

Blue Diagonal Capital Ltd SFDR disclosure

Introduction

Blue Diagonal Capital Ltd (“Blue Diagonal”) is a Cyprus Alternative Investment Fund Manager pursuant to the Alternative Investment Fund Managers Law of 2013 (as amended) authorised by CySEC on 31 July 2017 under authorisation number AIFM15/56/2013.

Blue Diagonal Capital Ltd is the External Manager of Blue Diagonal AIF V.C.I.C. PLC (“the Fund”), a public company limited by shares incorporated under the Companies Law, Cap.113 under registration number HE371601 authorised by Cyprus Securities and Exchange Commission on 15 May 2017 to operate as an Alternative Investment Fund as an open ended investment company of variable capital in accordance with Part II of the Alternative Investment Funds Law of 2014 under authorisation number AIF17/2014.

Blue Diagonal meets the definition of a Financial Market Participant (“FMP”) under the EU’s Sustainable Finance Disclosure Regulation 2019/2088 (the “SFDR”). Under the SFDR, Blue Diagonal is required to publish a number of entity level disclosures on its website including:

- Information on how sustainability risk has been integrated into the investment decision making process (Article 3);
- Information on how its remuneration arrangements are consistent with the integration of sustainability risk into the investment decision making process (Article 5); and
- Information on how the adverse Impacts of investment decisions on sustainability factors are considered. (Article 4).

In complying with the transparency requirements of the SFDR, Blue Diagonal will apply a “Fund ESG Classification” by classifying funds under its management as one of the following:

- Article 6 funds: These funds take sustainability criteria into account within the investment process but do not specifically promote environmental or social characteristics and do not have sustainable investment as their objective.
- Article 8 funds: These funds promote among other characteristics, environmental or social ones or a combination of those characteristics provided that the companies in which the investments are made follow good governance practices.
- Article 9 funds: These funds have sustainable investment as their objective.

This statement has been prepared to address the above requirements as outlined under the SFDR.

ESG Policy Statement

The terms Environmental, Social and Governance (ESG) investing and “Sustainable investing” are considered equivalent in the ESG Investment Policy (“ESG Policy”) of Blue Diagonal.

Sustainability Integration (“ESG Integration”)

SFDR defines sustainability factors (“ESG Factors” in this policy statement) as meaning environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

ESG Integration is defined as the process whereby specific ESG factors are systematically included in the investment decisions framework to enhance risk-adjusted returns.

Blue Diagonal recognises the relevance of material ESG factors across all asset classes and portfolio management strategies. ESG factors and sustainability risks form an integral part of investment analysis, portfolio construction, portfolio maintenance, and investment stewardship processes.

Blue Diagonal maintains an exclusion list to facilitate a procedure referred to as elimination through ‘Negative Screening’. The exclusion list reflects sectors and industries or specific factors against which potential investments are screened against. The specific factors include sanctions. Fund portfolios will not include any investments that are considered ineligible subject to the Negative Screening criteria, which includes investment exclusions required by law.

Sustainability risks as incorporated through the ESG factors are assessed relative to their materiality (i.e. likelihood of impacting returns of the investment) and in conjunction with other mark risk assessments.

ESG factors are not the sole consideration when making investment decisions and the extent to which ESG factors are considered during the investment process will be determined by the ESG objectives of a specific fund.

The determination of the relevant ESG factors (and their weights) by Blue Diagonal may be subjective and could change over time in light of emerging sustainability risks or changing market conditions. This is consistent with the regulatory duty of Blue Diagonal to manage the Fund in accordance with the investment objectives of the Fund’s investment compartments and in the best interests of the Fund’s investors.

The Risk Management function of Blue Diagonal will review investment compartments’ portfolios to ensure that sustainability risks are evaluated as envisaged in the ESG Policy in addition to formulated financial risk parameters that have been formulated for each investment compartment.

The Blue Diagonal approach to ESG integration is to broaden and refine the scope of ESG factors in its investment analysis with the stated aim of improving investment analysis and assessing the potential impact of sustainability risks on the Fund’s investments. The ESG factors that are assessed may be quantified based on third-party insights or data, internal research or engagement commentary and input from Blue Diagonal Investment Stewardship.

Sustainability Risk

“Sustainability risk” is defined in the SFDR as an environmental, social or governance event or condition which, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

Sustainability risks include (but are not limited to) the following:

- Environmental Sustainability risks may include climate change, water resources and pollution, carbon emissions, air pollution, rising sea levels or coastal flooding or wildfires;
- Social Sustainability risks may include human rights, education and human capital, health levels, political freedoms, crime and safety, human trafficking, child labour or gender discrimination;
- Governance Sustainability risks may include rule of law, political stability and absence of violence/terrorism, control of corruption, ease of doing business, voice and accountability, a lack of diversity at board or governing body level, infringement or curtailment of rights of shareholders, health and safety concerns for the workforce or poor safeguards on personal data or IT security.

The likely impacts of a sustainability risk may be numerous and can vary depending on the specific risk and asset class. To the extent that a sustainability risk materialises, or materialises in a manner that is not anticipated by Blue Diagonal, there may be a sudden, material negative impact on the value of an investment.

The impacts of sustainability risk are expected to develop over time and new sustainability risks may be identified as further data and information regarding sustainability factors and impacts becomes available and the regulatory environment regarding sustainable finance evolves. These emerging risks may have further impacts on the value of the investments of the Company.

Investment Stewardship

Blue Diagonal undertakes as applicable and where relevant to adopt policies in respect of investment stewardship engagements and proxy voting with the goal of protecting and enhancing the long-term value of clients’ investments for relevant asset classes. It is our conclusion that sustainable financial performance and value creation are enhanced by sound governance practices, including risk management oversight, board accountability and compliance with regulations. In this regard board composition, effectiveness and accountability are considered as key parameters.

Remuneration Policy

Blue Diagonal maintains a Remuneration Policy pursuant to Directive 2011/61/EU (as transposed by the AIFM Law - Consolidated Law AIFM 56(I)2013 with L.8(I)2015). The Remuneration Policy of Blue Diagonal promotes adherence to the value creation strategies that Blue Diagonal undertakes to provide optimal risk adjusted returns for investors. In respect of the SFDR article 5 requirement the policy discourages risk-taking which is inconsistent with the Company’s ESG policy, and states that variable compensation to

the extent it applies, is based on formulated key performance indicators which include an appraisal of the integration of sustainability risks in the investment decision-making process.

Principal Adverse Impacts

SFDR Article 4 states that Principal adverse impacts (PAI) are the principal adverse impacts of investment decisions on sustainability factors (or ESG Factors).

Blue Diagonal EM Fixed Income Fund (“BD EMFI”)

Classification

BD EMFI is classified as an Article 6 fund pursuant to ESG policy of Blue Diagonal.

ESG integration

Blue Diagonal endeavours to manage BD EMFI responsibly and and consistent with Article 6 of SFDR. The management of sustainability risk forms an important part of the investment valuation framework of Blue Diagonal by applying a risk assessment that

- i) derives a risk adjusted return which includes ESG factors, and
- ii) measures the potential negative impact on the value of an investment in the event of adverse moves in the ESG factors.

Several sustainability indicators have been selected to form part of the fund’s ESG integration. The table below specifies a sample of such sustainability indicators, description of the metric and the data sources.

No	ESG Objective*	ESG Indicator	Metric	Data sources
1	Governance	Rule of Law	Rule of law is one of the World Bank Governance Indicators, also often used to inform our judgement regarding the overall governance of the country. It captures perceptions of the extent to which agents have confidence in and abide by the rules of society, including the quality of contract enforcement and property rights, the police, and the courts, as well as the likelihood of crime and violence. The percentile is the percentage of all countries with a lower score than that country on rule of law.	World Bank, The Worldwide Governance Indicators (WGI) - http://info.worldbank.org/governance/wgi/
2	Governance	Ease of Doing Business	The Ease of Doing Business Index is updated annually by the World Bank based on a review of regulations and procedures that govern business activities, such as enforcing contracts and international trade. The percentile is the percentage of all countries with a lower score	World Bank, The Worldwide Governance Indicators (WGI) - http://info.worldbank.org/governance/wbi/

			than that country on the Ease of Doing Business Index.	ank.org/governance/wgi/
3	Governance	Control of Corruption	Control of corruption is one of the World Bank Governance Indicators, also often used to inform our judgement regarding political risk and the efficient allocation of capital in society. It measures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as “capture” of the state by elites and private interests. The percentile is the percentage of all countries with a lower score than that country on control of corruption.	World Bank, The Worldwide Governance Indicators (WGI) - http://info.worldbank.org/governance/wgi/
4	Social	Human Development Index	The Human Development Index (HDI) reported by the UN Development Programme (UNDP) combines normalised measures of health, educational attainment and income per capita. The percentile is the percentage of all countries with a lower HDI score than that country.	UNDP- Human Development Reports - https://hdr.undp.org/data-center/human-development-index#/indicies/HDI
5	Governance	Political Stability	Political stability and absence of violence/terrorism is one of the World Bank Governance Indicators, which are often used to inform our judgement regarding political risk. It captures perceptions of the likelihood that the government will be destabilised by unconstitutional or violent means, including terrorism. The percentile is the percentage of all countries with a lower score than that country on political stability.	World Bank, The Worldwide Governance Indicators (WGI) - http://info.worldbank.org/governance/wgi/

* Environmental Sustainability, Social Sustainability, Governance Sustainability

SFDR Article 3 Transparency disclosure in respect of sustainability risk policies

The investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

BD EMFI in its investment strategy does not promote environmental or social characteristics in a way that meets the specific criteria contained in Article 8 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial service sector (“SFDR”) or have sustainable investment as its objective in a way that meets the specific criteria contained in Article 9 of SFDR.

The portfolio of BD EMFI can therefore include investments that do not meet ESG Objectives, but will not include any investments that are considered ineligible subject to the process of elimination through Negative Screening.

The Portfolio Manager has carried out an assessment of the likely impacts of sustainability risks on the returns of the Sub-Fund and has determined that they are likely to have a low impact on the value of the Sub-Fund's investments in the medium to long term due to the mitigating nature of the Sub-Fund's investment policy.

SFDR Article 4 Transparency disclosure in respect of adverse sustainability impacts on entity level

BD EMFI does not consider the adverse impacts of its investment decisions on ESG Factors, within the meaning of Article 4(1)(a) of SFDR as BD EMFI was not created to focus on ESG products, but to create risk-adjusted returns by investing primarily in hard currency bonds issued by sovereigns, quasi-sovereigns and major corporations in emerging markets.

Blue Diagonal will continually assess the viability of disclosing a PAI for BD EMFI by appraising the mandatory data collection and disclosure requirements, including the availability of the relevant data required to formulate a PAI for the fund.

Policy Review

Blue Diagonal regularly reviews its ESG policy, procedures and disclosures to ensure they are appropriate and remain compliant with regulatory developments.

Signature :

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Position/Title Director

Director

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