

# HARDING LOEVNER FUNDS PLC (the “Company”)

## Sustainable Finance Disclosure Regulation Product-Level Website Disclosure January 2023

The following is the product-level transparency disclosure in respect of the Global Paris-Aligned Equity Fund (the “GPA Fund”), an Article 8 fund under Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (“SFDR”).

This disclosure is available at: <https://www.hardingloevner.com/ways-to-invest/ucits-funds/global-paris-aligned-equity-fund/>.

Entity-level website disclosure in respect of the Company (which also applies to the GPA Fund as a sub-fund of the Company) is available at: <https://www.hardingloevner.com/ways-to-invest/ucits-funds/>.

Any words or terms not defined herein shall have the same meaning given to them in the Company’s Prospectus or any Supplement to the Prospectus, or in the entity-level website disclosure available at the link above.

### Summary

The GPA Fund promotes Sustainability Characteristics, but does not have sustainable investment as its investment objective. “Sustainability Characteristics” mean environmental characteristics including a reduction of carbon emissions and climate change mitigation. The GPA Fund’s benchmark, the MSCI All Country World Index, was not chosen for the purpose of achieving its Sustainability Characteristics.

The GPA Fund promotes Sustainability Characteristics by investing in companies that Harding Loevner believes have a viable pathway to achieve ‘net zero’ greenhouse gas (GHG) emissions by 2050, consistent with the Paris Agreement<sup>1</sup>. The GPA Fund seeks to meet the promoted Sustainability Characteristics through both the exclusion of fossil fuel companies from the portfolio (among other exclusions, detailed below), and through its screening of companies’ emission reduction practices to determine whether there is a viable pathway.

The GPA Fund will invest a minimum of 90% of its assets in investments aligned with the promoted Sustainability Characteristics. The remaining proportion of the investments are intended to be held in cash and cash equivalents, for liquidity and transitory flows (i.e., subscriptions and

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<sup>1</sup> The 2015 Paris Agreement aims to limit global warming to well below 2 degrees Celsius, preferably limited to 1.5 degrees, compared to pre-industrial levels. ‘Net zero’ is achieved when the amount of greenhouse gas emissions produced are cancelled out by those removed from the atmosphere.

redemptions). The GPA Fund will have a minimum proportion of 10% of its assets in sustainable investments as defined by Article 2(17) of SFDR. Investee companies follow good governance practices in accordance with Article 8 of SFDR.

The promoted Sustainability Characteristics, and the sustainability indicators used to measure their attainment, will be monitored throughout the life of the GPA Fund, through an annual assessment of investee companies' progress towards alignment with the Paris Agreement ("Paris Alignment"). As part of the assessment process, investee companies will be categorized across five stages of Paris Alignment, with the ultimate category being achieving and maintaining net zero GHG emissions.

Harding Loevner actively engages on behalf of the GPA Fund with companies and issuers with respect to their carbon emissions. The GPA Fund may divest of any company which does not make demonstrative progress in aligning itself with the Paris Agreement and specifically with 'net zero' emission targets by 2050, or which does not engage with Harding Loevner in respect of the reduction of carbon emissions.

Company data is the primary source for the Paris Alignment assessment process; various third-party data providers, detailed below, are also used. The Investment Manager acknowledges a number of limitations applicable to data, including those relating to time lag, estimation, lack of auditor assurance, and others. The Investment Manager monitors these limitations through discussions with data providers, peers and industry groups, and, where appropriate on a case-by-case basis, by seeking to validate the reasonableness of the data obtained; it does not believe these limitations affect how the Sustainability Characteristics are promoted.

As part of the fundamental research process, analysts are required to establish "mileposts" for future business results that a company must achieve for the investment thesis and valuation to remain valid, and to monitor the investment thesis on an ongoing basis via those mileposts. For GPA Fund, Harding Loevner also assesses and classifies a company's progress towards Paris Alignment annually, ensuring certain foundational elements are in place (climate governance, a decarbonization strategy, and emissions disclosure), encouraging companies to commit to net zero, and tracking company progress toward achieving specific targets.

#### No Sustainable Investment Objective

The GPA Fund promotes Sustainability Characteristics but does not have sustainable investment as its investment objective. While it does not have sustainable investment as its objective, the GPA Fund will have a minimum proportion of 10% of its assets in sustainable investments as defined by Article 2(17) of SFDR.

The GPA Fund relies on exclusionary screens provided by MSCI ESG Research LLC ("MSCI") to identify investee companies that do not cause significant harm ("DNSH") to any environmental or social sustainable investment objective, but periodically reviews the results of the application of MSCI screens and may from time to time deem additional investee companies as passing, or failing, DNSH, for reasons not captured by the MSCI methodology.

Investee companies will not qualify as a sustainable investment under the MSCI methodology if any of the following is true:

- The company has any tie to controversial weapons;
- The company has revenues from thermal coal equal to or exceeding one percent;
- The company is a tobacco producer;
- The company has revenues from tobacco equal to or exceeding five percent; or
- The company is involved in serious and/or widespread ESG-related controversies, flagged by MSCI ESG Controversies methodology as “red” or “orange”.
  - A red flag is indicative of direct involvement in the most serious adverse impacts; and
  - An orange flag is indicative of either indirect involvement (such as through business relationships), or partial resolution, of the foregoing impacts.

The GPA Fund considers PAIs through the use of MSCI’s exclusionary screens for DNSH, described above. Harding Loevner may also consider other PAIs in evaluating whether to deem additional investee companies as passing, or failing, DNSH for reasons not captured by the MSCI methodology.

Third-party assessments of a company’s conduct against the UN Guiding Principles on Business and Human Rights are available in an ESG comparison tool used by analysts as part of the company research process; third-party reports exploring controversies in more detail are available upon request. Portfolio managers receive a list of failing or “watch list” companies as part of an ESG dashboard report. If an investee company is on a “watch list” or out of alignment, that may influence the Investment Manager’s view of the company.

#### Environmental or Social Characteristics of the GPA Fund

The GPA Fund promotes Sustainability Characteristics pursuant to Article 8 of SFDR by investing in companies that Harding Loevner believes have a viable pathway to achieve ‘net zero’ greenhouse gas (GHG) emissions by 2050, consistent with the Paris Agreement. “Sustainability Characteristics” means environmental characteristics including a reduction of carbon emissions and climate change mitigation. For an investment by the GPA Fund to be considered to be promoting Sustainability Characteristics, the company must follow good governance practices in accordance with Article 8 of SFDR.

#### Investment Strategy

The GPA Fund seeks to achieve its objective by investing in equity and equity-related securities on a global basis, including companies in emerging and frontier as well as developed markets. The GPA Fund will be highly diversified and therefore will not be concentrating on any specific regions, economic sectors, or currencies. The GPA Fund will invest in equities and equity-related securities of companies that the Investment Manager regards as possessing competitive advantages, capable

management, strong financials, and above-average growth potential, and whose shares are reasonably priced relative to estimates of their value. The Investment Manager undertakes in-depth fundamental research to identify companies that meet these quality-growth investment criteria before making judgments about share prices. The Investment Manager has a single research team organized primarily by global sector, in which analysts study companies worldwide that operate within their industry specialties. In addition, it has regional analysts responsible for companies in emerging markets, frontier markets, Japan, and China. This division of responsibilities encourages development of deep expertise in the global competitive dynamics of industries and facilitates collaboration and cross-border comparisons.

In addition, the GPA Fund seeks to meet the promoted Sustainability Characteristics through both the exclusion of fossil fuel companies from the portfolio, and through its screening of companies' emission reduction practices, which must demonstrate a viable pathway to achieve net zero GHG emissions by 2050. Harding Loevner assesses this viability by examining the following factors in respect of each company, among others:

- Historical and projected GHG emissions
- GHG emission reduction targets, including Science Based Targets Initiative (SBTi) validated targets
- Climate-related disclosures, including Task Force on Climate-Related Financial Disclosures (TCFD) and CDP (formerly, Carbon Disclosure Project) portal filings (being data sets on climate-related risks and opportunities, emissions, mitigation, adaptation, energy and water in cities, states and regions worldwide), or other relevant company disclosures
- Global Industry Classification Standard (GICS) sub-industry classification and its respective carbon risk-profile
- Third-party data regarding climate-related issues and GHG emissions, such as the Climate Action 100+

Harding Loevner uses publicly available information, its own data and insight, information from relevant industry groups, and third-party data providers to ascertain the carbon emission reduction practices of specific companies.

Through this assessment process (which is in addition to the ESG score assigned to the investee company, as outlined in the entity-level website disclosure) Harding Loevner can identify and assess those companies which have committed to reducing their carbon emissions.

Through its own research, as well as engagements with company management, Harding Loevner monitors business practices on an ongoing basis. Consistent with the Company's Shareholder Engagement Policy, Harding Loevner actively engages on behalf of the GPA Fund with companies and issuers with respect to their carbon emissions by, for example, arranging in-person meetings with senior management of companies to address issues relating to environmental policies and

governance practices and exercises its voting rights in accordance with this aim. The GPA Fund may divest of any company which does not make demonstrative progress in aligning itself with the Paris Agreement and specifically with 'net zero' emission targets by 2050, or which does not engage with Harding Loevner in respect of the reduction of carbon emissions.

In addition to the adoption of the ESG criteria outlined above, the GPA Fund does not invest in the following:

#### *Fossil Fuels*

The GPA Fund is prohibited from investing in companies with evidence of owning fossil fuel reserves, as well as companies which derive at least 25% of their revenues (either reported or estimated) from oil-, gas-, or coal-related activities.

#### *Tobacco Producers*

The GPA Fund is prohibited from investing in companies that manufacture tobacco products.

#### *Controversial, Assault-Style, and Nuclear Weapons*

The GPA Fund is prohibited from investing in "controversial weapons", being companies that have any ties to cluster munitions, landmines, biological / chemical weapons, depleted uranium weapons, blinding laser weapons, incendiary weapons, and/or non-detectable fragments.

For the avoidance of doubt, this prohibition is extended to companies which produce nuclear weapons components.

The GPA Fund is further prohibited from investing in companies that manufacture or retail automatic ("assault") firearms.

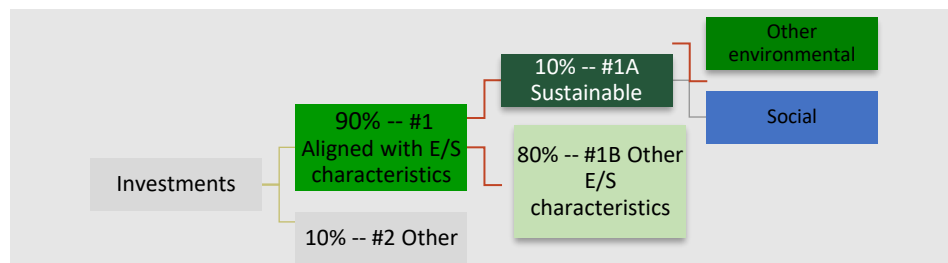
#### Policy to Assess Good Governance

Considerations of good governance are embedded in Harding Loevner's overall investment process. Companies that operate with a disregard for their environment, for the welfare of societies in which they conduct their business, or for the sound principles of governance by which the interests of their shareholders are protected put their financial results at long-term risk.

For each company under research coverage, the responsible analyst estimates the extent to which each of numerous ESG factors represents a risk that could threaten, or an opportunity that could support, the company's long-term growth and profitability. ESG factors considered as part of this process include, among other things: human capital management; human rights in labor practices and supply chain; workplace safety and health; exposure to changes in taxation; board independence and composition; audit and compensation committee independence and expertise; board quality of management oversight; board quality of strategy oversight, risk control, and responsiveness to material shareholder concerns; management and key decision-maker alignment with shareholder interests; transparency and management access; financial reporting quality; board and management accountability via shareholder activism or takeover; legal protections for minority shareholders; and other governance matters that could meaningfully impact company growth, FCF generation or financial strength. Having evaluated the individual factors, analysts

assign scores for each company on E, S, and G pillars overall, which are then aggregated in equal proportion to determine an overall ESG score for the company. For the GPA Fund, the Investment Manager additionally considers and monitors the G pillar of a company's ESG score, along with data from MSCI, as appropriate. Through a combination of these processes, the Investment Manager seeks to ensure that investee companies follow good governance practices in accordance with Article 8 of SFDR.

### Proportion of Investments



The GPA Fund will invest a minimum of 90% of its assets in investments aligned with the Sustainability Characteristics of carbon emissions reduction and climate change mitigation. The remaining proportion of the investments are intended to be held in cash and cash equivalents, for liquidity and transitory flows (i.e., subscriptions and redemptions).

The GPA Fund will have a minimum proportion of 10% of its assets in sustainable investments as defined by Article 2(17) of SFDR.

### Monitoring of Environmental or Social Characteristics

To be eligible for investment by the GPA Fund, a company must:

- satisfy the Investment Manager's quality-growth investment criteria, as described in the "Investment Strategy" section of the sub-fund's Prospectus Supplement;
- pass through various exclusionary screens, as detailed in the "Promotion of Sustainability Characteristics" section of the Prospectus Supplement, as well as earlier in this disclosure; and
- demonstrate a viable pathway to net zero GHG emissions by 2050, consistent with the Paris Agreement. This is evidenced, in part, by the completion of company assessments, in part to ascertain the existence of foundational elements for Paris Alignment, as described in Annex II to the GPA Fund Supplement.

Each of these requirements is overseen by various individuals and systems to ensure accountability for their accurate and uniform implementation:

- The Investment Manager’s quality-growth investment criteria, including its responsible investing policies, are overseen by the Chief Investment Officer, as further described in the Investment Manager’s entity-level SFDR website disclosure. Analysts are accountable for the quality and completeness of their company and industry research, which incorporates their assessments of ESG risks to the sustainability of companies’ cash flows. The firm’s ESG Analyst supports analysts in their ESG integration work and reports to the abovenamed senior managers on its effectiveness.
- Exclusionary screens are coded into the Investment Manager’s automated investment compliance monitoring system, within its trade order management system, to prevent inadvertent purchases of securities prohibited by the GPA Fund’s exclusionary list. The Investment Manager’s Portfolio Review Committee is responsible for monitoring, on a post trade basis, investment guidelines and restrictions, including exclusionary screens. The Committee meets quarterly.
- Research analysts conduct Paris Alignment assessments of each of the GPA Fund’s investee companies prior to investment, and at least annually, to monitor the promoted Sustainability Characteristics and the sustainability indicators used to measure their attainment. The research analysts consult with the Investment Manager’s ESG Analyst and ESG Associate throughout the assessment process, for clarity and consistency, and the Compliance department periodically confirms the existence of completed assessments for each company. Any discussion or debate regarding the companies is recorded in the Investment Manager’s research database. These Excel-based Paris Alignment assessments serve as a complement to the analysts’ broader, in-depth company research and ESG integration tools, and incorporate a variety of source data, including data feeds from MSCI ESG. Further detail on the factors considered in respect of each investee company is described below.

#### Methodologies for Environmental or Social Characteristics

In connection with the annual assessments described above, investee companies will be classified as to their progress towards Paris Alignment. Inputs used to measure this progress to Paris Alignment include, but are not limited to, an assessment of a company’s:

- disclosure regarding total emissions;
- strategy to achieve emissions reductions;
- governance structures designed to oversee the company’s progress toward effectuating its emissions reduction strategy;
- ambition (e.g., whether or not it has a stated goal to achieve net zero GHG emissions by 2050);
- emissions targets (including, for example, external verification by SBTi or another organization); and

- emission performance versus stated targets.

The Investment Manager regards these as indicators that measure the attainment of the promoted Sustainability Characteristics (reduction of greenhouse gas emissions and climate change mitigation). As part of the assessment process, investee companies are categorized across five stages of Paris Alignment, consistent with the Institutional Investors Group on Climate Change's (IIGCC) classifications, with the final category being the achievement and maintenance of net zero GHG emissions.

### Data Sources and Processing

As noted above, Harding Loevner uses publicly available information, its own data and insight, information from relevant industry groups, and third-party data providers to ascertain, for the GPA Fund, the carbon emission reduction practices of specific companies. Inputs to the Paris Alignment assessment process are both qualitative and quantitative.

Company-reported data obtained through Harding Loevner's fundamental research (e.g., from annual reports, sustainability reports, and climate reports) is the primary source of data for the Paris-Alignment process. As part of conducting company due diligence, Harding Loevner may also obtain non-reported information from the company, such as country renewable energy adoption plans or industry metrics, which aid in the assessment of feasibility and ambitiousness of emissions reduction strategy and/or targets.

Sources of third-party ESG data used in the assessment process may include:

- Emissions and targets data provided by MSCI, used either where company data is not available, or as a point of comparison with company data;
- Science Based Targets Initiative (SBTi) validated targets (e.g., emission reduction targets, renewable energy adoption targets or energy efficiency targets) and performance reports;
- CDP (formerly, Carbon Disclosure Project) portal filings; and
- Glass Lewis, used for corporate governance research and proxy voting recommendations.

ESG data obtained through company engagements also supports the Paris-Alignment assessment process. As with company due diligence, non-reported company information may be provided during engagements that may not otherwise be accessible from third-party providers or from company disclosure.

The Investment Manager may be limited by the amount of or level of detail within investee company disclosures. As a result, a high-proportion of company emissions data is estimated. To mitigate these challenges, the Investment Manager takes a number of steps to ensure and improve data quality:



- The Investment Manager utilizes its in-depth, fundamental company research on each company as a support for its Paris-Alignment assessments, and to that end, encourages research analysts to raise for consideration potential data quality or methodology limitations that may arise in the context of the Paris Alignment assessment process.
- The Investment Manager utilizes data from a variety of sources, including investee companies, data providers, peers and industry groups, to help ensure data quality.
- Its research analysts, through company meetings and engagements, raise questions to investee companies about the validity of data, either directly with the company, or with third-party providers, particularly if differences exist between data sources.
- The Investment Manager conducts a detailed, vendor management due diligence process on all third-party data providers. As part of this process, Harding Loevner vets each provider's research methodologies and ensures these methodologies are well-documented and available upon request.
- As a supporter of The Task Force on Climate-Related Financial Disclosure (TCFD) and a member of the Partnership for Carbon Accounting Financials (PCAF), Harding Loevner actively engages with peers and industry groups to improve climate-related metrics and targets industry-wide.

#### Limitations to Methodologies and Data

In evaluating an investment for Paris Alignment, the Investment Manager is, in some instances, reliant upon information and data, which may be incomplete, inaccurate or unavailable. Limitations to the methodologies and data sources referred to above include, among other things:

- the varying degree of disclosure and level of detail reported by investee companies, both to data providers and through their own company disclosure;
- the limited amount of auditor assurance or other third-party verification of company information;
- the time lag for company information that is reported;
- differences in the interpretation of company information by data providers;
- the varying degree of estimation among investee companies or data providers; and
- evolving measurement methodologies and best practices.

Harding Loevner does not believe these limitations affect how the Sustainability Characteristics are promoted. The Investment Manager expects investee companies and third-party data providers

to continue to refine and improve data quality, given regulatory disclosure requirements as well as commercial expectations.

### Due Diligence

As part of the fundamental research process, analysts are required to establish “mileposts” for future business results that a company must achieve for the investment thesis and valuation to remain valid, and to monitor the investment thesis on an ongoing basis via those mileposts. These mileposts provide analysts with a record of their expectations for the business and form the basis of ongoing review of the company’s progress.

The mileposts that analysts establish may trigger an investment review of covered companies. If a company regularly fails to meet mileposts, the analyst will re-evaluate their investment thesis and will also face questions about the durability of the operating performance from portfolio managers. This review may lead to the analysts “un-rating” the company, thereby removing it from the firm’s pool of eligible investments. Analysts may also adjust a company’s rating in response to significant share-price movements or major new developments in business performance. They will also notify the entire investment team of any significant developments regarding each company on their coverage list.

Portfolio managers pay close attention to analysts’ stock ratings and milepost updates for portfolio companies and will question analysts on salient points. When considering a sale of a position, portfolio managers consult with the analyst to discuss the long-term investment case for the company.

Additionally, for GPA Fund, Harding Loevner assesses and classifies a company’s progress towards Paris Alignment annually, ensuring certain foundational elements are in place (climate governance, a decarbonization strategy, and emissions disclosure), encouraging companies to commit to net zero, and tracking company progress toward achieving specific targets. Companies that fail to make progress towards Paris Alignment over time are considered for disinvestment.

### Engagement Policies

Proxy voting and company engagement are other ways that Harding Loevner attempts to manage and mitigate ESG risks.

Harding Loevner’s analysts engage regularly with company managements in the course of their fundamental research and monitoring of qualified companies. Harding Loevner engages on a range of topics including company board composition/director election, climate change & energy transition, and human rights. Additionally, in the case of the GPA Fund, Harding Loevner assesses each company’s progress toward Paris Alignment and engages with the company on a recurring schedule to encourage further progress. For those companies that have not yet aligned with the Paris Agreement, engagement efforts first focus on encouraging the company to adopt TCFD disclosures, develop a strategy for decarbonization, and establish SBTi targets. Once targets are established, Harding Loevner engages with the company on its performance versus targets. As noted above, the GPA Fund may divest of any company which does not make demonstrative

progress in aligning itself with the Paris Agreement and specifically with ‘net zero’ emission targets by 2050, or which does not engage with Harding Loevner in respect of the reduction of carbon emissions.

Harding Loevner seeks to use its voting power to encourage companies to manage climate-related risks and progress toward net-zero emissions. We cast votes for the GPA Fund according to recommendations from Glass Lewis’s Climate Policy, a voting policy focused on incorporating the risks and impacts of climate-related issues in alignment with TCFD recommendations. Importantly, Harding Loevner may override Glass Lewis if it believes the facts and circumstances warrant it.

#### Designated Reference Benchmark

The GPA Fund’s benchmark, the MSCI All Country World Index, was not chosen for the purpose of achieving its Sustainability Characteristics.