Information Sheet on Sustainability Preferences in Digital Asset Management

As of 08/02/2022, Digital Asset Management is legally obligated to ask its clients whether environmental or social aspects and good corporate governance criteria are important to them for cash investments (sustainability preferences).
In order for our clients to better understand the new legal requirements, determine their sustainability preferences, and subsequently be recommended a suitable investment strategy, MorgenFund GmbH, Luxembourg branch is looking to achieve the following with this information sheet:

- provide an overview of environmental ("E") and social ("S") aspects and governance ("G") criteria, together referred to as "ESG," which may be relevant for sustainable cash investments **(section A**),
- explain the different forms of sustainability portfolios that are generally available to clients with sustainability preferences under the new statutory requirements **(section B**), and
- explain the inclusion of sustainability preferences in the suitability test by Digital Asset Management as of 08/02./2022 **(section C**).

<u>Note:</u>

The individual sustainability preferences of the respective Digital Asset Management client are requested as part of the extended suitability test by MorgenFund Digital Asset Management and compared with the investment guidelines of the model portfolios.

A What are ESG aspects of a cash investment?

Environmental and social aspects and good corporate governance criteria are often referred to collectively with the English abbreviation ESG (**E**nvironmental, **S**ocial, and **G**overnance).

1. Environmental Aspects ("E" for Environmental)

The "E" in ESG refers to environmental aspects. The first thing that comes to mind for many is climate protection, such as by reducing greenhouse gas emissions or energy consumption.
However, "E" also includes other things:

- Adaptation to climate change
- Biodiversity protection
- Sustainable use and protection of water and marine resources
- Transition to a circular economy, waste prevention, and recycling
- Pollution prevention and control
- Protection of intact ecosystems
- Sustainable land use

2. Social Aspects ("S" for Social)

The "S" in ESG refers to social aspects. For example:

- Compliance with recognized labor law standards (prohibition of child and forced labor)
- Compliance with occupational safety and health protection
- Appropriate remuneration, fair conditions at the workplace, diversity, and training and development opportunities
- Freedom for trade unions and assembly
- Ensuring sufficient product safety, including health protection
- Equal requirements for companies in the supply chain
- Includes projects and consideration for the needs of communities and social minorities

3. Principles of Good Corporate Governance ("G" for Governance)

The "G" for governance stands for corporate management and long-term, sustainable corporate development. It concerns the distribution of rights and responsibilities among the various parties involved in a company – including the Executive Board, managers, owners, and other stakeholders. Governance aspects include:

- Tax honesty
- Measures to prevent corruption
- Sustainability management by the management body
- Compensation of Executive Board members based on sustainability criteria
- Enabling of whistleblowing
- Guarantee of employee rights
- Guarantee of data protection

B. Digital Asset Management’s Product Offering for Clients with Sustainability Preferences

In the future, clients will be able to decide whether and to what extent MorgenFund GmbH, Luxembourg branch should or should not take their sustainability preferences into account when designing the investment strategy and selecting investment funds for the respective model portfolio as part of asset management.

The new statutory regulations on sustainability in asset management[1] include certain requirements for the design of financial instruments, such as the investment funds underlying the model portfolios, which are generally eligible for clients with sustainability preferences.

Therefore, as of 08/02/2022, the universe of Digital Asset Management model portfolios for clients with sustainability preferences consists of model portfolios with one or more of the following three sustainability emphases.

Important notice:

In order to determine the appropriate model portfolio for clients with sustainability preferences, MorgenFund GmbH, Luxembourg branch must rely on information provided by product manufacturers to determine the extent to which these requirements exist at the product level. However, the legal requirements for disclosure and reporting on sustainability for products will not yet have taken effect completely when the new legal requirements for the inclusion of sustainability preferences in asset management come into force; this will not occur until January 1, 2023. If we do not have sufficient data for an investment fund on individual product characteristics that are important for including sustainability preferences, we do not regard it as being fulfilled for the respective product.

Therefore, the offer of model portfolios for customers with sustainability preferences may initially be limited.

1. Accounting for the principal adverse impacts (PAIs) on sustainability factors

The first type of products for investors with sustainability preferences includes financial instruments that take into account principal adverse impacts (PAIs) on sustainability factors in the investors’ investment strategy, in particular by avoiding or reducing adverse impacts through their investment strategy.

[1] Delegated Regulation (EU) 2021/1253 amending Delegated Regulation (EU) 2017/565 with regard to the inclusion of sustainability factors, risks, and preferences in certain organizational requirements and conditions for investment firm activities of April 21, 2021.

a) Sustainability Indicators

The PAIs refer to different indicators of investments in companies and include the following

Greenhouse gas emissions

- Greenhouse gas emissions
- CO_2 footprint
- Greenhouse gas intensity of the invested companies
- Involvement in fossil fuel companies
- Percentage of energy consumed and generated from non-renewable sources
- Intensity of energy consumption by climate-intensive sector

Biodiversity

- Activities that adversely affect areas with biodiversity in need of protection

Water pollution

- Water pollution

Hazardous Waste

- Percentage of hazardous and radioactive waste

Social Issues and Employee Concerns

- Violations of the United Nations Global Compact Principles (UNGC Principles) and the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
- Lack of processes and compliance mechanisms for monitoring adherence to UNGC principles and OECD Guidelines for Multinational Enterprises
- Unadjusted gender pay gap
- Gender diversity in management and control bodies
- Participation in controversial weapons (anti-personnel landmines, cluster ammunition, chemical weapons, and biological weapons)

The indicators of investments in real estate include the following indicators grouped by theme:

Energy Efficiency and Fossil Fuels

- Involvement in fossil fuels through real estate investments
- Involvement in real estate with poor energy performance

Note: This PAI is not offered in digital asset management as no real estate investments are included.

b) Accounting for PAIs in the Investment Strategy

In particular, PAIs on sustainability factors can be avoided or reduced in various ways within the context of an investment fund:

One approach is to exclude investments in certain sectors or companies, such as based on specific sales thresholds. For example, such companies include those that manufacture tobacco, alcohol, or weapons, those that extract or convert fossil fuels, or those in the gambling industry.

Other options include proxy voting and corporate governance participation. Both aim to represent the sustainability interests of investors through active voting at general meetings. For example, with regard to PAIs, this allows specific CO_2-reduction targets, energy efficiency measures, or even employee concerns to be addressed in dialog with companies in which a financial instrument is invested and – if necessary – specific measures to be defined.

Another way is a best-in-class approach specifically designed to avoid or reduce PAIs. A best- in-class approach consists of excluding companies that, when it comes to individual sustainability indicators, have worse sustainability scores than comparable companies in the respective industry, not only in absolute terms but also in relative terms.

Note:

Not all adverse sustainability impacts are accounted for equally for all financial instruments. Instead, for each product in the investment strategy, the product manufacturer specifies an individual approach to account for adverse sustainability impacts on individual sustainability factors relevant to that product.

2. Minimum Percentage of Sustainable Investments in Accordance with the Disclosure Regulation[2]

The second category includes products with a minimum percentage of investments in sustainable economic activities to be determined by the client in accordance with the requirements of the Sustainable Finance Disclosure Regulation ("SFDR"). These economic activities form the investment objects for sustainable investments within the meaning of the Sustainable Finance Disclosure Regulation, e.g., via investment funds.

a) What Is the SFDR?

The SFDR introduces sustainability-related disclosure requirements in the financial services sector. It obligates manufacturers and distributors of certain financial instruments to provide information on sustainability in connection with production and distribution. Investors are to be informed concerning the extent to which environmental and social criteria and standards of good corporate governance are observed.

b) What Is a Sustainable Investment under the SFDR?

First of all, the SFDR covers environmentally sustainable investments. Investments in economic activities that contribute to the achievement of an environmental objective are regarded as environmentally sustainable under the SFDR. For example, this positive contribution is measured by key indicators for

- resource efficiency in the use of energy, renewable energy, raw materials, water, and soil,
- waste generation and greenhouse gas emissions, or
- impacts on biodiversity and the circular economy.

While the EU taxonomy currently focuses only on environmental aspects, social economic activities can also be sustainable as defined by the SFDR. Investments in economic activities that contribute to the achievement of a social objective are regarded as socially sustainable. For example, this positive contribution is measured by key indicators for

- addressing inequalities,
- promoting social cohesion, or
- investments in human capital or investments for the benefit of economically or socially disadvantaged populations.

Furthermore, for both environmentally and socially sustainable investments, it is necessary that they do not significantly compromise any environmental or social objective at the same time.
Significant impairment is determined based on an assessment of principal adverse impacts (PAIs) on sustainability factors. What PAIs are and how they are measured is described in section 1.

[2] Regulation (EC) No. 2019/2088 of the European Parliament and of the Council of November 27, 2019, on sustainability-related disclosure requirements in the financial services sector

Finally, for investments in companies to be classified as sustainable, good governance practices must be applied, particularly with respect to sound management structures, relations with employees, employee compensation, and compliance with tax regulations.

Note:

Unlike the Taxonomy Regulation, the SFDR does not establish uniform technical evaluation criteria for sustainable investments.

The existence of a positive contribution to an environmental or social objective is often measured against the 17 Sustainable Development Goals (SDGs) of the United Nations. For example, this involves determining whether and to what extent a company's sales can be allocated to one or more of these goals. The goals are the following:

3. Minimum Percentage of Environmentally Sustainable Investments in Accordance with the Taxonomy Regulation[3]

The third category of products for customers with sustainability preferences consists of products with a minimum percentage of sustainable investments determined by the client in accordance with the Taxonomy Regulation.

a) What Is the Taxonomy Regulation?

The purpose of the Taxonomy Regulation is to establish a uniform classification system for environmentally sustainable economic activities within the European Union. It arises from the EU Commission's March 2018 Action Plan for Financing Sustainable Growth. Among other things, it aims to steer investors' capital flows more toward sustainable investments. The Taxonomy Regulation therefore sets out six environmental objectives, based on which the environmental sustainability of an economic activity is determined. These economic activities form the investment objects for sustainable investments within the meaning of the Taxonomy Regulation, e.g., via investment funds.

The six environmental objectives of the Taxonomy Regulation are:

- climate protection,
- adaptation to climate change,
- sustainable use of water and marine resources,
- transition to a circular economy,
- prevention and reduction of environmental pollution (e.g., with regard to air, water, and soil quality), and
- protection and restoration of biodiversity and ecosystems (e.g., sustainable land use and management, sustainable forest management).

b) What Is an Environmentally Sustainable Investment under the Taxonomy Regulation?

First, an investment must make a significant contribution to achieving one of the six environmental objectives of the Taxonomy Regulation. The existence of a significant contribution to one or more of the six environmental objectives of the Taxonomy Regulation is determined for individual economic activities on the basis of legally defined technical assessment criteria. Second, to be classified as an environmentally sustainable activity, the economic activity must not significantly affect any of the other environmental objectives of the Taxonomy Regulation. For example, an activity that aims to protect the climate but at the same time negatively affects biodiversity is not sustainable within the meaning of the Taxonomy Regulation. This is also determined on the basis of legally defined technical evaluation criteria. Finally, the third requirement for classification as environmentally sustainable is that the economic activity must be carried out in compliance with a minimum level of protection for occupational safety and human rights, such as those set out in the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights and the International Bill of Human Rights.

[3] Regulation (EU) 2020/852 of the European Parliament and of the Council of June 18, 2020, on establishing a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088.

Note:

The classification of economic activities as sustainable within the meaning of the Taxonomy Regulation is still being developed. As such, technical evaluation criteria for the two climate goals of the Taxonomy Regulation were first developed and published on December 9, 2021. The other goals are still being developed, however.

In addition, the technical evaluation criteria were initially developed only for economic sectors identified as particularly relevant for achieving the European Union's climate goals. For example, they include the energy sector, forestry, manufacturing / goods producers, transport, construction, and real estate. Other sectors of the economy will follow. After all, the first official company reports showing the percentage of environmentally sustainable economic activities within the meaning of the Taxonomy Regulation will not be available until 2023. The percentage of environmentally sustainable economic activities of a financial product within the meaning of the Taxonomy Regulation will therefore be rather low at first.

C. Requesting Sustainability Preferences and Recommending Suitable Model Portfolios

To determine your sustainability preferences, we will ask you in our application section whether sustainability preferences are to be factored in to your investment.

If this is the case, we will ask for more detailed information about your sustainability preferences in a second step. In this step, you can provide us with a combination of the three types of sustainable products – PAI indicators, SFDR, and the minimum taxonomy quota.

We will take the information on your sustainability preferences into account when selecting a suitable model portfolio after analyzing your information on your knowledge and experience, your financial circumstances, and your investment objectives so that we can also recommend suitable model portfolios for your sustainability preferences.

When doing so, we will apply the following principles:

- If you do not specify your sustainability preferences, we will choose from investment strategies both with a sustainability focus as well as those without a sustainability focus.
- If you do not provide any further information on the type of your sustainability preferences, investment strategies of all three sustainability types will be considered (minimum percentage of sustainable investments within the meaning of the Taxonomy Regulation, minimum percentage of sustainable investments within the meaning of the Sustainable Finance Disclosure Regulation, and accounting for PAIs on sustainability factors).
- If you specify "Account for PAIs" as a sustainability preference, Digital Asset Management will check this choice at the product level using the thematic PAI groups or PAI families. A PAI family is regarded as fulfilled if one or more PAI indicators falling under this family have been taken into account at the product level.
- If you indicate in your sustainability preferences that you want a product with a minimum percentage of sustainable investments as defined by the SFDR, we will recommend an investment strategy that makes environmentally and/or socially sustainable investments as

  defined by the SFDR. Due to a lack of detailed information from product manufacturers, Digital Asset Management is currently unable to distinguish between products with environmentally or socially sustainable investments.
- If you specify "Sustainable investments within the meaning of the Taxonomy Regulation" and/or

"Sustainable investments within the meaning of the SFDR" as your sustainability preference but do not select a percentage range, products that meet the lower percentage range of the respective minimum quota will be considered for the investment recommendation.

4. Repeating the Process and Adjusting Your Sustainability Preferences

If you have provided basic sustainability preferences, Digital Asset Management will analyze them and recommend an investment strategy that fits your sustainability preferences.

If we are unable to recommend an investment strategy that meets your basic sustainability preferences, you will be advised accordingly in the advice section. You will then be asked if you would like to review your sustainability preferences and possibly change them for this specific investment.

If you adjust your sustainability preferences the second time, we will document both the original and revised sustainability preferences and recommend a suitable investment strategy – if any – that matches your updated sustainability preferences.

In the suitability statement, which is part of your asset management contract, we will document your sustainability preferences and our recommendation together with the justification for this, along with information on your knowledge and experience, your financial circumstances, and your investment objectives.

If we are unable to identify an investment strategy suitable for your sustainability preferences even after you change your sustainability preferences, we will unfortunately be unable to make you an offer.

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