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Fasanara's Statement on the UK Stewardship Code

Introduction

The Financial Reporting Council's UK Stewardship Code 2020 (the "Code") sets out good stewardship practices for asset managers, asset owners and service providers when engaging with investee companies.

The Code replaces the version that has been in existence since 2012 and applies from the 1st of January 2020. Intended to set high expectations for practice, increase transparency and promote a market for effective stewardship, the main changes from the 2012 version relates to a redefinition of stewardship, which is more holistic and includes accounting for environmental, social and governance ("ESG") factors, the formal expansion of asset classes beyond UK listed equities, focus on purpose and governance as well as more detailed reporting expectations on activities and outcomes. With regards to asset managers, there are 12 principles covering purpose and governance, investment approach as well as engagement and exercising rights.

While the Code and reporting on its application are voluntary, there is a requirement from the Financial Conduct Authority (the "FCA") under Rule 2.2.3R of the FCA's Conduct of Business Sourcebook, for asset managers like Fasanara Capital Ltd ("Fasanara") to disclose whether or not they comply with the Code.

Fasanara's Position on the Code

Fasanara is a supporter of the principles of good stewardship and is committed to working towards compliance with the new Code.

We believe that the pursuit of sound corporate governance practices at Fasanara and at the level of our investee companies is part of our fiduciary duty. Since 2020, we have been more strategic in building out and strengthening our efforts to incorporate ESG factors into our investment practices, as we believe doing so can deliver better risk-adjusted returns for the investors of the funds we manage. We have procedures in place to address this at the firm level as well as the portfolio level, which are detailed on our website (www.fasanara.com/esg).



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Our current ESG investment management approach and practices are broadly in line with the spirit of the principles as set out in the Code; we are working to formalise some of our practices and increase our alignment with the principles of the Code.

The following section broadly covers our compliance with the 12 principles for asset managers and asset owners under the four main headings of purpose and governance, investment approach, engagement and exercise of rights and responsibilities.

Principles Application

1. Purpose and Governance (principles 1-5)

In this section we highlight Fasanara's stewardship investment beliefs, strategy and culture and the governance structures that have enabled us to effectively integrate stewardship activities into our investment process.

Stewardship Strategy

Our stewardship and collaborative engagement efforts focus on assessing the quality and clarity of the organizational strategy, the fairness to employees and customers, the transparency and information sharing and the social responsibility of our suppliers/partners and investees companies with the final aim of promoting long-term value creation.

At Fasanara we foster an open culture based on a diverse workforce and an inclusive environment which encourages a variety of perspectives and opinions.

Governance Structure

Fasanara's board of directors has entrusted the Senior Managers Committee with overseeing the enforcement of Fasanara's ESG policies. In particular, the Senior Managers Committee is supported in its responsibilities by the Investment Committee (responsible for the day-to-day implementation of our responsible investment policy) and the Risk Committee (responsible for the evaluation of ESG risks and factors), as appropriate, when considering the approval of an investment.

At the company level, each team is responsible for integrating ESG practices and considerations into their existing processes by being able to develop their own sustainability approach – the one which best fits their specific asset class, ranging from research to portfolio construction or direct engagement.

Fasanara's investment and origination teams assess both macro and micro ESG factors as part of their analysis and selection processes. They evaluate prospective counterparties in every opportunity set in terms of the ESG impact and its alignment with our ESG policies. They apply



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due diligence checklists and consider both positive and negative screenings as part of their investment analysis and decision-making process. Relevant information is gathered via questionnaires, internal policies and public information (including annual accounts and media reports).

In particular, 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 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.

Hence, investment 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. We generally consider sustainability risks alongside all other risks relevant to the portfolio and take a holistic view on the composition our portfolios. Where we are not comfortable with the level of risk associated with a specific investment, we will take action to reduce and manage the risk, which may include withdrawing from that investment.

The ESG team provides each of the other teams at Fasanara with the required 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 source to make sure that the other teams have reliable ESG data.

The legal team ensures that all debt funding documents contain representations, covenants and information rights pertaining to ESG. In addition, to identify areas in which there are governance and/or reputational concerns, we use a range of resources including external advisors to carry out corporate due diligence and forensic investigations.

The operations, reporting and analytics teams monitor our originators' compliance with their reporting obligations, including reporting in respect to all the necessary non-financial metrics that we use to produce our ESG ratings. They also work with the ESG team and the Senior Managers Committee to prepare ESG investor reporting in accordance with regulatory disclosure requirements and investor demands.

We believe that our internal governance structure encourages good stewardship, and we intend to continuously review our practices as our company expands and changes in the coming years.

2. Investment approach (principles 6-8)



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Fasanara takes into account our clients' needs and is committed to communicating to them its stewardship and investment activities - including material environmental, social and governance issues - and the relative outcomes. The company achieves this objective by circulating to investors presentation decks disclosing the client base, assets under management, length of the investment time horizon etc. and by publicly reporting our activities in an understandable and clear format. More information on our investment approach and its integration with sustainability objectives can be found in the previous section.

3. Engagement (Principles 9-11)

In this section Fasanara explains how and to which extent it has engaged with investee companies to maintain or enhance the value of assets. It discloses collaboration with other investors and wider stakeholders to achieve specific change on thematic issues. We explain the role we have played in industry initiatives aimed at responding to systematic risks and promoting well-functioning financial markets.

Engagement and Proxy Voting

We aim to use our influence over current or potential investees, in addition to the wider stakeholder environment, in a collaborative and constructive way, to enhance the overall long-term economic value of our clients' assets.

Being an active investor, Fasanara considers engagement as a fundamental component of its investment process. 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. In certain cases, Fasanara will work with a partner originator to create bespoke ESG Key Performance Indicators (KPIs) and will link these to the cost of funding through mechanisms such as ESG ratchets. Example Governance KPIs that may be applied to partner originators are independent members on the Board, number of females in senior management and the existence of other specific committees.

At the same time, Fasanara believes that rather than completely walking away from "ESG laggards" it is preferable to work with them to improve and influence change rather than avoid them entirely. In respect of this vision, Fasanara actively engages with specific investee companies which are considered to go against our ESG policy framework or our investors' responsible investment criteria. Active engagement with these companies includes encouraging them to become members of one or more international initiatives (such as the PRI Principles or the TCFD), indicating them actions or activities where there could be room for improvement and steering them towards enhanced ESG practices (such as the



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development of ESG scoring to the assets in the portfolios or carrying out due diligence to be able to choose the most sustainable player among their partners/clients/suppliers etc.). We regularly monitor the progress of our engagement efforts and if after some period we are not observing any improvements we are ready to consider the exclusion of those companies from our portfolio.



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International Initiatives

Beyond engagement with our partner originators, Fasanara believes in engagement with a broader set of stakeholders and in the value of collaborative efforts to promote and encourage more effective stewardship.

Our belief is 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, we can more effectively help drive the desired changes, foremost a transition to net zero and social equality.

To accelerate the transition to a net zero economy we became signatories to the Taskforce on Climate-related Financial Disclosures (TCFD), an initiative aimed at developing recommendations for more effective climate-related disclosures, and the 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. In signing up to Climate Action 100+, Fasanara committed to engaging with focus companies that are strategically important to the net-zero emissions transition and influencing them on the initiative's three key aspects of governance, emissions management and disclosure. Fasanara is also a signatory of the Investor Agenda, which calls directly on governments to urgently ramp up their efforts to address the climate crisis.

4. Exercising Rights and Responsibilities (principle 12)

Our investment team is increasing its efforts to monitor and provide feedback to companies in which the investments have been made in our role of stewards of our clients' interests.

It should be noted that some of stewardship mechanisms detailed in the Code such as proxy voting, is less applicable to Fasanara, given the asset classes we focus on.

CONTACT DETAILS

For more information about ESG investment management at Fasanara, please contact: investors@fasanara.com



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