

ATHLOS CAPITAL

GUIDE TO SUSTAINABLE INVESTING AND ESG CONSIDERATIONS

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1 INTRODUCTION

1.1 Scope and Purpose

- 1.1.1 At Athlos Capital Investment Services Ltd (hereinafter referred to as the “Company”), we are committed to integrating Environmental, Social, and Governance (ESG) factors into our investment processes. We believe that considering ESG aspects enhances our ability to deliver sustainable, long-term value to our clients.
- 1.1.2 The purpose of this informational material is to provide clients with a clear and accessible overview of Environmental, Social and Governance (ESG) considerations and how these may be incorporated into investment decisions. It is designed to help clients understand key sustainability concepts, including sustainability preferences, different types of ESG investments, and the potential impact of ESG factors on investment portfolios. This material aims to support clients in making informed decisions by presenting complex regulatory and investment-related concepts in a simple and transparent manner.
- 1.1.3 The scope of this material covers the Company’s approach to integrating sustainability considerations within its investment services, including investment advice and portfolio management. It also explains how clients’ sustainability preferences are identified, assessed, and reflected in investment recommendations, in accordance with applicable regulatory requirements, including MiFID II and the Sustainable Finance Disclosure Regulation (SFDR). This material is intended for informational purposes only and does not constitute investment advice.

1.2 Important Definitions

- 1.2.1 Below are some important definitions related to ESG which will help you better understand sustainability concepts.

“Environmental, Social and Governance (ESG) Objectives” ESG objectives refer to environmental, social and governance factors that may be considered when making investment decisions.

“Environmental objectives” relate to protecting the environment and addressing climate-related challenges. Examples include reducing greenhouse gas emissions, promoting renewable energy (such as wind or solar power), improving energy efficiency, protecting biodiversity, and reducing pollution.

“Social objectives” relate to the way companies manage relationships with employees, customers and communities.

Examples include promoting fair labour practices, ensuring safe working conditions, supporting diversity and inclusion, protecting human rights, and improving access to healthcare, education or clean water.

“Governance Objectives” relate to how companies are managed and controlled. Examples include having transparent management structures, responsible executive remuneration, strong shareholder rights, effective risk management and policies to prevent corruption or bribery.

“Principal Adverse Impacts” (PAI) Principal Adverse Impacts refer to the negative effects that investments may have on environmental, social or governance (ESG) factors. When investments consider PAIs, it means that the investment strategy takes into account and seeks to reduce or avoid these negative impacts. Examples of such negative impacts may include high greenhouse gas emissions, pollution, poor working conditions, violations of human rights, or involvement in corruption or bribery. For example: An investment strategy that considers PAIs may seek to avoid investing in companies with very high carbon emissions or companies that have



been involved in serious labour rights violations.

“Sustainability Preferences” Sustainability preferences refer to a client’s choice as to whether, and to what extent, financial instruments that incorporate sustainability characteristics should be included in their investments.

In particular, sustainability preferences may include financial instruments that:

- invest in environmentally sustainable economic activities as defined under the EU Taxonomy Regulation (Regulation (EU) 2020/852);
- invest in sustainable investments as defined under the Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088), meaning investments in economic activities that contribute to environmental or social objectives, provided that such investments do not significantly harm those objectives and that investee companies follow good governance practices;
- consider Principal Adverse Impacts (PAIs) on sustainability factors, meaning that the investment strategy takes into account and seeks to reduce negative impacts on environmental, social and governance factors such as climate change, pollution, human rights or corruption.

2 ESG INVESTING

2.1 What does ESG mean?

2.1.1 ESG stands for Environmental, Social and Governance. These are factors that can be considered when making investment decisions, alongside traditional financial criteria.

2.2 Environmental factors

2.2.1 Environmental factors relate to how a company impacts the natural environment and how it manages environmental risks and opportunities. These include, for example:

✓ **Climate change and carbon emissions**

How much greenhouse gas a company produces and whether it is taking steps to reduce its carbon footprint.

Example: A company investing in renewable energy or committing to net-zero emissions.

✓ **Energy use and efficiency**

How efficiently a company uses energy and whether it relies on renewable sources.

Example: A business transitioning from fossil fuels to solar or wind power.

✓ **Pollution and waste management**

How a company manages waste, emissions, and environmental contamination.

Example: Reducing plastic packaging or improving recycling processes.

✓ **Water usage and conservation**

How responsibly a company uses water resources, particularly in water-scarce regions.

Example: A manufacturing company implementing water recycling systems.

✓ **Biodiversity and ecosystem protection**

Whether a company’s operations impact forests, oceans, or wildlife habitats.

Example: Avoiding deforestation or protecting natural ecosystems.

2.3 Social factors

2.3.1 Social factors relate to how a company manages relationships with people, including employees, customers, suppliers, and communities. These include, for example:



- ✓ **Employee welfare and working conditions**

Fair wages, safe workplaces, and employee wellbeing.

Example: A company ensuring safe working conditions and offering fair contracts.

- ✓ **Human rights and labour standards**

Respect for human rights across operations and supply chains.

Example: Avoiding child labour or forced labour in production processes.

- ✓ **Diversity, equity and inclusion**

Promoting equal opportunities regardless of gender, ethnicity, or background.

Example: Gender-balanced leadership teams or inclusive hiring policies.

- ✓ **Customer protection and product responsibility**

Ensuring products are safe and marketed responsibly.

Example: Transparent pricing or protecting customer data.

- ✓ **Community impact**

How a company contributes to or affects local communities.

Example: Investing in local infrastructure, education, or healthcare initiatives.

2.4 Governance factors

2.4.1 Governance factors relate to how a company is directed, controlled, and managed, ensuring accountability and ethical conduct. These include, for example:

- ✓ **Corporate governance structure**

The composition and independence of the board of directors.

Example: Having independent board members to ensure objective decision-making.

- ✓ **Executive remuneration**

How senior management is paid and whether compensation is aligned with long-term performance.

Example: Linking bonuses to sustainable performance rather than short-term profits.

- ✓ **Business ethics and anti-corruption**

Policies to prevent bribery, corruption, and unethical practices.

Example: Strong internal controls and whistleblowing mechanisms.

- ✓ **Transparency and disclosure**

How openly a company communicates financial and non-financial information.

Example: Clear reporting on risks, performance, and ESG practices.

- ✓ **Shareholder rights**

Ensuring investors have a voice in key decisions.

Example: Voting rights and fair treatment of minority shareholders.

2.5 Why does ESG matter?

2.5.1 Considering Environmental, Social and Governance (ESG) factors can play an important role in making more informed investment decisions. ESG factors can help identify potential risks that may not always be visible through traditional financial analysis. For example, companies that are heavily exposed to environmental risks, such as high carbon emissions, may face future regulatory changes, increased costs, or reputational challenges. Similarly, poor labour practices or governance issues can lead to legal penalties, operational disruptions, or loss of investor confidence.

2.5.2 In addition, ESG considerations can support a more long-term investment approach. Companies that actively manage sustainability risks and adopt responsible business practices may be better positioned to adapt to changing economic, environmental, and social conditions. This can contribute to more stable performance over time and reduce exposure to unexpected events.

2.5.3 ESG investing also allows investors to align their portfolios with their personal values and priorities. Some investors may wish to support environmental initiatives, promote social responsibility, or avoid certain industries or activities. Incorporating ESG factors provides a structured way to reflect these preferences within an investment strategy.



- 2.5.4 It is important to note that ESG investing does not replace traditional financial analysis. Instead, it complements it by providing an additional perspective on risk and opportunity, helping investors make more balanced and informed decisions.

3 SUSTAINABILITY PREFERENCES EXPLAINED

3.1 What are sustainability preferences?

- 3.1.1 Sustainability preferences refer to whether, and to what extent, you would like sustainability considerations to be included in your investments. In other words, they reflect your personal choice about how important environmental, social and governance (ESG) factors are when investing your money.
- 3.1.2 Some investors may wish to actively support sustainable activities, while others may simply prefer to avoid certain industries or reduce negative impacts. Others may choose not to take sustainability into account at all. There is no right or wrong approach — what matters is that your investment strategy reflects your individual preferences.
- 3.1.3 Under applicable regulations, sustainability preferences may include one or more of the following:

✓ **Investments aligned with the EU Taxonomy**

These are investments in economic activities that are considered environmentally sustainable under EU rules, such as renewable energy, energy efficiency, or pollution prevention.

✓ **Sustainable investments as defined under EU regulation (SFDR)**

These are investments that contribute to environmental or social objectives, provided they do not significantly harm other sustainability goals and that the companies involved follow good governance practices. Examples may include investments in clean water infrastructure, healthcare, or social housing.

✓ **Investments that consider Principal Adverse Impacts (PAIs)**

These are investments that take into account and aim to reduce negative effects on environmental and social factors, such as high carbon emissions, environmental damage, poor working conditions, or human rights concerns.

3.2 Why do we ask about your sustainability preferences?

- 3.2.1 We ask about your sustainability preferences to ensure that the investment advice and portfolio management services we provide are fully aligned with your individual expectations, objectives and values. Understanding whether sustainability considerations are important to you—and to what extent—allows us to recommend financial instruments that are consistent with your preferences, rather than applying a one-size-fits-all approach. This helps ensure that your investment portfolio reflects not only your financial goals, but also any environmental, social or governance considerations you may wish to incorporate.
- 3.2.2 In addition, discussing sustainability preferences enables us to clearly explain the range of available investment options, including how different products incorporate ESG factors and what this may mean in practice. This includes explaining any potential limitations, such as a reduced investment universe or possible trade-offs between sustainability and financial performance. By providing this information, we aim to ensure that you are in a position to make well-informed decisions.
- 3.2.3 We are also required under applicable regulations, including the Markets in Financial Instruments Directive (MiFID II), to take your sustainability preferences into account as part of the suitability assessment process. This means that we must assess whether recommended investments are appropriate not only in terms of your financial situation, risk tolerance and investment objectives, but also in relation to your sustainability preferences, where these are expressed.
- 3.2.4 You are always free to decide whether sustainability considerations should play a role in your investments, and to what extent. If you choose not to incorporate sustainability preferences, your investments will be selected based on

financial criteria alone. If you do choose to include sustainability considerations, we will work with you to reflect these preferences in your investment strategy in a clear and transparent manner.

4 TYPES OF ESG INVESTMENTS

Not all investment products that refer to environmental, social and governance (ESG) factors are the same. Investment products are categorised based on how they incorporate sustainability considerations under SFDR. This framework introduces a standardised classification to improve transparency and help investors better understand the sustainability characteristics of financial products.

Under SFDR, financial products are generally grouped into three categories depending on the extent to which sustainability is integrated into their investment strategy and objectives.

4.1 Products without a specific ESG focus

4.1.1 Products without a specific ESG focus are those that do not promote environmental or social characteristics and do not have a sustainable investment objective. These are considered “standard” investment products from an ESG perspective. However, such products may still:

- a) Consider sustainability risks (e.g. climate-related risks or governance risks) as part of their overall risk management process.
- b) Disclose how these risks may impact investment returns.

4.1.2 These products are typically suitable for investors who do not wish to incorporate sustainability considerations into their investment decisions.

4.2 Products promoting environmental or social characteristics

4.2.1 Products promoting environmental or social characteristics are those that promote environmental and/or social characteristics, provided that the companies in which investments are made follow good governance practices. These products may:

- a) Apply ESG screening criteria (e.g. excluding certain industries such as tobacco or weapons)
- b) Integrate ESG factors into the investment selection process
- c) Allocate a portion of their investments to sustainable activities

4.2.2 However, they do not necessarily have sustainability as their primary objective. Instead, ESG considerations are an important component, but are balanced alongside other financial and investment considerations.

4.2.3 These products are often suitable for investors who wish to incorporate ESG factors into their investments, without requiring a fully sustainable investment strategy.

4.3 Products with a sustainable investment objective

4.3.1 Products with a sustainable investment objective represent the highest level of ESG integration under SFDR. These products have a specific and measurable sustainability objective, such as contributing to environmental protection or achieving social impact. These products must:

- a) Invest in activities that contribute to environmental or social objectives
- b) Ensure that such investments do not significantly harm other sustainability objectives
- c) Invest in companies that follow good governance practices

4.3.2 Examples may include investments in renewable energy, sustainable infrastructure, or social development projects.

4.3.3 Due to their stricter requirements, these products are generally suitable for investors who have a strong preference for sustainable investments and wish to align their portfolios closely with sustainability goals.

4.4 Why this classification matters

4.4.1 This regulatory classification helps investors:



- a) Better understand the level of sustainability integration in different products
 - b) Compare investment options more easily
 - c) Make more informed decisions based on their sustainability preferences
- 4.4.2 It also enhances transparency and reduces the risk of misleading claims about sustainability (often referred to as “greenwashing”).

5 HOW WE USE ESG IN ADVISORY SERVICES

5.1 Our approach

- 5.1.1 When providing investment advice or portfolio management services, we follow a structured process to ensure that your investments reflect both your financial objectives and, where applicable, your sustainability preferences. This process is designed to be transparent, consistent, and aligned with regulatory requirements.

5.2 Understanding your preferences

- 5.2.1 As part of our onboarding and suitability assessment, we ask whether sustainability considerations are important to you and, if so, to what extent. This includes understanding your views on environmental, social and governance (ESG) factors, as well as whether you wish to support sustainable investments, avoid certain industries, or reduce negative impacts through your investments.
- 5.2.2 To support this process, we use a Sustainability Questionnaire, which is designed to help identify, assess and document your sustainability preferences in a structured and consistent manner. The questionnaire covers a range of topics, including your interest in environmental or social objectives, your preferences regarding sustainable investments, and whether you wish your investments to consider potential negative impacts on sustainability factors.
- 5.2.3 Your responses to this questionnaire allow us to better understand not only whether sustainability matters to you, but also how strongly it should influence your investment decisions. We also provide clear explanations of key concepts to ensure that you are able to make informed choices and express your preferences meaningfully.

5.3 Assessing your ESG Profile

- 5.3.1 Based on your responses, we determine your ESG profile using a structured methodology. This profile reflects the level of importance you place on sustainability considerations and categorises your preferences (for example, Basic, Moderate or Strong ESG).
- 5.3.2 Your ESG profile is considered alongside other key elements of the suitability assessment, including your investment objectives, financial situation, risk tolerance, and knowledge and experience.

5.4 Matching investments to your profile

- 5.4.1 We then identify and assess available financial instruments and investment solutions, taking into account their sustainability characteristics. This may include considering whether products promote environmental or social characteristics, have a sustainable investment objective, or incorporate ESG-related criteria.
- 5.4.2 Our aim is to ensure that the investments recommended to you are consistent with your ESG profile, while also meeting your financial needs and objectives.

5.5 Explaining your options clearly

- 5.5.1 We ensure that you receive clear and transparent information about the investments recommended to you. This includes explaining:
- a) The nature and characteristics of the investment products
 - b) The extent to which sustainability factors are incorporated
 - c) Any relevant classifications (such as ESG-promoting or sustainable investments)
 - d) Any limitations, risks, or potential trade-offs



5.5.2 This allows you to understand how your sustainability preferences are reflected in your portfolio and to make informed decisions.

5.6 Our commitment

5.6.1 Our objective is to provide investment advice that is tailored to your individual needs and preferences, including sustainability considerations where relevant. We aim to do this in a way that is clear, transparent, and aligned with both your expectations and applicable regulatory requirements.

5.7 Important considerations

5.7.1 In some cases, there may be limited availability of financial products that fully match your sustainability preferences. This may be due to market constraints, product availability, or the specific nature of your preferences.

5.7.2 Where this occurs, we will:

- a) Clearly inform you that suitable products may not be available
- b) Explain the available alternatives and any differences from your preferences
- c) Obtain your explicit consent before proceeding with any recommendation

5.8 Your ESG Profile

5.8.1 Based on your responses, you will be assigned an ESG profile that helps guide your investment strategy.

ESG Profile	Portfolio Approach
No ESG Preference	Standard Portfolio
Basic ESG Preference	Limited ESG integration
Moderate ESG	ESG integrated portfolio
Strong ESG	High sustainable allocation

5.9 What does this mean?

ESG Profile	Explanation
No ESG Preference	Clients in this category do not express a preference for incorporating ESG factors. Investments are selected primarily based on financial criteria, without specific ESG considerations.
Basic ESG Preference	Clients show some interest in sustainability. ESG factors may be considered where relevant, but they are not a primary driver of investment decisions.
Moderate ESG	Clients actively prefer investments that incorporate ESG considerations. ESG factors are systematically integrated into the investment selection and portfolio construction process.
Strong ESG	Clients have a strong preference for sustainable investing. Portfolios will focus significantly on ESG-aligned investments, including products that promote environmental or social characteristics or have sustainable investment objectives.

6 RISKS & LIMITATIONS

6.1 Important Information for Investors

6.1.1 The integration of environmental, social and governance (ESG) factors into investment decisions may offer certain benefits; however, it also involves specific risks and limitations that clients should carefully consider.

6.2 Limited Investment Universe

6.2.1 Applying ESG criteria and sustainability preferences may restrict the range of available investment opportunities.



As a result, certain financial instruments, sectors or issuers may be excluded from consideration, even where they may otherwise be suitable based on financial criteria alone. This may impact portfolio diversification and the ability to access certain market opportunities.

6.3 ESG Data Limitations

- 6.3.1 ESG-related data and disclosures are still evolving and may be subject to limitations. In particular:
- a) ESG data may vary significantly between different data providers or product manufacturers;
 - b) Information may be incomplete, estimated, or based on differing methodologies;
 - c) There may be limited availability of reliable and comparable data, especially across certain asset classes or geographic regions.

6.4 No Guarantee of performance

- 6.4.1 The consideration of ESG factors does not guarantee improved or positive investment performance. Investments that incorporate sustainability characteristics may perform better or worse than those that do not, depending on market conditions and other factors. ESG considerations should therefore be viewed as one element within the broader investment decision-making process.

6.5 Potential Trade-offs

- 6.5.1 In certain cases, incorporating sustainability preferences may involve trade-offs. For example:
- a) Investments that align with specific ESG criteria may offer different risk-return characteristics compared to non-ESG investments;
 - b) It may not be possible to fully satisfy all sustainability preferences due to market constraints or product availability;
 - c) Investors may need to prioritise between financial objectives and sustainability considerations.

6.6 Product Classification and Interpretation Risk

- 6.6.1 Financial products classified under SFDR are subject to regulatory definitions and disclosures provided by product manufacturers. Such classifications may be based on specific methodologies and may change over time as regulatory guidance and market practices evolve.

6.7 Regulatory and Market Developments

- 6.7.1 The regulatory framework governing sustainable finance, including ESG disclosures and classifications, continues to evolve. Changes in regulation, standards, or market practices may affect how sustainability factors are interpreted, measured, or applied within investment products.

6.8 Final considerations

- 6.8.1 You should ensure that you fully understand the characteristics, risks and limitations of ESG investing before making investment decisions. The integration of sustainability preferences will be considered alongside your overall investment objectives, financial situation and risk tolerance, in accordance with applicable regulatory requirements.

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