

**Pre-contractual disclosure for the sub-fund “AFD-A” of Aeronautics Fund referred to in article 8(1) of Regulation (EU) 2019/2088 (“EU SFDR”) and Article 6 of Regulation (EU) 2020/852 (“EU Taxonomy”<sup>1</sup>)**

<b>Financial Product Name</b>	Aeronautics Fund – sub-fund “AFD-A” or “Sub-Fund A”
<b>Product manufacturer</b>	AFDGP Luxembourg S.à r.l., on behalf of Aeronautics Fund or the “Fund”
<b>Fund’s address</b>	3, rue Gabriel Lippmann, L-5365 Munsbach, Grand Duchy of Luxembourg
<b>Website of the manufacturer</b>	<a href="https://afd.aero/">https://afd.aero/</a>
<b>Telephone number</b>	+971528102330
<b>Date of this Document</b>	28 January 2022

<b>Does this financial product have a sustainable investment<sup>2</sup> objective?</b>	
<input checked="" type="radio"/> YES <input checked="" type="radio"/> NO	
<input type="checkbox"/> It will make a minimum of <b>sustainable investment with an environmental objective</b> : [***] %	<input checked="" type="checkbox"/> It <b>promotes Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 90% of sustainable investments
<input type="checkbox"/> In economic activities that qualify as environmentally sustainable under the EU Taxonomy	<input checked="" 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 <b>sustainable investment with a social objective</b> : [***] %	<input type="checkbox"/> with a social objective
	<input type="checkbox"/> It <b>promotes (E/S) characteristics</b> but will not make any sustainable investments

**WHAT ENVIRONMENTAL AND/OR SOCIAL CHARACTERISTICS ARE PROMOTED BY THIS FINANCIAL PRODUCT?**

**What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?**  
*No index has been designated for the Sub-Fund A as a reference benchmark in order to measure the attainment of each of the environmental or social characteristics promoted by the Sub-Fund A.*

**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?**

*The Sub-Fund A pursues the idea of making the impact on the environmental and ecology changes less severe by contributing substantially to the prolongation of the use of aeronautic products, including through reuse, reparability, upgradability, design for longevity, repurposing, disassembly, remanufacturing, upgrades and repair, and sharing products that improve aircraft decommissioning practices in accordance with the recycling best management practice implemented by the Aircraft Fleet Recycling Association (AFRA) of which the Sub-Fund A and the investment manager of the Sub-Fund A (the “Investment Manager”) are members.*

*According to article 9 and article 13, al.1, e) of the EU Taxonomy, the Sub-Fund A promotes substantially the transition to a circular economy since the underlying investments of the Sub-Fund A are inter alia economic activities that qualify as environmentally sustainable pursuing the transition to a circular economy as they prolong the use of products, including through reuse, design for longevity, repurposing, disassembly, remanufacturing, upgrades and repair, and sharing products. Indeed, the circular economy refers to an economic system where the value of products, materials and other economic resources is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimising waste and the release of substances of very high concern at all stages of their life cycle.*

<sup>1</sup> **EU Taxonomy** is a classification system, establishing a list of **environmentally sustainable economic activities**. For the time being, it does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the taxonomy or not.

<sup>2</sup> **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.

**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?**

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

*No index has been designated for the Sub-Fund A as a reference benchmark in order to measure the attainment of each of the environmental or social characteristics promoted by the Sub-Fund A. However, the Investment Manager continues to review and consider its obligations with respect to whether it considers principal adverse impacts of investment decisions on sustainability factors as set out in Article 4 of the EU SFDR. In particular, the Investment Manager awaits further consultation and/or guidance on the level 2 regulatory technical standards (the "RTS"), and the finalisation of the RTS, which is expected to enter into force in 2022. The decisions and disclosures in relation to Articles 4 and 7 will be made taking into account the deadlines of the EU SFDR and similarly, any disclosures will be included in a future version of the investment memorandum and/or published on the website, <https://afd.aero/>, as required*

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

Since the Sub-Fund A promotes substantially the transition to a circular economy since the underlying investments of the Sub-Fund A are inter alia economic activities that qualify as environmentally sustainable pursuing the transition to a circular economy as they prolong the use of products, including through reuse, design for longevity, repurposing, disassembly, remanufacturing, upgrades and repair, and sharing products. Indeed, the circular economy refers to an economic system where the value of products, materials and other economic resources is maintained for as long as possible, enhancing their efficient use in production and consumption, thereby reducing the environmental impact of their use, minimizing waste and the release of substance of very high concern at all stages of their life cycle. The OECD Guidelines for Multinational Enterprises requires that companies conduct their activities in a manner contributing to the wider goal of sustainable development regarding the environmental objective. As mentioned earlier, the Sub-Fund A seeks to improve the corporate environmental product at the level of the Sub-Fund A and in the long term as requested in the .6 of the Environment part of the OECD Guidelines for Multinational Enterprises. The Sub-Fund A activities also contribute to economic, environmental and social progress to achieve sustainable development as set out in the general policy of the OECD Guidelines for Multinational Enterprises.

The Sub-Fund A continues to review and consider its obligations with respect to whether it considers principal adverse impacts of investment decisions on sustainability factors (Environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters) as defined in Article 4 of the SFDR and they do not take into account the adverse impact on such factors for now. As a result, the activities of Sub-Fund A are not compliant with the UN Guiding Principles on Business and Human Rights.

*The pursued investments of the Sub-Fund A do not harm significantly the other investment objectives in accordance with article 17 of the Taxonomy Regulation.*

*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 Sub-Fund A that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of the Sub-Fund A 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.*

**DOES THIS FINANCIAL PRODUCT CONSIDER PRINCIPAL ADVERSE IMPACTS<sup>3</sup> ON SUSTAINABILITY FACTORS?**

**Yes**

**No**, at the date of this Document, the Investment Manager continues to review and consider its obligations with respect to whether it considers principal adverse impacts of investment decisions on sustainability factors as set out in Article 4 of the EU SFDR. In particular, the Investment Manager awaits the further consultation and/or guidance on the Level 2 regulatory technical standards (the "RTS"), and the finalisation of the RTS, which is expected to enter into force in 2022. The decisions and disclosures in relation to Articles 4 and 7 will be made taking into account the deadlines of the EU SFDR and similarly any disclosures will be included in a future version of the investment memorandum of the Fund and/or published on the website, <https://afd.aero/>, as required.

**WHAT INVESTMENT STRATEGY DOES THIS FINANCIAL PRODUCT FOLLOW?**

**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?**

<sup>3</sup> **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.

The Sub-Fund A pursues the idea of making the impact on the environmental and ecology changes less severe by contributing substantially to the prolongation of the use of aeronautic products, including through reuse, reparability, upgradability, design for longevity, repurposing, disassembly, remanufacturing, upgrades and repair, and sharing products that improve aircraft decommissioning practices in accordance with the recycling best management practice (“BMP”) implemented by the Aircraft Fleet Recycling Association (AFRA) of which the Sub-Fund A and the Investment Manager are members. Indeed, recycling in accordance with the BMP is defined as “a series of activities in which material is processed into specification grade commodities, and consumed as raw-material feedstock, in lieu of virgin materials, in the manufacture of new products. The series of activities that make up recycling includes the collection of processing and subsequent consumption of industrial, end of life and obsolete scrap, as well as the process of transforming the used product into reusable commodities”. The BMP is based on best practice and available guidance and takes into account the state of art science on new technology.

The Sub-Fund A will seek to purchase commercial aircraft and/or airframes and/or engines, and/or spare parts through AFDFM’s network of airlines, aircraft lessors, finance companies and its privileged access to many aircraft owners around the world. These assets might then be repaired if necessary, or to extend their life cycle, leased or sold in full or in parts in order to generate revenues and/or capital gain. The Sub-Fund A will be a cargo and passenger aircraft and engine lessor, active in countries which are not under sanctions according to EU and US lists. Preferred locations regarding the leasing of the assets are countries which have signed the Cape Town Convention on International Interests in Mobile Equipment.

AFDFM strongly believes that it has a moral obligation to play a role in making the world a better place through responsible investing by refurbishing, reusing and recycling aircraft parts and that incorporating environmental, social and governance (ESG) considerations in its business decisions is essential to creating value for its investors. Since its inception, the Sub-Fund A has been a proud actor of the circular economy, it was originally set up as an aircraft and engine recycling fund to profit from the sustainable management of the circularity of components, aircraft and engines in the aviation sector. Besides giving extra life to aircraft, engines and their related components, the Sub-Fund A has been leasing commercial aircraft and engines to airlines around the world, including developing countries in Asia, Africa and the Middle East. The Sub-Fund A and AFDFM, the Investment Manager, are members of AFRA (the Aircraft Fleet Recycling Association), recognised as the leading global industry association dedicated to pursuing and promoting environmental best practice, regulatory excellence and sustainable developments in aircraft disassembly as well as the salvaging and recycling of aircraft parts and materials. AFRA’s core value in terms of environmental stewardship is to protect the environment and reduce the industry’s impact on critical resources through the product life cycle.

In 2016, ICAO, the International Civil Aviation Organization, adopted the Carbon Offset and Reduction Scheme for International Aviation (CORSIA) and as such the Sub-Fund A’s lessees (airlines leasing an aircraft or engine from the Sub-Fund A) will have to comply with this worldwide resolution on international flights.

In 2016 also, the Paris Agreement, within the United Nations Framework Convention on Climate Change was signed by the representatives of 196 states paving the way for stricter rules regarding the reduction of carbon emissions from aviation and particularly for national flights and as such the Sub-Fund A’s lessees (airlines leasing an aircraft or engine from the Sub-Fund A) will have to comply with this worldwide resolution.

The Sub-Fund A is committed to act and to report on a yearly basis on its efforts to contribute to the United Nations Sustainable Development Goals (SDGs), particularly SDG 13: “Take urgent action to combat climate change and its impacts”. AFDFM and Sub-Fund A will target net zero emissions by the end of 2022. The Sub-Fund A will work closely with its clients in this perspective by offering them help in monitoring, reducing and offsetting when possible their CO2 emissions whilst leasing and operating its aircraft and engines.

The Investment Manager considers that the selection of assets which rely on a proprietary ESG scoring process or ban lists depends partially on third-party data. The lack of common or harmonized definitions and labels integrating ESG and sustainability criteria at EU level may result in different approaches by managers when setting ESG objectives and determining that these objectives have been met. This also means that it may be difficult to compare strategies integrating ESG and sustainability criteria to the extent that the selection and weightings applied to select investments may to a certain extent be subjective or based on metrics that may share the same name but have different underlying meanings.

As a result of the data limitations described above, a strict ESG integration may still be considered as an obstacle for many asset classes and in particular for aircraft equipment. The hidden defects and lack of publicly available data on the target product also create difficulties since the Investment Manager must use different techniques to analyse and integrate ESG information into investment decisions with limited data access. ESG integration will often require detailed primary research and it is operationally difficult to perform an ESG review on an ongoing basis on such types of investments. The dismantling and recycling process, depending on the aircraft part, may vary from time to time and may encounter unforeseen obstacles (hazardous waste, fluids, alloying elements, oil mistreatment, errors in the disassembly process, etc.) that may have potential negative environmental impacts.

Besides, several Member States are implementing national standards and financial product labels based on market-based classification systems, which might lead to market fragmentation and confuse investors with sustainability preferences. Furthermore, differences between national standards and labels might hinder cross-border sustainable

investments. Lastly, the risk of greenwashing might challenge the confidence of investors and provide an unfair competitive advantage to financial actors engaged in those practices.

However, there is increasing evidence in several countries that a climate-friendly and sustainable funds' industry can both preserve and increase asset value. Investments in ESG funds will create value through responsible investment by reducing greenhouse gas emissions, fugitive methane emissions, by setting renewable energy purchasing targets and reducing exposure to toxic chemicals. Failure to actively deal with these risks will not only delay global efforts to address the climate challenge but will also damage long-term returns, weaken economic sustainability.

To summarize, the Sub-Fund A tries to give as much value as possible to its assets and makes sure that the assets are fully recycled at 90% by focusing on a long term basis through reuse, reparability, upgradability, design for longevity, repurposing, disassembly, remanufacturing, upgrades and repair, and sharing products that improve aircraft decommissioning practices (in accordance with the recycling best management practice implemented by the AFRA) and therefore promotes substantially the transition to a circular economy as defined in article 9 and 13, al 1, e) of the Taxonomy Regulation.

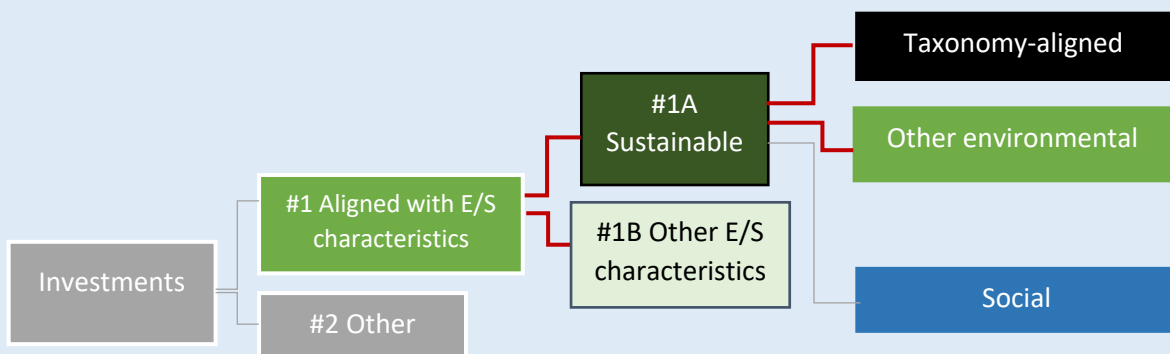
**What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy ?**

N/A

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

N/A

#### WHAT IS THE ASSET ALLOCATION PLANNED FOR THIS FINANCIAL PRODUCT?



**#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 characteristics nor are qualified as sustainable investments

*The Sub-Fund A promotes certain ESG characteristics (Art. 8 EU SFDR) and sustainability risks are integrated in the investment process. It does not have as its objective sustainable investment, but it will have a minimum proportion of sustainable investments with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy which are disclosed in such Document.*

The category **#1 Aligned with E/S characteristics** covers:

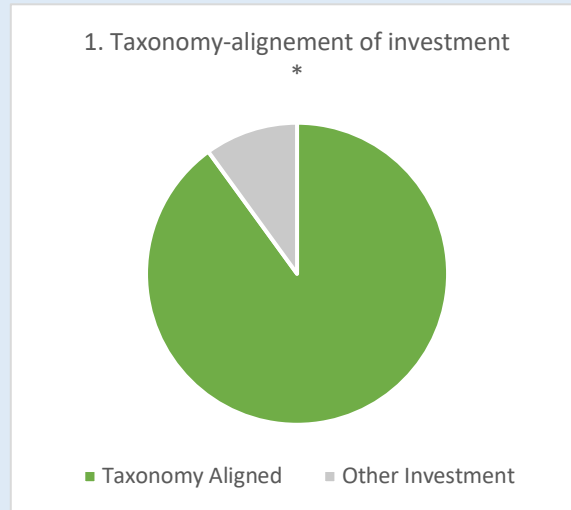
- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

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

The use of derivatives is only for hedging purposes. Therefore the use of derivatives is not linked to the ESG policy of the Sub-Fund A.

**TO WHAT MINIMUM EXTENT ARE SUSTAINABLE INVESTMENTS WITH AN ENVIRONMENTAL OBJECTIVE ALIGNED WITH THE EU TAXONOMY?**

The graph below shows in green the minimum percentage of investments that are aligned with the EU Taxonomy.



\*The Sub-Fund A does not invest in sovereign bonds.

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

The Sub-Fund A makes sure that the assets are fully recycled at 90% by focusing on a long term basis through reuse, reparability, upgradability, design for longevity, repurposing, disassembly, remanufacturing, upgrades and repair, and sharing products that improve aircraft decommissioning practices and therefore promotes substantially and enable the transition to a circular economy.

**WHAT IS THE MINIMUM SHARE OF SUSTAINABLE INVESTMENT WITH AN ENVIRONMENTAL OBJECTIVE THAT ARE NOT ALIGNED WITH THE EU TAXONOMY ?**

N/A

**WHAT IS THE MINIMUM SHARE OF SOCIALLY SUSTAINABLE INVESTMENTS?**

This part is not applicable to the Sub-Fund A *per se*, however, when working with other companies, the Sub-Fund A makes sure to work with companies with good governance practices.

**WHAT INVESTMENTS ARE INCLUDED UNDER “#2 OTHER”, WHAT IS THEIR PURPOSE AND ARE THERE ANY MINIMUM ENVIRONMENTAL OR SOCIAL SAFEGUARDS?**

The 10% of investment not aligned with the Taxonomy Regulation in the #2 Other category refer to parts of aircraft that could not be recycled or reused due to the material in which they are crafted. For example, some parts of the aircraft cannot be disassembled or are in plastic that cannot be reused.

**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?**

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

N/A

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

N/A

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

N/A

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

N/A

**WHERE CAN I FIND MORE PRODUCT SPECIFIC INFORMATION ONLINE?**

More product-specific information can be found on the website: <https://afd.aero/>