



Xenon AIFM S.A.

**Environmental, Social, Governance
Policy**

December 2024



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Introduction

Xenon Private Equity is an Alternative Investment Fund Manager ('AIFM') authorized by the Commission de Surveillance du Secteur Financier ('CSSF') in Luxembourg as per the European Directive 2011/61. The Xenon Private Equity ('Xenon') team has accumulated three decades of experience in teaming up with 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. The effective consideration of ESG risks and opportunities is key in ensuring the correct valuation and subsequent management of companies, with the aim of creating resilient companies. Overall, building better businesses through effective ownership and management benefits all stakeholders and rewards a careful steward of capital. Xenon is therefore committed to operating with the utmost integrity and working hard to manage ESG factors in its due diligence processes, during the management of its investments and in providing ongoing support to portfolio companies, whilst delivering a return in financial terms.

Scope

Xenon's ESG Policy ('the policy') outlines Xenon's ESG principles, expectations and strategy for the firm (i.e. at firm-level) and for portfolio companies (i.e., at portfolio-level). The policy details Xenon's commitment to support ethical behaviours in its activities whilst investing in and working with the local communities in which it operates.

The policy's principles apply to all of Xenon's employees and fund strategies, including Xenon's Flagship Fund, Xenon's Small-Cap Fund and Xenon FIDEC. More stringent and additional requirements and principles will be adopted for specific fund strategies where deemed appropriate (see disclosures for Xenon VIII and Xenon FIDEC). All portfolio companies within Xenon, including add-ons, are subject to the policy's commitments and requirements. Xenon will actively work and engage with portfolio companies to implement the policy's principles and assess the ESG activities and initiatives that are best suited for each company.

Roles and Responsibilities

The policy is owned by Danilo Mangano (Co-Managing Director of the AIFM) and Shakhzoda Akhmedjanova (Conducting Officer – Risk & Compliance).

Xenon's Sustainability Committee provides ongoing oversight over the policy and Xenon's ESG activities. Dedicated ESG resources have been appointed within the investment teams to support with the effective integration of said ESG activities at both firm-level and portfolio-level and to inform the Sustainability and Investment Committees accordingly, with escalation to the Board when deemed appropriate. Ultimately, all of Xenon's employees are responsible for embedding and monitoring the policy and its underlying principles and commitments and to seek support from the ESG resources where and if necessary.

Portfolio companies are also responsible in ensuring the principles of the policy are implemented appropriately and to implement appropriate ESG strategies that are reflective of their business models, with support, where needed, from Xenon's ESG resources and investment lead.

Reporting and Transparency

In addition to publicly disclosing the 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. Moreover, Xenon will outline any significant ESG related issue or initiative regarding portfolio companies in the funds' quarterly reports.



Corporate ESG Principles

UN Global Compact

Xenon is a participant of the UN Global Compact (UNGC). The UNGC includes Ten Principles that are derived from the Universal Declaration of Human Rights, the International Labour Organization’s Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption, and are therefore commonly divided across four key areas: Human Rights, Labour, the Environment, and Anti-Corruption.

As a participant of the UNGC Xenon will aim to consider and implement its principles within its activities and in the management of portfolio companies, and thus it will aim to:

<ul style="list-style-type: none"> ✘ Principle 1: Support and respect the protection of internationally proclaimed human rights ✘ Principle 2: Ensure it is not complicit in human rights abuses 	Human Rights
<ul style="list-style-type: none"> ✘ Principle 3: Uphold the freedom of association and the effective recognition of the right to collective bargaining ✘ Principle 4: Eliminate all forms of forced and compulsory labour ✘ Principle 5: Abolish any forms of child labour ✘ Principle 6: Eliminate any form of discrimination in respect of employment and occupation 	Labour
<ul style="list-style-type: none"> ✘ Principle 7: Support a precautionary approach to environmental challenges ✘ Principle 8: Undertake initiatives to promote greater environmental responsibility ✘ Principle 9: Encourage the development and diffusion of environmentally friendly technologies 	Environment
<ul style="list-style-type: none"> ✘ Principle 10: Work against corruption in all its forms, including extortion and bribery 	Anti-Corruption

Environmental

Xenon acknowledges that its activities have an impact on the environment and as such it aims to identify improvement opportunities and to implement actions accordingly to limit its impact as far as possible.

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

- Encouraging and holding virtual meetings, when possible, to minimize travel
- Improving car fleet efficiency by supporting the selection and use of low carbon transport vehicle options (hybrid or electric vehicles)
- Reducing waste, increasing re-use and recycling, encouraging circular economy principles including the efficient use of natural resources and environmental protection, supporting the elimination of unsustainable products with related investments (e.g., filtered water dispenser for reusable bottles)

Xenon realises that its biggest environmental impact, and therefore opportunity for positive effect, comes from the management of its portfolio companies. As such, Xenon will also aim to ensure that senior managers at companies under Xenon’s control have responsibility and accountability over ESG activities, and to encourage and promote environmental awareness and initiatives at 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, and in alignment with the UNGC principles, Xenon will:

- Promote greater diversity & inclusion within the company in line with Xenon's Diversity Statement
- Support the elimination of discrimination in 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 business' jurisdictions
- Support the elimination of all forms of forced, compulsory and 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
- Consider requests from any employee for non-standard working arrangements within reason (e.g. maternity/paternity/adoption and parental leave)

Governance

In alignment with its internal Code of Conduct and internal procedures, Xenon is fully committed to:

- Conduct business with honesty integrity, fairness, diligence and respect in all dealings
- Comply with all applicable laws and promote international best practice standards and to deal with regulators in an open and co-operative manner
- Promote international best practices in corporate governance
- Promote transparency and accountability grounded in sound business ethics
- Work against all forms of corruption, including extortion and bribery
- Identify conflicts of interest and avoid or report them in line with its agreements with stakeholders and industry best practices
- Prohibit all employees from making or receiving gifts of substance during the course of business
- Prohibit contributions to political parties or political candidates, where these could constitute conflicts of interest
- Implement a robust sustainability approach at firm and portfolio-level, which enables effective identification, management and monitoring of any related risks and opportunities and provides a framework for action.
- Adhere to a policy of long-term responsible investing
- Adhere to the UNGC principles, including the inherent reporting requirements

Xenon will encourage and promote the same principles and approach towards ethics and business responsibility with its portfolio companies, with the aim of establishing appropriate mechanisms and procedures that enable business models centred towards the appropriate management of human rights, anti-corruption, fair labour practices and integrity (in alignment with the principles of the UNGC).

ESG Investment Principles

Principles for Responsible Investment

Xenon is a signatory of the UN-backed Principles for Responsible Investment (PRI), which represent six principles ('the Principles') aimed at incorporating ESG issues into investment practices. Xenon actively supports the Principles and as such aims to integrate these into its investment processes and activities.

- ✘ **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

ESG Commitments

Within the management of its investments, Xenon is committed to:

- Adhering to the PRI and UNGC principles, including the inherent reporting requirements.
- Respecting the restrictions outlined within the "Restricted Sectors" section.
- 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 businesses are conducted.
- 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](#)).
- Ensuring appropriate disclosure on ESG investment activities and encouraging dialogue on ESG with Limited Partners.
- Distributing the policy to portfolio companies and actively engaging with them to promote ESG considerations.
- Establishing appropriate ESG practices for the review of portfolio companies, including but not limited to human rights, sanctions, anti-corruption, health & safety, climate change, labour practices and, where appropriate and feasible, consider similar issues in relation to their supply-chain.
- 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.

In alignment with and to support the effective implementation of the policy's principles and commitments, Xenon will actively engage with portfolio companies on an ongoing basis to ensure the effective integration, monitoring and measurement of ESG considerations and respective key performance indicators and to encourage the disclosure of ESG matters for public review.

Restricted Sectors

Xenon, in accordance with ESMA “Guidelines on funds’ names using ESG or sustainability-related terms” (ESMA34-1592494965-657) and in compliance to the Article 12(1)(a) to (g) of Commission Delegated Regulation (EU) 2020/1818 (so-called Paris Aligned Benchmark), shall not invest, guarantee or otherwise provide financial or other support, to companies or other entities:

- whose business activity consists of an illegal economic activity (i.e. any production, trade or other activity, which is illegal under the laws or regulations applicable to the Fund or the relevant company or entity); or
- which substantially focus on:
 - i. the cultivation and production of and trade in tobacco and distilled alcoholic beverages and related products;
 - ii. the production of and trade in pornographic material;
 - iii. involvement any activities related to controversial weapons; human cloning; casinos and equivalent enterprises;
 - iv. the research, development or technical applications relating to electronic data programs or solutions, which:
 - aim specifically at:
 - supporting any activity referred to under items above;
 - internet gambling and online casinos; or
 - pornography,

or

 - v. are intended to enable to illegally:
 - enter into electronic data networks; or
 - download electronic data.
- Companies that:
 - vi. benchmark administrators find in violation of the United Nations Global Compact (UNGC) principles or the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises;
 - vii. derive 1 % or more of their revenues from exploration, mining, extraction, distribution or refining of hard coal and lignite;
 - viii. derive 10 % or more of their revenues from the exploration, extraction, distribution or refining of oil fuels;
 - ix. derive 50 % or more of their revenues from the exploration, extraction, manufacturing or distribution of gaseous fuels;
 - x. derive 50 % or more of their revenues from electricity generation with a GHG intensity of more than 100 g CO₂ e/kWh.

Responsible Investment Strategy

Xenon believes its medium-term ownership model, its operational capabilities and its commitment to building better businesses enable it to be a responsible sponsor of the businesses in which it invests. Its approach towards ESG is embedded in all aspects of its investment process from selection to the value creation and ultimately at exit, with a focus on ensuring a sustainable long-term ownership structure. As a result, Xenon has built a structured ESG integration approach that aims to actively consider ESG issues and activities across the full investment lifecycle of pre-investment, investment and exit, with a focus towards our Xenon Fund VIII and Xenon FIDEC, detailed in the next sections.

Most of Xenon's ESG integration activities will be driven internally, and when and where deemed appropriate, Xenon will seek the support from external advisors and consultants across the different investment stages and activities.

Whilst the policy provides an overview of the foundations of Xenon's ESG approach, Xenon will aim to continue to improve and evolve its ESG programme by actively participating in the global discourse on ESG matters, investing in the education of its employees, and in supporting the implementation of ESG policies.

Pre-Investment

As mentioned earlier in the policy, the effective assessment of ESG risks and opportunities are key to appropriately evaluate companies and ensure their long-term resilience and growth. Incorporating ESG considerations into pre-investment screens and due diligences processes will help Xenon have a better view on the value creation opportunities related to target companies and to identify their strengths and weaknesses.

As such, Xenon is committed to adopt pre-investment ESG screening processes, including positive and negative ESG screening measures, and perform ESG Due Diligences in line with the companies' ESG risk profiles, and therefore it will:

- During the screening phase, according to its funds' exclusion criteria, not consider companies included in the "Restricted Sectors" section and, where appropriate, abide to any exclusions agreed with its Limited Partners.
- Not invest in any companies that have been identified to contravene Xenon's ESG policy and international conventions such as the UNGC and UN Guiding Principles, including those that have:
 - Contributed to systematic denial of basic human rights
 - Demonstrated a pattern of non-compliance with environmental or climate change regulations
 - Showed a pattern of engaging in child labour or forced labour

unless specific action plans and resolution projects have been or will be appropriately implemented and communicated. Geographical/regional considerations will also be taken into account.

- Conduct due diligences on the relevant spectrum of relevant ESG matters and, where appropriate, Environmental Health and Safety (EHS) issues, as determined by the target's ESG risk profile and areas of priority. The due diligence will encompass a consideration of systemic issues inherent to climate change (including physical and transition risks and double materiality) and human rights issues, in alignment with the UNGC principles, with due regard to supplier reviews
- Integrate a more comprehensive ESG clause in legal documentation
- Relay the findings from the ESG screens and due diligences to the relevant Committees and ultimately to the Board to inform the final Investment Decision

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 therefore 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.

Additionally, to ensure the appropriate management of ESG issues and opportunities throughout the investment process, Xenon will:

- Where material ESG issues have been identified during the due diligence process, seek to document, for internal use, the issues considered, findings, and next steps, if any, and subject to its determination of what is reasonable and appropriate for each investment, work with portfolio company management to support the roll-out of a corrective action plan to be implemented in the short and medium-term
- Implement an action plan or key targets for the ESG management of portfolio companies aimed at long-term value-creation and with a view of delivering key sustainability outcomes such as the Sustainable Development Goals (SDGs) that are most relevant for and actionable by the company
- Perform an annual evaluation of portfolio companies' ESG performance

Stewardship

Xenon believes that promoting a culture of engagement, transparency and accountability is key to enable the creation of long-term value for the portfolio companies in which it invests in and for its investors. For the scope of its stewardship guidelines Xenon therefore identifies two key stakeholders: portfolio companies and investors.

With regards to portfolio companies, Xenon will initiate its engagement activity from the pre-investment phase using the ESG screening and due diligence activities to set its expectations and to communicate its commitment with regards to the management of ESG matters following acquisition. Post-investment Xenon will start its stewardship process by working with the portfolio companies to identify an ESG representative who will collaborate with Xenon to implement its policy's guidelines, including the promotion of human rights practices and diversity & inclusion, and the ESG targets / plans designed for the companies as determined through a prioritisation exercise. Active engagement will be sought with the portfolio companies and the appointed ESG representatives to facilitate monitoring of ongoing ESG issues and activities and to monitor progress against the companies' ESG targets / plans.

Most of Xenon investments imply controlling ownership, which enables Xenon to influence portfolio companies towards effective ESG integration programmes. Where portfolio companies are seen to be failing to deliver on its ESG commitments, these matters will be escalated promptly to the investment lead and Xenon's Committees.

With regards to investors, as defined within the Reporting and Transparency section, Xenon will aim to keep them regularly updated with respect to its ESG activities by completing their ESG questionnaires, through Xenon's annual investor meeting and Investor Committee meetings and through its quarterly reports. 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. 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 proximity to exit, Xenon will prepare due diligence documentation or assessments and, where relevant, a report to demonstrate the ESG outcomes and/or achievements of the relevant portfolio company.

Review

The policy is reviewed at least annually and updated accordingly. The policy was last updated in December 2024.