Sustainability Risk Policy

FARAD I.M. vision is being a sustainable investment firm that takes responsibility for its actions and engagements, as a member of society with its own impact on the planet and on people, but also as a provider of financial services with an indirect impact through the activities of its clients and investments. The mission will be achieved by fully incorporating sustainability into the investment firm's daily business, and by bolstering the investment firm's sustainability risk management.

For FARAD I.M., sustainability means adhering to the values and business principles of the investment firm and bringing sustainable solutions to the current and future environmental, economic and social challenges of the investment firm's stakeholders and the organization itself, that are in line with the investment firm's risk profile.

By managing Environmental, Social and Ethical risks, mitigating their impacts and grasping the opportunities deriving from sustainable solutions, the Sustainability Risk Policy has incorporated sustainability into the investment firm's business objectives.

In line with SFDR (Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019) FARAD I.M. Sustainability Risk Policy defines the investment guidelines principles.

FARAD I.M. has first identified which are the sustainable risks that intend to affect in its decision-making processes and then FARAD I.M. has built the Risk Management framework in order to identify, analyze, monitor, mitigate and report them for its investment choices.

FARAD I.M. implements its Sustainability Risk Policy and underlying policies according to the three lines of defense. This approach ensures that sustainability risk management has a firm basis within the organization by dividing risk management responsibilities between different roles. The first line of defense (business management) has risk ownership, the second line (risk management and supporting functions) has risk control while the third line (audit) verifies risk assurance.

FARAD I.M. ensures that its financial portfolios are financially efficient and as much sustainable as possible.

I. Sustainability Risks

Sustainability Risk is an environmental, social or governance event or condition that, if occurs, could cause an actual or a potential negative impact on the value of the investment.

FARAD I.M. takes into consideration the following sustainability risks:

- Greenhouse gas emissions
- Energy performance
- Water
- Social and employee matters
- Human rights
- Governance

FARAD I.M. assesses the risk exposure of each target investment principally against these factors.

FARAD I.M. has implemented a proprietary ESG investment process and integrated within the portfolio management and risk management processes in order to analyse, monitor, mitigate and exclude sustainability risks.

Before investments are performed each single target investment has to be assessed via the ESG Score Card, which takes into account qualitative and quantitative metrics for the ESG segments.

Each target investment is rated in a range from 5 (the highest) to 0 (the lowest) and is accepted only if its overall score is higher than 3.5 over 5. No exceptions will be granted.

For the time being, and until further harmonised data on sustainability risks will be made available from our underlying vehicles, the metrics taken into consideration to assess the sustainability risks have been mainly focused on assessing the internal investment policies/procedure/reports focused on Environmental, Social and Governance factors. The data used to assess the sustainability risks are received directly from the Investment Manager of the target investments, and are challenged during the engagement and due diligence process.

Data from all the target investments are monitored and reviewed at least once per year, including:

- The ESG scores;

- The ESG data received from the relevant fund managers, which are used to assess if the underlying investments are still compliant with FARAD I.M. requirements;

- The Sustainable Development Goals (SDG) mapping which represents the breakdown of the portfolio showing the percentage of alignment to each SDG. At portfolio level, the ESG scores of each issuer are attributed according to the weight of the issuer in the portfolio. FARAD I.M. assesses the overall ESG rating of the portfolio by following the above mentioned ESG calculation methodology and by applying the above mentioned thresholds.

FARAD I.M. monitors the ESG score of its investment portfolio, both at single security level and on an aggregate basis. ESG scores on each individual investment are taken into consideration alongside the traditional criteria of analysis and evaluation: this means that FARAD I.M. ensures that its financial portfolios are financially efficient and as much sustainable as possible.

FARAD I.M. is furthermore committed to implement one or more of the following methods within their its investment strategies or investment processes, and therefore monitors the extent of the application of these methods in the underlying funds:

- Positive selection: where the investor actively selects the companies in which to invest; this. This can be done either by following a defined set of Environmental, Social and Governance (ESG) criteria or by the best-in-class method (where a subset of high performing ESG compliant companies is chosen for inclusion in an investment portfolio,), or using a norms-based screening that allows investors to assess the degree to which each assets in their portfolio respects issues that impact Environmental, Social and Governance ESG criteria by adhering to global norms on environmental protection, human rights, labour standards and anti-corruption.

- Engagement and Voting: investment funds monitoring the ESG performance of all portfolio companies and leading constructive shareholder engagement dialogues with each company to ensure progress, also through strategic voting by shareholders in support of a particular issue, or to bring about change in the governance of the company.

- Exclusion: the removal of certain sectors or companies from consideration for investment, based on ESG specific criteria.

- ESG Integration: the inclusion of ESG risks and opportunities into traditional financial analysis of equity and bonds/debt instruments value.

- Sustainability themed strategies and impact investing: strategies that include a variety of themes, which allows investors to choose specific areas of investments, typically with a close link to sustainable development. Impact investing concerns strategies focused on assets that have a positive measurable impact on environment or society.

For further details please contact us at legal@farad-im.com

We can make available our internal polices under request.