FASANARA

2023

SUSTAINABILITY REPORT

1. ABOUT THIS REPORT

Welcome to the **2023 Sustainability Report** of Fasanara Capital Ltd ("Fasanara"), a comprehensive overview of our ongoing efforts to embed sustainability throughout Fasanara's operations and investment strategies. Building on the foundations laid out in our inaugural **2021 - 2022 Sustainability Report**, this year's edition provides a detailed account of the steps we've taken in 2023 to enhance our sustainability profile at both the organisational and portfolio levels. All data presented in this report is accurate as of 31 December 2023, unless otherwise specified.

Despite navigating a challenging market environment, Fasanara has demonstrated resilience, achieving growth in assets under management ("AUM"), expanding our investor and employee base, and diversifying our product offerings. Throughout this growth, sustainability has remained a primary focus. Recognising the critical role responsible operation and investment play in our long-term success, we continue to allocate time and resources to fortify the sustainability of our corporate operations and investment practices.

Looking ahead, our strategic focus centres on advancing our stance on climate change and fostering diversity, equity, and inclusion ("DEI"). These sustainability themes have emerged as top priorities, reflecting their global significance and their direct impact on bolstering business resilience. While we have made significant strides in both areas, such as measuring our carbon footprint, refining our sustainability-linked margin ratchet programme to focus on climate change mitigation and gender equality, and enhancing our employee handbook with competitive DEI policies, we acknowledge that there is always room for further improvement.

We invite you to delve into the progress we have achieved throughout 2023 and explore the areas where we are committed to enhancing our sustainability initiatives in the future. Your insights and engagement are crucial as we continue to navigate the evolving landscape of responsible investing and sustainable business practices.

2. MESSAGE FROM THE CEO

FRANCESCO FILIA

Founder and Chief Executive Officer of Fasanara

"At the heart of our Alternative Credit strategies, Fasanara acts as a technology bridge between institutional capital and unbanked/underserved SMEs and consumers, which are vital components to the economic fabric of a healthy society."

What does sustainability mean for Fasanara?

In late 2019, Fasanara embarked on its sustainability journey by becoming a signatory to the United Nations Principles of Responsible Investing (the "UN PRI"). This decision was prompted by the recognition of the significant social impact generated by Fasanara's alternative credit strategy on the real economy. Specifically, Fasanara's alternative credit strategy leverages financing tools such as supplier-led invoice financing, small-and-medium enterprise ("SME") loans, and revenue advances to bolster the economic well-being of hundreds of thousands of SMEs annually. These businesses often face challenges in accessing traditional banking services. SMEs, being crucial contributors to global gross domestic product, widespread employment, and economic stability, collectively play a pivotal role in shaping global sustainability standards. However, market inefficiencies and regulatory requirements have resulted in a substantial global funding gap estimated at $1 trillion.

A core mission of Fasanara is to contribute to closing this funding gap by directing capital towards this essential segment of the real economy in ways that are sustainable. This initiative aligns with the United Nations' 2030 Sustainable Development Goals ("SDGs"), focusing on financial inclusion, gender equality, and climate mitigation. Our commitment to responsible investing is outlined in Fasanara's publicly available ESG Policy, accessible on our website at www.fasanara.com/esg. This policy delineates Fasanara's philosophy on responsible investing and outlines its approach to integrating sustainability factors into both its investment processes and business operations.

Fasanara not only adheres to the six principles of the UN PRI, but also incorporates other frameworks such as the SDGs, the Task Force on Climate-Related Disclosures ("TCFD"), the Women Empowerment Principles ("WEP"), and the European Union Sustainable Finance Disclosure Regulation ("SFDR"). These frameworks serve as guiding principles for our comprehensive approach to ESG integration, applied at both at the firm and portfolio levels.

Fasanara's sustainability journey from October 2019 to December 2023

Effectively, Fasanara has adopted an inclusive approach by decentralizing the responsibility for integrating environmental, social, and governance ("ESG") factors. Rather than confining this responsibility to a single individual or team, each team within Fasanara is entrusted with the task of incorporating ESG considerations into their existing processes with the support of the cross-functional ESG team (consisting of ESG 'champions' drawn from other teams including legal and compliance, risk and analytics, operations, investor relations, and business development).

For the origination and risk teams, this involves integrating ESG information into the broader due diligence process when evaluating originators and investments. This assessment includes gauging their alignment with the SDGs and adherence to our ESG Policy when making a case for their inclusion within our FinTech ecosystem.

The legal team plays a role by incorporating ESG representations, covenants, and information rights into our funding documents. In certain cases, specific ESG key performance indicators ("KPIs") in respect to carbon emissions and/or gender equality are agreed upon, linking them to the cost of funding. This approach serves as an incentive for originators to enhance and sustain their ESG credentials over the longer term.

The investment and operations teams, on the other hand, are tasked with monitoring portfolios to ensure compliance with our ESG exclusions list and eligibility criteria. This holistic approach underscores our commitment to embedding ESG considerations across various facets of our operations and reinforces our dedication to sustainable and responsible business practices.

What were some of the key sustainability highlights in 2023?

Firmwide Strategic Achievements

- Fasanara won "Best Social Initiative – Management Company" at Private Equity Wire ESG AAA European Awards 2023 and Peer2Peer's "Institutional Partner of the Year" award.
- Anita Bhatia joined the Advisory Board to advise Fasanara on sustainable finance projects.
- We donated a total of $120,000 over the course of the year to philanthropic endeavours.

Corporate Responsibility Achievements

- We calculated and disclosed our Scope 1, 2 and 3 emissions for the year 2023.
- We updated our Employment Handbook with competitive DEI policies.
- We conducted an employee DEI survey and 85% would recommend Fasanara as a great place to work.

Responsible Investment Achievements

- We agreed and documented sustainability-linked ratchets during the year representing $160,000,000 of capital.
- More than half of Fasanara's alternative credit funds that are currently investing disclose in accordance with Article 8 of the SFDR.
- We aligned our originator DDQ with the ESG IDP template.

Please refer to *Appendix 1* for a review of Fasanara's progress in 2023 regarding sustainability and to *Appendix 2* for our 2024 targets.

3. CORE IMPACT: SUSTAINABLE FINANCE AT FASANARA

At the heart of Fasanara's mission is the commitment to globally support SMEs by providing cutting-edge fintech solutions for working capital financing. Our strategic focus revolves around optimizing capital allocation, enabling small businesses to make prompt, seamless, and sustainable funding decisions.

In today's economic landscape, traditional banks are increasingly creating barriers for SMEs, hindering overall economic growth. Additionally, the detrimental impact of late invoice payments further exacerbates challenges for SMEs. Fasanara's alternative credit strategy addresses these issues by actively lending to SMEs, positioning the support of small businesses at the core of its investment strategy.

The primary financing tools employed by Fasanara include SME loans, revenue advances, and supplier-led invoice financing, all of which are flexible and liquid instruments. These tools play a crucial role in fulfilling our mission to narrow the global funding gap faced by SMEs.

Aligned with the SDGs, Fasanara's alternative credit strategy pursues impact objectives that contribute significantly to the achievement of Agenda 2030. These objectives include promoting gender equality in senior leadership (SDG 5), fostering financial inclusion (SDG 10), facilitating the transition to a circular economy (SDG 12), and supporting climate change mitigation (SDG 13).

SMEs, recognized as the cornerstone of economies worldwide, constitute 95% of registered firms and contribute to 50% of employment, with a significant impact on GDP[1]. Despite their vital role, SMEs confront a substantial financing gap, estimated at up to $1 trillion. Recognizing this challenge, Fasanara's alternative strategy directly addresses the financing gap in the markets where our origination partners operate, offering a sustainable solution that goes beyond temporary measures implemented by governments during the COVID-19 pandemic.

By collaborating with approximately 140 fintech partners globally, Fasanara adopts a "wholesale" approach to closing the SME financing gap, showcasing the value of our business model. Our aspiration is to emerge as a sustainable source of capital for SMEs worldwide, fostering their business growth and contributing to the real economy in ways that champion gender equality, climate change mitigation, and the transition to a circular economy.

As a data-driven organization, we possess the capability to quantify the tangible impact of our lending initiatives. To date, our efforts have positively impacted 40,237 small businesses globally. Our estimations indicate that the capital deployed through our investments has not only facilitated the creation of over 52,000 new jobs but has also generated an impressive $37 billion in economic value. These figures underscore our commitment to delivering measurable and substantial contributions to SMEs, reinforcing our dedication to sustainable finance and the advancement of a thriving global economy.

Francesco Filia being interviewed at Davos 2023 on the positive social impact of Fasanara's alternative lending strategy.

[1] https://www.worldbank.org/en/topic/smefinance#:~:text=SMEs%20account%20for%20the%20majority,(GDP)%20in%20emerging%20economies

Introduction: Fasanara at a glance

Fasanara is an independent, owner-managed alternative asset management company authorized and regulated by the Financial Conduct Authority ("FCA") with approximately $4 billion in assets under management (as of 31 December 2023) on behalf of institutional investors in Europe and North America.

We offer access to a range of inventive multi-asset capacity-constrained niche products through the implementation of an unconventional investment strategy based on multi-asset capacity-constrained niche products and extensive use of state-of-the-art financial technology. We believe that investing in the digital future is the best response to today's transformational markets.

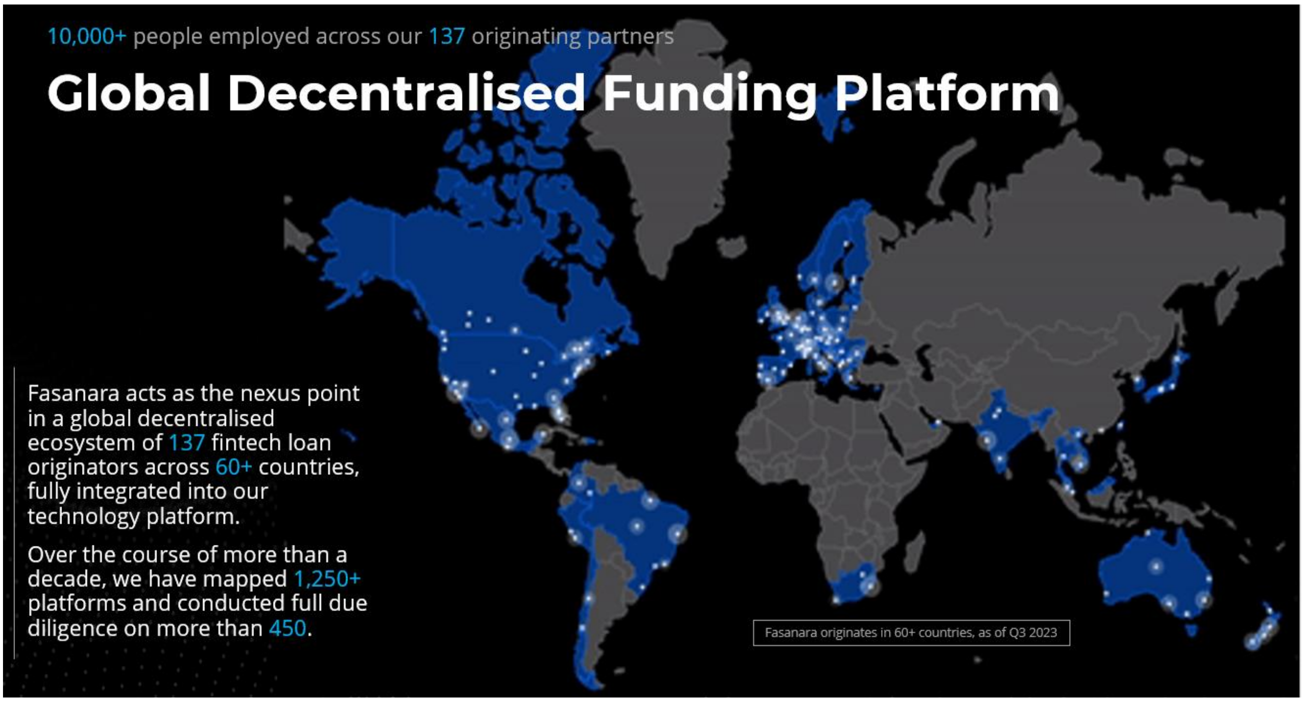
Our network of 137 fintech lenders are located across 60 different countries and our digital loans and receivables are mainly directed towards Germany, Spain, Italy, Finland, Singapore, Ireland, and the UK. We are also increasingly active in the US, Hong Kong, Eastern Europe, and the Middle East.

Through our proprietary platform infrastructure and our extensive use of big-data technology we are able to originate the best corporate receivables and create ultra-granular portfolios. We leverage machine learning credit analytics and artificial intelligence techniques, through both proprietary systems and powerful external partnerships, for rating assessments and AI-driven dynamic asset allocation.

The vision of Fasanara is to use technology and systems theory to help democratize financial services for SMEs in ways that are sustainable, equitable, transparent, and empowered with data.

In the past 12 years, we have increased our exposure to global markets by adopting an integrated approach across regions and partnering with the best originators around the world.

Figure 1 *Total Originator Portfolio Geographic Exposure (as of 31 December 2023)*



Fasanara originates in 50+ countries as of Q3 2023

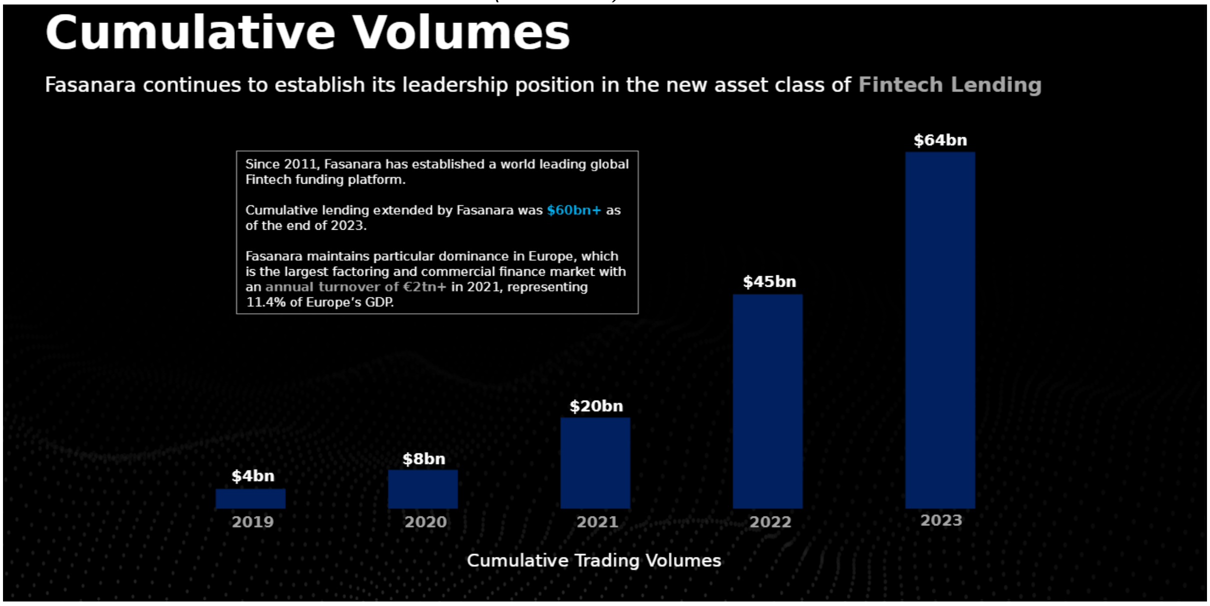
Leader in Digital Lending

We are one of the largest European investors in the market of digital invoices and trade receivables with a track record of more than 10 years.

Our data-driven lending transactions crossed the $64 billion mark in cumulative volumes by the end of 2023 and we aim to cross the $85.5 billion mark by the end of 2024. We harness a vast amount of data to train credit models effectively to achieve better pricing, ranking, and pooling of the assets, and ultimately better performance.

Figure 2

Traded Volumes Growth in Billions USD Gross (2019-2023)



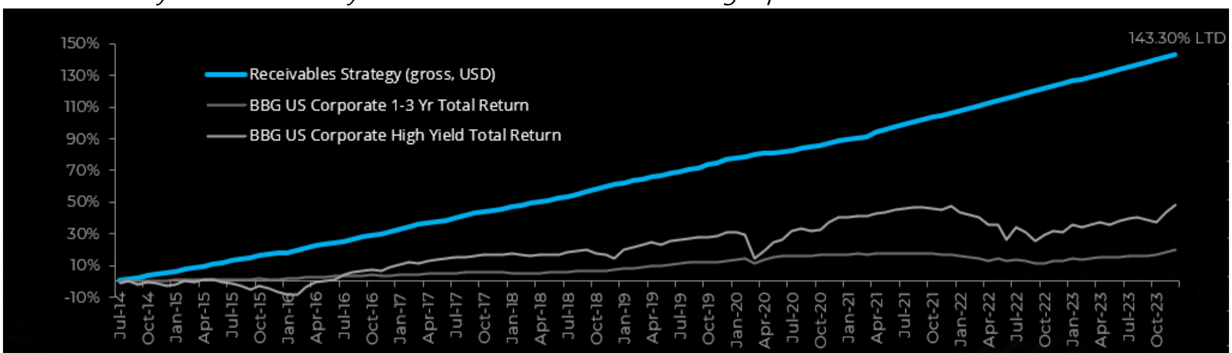
Sources: Fasanara Capital Ltd; EU Federation for the Factoring and Commercial Finance Industry (EUF): https://euf.eu.com/data-statistics/annual-factorin-data.html. EU National Associations and FCI statistics (accessed 21/2/2023)

Delivering Optimal Performance

Over the past ten years, our alternative credit funds have delivered optimal returns meeting investors' financial needs whilst, in some cases, satisfying rigorous sustainability criteria.

Figure 3

Gross Monthly Returns from July 2014 to December 2023 of our flagship fund



USD Gross	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Ann. Return
2014							0.95%	0.58%	0.93%	1.02%	0.67%	0.90%	5.15%	10.57%
2015	1.14%	1.12%	0.59%	1.22%	1.06%	1.18%	0.81%	0.98%	1.02%	0.80%	0.90%	0.71%	12.15%	12.15%
2016	0.25%	1.25%	1.10%	1.15%	1.17%	0.33%	0.80%	1.30%	1.08%	0.72%	0.36%	1.17%	11.20%	11.20%
2017	1.27%	1.19%	1.28%	0.43%	0.70%	0.62%	1.05%	1.32%	0.96%	0.55%	0.62%	0.71%	11.23%	11.23%
2018	0.70%	0.55%	0.96%	0.56%	0.89%	0.66%	0.71%	0.86%	1.35%	0.76%	0.88%	0.98%	10.29%	10.29%
2019	0.88%	0.79%	0.61%	0.65%	0.71%	0.83%	0.57%	0.88%	0.63%	1.01%	0.88%	0.98%	9.83%	9.83%
2020	0.61%	0.60%	0.62%	0.38%	0.34%	0.36%	0.52%	0.61%	0.46%	0.63%	0.70%	0.62%	6.65%	6.65%
2021	0.49%	0.51%	0.61%	1.29%	0.91%	0.78%	0.85%	0.79%	0.81%	0.70%	0.70%	0.74%	9.57%	9.57%
2022	0.73%	0.69%	0.68%	0.77%	0.74%	0.80%	0.80%	0.71%	0.71%	0.63%	0.66%	0.67%	8.94%	8.94%
2023	0.57%	0.66%	0.63%	0.63%	0.69%	0.65%	0.72%	0.68%	0.65%	0.66%	0.64%	0.67%	8.15%	8.15%

To protect our market-leading position and best tackle the explosive market for digital lending, we are structured as a decentralized market-based organization, working in an open ecosystem with well-established partners across countries. In addition to our approximately 200 highly trained workforce of coders, developers, and experienced finance specialists, we leverage a captive ecosystem of more than 5000 people. Our firm believes in open ecosystems and collaborative organizations. We also link up with renowned academic institutions and research groups to broaden our boundaries and establish superior understanding, better data, and processing power.

Annualised performance

8.15%

for our flagship alternative credit fund (2023)

Our 4 Investing Strategies

Fasanara Fintech

Global market leading Digital Lending strategies

Fasanara Quant

Quantitative multi-strategy hedge fund investing

Fasanara Digital

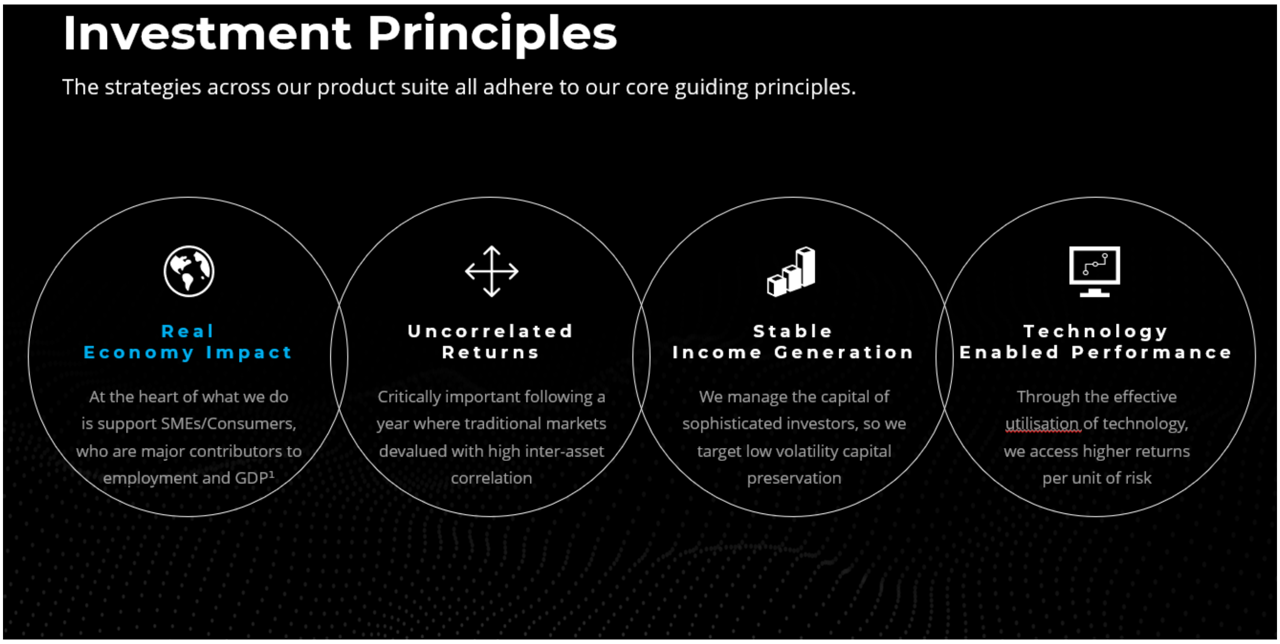
Institutional-grade quantitative market neutral

Fasanara Venture

Direct investments in early-stage Fintech companies

Fasanara at the World Economic Forum 2023

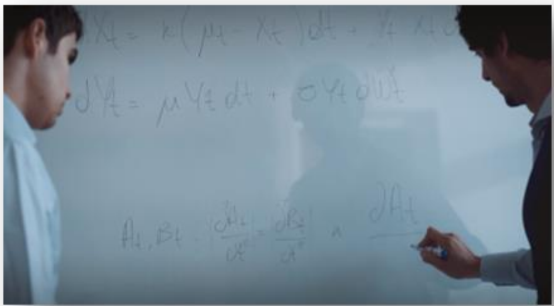
Investment Principles



Source: Please see The World Bank – Small and Medium Enterprises (SMEs) Finance: https://worldbank.org/en/topic/smefinance (accesses 21/2/2023)

Main pillars of our investment strategy

Investment expertise: The investment team's expertise spans across a wide array of asset classes. Fasanara's distinct investment approach allows for greater independence and flexibility, promptly responding to opportunities as they arise.



Prudent Risk Management: Fasanara has developed a tailor-made risk management framework adapted to its distinct investment strategy. A dedicated team of people oversee this part of the investment process.

Client Focus: Fasanara delivers a customized service to its investor base, striving to fulfill their needs with opportunistic vehicles and quantitative investment solutions, using state-of-the-art technology.

Scaling up through technology: We have invested in new algorithms to help us diversify our strategies and manage the portfolios through our machine learning infrastructure. By leveraging our technology, we can continuously improve our methodology to best access the most liquid asset classes.

ESG Corporate Strategy

Our ESG strategy is a framework that integrates ethical operations, responsible investment practices, and robust governance structures. Crafted based on the outcomes of our internal materiality assessment, this strategy is centred on addressing the most critical issues for our long-term business performance and those deemed significant by our stakeholders, namely promoting financial inclusion, climate mitigation and DEI.

To ensure the relevance and effectiveness of our ESG corporate strategy, the ESG Steering Committee conducts an annual review. Additionally, monthly meetings are convened to discuss priorities, guaranteeing that adequate and pertinent resources are allocated to the identified focus areas.

In recognition of our heightened emphasis on DEI, Anita Bhatia assumed a position on Fasanara's Advisory Board in May 2023. Anita brings a wealth of experience, having recently served as the Assistant Secretary-General and Deputy Executive Director for UN Women, the principal entity within the United Nations system dedicated to advancing global gender equality and women's empowerment. Anita's profound insights into sustainable finance and her unwavering commitment to promoting gender equality align seamlessly with the objectives of Fasanara's Advisory Board as it endeavours to contribute to a more equitable world.

Anita Bhatia. Vogue Arabia, May 2022. Photo: Amir Hamja

Anita's role extends beyond symbolic representation; she will actively support Fasanara by disseminating best practices and promoting gender equality and financial inclusion across our fintech ecosystem. Fasanara recognizes the dual importance of such initiatives, deeming them not only ethically imperative but also strategically advantageous. Studies have shown that companies prioritizing gender equality and robust ESG initiatives tend to outperform their counterparts. With Anita's appointment to the Advisory Board, Fasanara aspires to harness its resources to advance the cause of gender equality and propagate best practices in the real economy. This addition reaffirms Fasanara's commitment to fostering a sustainable and equitable business landscape.

> *I joined Fasanara Capital's board as I was impressed with the way that they are taking a fresh approach to financial innovation and funding. They're very focused on inclusivity, democratization and accessibility in their fintech lending and their investments.*
>
> *- **Anita Bhatia***

Our Values

Transparency

We make every effort to meet our stakeholders' expectations, facilitating their access to information and providing them with clear and transparent information based on regular and value-added reporting. We have made our ESG Policy and annual sustainability reports publicly available and regularly organize calls to keep investors updated on our approach to responsible investment.

Selecting and Monitoring Investments

We endeavour to systematically incorporate ESG criteria into our investment and operational due diligence processes. The ESG findings of the investment and origination teams are formally documented within the due diligence reports produced for our Risk Committee, with potential concerns flagged for consideration. All investments are subject to varying degrees of ongoing ESG monitoring.

Network Effect

We encourage greater ESG awareness across our network through relationships that are forged over years of working together. Where relevant, we contractually oblige our partner originators to put in place their own ESG policy.

Corporate Governance

When it comes to corporate governance, we conform to best practices. In addition, we believe that we should always behave ethically and should monitor the ESG consequences of our own business operations, paying particular concern to our role in the wider community.

We seek to invest in opportunities that generate both financial value and sustainable growth. As part of our approach, we take an active interest in how companies in our investment chain manage ESG issues and encourage adherence to best-practice standards for responsible business.

It is Fasanara's belief that a comprehensive integration of ESG considerations into its culture and investment processes will positively impact both its financial performance – through risk management and alpha generation- and its sustainability footprint which will ultimately contribute to the creation of a more sustainable economy.

Greta Renton, Head of ESG, holding Fasanara's trophy for Best Social Initiative at Private Equity Wire's ESG AAA European Awards in October 2023

Fasanara's 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 investment analysis and decision-making processes where relevant;*
- *adopting a responsible and ethical approach to governance;*
- *seeking appropriate disclosure on ESG issues from the entities in which our funds invest; and*
- *informing investors of our ESG Policy and providing them with information on our approach to ESG issues.*

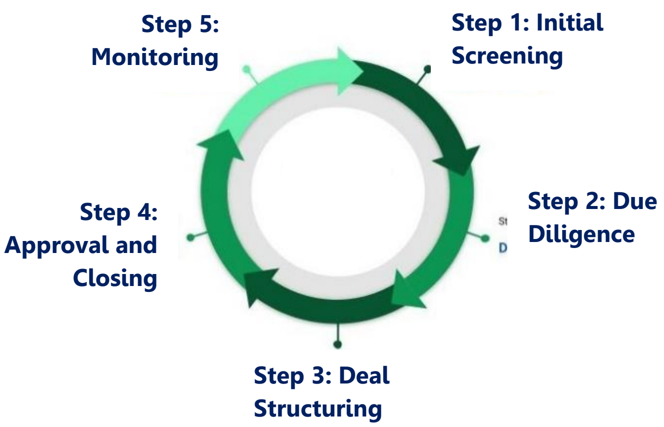
Stakeholder Engagement

Fasanara recognizes a diverse range of stakeholders, including investors, employees, and policymakers, among others. In our commitment to understanding their concerns and aligning with our business objectives, we actively participate in ongoing dialogues. We actively engage, listen to, and learn from our stakeholders, incorporating their valuable insights into the development of our sustainability strategy. Below we list our key stakeholders and provide details on how we engage with each of them.

Responsible Investing: Incorporation of ESG into Alternative Credit Investment Process

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 strong management structures 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 considerations, including corporate governance, are assessed and incorporated throughout our entire investment processes.

Integration of ESG in our portfolios: a step-by-step approach



We evaluate ESG factors as part of our investment analysis and decision-making processes to ensure investments are aligned with client values.

Fasanara has adopted a five-stage process for its alternative credit strategy to ensure that every investment opportunity is screened *before, during, and after* investment:

1. Initial Screening

- Completion of Fasanara's due diligence questionnaire by originators
- Preliminary analysis of each transaction by the origination team
- origination team reviews fit with Fasanara's ESG Policy and investment strategy more widely

2. Due diligence

- Review of all due diligence materials (including ESG data) by credit risk team
- 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 a due diligence report (with a section on ESG considerations)

4. Approval and closing

- Risk Committee reviews final term sheet and due diligence report and approves or rejects the transaction taking ESG considerations into account where applicable
- Execution of legal documentation once negotiations finalized which include ESG representations, covenants and information undertakings

5. Monitoring

- Portfolio monitoring by the Investment Committee
- Annual monitoring on the originators (including ESG performance)

When considering new investments, Fasanara will screen them against Fasanara's ESG Exclusion List which identifies the sectors, businesses, and activities in which Fasanara will not invest on ethical grounds. This list 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 comprehensive due diligence, 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. It is mainly done through:

- *meetings with the prospective originator;*
- *the gathering of relevant information including via ESG focused questionnaires and public information (including annual accounts and media reports); and*
- *the review of internal policies and any other action necessary to analyze 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 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.

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 when considering ESG factors.

The Risk Committee considers the sustainability impact of investments by assessing their relevance to the SDGs and other ESG considerations which are included in the due diligence reports presented to the Risk Committee for its approval. For each investment, the due diligence reports evaluate the ESG-related risks from a company, sector, and geographic perspective and identifies the 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 strategic partners and qualify as a priority versus other ones that do not consider ESG principles at all in their origination strategy.

This process helps Fasanara to better understand the potential sustainability impact at the individual deal and portfolio level, as well as communicate shared sustainability objectives with its partner originators and stakeholders.

(1) Case Study on Article 8 Fund's SFDR Periodic Disclosure

Classification of one of our funds as Article 8 SFDR (EU Reg. 2019/2088) *i.e., a fund that "promotes among other characteristics environmental or social characteristics or a combination of those characteristics provided that the companies in which the investments are made follow good governance practices*".

In 2023, the fund disclosed that over the course of 2022 it did not have a sustainable investment objective, but it did promote environmental and/or social characteristics without committing to make any sustainable investments. No reference benchmark was designated for this fund. On the environmental side, the fund promotes climate change mitigation and the transition to a circular economy. On the social side, the fund promotes gender diversity in senior leadership.

The **5%** asset allocation outlined in the pre-contractual disclosure was consistently adhered to by the fund throughout 2022.

The fund actively promotes climate change mitigation and the transition to the circular economy by orienting the portfolio towards investee companies in sectors that are recognized by the EU Taxonomy Regulation. Specifically, these sectors promote the environmental objective of climate change mitigation (as listed in EU Delegated Regulation 2021/2139) or the transition to a circular economy (as set out in the Annex to the Platform on Sustainable Finance's report) to the extent available. In addition, the fund enforces an exclusion policy, avoiding investments in companies engaged in oil drilling, fracking, petroleum and natural gas extraction, and landfills.

Fasanara evaluates ESG issues within its broader investment decision-making framework. This involves analysing individual line-items in the portfolio against several SDGs, including SDG 1, 2, 3, 4, 6, 7, 9, 11, 12, 13, 14, and 15, using the Sustainable Development Investments Taxonomy. Additionally, Fasanara monitors SDG 5 by applying a binomial test to assess the investee company's commitment to "Gender equality" in senior management.

ESG criteria are systematically integrated into Fasanara's due diligence processes, with findings documented in due diligence reports, and potential concerns flagged for the consideration of the Risk Committee.

Investments in the portfolio undergo various degrees of ongoing ESG monitoring with the assistance of external ESG data providers such as RepRisk. These providers regularly screen investee companies for controversial events related to ESG risks ensuring compliance with the principle of "Do No Significant Harm" and minimum safeguards.

The sustainability indicators used to measure the attainment of each of the environmental or social characteristics promoted by this fund as of 31 December 2022 are as follows:

1) **0** investments in the portfolio breached the applicable exclusion policy.

2) **0** companies in the portfolio violated the ILO standards, UNGPs, UNGC or OECD Guidelines for Multinational Enterprises.

3) **3.25%** of the portfolio had exposure to economic activities promoting the transition to circular economy.

4) **4.25%** of the portfolio had exposure to economic activities promoting climate change mitigation.

5) **17.80%** of the portfolio promoted gender diversity in senior management according to a binomial test applied to gender distribution data.

For investments classified as "other", where no promoted environmental or social characteristics could be identified, for example, because the NACE sector of the exposure did not fall within the scope of Taxonomy-eligible activities, Fasanara monitors minimum social and environmental safeguards through three proxy country indices: the Yale Environmental Performance Index (EPI, 2020) as a proxy for environmental safeguards, the International Trade Union Confederation (ITUC) Global Rights Index (ITUC GRI, 2021) as a proxy for social safeguards, and the World Bank Worldwide Governance Indicators as a proxy for the governance dimension (WGI, 2020).

The EPI is a composite index giving an estimation of country performance with regards to environmental matters, spanning from climate change, biodiversity, natural resources, air and water quality, and so on. Each country's exposure has been multiplied by the relative EPI score, in order to provide an indication of fund exposure to negative environmental impacts.

The GRI yearly documents violations of internationally recognized labour rights by government and employees which include, among others: the right to collective bargaining, the right to join and establish trade unions, the right to strike access to justice, right to free speech and assembly. Each country's exposure has been multiplied by the relative GRI score, in order to provide an indication of fund exposure to negative social impacts.

The WGI projects reports aggregate and individual governance indicators for over 200 countries and territories for six dimensions of governance. Each country's exposure has been multiplied by the relative WGI percentile rank (average of percentile ranking of the six indicators) in order to provide an indication of fund exposure to negative governance and ethics impacts.

(2) Case study on SDG Compliance

Our risk and reporting team diligently generate SDG compliance data for specific funds, focusing on debtors, to assess the fund's overall alignment to the SDGs and monitor related fixed targets and objectives. This process involves the application of the SDI-Asset Owner Platform Taxonomy (SDI Taxonomy).

Initially, each debtor undergoes a categorization into one of three groups:

- **Not Eligible**, i.e. activities that cannot be included in any SDG as per the SDI Taxonomy;
- **Taxonomy Eligible**, i.e. activities that may be included in one or more SDGs as per the SDI Taxonomy;
- **Taxonomy Aligned**, i.e. activities that directly qualify as aligned with the SDI Taxonomy.

The mapping exercise is executed for every debtor in the portfolio using NACE 4-level codes or NAICS 6-level codes based on the assumption that the primary business activity code signifies the main business in terms of revenues.

To prevent outdated business activity codes, an external Natural Learning Processing (NLP) algorithm is employed to ensure coherence between the information found on the company's website and its primary code.

Finally, another NLP algorithm assesses the probability of a company engaging in a "no go" or "controversial" activities, contributing to the computation of the final portfolio exposure classified as a sustainable development initiative.

In a recent analysis of one of our sub-funds, the results indicated that:

- 8.15% of the debtors in the fund are exposed to SDG 12 (*Responsible Consumption & Production*)
- 0.82% of the debtors in the fund are exposed to SDG 3 (*Good Health & Well-being*)
- 0.69% of the debtors in the fund are exposed to SDG 11 (*Sustainable Cities and Communities).*
- 0.61% of the debtors in the fund are exposed to SDG 7 (*Affordable & Clean Energy*)
- 0.30% of the debtors in the fund are exposed to SDG 2 (*Zero Hunger*)
- 0.25% of the debtors in the fund are exposed to SDG 9 (*Industry Innovation Infrastructure*)

Monitoring our Investments

Investments are subject to varying degrees of ongoing ESG monitoring which include sending out annual questionnaires to originators.

Fasanara's close relationship with its vast network of 137 origination partners has enabled it to tap a wide range of data sources to gather more information on its customers. This close cooperation additionally allows Fasanara to influence its partner originators and by extension the SMEs and consumers that transact through the marketplaces of its partner originators to better promote societal values and best-practice standards.

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 a fund's investment, the Investment Committee may validate, at its discretion, corrective measures. The regular dialogue established with partner originators generally allows the investment team 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 to inform the assessment of the originator's overall performance.

4. INVESTING IN THE NET-ZERO TRANSITION: ENVIRONMENTAL INITIATIVES

Reaching net-zero: our climate strategy

Fasanara is committed to pursuing a low-carbon, climate-resilient, and prosperous future. At the center of our climate strategy lies the importance of transitioning to a low-carbon economy and the urgent need to make the net-zero economy a reality.

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 and uses best efforts to achieve continuous improvements.

Fasanara recognises that its key environmental impacts are:
• emission of scope 2 greenhouse gases from the consumption of purchased energy;
• waste generation; and
• business travel.

To address key issues of environmental concern and to minimise its environmental impact, Fasanara is committed to implementing actions at different levels.

1.Firm-level actions

We believe that fostering awareness about environmental protection, sustainability considerations, and the risks associated with climate change should form the foundation of the battle against climate change. This is precisely why we emphasize the significance of educating our employees on these subjects. We firmly believe that the implementation of environmental and sustainability practices must commence at the organizational level. Only through this approach can we actively champion their widespread adoption throughout our wider network.

Examples of company-level actions:

- signing documents electronically using DocuSign whenever possible to reduce printing paper [SDG 12];
- foster use of conference call facilities to minimize traveling and enabling each meeting room with screens and monitors to avoid printing documents for meetings [SDG 12];
- promoting the use of shared folders and shared files across the various teams [SDG 12];
- encouraging employees to use their own reusable food containers and refillable water gallons to minimize plastic waste and use their own food bags when taking lunch out [SDG 12];
- encouraging employees to take advantage of Cycle to Work schemes [SDG 13];
- 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];
- reducing reliance on air-conditioning at the workplace;
- recycling all recyclable waste-material produced while working; and
- presenting our ESG initiatives to all staff through knowledge sharing programs to keep them actively involved and informed of the transition process.

2. Stakeholders' and Collaborators' Actions

We believe in the importance of moving toward a carbon-neutral planet and mobilizing our stakeholders towards that objective. We are paying close attention to the decarbonization of the real economy and are increasing our efforts to engage our portfolio companies on reducing their carbon footprint.

3.International collaboration actions

By joining forces with other asset managers and asset owners across the globe and by mobilizing our portfolio companies, our business peers, and industry stakeholders, we believe we can more effectively help drive the net-zero transition.

Among other initiatives, we are 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) and we are a supporter of the TCFD that supports the transparency of climate-related risks and opportunities, promoting more informed financial decision-making and building a more resilient financial system.

At the enterprise level, Fasanara calculated its FY2023 Scope 1, 2 and 3 emissions (including financed emissions). For a company of our size, the results of our scope 1 and 2 emissions were good (less than 1 TCO2e per employee when most offices of our size are between 1 and 2 TCO2e). To achieve Net Zero by 2040, Fasanara will devise a corporate transition roadmap, with formal interim targets and performance will continue to be monitored annually.

2023 Corporate GHG Emissions

Scope	Definition	Details	Results in 2023
Scope 1	Direct emissions from sources owned and controlled by Fasanara	Refrigerants from A/C units used in Fasanara's London office	4.13 Tonnes C02e (TCO2e)
Scope 2	Indirect emissions from the consumption of purchased electricity and heat	Purchased electricity and heating for Fasanara's London office	12.96 Tonnes C02e (TCO2e)
Scope 3	All other indirect emissions linked to the company	• Purchased goods • Waste generated in operations • Business travel • Employee commuting • Financed emissions	7,770.67 Tonnes C02e (TCO2e)
Total			7,787.76 Tonnes C02e (TCO2e)

Main sub-goal: 7.2 Increase substantially the share of renewable energy in the global energy mix

ENERSIDE ENERGY SA

Description

The company is involved in development, construction, and maintenance of solar photovoltaic generation projects. The company was founded in 2007 and till now has a proven track record developing more than 6.8 GW of solar photovoltaic generation projects, including reference industrial clients in Europe and Latin America.
Country: Spain

NACE Code: 3511 - Production of electricity

Portfolio weight: 0.18%

SDI in portfolio: 0.61%

Company Focus:

Energy consultancy

Construction, operation and maintenance of PV solar parks

Photovoltaic self-consumption.

Main sub-goal 9. 1 Sustainable and resilient infrastructure

L&T TEOLLISUUSPALVELUT OY

Description

L&T Teollisuuspalvelut Oy is a large company with 8371 employees and 844.1 Million EUR turnover (as of year 2022). The company is listed on Nasdaq Helsinki. It provides property management services, cleaning and recycling services, industry waste handling services etc. in Finland and Sweden. It has been operating since 2001 keeping circular economy at the core of its business.
Country: Finland

NACE Code: 3821 – treatment and disposal of non-hazardous waste

Portfolio weight: 0.08%

SDI in Portfolio: 0.25%

Recent Achievements:

First Finnish listed company that plans to issue sustainability linked bond

Introduction of electric waste trucks

Setting emission targets for the subcontractors

5. CORPORATE GOVERNANCE & STEWARDSHIP

Our Governance Objectives

Among Fasanara's governance objectives, we consider the following as our highest priority:

- *promoting a stimulating, rewarding and inclusive workplace environment where everyone's contribution is recognized and respected;*
- *taking corrective action where needed to improve the gender balance amongst employees and executive management; and*
- *making every effort to meet stakeholders' expectations and providing them with clear accessible and transparent information based on regular and value-added reporting.*

As specified in the 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].

Stewardship

The UK Stewardship Code 2020 of the Financial Reporting Council 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”.

Fasanara is committed to stewardship and has embedded stewardship principles into its investment process.

Engagement

Being an active investor, Fasanara considers engagement as a fundamental component of its investment process. Moreover, Fasanara sees engagement as a tool for long-term and active ownership.

As part of its approach, it takes an active interest in how its partner originators manage ESG issues and, on behalf of its clients, encourages and supports companies in the investment chain of the funds it manages to adhere to best-practice standards for responsible business. In certain cases, Fasanara will work with a partner originator to create bespoke ESG Key Performance Indicators (“KPIs”) focused on climate change mitigation and gender equality and will link these to the cost of funding through mechanisms such as ESG ratchets. Example ESG KPIs that may be applied to partner originators include the following:

Social

Number of women in senior management

Number of women employed

Environmental

Reduction of CO2 footprint

Reduction of energy consumption

Governance

Number of women on the Board

Number of women on committees

Organizational resilience through responsible governance practices

Fasanara's Board of Directors has entrusted the Senior Managers Committee with overseeing the enforcement of Fasanara's ESG Policy. At the company level, each team is responsible for integrating ESG practices and considerations into their existing processes. In particular, the Senior Managers Committee is supported in its responsibilities by the Investment Committee and the Risk Committee, as appropriate, when considering the approval of an investment and/or originator.

The Fasanara Risk Committee is responsible for ensuring that ESG risks and factors are considered when onboarding originators.

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. Investment analysts are overseen by the Investment Committee and are closely monitored by senior management. Each sub-team can develop its own sustainability approach, which best fits its specific asset class, ranging from research to portfolio construction or direct engagement.

Fasanara's investment and origination teams evaluate prospective counterparties in terms of the ESG impact and its alignment with the 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 channeled towards an overall positive impact, while avoiding entities whose goals and aspirations conflict with the SDGs and the core values of investors.

When considering new investments, the investment and origination teams:

- screen them against Fasanara's ESG Exclusion List which identifies the sectors, businesses, and activities in which Fasanara's funds will not invest. The ESG Exclusion List is complemented by sanctions lists from OFAC, UN, EU, HM Treasury, etc; and
- assess investments to identify material ESG risks and opportunities, and potential consequent actions, prior to any commitment of capital.

The cross-functional **ESG team** supports the other teams at Fasanara with information and relevant tools to help them integrate ESG into their existing practices and processes.

The ESG data team (a sub-set of the ESG team) in particular provides ESG data and detailed explanations on their sources and methodology to make sure that the other teams have reliable ESG data.

Starting with the front office teams, the investment, origination and credit teams integrate and enforce ESG practices into their existing processes through detailed ESG analysis and the application of due diligence checklists.

Relevant information is gathered via questionnaires, internal policies, and public information (including annual accounts and media reports) which used to understand an originator's approach to ESG issues. ESG considerations are included in the due diligence reports that is presented to the Risk Committee. Investments and originators are subject to varying degrees of ongoing ESG monitoring which include sending out annual questionnaires to originators. The identification of potentially material ESG risks will be raised to the Investment Committee.

The legal team ensures that all debt funding documents contain representations, covenants and information rights pertaining to ESG. Most recently, we have found a way to introduce ESG "ratchets". This is closely dependent on the originators and the possibility to measure and report their performance and has the ultimate objective to keep them engaged and hold them accountable over the long term. The cost of funding will be linked to an originator's ability to reach specific KPIs related to reducing carbon emissions and increasing gender equality. If the originator hits the pre-agreed ESG targets, they will benefit from enhanced funding terms. If they fail to hit the agreed targets, a penalty fee will be charged, the proceeds of which will be donated to target charities of the Fasanara Foundation: Second Chances.

Staying on top of the applicable **ESG regulations** is one of our highest priorities.

Among these, there is the SFDR, the UK's Sustainability Disclosure Requirements and other relevant sustainable investing regulations that affect us and our funds.

To identify areas in which there are governance concerns, we use a range of resources including external legal counsel and ESG specialists.

The operations, reporting and analytics teams monitor our originators' compliance with their reporting. They also work with the ESG team and the fund's service providers to prepare ESG investor reporting in accordance with regulatory disclosure requirements and investor demands.

6. DIVERSITY & INCLUSION

We believe that companies with higher diversity levels prosper over the long term. As a result, we actively encourage greater diversity at all levels.

At the portfolio level, we pay close attention to board gender diversity. On each fund exposure, senior management gender diversity is monitored using data obtained directly from investee companies.

At the originator level, we look at the adoption of policies, diversity and inclusion reporting, and data disclosures in respect to gender equality, particularly at the senior management and board level and we monitor their efforts and progress in this area.

We are also eager to discuss with our partners any diversity and inclusion issues and propose possible solutions.

At the company level, we strive to create a diverse and inclusive work environment that values respect, trust and listening.

At Fasanara, individuals from all backgrounds are treated with fairness and provided equal opportunities. We actively promote diversity in terms of culture, origins, and genetic characteristics, recognizing that this diversity contributes to a rich tapestry of perspectives and visions. This diversity is integral to improving decision-making, problem-solving, and generating excellent solution proposals, enabling us to excel and achieve outstanding results across all aspects of our work. We also strongly believe in the advantages of diverse and inclusive teams, fostering heightened innovation and creativity, bolstering employee engagement, and creating a more inclusive and comfortable work environment for all.

Our **retention rate of 90%** confirms our conviction of having created a valuable and hard-to-replicate workplace environment where people are given the opportunity to grow and contribute in their preferred way to our business objectives.

We support diversity by:

• identifying and selecting diverse employees according to objective, job-related criteria and unique skill sets;

• providing a sound and fair working environment where staff can grow and develop;

• regularly reviewing and improving our HR practices and procedures;

• leveraging diversity as a source for innovation and inspiration;

• identifying barriers or restrictions to diversity and taking action to remove them; and

• communicating the spirit of our diversity policies and agenda to everyone within the company.

Working in an industry that has been traditionally dominated by white men, makes our commitment to reach a gender and ethnic balance in investment and financial roles even more valuable; when talking about gender balance and minority inclusion we are taking into account some factors which enable us to move away from poor practices which are usually disguised by good ones.

In particular, we take into account the following elements:

1. Gender balance has to be achieved at all company levels and not only at the overall company level in order for it to be a reliable impact figure.

2. The position assumed by women within each firm level has a role in determining the degree of equality and inclusion e.g., among the senior levels we want women to take roles promoting gender diversity.

3. Decompositions of gender and ethnic ratios are carried out at the team level in order to account for eventual gender discrimination in the recruitment process e.g., gender balance inside the tech team, which is traditionally thought of as a male-dominated career.

Data on gender and ethnic minorities balance are collected and monitored on a annual basis to account for any improvements or deteriorations.

In 2018, Fasanara had a 95% male, white-Caucasian workforce. The senior managers at the time decided to put in place targets to increase diversity across the whole organization. As of the end of 2023, the male/female ratio was 67%-33% and the Caucasian/ethnic minority ratio was 75%-25% with female and ethnic minority representation present all levels of the firm.

On top of that, Fasanara adopts a systematic approach to determining pay that is free from bias. The firm documents the rationale for pay decisions in writing and retains a record on file. It also conducts remuneration audits to review pay across all employee groups and takes corrective action whenever pay disparity based on bias is identified.

Please refer to our Diversity & Inclusion policy for more information.

WEPs Signatory

To deliver on the gender equality dimensions of the 2030 Agenda, Fasanara has signed and adopted the Women Empowerment Principles ("WEPs") joining a network of five thousand business leaders in July 2022.

The WEPs are a set of principles jointly established by the UN Global Impact and UN Women that are underpinned by international labour standards and human rights with the aim of encouraging businesses to advance the progress of gender equality and women's empowerment in the workplace, marketplace and the whole community and with the objective to deepen and strengthen private sector engagement to help shift behaviours for gender-responsive business conduct by setting a global norm for the private sector. Transparency, accountability and the tracking of progress and results are at the centre of the seven principles.

Proud to support

WOMEN'S EMPOWERMENT PRINCIPLES

A joint initiative of the UN Global Compact and UN Women
Learn how to join: **www.weps.org**

The seven principles are:

1. Establish high-level corporate leadership for gender equality.
2. Treat all women and men fairly at work – respect and support human rights and non-discrimination.
3. Ensure the health, safety and well-being of all women and men workers.
4. Promote education, training and professional development for women.
5. Implement enterprise development, supply chain and marketing practices that empower women.

6. Promote equality through community initiatives and advocacy.
7. Measure and publicly report on progress to achieve gender equality.

By joining the WEPs community, Fasanara has signalled its commitment to the WEP agenda at the company level as well as its active engagement with internal and external multistakeholder networks to develop and foster business practices that empower women. These include equal pay for work of equal value, gender-responsive supply chain practices and zero tolerance against sexual harassment in the workplace. We recognize that gender equality is not only a matter of fairness, but it is also critical to job creation, innovation, productivity and sustainable economic growth and that only through collective action, we can lead and shape the path to a gender equitable world.

Case study: data at the portfolio level

In 2023, we took a snapshot of the current situation of our portfolios from a diversity and inclusion perspective, and this allowed us to improve our understanding of investee companies and their governance structure.

Main sub-goal: Gender Equality

Tate Enterprises Ltd

Description

Tate Enterprise Limited, incorporated in March 1996, is a private limited company engaged in retail sale of goods (mainly arts and books) in specialized stores. This is a subsidiary of "Tate" which is an executive non-departmental public body sponsored by the Department for Digital, Culture, Media and Sport (DCMS) and involved in collecting and exhibiting arts. The Tate Enterprise also manages and operates restaurant, café and ancillary services at Tate for the benefit of visitors to Tate's galleries.

Country: United Kingdom

NACE Code: 4778 - Other retail sale in non-specialised stores

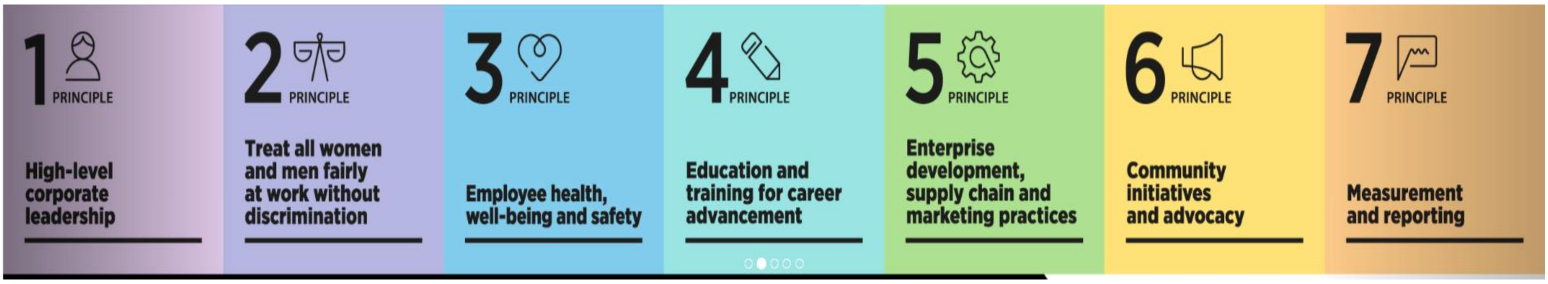
SDI Portfolio: 4.00%
Portfolio weight: 0.02%

Results:

Number of executive managers: **8**

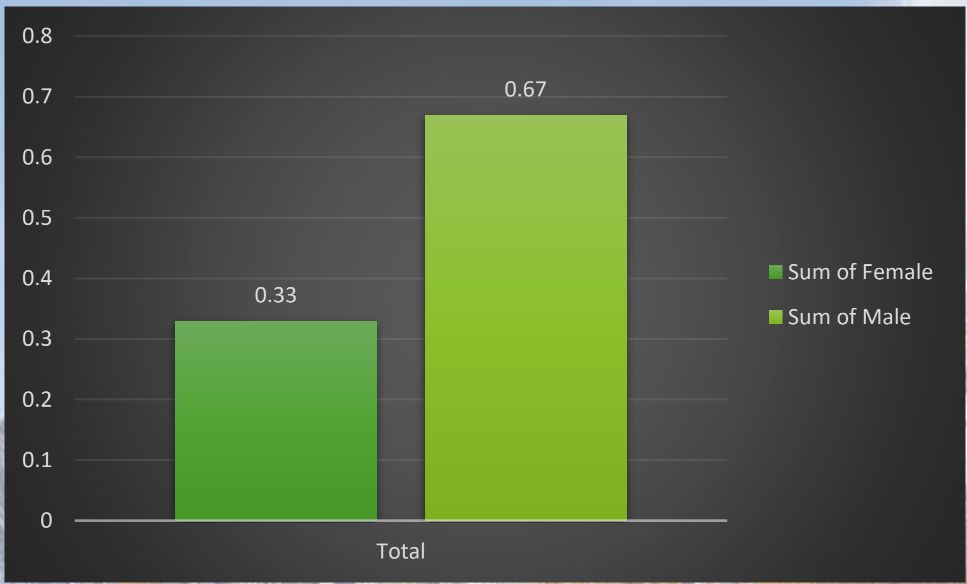
Number of female managers: **6**

The director of Tate is a woman, who is delegated the day-to-day running of the full organization.



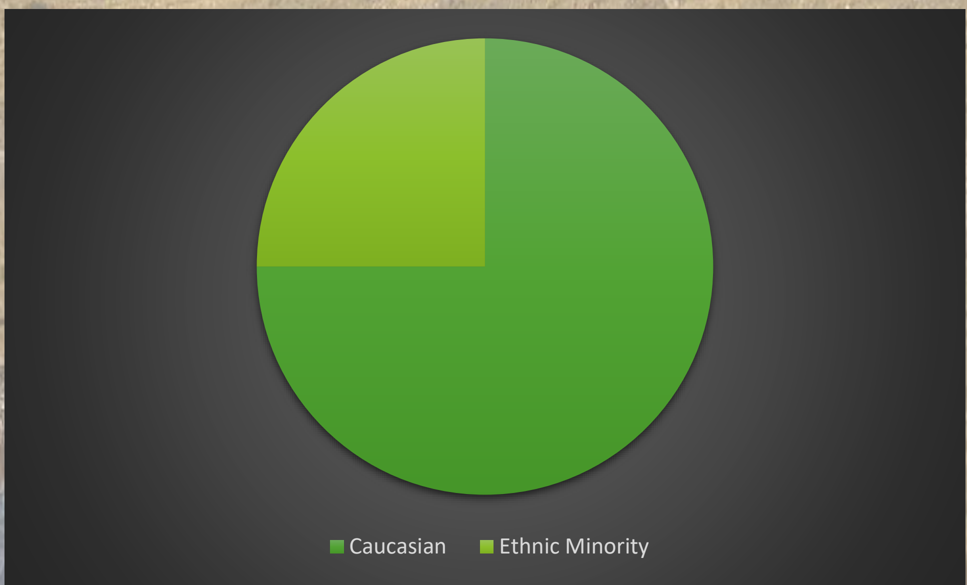
Diversity and Inclusion Data at the Company level

Figure 4



Employees by gender (as of 31 December 2023)

Figure 5



Ethnic diversity *(as of 31 December 2023)*

7. SOCIAL COMMITMENTS

Employees' wellbeing

In today's competitive market for talent, office culture and workplace initiatives are extremely important to ensure workers' mental health and physical wellbeing.

With employees spending most of their time in the office, human resources should consider the development and nurturing of corporate culture and employee engagement as one of their main priorities.

Since the initial expansion of the Fasanara team, the company has always strived to promote a positive and engaging office culture through various inclusion initiatives and recreational activities. Different leisure activities are proposed on a quarterly basis, such as football and game nights, which contribute to the creation of Fasanara's corporate culture.

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 Fasanara's social 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 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];
- 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];
- 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 (e.g. maternity/paternity/parental leave) [SDG 1, 5 and 10].

Image of our employees at the puppy yoga event organized by Fasanara's HR Team

8. **INTERNATIONAL INITIATIVES**

Signatory and Global Collaboration Strategy

Fasanara believes that by joining forces with other asset managers and asset owners across the globe and by combining their influence over the systemically most important players, mainly governments and big corporations, it can more effectively help drive the desired changes, foremost a low-carbon transition and combatting social and economic injustices.

This is why Fasanara, in addition to national corporate governance principles and codes of best practice, adheres to many broadly accepted codes of conduct, statements, and best practices and is a signatory to many of them.

Currently, Fasanara supports the following international codes, principles and initiatives:

- **United Nations Principles of Responsible Investment (UN PRI)**

Fasanara is a signatory to the UN PRI. These principles offer a broad framework of actions for incorporating environmental, social, and governance issues into investment practices across different asset classes. The underlying reasoning behind this Kofi Annan initiative was that the inclusion of ESG issues into investment decisions can affect the performance of investment portfolios through time and should therefore be considered alongside more traditional financial factors. Furthermore, applying these principles better aligns investors with societal objectives. The principles are "voluntary and aspirational" and they do not have minimum entry requirements or absolute performance standards for responsible investing.

By joining the PRI, we commit to the following Principles:

1. We will incorporate ESG issues into investment analysis and decision-making processes.

2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. We will promote acceptance and implementation of the Principles within the investment industry.

5. We will work together to enhance our effectiveness in implementing the Principles.

6. We will report on our activities and progress towards implementing the Principles.

As a signatory, we have an obligation to report on the extent to which we implement the Principles through the annual Reporting and Assessment process. 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 UN PRI Transparency Report of Fasanara is available on the UNPRI website following each assessment.

The primary goal of the report is to understand the implementation of responsible investment across the overall investment process instead of only looking at the investment in ESG products.

Fasanara has achieved positive scores in the PRI Assessment Report for 2023, our second PRI reporting year.

The PRI Assessment Report does not rate signatories at an organizational level. This means that Fasanara did not receive a single general assessment score but module/ asset class/ sub-strategy-level scores for each assessed module it completed.

Fasanara received 4 out of 5 Stars in both the "Policy Governance and Strategy" Module and in the "Direct-Fixed income – Private Debt" Module. The assessment took into account Fasanara's policies, objectives, and actions. The criteria are based on the PRI, which inter alia includes the voluntary commitment to integrate ESG criteria into the investment process.

We believe that this report, and the following ones, will continue to facilitate our learning and development in Responsible Investment activities, enable greater transparency and facilitate dialogue between us and our investors, clients, beneficiaries and other external stakeholders and finally, it will enhance our ability to compare our improvements year-on-year not only with ourselves but also with peers at the local and global level.

- **United Nations Sustainable Development Goals (SDGs)**

Fasanara is among the 600+ signatories of the SDGs, a collection of 17 interlinked global goals intended to be achieved by 2030 and designed to be a *"blueprint to achieve a better and more sustainable future for all"*. Since their launch in 2015, these goals have now been made more "actionable" through the identification of specific targets for every single goal along with indicators that are being used to track and visualize progress toward each target.

- **The Taskforce on Climate-related Financial Disclosures Framework (TCFD)**

Fasanara believes in incorporating climate-related risks and opportunities into its risk management and strategic planning processes. Increasing the amount of reliable information on financial institutions' exposure to climate-related risks and opportunities will strengthen the stability of the financial system, contribute to a greater understanding of climate risks

In particular, Fasanara focuses on the following goals:

- Goal 1: No poverty,
- Goal 3: Good health and well-being,
- Goal 5: Gender equality,
- Goal 7: Affordable and clean energy,
- Goal 8: Decent work and economic growth,
- Goal 10: Reduced inequality,
- Goal 11: Sustainable cities and communities,
- Goal 12: Responsible consumption and production,
- Goal 13: Climate action,
- Goal 16: Peace, justice and strong institutions, and
- Goal 17: Partnership for the goal.

and facilitate financing the transition to a more stable and sustainable economy.

This is why in November 2020 Fasanara decided to join the Taskforce on Climate-related Financial Disclosure Network.

The TCFD was set up by the Financial Stability Board in December 2015. It aims to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions and, in turn, enable stakeholders to better understand the financial system's exposures to climate-related risks.

Climate risks are often grouped into two categories: physical and transition risks. Physical risks are the risks associated with the physical effects of climate change as extreme weather events intensify. This can affect the value of investments both directly (e.g. direct damage to assets) and indirectly (e.g. through changes in insurance premiums).

Transition risks are the risks associated with the transition to a low-carbon economy. According to the TCFD, this "may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change."

The TCFD framework aligns with Fasanara's belief that climate change is an important business issue that can impact long-term financial performance. As a multi-strategy asset manager entrusted with investing on our clients' behalf, Fasanara aims to assess, monitor, and manage the potential effects of climate change on our investment processes and portfolios, as well as on our business operations.

The TCFD's recommended disclosures can be grouped into four core elements:

- Governance – disclosure of an entity's governance around climate-related risks and opportunities.
- Strategy – disclosure of the actual and potential impacts of climate-related risks and opportunities on an entity's businesses, strategy, and financial planning.
- Risk management – disclosure of how the entity identifies, assesses and manages climate-related risks.
- Metrics and targets - disclosure of the metrics used to assess and manage climate-related risks and opportunities.

Below is a description of Fasanara's actions in each of these aforementioned areas.

Governance

As an FCA-regulated firm, Fasanara operates under the direction of its senior managers. The senior managers are responsible for the governance of the firm, while day-to-day oversight of the investment side of the business is the responsibility of Investment Committee. The Risk Committee, on the other hand, discusses climate-related investment and business risks and opportunities, as appropriate, when considering the approval of an investment.

Responsibility for analysing and managing investment risks and opportunities in the portfolios, including those associated with climate change, rests with the investments, origination and credit risk teams. The cross-functional ESG team keep the firm updated on the latest ESG standards.

Strategy

In assessing the potential impacts of climate change on our funds' portfolios, we identify short and long-term risks and opportunities across sectors, geographies, and asset classes. We foresee transition risks stemming from regulatory uncertainties, changing market dynamics, and improving technology, and that these will become increasingly evident amid the shift to a lower-carbon economy.

We are continuously monitoring our clients' evolving investment objectives related to the physical and transition risks of climate change and we are doing this in conjunction with our aim to exceed the investment objectives and service expectations of our clients.

We view climate change as causing higher market volatility and less-predictable analysis to become the standard for evaluating the climate mitigation or adaptation strategies of companies in which we could potentially invest.

Risk Management

The risk and analytics team work closely with our investments and origination teams to analyse sector-specific risks — particularly for more carbon-intensive industries.

The investments and origination teams engage with the management teams of onboarded and prospective originators because we believe engagement plays a critical role in helping to identify, understand, and appropriately consider ESG risks, including climate change. The teams aim to gauge an originator's exposure to climate-related risks, evaluate their risk management approach, and encourage the adoption of best practices. We are encouraging our originators to adopt the TCFD recommendations and improve disclosures so that we can make more informed investment decisions on behalf of our clients.

Metrics and Targets

Monitoring a combination of metrics gives us a comprehensive picture of an investment's exposure to climate-related risks. While we are mostly focused on direct emissions, we also, where available, consider indirect emissions to evaluate the long-term sustainability of business models.

As extreme weather events intensify and increase in frequency, we aim to assess the resilience planning and adaptive capacity of the companies we invest in.

By working with global providers of company-level ESG metrics, we are able to improve our ability to measure several carbon emissions metrics and conduct carbon-pricing sensitivity analysis at the portfolio level.

Climate change is central to our ESG integration process across all fund portfolios. We believe that understanding and managing the risks and opportunities related to climate change leads to better investment decisions, better outcomes for our clients, and a more sustainable world.

- **Climate Action 100+ Signatory**

Climate Action 100+
Global Investors Driving Business Transition

In April 2021, Fasanara became a signatory to Climate Action 100+, a global investor-led voluntary initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It is made up of over 540 global investors with more than $52 trillion in assets under management across 33 countries. Investors are responsible for engaging with companies that have a major role to play in the transition to a low carbon economy and for contributing to developing company-specific strategies aimed at improving climate change governance, cutting emissions, and strengthening climate-related financial disclosures. They are supported in the process by five investor networks (including the UN PRI) who co-founded the initiative and numerous technical experts.

By signing up to Climate Action 100+, Fasanara has committed to engaging with focus companies that are strategically important to the net-zero emissions transition on the initiative's three key aspects:

• *Governance*: Implement a strong governance framework that clearly articulates the board's accountability and oversight of climate change risks and opportunities.
• *Emissions management*: Take action to reduce greenhouse gas emissions across their value chain, consistent with the Paris Agreement's goal of limiting the global average temperature increase to below 1.5-degrees Celsius.
• *Disclosure*: Provide enhanced corporate disclosure in line with the final recommendations of the TCFD and, where applicable, sector-specific guidance.

As a participating investor, Fasanara has collaborated with other investors, the UN PRI Climate Engagement Group and climate experts to directly engage American Airlines Group to develop a strategy to transition towards net-zero and implement specific priorities. As a long-time debt provider to many airlines and other businesses in the European aerospace sector, Fasanara wanted to engage with the world's largest airline in order to make a meaningful impact on the aviation sector which is ripe for environmental and technological disruption.

American Airlines Group

Engagement with the American Airlines Group is spearheaded by a lead investor, who works cooperatively with the participating investors. Our collective engagement strategy takes into consideration American Airline's profile, the airline sector in general, the company's approach to climate change, its responsiveness to engagement, the lead investor's active ownership approach, and the regional context.

Examples of the ways we may collectively choose to engage include:
• holding meetings with the company's executives and board members;
• asking questions at a company earnings call or Annual General Meeting (AGM);
• supporting shareholder resolutions on climate change risks and opportunities;
• voting for the removal of directors who have failed in their accountability of climate change risk;
• making a statement at a company AGM;
• writing a public letter to the company;
• voting against reports, accounts and company lead resolutions; and
• making joint statements with the company.

Aviation is one of the most carbon-intensive industries with climate change-related risks that include:

1)Transition Risks:

- *Regulatory:* current company, government, and voluntary industrywide emissions targets will not align the sector with the net-zero world although envisioned by the Paris Agreement. As a result, governments are likely to impose stronger emissions reduction measures on airlines and aerospace companies as the gap between the level of action needed to keep global warming to safe levels becomes more apparent.

- *Reputational:* Airlines and aerospace companies may face a backlash from their consumers, investors, or other stakeholders if they, or the organizations they support, are perceived to be making insufficient efforts to reduce their emissions. The recent growth of the no-fly movements in Europe demonstrates that this is a risk that aviation companies are already confronting.

- *Legal:* Airlines and aerospace companies could face growing legal risks as legal notions of company responsibility for climate change evolve. As just one example, some oil and gas majors have already faced lawsuits alleging that they misled investors and the public on climate change, despite knowing the risks.

2) Physical Risks:

- Airline and aerospace companies that are unprepared for the projected physical impacts of climate change - including everything from airport flooding to increases in clear-air turbulence - could face severe consequences to assets, services, and overall viability.

Our recommendations build on the UN PRI's Investor Expectations Statement on Climate Change for Airlines and Aerospace Companies published in February 2020 and are also aligned with the Climate Action100+ Net Zero Company Benchmark to ensure we are implementing robust decarbonization plans. These would include:

- implementing a strong governance framework that clearly articulates the board's accountability and oversight of climate change risks and opportunities;
- establishing and disclosing robust transition plans consistent with the goals of the Paris Agreement; and
- establishing and disclosing robust strategies, resources, and programs for:
  - ✓ guaranteeing absolute emission reductions in the future.
  - ✓ the development, use, scaling, and commercialization of sustainable alternative aviation fuels and technologies with substantially lower carbon emissions relative to conventional aviation fuels; and
  - ✓ operational and technical efficiency improvements (recognizing that efficiency improvements alone will not provide strong corporate disclosure in line with the final recommendations of the TCFD); and
- lobbying transparently and consistently with the Paris Agreement.

- **The Investor Agenda**

Fasanara is proud to be among a record number of investors who have signed the joint Global Investor Statement to Governments which calls on governments to urgently ramp up their efforts to address the climate crisis. The Investor Agenda's Global Investor Statement to Governments on the Climate Crisis contains the collective views of 602 investors from around the world, managing a total of more than US$42 trillion in assets - which is around 40 percent of global assets under management (accurate as of August 2022). All 602 signatories have agreed to a set of policy recommendations that must be implemented swiftly to manage climate risk and channel trillions of dollars to address the climate crisis.

Joining the Global Investor Statement continues Fasanara's efforts to manage climate risk and pursue the enormous investment opportunities in the global net-zero emissions transition.

- **The Living Wage**

The Living Wage is a voluntary hourly wage that is set by the Living Wage Foundation to ensure that all workers can afford to meet their everyday needs. The current (2023/2024) London Living Wage is £13.15 per hour (it is updated every November). The real Living Wage is independently calculated based on what employees and their families need to live, which is why it is higher than the minimum wage.

Becoming a Living Wage Employer demonstrates Fasanara's commitment to corporate social responsibility by enabling all employees and contractors (including third party cleaners) to receive a fair and liveable wage to meet their basic needs and have more financial security.

Fasanara is also a supporter of the following international initiatives:

1) **United Nations Guiding Principles (UNGP) on Business and Human Rights**, an instrument consisting of 31 guiding principles focusing on preventing the risk of adverse impacts on Human Rights linked to business activities and underlining the state and corporate duty to respectively protect and respect human rights in addition to providing access to remedy for victims of business-related abuses.

2) **Responsible Business Conduct for Institutional Investors (OECD) in the Financial Sector**, a project that supports financial sector enterprises in implementing the OECD Guidelines for multinational enterprises.

3) **The Paris Agreement,** a legally binding international treaty to reduce greenhouse gas emissions and prevent human induced interference with the climate system. By being a signatory to the Agreement, 196 governments undertake to work to keep the global average temperature well below rising 2°C and preferably to keep it below 1.5°C, compared to pre-industrial levels, by setting out their own goals and plans for the reduction of their emissions

9. A PHILANTHROPIC APPROACH: SUPPORTING COMMUNITIES

Addressing societal challenges through charitable donations

Fasanara, in addition to adhering to ESG filters and parameters in its investment decision-making and monitoring processes, pursues philanthropic initiatives aimed at providing long-term support to the most vulnerable segments of society.

Image of Stand By Me's Top 5 Students in Grade 8 (all girls for the first time ever) who scored in the top 2% of students in their entire region. This achievement is especially remarkable given girls in Ethiopia face even more obstacles to succeed due to added responsibilities at home and battling against society's prejudices.

Fasanara's innovative "**Race to the Top Challenge**" mechanism is designed to extend benefits beyond financial returns, offering investors an opportunity to both invest and donate simultaneously. How this works is that at the end of each year, investors in certain share classes donate a percentage of their returns to a charity or charities of their choice. These charities can either be a charity that Fasanara has carefully vetted and onboarded on behalf of our foundation, or a newly proposed charity by the investor. Fasanara commits to matching each investor's donation with the same percentage of its fees from the corresponding share class, thereby amplifying the impact of each contribution. Fasanara actively monitors and reports back to investors on how the donated funds are utilized by the charities. To further incentivize giving, we recognize the top three donors on our website annually.

The establishment of the "**Fasanara Foundation: Second Chances**" ensures that all contributions are channeled to approved charities through ring-fenced bank accounts, holding the funds in trust for charitable endeavours.

Our current priority areas are education, health and biodiversity. Target charities include but are not limited to:

- Synchronicity Earth, which strives to reverse ecological crises such as biodiversity loss and climate breakdown by identifying species, regions, and ecosystems whose protection and restoration are overlooked and underfunded.

- Stand By Me, working in developing and underdeveloped countries to educate children and provide them with the necessary tools to thrive in the future. In 2023, every single one of their Grade 8 students passed the national exams.

- Eyes on the Future, a charity supporting those affected by rare genetic eye diseases that cause progressive vision loss in children. By uniting patients, scientists, industry and stakeholders, they accelerate research efforts and work to bridge the gap between scientific progress and available treatments.

  In addition, in 2023, Fasanara established a scholarship program at Bocconi University, known as the "**Fasanara STEM Awards**". This programme supports four students each academic year pursuing degrees in Economics and Social Sciences, Economics, Management and Computer Science, Mathematical and Computing Sciences for Artificial Intelligence, or enrolled in MSc programs related to data science and business analytics, economics, and the management of innovation and technology.

Our Commitment

Fasanara remains actively involved in overseeing charitable donations, with senior employees of Fasanara and interested investors meeting with onboarded charities regularly to receive updates on how they have spent the charitable contributions to date and any future projects.

Charities Selection

Our philanthropic philosophy underscores our social commitment, driving us to carefully select the most effective charities. The ESG team conducts in-depth analyses on each proposed charity to make sure that our donations will be put to good use. This is done through in-person meetings with charity representatives, ensuring trustworthiness and fidelity. Subsequently, Fasanara's exhaustive charity due diligence questionnaire is administered, covering topics from fundraising ethics to regulatory compliance.

The ESG team reviews the provided information and where relevant will follow up with the charities to ask for any missing data. Once the ESG team has gathered all the necessary information, it will submit a proposal to the Board of Directors who will approve the charity as a target charity for the Fasanara Foundation: Second Chances. Once onboarded, Fasanara continues to monitor charities through onsite visits and regular updates on the evolution of the projects financed by our donations.

Francesco Filia visiting the headquarters of United Hatzalah in Israel, a volunteer-based emergency medical services non-profit organization.

Appendix 1

2023 Progress Review

Climate Change Mitigation

• Publicly disclosed our carbon footprint including our scope 1, scope 2 and scope 3 emissions (including our financed emissions) for FY 2023
• Disclosed our Article 8 funds' adherence in FY 2023 with the promotion of climate mitigation and/or the transition to a circular economy in accordance with the EU Taxonomy Regulation and SFDR
• Refined our sustainability-linked margin ratchet programme to focus on climate change mitigation

Human Capital & DEI

• Held sixteen 'Sharing Knowledge' sessions throughout the year, three of which were focused on ESG topics
• Rolled out a new centralised learning and development platform for all compliance, regulatory and human resource training
• Rolled out an enhanced DEI survey to gain feedback from employees on what they like and dislike about working at Fasanara
• Employee benefits including leaves, travel subsidies, and wellness were updated to be competitive with the market
• Made decision to become accredited London Living Wage Employer
• Refined our sustainability-linked margin ratchet programme to focus on gender equality

Corporate Governance

• Established an ESG Steering Committee that advises the Board of Directors on the company's ESG strategy and policies
• Anita Bhatia joined the Advisory Board in May 2023 to advise Fasanara on new sustainable finance projects
• The Fasanara Foundation: Second Chances donated a total of $120,000 this year to worthy non-profits

Appendix 2

2024 Targets

Climate Change Mitigation

• Set interim targets to achieve Net Zero by 2040 to be used by Fasanara to manage climate-related risks and opportunities and monitor performance against targets
• Produce climate-related reporting that is aligned with the TCFD
• Improve efforts with external collaborations and regulatory bodies to promote positive change in respect to climate change mitigation

Human Capital & DEI

• Increase the frequency of staff training on ESG topics
• Set targets to be used by Fasanara to manage gender and ethnic diversity and monitor performance against targets
• Roll out a new centralised platform for all human resource related processes

Corporate Governance

• Establish an investment committee for a specific women-focused strategy to be chaired by Anita Bhatia
• The Fasanara Foundation: Second Chances to donate at least $150,000 to worthy non-profits
• Offer employees a volunteer day