River and Mercantile European Change for Better Fund (the "Fund") - SFDR Article 10 disclosures

The purpose of this disclosure is to meet the Fund's obligations as regards website disclosure for products coming within Article 9 of SFDR. This disclosure will be kept under review and updated as necessary to meet the final requirements of the Regulatory Technical Standards for SFDR. This disclosure does not constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction. Any subscription for shares in the Fund will be on the basis of and prospective investors should read the Fund's prospectus, supplement and KIID, the instrument of incorporation of the River and Mercantile Investments ICAV and the Application Form for the Fund.

1. Summary

The Fund aims to invest in companies which are driving significant improvements towards sustainability goals, helping to accelerate the change where necessary and practicable, with voting and focused engagement. The Investment Manager's philosophy and process is focused on rewarding positive change and real-world impact, facilitated by a proprietary sustainable investment process and ESG scoring. Instead of relying on backward-looking assessments of sustainability, the Investment Manager aims to identify companies that are on a trajectory of sustainability improvement that is in line with the Fund's sustainability objectives and that may not be fully recognised by the market and reflected in share prices.

The sustainable investment objectives of the Fund are:

- to invest in companies which are facilitating the reduction of greenhouse gas emissions in line with the Paris Agreement and Intergovernmental Panel on Climate Change (IPCC) reports or other similar bodies and agreements which may supersede them, with the intention of mitigating the impact of climate change;

- to invest in companies which are contributing to the protection and restoration of biodiversity and ecosystems and the transition to a circular economy; and

- to support and invest in companies which are facilitating the social objectives of reducing gender and race inequality, contributing to meaningful work and employment, and diversity.

The Fund aims to invest all of its equity exposure in companies that meet the criteria of sustainable investments under SFDR. At least 80% of the Fund's net asset value will be invested in equities. The Fund's investments are not classed as sustainable if they significantly harm any of the Fund's sustainable investment objectives.

The Fund follows an investment strategy under which the Investment Manager will actively select companies that fit its Sustainable Potential Valuation and Timing ("S-PVT") investment philosophy and are deemed to contribute to one or more of the sustainability objectives of the Fund, and which together form a portfolio aligned with the Fund's investment return objective.

The Investment Manager's approach to sustainable investment is to focus on a company's plans and ability to improve, and where practicable its ability to influence improvement, rather than (necessarily) a company's absolute performance at the point of investment. The Investment Manager has developed the S-PVT framework to ensure its assessment is made in a structured, robust and diligent manner, based on a variety of data and supported by the use of the principal adverse indicators mandated in SFDR, with consideration to third party ratings or evaluations where appropriate.

River and Mercantile Group has been accepted by the Financial Reporting Council as a signatory to the UK stewardship code 2020 and is a signatory to the UNPRI. As a signatory to these two codes, the good governance practices of investee companies are assessed prior to making an investment and annually thereafter. The Investment Manager is committed to the principle of active stewardship – monitoring and influencing the companies in which its portfolios invest, through voting and engagement, and challenging companies that fall short of its standards for managing ESG-related risks.

The primary sustainability indicators used to measure the attainment of the sustainable investment objective of the Fund are the Investment Manager's proprietary internal rating system and fundamental research. The rationale for, and key considerations within these indicators are summarised below and more detail is available here.

2. No significant harm to the sustainable investment objective

The Fund's investments are not classed as sustainable if they significantly harm any of the Fund's environmental or social objectives. The Investment Manager's investment process uses the following measures to determine this:

a) All equity investments of the Fund will be selected using the Investment Manager's proprietary S-PVT investment process. The S-PVT process assigns a sustainability rating to investee companies using a four-point scale from S1 to S4. Companies scoring the lowest rating of S4 will be excluded from the investment universe or divested at the next available opportunity, subject to market and liquidity constraints, after classification to S4 rating.

b) Assessment of investee companies against the 'principal adverse impacts' set out in Table 1 of Annex 1 of the Draft Regulatory Technical Standards (in the form of a Commission Delegated Regulation) as adopted by the European Commission on 6 April 2022 ("Draft RTS"). Other indicators monitored as part of the investment process are (i) the percentage of women in senior management roles; (ii) the percentage of investee company board members that are independent; and (iii) measures of energy, water and waste intensity. Where the impacts are judged to be significantly harmful either because over time they are moving in a less sustainable direction, or because they are not becoming sustainable sufficiently quickly (especially with regard to carbon intensity metrics), or because the absolute level of the metric is considered by the Investment Manager to be significantly harmful (with due consideration to their end markets, so that companies are not judged to be significantly harmful simply owing to the nature of their business activity), the company is not classed as sustainable.

c) The Fund's sustainable investments are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. As a signatory to the UN Principles for Responsible Investment (the UNPRI), good governance is critical for the Investment Manager's investee companies. The Investment Manager operates a pass/ fail principle and any company failing the test of alignment with these standards is not considered sustainable.

d) The Fund may not invest in companies with certain business activities that account for more than the below specified threshold of the relevant company's revenue:

- Controversial weapons (limit of 0% of revenue).
- Mining or extraction of thermal coal, oil sands or tar sands (limit of 5% of revenue unless there is a plan to reduce the thermal coal, oil sands or tar sands contribution below the 5% revenue threshold within three years, that the Investment Manager assesses to be deliverable. In such circumstances the revenue threshold at the time of investment is 50%).
- Thermal coal power generation (limit of 5% of revenue unless there is a plan to move to renewable or low carbon sources, thus reducing the thermal coal contribution below the 5% revenue threshold within three years, that the Investment Manager assesses to be deliverable. In such circumstances the revenue threshold at the time of investment is 50%).
- Tobacco and tobacco products, manufacture and distribution (limit of 5% of revenue).

e) The Fund may not invest in a company which is listed as a Verified UN Global Compact failure or known to be engaged in modern slavery (zero tolerance).

3. Sustainable investment objective of the financial product

The sustainable investment objectives of the Fund are:

- to invest in companies which are facilitating the reduction of greenhouse gas emissions in line with the Paris Agreement and IPCC reports or other similar bodies and agreements which may supersede them, with the intention of mitigating the impact of climate change;
- to invest in companies which are contributing to the protection and restoration of biodiversity and ecosystems and the transition to a circular economy; and
- to support and invest in companies which are facilitating the social objectives of reducing gender and race inequality, contributing to meaningful work and employment, and diversity.

4. Investment strategy

The Fund follows an investment strategy under which the Investment Manager will actively select companies that fit its S-PVT investment philosophy and are deemed to contribute to one or more of the sustainability objectives of the Fund, and which together form a portfolio aligned with the Fund's investment return objective.

Sustainability is integrated into the S-PVT investment philosophy and process by assessment of potential investments under the pillars of "People", "Innovation" and "Environment" during the fundamental analysis stage, and assigning a sustainability rating using a four-point scale from S1 to S4. Companies receiving the lowest rating of S4 will be excluded.

Binding elements related directly to the sustainable investment objectives are the exclusion of stocks rated S4 on the S-PVT rating system and those of companies engaged in excluded business activities described in section 2 ('No significant harm to the sustainable investment objective').

Stocks rated S3 will only be included where the Investment Manager expects positive change to the sustainability characteristics of that company, including companies with which the Investment Manager will use voting and/or engagement to drive or accelerate that change.

Assessing good governance practices

River and Mercantile Group has been accepted by the Financial Reporting Council as a signatory to the UK stewardship code 2020 and is a signatory to the UNPRI. As a signatory to these two codes, the good governance practices of investee companies are assessed prior to making an investment and annually thereafter. This requires investee companies to adhere to minimum standards in various areas including sound management structures, employee relations, remuneration of staff and tax compliance.

The Investment Manager is committed to the principle of active stewardship – monitoring and influencing the companies in which its portfolios invest, through voting and engagement, and challenging companies that fall short of its standards for managing ESG-related risks. More details about the Investment Manager's voting policy to influence best practice governance can be found in its Voting & Engagement Policy. This is critically linked to governance, which the Investment Manager views as the foundation on which the three S-PVT pillars of People, Innovation and Environment are built.

5. Proportion of investments

The Fund aims to achieve its investment objective by investing at least 80% of its Net Asset Value ("NAV") in shares of European companies which are domiciled, incorporated, or have significant operations in Europe (excluding the UK). Up to 20% of the Fund's NAV may be invested in shares of 'non-European' companies (including Emerging Markets and the UK), cash or other ancillary liquid assets (for example, cash, bank deposits and short-term debt instruments).

The Fund aims to invest all of its equity exposure in companies that meet the criteria of sustainable investments under SFDR. Investments are monitored by the Investment Manager on an ongoing basis and if an investment is considered no longer to meet these criteria, disinvestment will follow.

A minimum of 60% of the Fund's NAV will be invested in sustainable investments with an environmental objective.

The Fund is not focused on any one geographical region or industry sector.

Investment in equities can be direct, or indirect, in shares (including common and preference shares), rights for shares, warrants, depositary receipts (securities issued by banks that represent company shares), investment trusts and collective investment schemes. The Fund's investment into Emerging Markets may be up to 20% of the Fund's NAV. The Fund's investment into UK companies may be up to 10% of the Fund's NAV, but typically will not exceed 5% of the Fund's NAV. A maximum of 10% of the Fund's NAV may be invested in collective investment schemes.

Derivatives are only used for efficient portfolio management purposes and therefore are not utilised to attain the sustainable investment objectives.

6. Monitoring of sustainable investment objective

The primary sustainability indicators used to measure the attainment of the sustainable investment objective of the Fund are the Investment Manager's proprietary internal rating system and fundamental research. This utilises the S-PVT framework which is a holistic approach based on qualitative assessment of key parameters grouped under the pillars of People, Innovation and Environment. The rationale for, and key considerations within these indicators are summarised below and more detail is available here.

Upon investment and over the life of the product, the Investment Manager also assesses and monitors indicators that are deemed to indicate the presence of a principal adverse impact as per EU law, by completing the principal adverse sustainability impact (PAI) template mandated under SFDR. Where data is incomplete and/or the company appears to be doing significant harm to one or more of any of the environmental or social objectives defined in SFDR (given the data contained within the PAI template for that company), further fundamental company-specific analysis and verification is undertaken, leading if necessary to disinvestment.

In order to achieve the sustainability objectives, the Fund focuses on the absolute improvement of each of the above parameters, rather than selecting companies which are necessarily already leaders in them. In this sense, the Fund is focused on positive change.

Reporting by the Investment Manager in respect of internal and external monitoring of performance against sustainability objectives is generally structured as follows:

- ESG factors – utilising SFDR PAI methodology, S-PVT analysis (including MSCI ratings), Carbon Disclosure Project ratings and Transition Pathway Initiative scores.
- Carbon – utilising SFDR PAI methodology. Metrics used include total absolute carbon emissions from the portfolio, weighted average carbon intensity, carbon footprint and carbon to enterprise value.
- Voting and engagement – logging and tracking of engagement activities linked to issues and UN Sustainable Development Goals. Quarterly voting and engagement reports are published on the Investment Manager's website. Detailed engagement summaries are available from the Investment Manager on request.

Additional reporting and analysis will be provided to the Fund board and management company as may be necessary to ensure effective oversight.

7. Methodologies

The Investment Manager's approach to sustainable investment is to focus on a company's plans and ability to improve, and where practicable its ability to influence improvement, rather than (necessarily) a company's absolute performance at the point of investment. The Investment Manager emphasises this because it has two important effects:

- The Investment Manager believes this is the best way to improve sustainability within the global economy, rather than investing only in companies that are already leaders in sustainability.
- To be successful, this requires the Fund to invest in companies that, at least initially, may appear less sustainable than some of their peers when measured against traditional quantitative ESG criteria.

The Investment Manager has developed the S-PVT framework to ensure its assessment is made in a structured, robust and diligent manner, based on a variety of data and supported by the use of the principal adverse indicators mandated in SFDR, with consideration to third party ratings or evaluations where appropriate.

The Investment Manager expects the majority (more than 50%) of the Fund's investments to be graded S1. Stocks graded S3 will only be included where the Investment Manager expects positive change to the sustainability characteristics of that company, including companies with which the Investment Manager will use voting and/or engagement to drive or accelerate this change. S4 stocks are excluded for investment by the Fund and any stocks that are downgraded to S4 whilst held by the Fund will be disinvested.

Different sustainability indicators are more relevant to different industry sectors and activities. Therefore, the Investment Manager utilises the Sustainability Accounting Standards Board Materiality Map to focus its research efforts on the relevant material sustainability factors, and the Task Force on Climate-related Financial Disclosures framework where it perceives climate-related risks to be acute.

Therefore, for climate impacts only, the Investment Manager may consider exceptions for companies where it has confidence that they have robust transition plans and where proactive engagement will be a factor in achieving these. This aligns with the EU Climate Transition Benchmark and the Climate Action 100+ initiative which permit such investments only as part of an energy transition.

Other quantitative sustainability indicators the Fund will use are those contained in Table 1 of Annex 1 of the Draft RTS. Where the metric is considered material to one or more of the sustainable investment objectives, and the data is unavailable, or the result is deemed to be in conflict with the sustainable investment objectives of the Fund for a specific company, further validation and research will be undertaken in order to ascertain whether it precludes investment in that company from a sustainability perspective. Third party estimates – which the Investment Manager believes to be subject to considerable error and uncertainty – will not be used as a binding constraint.

The Investment Manager believes that behaviour within certain controversial activities must continually improve, and that this is achieved by motivated employees, innovation and outcomes in other ESG dimensions. Where controversies are detected, these will be subjected to assessment by the Investment Manager to determine the appropriate course of action.

8. Data sources and processing

The Investment Manager utilises a number of third-party data sources within the S-PVT process as listed below.

- MSCI
  - *ESG Ratings*
  - *Business Involvement*
  - *Fossil Fuels Exposure*
- Bloomberg
  - *Company current and historical reported/derived ESG related information*

- Sustainalytics
  - *SFDR PAI Solution*
  - *EU Taxonomy Solution*
  - *Global Standards Screening*
  - *Global Standards Engagement*
  - *Impact Solution*

- Institutional Shareholder Services (ISS)
  - *Proxy voting service*

- Carbon Disclosure Project (CDP)
  - *Scores All Themes*

- CoalExit
  - *Global Coal Exit List*

- Science Based Targets Initiative (SBTi)
  - *Companies taking action*

- Transition Pathway Initiative (TPI)
  - *Company Latest Assessments*

- Climate Action 100+ (CA100+)
  - *Company Assessments*

- 2 Degrees – Paris Agreement Capital Transition Assessment (2DII – PACTA)
  - *Scenario Analysis*

- Company websites

Whilst the Investment Manager relies predominantly on its S-PVT process for rating a company's sustainability credentials, it also looks to other third-party rating agencies for additional information including MSCI ESG, CDP and TPI ratings.

With the exception of company websites, data is downloaded directly from third-party systems and run through a series of validations. These validations include checks for confirmation of file structure and that the volume of records is as expected with no missing data points. Where the same datapoint has been provided by multiple sources, comparisons are made to ensure consistency. Only once these validations have been satisfied data is considered ready for use.

The Investment Manager may also reference public data sources such as Glassdoor or Trustpilot, other third-party research including professional industry bodies and sustainability issues highlighted by the media, among many other sources.

Where reported data is not available, it will be necessary to use estimated data. Any estimated data used is sourced from well-established data providers and further sense-checked by analysts. The proportion of data that is estimated will vary depending on the company, period and metric.

9. Limitations to methodologies and data

The Fund's investment strategy relies in part on the Investment Manager's judgement to assess the direction and pace of a company's sustainability trajectory, in order to select companies that it believes will contribute to the Fund's sustainability objectives. Such companies may not be 'sustainability leaders' right now. The challenges inherent in this approach are addressed by the robust S-PVT process, thorough analysis and research of shortlisted potential investments, as well as ongoing monitoring and engagement with investee companies.

At this early stage of SFDR implementation, disclosure obligations placed on companies lag the disclosure obligations of the Fund and as such sustainability data at this time may generally be incomplete and insufficient. As such, it is necessary to use estimated data alongside reported data. In addition, disclosure requirements will only apply to companies to which SFDR applies. Any estimated data used is sourced from well-established data providers, subject to data validation processes described in section 8 ('Data sources and processing') and further sense checked by analysts as third-party estimates are considered, for the time being, to be subject to considerable error and uncertainty. Third-party estimates will not be used as a binding constraint and the Investment Manager has discretion to rely on in-house research and analysis if it believes third-party estimates are wrong.

Similar data limitations apply to assessment of the proportion of investments that are Taxonomy aligned. Due to the limited obligations currently placed on investee companies to report relevant information, the Investment Manager has engaged a third party ESG data analytics specialist to review the Fund's target portfolio. Such analysis is designed to help identify and understand the portions of the portfolio which are eligible for and aligned to the Taxonomy. At this time, analysis is provided in respect of the proportion of investee companies' revenue derived from economic activities aligned and/or eligible with Climate Change Mitigation. As coverage and data availability improves, a more detailed assessment will be available. This does not affect attainment of the sustainable investment objective as it is not reliant on or directly linked to Taxonomy alignment.

At this time, the Investment Manager is unable to collect reliable data for all biodiversity-related indicators and as such relies to a greater extent on its own analysis.

10. Due diligence

The S-PVT process begins with a quantitative screening process to identify companies with strong Potential, Valuation and Timing characteristics, using a process that has been in place since 2006. ESG assessments are then integrated at the fundamental research stage through the three pillars of People, Innovation and Environment, that most commonly impact a company's long-term value creation potential. The relative weight put on the different pillars will be both company specific and sector-related, with reference to the Sustainability Accounting Standards Board Materiality Map.

S-PVT has a four-tier scoring system which may identify an investment case as being compromised by weak sustainability characteristics and therefore inappropriate for inclusion in portfolios. Tiers are assessed based on both analysis of metrics and qualitative judgements. Part of this process is also identifying companies where change and improvement in the pillars of sustainability could unlock value, and this can be accelerated by engagement. The Investment Manager team has a single approach to S-PVT research, voting and engagement. It is built to enable a consistent approach for companies across different regions, of varying size, and at different stages of their life cycle.

For further detail about the due diligence within the S-PVT process please see here.

Due diligence on ESG values is undertaken by analysts during verification prior to investment. Changes to ratings are then monitored via a weekly change report. When there is material new information (e.g., company results or an acquisition) that changes the initial investment thesis and/or conviction level and potentially warrants a portfolio action, a thesis update will be performed.

The Investment Manager uses specialist third-party trade compliance systems to manage and monitor adherence to regulatory and Fund-specific investment restrictions. This includes each stock's S-PVT tier, which is subject to further checks by the depositary to ensure compliance.

Further validation and challenge of the S-PVT tiers assigned to stocks is undertaken on a statistically-significant sampling basis by the Investment Manager's second line Risk function. Any recommendations for controls or monitoring as a result will be reported to the relevant Investment Manager committees with governance responsibility. Any resulting controls or monitoring will be implemented accordingly.

11. Engagement policies

The Investment Manager's engagement policies and reporting are available here.

The Investment Manager believes executive management should be incentivised to consider the impact of sustainability factors and be rewarded accordingly. Engagement plays an important role in its 'comply or explain' approach. The Investment Manager believes management teams need investors with medium-to-long-term investment horizons to support and fund transformational strategies, where working cultures emphasise success on achieving financial as well as non-financial goals and where investors hold management to account for the delivery of these goals through engagement.

The Investment Manager has adopted ISS' Specialty Climate Voting Policy which assesses a company's climate-related performance and disclosures to provide proxy vote recommendations on climate-related issues. It will utilise collective engagement with other asset managers or owners where possible and prioritise its engagement activities with the aim of maximum impact from limited resources. In addition to its own direct engagement with companies, the Investment Manager will also collaborate with other parties to address systemic risks such as climate change.

12. Attainment of the sustainable investment objective

No reference benchmark has been designated for the purpose of attaining the sustainable investment objectives of the Fund. Attainment of the sustainable investment objectives of the Fund is covered instead by section 6 ('Monitoring of sustainable investment objective').