

Toscafund Asset Management LLP (“Tosca”) – Environmental, Social and Governance (“ESG”) Investment Policy (“Policy”)

Introduction

Toscafund Asset Management LLP (“Tosca”, “the firm”) is a leading multi-asset management business with c.\$4 billion of assets under management. Tosca is focused on delivering absolute returns for a broad range of global institutional investors, private family offices, investment intermediaries and high net worth individuals. The firm’s strategies include global long/short equity, long only equity, activist equity, direct lending, commercial property and private equity.

Purpose and Scope

The purpose of this Policy is to outline the approach taken by Tosca to integrate ESG considerations and wider Responsible Investment practices applying to the following funds:

- Tosca (Financials) – long/short equity,
- Tosca UCITS (Financials) – long /short equity
- Tosca Aptus (Financials) – long equity
- Tosca Financials Reflation – long equity
- Tosca European Select (European Equity) – long/short equity

[Tosca Debt Capital](#), a Toscafund Asset Management fund, provides capital to underserved regional SMEs within the UK. Toscafund Asset Management acts as an external Investment Manager to [Regional REIT](#), an LSE listed company. Both of these businesses have their own independent ESG policies.

This Policy has been approved by Tosca’s Management Board, and will be reviewed on an annual basis by the firm’s Responsible Investment Group. The Policy’s last review date was on 20th September 2022.

Organisational Structure and ESG Oversight

The effectiveness and quality of Tosca’s governance structures is critical to the implementation of Responsible Investment activity. The firm’s Management Board is comprised of independent, well-respected individuals who have expertise in fund management and corporate governance. Internally, front and back offices are segregated, with risk, compliance and operations staff being independent from portfolio management and staffed by highly experienced professionals. Furthermore, long-established governance practices include regular Operating Committee meetings that are minuted and reported to the Management Board. An oversight function is also performed by the independent board members of the parent company, Old Oak Holdings. These board members have experience as Chairs and CEOs of well-known and significant financial institutions and are keenly aware of governance and risk issues. Tosca maintains a monthly compliance monitoring programme that is conducted by an independent external compliance auditor.



The firm has formed a Responsible Investment Group (RI Group), which is directly accountable to the Management Board, that oversees our ESG processes and practices, and whose mandate includes the following:

- Maintaining the Policy in line with any changes to the Responsible Investment approach of any of the funds listed.
- Working to integrate Responsible Investment within other funds.
- Providing support and any necessary tools / resources to the investment team when implementing the Policy on a day-to-day basis.
- Ensuring that all relevant employees have a sufficient and consistent understanding of ESG and the Toscafund Responsible Investment approach.
- Assist Investor Relations in communicating Tosca's Responsible Investment approach to external stakeholders.

The RI Group delegates the day-to-day implementation of the Responsible Investment approach, as described in the Policy, to the relevant investment teams. However, the RI Group will meet formally on an annual basis and on an ad hoc basis as need. The Group contains senior representation from across the firm's different business functions, with the Group currently being comprised of the following employees:

- Ed Kerr-Dineen (Analyst, Tosca Metrics, ESG Lead)
- Nick Emery (Chief Compliance Officer, Legal/Compliance)
- Bobby Vedral (PM and Partner, Tosca European Select Fund)
- Chris Burrows (Analyst, Tosca/Tosca UCITS)
- Adam Dickinson (Operations, Regional REIT)
- Sebastian Lloyd (Legal/Compliance)

Tosca has also engaged NorthPeak Advisory, a specialist ESG advisory firm, to advise on the implementation of this policy and assist with the continuing evolution of Tosca's Responsible Investment approach.

Investment Philosophy and Culture

Tosca's duty as a fiduciary is to always act in the best interest of its investors. Since inception, the firm has endeavoured to achieve this by investing in "well run responsible businesses", identified through proprietary fundamental research. An integral part of this research is the consideration of financially material ESG factors. ESG integration is seen as key to meeting the firm's fiduciary duty. By having an investment process that systematically identifies and assesses financially material ESG factors, the firm can further elucidate relevant investment risks and opportunities that may have previously been overlooked, thus providing more conviction in the risk-return profile of a potential investment.

Integration Process

Tosca's investment philosophy is realised through the firm's Responsible Investment Framework, which supports the investment team by providing a repeatable mechanism for the identification, assessment, and integration of financially material ESG considerations across all stages of the investment process. This process covers the aforementioned funds, which are long/short equity funds that contain certain sectoral biases.

Given the number of companies in the firm's investible universe, the average holding period, as well as capacity constraints, it is not feasible to fully assess the ESG risks and opportunities for every portfolio company held across funds, or indeed the firm's entire investment universe. The firm will assess the ESG risks and opportunities of the most material positions by their size. Tosca will increase the assessment coverage over time, as and when appropriate.

Given the lengthier holding periods for long positions, the firm places greater priority on reducing the threshold for the long book. However, as the Responsible Investment approach is further embedded, coverage using the Responsible Investment Framework will increase in both the long and short book.

Responsible Investment Framework

Once a company meets the minimum position size threshold, their exposure to and management of financially material ESG factors will be assessed. Doing so allows a better understanding of how these ESG factors may impact the future valuation of holdings that are most meaningful to the portfolio.

“Financially material ESG factors” are defined as the non-traditional factors that can significantly impact the future financial performance of an investment. These factors will differ depending on the company’s industry, location, business operations, and size. The framework utilises a proprietary materiality map to help the investment team systematically identify these financially material ESG factors.

Below are the underlying ESG factors which are included in our Responsible Investment Framework.

Environment	Social	Governance
Climate Change	Human Capital	Corporate Governance
Natural Capital	Product Liability	
Pollution and Waste	Stakeholder Engagement	
Environmental Opportunities	Social Opportunities	

Once the relevant E, S and G factors are identified based on the company’s industry, Tosca’s investment professionals will qualitatively assess the company’s exposure to and management of these factors, which is supplemented by looking at relevant quantitative metrics.

Tosca currently sources this data from Bloomberg. The firm is cognisant of the challenges with third-party ESG data. As the Responsible Investment approach evolves, Tosca will seek to expand the variety of data sources that feed into the investment process.

Once a company’s exposure to and management of financially material ESG issues has been assessed, conclusions will be embedded within the financial models and valuation assessments used to value an asset. It must be emphasised that the integration of ESG information does not automatically result in a change to how the asset is valued, as that will ultimately stem from a holistic assessment that includes a balance of both traditional and non-traditional financial factors.

The result of the analysis is documented in a one-to-two-page ESG-focused investment memo, and will include key topics to be monitored on an ongoing basis.

Shorting

Given that the Responsible Investment approach covers long/short equity funds, Tosca also considers ESG information when shorting. Although the purpose of shorting may differ, either for hedging or alpha generation, the process by which ESG information is considered for shorts is the same as for long positions. Regardless of whether a company is being assessed for the long or short book, the financially material ESG factors that apply to them is the same. The difference is how the conclusion of such assessment will impact the investment outlook. Where high exposure and weak management would previously indicate an investment risk for the long book, it may strengthen the rationale for including the company in the short book.

Peer Assessment

Tosca recognises that ESG information cannot always be assessed in a vacuum, thus the firm also seeks to assess financially material ESG metrics alongside relevant peers and historical information, providing investment professionals with a relative benchmark on the company’s performance.

Monitoring

Once an investment has been made, the investment team will monitor the company's announcements, review and analyse financial statements, conduct comparisons against peers, and follow industry trends. Included in this monitoring process will be ESG issues that were previously identified in the ESG focused investment memo. Given the time horizon of investments, monitoring is conducted on an ongoing basis. Where issues have been flagged, Tosca can take a variety of actions that range from recalibrating the portfolio to engaging with company management, the latter of which will be expanded upon in the Stewardship section.

Stewardship

Given the funds covered in this Policy are all public market equity funds, Tosca understands that it has the potential to significantly influence the strategic direction of certain portfolio companies, which is amplified by the firm's ability to short. The firm will not, however, use the threat of shorting as a lever to influence company management.

The reality is that Tosca's comprehensive investment analysis, founded upon data, and understanding of both key financial and non-financial factors, means that the investment team is predisposed towards having a high degree of confidence in the company's management and direction.

Through regular meetings and conversations with management, Tosca seeks to establish meaningful relationships with investee companies. Engagements will be conducted in a collaborative manner, and focused on key issues, such as leadership, strategy, capital allocation, financial performance and audit and reporting, all of which ESG factors can help inform. All engagement efforts will be led by members of the investment team given the in-depth knowledge they acquire during the idea generation, proprietary research and ongoing monitoring stages of the investment process.

Unless there are specific voting guidelines from clients, the decision on whether and how Tosca votes on proxies is determined on a case by case basis. The decision lies with the portfolio manager, who conducts a cost-benefit analysis for each vote; part of which is informed by whether any of the proxies are related to the understanding of how the company is managing material ESG issues, as detailed in the ESG assessment. If the portfolio manager determines that the cost of participating in a particular vote exceeds the benefit, they may refrain from participating in such vote. Where they do vote, voting actions will always focus on encouraging sound business practices and strategy on the part of such companies, and the responsible enhancement of shareholder value; always with the best interests of clients as a paramount consideration.

Tosca does not have a relationship with any proxy advisory service companies, however, the firm does utilise Proxy Edge, an electronic voting service that manages the process of meeting notifications, voting, tracking, reporting, and record maintenance.

Tosca's proxy voting policy can be found [here](#).

Reporting

Tosca provides disclosure and dialogue with relevant stakeholders, including monthly investor newsletters. Included as and when appropriate in these newsletters is commentary on how specific ESG risks and opportunities have impacted individual portfolio positions. Tosca will also look to include the proportion of the portfolio that has been assessed using our Responsible Investment Framework, along with examples around any engagement activity we have undertaken.

Training

Tosca believes that ESG training is a crucial element for the effective implementation of the Responsible Investment approach. The firm is in the process of providing training to the Responsible Investment Group and Investment Teams, thus ensuring that key employees have a clear and consistent understanding of the Responsible Investment approach. The firm recognises that strong ESG capabilities cannot be maintained through a one-off training session, and so is committed to assessing ESG training requirements on an annual basis.

Tosca has also retained an external research firm, Curation Corp, to provide analysis of emerging ESG issues including climate risk issues. Reports generated by this research are widely distributed within the firm to keep analysts and other staff up to date with developments that influence ESG related matters, and thus inform the firm's investment decision making.

Market Responsibility

As an investment manager, it is critical for Tosca to monitor risks that may affect the business. These risks include market risk and systemic risks to the financial system as a whole. Tosca maintains a Risk Policy as one of its key control policies (Toscafund Risk Policies and Practices available upon request). The firm's Chief Risk Officer ("CRO") is a senior member of management and has a direct reporting line to the firm's Management Board. In carrying out their risk management role, the CRO chairs the firm's Risk Committee and distributes detailed daily management reports that measure a wide range of risks. Tosca also undertakes a rigorous annual risk assessment, in a report entitled "Internal Capital Adequacy and Risk Assessment".

Tosca also understands the importance of market responsibility and the role in contributing to well-functioning financial markets. Tosca, through its partners and other staff, participate in industry trade associations (e.g. AIMA) and Responsible Investing standard setting organisations (for example, the firm is a signatory of the UNPRI), as well as industry groups related to compliance and legal matters to keep abreast of important regulatory developments.