

Kestrel Partners LLP

Responsible Investment Policy

Kestrel Partners LLP (“Kestrel”) is an investment manager specialising in business-critical software companies. We aim to generate superior, long-term returns by discovering, accessing, investing and driving change in under-valued and under-researched companies. All our investments are in the UK quoted small and micro-cap market and we are committed to investing responsibly. Kestrel is FCA-regulated and SEC-registered.

As institutional investors, we have a duty to act in the best long-term interests of our clients. As part of our fiduciary role we believe that appropriate consideration of Sustainable Investments, Sustainability Risks and Responsible Business Conduct (together “environmental, social and governance or ESG Risks”) are an important part of responsible investing and delivering investment value accretion in the long-term. Kestrel’s definition of these terms has been derived from the [European Union’s Sustainability - Related Disclosures in the Financial Services Sector \(Nov 2019\)](#) and are as follows:

Sustainable Investments: An assessment of ESG issues including human rights, anti-corruption and anti-bribery, and consideration of whether the company contributes to environmental and social objectives, whether it harms the environment or social infrastructure and whether it follows good governance.

Sustainability Risk: An assessment of an ESG event or condition that, if it occurs, could cause an actual or potentially material negative impact on the value of the investment.

Responsible Business Conduct: An overall assessment on whether the company conducts itself responsibly.

Scope and application of Responsible Investment Policy

This Responsible Investment Policy is applied to the fund we manage, namely Kestrel Opportunities (KOF), all SMAs and private discretionary accounts.

Principles for Responsible Investment

Our investment approach comprises the consideration of traditional financial and related factors alongside and integrated with our responsible investing activities. This is further enhanced through our active stewardship, including engagement with investee companies and voting, as set out further in our ESG Engagement Policy.

We endorse the guiding principles set out by various bodies to amplify responsible investing, including the [United Nations Principles for Responsible Investment \(UNPRI\)](#). These include:

- Incorporating ESG issues into investment analysis and decision-making processes
- Being an active owner and incorporating ESG issues into ownership policies and practices
- Seeking appropriate disclosure on ESG issues by the entities in which investments are completed
- Promoting acceptance and implementation of the Principles within the investment industry
- Working together to enhance effectiveness in implementing the Principles
- Reporting on activities and progress towards implementing the Principles





Implementing our Principles for Responsible Investment

Chris Errington is our Head of Responsible Investing and works alongside our Investment Team and reports to the Chief Executive Officer to ensure that ESG Risk assessment is integrated into our investment decision-making process. The Investment Committee is responsible for oversight and regular monitoring of our Responsible Investment Policy and its operation within Kestrel's investment processes.

Our sector specialism and focus on smaller companies is such that we are unlikely to invest in any companies where the individual components of ESG Risk are significant.

We implement our Principles for Responsible Investing as follows:

- Integrate ESG issues into our investment analysis, decision-making and monitoring processes
- Incorporate ESG issues into our ownership style, policies and practices and actively engage with our investee companies as part of our general engagement with investee companies
- Promote appropriate disclosure on ESG issues by the entities in which we invest
- Promote acceptance and implementation of ESG Principles within the investment industry, and recognise that applying ESG Principles may better align investors with the broader objectives of society, consistent with our fiduciary responsibilities
- Monitor our effectiveness in the application of ESG Principles and look to improve this for the overall benefit of our clients

We do not have an ESG investment product focus nor any designated ESG Funds under management. This Responsible Investment Policy is reviewed annually.

Integration of ESG Risk assessment into the investment decision-making process

The consideration of ESG Risks forms part of our ongoing investment management decision-making process. We undertake an appropriate assessment of Sustainable Investment, Sustainability Risk and Responsible Business Conduct when conducting research and due diligence prior to investment as well as on a continuous basis thereafter.

We conduct research to identify and evaluate sustainability factors and convert this information into risk scores to guide investment activity. Our research includes an assessment of sustainability factors reported by investee companies, as well as general research, employee feedback, markets and stakeholders.

Specific ESG and sustainability risk prompts would include involvement in:

Alcohol / substance	Human rights	Pornography
Animal welfare / rights	Infrastructure projects	Society
Climate change (global warming)	Intensive farming	Tobacco
Deforestation	Labour / contractor standards	Weapons
Gambling	Nuclear	
Genetic engineering	Ozone depletion	





A summary of the ESG Risks of each investee company is presented to and reviewed by our Investment Committee on a quarterly basis. Our Investment Committee devotes an increased level of scrutiny when:

- A prospective investment in a new investee company has a sustainability risk score that is anything other than low
- A risk assessment on an existing investee company moves to a higher level of risk

Such scrutiny takes into account mitigation and may include active engagement with the company to commence an improvement programme.

In our experience, given the types of investment we make (predominantly within the software and computer services sector), the main reason for adverse movement in ESG Risk scores relates to an investee company Boards' attitude towards ESG issues, and can often be appropriately addressed through engagement, such as:

- Employee and supplier practices
- Whistleblowing
- Codes of ethics
- Bribery and corruption
- Facilitating customers that operate in areas with high adverse ESG impact

Conflicts of interest and investment manager remuneration incentives

Our Conflicts of Interest Policy deals with any conflicts that may arise between our clients and Kestrel. Remuneration of our Investment Team is structured so as not to encourage excessive risk-taking with respect to ESG Risks.

Please find all other Kestrel policy documents at the bottom of the home page on our website – www.kestrelpartners.com

