

## XENON AIFM S.A.

### **Xenon Private Equity VIII SCA SICAV-RAIF (“Xenon VIII”) [Sustainability-related product disclosure in compliance with Commission Delegated Regulation (EU) 2019/2088 Art. 10 and Regulation 2022/1288 Art. 24-36]**

#### Introduction

Xenon Private Equity is an Alternative Investment Fund Manager (“AIFM”) 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.

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” or “the financial product”), in accordance with art. 8 of the Sustainable Finance Disclosure Regulation – Regulation (EU) 2019/2088.

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.

Xenon VIII’s responsible investment strategy is detailed in full within Xenon’s ESG Policy.

#### Summary

Xenon VIII promotes specific environmental (“E”) and social (“S”) characteristics, or a combination of said characteristics (“E&S”) whilst ensuring good governance practices, in accordance with the provisions of Article 8 of Regulation (EU) 2019/2088 (“SFDR regulation”). Note the financial product promotes environmental or social characteristics but does not have as its objective sustainable investment.

To this end, Xenon VIII will be subject to defined exclusion criteria and it will monitor ESG risks and opportunities, negative externalities and the ESG performance of the portfolio companies, carrying out due diligence at all stages of its investment process. The ESG performance will be monitored via a programme of ongoing engagement and utilising bespoke ESG assessment tools and plans that will integrate cross-portfolio and portfolio-tailored targets, aligned with the principal adverse impact (“PAI”) indicators, the sustainable development goals (“SDGs”), and relevant international standards.

#### No Sustainable Investment Objective

This financial product promotes environmental or social characteristics but does not have as its objective sustainable investment.

#### Environmental or Social Characteristics of the Financial Product

ESG evaluations will be aligned to an exclusive and proprietary methodology for sustainability performance assessment. The financial product will abide to the ESG restrictions and exclusions detailed within the Fund Prospectus and Xenon’s ESG Policy, and it will therefore not take into consideration companies that (*not an exhaustive list*):

- 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;
- vii. are directly related to oil, gas or other natural resources or whose principal business activity is directly and exclusively related to the exploration and production of natural resources.

In assessing the portfolio companies, the three macro-areas of Environmental, Social and Governance will be considered and monitored, with consideration of underlying KPIs including (but not limited to) water and energy consumption, employees and communities, health & safety, governance, remuneration and anti-corruption policies. An alignment will be sought against the PAI indicators.

The ESG factors considered for the financial product will be aligned with the SDGs, with 11 of the 17 SDGs being a key focus for the fund, namely:

- 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.

The financial product will also consider and seek alignment to relevant international conventions, such as the:

- 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

No benchmarks have been designated to achieve the environmental or social characteristics promoted by the financial product.

### Investment Strategy

From an ESG perspective, Xenon VIII will adopt a responsible investment strategy (as detailed within Xenon's ESG Policy) which is characterised by:

- **Negative Screening:** Xenon VIII will be subject to a variety of investment-related restrictions and exclusion criteria outlined in Xenon's ESG Policy and the Fund's prospectus, including restricting investments in companies that have engaged in child labour and that have demonstrated a pattern of non-compliance with environmental regulations.
- **ESG Screening:** Xenon VIII will assess the ESG risks and opportunities of the target company and its related sector, alongside a thorough assessment of the company's governance practices, including business ethics and compliance, in accordance with the SFDR regulations.
- **ESG Scorecard:** Once consistency of a potential investment with Xenon VIII's responsible investment strategy is ensured in the pre-investment phase, during the due diligence phase an ESG Scorecard will be used to get to a first evaluation of the target companies' sustainability level and to identify any potential red flag. The ESG Scorecard will cluster ESG factors in the three ESG macro areas: environment, social and governance.
- **Sustainability Plans:** Following the acquisition and based on the ESG Scorecard findings, a Sustainability Plan will be developed for each portfolio company. Each Sustainability Plan will encompass cross-portfolio and portfolio-tailored opportunities and targets, which will enable the ongoing monitoring of the companies' ESG performance (supported via the use of Xenon's bespoke ESG Questionnaire).
- **Stewardship:** To ensure the achievement of the Sustainability Targets, great importance will be placed on active ownership. Xenon VIII will maintain constant dialogue with the companies' management teams and will actively monitor their ESG practices and performance.
- **Exit:** At exit, a final assessment of the portfolio company sustainability level will be carried out. The final assessment is key to evaluate the ESG progress made by the portfolio company during the

ownership process and will represent a useful tool for the company itself, underlining the progresses made and identifying any areas for further improvements. The final ESG assessment will: track the ESG performance throughout the ownership phase compare the ex-ante situation with the ex-post one; determine improvements in the company ESG profile since the original investment; highlight the company ESG activities supported or promoted by Xenon VIII; and identify any area for further improvements.

- **Governance:** The sustainability strategy (including the sustainability plans and targets and overall performance) will be overseen at both company and portfolio level. At company-level oversight will be provided by Xenon’s Investment Committee and Sustainability Committee.

As reported in the previous section, throughout the investment process Xenon VIII will consider and seek alignment to 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

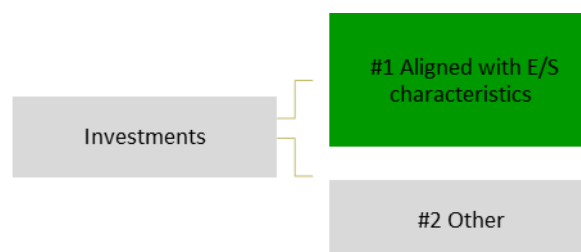
Within its ESG Policy Xenon also outlines its commitment to comply with relevant regulations and appropriate best practices governing the protection of human rights, public health, safety, labour and business practices of the jurisdictions in which Xenon conducts business. Target companies will be considered against these initiatives and criteria, and ongoing monitoring will be performed to ensure compliance.

To ensure due consideration of governance factors, the target companies will also be subject to a pre-investment ESG assessment that will take into account governance indicators and their alignment against Xenon’s ESG Policy. Post-investment, the companies will be subject to ongoing monitoring on key governance KPIs, including those inherent to sound management structures and employee relations, supported by Xenon’s bespoke ESG Questionnaire and ongoing engagement with the companies’ key stakeholders.

### Proportion of Investments

Xenon VIII aims to promote environmental and social characteristics by allocating all of its assets to investments that meet environmental and social characteristics and to make investments in companies that comply with good governance practices.

However please note that in certain periods the presence of a portion of liquidity in the form of an "Other" investment is possible. The remaining part (see box #2 Others) of the investments (not included in investments promoting environmental and/or social characteristics) will possibly be limited to undeployed capital, cash held as ancillary liquidity or hedging instruments.



**#1 Aligned with E/S characteristics** includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

**#2Other** includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

### Monitoring of Environmental or Social Characteristics

Xenon VIII will coordinate the monitoring of ESG practices and performances of its portfolio companies

guaranteeing a constant communication flow within the organization and its external stakeholders and in line with the approach detailed within Xenon's ESG Policy.

Xenon VIII will maintain ongoing dialogue with the companies' management teams and will actively monitor their ESG performance with reference to the companies' Sustainability Plans and supported by the use of Xenon's bespoke ESG Questionnaire, which will be completed on an annual basis. Where a problem is identified or a company is lagging behind on its sustainability targets (as detailed within the Sustainability Plans), corrective actions will be suggested to swiftly address the issue.

### **Methodologies**

As detailed in previous sections, pre-investment an ESG due diligence review and assessment will be conducted on the target companies. This will be supported by an ESG Scorecard to evaluate the companies' sustainability level and to identify any potential red flag.

Post-investment, based on the ESG Scorecard findings, Xenon VIII will develop a Sustainability Plan. Each Sustainability Plan will be made up of cross-portfolio and portfolio-tailored targets, which will seek alignment to the ESG macro-areas and to the SDGs. The sustainability targets will be designed with a hands-on approach, focusing on the most material ESG factors from case to case and on a small number of clearly defined and impactful ESG goals. For this reason, the nature and number of the sustainability targets will be different from one Sustainability Plan to the other, as they are built upon the portfolio companies' characteristics.

To facilitate the monitoring of the sustainability performance of the companies, a bespoke ESG Questionnaire will be used to collate relevant data and KPIs on an annual basis. The ESG Questionnaire considers and seeks alignments to the SDGs, PAIs and GRI standards.

### **Data sources and processing**

Xenon will collate and make use of publicly available data (e.g. sustainability-related disclosures within the companies' website) or data that is provided directly by the company (e.g. through the due diligence phase or the ESG Questionnaire). The ESG Questionnaire will integrate ESG KPIs which are based on and processed in alignment with industry standards, such as the PAI indicators and the GRI standards. The collated data will be integrated within a centralised database which will be monitored periodically. Where discrepancies are identified these will be escalated with the portfolio company (and if necessary, Xenon's Sustainability and Investment Committees) promptly.

### **Limitations to methodologies and data**

As of today there is no universally acknowledged standard for sustainability reporting and performance evaluation. The ESG assessment of public companies is often based on ESG ratings assigned by specialized agencies, but these ratings suffer from a heterogeneity in terms of guiding principles, methodologies and scope and lack of transparency. This is why Xenon VIII has decided to develop an exclusive and proprietary methodology for sustainability performance assessment.

However, Xenon recognises that its methodology, being internal and bespoke, has some limitations. These are specifically inherent to the data gathering approach, including the differing level of ESG maturity across the different portfolio companies in measuring and providing sustainability-related data within the parameters requested by Xenon, and the limited availability of publicly available ESG data aligned to Xenon's requisites.

Where specific data requirements or KPIs from portfolio companies are not available or outstanding, Xenon will aim to assess the rationale and the materiality of such omissions, in line with the company and sectoral context and the divergence against the characteristics that have to be promoted by the fund. The findings will be reported and, where necessary, escalated accordingly.

### **Due Diligence**

The portfolio companies under Xenon VIII will be subject to a comprehensive ESG due diligence approach across the full investment life cycle, including pre-investment, post-investment and exit. Pre-investment, once the target companies have been defined using the negative screening approach, a due diligence activity is carried out which reviews environmental and social characteristics (risks and opportunities) alongside an assessment of good governance practices. Where necessary or deemed value-adding, external consultants

will be utilised to support Xenon with the ESG due diligence process. Post-investment, the portfolio companies will be monitored and evaluated against pre-defined ESG criteria and targets following a structured process, which has been outlined in previous sections.

To ensure an adequate level of oversight, a governance structure and clear roles and responsibilities have been designed to oversee the appropriate implementation of Xenon VIII's responsible investment strategy. This includes oversight by Xenon's Investment Committee and Xenon's Sustainability Committee.

### Engagement Policies

To ensure the achievement of the portfolio companies' sustainability targets, great importance is placed on active ownership. This, in line with the ESG governance depicted in the above section, will aim to guarantee adequate sustainability performance of the portfolio companies.

Xenon VIII will coordinate the monitoring of ESG practices and performances of its portfolio companies maintaining a constant communication flow with the organization and its external stakeholders and through ongoing dialogue. Given the Fund will usually have controlling interest due to its majority investments in portfolio companies, it will have the power to suggest and effectively implement corrective actions and to update any policies needed to address potential ESG issues.

Whenever a problem is identified or a where company is lagging behind on its sustainability targets, corrective actions will be suggested to swiftly address the issue.

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