

ANNEX II

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

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.



Product name: Asian High Yield Fund

Legal entity identifier: 549300UI5QN6CMG6PW86

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 sustainable investments with an environmental objective : ___% | <input type="checkbox"/> It promotes Environmental/ Social (E/S) characteristics 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 sustainable investments with a social objective : ___% | <input type="checkbox"/> with a social objective |
| | <input checked="" type="checkbox"/> It promotes E/S characteristics, but will not make any sustainable investments |

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

The environmental characteristics considered by the Fund include, but are not limited to, energy intensity, carbon emissions, water emissions and biodiversity. The social characteristics considered by the Fund include, but are not limited to, labour standards and employee welfare.

No reference benchmark has been designated for the purposes of attaining the above characteristics promoted by the Fund.

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-Adviser uses the following indicators to measure the attainment of each of the characteristics promoted by the Fund:

For assessing a company's practice on energy intensity, the Sub-Adviser checks indicators on energy consumption.

For assessing a company's practice on carbon emissions, the Sub-Adviser checks indicators on GHG emissions, carbon footprint and GHG intensity.

For assessing a company's practice on water emissions, the Sub-Adviser checks indicators on water emissions and hazardous waste.

For assessing a company's practice on biodiversity, the Sub-Adviser checks indicators on biodiversity.

For assessing a company's practice on labour standards and employee welfare, the Sub-Adviser checks indicators on the UN Global Compact Violations, the UN Global Compact Monitoring, gender pay gap and board gender diversity.

- **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 as the Fund does not intend to make sustainable investments.

- **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 as the Fund does not intend to make sustainable investments.

- *How have the indicators for adverse impacts on sustainability factors been taken into account?*

Not applicable as the Fund does not intend to make sustainable investments.

- *How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:*

Not applicable as the Fund does not intend to make sustainable investments.

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

The “do no 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.

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.



Does this financial product consider principal adverse impacts on sustainability factors?

- Yes,** the Sub-Adviser considers principal adverse impacts on sustainability factors by combining internal analysis of the Fund's holdings and third-party data against all mandatory indicators in Table 1 of SFDR Annex 1 and selected optional indicators in Table 2 and 3 of SFDR Annex 1.

The principal adverse impacts on sustainability factors are considered as part of the Sub-Adviser's proprietary ESG scoring methodology and as such, the indicators are reviewed at regular intervals or when newly reported information becomes available.

Consideration of principal adverse impacts on sustainability factors will be confirmed as part of the periodic reporting to be disclosed in the annual report for the Fund.

- No**

What investment strategy does this financial product follow?

The Fund seeks to achieve its overall objective by generally investing at least 70% of its Net Asset Value in a portfolio of high-yield fixed income securities, which have been issued by governments and agencies of, or companies domiciled in, or exercising the principal part of their business activity in Asia. Such securities may include fixed interest rate corporate bonds, sovereign bonds, senior callable bonds and contingent convertible securities ("CoCos"). CoCos are hybrid bonds that may, when the issuer's capital ratio falls below a predetermined trigger level, be written down, written off or converted into an equity security. The bonds in which the Fund invests may be rated or unrated, fixed rate or floating rate. The Fund will invest in high yield fixed income securities that capture the growth potential of Asia with a focus on Greater China. The Fund may also invest in the China Interbank Bond Market ("CIBM") via the arrangement between Hong Kong and the PRC that enables Chinese and overseas investors to trade various types of debt securities in each other's bond markets through connection between the relevant respective financial infrastructure institutions ("Bond Connect"). The Fund will not invest directly in Chinese listed securities but will seek to achieve exposure via investment in securities listed outside of China. The Fund may also invest in global emerging markets outside of Asia. These securities will generally be rated below investment grade. The Fund is not subject to any limitation on the portion of its Net Asset Value that may be invested in any one sector.

The Fund will be managed on the basis of the Investment Adviser's fundamental research and risk management investment process as implemented by the Sub-Adviser. The research framework consists of fundamental research at 3 levels – (i) individual credit/security selection, (ii) industry/sector/country and (iii) macro strategy. The process to identify the potential investment for further research, is supported by systematic analysis of market data. The analysis identifies the factors which determine the fundamentals and valuations of a specific credit or sector/country. Factors that are considered for corporates include its management, business strength, credit profile, regulatory risk and for governments the factors include economic activity, financial metrics and fiscal dynamics. Those factors are then scored on a range between deteriorating to improving trajectory or between rich to cheap respectively. Analysts will then perform fundamental deep dive research in their respective credit sectors and macro markets to identify emerging opportunities and risks.

In order to meet the environmental and social characteristics promoted, the Sub-Adviser incorporates a proprietary ESG scoring system, as further described below, into their investment decision making, which is combined with additional screening and exclusion criteria.

The ESG scoring methodology is used to evaluate ESG-related risk and opportunity based on a predetermined framework of environmental, social and governance metrics and attributes. This includes both numerical metrics, such as carbon emissions or employee turnover, and binary metrics that indicate whether a firm engages in (or does not engage in)

practices conducive to promotion of characteristics considered by the Fund, for example the presence (or lack thereof) of health & safety policies.

The scoring system is weighted to issues most relevant to a specific sector, for example the energy sector would have a stronger focus on environmental considerations, or the technology sector would have a greater focus on social considerations. The methodology systematically translates these metrics to quantifiable scores to ascertain an ESG profile for each issuer considered for inclusion in the portfolio, as well as the overall sector. The scoring is enriched with qualitative assessments made by the Sub-Adviser, utilising case studies, publicly available information, company visits and assessment reports.

From these scores, the Sub-Adviser considers the quartile rankings for each sector and selects securities from the top two quartiles.

The Sub-Adviser also applies screening to specifically consider carbon intensity and United Nations Global Compact ("UN Global Compact") violations. The Sub-Adviser uses Scope 1 & 2 carbon emissions data to identify the carbon intensity rating for investee companies and aims for a weighted average carbon intensity for the Fund that is 10% lower than the ICE BofAML Asian Dollar High Yield (the "Index"). The Sub-Adviser also aims for an aggregate weight of investee companies involved in violations of the UN Global Compact for the Fund that is lower than that of the Index, measured using UN Global Compact compliance data.

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

- ***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 following are considered the binding elements of the Fund's investment strategy:

Carbon intensity – The Fund will maintain a weighted average carbon intensity that is 10% below that of the Index, utilising Carbon Emissions - Scope 1+2 Intensity (t/USD million sales) data.

UN Global Compact violations - The Fund will maintain a lower aggregate weight of investee companies involved in violations of the UN Global Compact as compared to the ICE BofAML Asian Dollar High Yield Index, utilising Global Compact Compliance data.

Fossil fuel production - The Fund will have a maximum exposure of 10% to companies with revenues of more than 50% derived from the production and consumption of thermal coal, oil and gas.

Green Finance - The Fund will have a minimum exposure to 10% of companies involved in sustainable financing and/or that utilise bond proceeds to fund sustainability-focused projects, or that have been issued by companies in the green sector, as defined by the Sub-Adviser.

A further set of fixed environmental and social exclusion criteria is in place to exclude companies or issuers from consideration for investment where more than 10% of their revenue is derived from production, distribution, or services to nuclear power plants. The Sub-Adviser will also exclude companies or issuers involved in the production of cluster munitions, landmines, biological or chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragment weapons, as well as companies or issuers that either own or are involved in the distribution, licensing, sale or supply of tobacco.

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

Not applicable as there is no committed minimum rate to reduce the scope of investment.

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

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

The Sub-Adviser identifies governance considerations as integral to the investment philosophy and process. In order to ensure good governance, and to highlight the importance of good governance practices, the Sub-Adviser assigns the highest category weight within its ESG scoring methodology to governance-related factors, broadly categorised as board composition, accounting credibility, transparency and shareholder-related. Amongst these, the Sub-Adviser has identified board integrity issues, accounting investigations and instances of securities fraud as significant factors that can lead to the automatic exclusion of a particular company or issuer.

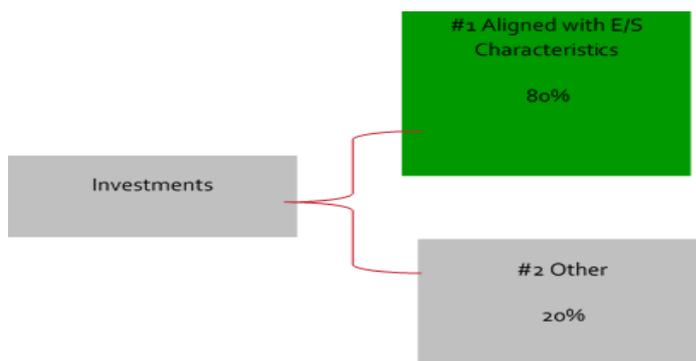
This analysis is further enriched with the Sub-Adviser's corporate governance overlay, providing a complementary assessment to build conviction around quantitative findings on financial metrics (the ability to pay), and enhancing this with qualitative analysis required to assess an issuers willingness to pay.



What is the asset allocation planned for this financial product?

Asset allocation describes the share of investments in specific assets.

In accordance with the binding elements of the investment strategy, 80% of investments made will be aligned to the E/S characteristics, whilst the remaining 20% will be cash, cash equivalents and hedging instruments.



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**

#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristic, have no minimum environmental or social safeguards, nor are qualified as sustainable investments.

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

Not applicable as derivatives are not used to attain the environmental or social characteristics.

(OpEx) reflecting green operational activities of investee companies.

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.

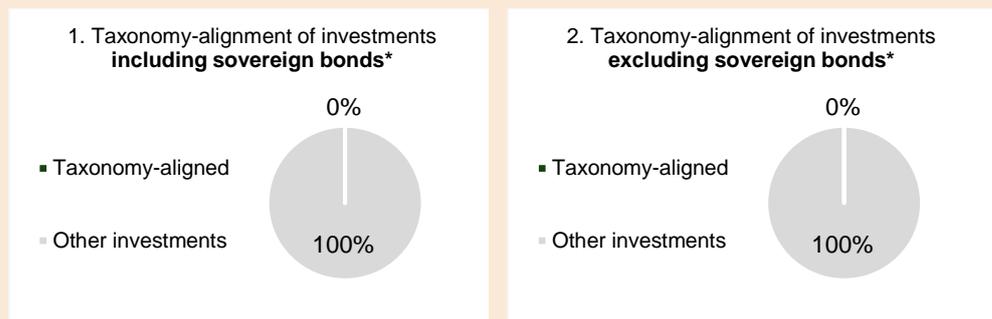
 are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally



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

0%

The two graphs below show in green 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

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

0%



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

0%



What is the minimum share of socially sustainable investments?

0%

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 investments included under "#2 Other" are cash, cash equivalents and hedging instruments which are not subject to environmental and/or social screening or any minimum environmental or social safeguards. Cash and cash equivalents do not affect the promoted environmental and / or social characteristics of the Fund. The assessment of issuers and of counterparties for cash and hedging instruments focusses on the creditworthiness of these parties, which can be impacted by sustainability risks.



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?

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

No. There is no specific index designated as a reference benchmark to determine whether the Fund is aligned with the environmental and/or social characteristics that it promotes.

- ***How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?***

Not applicable. There is no specific index designated as a reference benchmark to determine whether the Fund is aligned with the environmental and/or social characteristics that it promotes.

- ***How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?***

Not applicable. There is no specific index designated as a reference benchmark to determine whether the Fund is aligned with the environmental and/or social characteristics that it promotes.

- ***How does the designated index differ from a relevant broad market index?***

Not applicable. There is no specific index designated as a reference benchmark to determine whether the Fund is aligned with the environmental and/or social characteristics that it promotes.

- ***Where can the methodology used for the calculation of the designated index be found?***

Not applicable. There is no specific index designated as a reference benchmark to determine whether the Fund is aligned with the environmental and/or social characteristics that it promotes.



Where can I find more product specific information online?

More product-specific information can be found on the website:

<https://www.principalam.com/eu/about-us/esg>