

26 July 2024

Dear Unitholder,

**Amendments to Close Sustainable Balanced Portfolio Fund (“the Fund”), a Sub-fund of the Close Discretionary Funds Umbrella Unit Trust.**

We are writing to you to inform you that we are changing the investment objective and policy of the Fund to incorporate details of the sustainable investment methodology that the investment manager intends to apply.

Details of the current and revised investment objective and policy for the Fund are set out in the attached Appendix. Although the Fund is not currently managed with a carbon intensity objective (albeit that it does apply formal ethical and Environmental, Social and Governance (“ESG”) screens), with the exception of the new wording to reflect new the sustainability strategy, the changes to the investment objective and policy will not change the way in which the Fund is managed, or its aims.

Full details of the revised sustainable methodology and marketing brochure are available on our website here: <https://www.closebrothersam.com/our-services/investment-management/our-funds/fund-actions>. We encourage you to read these documents, as they will affect your investment.

There may be changes to the portfolio in order to remove investments that the Fund can no longer hold in accordance with the new sustainability objective (for example, because a company does not pass the MSCI ESG rating test). Any changes to the portfolio will be made over a period of time following adoption of the new sustainability objective. We anticipate that any realignment costs (which will be borne by the Fund) will be in line with the costs associated with normal trading levels.

There will be no change to the risk profile of the Fund.

**Further Information**

**You do not need to take any action in relation to these changes as they will take place automatically on 1 October 2024 (the “Effective Date”) but we are required to give you advance notice of the changes.**

The unit classes currently in issue in the Fund are:

Fund Unit Class	ISIN	SEDOL
Close Sustainable Balanced Portfolio Fund I Acc	GB00BLPK3X58	BLPK3X5
Close Sustainable Balanced Portfolio Fund X Acc	GB00BLPK3Z72	BLPK3Z7

Both The Bank of New York Mellon (International) Limited as the trustee of the Fund and the FCA have been advised of the changes that we are making to the Fund.

If you have any queries about these changes, please do not hesitate to contact us on 0370 606 6452 (individual holders) or at [dsm@bnymellon.com](mailto:dsm@bnymellon.com) (institutional holders). Calls may be recorded for training or monitoring purposes.

Yours faithfully,



Robin C S Smith

Director, Close Asset Management (UK) Limited

## Appendix

<b><u>Close Sustainable Balanced Portfolio Fund</u></b>	
<b>Existing Investment Objective</b>	<b>New Investment Objective</b>
<p>The investment objective of the Close Sustainable Balanced Portfolio Fund is to provide capital growth with some income over the medium term (i.e. more than 5 years).</p>	<p>The investment objective of the Close Sustainable Balanced Portfolio Fund is to provide capital growth with some income over the medium term (i.e. more than 5 years).</p> <p>The Fund also has a sustainability objective to maintain a Weighted Average Carbon Intensity (tonnes of Scope 1 and 2 CO<sub>2</sub>e per US\$m of revenue) below the lower of (i) the relevant ESG benchmark or (ii) 50% below the 2019 baseline level of the relevant non ESG benchmark. The Fund also has a target of net zero emissions by 2050.</p> <p>For equities, the relevant ESG benchmark is the MSCI Low Carbon Leaders Index and the non-ESG benchmark is the MSCI All Countries World Index. For corporate fixed interest securities, the relevant ESG benchmark is the ICE BofA Global Corporate Green, Social &amp; Sustainable Index and the non-ESG benchmark is the ICE BofA Global Corporate Index.</p>
<b>Existing Investment Policy</b>	<b>New Investment Policy</b>
<p>The Fund will hold at least 80% of its portfolio in a mixture of equities and fixed interest securities (being corporate and government bonds), achieving this exposure primarily through direct investment.</p> <p>The equities and corporate bonds in which the Fund invests will be subject to the Manager's sustainability screens. The first is an ethical screen (focussing on what an entity produces). Secondly, an ESG (environmental, social and governance) screen is applied (focussing on how the entity operates).</p> <p>Under the ethical screen, the Fund may not invest in issuers with more than 10% of their revenue exposure to alcohol, gambling, tobacco or any other areas deemed not to meet the Manager's ethical standards.</p> <p>Securities which meet the ethical criteria are then subject to an ESG rating screening, where ESG ratings provided by a third party are used.</p>	<p>The Fund will hold at least 80% of its portfolio in a mixture of equities and fixed interest securities (being corporate and government bonds), achieving this exposure primarily through direct investment.</p> <p>The Fund uses a sustainable investment process to ensure that it is invested in alignment with its carbon emissions reduction targets while also ensuring that the Fund invests in companies considered by the Investment Adviser as having operations and/or business models that aim to minimise their harmful effects on society and the environment. The investment universe is identified by the Investment Adviser using both quantitative and qualitative assessments.</p> <p>The Fund will hold more than 70% of its assets in securities which have an available Carbon Intensity enabling measurement of the carbon intensity objective.</p>

The purpose of the ESG screen is to identify and invest in issuers which have, what the Manager considers to be positive ESG attributes, being those which are leading in a sector or, as a minimum, are above average, regarding ESG factors. In the Manager's view, these issuers are likely to be better prepared for the risks and opportunities associated with ESG factors and are therefore suitable for investment in a 'sustainable' context. The Manager considers issuers with an A rating or above (as provided by a third-party data provider) to have such attributes. The issuers are subject to an expert and rigorous methodology by the ratings agency to measure ESG attributes including their exposure to ESG risks as well as to how well they manage those risks relative to their peers. For government bonds, only the ESG screen is applied when selecting investments.

The allocation between the equities and fixed income securities in which the Fund invests will be actively managed and will vary in response to short term market conditions. However, the Fund operates a balanced strategy, meaning that the allocation to equities will remain within a 40% to 85% range, consistent with its balanced risk/return profile.

Subject to the sustainability screens, the Fund may invest in equities of companies from anywhere in the world, in any sector and of any market capitalisation. This may include shares in smaller companies and companies listed in emerging markets. The Fund will not purchase unlisted investments.

Subject to the applicable sustainability screens, the fixed interest component of the Fund may include government and corporate bonds (which may include emerging market and high yield bonds from issuers anywhere in the world). These may be investment grade, sub-investment grade or unrated.

The Fund may also invest in money market instruments and deposits, cash and near cash. There may be occasions where the Investment Adviser considers that it is prudent, given market conditions, to maintain higher levels of liquidity in the Fund. In such circumstances, the Investment Adviser may hold up to 20% of the Fund in cash.

The Fund may also invest in other transferable securities (including closed ended funds and exchange traded funds), and collective investment schemes which may include schemes managed by the Manager or an affiliate of the Manager.

The Fund's sustainability policy is to actively select investments which can measurably demonstrate current alignment with, or a clear future pathway to, a decarbonised future in order to achieve ongoing progress towards the Fund's objective of achieving net zero by 2050.

To help achieve the Fund's objective, 70-100% of the Fund's securities which have an available Carbon Intensity will each be required to have a Carbon Intensity below the lower of the relevant ESG benchmark or 50% below the 2019 baseline Carbon Intensity of the non-ESG benchmark ("Low Emitters").

Up to 30% of securities with available Carbon Intensity may have measurements above the relevant benchmarks but could still be held if they fulfil the Investment Adviser's criterion of being on course to lower their carbon intensity by 50% from their 2019 baseline by 2030 ("Improvers").

The Investment Adviser will apply a quantitative and qualitative analysis process to determine that Improvers have the potential to meet the standard in future by reviewing historic decarbonisation trends, forward looking metrics / transition plans, or other credible information to demonstrate alignment with, or a clear pathway to, a decarbonised future (including short- and medium-term timelines) and will continue to apply this process as well as engaging with the companies to meet the criteria.

The Investment Adviser expects that current Low Emitters will improve their carbon intensity on a net zero pathway. As such, securities held within the Fund could be either Low Emitters, Improvers, or a combination of the two. Given the nature of the Fund's objective, over time it is expected that there will be an increasing percentage of assets within the Fund which are both Low Emitters and Improvers.

In addition to the Investment Adviser's process for selecting and measuring the Carbon Intensity, the Investment Adviser will not select companies where it considers that there are negative aspects of the company that outweigh the positive elements of the company's carbon intensity trajectory. As such, in determining the investment universe, and before application of the carbon intensity tests, the Investment Adviser will consider whether companies follow good governance practices (e.g. with respect to sound management and company board, corporate culture, capital allocation and remuneration

The Fund may gain exposure to alternative asset classes, such as commodities, hedge funds, infrastructure, property and convertibles through investment in transferable securities.

The Fund may use derivatives, including exchange traded and over the counter derivatives, forward transactions and currency hedges for investment purposes as well as for efficient portfolio management. It is expected that the Fund's use of derivatives will be limited.

policies) and adhere to the environment and social thresholds set out below.

Investment opportunities are identified using in-depth fundamental analysis to determine the wider sustainability (both financial and non-financial) of holdings. The Investment Adviser's fundamental analysis is supported by a variety of qualitative information and available data including publicly available sources, third-party data, and proprietary models. When making an investment decision, the Investment Adviser considers a broad range of environmental and social characteristics, such as carbon emissions goals, supply chain management practices, and/or the effect that products and services have on addressing environmental and social challenges such as climate change, education and healthcare. Rather than focussing on a specific sustainability theme across every investment, we focus on what we assess to be most material to the company and its broader stakeholders.

The relevance of the qualitative information and data to the fundamental analysis varies across issuers, sectors and geographies. The Investment Adviser is not limited to assessing only these aspects in its analysis, and may investigate more or fewer, depending on the materiality and availability of information for any given issuer, sector or geography. The Investment Adviser considers these aspects together as a whole and no one aspect has consistent prevalence over the others in order to determine the suitability of an investment.

The Investment Adviser will engage with company management where it identifies opportunities to effect positive change, or to deepen knowledge and insight, with respect to sustainability considerations, where deemed material.

In addition, the Fund will not invest in companies that derive more than 10% of their revenues from the following business activities:

- Thermal coal. This factor identifies companies with an industry tie to thermal coal, in particular reserve ownership, production and power generation.

Further sectors or business groups are excluded on the basis that the negative externalities generated by the sector or business group are deemed to, on balance, outweigh the positive externalities. To help achieve this objective, the Fund will not invest in companies that derive more

than 10% of their revenues from the following business activities:

- Tobacco products manufacture
- Controversial weapons including: non-detectable fragments, landmines, incendiary weapons, blinding laser weapons, cluster munitions, nuclear/biological/chemical weapons
- Civilian firearms
- Gambling
- Adult entertainment

In addition, the Fund will not invest in:

- Companies that the Investment Adviser deems to be in violation of the UN Global Compact principles (<https://www.unglobalcompact.org/what-is-gc/mission/principles>)
- Governments that the Investment Adviser deems to be in violation of the UN Universal Declaration of Human Rights (<https://www.ohchr.org/en/human-rights/universal-declaration/translations/english>)

Divestment criteria: The Investment Adviser will monitor all companies on an ongoing basis against the selection criteria. Any change to results under the screening process or provision of new information which results in a holding no longer meeting the Investment Adviser's criteria will mean that the holding will be sold within 90 days of the change occurring.

The screening criteria are applied to the corporate issuers of the bonds and the companies in which the Fund invests. Other assets in which the Fund may invest (including collective investment schemes and government bonds) are not subject to the screening but will be assessed by the Investment Adviser to ensure that any such investments will not affect the ability of the Fund to meet its sustainable objective.

The Fund is actively managed, with the Investment Adviser employing a strategic asset allocation model (developed in collaboration with an external provider) that is matched to a specific risk and volatility band. Accordingly, the allocation to particular asset classes may vary over time at the Investment Adviser's discretion as is consistent with a balanced risk and volatility level

and in response to changing market conditions. However, the allocation to equities will remain within a 40-85% range, consistent with its risk/return profile.

The Fund may invest in equities of companies from anywhere in the world, in any sector and of any market capitalisation. This may include shares in smaller companies and companies listed in emerging markets. The Fund will not purchase unlisted investments.

The fixed interest component of the Fund may include government and corporate bonds (which may include emerging market and high yield bonds from issuers anywhere in the world). These may be investment grade, sub-investment grade or unrated. Investment grade bonds for the purposes of this Fund are those which are rated at least BBB- (or equivalent) by a single rating agency at the time of purchase.

The Fund may also invest in money market instruments and deposits, cash and near cash. There may be occasions where the Investment Adviser considers that it is prudent, given market conditions, to maintain higher levels of liquidity in the Fund. In such circumstances, the Investment Adviser may hold up to 20% of the Fund in cash.

The Fund may also invest in other transferable securities (including closed ended funds and exchange traded funds), and collective investment schemes which may include schemes managed by the Manager or an affiliate of the Manager.

The Fund may gain exposure to alternative asset classes, such as commodities, hedge funds, infrastructure, property and convertibles through investment in transferable securities.

The Fund may use derivatives, including exchange traded and over the counter derivatives, forward transactions and currency hedges for investment purposes as well as for efficient portfolio management. It is expected that the Fund's use of derivatives will be limited.