



FASANARA CAPITAL

# Environmental, Social & Governance Policy

**Last policy update: April 2021**

Fasanara Capital Limited (Fasanara) strongly believes that it has a moral obligation to play a role in making the world a better place through responsible investing and that incorporating environmental, social and governance (ESG) considerations in its business decisions is essential to creating value for its stakeholders.

This policy document outlines Fasanara's approach to integrating ESG factors within its corporate and investment risk management framework. It applies as a standard to all investments made within its pooled funds and segregated mandates. This policy is reviewed on a regular basis by the Senior Managers Committee and updated where necessary to reflect changes in circumstances and actual practice.

## **SFDR**

The information in this policy document outlines Fasanara's compliance with the requirements under the EU Sustainable Finance Disclosure Regulation (SFDR) to disclose Fasanara's approach to integrating ESG, and therefore Sustainability Risks into its investment decision-making. All Fasanara managed funds (funds or SMAs) integrate Sustainability Risks into the investment decision making process. 'Sustainability Risks' mean an ESG event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment and 'Sustainability Factors' mean environmental, social and or governance matters such as employee matters, respect for human rights, anti-corruption and anti-bribery matters. All references to 'ESG risks' and 'ESG factors' within this ESG policy are equivalent to 'Sustainability Risks' and 'Sustainability Factors' as defined in SFDR. For more information on the policies and assessment processes Fasanara uses to identify and prioritise principal adverse impacts on Sustainability Factors, please see Fasanara's SFDR Adverse Sustainability Impact Statement and SFDR Remuneration Policy Statement at [www.fasanara.com/esg](http://www.fasanara.com/esg).

## **UNPRI Signatory**

As a signatory to the United Nations Principles of Responsible Investment (UNPRI), Fasanara is committed to incorporate ESG issues in its decision-making and ownership practices and has used the following six principles (Principles) as a framework to develop its ESG policy across its investment activities:



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- Fasanara will incorporate ESG issues into investment analysis and decision-making processes.
- Fasanara will be active owners and incorporate ESG issues into its ownership policies and practices.
- Fasanara will seek appropriate disclosure on ESG issues by the entities in which it invests.
- Fasanara will promote acceptance and implementation of the Principles within the investment industry.
- Fasanara will work together with the UNPRI and other signatories to enhance its effectiveness in implementing the Principles.
- Fasanara will report on its activities and progress towards implementing the Principles.

Fasanara also supports the UN Social Development Goals (SDGs) (<https://www.unglobalcompact.org/sdgs>) with a particular focus on SDGs:

- 1 (*End Poverty*)
- 3 (*Good Health and Well Being*)
- 5 (*Gender Equality*)
- 8 (*Economic Growth*)
- 10 (*Reduced Inequalities*)
- 12 (*Responsible Consumption and Production*)
- 13 (*Climate Action*)
- 16 (*Peace, Justice and Strong Institutions*)

See Appendix B for more detail on how Fasanara advances each of these SDGs.

Fasanara reports to the UNPRI on the activities undertaken in each assessment year. This annual reporting, along with guidance given by the UNPRI, has provided a framework and timeline to progressively develop our responsible investing capabilities. The UNPRI Transparency Report on Fasanara will be available on the UNPRI website following each assessment.

### ***TCFD Supporter***

Fasanara is also committed to participating in the fight against climate change and officially became a supporter of the Taskforce on Climate-related Disclosures (TCFD) in November 2020. The TCFD framework aligns with Fasanara's belief that climate change is an important business issue that can impact long-term financial performance. For more information on how Fasanara aims to assess, monitor, and manage the potential effects of climate change on our



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investment processes and portfolios, as well as on our business operations, please see our November 2020 ESG Investor Update.

### ***Climate Action 100+ Signatory***

In April 2021, Fasanara became a signatory to Climate Action 100+, a global initiative led by investors to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. Fasanara believes it can more effectively help drive the low-carbon transition by joining forces with other asset managers and asset owners across the globe and together inserting a combined influence over the systemically most important companies accounting for more than two-thirds of annual industrial greenhouse gas emissions.

As a long-time debt provider to many airlines and other businesses in the aerospace sector across Europe, Fasanara wanted to engage with the world's largest airline in order to make a meaningful impact to the aviation sector which is ripe for environmental and technological disruption. As a collaborating participating investor, Fasanara will collaborate with other investors and the PRI Climate Engagement Group to directly engage with American Airlines Group. Alongside other investors and climate experts, Fasanara will work with the airline to develop and implement its specific priorities and strategy to help them transition towards net zero. For more information on, please see our April 2021 ESG Investor Update.

### ***Express Policy***

It is Fasanara's belief that the integration of ESG considerations into its culture and investment processes will positively impact both its financial performance and sustainability footprint. The financial rationale is clear – a comprehensive approach to ESG considerations can support both risk management and alpha generation. However, we are also firmly of the view that finance has a key role to play in creating a sustainable economy.

Fasanara will discuss its ESG policy with its investors, and, to the extent possible and relevant, will aim to discuss with network partner originators how Fasanara's ESG policy or a similar policy can be implemented by them.

Our ESG policy takes into account relevant industry standards and guidelines and is set out around a number of principles, which include:

- Incorporating ESG considerations into all investment analysis and decision-making processes where relevant.
- Adopting a responsible and ethical approach to governance.
- Seeking appropriate disclosure on ESG issues by the entities in which we invest.



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- Informing investors of our ESG policy and provide them with information on our approach to ESG issues.

## ***Responsible Investing***

Responsible investment is an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long-term returns. Fasanara believes that investable companies with an appropriate management structure and the capability to manage and mitigate environmental and social risks are ultimately more likely to deliver long-term performance and thus ESG analysis and consideration, including active ownership, are assessed and incorporated throughout our investment processes.

Whilst Fasanara's investment process has always to some degree taken into account ESG related risk factors in its decision-making process in order to accomplish its fiduciary duty to its clients, since developing its first ESG policy in 2019, Fasanara has endeavoured to systematically incorporate ESG criteria into its investment and operational due diligence processes with two main aims:

- To guard against significant negative social and environmental impacts
- To target opportunities that generate positive social and environmental impacts.

Fasanara's Board of Directors has entrusted the Senior Managers Committee with overseeing the proper application of Fasanara's ESG policy. The Senior Managers Committee are supported in its responsibilities by the Investment Committee that monitors ESG integration at the portfolio level and the Risk Committee that considers ESG risks and factors, as appropriate, when considering the approval of an investment and/or originator .

Fasanara's investment teams are responsible for the day-to-day implementation of the ESG policy, as well as for integrating ESG considerations into their investment processes. Each team is able to develop its own sustainability approach, which best fits their specific asset class, ranging from research to portfolio construction or direct engagement.

Fasanara's investment teams assess both macro and micro ESG factors as part of their analyses and selection processes. They evaluate prospective counterparties in every opportunity set in terms of the ESG impact and its alignment with our ESG Policy. They consider both positive and negative screenings as part of the investment analysis and decision-making process. Hence, their decisions and recommendations are channelled towards an overall positive impact, while avoiding entities whose goals and aspirations conflict with the SDGs and the core values of our investors.



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Leveraging data-driven insights is key to this process. As the next milestone, Fasanara is pleased to introduce Fasanara Cardo AI SME-ESG Ratings, a proprietary tool allowing Fasanara to assign ESG ratings to private, unlisted SME companies. This is a significant step forward for ESG transparency in the SME space, where little data and information is usually available. While at present, most ESG ratings are provided for public companies, the Fasanara Cardo AI SME-ESG Ratings tool assigns ESG ratings to mostly private, smaller companies, based on inputs such as alignment with SDG targets. To this end, Fasanara collects, process and stores both traditional/structured data and unstructured/alternative data, performing AI-driven data augmentation from multiple external sources. Currently covering a first tier of 20,000 SMEs in Europe, the USA, and Asia, this is an unmatched tool in the industry and brings true innovation to this often-obscure SME sector.

Through years of investment activity in Alternative Credit, Fasanara has gained substantial amounts of data in the SME space – a strong competitive advantage in today’s data driven world. Fasanara Cardo AI SME-ESG Ratings capitalises on this access to information sourced from data on thousands of receivable transactions from over 25 different countries. Fasanara’s database is matched by Cardo AI’s technological and predictive expertise. The result is the first widely applicable tool for SME-ESG evaluation. As part of Fasanara’s ESG commitment, the SME-ESG Ratings tool will be made available to the wider public who may connect remotely to the cloud-based database in the future.

#### *Fasanara’s Alternative Credit Strategy*

Fasanara’s Alternative Credit Strategy creates a strong positive societal impact by focusing on the real economy. Through financing tools such as supplier-led invoice financing, trade finance, SME loans, revenue advances and more, Fasanara directly supports hundreds of thousands of SMEs every year.

SMEs contribute to 70% of total employment in Europe alone, yet market inefficiencies and regulatory requirements have led to a funding gap in the trillions of EUR. Fasanara’s mission is to contribute to close this gap efficiently by channelling capital to those most in need.

Fasanara proudly cooperates with the European Investment Fund, which has become an important investor in the Alternative Credit Funds. This underscores our belief and commitment to cooperate with policy makers to bring lending solutions to SMEs for mutual benefit.

Besides the efforts to serve the underbanked SME sector, Fasanara has gone an additional step further in its ESG commitment by classifying the Fasanara Alternative Credit Funds as promoting societal and social causes in accordance with Article 8 of the SFDR.



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### *Incorporation of ESG into Alternative Credit Investment Process:*

Fasanara has adopted a five-stage process for the Alternative Credit Funds to ensure that every investment opportunity is rigorously screened before, during and after investing their capital:

1. Initial Screening
  - Completion of due diligence questionnaire by originators
  - Preliminary analysis of each transaction by Origination Team
  - Origination Team review fit with Fasanara's investment strategy and ESG policy
2. Due diligence
  - Full financial review and complete review of all due diligence materials by Credit Risk Team (including ESG data)
  - Preliminary discussion with Legal Team on the suitable structure and potential terms and conditions of the transaction
3. Deal structuring
  - Negotiation of the final term sheet
  - Production of detailed Investment Memo (with a section on ESG considerations)
4. Approval and closing
  - Risk Committee review final term sheet and detailed Investment Memo and approve the transaction taking ESG considerations into account where applicable
  - Execution of legal documentation once negotiations finalised
5. Monitoring
  - Portfolio monitoring by Investment Committee and maintenance of the internal ESG rating
  - Quarterly monitoring and valuation reports on the originators (including ESG performance)

### *Selecting investments*

When considering new investments, Fasanara will screen them against Fasanara's ESG Exclusion List (Appendix A) which identifies the sectors, businesses and activities in which Fasanara will not invest. The Appendix A is complemented by sanctions lists from OFAC, UN, EU, HM Treasury etc.

In addition to the exclusions applied as a first filter to any opportunity received, each opportunity presented to the Risk Committee is subject to a comprehensive due diligence,



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including the identification of ESG risks and opportunities. This is an integral part of the analysis criteria and helps to clarify the credit analysis, which is carried out in parallel.

The due diligence exercise starts at the very first stage of the investment decision-making process through meetings with the prospective originator; gathering of relevant information via questionnaires and public information (including annual accounts and media reports); the review of internal policies and any other action necessary to analyse on a comprehensive basis the business model of the originator and the potential portfolio. Once the due diligence process is finished, the main conclusions, including identifying the ESG-related opportunities and/or risks of the potential portfolio are reached. This outcome allows Fasanara to qualify the potential investment to decide if it fits with its ESG policy and is suitable for investment.

ESG considerations (where applicable) are also included in the Investment Memo presented to the Risk Committee for its approval. This would include evaluating the ESG-related risks from a company, sector and geographic perspective and what steps the originator has taken to mitigate against these risks.

Originators with a robust framework of controls and policies in respect of ESG principles are considered as strategic partners and qualify as a priority versus other ones that do not consider ESG principles as a core issue in their origination strategy.

The Risk Committee consider the sustainability impact of investments by assessing their relevance to the SDGs. For each investment, the Investment Memo identifies whether and how the investment aligns with one or more of the sustainable development themes. This helps Fasanara to better understand its potential sustainability impact at the individual deal and portfolio level, as well as communicate shared sustainability objectives with its partner originators and stakeholders.

Each investment decision is discussed and needs to be approved by the Risk Committee before an investment is made. While Fasanara is more sensitive to certain ESG issues when making a credit decision, such as those on the ESG Exclusions List, the Risk Committee takes a case-by-case approach based on materiality versus a binary one when considering ESG factors.

### Monitoring investments

All investments by Fasanara are subject to varying degrees of ongoing ESG monitoring and may include sending out questionnaires to originators or reviews of ESG ratings on positions (both proprietary and third party).

Fasanara's close relationship with its vast network of more than 70 origination partners has enabled it to tap a wide range of data sources to gather more information on its SME



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customers. This close cooperation additionally allows Fasanara to encourage the originators and companies that transact through their marketplaces to act in a way reflecting societal values and best-practice standards.

As part of the portfolio monitoring, partner originators are asked to develop an ESG reporting framework for both itself and its customers to provide useful ESG data to Fasanara. This information is collected and reviewed quarterly.

Any ESG concerns regarding an ongoing investment will be raised to the Investment Committee. In the event of a deterioration of an ESG aspect (e.g. emergence of a controversy), that is contrary to Fasanara's ESG policy or that is likely to have an adverse impact on credit, the Investment Committee may validate, at its discretion, corrective measures. The regular dialogue established with originators can generally allow the investment to anticipate issues and react quickly.

In the event of any improvement or deterioration in an originator's ESG performance, the investment team brings this to the attention of the Risk Committee in order to inform the assessment of the originator's overall performance.

## ***Stewardship***

The UK Stewardship Code 2020 of the Financial Reporting Council (FRC) defines stewardship as "the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society". Whilst this definition captures the complete investment process, there are two stewardship mechanisms which are the most common areas of focus by investors: engagement and proxy voting, although as specialist debt investors, the extent to which we have access to these differs in comparison to equity owners. Fasanara is committed to stewardship and has embedded stewardship principles into its investment process.

### **Engagement**

Being an active investor, engagement is a fundamental part of Fasanara's investment process. Moreover, Fasanara sees engagement as a tool for a long-term, active ownership process based on the assumption that changes in business drive positive changes in corporate value. As part of its approach, it takes an active interest in how its partner originators manage ESG issues and, on behalf of its investors, encourages and supports companies in its supply chain to adhere to best-practice standards for responsible business.

Fasanara works with each partner originator to create specific ESG Key Performance Indicators (KPIs). ESG KPIs are captured and reviewed by the investment team. If the KPIs



contains anomalies or discrepancies, further investigations are performed and corrective actions may be taken. Performance is benchmarked against prior years and objectives.

ESG KPIs that are monitored and applied by Fasanara are summarised as follows:

	<b>Environmental</b>	<b>Social</b>	<b>Governance</b>
<b>KPIs applied to partner originators</b>	<ul style="list-style-type: none"><li>• Existence of an environmental policy</li><li>• Estimation of CO2 footprint</li><li>• Water or energy consumption</li></ul>	<ul style="list-style-type: none"><li>• Job creation</li><li>• Availability of training opportunities</li><li>• Number of women employed</li></ul>	<ul style="list-style-type: none"><li>• Independent members on the Board</li><li>• Board meetings per year</li><li>• Existence of other specific committees</li></ul>

The outcome of these ESG engagement efforts input into Fasanara's investment thinking and decisions, potentially ultimately influencing the extent of Fasanara's exposure and / or whether further action is required.

#### Proxy Voting

Given Fasanara's focus on debt investing, we have limited scope to participate in proxy voting, which is a legal mechanism available to equity investors for communicating and influencing management at their Annual General Meetings (AGMs). However, this can potentially occur, and is more likely to take place, with convertible instruments where an investment may take on an equity element making us shareholders with formal voting rights. In such cases, Fasanara will ensure it makes appropriate use of its voting rights on matters of corporate governance (CG) and corporate responsibility (CR) when the opportunity arises taking into consideration international/national standards of best practice, whilst being pragmatic about issuer specific circumstances.

Fasanara also conforms with best practice in other areas relevant to ESG, particularly in respect of its own corporate governance, and the provision of timely information to its stakeholders. Fasanara believes that it should at all times behave ethically and should have regard to and monitor the ESG consequences of its business operations, paying particular concern to its role in the wider community.

As part of this commitment to ESG, Fasanara strives for continuous improvement in the ESG impacts of its own operations by:



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- Reducing its carbon footprint.
- Transparency on the investment decision-making process.

See Appendix B for more information.



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## **Appendix A: ESG Exclusion List**

### **E – Environmental and Energy Related Issues**

- No cross-border trade of waste except those that are allowed under the Bale Convention
- No landfills
- No oil and gas
- No operations that involve or require the destruction of a critical habitat or a forest unless they have a bona fide sustainability plan in place
- No transaction that endangers or irreversibly changes or significantly displaces property of cultural or historical importance
- Animal and other natural products must comply with the Washington Convention (the Convention on International Trade in Endangered Species of Wild Fauna and Flora)
- No products that destroy the ozone layer

### **S - Social / Societal Issues and Concerns**

- No animal testing (pharmaceutical, cosmetic industries issue)
- No manufacturing or sale of weapons and ammunition
- No tobacco and hard liquor for human consumption
- No manufacturing or sale of illegal products or services under any applicable laws
- No casinos or equivalent businesses
- No sales connected to pornography or prostitution
- No exploitation of diamond mines or the sale of blood diamonds. Any sale of diamonds must comply with the Kimberley Process Certification Scheme
- No production that uses toxic substances like asbestos or PCB
- No manufacturing, use or sale of pharmaceutical products, pesticides and herbicides and all other dangerous products that are banned or controlled internationally

### **G – Corporate Governance**

- No modern slavery anywhere in the supply chain (e.g. child labour and forced labour)
- No human rights abuse of employees (direct or indirect)
- No sectors or services in a country that are subject to an embargo by the UN or the EU



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## Appendix B: Fasanara's ESG Policies

### 1. Environmental Policy

Fasanara recognises that its activities have an impact on the environment and its policy is to limit this impact as much as possible. Fasanara is committed to running a business that is environmentally responsible, energy efficient, carbon neutral and makes its best effort to achieve continuous improvements.

Fasanara recognises that its key environmental impacts are:

- emission of greenhouse gases;
- generation of waste; and
- use of energy, water, manufactured products and natural resources.

To address key issues of environmental concern and to minimise its environmental impact, Fasanara is committed to:

- signing the vast majority of documents electronically using DocuSign [SDG 12];
- enabling each meeting room with screens and monitors to avoid printing papers for meetings [SDG 12];
- encouraging the use of shared folders and shared files across the various teams [SDG 12];
- encouraging use of conference call facilities to minimize travelling [SDG 13];
- use refillable water gallons to minimize plastic bottle usage [SDG 12];
- encouraging employees to use their own reusable food bags when taking lunch out [SDG 12];
- encouraging employees to take advantage of Cycle to Work schemes [SDG 13]; and
- adopting energy-saving bulbs for all meeting rooms and offices, so that lights switch off automatically if no movement is detected [SDG 12 and 13].

At a firm level, Fasanara has developed internal communication processes aimed at promoting environmental awareness and improving staff education and involvement. Fasanara is considering this policy in all relevant decisions including procurement of supplies and incorporating specific environmental requirements into its contracts with appropriate suppliers [SDG 13]

Fasanara is committed to its environmental policy and views it as integral guidance on how it operates its business in a sustainable manner.



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## 2. Social Policy

Fasanara aims to ensure proper labour and working conditions, to safeguard the health and safety of its employees and to promote the social development of the communities in which it operates. In particular, Fasanara:

- is fully committed to equal opportunities and diversity and values its people for their skills, experience and potential regardless of gender, sexual, orientation, age, race, colour, ethnic origin, religion or disability [SDG 5 and 10];
- believes in recruiting, developing and retaining the best talent from the widest pool in order to promote a stimulating, rewarding and inclusive environment where everyone's contribution is recognised, valued and respected [SDG 5 and 10];
- regularly reviews in-company gender equality and takes corrective action where needed to improve the gender balance amongst employees and executive management. This applies to benefits as well as equal access to all company-supported education and training programs [SDG 5];
- does not use directly or indirectly forced labour or child labour and provides the elimination of discrimination in respect of employment and occupation [SDG 1];
- allows consultative work-place structure and associations which provide employees with an opportunity to present their view to management [SDG 8];
- for operations involving the relocation of employees for extended period of time, ensures that such employees have access to adequate housing and basic services [SDG 1];
- assesses the health and safety risks arising from work activities and take appropriate actions to eliminate or reduce related risks [SDG 3]; and
- is committed to consider requests from any employee for non-standard working arrangement within reason (i.e. maternity/paternity/ parental leave) [SDG 1, 5 and 10].

Fasanara aims to create a harmonious working environment and to maintain the highest standards of integrity with everyone with whom it deals. Fasanara continues to encourage a culture that values meritocracy, openness, fairness and transparency. All the managers and employees are responsible for the promotion and advancement of this policy and any behaviour that transgresses this policy is not tolerated. These values apply to all Fasanara processes relating to employment, training, development, performance management and rewards. [SDG 8 and 10]

Fasanara also aims to have a wider social impact by helping its network platform originators grow steadily with the support of a fully dedicated institutional buyer. By doing so, Fasanara expects to help SMEs across Europe, the USA and developed Asian countries access funding



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at a time when the traditional banking channel is challenged by regulations and capital constraints. Fasanara also encourages its network partner originators to adopt sound social and ethics policies and to promote socially relevant projects through dedicated initiatives. [SDG 8 and 10]

### **3. Governance Policy**

Fasanara is fully committed to:

- comply with all applicable laws and promote international best practice, including those laws and international best practices standards intended to prevent extortion, bribery and financial crime [SDG 16];
- exhibit honesty, integrity, fairness and respect in all its business dealings [SDG 10];
- deal with regulators in an open and co-operative manner [SDG 16];
- prohibit all employees from making or receiving gifts of substance in the course of business [SDG 16];
- prohibit contributions to political parties or political candidates, where these could constitute conflicts of interest [SDG 16];
- use information received from its principals in the best interests of the business relationship and not for personal financial gain by any employee [SDG 16 and 10];
- clearly define responsibilities, procedures and controls [SDG 10];
- promote transparency and accountability grounded in sound business ethics [SDG 16];
- identify conflicts of interest and avoid or report them in line with its agreements with stakeholders and industry best practices [SDG 16];
- properly record, report and review financial and tax information [SDG 8 and 10];
- use effective systems of internal control and risk management covering all significant issues, including environmental, social and ethical issues [SDG 10];
- make every effort to meet stakeholders' expectations, facilitate their access to information and provide them with clear and transparent information based on regular and value-added reporting [SDG 12]; and
- implement a robust sustainability approach which enables effective identification, management and monitoring of any risks and opportunities and provides a framework for action [SDG 12].



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