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TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Fasanara Capital's ESG Update

FASANARA CAPITAL

Fasanara Capital is pleased to announce that it is officially a supporter of the TCFD!

The TCFD stands for the Taskforce on Climate-related Disclosures and it 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 Capital'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 Capital 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.

Please find below a brief overview of our approach to assessing and managing climate risks across our investment process and business operations.

Governance

As an FCA-regulated firm, Fasanara Capital operates under the direction of its Senior Managers. Three senior managers are responsible for governance of the firm, while day-to-day oversight of the investment side of the business is the responsibility of the Head of Investments, under the direction of the Risk Committee. The Risk Committee 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 individual client portfolios, including those associated with climate change, rests with the Investments Team, in coordination with Fasanara's AI Analytics Team who are developing tools to assess risks associated with a changing climate (more details below). The Head of ESG keeps the firm updated on the latest environmental, social and governance (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.

In addition, we are monitoring our clients' evolving investment objectives related to the physical and transition risks of climate change and 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

Our AI Analytics Team facilitates Fasanara's ESG integration process by applying ESG ratings to each position. These ratings reflect an assessment of ESG risks — including climate-related risks – and helps evaluate the ESG strengths and weaknesses of an investment. Additionally, the AI Analytics Team works closely with our Investments Team to analyse sector-specific risks — particularly for more carbon-intensive industries.

The Origination Team continuously engages 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 team aims 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 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 that we invest into.

Thanks to our collaboration with external data providers, we are able to measure the carbon footprints of many of our positions. 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.

Investing with Purpose

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. Our investment approach is also aligned with the UN supported Principles of Responsible Investment framework and Social Development Goals.

Given the potentially significant investment opportunities we see in proactively addressing climate change, we are launching an impact share class for our alternative credit fund that strives to raise proceeds for a select group of charities that address several of the world’s major social and environmental challenges. More details on this share class will follow shortly.

Greta Renton

Head of ESG at Fasanara