Fearnley Asset Management AS

SFDR Policy

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Approved by: CEO Fearnley Asset Management AS

1. Background

Fearnley Asset Management ("FAM") is an alternative investment fund manager ("AIFM") authorised and supervised by the Financial Supervisory Authority of Norway pursuant to Section 2-2 of the Norwegian Act on Management of Alternative Investments Funds.

FAM is currently managing Fearnley Energy Alpha Fund, Fearnley Credit Fund and Valmue Credit Fund ("the Funds"). This policy is in accordance with the Regulation (EU) 2019/2088 of the Sustainable Finance Disclosure Regulation ("SFDR") and Commission Delegated Regulation (EU) 2022/1288 on Regulatory Technical Standards (the "RTS") and outlines the approach of FAM towards the integration of sustainability risks in investment decision-making processes, in accordance with Article 6 of the SFDR.

FAM as an alternative investment fund manager is required to provide information on the funds under management, as well as the integration of sustainability risks and negative sustainability impacts into the Funds' investment decision making process.

FAM Funds do not have sustainable investments as part of their investment objective (SFDR Article 9), and do not, through their investments, promote environmental or social characteristics, or a combination of these in accordance with SFDR Article 8. The Funds are not required to make sustainable investments in accordance with SFDR Article 2(17).

2. Sustainability Risks Integration

FAM is obliged to assess and disclose the extent, to which it takes into account sustainability risks.

The definition of a sustainability risk is "*an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of an investment*".

Sustainability risks may result from FAM investment decisions made as part of the Funds' investment mandates but may also be as a result of risks stemming from factors outside the financial system, that could pose challenges to the investments and their projected returns in the future. These are risks outside of FAM's control and can include political instability and natural disasters.

FAM believes that adverse sustainability impacts are important to avoid as they can cause an actual or potential negative impact on the value of an investment and reduce the risk adjusted returns in its investment portfolios.

Sustainability risks can materialise throughout the investment lifecycle. As part of the Funds' investment strategy and risk monitoring, FAM will consider sustainability risks in its investment processes as described in the fund documentation or, if relevant, the supplement to the fund documentation, relating to each of the Funds.

3. Investment strategy

Equity Fund Strategy

FAM's equity fund employs a value-driven long/short investment strategy, focusing on the global energy and shipping sectors. This approach aims to capitalize on market inefficiencies and uncover hidden opportunities within these specialized industries.

The strategy's core objective is alpha generation, achieved through rigorous fundamental research, extensive industry knowledge, and substantial investment experience. By leveraging these assets, FAM identifies and invests in businesses trading at significant discounts to their intrinsic value or in companies where the market has not fully recognized their potential to create or unlock value.

Credit Fund Strategy

FAM's credit fund strategy is designed to generate consistent returns while maintaining a robust focus on risk control. The strategy derives returns from credit margins and liquidity premiums, ensuring high returns without compromising on risk management. By targeting the Nordic High Yield market, the strategy capitalizes on substantial credit and liquidity premiums available within this region.

The investment approach is characterized by a concentrated portfolio constructed through a "bottom-up" methodology involving detailed analysis of individual securities to uncover opportunities that offer favorable risk-reward profiles. This disciplined process ensures that each investment is thoroughly vetted for its potential to positively contribute to the fund's performance.

4. General information requirements

As an asset manager operating article 6 funds, FAM is required to disclose if the asset manager does not consider sustainability risk to be relevant for its specific investment funds, a clear and concise justification for why this is the case must be published.

FAM acknowledges the growing importance of sustainability in investments but believes that its current strategies are not significantly impacted by sustainability risks. The firm focuses on the energy, shipping, credit, and Nordic High Yield markets, where traditional financial factors and market dynamics are more relevant to achieving investment goals.

Through rigorous fundamental research and thorough vetting, FAM ensures potential investments are scrutinized for long-term viability and risk management. Although sustainability risks are not integrated into FAM's investment decisions, the company's robust risk management and market assessments address primary concerns relevant to its investment approach.

FAM will transparently explain on its website and in pre-contractual disclosures that while sustainability risks are not considered, its risk management practices sufficiently cover the necessary concerns. This ensures that investors are informed about FAM's stance on sustainability risks and their relevance to the fund's strategy.

5. Sustainable investment objectives

The Funds do not promote any environmental and social characteristics as part of their investment strategy.

6. Responsible investment exclusions

The criteria for the exclusion of companies are based on the “Guidelines for Observation and Exclusion of companies from the Norwegian Government Pension Fund Global (GPFG)”.

In summary, the guidelines may exclude companies that are involved with:

a) serious or systematic human rights violations
b) severe environmental damage
c) unacceptable greenhouse gas emissions
d) development or production of weapons or key components of weapons that violate fundamental humanitarian principles through their normal use
e) production of tobacco or tobacco-products
f) production of cannabis for recreational use
g) serious violations of fundamental ethical norms, e.g., suppression of workers' rights, cartel behavior, corporate tax evasion.

Before initiating any investments, FAM will perform a check against the Exclusion List to ensure companies which do not comply are excluded from the Fund's portfolio.

To ensure that environmental and social characteristics are met throughout the lifecycle of the fund, the above methodologies are applied and monitored on an ongoing basis or at least on an annual basis. For all new and existing investments in FAM portfolios, FAM performs regular checks against the Exclusion List to ensure that companies failing to comply with the Exclusion List are not included in the Funds. This ensures that financial products not meeting the requirements anymore will be held for a maximum period of 12 months after not meeting the requirement.

Once a year, following the first half of the year, FAM will review the proportion of portfolio companies with and without information on the aforementioned environmental and social exclusion methodology.

7. Sustainability from a risk management perspective

As the Funds will be classified as Article 6 funds, they are required to consider sustainability from a risk management perspective.

FAM will actively engage with companies during the research phase and throughout the life of the investment to ensure a thorough assessment of governance practices. FAM will not take investment positions in companies that violate, or lack adequate mechanisms for monitoring and complying with, international regulations and conventions related to sound management structures, taxation, workers' rights, compensation, ownership structures, and issues of bribery and corruption.

FAM will evaluate whether portfolio companies’ have implemented processes, plans and compliance mechanisms to mitigate the risk of adverse impacts on fundamental human rights and working conditions. This evaluation will be based on a review of the companies’ policies, codes of conduct, and human rights due diligence process as part of the investment process.

FAM will primarily rely on publicly available information and will utilize continue to review available sustainability data as it becomes available.

For more information about the investment strategy, please refer to the prospectus and supplement.

8. Research process and data sources

As part of the investment process, FAM conducts thorough research by directly accessing companies’ reports and may engage in communication with company management through questionnaires, meetings and quarterly management updates to the market. Additionally, FAM may supplement its research by including third-party research on companies’ which may provide environmental and social attributes when available.

FAM may process data by screening internal research, third-party data, and the Exclusion List. Other data sources are internal research done through engagement and public voting information.

9. Designated reference benchmarks

No reference benchmark has been designated for the purposes of attaining the environmental or social characteristics promoted by the Funds.

10. Remuneration Policy

Sustainability risk is not systematically integrated into FAM’s investment strategy and analysis and as a result is not included in the assessment basis for how variable remuneration is determined.

11. Environmentally sustainable economic activities

According to SFDR Article 4, information on the consequences of investment decisions that lead to negative impacts on sustainability factors must be published. Sustainability factors include environmental, social conditions, the relationship with employees, respect for human rights, and anti-corruption. Taxonomy Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088 ("Taxonomy Regulation") is a classification system aimed at establishing common criteria for environmentally sustainable economic activities. The Taxonomy Regulation also provides additional requirements for information that financial market participants must disclose in accordance with the SFDR.

As the Funds will not be categorised as SFDR Article 8 nor SFDR Article 9, the following statement is included in accordance with Article 7 of the Taxonomy Regulation: The underlying investments of the Funds does not take into consideration the EU criteria for environmentally sustainable economic activities as defined in the Taxonomy Regulation.