FARO ALTERNATIVE INVESTMENTS

FARO INNOVATION

Sustainability-Related Disclosure

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Summary

Faro Innovation (the "Sub-fund") invests in disruptive/high-growth potential startups and tier-1 venture capital funds. The Sub-fund does not have sustainable investments as objective; however, it promotes environmental and/or social characteristics.

The investment strategy considers sustainability risks throughout the whole investment process: screening, pre-investment, investment period and divestment. During the screening process, target companies must not operate in any sector that the Sub-fund considers controversial or having a negative impact on environmental and social issues. The pre-investments phase is intended to assess potential principal adverse impacts, the adoption of good governance practices and ESG factors to be considered for developing an ESG Improvement Plan. Such assessment considers the early stage of the companies and thus the need for an ESG framework built from the scratch.

During the investment period, the Sub-fund will support portfolio companies in managing sustainability risks and in improving their ESG performance, working towards their ESG Improvement Plan goals.

The ESG Improvement Plan for each portfolio company will be monitored on an ongoing basis to track ESG indicators' movements and it must be updated annually in cooperation with the management of the portfolio company.

At the end of the investment period, the final asset allocation will consist of at least 70% of investments that promote environmental and/or social characteristics, while the residual 30% will refer to cash, cash equivalents, other financial instruments held for liquidity and hedging purposes as well as funds of funds where the implementation of an ESG Improvement Plan is not feasible.

No sustainable investment objective

The financial product promotes environmental and/or social characteristics but does not have as its objective sustainable investment.

Environmental or social characteristics of the financial product

The Sub-fund aims to invest in potential startups that promote environmental and/or social characteristics. In accordance with the investment objective and the sustainability challenges across all investment process, the following environmental and social characteristics are promoted by the Sub-fund:

Environmental	***Social***
Reduction of GHG emission	Employee wellbeing and development
	Gender equality
	Customer privacy and data security

The promotion of such characteristics aligns with the achievement of 8 out of 17 UN Sustainable Development Goals:

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

Investment strategy

The investment strategy considers sustainability risks throughout the investment process:

I. **Screening:** target companies must not operate in any of the excluded sector or be involved in controversial/unethical practices:
   - 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 to support the above activities
   - Illegal or unethical business practices, including money-laundering, corruption and bribery
   - Activities entailing violation of human and labour rights

II. **Pre-investment:** the due diligence process ensures that Principal Adverse Impacts (PAIs) and the adoption of good governance practices by target companies are evaluated. In addition, sustainability risks and performance are assessed to inform the ESG Improvement Plan: a roadmap defined by the Sub-fund in accordance with the companies to support them in enhancing their ESG performance and promotion of environmental and social characteristics. Each portfolio company must agree on an ESG Improvement Plan.

III. **Investment period**: the Sub-fund regularly engages with portfolio companies to:
   - Ensure ongoing adherence of investments to the responsible investment strategy of the Sub-fund, and absence of relevant PAIs
   - Support portfolio companies in achieving their ESG Improvement Plan goals
   - Improve and report on ESG performance of the Sub-fund

IV. **Divestment:** the ESG progress and performance of the portfolio companies is summarized in the exit memorandum 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.

Proportion of investments

The expected asset allocation of the Sub-fund at the end of the investment period is:

- 70% of investments promote environmental and/or social characteristics
- 30% will refer to cash, cash equivalents, other financial instruments held for liquidity and hedging purposes as well as funds of funds where the implementation of an ESG Improvement Plan is not feasible

Monitoring of environmental and/or social characteristics

The Sub-fund engages with portfolio companies on a regular basis to monitor the execution of the ESG Improvement Plans by collecting ESG data at least once a year.

Methodologies of environmental or social characteristics

The exclusion of sectors and the identification of unethical or controversial practices are informed by UN Global Compact Principles, OECD Guidelines, ILO conventions and other relevant frameworks, where applicable and meaningful.

Industry-specific materiality, PAIs and the targets of the UN SDGs are considered in the assessment of sustainability risks and performance during the due diligence phase. The ESG Improvement Plan is consequently developed in accordance with the results of this assessment. The progress is monitored and reported by means of indicators that properly represent the characteristics promoted in the ESG Improvement Plan.

Data sources and processing

Portfolio companies are required to report data referring to their ESG Improvement Plan at least once a year and the Sub-fund supports them in the generation and monitoring of ESG data. Third parties may be appointed if additional technical expertise is needed (e.g. calculation of GHG emissions).

The Sub-fund stores the data and tracks the changes in the indicators of the ESG Improvement Plan to inform the periodic disclosure to stakeholders.

Limitations to methodologies and data

Since companies are at an early stage, lack of ESG processes and data could be an issue, for this reason the aim of the ESG Improvement plan is primarily to fill these gaps.

Due diligence

Detailed due diligence activities are performed on specific topics such as management reputation and reliability, tax, legal and alignment with the Sub-fund's policy. Moreover, additional due diligence can be carried out based on industry materiality and the characteristics of the company. Specialized third parties are appointed to conduct such activities entirely or in part.

Engagement policies

The Sub-fund engages with portfolio companies once a week to:

- receive updates on the ESG Improvement Plan's activities and to discuss further actions needed
- support the achievement of the ESG targets of the ESG Improvement Plan

Designated reference benchmark

The Sub-fund has not selected any index as a reference benchmark to measure the attainment of environmental and/or social characteristics promoted by the Sub-fund.