Fuels</b>	Involved in arctic drilling
		Oil and Gas exploration and production: >5% of revenues
		Oil sands: Exploration and production
		>10.000 MW of thermal coal power generation installed capacity
		>5% of revenues/operations <u>from thermal coal power generation</u>
		<u>&gt;1% of revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite</u>
		<u>&gt;10% of revenues from the exploration, extraction, distribution or refining of oil fuels</u>
		<u>&gt;50% of revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels</u>
		<u>&gt;50% of revenues from electricity generation with a GHG intensity of more than 100 g CO2 e/kWh</u>
	<b>Gambling</b>	<u>&gt;10% revenues from operations or support</u>
	<b>Tobacco</b>	>0% of revenues from production <u>and cultivation</u>
	<b>UN Global Compact</b>	Non-compliance
	<b><u>OECD Guidelines for Multinational Enterprises</u></b>	<u>Non-compliance</u>
Sovereigns	<b>Controversial Jurisdictions</b>	Financial Action Task Force: high risk
		Listed on United Nations Security Council Sanctions
	<b>UN Conventions &amp; Treaties: Tobacco</b>	Paris Agreement: Not ratified
		Corruption: Not party
		Torture and Punishment: Not party, no action, not ratified

The Sub-Fund does not have a reference benchmark either for the purpose of implementing ESG considerations nor for performance comparison.

<sup>1</sup> As from 1<sup>st</sup> April 2025, there may be overlaps across exclusions listed in the table below. In case of overlap between two exclusions, the stricter threshold shall apply.

<sup>2</sup> Underlined wording in the table below will apply as of 1<sup>st</sup> April 2025 in application of the EU Paris-aligned Benchmarks exclusions as well as additional exclusions on adult entertainment and gambling.

### Sustainability indicators

measure how the environmental or social characteristics promoted by the financial product are attained.

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

The Sub-Fund aims to invest in fixed income securities in scope of an ESG evaluation, which include 1) securities with direct exposure to the issuer, such as corporate or sovereign bonds, and 2) financial derivative instruments with indirect exposure where the corporate or sovereign issuer is the underlying, such as credit default swap, which contribute to the attainment of the ESG characteristics promoted by the Sub-Fund. The sustainability indicators used to assess, measure and monitor the ESG characteristics of the Sub-Fund are as follows:

- I. The share of in scope fixed income securities held by the Sub-Fund which are covered by the Portfolio Manager's ESG evaluation.
- II. The share of in scope fixed income securities which are compliant and not in active breach of any ESG Exclusion / Negative screening (product based) and ESG Norms Based Screening (conduct based) screening applicable to the Sub-Fund as detailed in section 5 of this Offering Memorandum.
- III. The share of in scope fixed income securities which are compliant and not in active breach of the ESG Integration screening which excludes issuers with a 'very high' Fundamental ESG (Risk) Rating (either at an overall ESG level, or on the 'governance' pillar specifically) as per the Portfolio Manager's proprietary ESG evaluation detailed thereafter.

### 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.

#### 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?

Not applicable.

#### 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?

Not applicable.

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

The "do not 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?

**X** Yes, the Sub-Fund does consider principal adverse impacts on sustainability factors. Consideration for some PAI indicators is either through:

- Exclusions applied by the Sub-Fund. In the case of corporate issuers, examples include, but are not limited to: restricting UN Global Compact and OECD Guidelines for Multinational Enterprises<sup>3</sup>, controversial weapons producers (RTS Table 1, PAI 14) or those involved in oil and gas exploration and production (oil sands) or coal (thermal, hard and lignite) or fossil fuels (covering elements of RTS Table 1, PAIs 1-4); or
- Escalation activities by the Sub-Fund. For corporate issuers, examples of PAIs where this is the case include, but are not limited to, those associated with minimizing climate change impacts (RTS Table 1, PAIs 1-3 and Table 2 PAI 4). There is an escalation framework in place for such PAIs, where thresholds are set against these indicators. In the event one or several

<sup>3</sup> Underlined wording will apply as of 1<sup>st</sup> April 2025 in application of the EU Paris-aligned Benchmarks exclusions.

thresholds are exceeded, a range of potential escalation actions may be taken to address the PAI, such as investigating the management of the underlying issue / engagement for better insight and / or requesting improvements. The progress made by any issuer which exceeded any threshold is monitored, evaluated and reflected accordingly in the investment exposure of the Sub-Fund.

The Portfolio Manager sources information on PAI indicators from external ESG information providers. However, it should be noted that as the reporting of many of these metrics by investee entities are currently voluntary, the availability of data on some indicators is limited. However, as data availability improves, it is expected that PAI indicators will cover a greater portion of the Portfolio Manager's investable universe and therefore allow for better insight in the adverse impacts caused by investee entities, and support more effective consideration of them.

More information on principal adverse impacts on sustainability factors is available in the periodic reporting pursuant to Article 11(2) of the SFDR.

No



### What investment strategy does this financial product follow?

The Sub-Fund invests in a portfolio of higher yielding fixed income securities in combination with ESG criteria.

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

The Portfolio Manager conducts ESG analysis on corporate and sovereign issuers, using its own proprietary issuer ESG evaluation framework, which results in two complementary ESG metrics: a Fundamental ESG (Risk) Rating (which refers to the assessment of ESG factors/risks), and an Investment ESG Score (which denotes the extent to which the ESG factors/risks are investment relevant/material). The key metric which can lead to additional restrictions on investment is the Fundamental ESG (Risk) Rating. The credit analysts conduct the initial ESG evaluation assigning the ESG metrics. These are then reviewed and finalised by the ESG investment team, prioritised depending on the assigned ESG risk. The process operates by consensus. There is a formal review of the ESG evaluations every two years, although it can be initiated sooner where the analysts have sufficient cause to question the ongoing validity of the assigned ESG metrics (particularly the Fundamental ESG (Risk) Rating). A new issuer cannot be invested without prior ESG analysis to ensure it is suitable. Given potential timing challenges in completing the standard ESG evaluation, a preliminary ESG analysis can be undertaken as a minimum. A more concise version of the standard ESG evaluation, the analysis is based on third party ESG metrics. It is possible that upon replacing the preliminary ESG analysis with a standard ESG evaluation, subsequent information comes to light which results in an issuer being assigned a Fundamental ESG (Risk) Rating which breaches the ESG requirements by the Sub-Fund. In such instance, the issuer would be disposed of as soon as possible and / or practicable and in the best interest of investors.

The ESG profile of an issuer is assessed through different lenses including:

- How the issuer is perceived from third party ESG information providers.
- How the issuer performs across a range of core ESG Factors of concern, irrespective of its specific industry/economic peer group and profile. These include areas such as:
  - The business footprint including, but not limited to, the presence of the issuer in countries with high corruption, the extent to which the business model is sensitive to bribery & corruption risks, exposure to dealings with the public sector and government officials and the inherent sustainability footprint of the business on the planet and society;
  - Governance and management by considering the nature of the business growth strategy, legal ownership structure, management quality & culture and accounting practices;
  - The environment and the existence of environmental management practices, climate/carbon management efforts and regulatory compliance track record; and
  - Social matters such as the existence of formal internal and external stakeholder engagement practices and the regulatory compliance track record.
- How it compares relative to its industry for corporates / economic peer group for sovereigns on the most material ESG Factors, and whether its practices are improving or not.

The issuer ESG evaluation utilizes a range of data and insights from across a number of resources, including a mix of external and internal (credit and ESG) insights such as: third party ESG information providers, company management contact/communications, sell-side brokers with ESG capabilities, stakeholders such as regulators, non-governmental organisations, industry groups, media channels specialising in ESG news flow, as well as the in-house sector credit analyst's knowledge of issuer, sector and region. Input from external ESG information providers may define the specific issuers excluded as part of the ESG Exclusion / Screening and ESG Norms Based Screening approaches. However, with respect to the Portfolio Manager's ESG evaluation of issuers, data from external ESG information providers is only used as an input and it does not define the Fundamental ESG (Risk) Rating ultimately assigned to each issuer.

Key ESG outputs from the ESG analysis are documented in the Portfolio Manager's investment IT platforms. There is ongoing monitoring and engagement of portfolio holdings and issuers of interest, with dialogue held with issuers to further develop insights, and/or to promote change either to mitigate investment risks or protect the ESG characteristics. Insights gained from this process further inform on investment views and decisions and can potentially result in changes to the assigned ESG metrics.

- ***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?***

The binding ESG requirements result from (i) ESG Exclusions / Screening; (ii) Norms-Based Screening; and (iii) ESG Integration which exclude issuers depending on the outcome of the ESG evaluation where an issuer is deemed to have a 'very high' Fundamental ESG (Risk) rating according to the Portfolio Manager's ESG evaluation process. Of the two ESG metrics generated, the Fundamental ESG (Risk) Rating is the binding element as this explicitly relates to the ESG factors and risks. For full details of the ESG requirements applicable to the Sub-Fund, please refer to section 5 of this Offering Memorandum.

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

Not applicable.

- ***What is the policy to assess good governance practices of the investee companies?***

As part of the Portfolio Manager's proprietary ESG evaluation framework, any issuer deemed to have 'very high' ESG risks on the governance pillar is automatically assigned a 'very high' Fundamental ESG (Risk) Rating overall, and consequently systematically excluded from investment. In assessing issuers on governance, considerations take account of conventional corporate governance, as well as broader governance related matters. These include, but are not limited to, factors such as: ownership structures, board independence and accountability, management quality, incentives and remuneration, accounting practices, business growth strategy, as well as broader issues of culture and ethical conduct.

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



### What is the asset allocation planned for this financial product?

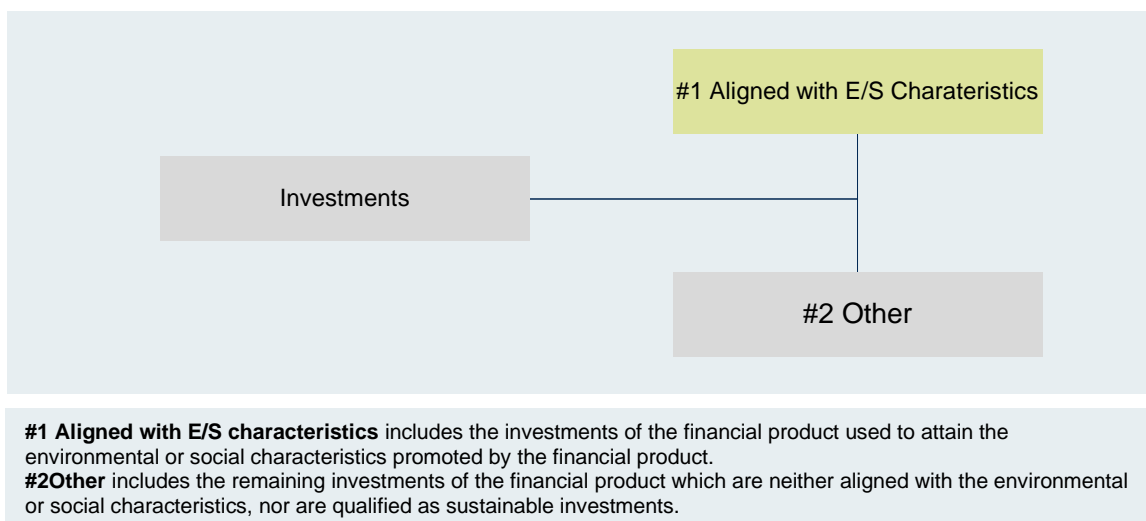
**Asset allocation** describes the share of investments in specific assets.

The Sub-Fund is expected to invest 100% of its net assets in fixed income securities in scope which are aligned with the E/S characteristics promoted by the Sub-Fund (#1). In line with the Sub-Fund's investment policy, at least two thirds (66.67%)<sup>4</sup> of the Sub-Fund's net assets will be invested in fixed income securities in scope which are aligned with the E/S characteristics promoted by the Sub-Fund (#1), subject to any security which the Portfolio Manager is in the process of selling because it no longer meets the ESG considerations applied by the Sub-Fund.

At a maximum, the remaining one-third (33.33%)<sup>5</sup> may be held in cash and cash equivalents, including short-term bank certificates and Money Market Instruments which will not incorporate E/S characteristics and will fall under #2.

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.



### *How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?*

The Portfolio Manager's ESG evaluation applies to financial derivative instruments where a single issuer is the underlying asset (i.e., credit default swaps) and neither long or short positions are permitted on any excluded issuers as a result of Sustainability Factors in order to promote the E/S characteristics.

The Sub-Fund may have exposure to excluded issuers via financial derivative instruments including, but not limited to, those where a financial index is the underlying, which may be used for investment, hedging purposes and efficient portfolio management and not to promote the E/S characteristics. Moreover, any exclusion applicable to sovereign issuers does not restrict the Sub-Fund from having exposure to instruments which are indirectly related to such issuers such as currency or interest rate derivative instruments, as these do not promote the E/S characteristics.

Exposure to financial derivative instruments is not monitored based on the Sub-Fund's net assets and therefore not reflected as part of the asset allocation above. Instead, monitoring will be in line with the global exposure limits of the Sub-Fund.

<sup>4</sup> In view of complying with the ESMA Guidelines on funds' names using ESG or sustainability-related terms (ESMA34-1592494965-657), as of 1<sup>st</sup> April 2025, at least 80% of the Sub-Fund's net assets will be invest in fixed income securities in scope which are aligned with the E/S characteristics promoted by the Sub-Fund (#1), subject to any security which the Investment Manager is in the process of selling because it no longer meets the ESG considerations applied by the Sub-Fund.

<sup>5</sup> In view of complying with the ESMA Guidelines on funds' names using ESG or sustainability-related terms (ESMA34-1592494965-657), as of 1<sup>st</sup> April 2025, the remaining 20% may be held in Cash and in short-term bank certificates and Money Market Instruments which will not incorporate E/S characteristics and will fall under #2.



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

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to 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 emission levels corresponding to the best performance.

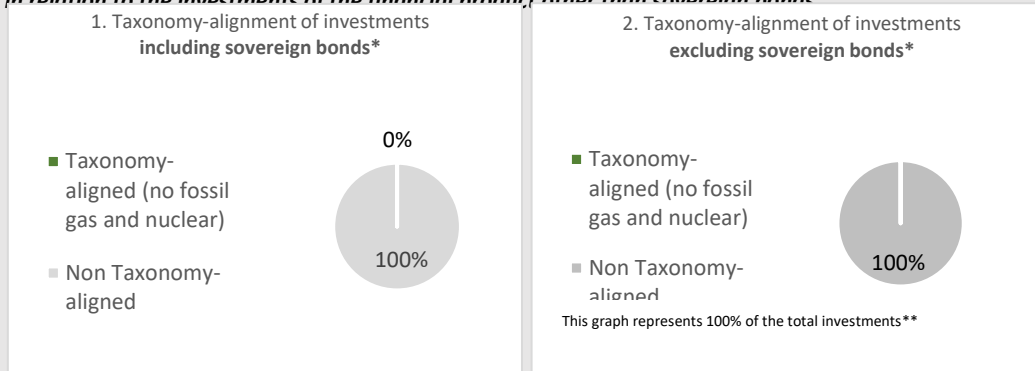
The Sub-Fund does not currently commit to invest in any sustainable investment within the meaning of the EU Taxonomy. However, the position will be kept under review as the underlying rules are finalised and the availability of reliable data increases over time.

As the Sub-Fund does not commit to invest any sustainable investment within the meaning of the EU Taxonomy, the minimum share of investments in transitional and enabling activities within the meaning of the EU Taxonomy is therefore set at 0%.

### Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>6</sup>?

- ☐ Yes:
- ☐ In fossil gas    ☐ In nuclear energy
- ☒ No

*The two graphs below show in orange 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

\*\* The proportion of total investments shown in this graph is purely indicative and may vary.

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

Not applicable.



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

Not applicable.



### What is the minimum share of socially sustainable investments?

Not applicable.



<sup>6</sup> 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 objective – 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.

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

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

The Sub-Fund may hold certain instruments which do not contribute directly to the E/S characteristics promoted by the Sub-Fund such as cash and cash equivalents, including short-term bank certificates and Money Market Instruments. Such instruments may be used for the purposes of capital preservation.

There are no environmental or social safeguards applicable to such instruments.



**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?**

No. The Sub-Fund does not have a reference benchmark either for the purpose of implementing ESG considerations nor for performance comparison.

**Reference benchmarks** are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.



**Where can I find more product specific information online?**

More product specific information can be found on the website:

<https://www.rbcbluebay.com/en/institutional/what-we-do/funds/sustainability-related-disclosures/>