



zetland|capital

RESPONSIBLE INVESTMENT POLICY

April 2023

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At Zetland Capital, we identify situations where our unique skillset and flexible capital can bring about better outcomes for businesses, asset owners, and the wider community.

We understand that our decisions affect the communities we invest in and the planet we live on, and we recognise our agency and ability to make a difference.

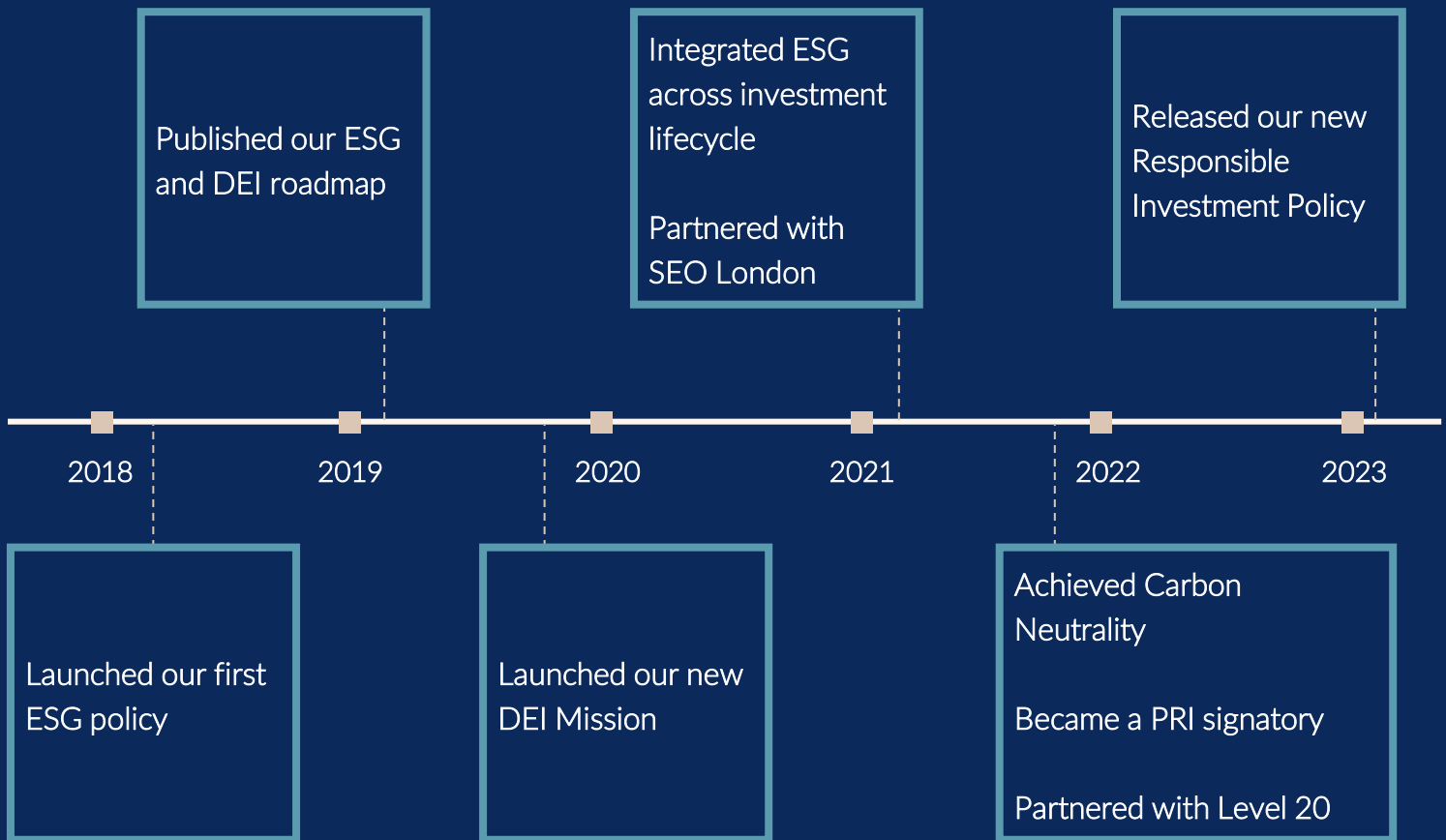
We founded Zetland Capital in 2016, and are committed to incorporating and integrating ESG in the way we do business.

ESG is ingrained in our DNA through our 5 organisational principles (“Our Principles”) which guide every decision we make. Our collaborative approach with management and operating partners enables us to deliver business transformation across financial, operational, and ESG factors.

The purpose of this policy is to set out our approach to managing ESG risks and value creation opportunities, outline accountability for delivering on these objectives, and set parameters for investing activities across our various asset classes and industries.

We hope you find this document useful in understanding how we will use ESG to drive a lasting impact.

OUR HIGHLIGHTS



OUR PARTNERSHIPS



Signatory of:



We are committed to integrating the consideration and thoughtful management of ESG issues at both a firm and investment level. We understand that our decisions affect the communities we invest in and the planet we live on, and we recognise our agency and ability to make a difference.

At Zetland's heart sit a set of key principles that guide every decision we make. These values are far more than arbitrary guidelines, they embody our culture, inspire our mindset, and inform our choices. They also act as goals, part of our growth ambition, and we see each one as an ever-moving target to work towards, rather than a space to settle into.

We believe that these five principles, combined with our Responsible Investment Goals, provide us with a framework to ensure that ESG is embedded into all decision making and behaviours at Zetland. We strive to continuously improve our own ESG performance whilst maintaining the success we have always had in generating investment returns.

OUR PRINCIPLES

Excellence and accountability

We take pride in rolling up our sleeves to deliver rigorous analysis that drives consistently outstanding results

Innovation and agility

We lean into opportunities that others may miss. Our team thrives in challenging and time-sensitive conditions, offering innovative solutions and flexible capital

Challenge and collaboration

We are not afraid to be curious; asking the difficult questions and coming together to answer them. We share knowledge and analysis across our whole team

Diversity and inclusivity

We believe in a diverse workplace. Not simply as a worthy goal, but because we know that diversity builds better teams, and delivers higher performance

Integrity and impact

We recognise the responsibility that comes with financial stewardship and the opportunity it presents for change. We aim to bring about better outcomes through our actions



OUR RESPONSIBLE INVESTMENT GOALS

1. Safeguard the resilience of assets by adequately assessing ESG risk and opportunity when investing in distressed businesses

2. Build strong, resilient companies that deliver both competitive financial returns and measurable ESG outcomes

3. Seek to improve the ESG performance of investments and adherence to industry best practice by the time of our exit

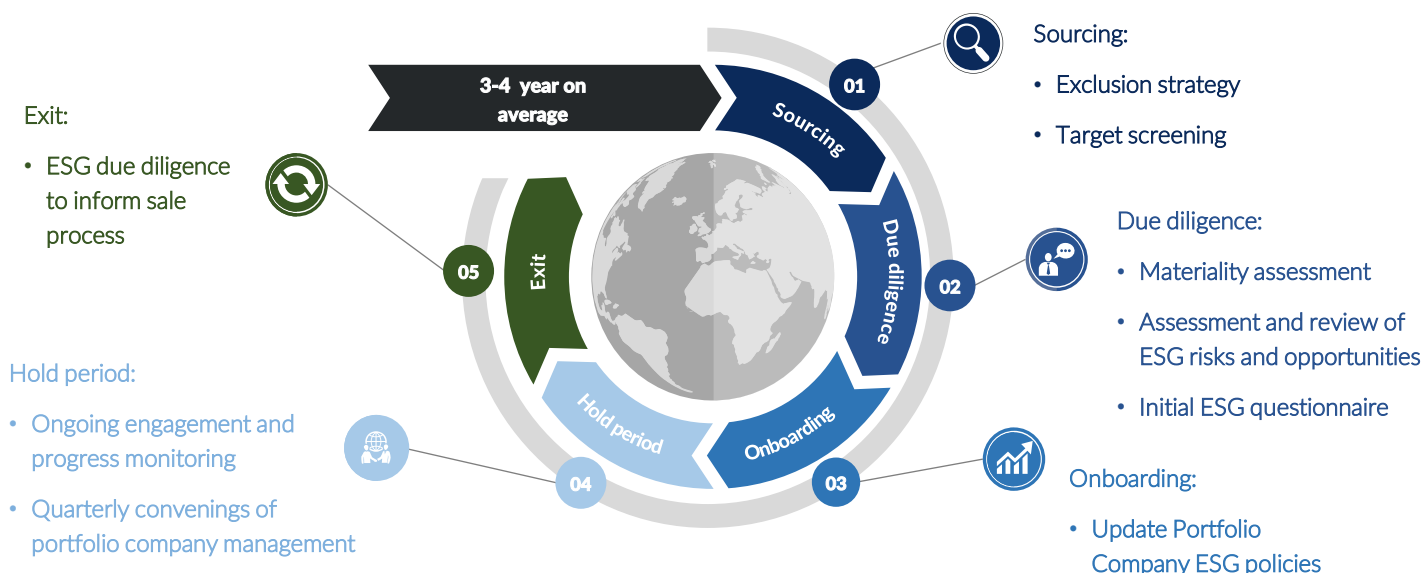
4. Be a responsible, future-driven, people-oriented organisation

OUR APPROACH TO INVESTMENT

At Zetland Capital, we invest in mid-market special situations across Europe, delivering operational and financial transformation which benefits livelihoods and communities.

We believe that active ESG management leads to better investment outcomes and positive impacts for our stakeholders. We therefore commit to consistently prioritising ESG and integrating relevant ESG factors across the lifecycle of our investments.

ESG is incorporated across the investment lifecycle:



We are committed to identifying material ESG risks and opportunities for our assets, sectors and geographies. We will consider material ESG issues during due diligence and when monitoring investments, engaging with the management team of portfolio companies or assets to maximise value and return on investments.

The ESG factor considerations may include, but are not limited to:

ENVIRONMENTAL

- Climate impact
- Energy management
- Pollution and waste
- Water management
- Nature and biodiversity

SOCIAL

- Diversity, equity and inclusion
- Community engagement
- Fair employment
- Health and safety

GOVERNANCE

- Active governance and stewardship
- Business ethics
- Business resilience
- Cyber security and data security

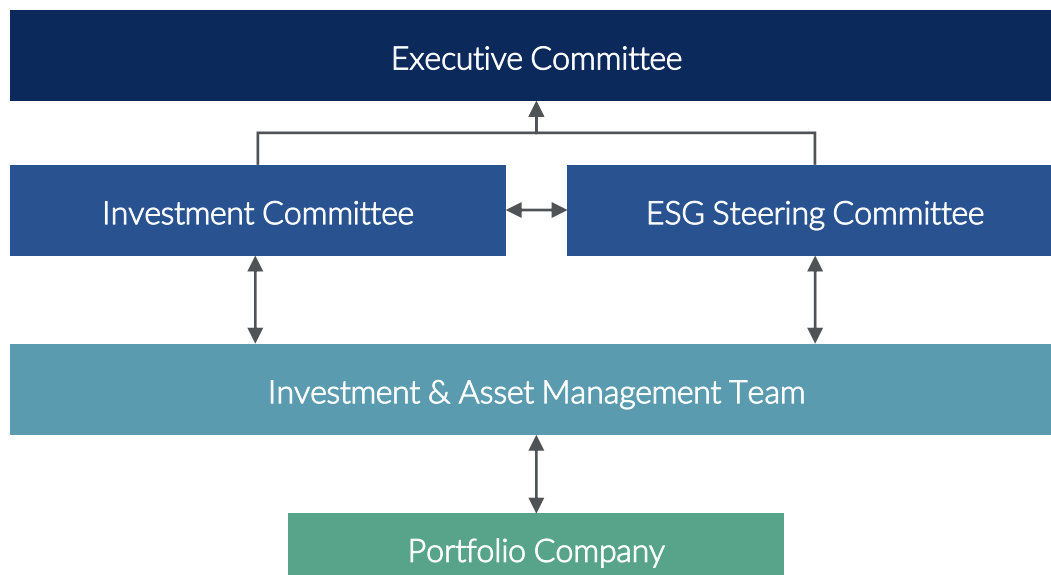
“At Zetland, we act as global citizens and take a holistic approach, integrating ESG considerations across our firm and investments to drive lasting impact for our companies, employees, communities and the environment. As problem solvers, we aim to add value to our people and planet, with the belief that solid ESG management contributes to better investment outcomes. ESG is integral to our fiduciary duties as responsible investors.”

Lynn Akashi
Chief Strategy Officer, Founding Partner

OUR APPROACH TO GOVERNANCE

We are committed to active and engaged governance, holding ourselves accountable for driving value whilst considering our impacts on the planet, people and society.

Responsibility for ESG lies across several reporting lines, including portfolio company Boards and Steering Committees. These reciprocal reporting lines ensure communication channels are open for highlighting ESG risks and opportunities.



Our Investment & Asset Management team is responsible for the day-to-day implementation of this policy and embedding ESG across the investment lifecycle including through engagement with portfolio companies during the investment period.

The Investment Committee provides oversight of the Investment & Asset Management team and is responsible for decision making under this policy. The Investment Committee will meet regularly and collaborate with the ESG Steering Committee on technical guidance and implementation support. Ultimate responsibility for ESG at Zetland sits with the Executive Committee and Managing Partner / Chief Strategy Officer.

GOVERNANCE OF THE POLICY

Our Responsible Investment policy applies to all opportunities considered by the Investment Committee or reviewed by Zetland. The ESG Steering Committee will be responsible for reviewing and updating the policy, and to present updates to the Executive Committee for approval. The policy will be reviewed at least annually, or earlier if there are changes to regulation, market conditions, or Zetland's investment strategy.

If there has been a breach of this policy by a portfolio company, or an individual or team within Zetland, we will investigate the matter and seek to resolve any breach together with that party in a timely manner.

We have developed our approach in collaboration with third-party ESG consultants, taking into consideration industry peer examples, leading practice guidance and international framework considerations (e.g., UNPRI, ICI, InvestEurope). The development of this policy has been steered by the ESG Steering Committee with oversight of the Executive Committee and the policy has been approved by the Executive Committee.

OUR APPROACH TO ENGAGEMENT

Our engagement approach is guided by our focus on mid-market special situations and deep value opportunities across Europe. As we strategically invest across multiple industries, security types and asset classes, our approach to ESG primarily reflects our ability to influence behaviour at our portfolio companies, underpinned by Our Principles and Our Responsible Investment Goals

Our tactical domains:

T

Traded Credit

HY Bonds
Leveraged Loans
Private Loans
ABS
CLOs

A

Asset - Backed

Real Estate
Aviation
Asset Transformation
Other Hard Assets

C

Corporate Transformations

Rescue Financing
Restructuring
Loan-to-Own

EXCLUSION POLICY

We have identified the below activities as those which we will never finance either directly or indirectly through the activities of portfolio companies. Furthermore, we will not invest in activities which involve any product or activity deemed illegal under host country local or national laws, or regulations, or subject to internationally agreed phase-outs or bans as defined in global conventions and agreements.

As we have evolved our approach to ESG, we have integrated ESG across the investment lifecycle, therefore, our Exclusion Policy is just one component of our approach. We are committed to the exclusion of the below activities, however, this is not an exhaustive list. Our investment and asset management teams, through the underwriting process will exclude investments which contain high ESG risks.



Production of tobacco or tobacco related products



Production of, or trade in arms (i.e. explosives, weapons)



Activities involving harmful or exploitative forms of forced labour



Production or activities which result in violations of human rights



TRADED CREDIT



Our traded portfolio consists of attractive debt positions, including high yield bonds and leveraged loans. We integrate ESG into our research and investment decision making taking advantage of available industry and entity data.



Pre-investment

Due to the nature of these assets, in-depth ESG due diligence is not always possible.

Where this is the case, we will:

- Follow the initial negative screening process using the Exclusion List, and then consider sectoral ESG risks
- Use third-party proprietary ESG data and ratings to understand a prospective assets and sectors ESG impact, risk, and opportunity
- Material ESG risks will be presented to the Investment Committee for consideration

During investment

Where our influence is limited during the hold period, we will monitor the ESG risks together with our regular monitoring of investments.

Valuation and exit strategy

On exit of traded credit investments, we will perform a review of how the asset has performed on ESG during the hold period. We will consider this performance in future investment decisions to ensure that they are aligned with our ESG ambitions.

While we anticipate that our influence is limited during the hold and exit period for the majority of our traded credit positions, where possible and when our influence is higher, we will seek to perform deeper ESG monitoring (as described on page 10).

Structured credit

Our traded portfolio includes structured finance products which means that each investment can contain a large number of underlying financial assets which have been repackaged and sold to investors. For this reason, we are unable to perform ESG analysis for each underlying loan and other asset. Due to the nature of our structured credit positions, we therefore take a proportionate approach recognising the amount of publicly available information and our degree of influence.

ASSET BACKED AND CORPORATE TRANSFORMATIONS



The majority of our investments are in private equity and credit, with a significant focus in real estate, corporate and aviation. We work closely with management teams and operating partners to deliver fundamental operational transformation, embedding ESG considerations into our stewardship approach.



Pre-investment

When evaluating an investment opportunity, we:

- Conduct an initial negative screening process using the Exclusion List
- Undertake ESG due diligence processes, where issues, findings and next steps identified during the due diligence process are documented, for internal use
- Material ESG factors will be used to inform the decision to abandon potential investments in the due diligence phase where ESG risks are considered too high to reasonably mitigate
- When conducting ESG due diligence, our investment team will consider the ESG opportunities associated with the opportunity so that these can be carried over into the hold period to create value

During investment

Zetland will seek to, as far as reasonably possible, engage with portfolio companies on their ESG journey and encourage good practice.

To manage material ESG risks and value creation opportunities during the investment phase, Zetland will work with portfolio companies to:

- Agree ESG targets, criteria and priority initiatives aligned to material topics and ESG due diligence findings
- Share an ESG questionnaire and reporting template annually to report against key metrics and targets and monitor progress
- Provide trainings and knowledge sharing opportunities for management teams to build capacity in ESG and drive improvement
- Require portfolio companies to report on their ESG activities to their Board, Zetland and in public disclosures

Valuation and exit strategy

It is increasingly recognised that businesses with strong ESG performance can be more attractive to potential buyers, lead to higher multiples, and therefore higher returns for investors. Where appropriate we will commission third-party vendors to conduct due diligence assessments, reporting on the ESG progress and performance of assets during Zetland's hold period/ownership, including ESG documentation for potential buyers.

LOOKING AHEAD

Reporting and transparency

We aim to consistently communicate on Responsible Investment issues with investors, portfolio companies, and other stakeholders, as publicly. We will publicly report on our ESG metrics and targets annually from 2024, to remain accountable to stakeholders, limited partners, and the market.

As part of this commitment, we will develop an Annual Report aligned to the UNPRI framework, which will highlight our progress against metrics, targets and goals. This report will be published on our website.

We seek to be transparent in our approach to incorporating ESG considerations in our investments by reporting regularly on progress and outcomes at the Firm and fund levels. Our aim is to begin reporting in 2024 and the format of this reporting may vary among written public reports, or verbal informal reports, or confidential fund or asset-level reports.

Our future

Looking ahead, we strive to continue advancing our approach to ESG within our organisation and the assets we invest in. Our aim is to help our mid-market investments mitigate their ESG risks and improve their ESG performance as fundamentally this improves the value of our investments. The foundation for this will be working to improve knowledge, policies and reporting on ESG with our portfolio companies.

We are serious about ESG and have established a 5-year roadmap of what we want to achieve as an investor and steward. Included within this roadmap is our commitment to conduct a full ESG materiality assessment which will cover our own operations as well as our investment portfolio. This will help us prioritise what ESG factors we need to focus on to maximise our contribution to society and our planet.

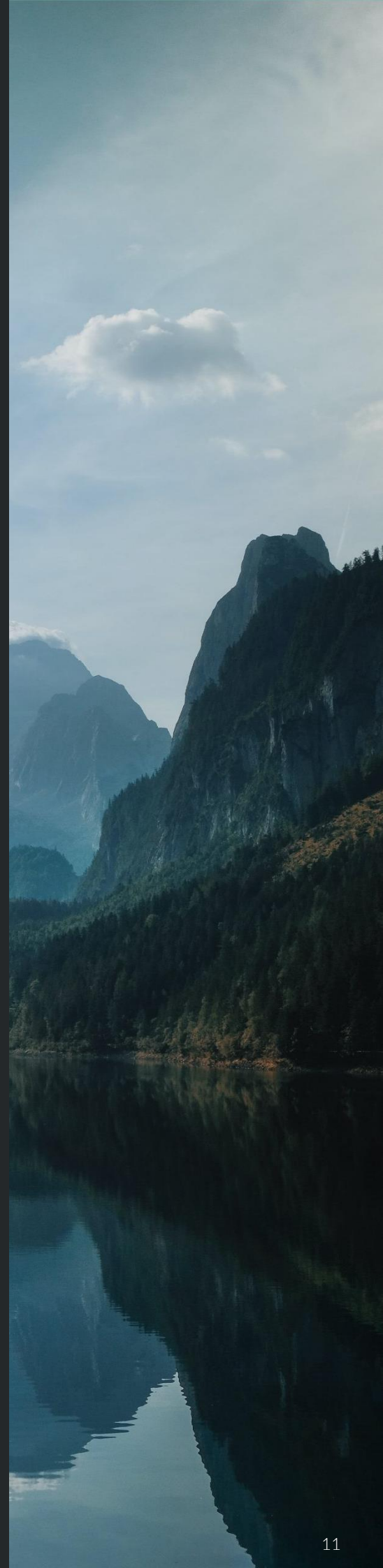
Our top 3 priorities for the next 18 months include:

- Baselining our existing portfolio for ESG and understand the carbon footprint of our portfolio
- Establishing our ESG Due Diligence framework and process
- Establish regular ESG reporting from portfolio companies
- Setting our own targets, metrics and KPIs

We look forward to sharing more detail on our targets as well as making meaningful progress against them which we will share in our future reporting.

“We build great companies, and great companies lead in ESG. We aim to be an enabler and facilitator for our portfolio companies to accelerate ESG efforts.”

Ahmed Hamdani
Founding & Managing Partner



A scenic landscape of a fjord with steep mountains and a small village on a hillside. The sky is a clear, deep blue, and the water is a calm, dark blue. The mountains are rugged and partially covered in snow, with some clouds clinging to their lower slopes. A small village is nestled on a hillside in the foreground, surrounded by dense greenery. The overall atmosphere is serene and majestic.

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