



# Xenon AIFM S.A.

## Environmental, Social, Governance Policy

*December 2023*

## Introduction

Xenon Private Equity is an Alternative Investment Fund Manager authorized by the Commission de Surveillance du Secteur Financier in Luxembourg following the European Directive 2011/61. The Xenon Private Equity team has accumulated three decades of experience in teaming up with family-owned companies looking for operational support to manage transformation projects to spur growth, mainly via Mergers & Acquisitions (M&A), replacing some shareholders or exploiting transition opportunities.

Xenon believes the management of environmental, social and governance (ESG) issues is a critical part of ensuring the long-term success of any business today, whilst supporting the well-functioning of society and the planet. Building better businesses through effective ownership and management benefits all stakeholders and rewards a careful steward of capital. Xenon is committed to operating with the utmost integrity and working hard to manage ESG factors in our due diligence processes, during the management of our investments and in providing ongoing support to our portfolio companies, whilst delivering a return in financial terms.

## Scope

Xenon's ESG Policy ('the policy') outlines Xenon's ESG strategy, expectations, and commitments at a corporate level and for its portfolio companies (i.e., at portfolio level).

The policy details our commitment to support ethical behaviours in our activities whilst investing in and working with the local communities in which we operate.

## Roles and Responsibilities

The policy is owned by Danilo Mangano (Managing Director of the AIFM) and Shakhzoda Akhmedjanova (Conducting Officer). Xenon's Sustainability Committee provides ongoing oversight over the policy and Xenon's ESG activities and approves the content and disclosure of the policy and any other ESG report. All of Xenon's employees are ultimately responsible for embedding and monitoring the policy and its underlying principles and commitments, with support from a dedicated ESG Resource (the ESG Associate Director).

## Reporting and Transparency

Xenon is a signatory of the UN-backed Principles for Responsible Investment (PRI), which offer a menu of possible actions for incorporating ESG issues into investment practice. The six principles include:

- Principle 1: Incorporating ESG issues into investment analysis and decision-making processes
- Principle 2: Being active owners and incorporating ESG issues into ownership policies and practices
- Principle 3: Seeking appropriate disclosure on ESG issues by the entities in which we invest
- Principle 4: Promoting acceptance and implementation of the Principles within the investment industry
- Principle 5: Working together to enhance our effectiveness in implementing the Principles
- Principle 6: Reporting on our activities and progress towards implementing the Principles

In addition to publicly disclosing its policy, Xenon reports on ESG during its annual investor meeting and Investor Committee meetings, which ensures that Investors remain fully informed on relevant ESG matters. In addition, in each fund's quarterly reports, Xenon will outline any significant ESG related issue in portfolio companies (and will aim to quantify its potential economic impact).

# Corporate ESG Principles

## Environmental

Xenon acknowledges that its activities have an impact on the environment and aims to implement continuous improvements in limiting this impact as far as possible.

To address key issues of environmental concern and to promote greater environmental responsibility, Xenon is committed to:

- Reducing waste, increasing re-use and recycling, encouraging circular economy principles including the efficient use of natural resources and environmental protection, eliminating, where possible, the use of unsustainable products (e.g., plastic bottles).
- Providing accountability on ESG activities and responsibilities to senior managers at companies under Xenon's control, supporting the promotion of environmental awareness for all employees of portfolio companies.

## Social

Xenon aims to ensure fair labour and working conditions for all employees both at management company and portfolio company level. In line with this, Xenon will:

- Promote greater diversity and inclusion within the company and encourage portfolio companies to strive towards integrating diversity and inclusion considerations more explicitly and/or effectively.
- Support the elimination of discrimination in respect of employment and occupation by respecting all employees regardless of gender, sexual orientation, age, race, colour, ethnic origin, religion or disability.
- Comply with relevant regulations and appropriate best practices governing the protection of human rights, public health, safety, labour and business practices of the jurisdictions in which we conduct business.
- Support the elimination of all forms of forced and compulsory labour.
- Support the effective abolition of child labour.
- Assure safe and secure working conditions for employees and third parties.
- Take an active role in developing career paths and guiding personnel in their careers.

## Governance

Xenon is fully committed, in alignment with its internal Code of Conduct, to:

- Comply with all applicable laws and promote international best practice standards.
- Guarantee honesty, integrity, fairness, diligence and respect in all commercial transactions
- Promote international best practices in corporate governance.
- Work against all forms of corruption, including extortion and bribery.
- Exhibit honesty, integrity, fairness and respect in all its business dealings
- Deal with regulators in an open and co-operative manner.
- Prohibit all employees from making or receiving gifts of substance in the course of business.
- Prohibit contributions to political parties or political candidates, where these could constitute conflicts of interest.

## ESG Investment Principles

Xenon is committed to:

- Adhering to the PRI principles, including the inherent reporting requirements.
- Complying with relevant regulations and appropriate best practices governing the protection of human rights, public health and safety, the environment, and the labour and business practices of the jurisdictions in which we conduct business.
- Adhering to the highest standards of conduct intended to avoid even the appearance of negligent, unfair, or corrupt business practices or practices involving conflicts of interest (in line with the guidelines detailed in [Xenon's Conflicts of Interest Policy](#)).
- Establishing appropriate ESG policies and practices for the review of portfolio companies, including but not limited to human rights, sanctions, anti-corruption, health and safety, environment and climate change, labour practices and, where appropriate, consider similar issues in relation to each portfolio company's supply chain.
- Requiring the establishment of systems by portfolio companies to consider, monitor and measure ESG activities and performance (in alignment with this policy) and encouraging the disclosure of ESG matters for public review and engagement with relevant stakeholders.
- Monitoring the implementation of such policies and practices in portfolio companies, recognising that an appropriate compliance culture is an essential part of effective implementation.
- Recognising that ESG activities are of an ongoing nature and encouraging continual improvement in ESG performance at both corporate and portfolio company level.
- Distributing the policy to all the appropriate employees of portfolio companies and initiating/implementing a programme of ongoing ESG engagement.
- Ensuring appropriate disclosure on ESG activities and encouraging dialogue on ESG with Limited Partners.

# Responsible Investment Strategy

We believe our medium-term ownership model, our operational capabilities and our commitment to building better businesses enable us to be a responsible sponsor of the businesses in which we invest. Our approach towards ESG is embedded in all aspects of our investment process from selection to the value creation and ultimately the exit with a focus on ensuring a sustainable long-term ownership structure.

Xenon will continue to improve and evolve its ESG programme by actively participating in the global discourse on ESG matters, investing in the education and training of its employees, and in supporting the implementation of sustainable policies.

Please see below an overview of Xenon’s Responsible Investment Strategy, as detailed in the following sub-sections:



## Pre-Investment

- During screening phase, according to its funds' exclusion criteria, across all its funds Xenon does not take into consideration companies that:
  - i. contribute to systematic denial of basic human rights;
  - ii. demonstrate a pattern of non-compliance with environmental regulations;
  - iii. show a pattern of engaging in child labour or forced labour;
  - iv. produce weapons and ammunition;
  - v. are directly related to adult entertainment, tobacco, and gambling;
  - vi. are engaged in human cloning.

Where appropriate, Xenon will also abide to any exclusions agreed with its Limited Partners.

- Xenon will aim to conduct enhanced due diligence and screens on the full spectrum of relevant Environmental, Social and Governance matters on top of the current scope of Due Diligence (which includes Environmental Health and Safety (EHS) due diligence), and to integrate a more comprehensive ESG clause in legal documentation. Incorporating ESG into pre-investment Due Diligence will help Xenon have a better view on the value creation opportunities related to target companies from an ESG point of view and to identify strengths and weaknesses of the target company that will then be monitored by Xenon.
- The ESG Due Diligence will encompass a consideration of systemic/systematic issues inherent to climate change (including physical risks) and human rights issues, with due regard to supplier reviews.
- The ESG Due Diligence findings will be included in the Investment Memo which will inform the selection / investment decision, for review by the Investment Committee.

## Investment and Post-Investment

- During deal structuring Xenon works to ensure it operates from a strong sustainable platform to help maximise the success of an investment. Xenon has identified a set of standards that all portfolio companies are expected to consistently meet. These standards range from reporting and financial controls to environmental matters, health, safety, discrimination and cyber security.
- In cases where material ESG issues are considered during the due diligence process, Xenon will seek to document, for internal use, the issues considered, findings, and next steps, if any, and subject to Xenon's determination of what is reasonable and appropriate for each investment, Xenon will work with portfolio company management to support the roll-out of a corrective action plan.
- The vast majority of Xenon investments implies controlling ownership; in case of a minority stake Xenon will try not to change this approach.
- Xenon will implement, with support, where appropriate, of external ESG consultants, an action plan for the CSR/ESG management of portfolio companies.
- Post investment each portfolio company is required to identify an ESG representative, who collaborates with Xenon to implement Xenon's policy and ESG guidelines.
- Xenon will perform a yearly evaluation of portfolio companies' ESG performance.

## Exit process

- In close proximity to exit phase Xenon will prepare due diligence documentation and, where possible, a report to demonstrate the ESG outcomes and/or achievements of the relevant portfolio company.

# Xenon Private Equity Fund VIII

In late 2023, to enhance its ESG commitments within the company, Xenon launched Xenon Private Equity VIII SCA SICAV-RAIF (“Xenon VIII” or “the Fund”), in accordance with art. 8 of the Sustainable Finance Disclosure Regulation – Regulation (EU) 2019/2088 or SFDR.

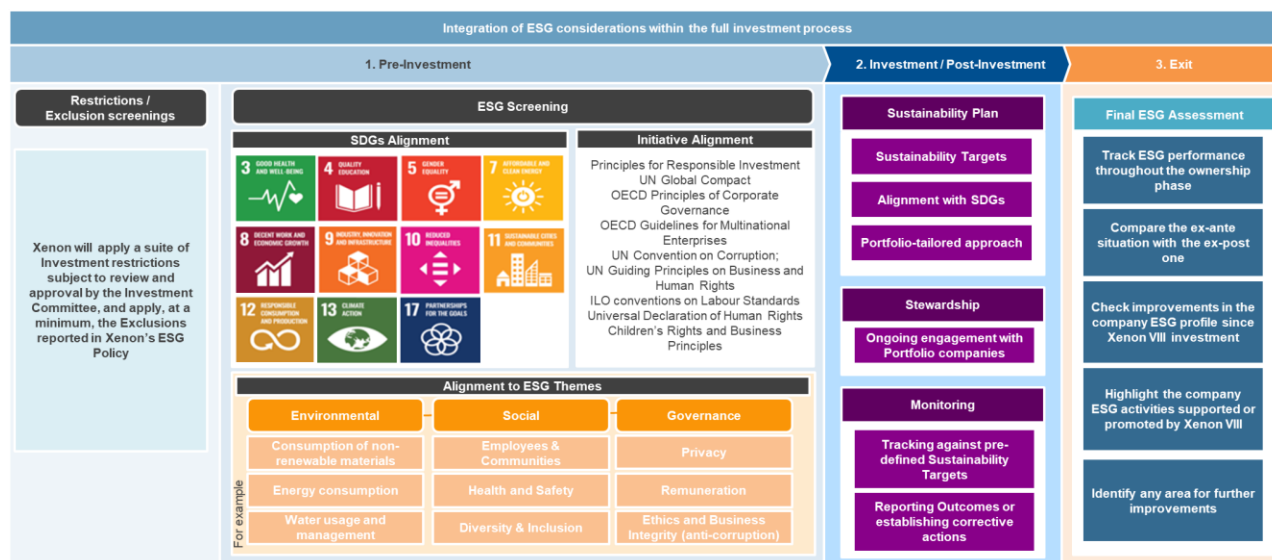
Xenon VIII considers the ESG factors central not only to risk mapping, but also to the value creation process. ESG factors will therefore be integrated into the decision-making process at all stages of the investment life cycle and ESG performance will be monitored and reported in conjunction with financial performance.

## Responsible Investment Strategy

Xenon VIII will comply, at a minimum, with the ESG integration and due diligence approach and strategy detailed in earlier sections.

In addition to the ESG principles, exclusions and integration approaches detailed above, the Fund’s investment objectives will be centred in combining strategic impact with ESG considerations and sustainable development goals, pursuant to art. 8 of Regulation (EU) 2019/2088. The Fund will also consider environmental, social and governance factors key for any sustainability performance evaluation, regardless of the sector the target company operates in.

An overview of the integration approach detailed in the following sub-sections is illustrated below.



## Restrictions

The Fund will be subject to a variety of investment-related restrictions detailed within the Fund prospectus. In addition to the exclusion criteria outlined in earlier sections of this ESG Policy, the Fund will also not invest directly into oil, gas or in portfolio companies whose principal business activity is directly and exclusively related to the exploration and production of natural resources and will abide (where relevant and appropriate) to the exclusion criteria agreed with the Limited Partners.

## Alignment with international standards

### Sustainable Development Goals – SDGs

The Sustainable Development Goals (SDGs) are 17 global goals designed to be a "shared blueprint for peace and prosperity for people and the planet, now and into the future". The 17 SDGs are contained in the 2030 Agenda for Sustainable Development, adopted by all United Nations Member States in 2015.

The ESG factors considered for the Fund will be aligned with the SDGs, with the following ones considered key themes for Xenon VIII and linked to specific KPIs, which will be integrated within the companies' respective Sustainability Plans (see later section):

- **SDG 3:** Good Health and Well-being
- **SDG 4:** Quality Education
- **SDG 5:** Gender Equality
- **SDG 7:** Affordable and Clean Energy
- **SDG 8:** Decent Work and Economic Growth
- **SDG 9:** Industry, Innovation and Infrastructure
- **SDG 10:** Reduce Inequalities
- **SDG 11:** Sustainable Cities and Communities
- **SDG 12:** Responsible Consumption and Production
- **SDG 13:** Climate Action
- **SDG 17:** Partnership for the Goals

### Other international conventions

Throughout the investment process Xenon VIII will also consider and seek alignment to other relevant international conventions, such as:

- UN Global Compact (UNGC)
- OECD Principles of Corporate Governance
- OECD Guidelines for Multinational Enterprises
- UN Convention on Corruption
- UN Guiding Principles on Business and Human Rights (UNGP)
- ILO conventions on labour standards
- Universal Declaration of Human Rights
- Children's Rights and Business Principles

### ESG Integration

As part of the pre-investment phase of the Fund Xenon will:

- Identify potential targets based on financial performance and with due consideration of ESG opportunities and risks, ESG and sustainability standards (as detailed above), and in line with the requisites of the SFDR.
- Assess the target companies' current sustainability approach and inherent ESG opportunities in line with the green transition.
- Perform ESG due diligence on the broader spectrum of ESG issues relevant to the business and sector in line with the criteria outlined in the above and following sections, to assess the portfolio companies' ESG risks and opportunities. This will then be included within the Investment Memo to inform the investment decision.

Following the initial ESG due diligence process, Xenon will then commit to develop an ESG assessment which will provide an initial evaluation of the portfolio companies' sustainability maturity and enable the



development of an appropriate Sustainability Plan.

With the purpose of adopting a holistic approach, the initial assessment will consider cross-portfolio themes and key performance indicators clustered within the three ESG macro areas of environment, social and governance, for example consumption of energy and water and the portfolio companies' approach towards health and safety, diversity, privacy, remuneration and business ethics (including and anti-corruption).

The assessment will also consider the sustainability standards detailed in earlier sections and ensure that the potential investments do no significant harm to any environmental or social sustainable investment objective, taking into account the indicators for adverse impacts on sustainability factors and ensuring the assessment on the good governance practice of the target company (the "ESG Compliance") – in compliance with the SFDR requisites.

The findings from the ESG assessment will enable the development of a Sustainability Plan, which, where appropriate, will also include portfolio-tailored ESG criteria on top of the cross-portfolio metrics outlined above.

The Sustainability Plan will be made up of a different number of Sustainability Targets which will:

- i. Consider cross-portfolio metrics;
- ii. Be aligned with the SDGs;
- iii. Be tailored to the portfolio company and its sector;
- iv. Be aligned to clearly defined and value-adding ESG goals;
- v. Have a multi-year horizon with defined milestones.

In case of any add-on being executed, or in case of any major event which would impact the operating model of the portfolio company and its sustainability framework, the original Sustainability Plan will be reviewed and adjusted with the portfolio companies' accountable ESG representative to reflect the new scenario and develop appropriate targets. The revised Sustainability Plan will be subject to review and approval by the Sustainability and Investment Committees and by the portfolio company.

## **Stewardship**

Active ownership is key to ensure the achievement of the Sustainability Targets and to enable the adequate sustainability performance of portfolio companies. As such, as part of its stewardship responsibilities for the Fund, Xenon will:

- Monitor the portfolio companies' practices and performance on an ongoing basis;
- Guarantee a constant communication flow within the organisation and with its key stakeholders;
- Maintain constant dialogue with the portfolio companies' management teams;
- Suggest and / or implement corrective actions (where required) related to any identified ESG risks and issues, including updating relevant ESG policies.

## **ESG Incidents Management**

During the management phase the portfolio company will be subject to ongoing monitoring to ensure compliance with the Fund's commitments and the Sustainability Plan. Where a material issue or incident were to materialise, Xenon will promptly act with the concerned portfolio company to prepare and implement a corrective plan, on which the Sustainability Plan will be reviewed. The incident will also be escalated to the Limited Partners and disclosed to the Advisory Committee, with regular updates to be provided thereto.

## **Exit**

In line with the commitments illustrated in earlier sections of the ESG Policy, at exit a final assessment of the portfolio companies' sustainability performance will be carried out. The final assessment will be key to evaluate the ESG progress made by the portfolio company during Xenon VIII's ownership and to support the

identification of the progress made and further improvements required.

The final assessment will therefore aim to:

- Illustrate the ESG performance throughout the ownership phase;
- Compare the ex-ante situation with the ex-post one;
- Check improvements in the company ESG profile since Xenon VIII's investment;
- Highlight the company ESG activities supported or promoted by Xenon VIII's;
- Identify any area for further improvements.

## **Governance**

Xenon VIII will adhere to the governance principles and commitments outlined in earlier sections of the ESG Policy. In addition, a dual governance approach at fund level and portfolio company level will be established.

At Fund level Xenon will commit to integrating ESG considerations within the Investment Committee roles and responsibilities. Specifically, the Investment Committee will:

- Review the ESG considerations/due diligence pre-investment;
- Review and approve the Sustainability Plan and Targets for each portfolio company;
- Review and oversee the ESG outcomes achieved throughout the investment process.

Xenon's Sustainability Committee, with support from the ESG Team, will also oversee the Fund's ESG activities and provide support to the Investment Committee and the Board.

At portfolio company level Xenon will commit to appointing or enabling the appointment of an accountable ESG representative or appropriate ESG governance structure to oversee the company's ESG performance and to act as the main point of contact for Xenon's ESG team.

## **Review**

The policy was last updated in December 2023 and is reviewed annually.