

SUB-APPENDIX I – PRECONTRACTUAL DISCLOSURES RELATING TO THE COMPARTMENT “FARO Capital Markets”

Pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of
Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Sustainable investment means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

Product name: FARO Capital Markets **Legal entity identifier:** currently being obtained

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?



Yes



No



It will make a minimum of **sustainable investments with an environmental objective:** ____%



in economic activities that qualify as environmentally sustainable under the EU Taxonomy



in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy



It will make a minimum of **sustainable investments with a social objective:** ____%



It **promotes Environmental/Social (E/S) characteristics** and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ____% of sustainable investments



with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy



with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy



with a social objective



It promotes E/S characteristics, but **will not make any sustainable investments**



What environmental and/or social characteristics are promoted by this financial product?

In accordance with the current climate and social challenges and the Sub-fund's investment strategy, FARO Capital Markets (or the "Sub-fund") identified the following environmental and social characteristics which aims to promote:

1. Reduction of GHG emission
2. Responsible supply chain
3. Transition to a circular economy
4. Waste management system
5. Water management resources
6. Employee wellbeing and development
7. Gender equality
8. Customer privacy and data security
9. Product sustainability

On this premises, investments may positively contribute to the achievement of the following UN Sustainable Development Goals (UN SDGs):

4. Quality Education;
5. Gender Equality;
7. Affordable and Clean Energy;
8. Decent Work and Economic Growth;
9. Industry, Innovation and Infrastructure;
10. Reduced Inequalities;
11. Sustainable Cities and Communities;
12. Responsible Consumption and Production;
13. Climate Action.

The Fund has not designated a reference benchmark for the purpose of attaining the promoted environmental and/or social characteristics.

● ***What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?***

Each investment is expected to promote at least one environmental or social characteristic and this promotion is adequately measured with an indicator selected accordingly to the logic of the principal adverse impacts (PAIs) and other international reference standards (e.g. GRI index). Here below, the list of sustainability indicators that the Sub-fund will monitor to measure the attainment of the characteristics promoted:

1. Share of renewable energy in total energy consumption

2. Energy intensity
3. Percentage of self-produced renewable energy
4. Reduction in energy consumption related to the product life cycle (production)
5. New suppliers selected based on environmental criteria (e.g., energy efficiency, water and wastewater, emissions, etc.)
6. Proportion of scrap and waste material used as raw material
7. Percentage of products composed by fully recyclable materials
8. Percentage of waste conducted for recycling/reuse
9. Reduction in water consumption for production with efficiency (e.g., reuse, production cycle optimization, ...)
10. Water intensity
11. Average annual training hours per FTE employee (excluding mandatory training)
12. Percentage of employees who received regular performance and career development evaluations out of total employees
13. Female representation on the board of directors
14. Female representation in the workforce
15. Gender pay gap (reduction)
16. % of raw materials from sustainable/responsible sources
17. reduction of chemical products used during the production process
18. share of recyclable/reusable material on total material of the final product
19. % of eco-friendly products being sold
20. % of recyclable packaging utilized
21. new distributors selected based on environmental criteria (e.g., energy efficiency, water and wastewater, emissions, etc.)

- ***What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?***
Not applicable as the Fund will not make sustainable investments.

Principal adverse impacts are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

- ***How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***
Not applicable as the Fund will not make sustainable investments.
- *How have the indicators for adverse impacts on sustainability factors been taken into account?*
Not applicable as the Fund will not make sustainable investments.
- *How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:*
Not applicable as the Fund will not make sustainable investments.

The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.



Does this financial product consider principal adverse impacts on sustainability factors?



Yes, FARO Capital Markets considers principal adverse impacts on sustainability factors since the beginning of the investment process where the investable universe excludes several sectors that contrast climate change mitigation and that produce negative effects on people and environment.

Furthermore, the due diligence process encompasses the analysis of sustainability risks and ESG performance of each target company. Among other factors, PAIs on climate and social issues (e.g. carbon footprint and diversity indicators) are evaluated to identify criticalities and room for improvement. Finally, the ongoing monitoring process on portfolio companies takes into account PAIs alongside the indicators used to measure the promotion of environmental and social characteristics ESG performance indicators.



No



What investment strategy does this financial product follow?

The Sub-fund aims at building up a portfolio of investments by integrating ESG factors across all the investment process. Indeed, the investable universe is shaped accordingly to environmental and social criteria for which the following activities and behaviours are excluded:

- 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

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

Good governance practices include sound management structures, employee relations, remuneration of staff and tax compliance.

- 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 to support the above activities
- Illegal or unethical business practices, including money-laundering, corruption and bribery
- Activities entailing violation of human and labour rights

The next step consists of integrating an ESG assessment into the due diligence process to consider PAIs, good governance practices, and the potential contribution of target companies to the environmental and social characteristics promoted by the Sub-fund. This is instrumental to identify both (i) criticalities that may lead to reject the investment project, and (ii) potential opportunities to enhance the ESG performance of the companies through the definition of an ESG Improvement Plan. In addition, an ESG risk score is assigned to each investment to support the Sub-fund teams to compare and monitor trends across portfolio companies.

The ESG Improvement Plan is prepared by the Sub-fund in cooperation with the management team of each portfolio company, and the progress of this plan will be monitored periodically during the whole ownership period. Monitoring activities are aimed at:

- Ensuring ongoing adherence of investments to the responsible investment strategy of the Sub-fund, and absence of relevant PAIs
- Supporting portfolio companies in achieving their ESG Improvement Plan goals
- Improving and reporting on ESG performance of the Sub-fund.

Finally, the ESG story of the portfolio company is summarized into the exit memorandum to share ESG progress and performance with potential buyers and to capitalize Sub-fund's and portfolio company's effort in the context of sustainability. The Sub-Fund is supported by ESG advisors in carrying out all the activities mentioned above.

● ***What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

Target companies must not meet any exclusion criteria.

Each portfolio companies must agree on an ESG Improvement Plan.

● ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

The Fund does not commit to a minimum rate to reduce the scope of investments prior to the application of the investment strategy.

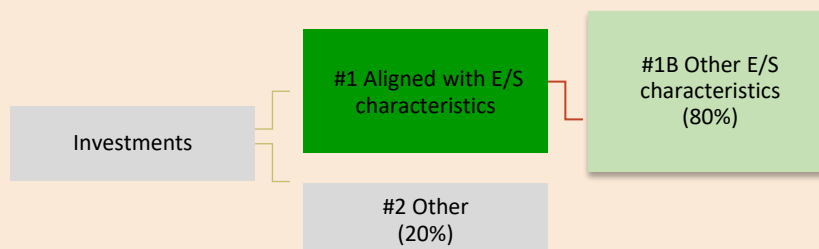
● **What is the policy to assess good governance practices of the investee companies?**

By means of analysis conducted by third parties and questionnaire sent to target companies, the due diligence process investigates, among other factors, tax and legal compliance, the governance structure, business ethics as well as employee relation and remuneration.



What is the asset allocation planned for this financial product?

Asset allocation
describes the share
of investments in
specific assets.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

At the end of the investment period, at least 80% of portfolio investments will contribute to the promotion of environmental and social characteristics (category “#1B Other E/S characteristics”). The remaining part will refer to cash, cash equivalents and other financial instruments held for liquidity and hedging purposes, and/or investments that do not promote any environmental or social characteristics (#2 Other), as further explained.

● **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

The Fund will not use derivatives to attain the environmental or social characteristics promoted.



To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

Not applicable as the Fund will not make sustainable investments.

● **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy¹?**

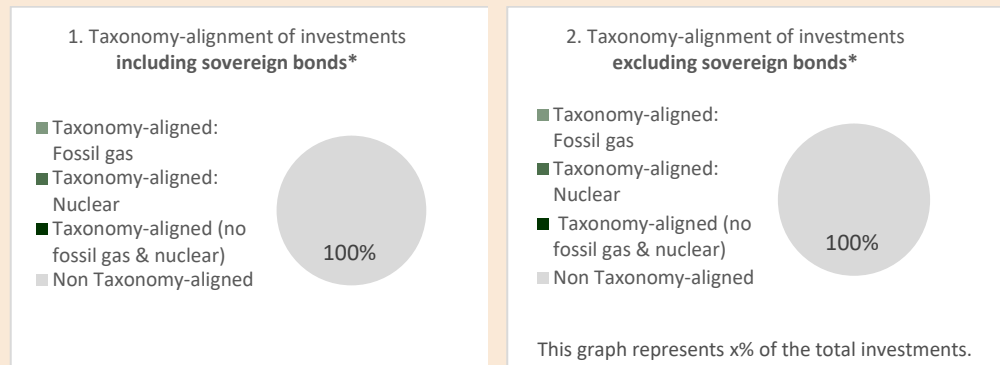
☐ Yes:

¹ Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do not significantly harm any EU Taxonomy objective -see explanatory note in the left-hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214

 In fossil gas  In nuclear energy

 No

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.*



* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.

● **What is the minimum share of investments in transitional and enabling activities?**

Not applicable as the Fund will not make sustainable investments.



What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

Not applicable as the Fund will not make sustainable investments.



What is the minimum share of socially sustainable investments?

Not applicable as the Fund will not make sustainable investments.



What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?

At the end of the investment period, the category “#2 Other” will represent at most the 20% of investments and it will refer to cash, cash equivalents and other financial instruments held for liquidity and hedging purposes, and/or investments that do not promote any environmental or social characteristics.



Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

No index has been designated for this purpose.

- *How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?*

Not applicable

- *How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?*

Not applicable

- *How does the designated index differ from a relevant broad market index?*

Not applicable

- *Where can the methodology used for the calculation of the designated index be found?*

Not applicable



Where can I find more product specific information online?

More product-specific information can be found on the website:

<https://www.faroalternativeinvestments.com/>