

Summary

This disclosure is made by Polar Capital Funds plc – Emerging Markets Stars Fund (the Fund) pursuant to Article 10 of the Sustainable Finance Disclosure Regulation (EU) 2019/2088 (SFDR).

The Fund is a financial product that promotes an environmental or social characteristic under Article 8 of the SFDR by investing in companies that have robust fundamental characteristics combined with good or improving environmental, social and governance (ESG) profiles.

To achieve its investment strategy, the Fund's investment manager, Polar Capital LLP, (the Investment Manager) analyses companies based on its proprietary, quantitative Economic Value Added (EVA) Wheel model. The EVA Wheel evaluates companies on six areas in total; three assess the fundamental characteristics of a company and three assess the ESG characteristics of a company.

The three ESG-specific areas evaluated by the Investment Manager are how a company contributes to future sustainable economic development (its Impact on Progress), how a company manages its key risks and opportunities from an ESG perspective (its Material ESG Issues) and how a company ensures it acts as a responsible corporate citizen (its Business Ethics). Each company is assigned a quantitative score based on these three areas.

The company's scores in these areas are then taken together to provide the Investment Manager with a company's Sustainability Delta, which shows both the current profile and future direction of a company from an ESG perspective.

The ESG analysis conducted by the Investment Manager on a company is then fed back into the financial analysis conducted on the company and helps the Investment Manager to form a view on how the company can remain competitive over the long term.

The Investment Manager sources the information it requires to evaluate a company's ESG profile directly from companies, including accounts and reports issued by the company, as well as from third parties such as data providers, research providers and ratings providers.

The Fund measures the ESG profiles of the companies it invests in, as well as the companies in its investment universe, with reference to the companies' scores on the Investment Manager's proprietary metrics, including a company's Impact on Progress, its Material ESG Issues and its Business Ethics.

No sustainable investment objective disclaimer

The Fund promotes environmental and social characteristics but does not have as its objective a sustainable investment as defined under the SFDR.

Environmental or social characteristics promoted by the Fund

The Fund will invest in companies situated in emerging markets that have the ability to remain competitive and deliver attractive profitability over the long term due to robust fundamental characteristics, only where these robust fundamental characteristics are combined with good¹ or improving ESG profiles based on the Investment Manager's proprietary analysis.

The Fund has a bias towards companies with improving sustainability profiles, based on the Investment Manager's proprietary analysis.

The Fund excludes companies that have an unacceptable or controversial environmental, social or governance profile following the application of quantitative and qualitative analysis by the Investment Manager and through the use of exclusions lists, as further detailed below.

Description of the investment strategy of the Fund

Prior to investing in a company, the Investment Manager will assess a company's ability to provide attractive returns over a multi-decade time horizon and its ability to protect all types of resource (for example, natural, human, social, financial and physical).

Further, due to the Investment Manager's core belief that the world is increasingly growth and resource-constrained, the Investment Manager's investment decision-making process is designed to identify companies that promote future economic development via innovations in technology or advancements in access to or of productivity of natural, human, social, financial and physical capital.

The Investment Manager evaluates a company's fundamental and ESG characteristics, and therefore its ability to generate returns in the long term, through the Investment Manager's proprietary EVA Wheel model.

The EVA Wheel is comprised of six separate areas, three of which specifically address the ESG characteristics of a company. These three are the company's ability to contribute towards sustainable economic development (or its Impact on Progress), the company's management of its key ESG risks and opportunities (or its management of its Material ESG Issues) and the company's integrity and competitive practices (or its Business Ethics).

A company's scores in these three areas are then input into the Investment Manager's Sustainability Delta model, through which the Investment Manager analyses both the current position and future direction of a company from an ESG perspective.

The Investment Manager's core mindset is that improving trends, or delta, can significantly alter a company's long-term value. The Investment Manager believes its Sustainability Delta model provides

¹ Defined as at least in line with industry average, under the Investment Manager's analysis.

a good combination of analysing longer-term, structural sustainability trends along with the short-term, day-to-day operational risks for the company.

The Investment Manager's methodologies with respect to evaluating a company's Impact on Progress, its Material ESG Issues and its Business Ethics, as well as how these feed into the Investment Manager's Sustainability Delta Model, are outlined in further detail in the Description of Methodology section below.

Finally, the Investment Manager integrates its assessment of a company's ESG profile into its financial valuation models to understand how the company's ESG profile impacts its ability to deliver attractive profitability in the long term.

A company's ESG scores are fed into the Investment Manager's financial valuation models in two ways:

1. The Investment Manager applies an additional risk premium to the company's weighted average cost of capital (**WACC**) as appropriate.
2. The Investment Manager incorporates a company's overall EVA Wheel score into its assessment of how quickly the company's return on invested capital (ROIC) fades towards its WACC over the company's full life. A 50% weight is given to the Sustainable Delta analysis in this calculation.

Exclusions

The Investment Manager's fundamental process indirectly excludes companies that have a negative impact on long-term social progress. This is considered in the evaluation of a company's Impact on Progress and Business Ethics.

The Investment Manager adheres to the Norges Bank exclusion list (which can be found at <https://www.nbim.no/en/the-fund/responsible-investment/exclusion-of-companies>), which comprises a list of companies that are or have been involved with severe environmental or social controversies. All companies on this list are entered into systems which prevent the Fund from trading them. The exclusion list is updated on an ongoing basis.

The Investment Manager further excludes companies that derive the majority of their value from the following sectors: alcohol, gambling, tobacco, fossil fuels, adult entertainment and armaments.²

² A full exclusions policy with more detailed quantitative sector restrictions is available upon request.

Impact of analysis on the Fund’s investment universe

The Fund typically comprises 45-65 stocks, set against a benchmark of 1,400 constituents and a broader universe of eligible investments far beyond that. This universe is narrowed in stages with the Investment Manager’s ESG analysis playing a key role at each point:

1. **Reduction to 500 companies:** The first stage of the Investment Manager’s process identifies areas or sectors with the potential for future growth, based on imbalances in supply and demand and often heavily supported by thematic trends, that also have the ability to positively impact sustainable economic development. In this way, the Investment Manager initially narrows the universe of the Fund to focus on companies that are most exposed to strong sustainability drivers.
2. **Reduction to 300 companies:** The Investment Manager scores the ability of companies to be EVA creators. This includes scoring the companies on their Impact on Progress, Material ESG Issues, Business Ethics and overall Sustainability Delta.
3. **Reduction to 150 companies:** The Investment Manager forms a view of the remaining companies’ valuations, incorporating its assessment of ESG risks and opportunities and the companies’ management in a quantified way.

From this pool of companies, the Investment Manager constructs the Fund, based on the risk/reward of the investment opportunities, as well as macroeconomic and liquidity considerations.

Proportion of the Fund’s investments that promote the characteristics

All investments will attain the characteristics of the Fund on an individual basis.

The Fund invests in a diversified portfolio of equity securities domiciled, or exercising the predominant part of their economic activity, in emerging markets. The Fund is not expected to invest more than 30% of its Net Asset Value in securities issued by companies outside emerging markets.

The investment process consists of a detailed EVA analysis to identify EVA Delta, with a fully integrated sustainability analysis to identify Sustainability Delta – ideal investment companies will have strong outcomes in both. The process excludes companies with weak Sustainability Delta.

		Sustainability Delta		
		Weak	Neutral	High
EVA Delta	High	Excluded	Investable	Ideal Investment
	Neutral	Excluded	Investable	Investable
	Weak	Excluded	Very unlikely to Invest	Unlikely to Invest

Key for Sustainability Delta

High = Overall Sustainability Delta Score above 5 out of 10

Neutral = Overall Sustainability Delta Score of 5 out of 10

Weak = Overall Sustainability Delta Score below 5 out of 10

The Fund may utilise financial derivative instruments including, but not limited to, futures, forwards, options (the Fund cannot write uncovered call options), contracts for difference, swaps and securities with embedded derivatives or elements of derivative exposure, including, but not limited to, equity warrants and structured notes, such as P-notes (which will not be leveraged).

These derivative instruments may be used to gain or reduce exposure to equity or equity-related securities meeting the environmental or social characteristics promoted by the Fund on a short or medium term basis or to gain indirect exposure to these securities where the Investment Manager feels that such use of financial derivative instruments is in the best interest of the Fund.

Further information on how the Fund utilises derivatives can be found in the Investment Policies section of the Fund's prospectus supplement.

Description of methodologies used by the Investment Manager to evaluate the characteristics

The following outlines the Investment Manager's methodologies with respect to its evaluation of a company's Impact on Progress, Material ESG Issues, Business Ethics and Sustainability Delta.

Impact on Progress: The Investment Manager examines how a company makes a positive impact on economic development by driving economic growth and productivity and/or through the company's optimisation of the use of natural resources. The Investment Manager also evaluates a company's impact on human capital development through its longer-term strategic focus and capital allocation.

This evaluation goes beyond a traditional external risk assessment of a company and considers more thematic areas of the company's revenue exposure such as electric vehicles, hydrogen, renewable energy etc.

Material ESG Issues: The Investment Manager analyses how well a company manages its material ESG exposures. For the environmental and social categories, the Investment Manager evaluates factors specific to the company's industry and for the governance category, the Investment Manager evaluates a company against industry-agnostic system factors.

For the environmental and social categories, the Investment Manager evaluates the company on, on average, four industry specific factors which are then assessed at a finer level.

Business Ethics: The Investment Manager analyses whether a company acts with integrity, competes fairly and is open and honest with its stakeholders.

The Investment Manager analyses whether a company has established a Code of Conduct covering relevant areas such as competitive practice and compliance structures, and whether the company has adequate monitoring systems in place. Due to the relatively higher frequency and magnitude of ethics-related events, the Investment Manager chooses to place a separate focus in its analysis here.

Sustainability Delta: By combining the company's scores in each of the three areas identified above, the Investment Manager gives the company a score for both the company's current level of sustainability and its future sustainability direction. These scores are allocated on a numerical 1-10 basis and are relative to the company's industry peers. These scores are then combined to form the company's overall Sustainability Delta score.

The Investment Manager defines an improving company as one where the company's Sustainability Delta score improves from its current score to its future direction score. The Investment Manager does not invest in any companies with an aggregate Sustainability Delta score below five.

To ensure the quality and consistency of the Investment Manager's analysis, the Investment Manager uses a scoring framework to provide guidance on what is required for a company to achieve each score.

Description of how the environmental or social characteristics are monitored

The Investment Manager continually monitors a company's Impact on Progress, Material ESG Issues, Business Ethics and Sustainability Delta scores for all companies held in the portfolio on an ongoing basis.

Typically, the Investment Manager will update these scores on an event-driven basis due to, for example, meeting with a company's management, a results announcement from a company, changes to a company's ownership structure or management, a corporate action from a company, a merger or acquisition or a major controversial event (eg an environmental disaster, data breach or fraud).

Most often, changes will be relatively minor and more frequently positive than negative, as over time the Investment Manager tracks how companies execute on their ESG commitments and gradually trend towards their direction scores.

If a company's Sustainability Delta profile significantly deteriorates during the holding period of a security, the Investment Manager will, as a guideline, engage with a company first to better understand the materiality of the risks and management's strategic direction (if this fits the context).

Where a company is involved in a negative material ESG incident which compromises the integrity of the company's whole business and, in the belief of the Investment Manager, its ability to generate long-term sustainable EVA or the Investment Manager's comfort with the company as a corporate citizen, the Investment Manager's policy is to divest.

Description of the data sources used and how they are processed

The Investment Manager's research is based on primary sources, company meetings and regular engagement with companies on key issues, as well as purposeful interaction with key individuals in other areas of the business, competitors, industry experts and the supply chain.

Where there is insufficient information to determine the level of risk and opportunity of a security, the Investment Manager does not automatically penalise a company, but reviews management quality and whether this is reflective of the company's early-stage approach or poor strategy is driving the lack of information. The Investment Manager then applies adjusted industry averages based on its experience.

Description of the limitations of the methodology and data

The Investment Manager's approach to evaluating the environmental, social and governance profiles of companies within its investment universe may be constrained by the availability, quality and relevance of sustainability-related data available to the Investment Manager.

The availability, quality and relevance of data relating to sustainability within the emerging markets investment universe may be limited, both in an absolute sense and in comparison to data on sustainability within the developed markets' investment universe, due to a lack of sustainability-related regulations and reporting standards; changes in sustainability-related regulations and reporting standards; inconsistencies in sustainability-related regulations and reporting standards between jurisdictions; a lack of historic information available on sustainability for companies; low coverage on or inconsistencies with respect to the evaluation of, particular companies by third-party research and data providers; or material inaccuracies in the sustainability-related information reported by companies.

Limitations in the availability, quality and relevance of the sustainability-related data outlined above may make it difficult for the Investment Manager to ascertain the sustainability profile of a company, to assess the progress of a company from a sustainability perspective over a certain timeframe, to carry out consistent analysis on companies from a sustainability perspective against its industry peers in the same or other jurisdictions or to verify the Investment Manager's assumptions and calculations concerning a particular company.

We engage with companies to encourage improved transparency and disclosure on material topics. We acknowledge there remains a challenge due to the availability and quality of necessary data, but believe this is where, via our expertise, access to and relationships with our companies, we are able to gain superior insights.

As our style looks for improvement across ESG characteristics, we do not believe these limitations affect the achievement of our goals, rather low quality or lack of data sends us in search of more

information which in many cases has been an important analytical task and yielded something value accretive.

Description of engagement policies used when this is part of the investment strategy

The Investment Manager views engagement as part of its ongoing and fundamental dialogue with companies within the Fund's investment universe and as a constant and valuable part of its work.

Engagement can take the form of meetings, on-site visits, calls and emails or via voting and can be with stakeholders such as management, competitors, suppliers, customers, industry experts and lower-tier employees.

The Investment Manager aims to be proactive in engaging through these methods and with these stakeholders, rather than waiting to engage following a particular event.

In summary, there are three main reasons for the Investment Manager engaging with a company in the investment universe of the Fund:

1. ongoing monitoring of the company's business and elevating company awareness;
2. deeper company analysis and challenge/feedback;
3. seeking to affect real change in a company due to specific behaviour or event.

These reasons are expressed in order of frequency as only on rare occasions would the Investment Manager seek to influence management to affect change in a company.

Such cases might include where remuneration policies are misaligned or where environmental practices are moving in the wrong direction or not sufficiently disclosed. Most often, the Investment Manager's stewardship comes back to its holistic, long-term oversight approach in allocating capital to well-governed companies with truly sustainable business models in order to create value for investors.

The Investment Manager maintains a log of its relevant engagements with a company's stakeholders.

During a meeting with a company within the investment universe of the Fund, the Investment Manager will typically seek to get a better understanding about a range of considerations that effect that company according to their EVA Wheel model, rather than separating ESG into a different forum.

The Investment Manager is very focused on how companies see the future and how they allocate capital accordingly and believes that approaching engagement with management teams from the perspective of a partnership enables the Investment Manager to maintain good relations and foster open, two-way dialogue through which it aims to protect and enhance value for clients.

Through strong relationships with management teams of companies within the Fund's investment universe, the Investment Manager is able to enter into thoughtful dialogue on a range of material

issues, which goes beyond, though is still relevant to, the immediately strategic and financial issues facing the company.

The Investment Manager's dialogue with companies can include topics such as management remuneration, capital structure, supply chains, regulatory changes, environmental policies, human capital management, product development and safety, litigation and improvement in disclosure. The questions and topics raised by the Investment Manager will be driven by company and sector-specific materiality.

The Investment Manager acknowledges that there may be times where larger, single sustainability issues or transformation programs dominate and are deserving of more focused attention. In these cases, the Investment Manager does dedicate time to these issues.

Description of reference benchmark as an index

The Fund does not have a reference benchmark for the purpose of measuring its achievement of its characteristics.

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