

Responsible Investment Policy

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Introduction

Glossary

- **Advisory Company(ies):** Investment advisory company(ies) appointed by FARO Value SpA SB (“FARO Value” or “FARO”) case-by-case to support the investment activity of funds advised;
- **ESG Due Diligence (“ESG DD”):** Environment, Social and Governance due diligence carried out during the pre-investment phase to evaluate risk and opportunities related to the target company;
- **Investment product(s):** any alternative investment fund for which FARO Value act as the exclusive Lead Advisor;
- **Policy:** this document, the Responsible Investment Policy;
- **SFDR:** Sustainable Finance Disclosure Regulation, Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019.

FARO Value

I. Identity and values

FARO is an investment advisory platform acting as Lead Advisor to alternative investment products that adopt a responsible investment approach: regardless of asset class and investment style, the objective is to fully integrate ESG criteria throughout the investment life cycle. FARO intends to achieve this by building a virtuous network of investment products, portfolio companies, and Advisory Companies.

FARO believes that it is possible to align financial and non-financial interests to create long-term sustainable value for all stakeholders by effectively managing sustainability risks and opportunities. In this context, the current challenges related to climate change and social inequalities can be addressed by implementing effective responsible investment strategies. Consistently with this view on the business model, ESG criteria are also embedded in the corporate culture since FARO wishes to act as a driving force as for as sustainability is concerned within its network.

FARO endorses the UN Principles for Responsible Investment and shapes its responsible investment strategy based on values, guidelines, and practices proposed by such framework. It means that FARO commits to ensure transparency toward investors by adequately reporting on ESG practices, along with the integration of ESG criteria into its investment decision-making processes.

The purpose of this document is to outline the principles and practices of FARO in the context of ESG as well as the approach to responsible investment and how it reflects on investment products advised.

II. Regulatory framework

The contents of this Policy have been prepared taking into account the regulatory environment that may impact directly or indirectly FARO’s activities:

- Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on alternative investment fund managers and amending Directives 2003/41/EC and 2009/65/EC and Regulations (EC) No 1060/2009 and (EU) No 1095/2010 as amended (the “AIFMD”).
- Commission Delegated Regulation (EU) 231/2013 of 19 December 2012 supplementing the AIFM Directive with reference to exemptions, general operating conditions, custodian banks, leverage, transparency and supervision.

- Provision of the law of 12 July 2013 on alternative investment fund managers transposing the Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on alternative investment fund managers, as amended (the “Law of 2013”).
- Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012, by an investment firm within the meaning of Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments.
- Luxembourg law of 23 July 2016 relating to reserved alternative investment funds (the “RAIF Law”).
- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial service sector (the “SFDR”) and subsequent Commission Delegated Regulation (EU) 2022/1288 and Commission Delegated Regulation (EU) 2023/363.
- Regulation (EU) No. 2020/852 of the European Parliament and of the Council of 18 June 2020 on establishing a framework to encourage sustainable investment and amending Regulation (EU) 2019/2088.

III. Scope of Policy

FARO Value is the owner of this Policy and the contents of the document apply to:

- Board members of FARO Value;
- Advisory Companies acting for or on behalf of FARO, solely for the activities under their responsibility;
- Every investment product advised by FARO Value, serving as a guideline for the definition of fund-level responsible investment strategies.

ESG into the business culture

Company commitment to ESG

In addition to integrating ESG considerations into its investment and business model, FARO embeds ESG principles within its corporate culture, governance framework and day-to-day operations. FARO is committed to fostering a responsible, inclusive and environmentally conscious workplace through the following overarching principles:

People

- Promote a responsible and inclusive organizational culture
- Support initiatives aimed at fostering employee engagement and professional growth
- Encourage appropriate standards of information security and operational resilience
- Foster a positive and sustainable working environment
- Uphold principles of fairness, equal opportunity and non-discrimination

Environmental

- Encourage the adoption of environmentally responsible transportation alternatives
- Promote the reduction of single-use materials and responsible consumption practices
- Support waste reduction and proper waste management practices
- Encourage sustainable procurement choices, including responsible materials and supplies
- Improve energy efficiency across office premises through responsible infrastructure management
- Where feasible, increase the sourcing of energy from renewable sources

ESG Governance

The Board of Directors of FARO Value is in charge of approving the Policy and its updates, ensuring that it is implemented at both FARO Value and investment product levels:

- The **ESG Manager** is a FARO Value Board member having the role of implementing the Policy and to ensure adequate sustainability-related disclosure for all investment products advised by FARO. Also, the ESG Manager oversees and supports the activities of the ESG key persons. In this context, part of its variable remuneration is directly linked to the achievement of specific ESG targets,
- The **ESG key person** is appointed for each investment product and is responsible for conducting responsible investment activities at asset level, directly engaging with portfolio companies for the ESG data collection, and reports to the ESG Manager.

Stakeholder Engagement

FARO identified three categories of stakeholders due to the nature of its organizational structure and its business model:

I. Advisory Companies

FARO believes that a responsible value creation model must rely on strong relationships with partners and advisors based on mutual trust and synergies. As such, FARO Value and the Advisory Companies share the principles of this Policy and support the execution of the responsible investment strategy of the investment products advised by FARO.

II. Investors

FARO aims to build a long-lasting relationship with investors based on transparency and mutual trust. For this purpose, FARO commits to maintain an open and constructive dialogue with both formal and informal channels providing timely and accurate information regarding ESG initiatives and performance. By actively engaging with investors, FARO also expects to collect valuable feedback and opinions that can improve responsible investment practices and outcomes.

III. Portfolio companies

FARO is dedicated to partnering with portfolio companies to integrate ESG considerations into their business strategies, operations, and decision-making processes, in particular by cooperating with the Advisory Companies. Through collaborative discussions, ongoing monitoring, and targeted support, FARO works closely with the portfolio companies to identify ESG risks and opportunities, to develop tailored improvement plans, and track progress over time: this is key to effectively manage ESG factors for the benefit of environmental and social interests concurrently with financial returns.

ESG in the Investment Process

A sound responsible investment approach envisages the identification of material ESG factors that must be considered throughout the whole investment process to mitigate risks and seize opportunities in the context of sustainability. However, there is no one solution for all cases because different industries, geographies and company sizes may require different approaches.

Being aware of this, FARO designed a general responsible investment process that lays on the foundation of the responsible investment strategies of the investment products advised.

This process consists of 3 main stages:

- 1. Screening and pre-investment:** investment suitability check, identification of sustainability risks and opportunities for enhancing ESG performance;
- 2. Investment period:** ESG data monitoring and engagement activities, where feasible;
- 3. Divestment:** summarize ESG information into the divestment memorandum.

FARO can delegate these activities in whole or in part to one or more of its Advisory Companies and external consultants.

Screening and Pre-investment

I. Exclusion list

This Policy ensures that all the investment products advised by FARO cannot invest in the following activities because of their negative impact on people and on the environment:

- Production and distribution of tobacco and related products;
- Production and distribution of controversial weapons having a disproportionate impact on civilian population such as chemical, biological, depleted uranium, and nuclear weapons, anti-personnel landmines and cluster bombs, other weapons and ammunition banned by international conventions;
- Genetic engineering and human cloning for the solely reproduction purpose;
- Casino, gambling, and betting services;
- Animal testing for non-clinical purposes;
- Adult entertainment;
- Research and development of solutions aimed at supporting the above activities;
- Illegal or unethical business practices, including money-laundering, corruption and bribery;
- Activities entailing violation of human and labour rights.

II. ESG due diligence

In case of direct investments in private equity and venture capital, the due diligence process includes the identification and the assessment of material ESG factors considering industry-specific materiality, principal adverse impacts (as per SFDR). It means that the investment products advised by FARO will integrate such assessment accordingly to the asset class and the investment strategy with the objective of identifying sustainability risks and opportunities tied to the target investments. External advisors can be appointed to carry out specific activities such as the Environmental and Health&Safety (EHS) and the climate risk assessment in the context of the ESG Due Diligence.

For the investment strategies that promote environmental and social characteristics, the ESG DD is also aimed at verifying:

- Adoption of good governance practices by target companies,
- Valuation of potential environmental liabilities and cost estimates to fill the gap with respect to environmental and to both physical and transition climate risks,
- Criticalities that may lead to reject the investment project,
- Potential opportunities to enhance the ESG performance of investment, possibly by implementing an ESG Improvement Plan where feasible.

The external advisors in charge of conducting the ESG DD will be appointed case-by-case ensuring that expertise and know-how are adequate and appropriate with respect to the business of the target companies. The results of the ESG DD will be provided to FARO within an ESG Due Diligence Report.

In case of indirect investments (i.e. fund of funds, appointment of external managers, etc.) a preliminary assessment on external investment managers will be performed to understand if their approach to responsible investment and their investment policy is aligned with this Policy and the responsible investment strategy of the investment products advised by FARO. An ESG analysis of external portfolios may be carried out if deemed necessary to further investigate potential sustainability risks and suitability of underlying investments.

Holding period

For all investments, material ESG factors identified during the ESG Due Diligence process are monitored and corrective actions are taken in case of severe violation of the exclusion list or increase in the sustainability risk exposure. Where applicable, engagement activities are carried out to support companies in managing ESG factors in their business growth pathway.

For the investment strategies that promote environmental and social characteristics, the physical and transition climate risk assessments carried out in the ESG DD phase will be considered the baseline for the annual monitoring of portfolio companies' exposure to such risks.

In addition, the results of the ESG DD and the climate risk assessment may lead to:

- the development of climate risks mitigation plans, if deemed necessary,
- the development of broader ESG Improvement Plan; such plan is a roadmap agreed by the portfolio companies and FARO Value regarding an ESG strategy aimed at mitigating sustainability risks and improving performance, thus promoting environmental or social characteristics.

In case of an agreed climate risks mitigation and/or an ESG Improvement Plan, FARO monitors the progress of the portfolio companies with respect to their roadmap on an annual basis to better support them in achieving their goals.

The results of portfolio companies' ESG data monitoring will inform the risk management system and the capital allocation in terms of sector/geography concentration, exposure to environmental, physical and transition climate risks, and thus the investment and divestment decision-making. In addition, the objective is also to prepare adequate reporting to investors both on a regulatory and voluntary basis.

All activities described above may be carried out with the support of external ESG advisors.

Divestment

FARO collects the ESG data of portfolio companies into the divestment memorandum to improve information quality and transparency towards potential buyers, allowing them to have a complete picture of ESG framework, climate risks assessment and mitigation/improvement plans, if the case. The aim is also to enhance the efforts carried out by the portfolio companies and the investment teams in the context of sustainability.

Policy review and update

The Policy is reviewed at least annually in order to:

- ensure consistency with regulations, global trends, and best practices;
- incorporate new investment strategies and ESG integration methodologies.

Any update will be promptly updated on the website.