

Tenax Capital Ltd Responsible Investment Policy

Environmental, Social, and Governance (ESG) Investment

2021

1. Background

Corporate Social Responsibility (CSR) and Sustainability in general are integral parts of the values and culture of Tenax Capital Ltd (hereafter referred to as 'Tenax'). The primary objective of continuing to develop a solid and sustainable long-term business is supported by the responsibility to generate added value for all stakeholders. The commitment to manage the company in a responsible way is expressed in the way of working, in the attention and centrality of the Customer, in the way in which Tenax supports its employees, respects the environment and contributes to the development of the community in which it lives. We believe Tenax's CSR strategy is critical to maintain solid financial results by delivering the best possible investment solutions to repay our clients' trust and to meet their expectations.

Historically, profit and loss may have been the only measure of a successful investment strategy. These days, however, investors are increasingly considering the Environmental effect, Social impact of an investment, as well as good corporate Governance of companies. Tenax recognises the growing import of these wider considerations particularly in the context of managing risk.

The **Tenax Responsible Investment Policy** has been written to provide a framework and background to Tenax thinking on Environmental, Social, and Governance (ESG) investment. The intent of this document is to articulate how ESG is considered across the different elements of the investment approach and how we expect it will evolve into the future.

It is important to bear in mind that the main focus of our Responsible Investing policy is on ESG integration, which is the practise to incorporate Environmental, Social and Governance (ESG) factors in investment decisions. Our approach and the process of ESG integration should not be confused with other approaches such as Ethical investment, or Impact investing. These approaches seek to combine financial return with moral or ethical considerations with specific non-financial motives.

However, Responsible Investment can be pursued even by the investor whose sole purpose is financial return, because it argues that to ignore ESG factors could lead to ignoring risks that can have a material effect on returns. This is the emphasis of our approach. The table below helps to define some of these terms.

2. Approaches to Responsible Investing

ESG Integration	The practise of seeking to include material ESG factors into investment analysis and investment decisions
Engagement and Voting	The use of the rights and position of ownership to influence the activity of investees via the exercise of voting rights or other interactions
Sustainability Themed Investment	Investment in themes or assets specifically related to sustainability
Impact Investing	Targeted investments, typically in private markets, aimed at addressing social or environmental problems
SRI / Ethical Investment	Typically looks to exclude certain sectors, companies or practises based on specific ESG criteria

The emphasis of this policy is towards ‘ESG Integration’ and, if possible, our approach to ‘Engagement’. It is envisaged that the policy will be updated as necessary through the appropriate internal governance committees and will be formally reviewed at least once a year.

3. Responsible Investing Beliefs

Tenax defines Responsible Investment as:

“The integration of sustainability considerations, including Environmental, Social, and Corporate Governance (ESG), and active ownership practices into the investment management process, in the belief this can impact financial performance while also giving a broader perspective on risk and return opportunities.”

- a) We believe a sustainable investment approach can help in particular to preserve investment capital and mitigate certain risks and that such an approach will be helped by integrating the following into the investment process:
 - o Environmental, Social and Corporate Governance (ESG) factors, which can have a material impact on long-term risks and return outcomes but may not be captured directly in a company’s financial accounts.
 - o Stewardship/active ownership (via voting and engagement), which can enhance to the value of companies, encourages good corporate behaviour, and can help the realisation of long-term shareholder value.
- b) Integrating a sustainable investment approach is more likely to be achieved where the following beliefs are also incorporated:
 - o Stakeholder interests are important, and investment decisions may need to be aligned with those interests.
 - o Taking a medium to long term approach can help to add value rather than focusing on too short-term a time horizon.
 - o Being transparent is beneficial to stakeholders and the broader market.
- c) Collective Action:
 - o We believe that acting collectively with other like-minded investors and industry bodies can be an effective means of having a meaningful impact, rather than acting alone in promoting ESG considerations.
 - o We view collective action as being one of the most effective ways to promote good practise in the ESG space.

4. ESG Integration

Tenax’s view is that integrating ESG factors is not about accepting diminished returns. In fact, there is growing evidence to suggest integration can improve company operational performance and help deliver higher quality returns over the long-run. This section looks to outline the ways in which we look to consider ESG across different parts of the investment process.

4.1 Asset Allocation / Top Down ESG Considerations

In the context of asset allocation, it is important to acknowledge that the degree of ESG development and consideration varies widely across asset classes, and even within asset classes.

The table from Mercer below summarises the market progress on ESG, manager progress and the opportunity set from a thematic perspective, using data from Mercer’s Global Investment Manager Database (GIMD). The table is useful to give some context to the wider investment universe.

Mercer – top down asset class ESG considerations

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	MARKET PROGRESS ON ESG INTEGRATION	MANAGER PROGRESS ON ESG INTEGRATION*	AVAILABILITY OF SUSTAINABILITY -THEMED STRATEGIES**
Listed equity (Active)	MEDIUM/HIGH	MEDIUM/HIGH	LOW/MEDIUM* **
Fixed income	LOW/MEDIUM	LOW	LOW
Property	HIGH	MEDIUM/HIGH	LOW
Impact investments	HIGH	HIGH	LOW

* Refers to the percent distribution of ESG1- and 2-rated strategies in GIMD™, when available.

** Refers to the number in institutional-quality sustainability-themed strategies relative to the respective mainstream universe in GIMD.

*** This is a larger universe relative to other asset classes, and, therefore, availability of thematic strategies may be low relative to the universe but potentially high in absolute number.

NB: Low <5%; low/medium: 5%–10%; medium: 10%–20%; medium/high: 20%–40%; high: >40%

Mercer state that there is evidence of improving progress in ESG integration and stewardship by asset manager across asset classes over the last number of years. While fixed income is further behind and is still rated as Low/Medium for progress on ESG integration, this is also the asset class where they are seeing some of the fastest changes and market development. Whereas ESG in fixed

income historically focused only on corporate credit, more managers are investing in research and tools to embed ESG considerations into sovereign bonds, asset backed securities and even bank loans. Furthermore, with a growing universe of green and social impact bonds in circulation, it is a space where there will be a growing market for ESG integrated approaches.

4.2 Investment Selection and Monitoring

Tenax believes that ESG risks and opportunities should be assessed by investee companies and in stock selection and portfolio construction. ESG factors that are to be considered in our investment decisions are:

<u>ENVIRONMENTAL</u>	<u>SOCIAL</u>	<u>GOVERNANCE</u>
Climate change	Health and safety	Board structure and diversity
Water	Demographics/ consumption	Remuneration
Waste and pollution	Supply-chain labour issues	Accounting and audit quality
Greenhouse gas emissions	Employee relations and diversity	

5. ESG Engagement

5.1 Proxy Voting Policy & Engagement

Tenax believes stewardship (or active ownership) helps to realise long-term shareholder value by providing investors with an opportunity to enhance the value of companies more consistent with long-term investor timeframes. For example, voting on resolutions at company AGMs and meeting with company management on particular issues. This is an important leg of a broader ESG policy.

5.2 Investee Company Engagement

Tenax is of the view that one of the more powerful tools we have is our engagement with our investee companies given the significant insight we have particularly with SME companies. Using this can help to push forward the ESG and sustainable investment agenda across a broader industry.

The objective of this will be to make it clear to our partner investee companies that the monitoring and the development of the ESG agenda is an important issue for Tenax.

6. ESG Governance

It is anticipated that ESG Governance will be managed and be reviewed formally on an annual basis by Tenax's board.

7. Industry Collaboration and Collective Action

Tenax will participate where possible in collaborative industry initiatives to help promote the Responsible investment in the European market.

Tenax will stay up to date and current on other relevant initiatives and regulatory developments as it relates to Sustainable Investment. In particular, Tenax is reviewing its approach in the context of possible future membership of the United Nations Principles for Responsible Investment (UNPRI). The UNPRI was set up in 2006 and now works with over 2000 signatories globally accounting for almost USD 80 trillion of assets which includes asset managers and asset owners.

The guiding principles of the PRI code are:

- a) We will incorporate ESG issues into investment analysis and decision-making processes.
- b) We will be active owners and incorporate ESG issues into our ownership policies and practices.
- c) We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- d) We will promote acceptance and implementation of the Principles within the investment industry.
- e) We will work together to enhance our effectiveness in implementing the Principles.
- f) We will each report on our activities and progress towards implementing the Principles.

While Tenax is not currently a member of the UNPRI, we wish to craft our policy in order to be consistent with the guiding principles of this body and, if we wish to pursue membership, we would be in a good position with our approach. Please see more information at www.unpri.org.

8 Excluded activities

Under the Responsible Investing Policy, Tenax is prohibited from investing in entities engaged in certain economic activities. These are set out overleaf. This list has been drawn up taking account of DFI policies and internationally recognised good practice. It will be kept under review.

TENAX CAPITAL LIMITED: Excluded Activities

Any of the following activities:

Production of, or trade in, any product or activity deemed illegal under applicable local or national laws

or regulations or subject to internationally agreed phase-outs or bans as defined in global conventions

and agreements such as certain:

- hazardous chemicals, pharmaceuticals, pesticides and wastes;
- ozone depleting substances;
- endangered or protected wildlife or wildlife products; and
- unsustainable fishing methods such as blast fishing and drift net fishing in the marine environment using nets in excess of 2.5 kilometres in length;

Production of, or trade in, arms (i.e. weapons, munitions or nuclear products, primarily designated for military purposes);

Production of, use of, or trade in, unbonded asbestos fibres;

Production of, or trade in, atomic power or radioactive materials;

Prostitution;

Any businesses, if any of the following activities represents a substantial portion of such business:

- gambling, gaming casinos and equivalent enterprises;
- tobacco or tobacco related products;
- marijuana production or distribution;
- virtual currencies;
- illegal trade in wildlife;
- pornography / adult entertainment.