# Sustainability Risks Policy

## Fosteus Fund Management Limited

**Version 1-December 2022**
**Version 2-August 2024**

## 1. Introduction

Fosteus Fund Management Ltd (the “Company”) is a limited liability company with share capital, incorporated in accordance with the Laws of the Republic (registration number HE439332).

The Company is regulated as an alternative investment fund management company (“AIFM”) by the Cyprus Securities and Exchange Commission (“CySEC”) with license number AIFM 58/56/2013.

As the Sustainable Finance Disclosure Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (the “SFDR”) been entered into force, the Company has made necessary amendments in its/its funds under management documentation to be in compliance with the requirements as those defined in SFDR legislation assigned to it as ‘Market Participant’ managing Article 6 Funds.

**Article 6 Funds-** Take sustainability criteria into account within the investment process but do not specifically promote environmental or social characteristics and do not have sustainable investment as their objective.

This Sustainability Risks Policy (the “Policy”) is an integral Part of the Company’s Internal Procedures Manual.

## 2. Key Definitions

“Sustainability risk” is defined in the EU’s Sustainable Finance Disclosure Regulation (2019/2088) as an environmental, social or governance event or condition which, if it occurs, could cause an actual or potential material negative impact on the value of an investment.

Art. 2 (17) of the SFDR defines “sustainable investment” as investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labor relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

Art. 2 (24) of the SFDR defines “sustainability factors” mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

**3. Scope and objectives**

The Sustainability Risk Policy applies to the Company since it qualifies as a financial market participant due to its authorization to operate as an AIFM and to any alternative investment funds under the management of the Company (the “funds under management”).

The employees of the Company are expected to read, understand and acknowledge the content of the Sustainability Risk Policy.

## 4. Approach

The Sustainability Risks Policy describes the Company approach, handling and monitoring of sustainability risks which may arise during the investment decision making process relating to the it manages and falls under the scope of SFDR.

Within the Policy the Company aims to:

i. set the framework for the manner in which sustainability risks are integrated into their investment decisions, and

ii. describe the approach taken to manage and monitor sustainability risks which may have a material influence on the AIF managed by the Company.

The Company’s approach in integrating sustainability risks into its investment decision making process is to ensure that the services provided, and its operations do not result in unacceptable impacts on the environment and society.

## 5. Integration of Sustainability Risks into the Investment Decision Process

Fosteus Fund Management Ltd has incorporated environmental, social and governance (“ESG”) factors via prohibited investments and considers sustainability risks in the investment decision-making process of the Funds under its management.

Currently the Company does not manage Funds that seek to promote one or more environmental or social characteristics, nor does it have sustainable investment as its objective. The Funds under management are therefore considered as an “Article 6” financial product in accordance with the SFDR.

Furthermore, investments within Funds currently do not take into account the EU Taxonomy criteria (Regulation EU 2020/852 on the establishment of a framework to facilitate sustainable investment) for environmentally sustainable economic activities unless otherwise stated in the Fund's investment objective and policy.

Nevertheless, the Company acknowledges the fact that if sustainability risks occur, they may have a negative impact on its funds under management.

The aim of including sustainability risks in the investment decision-making process is to identify the occurrence of these risks, and how to best manage and monitor them within the Company.

The Company, as an AIFM managing Category 6 Funds as per SFDR regulation, does not prioritise sustainability in its investment strategy. The Company's funds and investments may include companies excluded from ESG, such as tobacco and thermal coal producers.

While the Company's funds do not have a sustainability focus, the Company acknowledges that, in today's business landscape, ESG factors are becoming critical to the success of businesses across sectors. Customers, employees, shareholders, investors, rating agencies, and regulators are increasingly focused on how companies conduct their business, its impact on the world, and their contribution to society.

As a result, as a part of its investment and risk management procedures, the Company will assess whether potential investments may present significant, material ESG risks, liabilities, and opportunities, in order to identify and mitigate potential material risks around reputation, regulatory challenges, and financial impacts.

## 6. Integration of Sustainability Within the Portfolio Management Function

Where the Company performs the portfolio management function internally, the investment decision will be made internally and at the sole discretion of the Company.

The Company’s portfolio management department will be responsible for identifying potential significant, material ESG and sustainability risks associated with an investment. Where such material risks are identified, the risk management department will be responsible to study and analyze such risks and recommend to the portfolio management function and to the Board of Directors, whether such risk will be consistent with the investment strategy and limitations/ restrictions/ appetite of the specific fund for which the investment is considered.

The final decision to on whether to proceed with an investment in case of a significant, material ESG or sustainability risk will be taken by the Board of Directors. In case the Board decides to proceed, the Risk Management department is responsible to identify proper procedures to mitigate and monitor such risks.

Main types of risks to be considered with regards to ESG will include:

- **Environment:**
    - Climatic Change: Carbon emissions, energy efficiency
    - Natural Resource Use: Water stress, biodiversity, land use
    - Waste Management: Toxic emissions, electronic waste
    - Environmental Initiatives: Renewables, clean tech, green building

- **Society:**
    - Human Capital: Human rights violations, Labor management, child labor, Data privacy
    - Product Safety

• **Governance:**

- Corporate Governance
- Business Ethics: Corruption & Instability, Ethics & Fraud, Anti-competitive Practices
- Government & Public Policy: Financial System Instability

**7. External Portfolio Managers and Investment Advisers**

In case the Company decides to engage external portfolio managers, the Company is responsible to (a) ensure that they follow the same procedure as defined in Section 6 above and (b) perform ongoing and periodical due diligence of the delegated portfolio managers to ensure ongoing compliance with the Policy.

The Company may engage external investment advisers to provide specific assistance and support to the investment decision-making process of the Company. The final investment decision is nevertheless at the sole discretion of the Company. Therefore, investment proposals from investment advisers are duly assessed against regulatory and legal requirements and for ESG and sustainability risk before their execution (pre-trade assessment).

**8. Sustainability Risk Management**

The Risk Management function of the company is responsible for the risk management and monitoring of ESG and sustainability risks.

The Risk Management function regularly reports on the overall risk exposure of the Funds under management to the Company's Board of Directors depending on the defined risk profiles of the funds. The Risk Manager will also monitor specific material ESG and sustainability risks as per section 6 above.

The assessment and monitoring of risk profiles on the basis of the above allows the Company to effectively monitor sustainability risks and report any (material) increase/breach of the limits set to the portfolio management function to allow mitigating actions to be taken.

**9. Conflict of interest**

The Company is committed to identifying and where possible preventing or managing potential, actual or perceived conflicts of interest. It has in place a Conflicts of Interest Policy which sets outs the types and examples of conflicts that may arise and on how the Company manages them.

Similar to the financial risks faced by the Funds, such conflicts may arise as a result of sustainability risk integration in the investment decision making process or sustainability preferences integration as part of product governance and the Conflict-of-Interest Policy becomes effective along with all the documentation and management stipulated therein.

**10. Policy review & monitoring**

The Compliance Officer in collaboration with the Risk Manager will monitor and review the Policy on an annual basis and on an ad-hoc basis in the event of major changes to the policy framework of the Company and will proceed to changes where and as needed.

The policy will be acknowledged by the Board of Directors of the Company after every review and/or material changes to its content.

**11. SFDR Competence Process**

All company employees or senior management dealing with SFDR matters shall undertake training either internally or externally to ensure that are kept up to date with all relevant changes with regard to regulations. Also, any new employees or senior managers assigned the responsibility to Deal with SFDR shall undertake a training relating to SFDR to ensure that are competent and knowledgeable to minimize the company's compliance and legal risk.