Michael Grech

FINANCIAL INVESTMENT SERVICES

SUSTAINABILITY ASSESSMENT POLICY

VERSION 1.1 27/03/2023

Contents

Revisions Log

Version	Date Issued	Details
1.0	22/09/2022	Draft Policy
1.1	27/03/2023	Revision of Policy

Abstract

Michael Grech Financial Investment Services Limited is engaged in the provision of investment advice to prospective and existing clients. The products offered by the company range from dealing in equities, bonds or funds both in local and foreign markets. All investments are distinctly chosen to meet the clients' investment needs.

Michael Grech Financial Investment Services Limited is licensed as a Category 2 Investment Services company by the Malta Financial Services Authority.

Michael Grech Financial Investment Services Limited operates on the two largest islands of Malta's archipelago, providing service and advice to the islands of Malta and Gozo.

Our presence in Malta consists of two fully staffed and serviced offices:

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1. Preface

Michael Grech Financial Investment Services ("MGF" or the "Company") is required to carry out a mandatory assessment of sustainability preferences of its clients or potential clients when offering the services of Advisory or Portfolio Management.

This is required in addition to and based on the suitability assessment requirements stemming from the MiFID II and the applicable Delegated Regulations, ESMA Guidelines, and the relevant EU sustainable finance regulations, such as the Taxonomy Regulation and the Sustainable Finance Disclosure Regulation.

This Sustainability Assessment Policy (the "Policy") aims to outline the manner in which MGF will be assessing the sustainability risk and properties of the products it offers clients as well as how it will collect clients' preference towards sustainability risk.

2. Scope

Following the initial feedback from its client base there is clearly a lack of understanding of the concept of sustainability, which is consistent with the generally low level of investment services literacy of the local Retail Client base of the Company. This low level of comprehension of the subject matter has been considered when determining the level of detail of the sustainability preferences assessment that the Company will be undergoing to assess clients' preference in this regard.

Initial feedback has also made it quite evident that there is little preference for including a sustainability assessment in the advisory or portfolio management services that the Company offers to its clients. Clients' main focus is on the more traditional risk-adjusted returns criteria and generally speaking clients are not willing to accept lower returns to take on more sustainable investments.

Nonetheless, the Company is still obliged to collect the sustainability preferences of all its clients in an objective manner and in a way that its clients will be able to understand, without being too technical in the assessment process used.

3. General Information

3.1 Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation ("SFDR") – Regulation (EU) 2019/2088, defines sustainability factors as Environmental, Social and Employee matters, respect for human rights, anti-corruption, and anti-bribery matters.

The SFDR defines sustainability risk "an Environmental, Social or Governance ("ESG") event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment."

The SFDR regulation, introduces disclosure requirements for financial institutions and investment firms such as MGFIS at organisation, service, and product level.

In addition to complementing the Taxonomy Regulation by requiring disclosures relating to the taxonomy alignment of certain financial products, the SFDR also requires disclosures of other sustainability related information.

The SFDR categorises financial products according to the degree of sustainability related to the ambition for that product:

- **Article 6 Products** – do not pursue sustainable investment but may or may not integrate sustainability risk into the investment process. These are generally not marketed as having any sustainability credentials.
- **Article 8 Products** (often referred to as the Light Green products) – promote investments or projects with positive environment or social characteristics and with good governance principles, alongside other non-ESG traits. They may or may not pursue sustainable investments and may invest in a wide range of underlying assets.
- **Article 9 Products** (often referred to as Dark Green products) – have sustainable investment as an objective and their underlying assets will always be in sustainable investment.

'Sustainability preferences' means a client's or potential client's choice as to whether and, if so, to what extent, one or more of the following financial instruments shall be integrated into his/her or their investment:

- A financial instrument for which the client or potential client determines that a minimum proportion shall be invested in environmentally sustainable investment as defined in the Taxonomy Regulation;
- A financial instrument for which the client or potential client determines that a minimum proportion shall be invested in sustainable investments as defined in the SFDR;

- A financial instrument that considers principal adverse impacts on sustainability factors, where qualitative or quantitative elements demonstrating that consideration are determined by the client or potential client.

3.2 Taxonomy Regulation

The Taxonomy Regulation provides businesses and investors with a common classification to identify what economic activities can be considered environmentally sustainable through providing a substantial contribution to one of six environmental objectives:

- Climate Change Mitigation
- Climate Change Adaptation
- Sustainable Use and Protection of Water and Marine Resources
- Transition to a Circular Economy
- Pollution Prevention and Control
- Protection and Restoration of Biodiversity and Ecosystems

The Taxonomy Regulation (complemented by the SFDR) also requires disclosures of the extent to which a financial product finances activities that are classified as environmentally sustainable, i.e., what has come to be known as the degree to which a financial product can be considered as taxonomy aligned. Taxonomy alignment refers to an eligible economic activity that is making a substantial contribution to at least one of the six climate and environmental objectives mentioned above, and not putting any significant harm to the remaining objectives together with meeting minimum standards on human rights and labour standards.

4. The Client's Sustainability Preference

The Company plans to collect clients' sustainability preferences through the Risk Tolerance Questionnaire ("RTQ"), which is the same document it uses to collect clients' risk tolerance, investment objective, time horizon and financial affordability criteria. As such, the Company shall be enhancing its suitability assessment by including sustainability preferences in the same RTQ that Advisory and Portfolio Management clients are required to have completed.

The Company will ensure not to influence clients with respect to their sustainability preferences. Within the RTQ the clients will be presented with the following statements and questions:

"*Investments in Instruments carry with them a Sustainability Risk. This risk is based on the ESG profile of the company which evaluates the Environmental, Social and Governance Risk. Companies with a Low Score in their ESG profile are deemed to be adhering to their ESG obligations."*

"*SQ.1 - Do you have any constraints with regards to the ESG and sustainability aspect of investments?"* Possible answers are Yes or No.

"*Although an instrument may not hold a LOW score of ESG and sustainability it may still be adhering to most of its obligations with regards Sustainability."*

"SQ.2 - Does your restriction allow for instruments which result in a MEDIUM Score for ESG and Sustainability?" Possible answers are Yes or No.

"Some instruments may not have a rating assigned, as such the instrument will be marked as NR (No Rating)."

"SQ.3 - Do you have any restriction on investing in instruments which carry a NR tag?" Possible answers are Yes or No.

The RTQ will then be printed, and the client will be asked to sign it to allow the Company to keep records of the client's decision with respect to sustainability preferences. Furthermore, should the client opt to change their sustainability preferences an update to the RTQ would need to be required, which also must be signed by the client. The Company will keep records of all current and past RTQs as proof of client preferences and the changes thereto over time.

For clients who require more information on the subject matter, the respective Account Manager shall provide such clients with an explanation that is appropriate for the level of understanding of the client. Since the Account Managers are the Company's main points of contact with its clients, they are considered to be in the best position to explain the concept of sustainability risk to the clients.

Account Managers have been guided with the explanations presented as **Appendix 1** of the Policy.

Once the clients have determined their sustainability preferences through the completion of the respective section in the RTQ, the Clients' sustainability portfolio profile will be updated in the portfolio account the client holds on Tonic. This will indicate whether the client has:

- "No Restriction" on Sustainability – meaning that no assessment of financial instrument's sustainability risk profile is required;
- "Partial Restriction" on Sustainability – meaning that the client accepts financial instruments that have been classified as Medium Risk based on sustainability risk and/or Non-Rated, in addition to those rated with a Low sustainability risk;
- "Restricted" – meaning the client only accepts instruments that have been rated as Low Risk based on their sustainability risk profile.

The defining of the Sustainability portfolio profile on Tonic is important as this is then feeding the Suitability Report presented to clients when proving an Advisory Service. Furthermore, the Suitability Report includes a free text section labelled "Sustainability Notes" which the Account Managers must fill in to give more details on how the sustainability risk preference of the client has been considered in the recommendation presented to the client. If a client has not been assessed on sustainability risk preferences, then the Account Manager would not be able to complete the Suitability Report for such client.

In line with Commission Delegated Regulation (EU) 2021/1253 dated 21st April 2021, the Company will first consider the clients' or potential clients' suitability requirements as define under MiFID II. This involves the assessment of their knowledge and experience, investment objectives, time horizon and their individual financial circumstances (including their risk preference) before assessing their preferences in terms of sustainability. The suitability assessment is carried out by collecting data through the CCFF and the RTQ.

It must be made clear that the suitability assessment cannot be superseded by the sustainability assessment. Thus, in order to determine that any product may be suitable for a client, it must first match the clients' suitability requirements and only after this has been confirmed may it be considered for further assessment based on the clients' sustainability assessment. This has been incorporated into Tonic so that any Account Manager who would be competing the Suitability Report for a client would be alerted to any issues with suitability and would be presented with an error should they attempt to carry out an Advisory service for a product which may be in line with the clients' sustainability preferences, but not in line with the same client's suitability constraints.

5. The Products’ Sustainability Characteristics

5.1 Product Governance

In order to assess the sustainability characteristics of the products that MGFIS may offer to its clients, it has updated is Product Governance (“PG”) Form and its PG Form Procedures in order to collect the relevant data. A PG Form is completed for any financial instrument the Company intends to offer or promote to its clients, irrelevant to the type of service through which it shall be provided. The PG Form must be filled in and approved by the PG Committee in line with the Company’s PG Policy prior to the distribution of the financial instrument.

The PG Form is updated for any financial instrument which would have had a material change in one of its criteria. This to ensure that future transactions in this product are conformant to the procedures set. Furthermore, the PG Form is updated on a continuous basis – the frequency would depend on whether the instrument is still part of the universe of financial instruments which the Company is making available to its clients and on the type of financial instruments.

Initially the PG Form was in the form of an excel file, this has now been incorporated into the Tonic portal used by the Company. In this way, the suitability and sustainability criteria of each instrument which is part of the universe of instruments offered to clients is defined through the same programme that the Account Managers use when preparing clients orders. Hence, there is a much better control mechanism in place, whereby the suitability and sustainability characteristics of the products are incorporated into the Suitability Report prepared for clients. With respect to the sustainability properties of instruments these are currently defined as having:

- Low Sustainability Risk
- Medium Sustainability Risk
- High Sustainability Risk

5.1.1 Sustainability Objectives

The Company's current assessment of sustainability objectives has taken into consideration the current level of understanding that its end client will typically have in relation to sustainability criteria. Given that MGFIS has a predominantly Retail Client base, the level of assessment carried out through the PG assessment has been designed to be compatible with the level of data collection gathered from its Retail Client base.

The type of instrument will have a bearing on the type and level of detail of the sustainability objectives assessment. For example, UCITS Funds/ETFs which are subject to EU level rules and regulations are required to provide a great deal of information with respect to substantiality objectives. Such manufacturers are required to publish a European ESG Template ("EET") file. The EET is a standardised template that harmonises the way ESG-related data on financial products is exchanged and supports manufacturers' compliance with regulatory requirements. The EET template makes it possible for manufacturers of funds and structured products to satisfy their reporting requirements under the SFDR and at the same time helps distributors and advisers (such as MGFIS) to implement the regulatory requirements applicable to them.

In the first phase of the EET, there are mandatory, conditional and optional data fields. During the transition period, manufacturers will initially determine the minimum percentage of taxonomy-compliant/sustainable investments per product as well as the Principal Adverse Indicators ("PAIs") disclosures pursuant to their pre-contractual obligations and indicate an internally calculated value. The distributors will use this data on products' ESG or sustainability aspects to select products and manage risks. The data within the EET is updated on an annual basis or in the event of material changes.

The Company has concluded that, at this point in time, using the EET data to assess the financial instruments it offers to its clients is not a feasible or suitable solution. This has been based on the following:

- the data contained in the EET files is considered to be very detailed and beyond the expected comprehension of a typical Retail Client that the Company services;
- the information contained in the EET files may not be fully available for all UCITS Fund/ETF manufacturers, especially during the transition period;
- the Company also offers non-UCITS Funds/ETFs to its clients that are not required to prepare the EET file. It is important that the Company would be able to carry out a fair comparative analysis of the different Funds/ETFs it offers irrespective of their UCITS status.

In consideration of the above, the Company has devised the assessment criteria described below in order to establish a process of assessing the suitability criteria of its instruments in a manner that:

- is comprehensive enough to consider the EET file data;
- provides an outcome that is comparable across UCITS and non-UCITS Funds/ETFs;
- is consistent with the data the Company is able to collect from its end clients;
- is based on an objective assessment prepared by a competent assessor with dedicated expertise in the area of sustainability assessment.
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Section 1 – Category Type

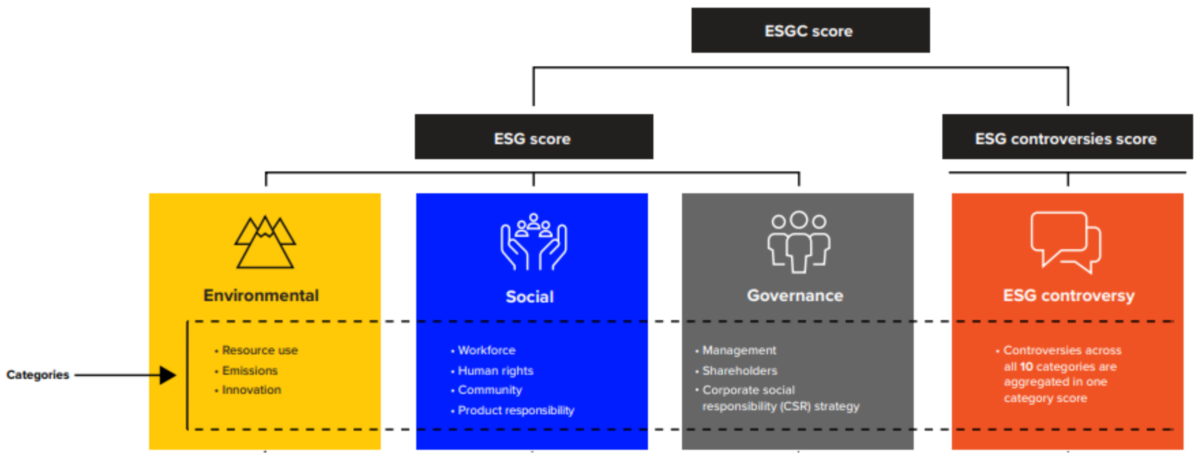
Certain instruments, mainly Funds, ETFs and Structured Products, may be classified under a particular category which describes the level of sustainability objectives that the instrument considers. For such instruments the Company shall determine if any of the following categories are applicable:

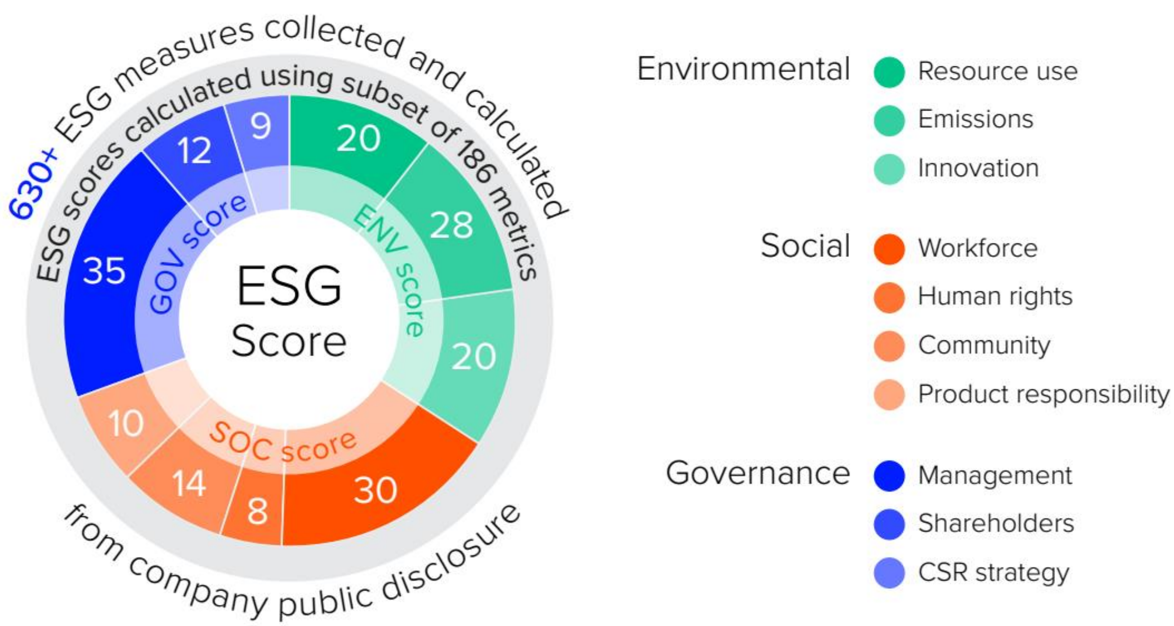
- Category A – Financial instruments which invest in economic activities providing a substantial contribution to one or more of the following environmental objectives:
    - Climate change mitigation
    - Climate change adaptation
    - Sustainable use and protection of water and marine resources
    - Transition to a circular economy
    - Pollution prevention and control
    - Protection and restoration of biodiversity and ecosystems
- Category B – Financial instruments which pursue sustainable investments more broadly. This is a wider category of financial instruments because it includes economic activities that contribute to other environmental objectives and/or to social objectives.
- Category C – Financial instruments that consider negative externalities of investments on the environment or society in terms of PAIs on sustainability. These financial instruments do not aim at any positive contribution but merely consider negative impacts of the investment on sustainability.
- Category D – Financial instruments which consider no sustainability objectives.

Section 2 – Sustainability Risk Score

The Company will be assessing the sustainability risk score of the instruments that it offers based on ESG scores established by Refinitiv. Refinitiv offers one of the most comprehensive ESG databases in the industry, covering over 80% of the global market cap, across more than 630 different ESG metrics, with history dating back to 2002. ESG scores from Refinitiv are designed to transparently and objectively measure a company's relative ESG performance, commitment and effectiveness, based on company-reported data. This covers 10 main themes including emissions, environmental product innovation, human rights, shareholders and more. Refinitiv also provides an overall ESG combined score, which is discounted for significant ESG controversies impacting the corporations covered.

The illustrations below explain the process applied by Refinitiv:





The Company will be collecting the separate Environmental (“E”), Social (“S”), Governance (“G”) and Controversies (“C”) scores for each financial instrument that it assesses – collectively referred to as the “sustainability risk criteria”. The scoring system will work as follows:

Sustainability Score - Issuers			
Grade	Score Range	Classification	Points
A+ to B+	66% - 100%	Low	0
B to C	33% to 66%	Medium	5
C- to D-	0 to 33%	High	20

Sustainability Score – Funds/ETFs			
Grade	Score Range	Classification	Points
Dark Green	70% - 100%	Low	0
Light Green to Yellow	30% to 69%	Medium	5
Orange to Red	0 to 29%	High	20

The above scores will be calculated for each of the sustainability risk criteria, being the E, S, G and C scores. These will be tallied up to arrive at the Overall Sustainability Risk Score, which will be classified as detailed below:

Overall Sustainability Risk	
Total Points	Classification
5 or Less	Low
5-34	Medium
35 or More	High

In order to be awarded a Low Overall Sustainability Risk classification the financial instrument has to either score a Low classification in all of the E, S, G and C scores or as a maximum score only one Medium sustainability risk classification in either of the E, S, G or C, with all the other sustainability risk criteria scores being a Low score.

To be awarded a Medium Overall Sustainability Risk classification, the financial instrument must score as a maximum 2 Medium sustainability risk classifications on any of the sustainability risk criteria with the other scores being Low, or as a maximum of only one High sustainability risk classification in either of the E, S, G or C, with all the other sustainability risk criteria scores being as a maximum a Medium classification.

Should at least 2 High sustainability risk classifications be awarded on any of the sustainability risk criteria, then the financial instrument will be awarded a High Overall Sustainability Risk score – irrelevant of the score of the other sustainability risk criteria.

Section 3 – Non-Rated Instruments

The Company may offer its clients instruments that are Not Rated ("NR") from the point of view of sustainability risk. This currently applies to all local financial instruments traded on the Malta Stock Exchange, which makes up a big portion of the instruments recommended to the Company's clients, especially with the high number of initial public offerings that came to the market over recent years.

These will typically be instruments that are

- not subject to SFDR and the related rules and regulations;
- subject to SFDR but are not yet compliant with the disclosure requirements; or
- not covered by any of the reputable sustainability risk rating companies.

For these instruments the Company will be assigning a NR classification for all the sustainability risk criteria (E, S, G and C). For a client to be recommended a NR instrument they would have to have chosen 'Yes' to the question in the sustainability assessment which asks if clients would accept investing into NR instruments.

Section 4 - Limitations

The Company believes that the above assessment is sufficient to cater for the sustainability objectives of its current client base. Should the Company have any client who may wish to be assessed on a deeper level with respect to their sustainability objectives, for example a client may wish to specify the PAIs that they would like their investment portfolio to consider, then the Company would need to increase the level of assessment made at the PG stage. Until such time that the Company upgrades its PG process to cater for such a deeper assessment it must inform any client with any such presences that it is currently not in a position to cater for their needs. Such client would then need to decide whether they would be happy to accept this position or if they would prefer not to invest through the Company's services.

6. Policy Review

This policy shall be reviewed in line with:

- the availability of new information on product's alignment to sustainability risk criteria;
- availability of reliable sustainability related disclosures;
- the shift in clients' preferences towards more sustainable investments; and
- the level of understanding of the clients in relation to sustainability disclosures and characteristics.

The above are all expected to evolve as time passes and more companies are required to disclose information on their sustainability objectives and sustainability risks. Thus, the Company will need to evolve in line with information availability and client preferences. As minimum the Policy shall be reviewed annually.

Appendix 1 – Account Managers Information – ESG & Sustainability

The Sustainable Finance Disclosure Regulation ("SFDR") – Regulation (EU) 2019/2088, defines sustainability factors as Environmental, Social and Employee matters, respect for human rights, anti-corruption, and anti-bribery matters.

The SFDR defines sustainability risk as "an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment."

The different categories of sustainability preferences and additional concepts, such as Economic, Social and Governance ("ESG") aspects are explained below for Account Managers to be able to guide the Company's clients to make an informed decision about their sustainability preferences and wider sustainability motivations.

ESG Aspects

Sustainability considerations of investment decisions can be linked to ESG aspects. Below are some aspects that are considered as falling within one of the ESG criteria:

Environmental	▪ Climate change mitigation & adaptation ▪ Preservation of biological diversity	▪ Pollution prevention ▪ The circular economy
Social	▪ Issues of inequality ▪ Inclusiveness	▪ Employee relations ▪ Human rights issues
Governance	▪ Diversity of structures of corporate governance ▪ Fight against corruption and bribery ▪ Tax transparency	

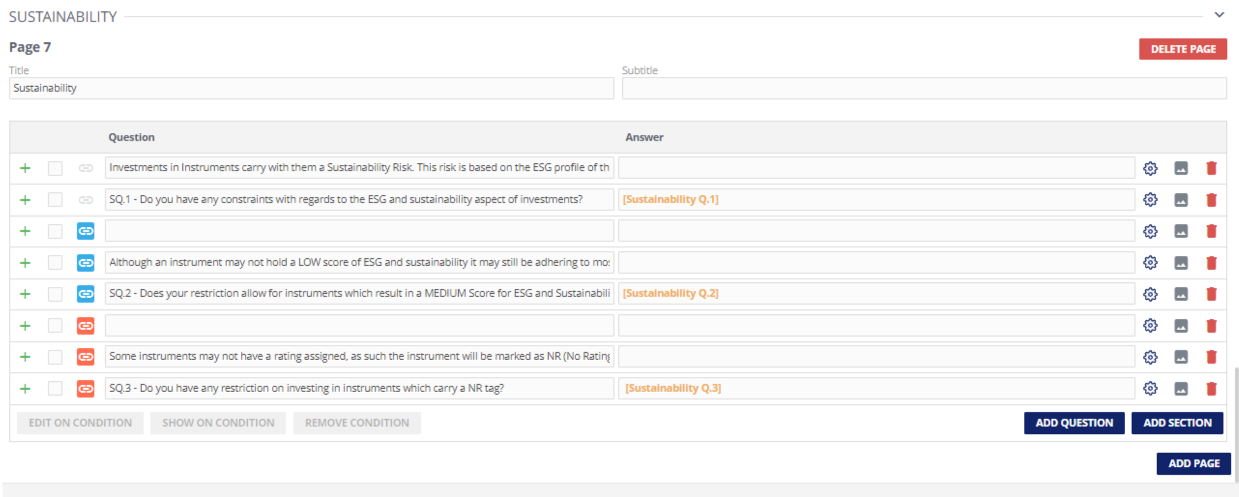
Categories of Sustainability Preferences

Under the current regulatory framework, a client's sustainability preferences are understood as a client's preferences for any one or combination of the following three categories of financial instruments:

Category A	Financial instruments which invest in economic activities providing a substantial contribution to one or more of the following environmental objectives: ▪ Climate change mitigation ▪ Climate change adaptation ▪ Sustainable use and protection of water and marine resources ▪ Transition to a circular economy ▪ Pollution prevention and control ▪ Protection and restoration of biological diversity and ecosystems
Category B	Financial instruments which pursue sustainable investments more broadly. This is a wider category of financial instruments because it includes economic activities that contribute to other environmental objectives and/or to social objectives.
Category C	Financial instruments that consider negative externalities of investments on the environment or society in terms of principal adverse impacts on sustainability. *Principal adverse impacts on sustainability* are impacts of investment decisions and advice that result in negative effects on environmental, social and employee matters, respect for human rights, anti-corruption, and anti-bribery matters. These financial instruments do not aim at any positive contribution but merely consider negative impacts of the investment on sustainability.

Appendix 2 – Updates to RTQ (Risk Tolerance Questionnaire)

Within the Tonic System the Company has updated the RTQ to encompass the questions regarding sustainability as listed above



These are then reflected within the form asked of clients (attached find sample form)

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Sustainability

Investments in Instruments carry with them a Sustainability Risk. This risk is based on the ESG profile of the company which evaluates the Environmental, Social and Governance Risk. Companies with a Low Score in their ESG profile are deemed to be adhering to their ESG obligations.

SQ.1 - Do you have any constraints with regards to the ESG and sustainability aspect of investments? YES NO

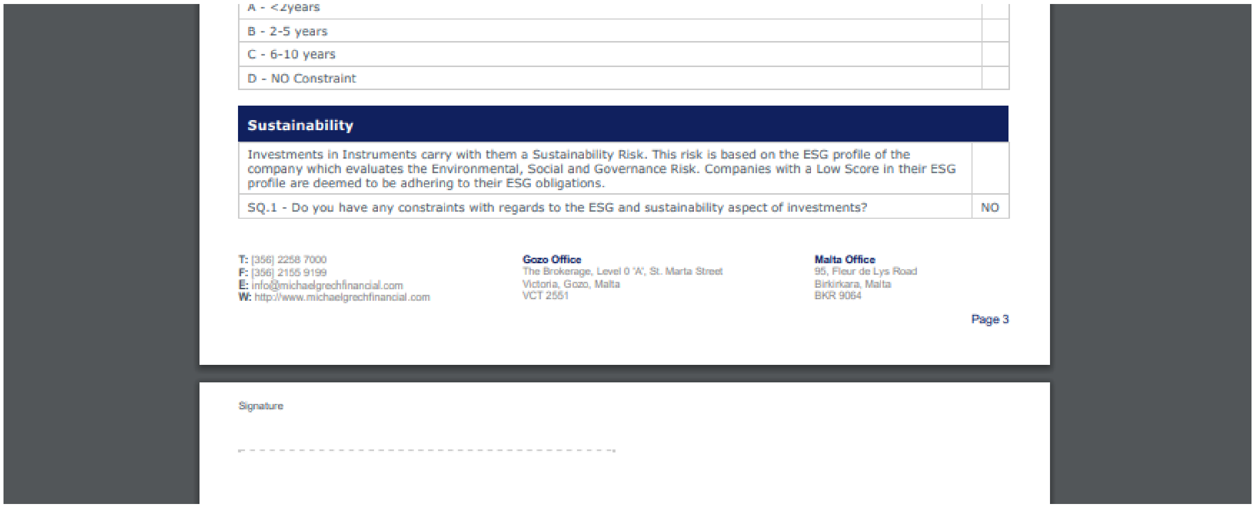
Although an instrument may not hold a LOW score of ESG and sustainability it may still be adhering to most of its obligations with regards Sustainability.

SQ.2 - Does your restriction allow for instruments which result in a MEDIUM Score for ESG and Sustainability? YES NO

Some instruments may not have a rating assigned, as such the instrument will be marked as NR (No Rating)

SQ.3 - Do you have any restriction on investing in instruments which carry a NR tag? YES NO

This is then reflected within the form presented to the client when assessing the Risk Tolerance questionnaire



A - <2years	
B - 2-5 years	
C - 6-10 years	
D - NO Constraint	

Sustainability	
Investments in Instruments carry with them a Sustainability Risk. This risk is based on the ESG profile of the company which evaluates the Environmental, Social and Governance Risk. Companies with a Low Score in their ESG profile are deemed to be adhering to their ESG obligations.	
SQ.1 - Do you have any constraints with regards to the ESG and sustainability aspect of investments?	NO

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