XENON AIFM S.A.

Xenon FIDEC SCA SICAV-RAIF ("Xenon FIDEC")

[Sustainability-related product disclosure in compliance with Commission Delegated Regulation (EU) 2019/2088 Art. 10 and Regulation 2022/1288 Art. 37-49]

XENON FIDEC
FONDO ITALIANO PER LA DECARBONIZZAZIONE E L'ECONOMIA CIRCOLARE

1. SUMMARY

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 M&A, replace some shareholders or exploit transition opportunities.

In late 2021, to further consolidate its position in the Italian private equity market, Xenon decided to launch a new sector focused investment vehicle, Xenon FIDEC ("**FIDEC**" or the "**Fund**"). FIDEC is a private equity fund with sustainable investment as its objective, in accordance with art. 9 of Sustainable Finance Disclosure Regulation – Regulation (EU) 2019/2088 (the "**SFDR**"). FIDEC considers the ESG factors central not only to risk mapping, but also to the value creation process. For this reason, ESG factors are integrated into decision-making at all stages of the investment process of the Fund and ESG performance is monitored and reported in the same way as financial performance. Moreover, in order to underline the centrality of the circularity and ESG factors, FIDEC is among the first funds to link its remuneration and the remuneration of the target companies' top management to sustainability and non-financial results.

Being an art. 9 SFDR fund, FIDEC will only invest in companies that can be considered sustainable. The SFDR defines 'sustainable investment' as an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

Specific policies and measures are in place to ensure FIDEC only invest in companies that can be considered sustainable and do not significantly harm any of the sustainable investment objectives. On the one side, there is a Restriction Policy (as detailed within FIDEC's ESG Plan, section 3), specifying which sectors are always excluded. On the other side, FIDEC approach in the scouting phase goes beyond the exclusionary approach, and effectively looks for companies consistent with its sustainable investment strategy and that can contribute to three of the environmental objectives as defined in art. 9 of Regulation (EU) 2020/852 (EU Taxonomy), namely letter (a) climate change mitigation, letter (c) the sustainable use and protection of water and marine resources and letter (d) the transition to a circular economy.

Moreover, FIDEC considers principal adverse impacts of its investment decisions on sustainability factors to ensure FIDEC investments do not significantly harm any of the sustainable investment objectives. FIDEC considers principal adverse impacts of its investment decisions on sustainability factors as part of its investment due diligence process and procedures. This is done through the Circularity & ESG Scorecard, a quali-quantitative scorecard used to achieve a first evaluation of target companies' sustainability level during due diligence phase and to identify key ESG topics of target companies. The Circularity & ESG Scorecard is made up of 17 ESG factors clustered in 12 areas which are constant for all target companies and allow the team to verify the target sustainability performance at the moment of entry.

During this acquisition phase all proper assessments to verify whether a potential investment qualifies as a "sustainable investment" pursuant to Regulation (EU) 2019/2088 and therefore can be performed by the Fund are ensured, including the assessment that the potential investment do not significant harm any environmental or social sustainable investment objective, taking into account the indicators for adverse impacts on sustainability factors and its alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, as well as the assessment on the good governance practice of the target company (the "**ESG Compliance**").

After acquisition, ESG Compliance of portfolio companies is constantly monitored, primarily through the Sustainability Plans. Sustainability Plans are specific for each portfolio company and are made up of a different number of Sustainability Targets. Three are the common features between all Sustainability Plans:

- they span from 0 to 100, where 80 points are made up by Environmental factors, 10 by Social factors and 10 by Governance factors. This is to ensure a holistic approach to sustainability is always achieved

while also assigning priority to the environmental side consistently with the focus of the Fund – circular economy and decarbonization.
- they are coherent with the SDG(s) pursued by the relevant portfolio company pursuant to art. 2.29 of the Supplement;
- they have a multi-year horizon with yearly milestones.

Moreover, FIDEC will monitor principal adverse impacts associated with its investment opportunities and decisions to track and monitor their potential impacts on sustainability factors and will report these through its periodic reporting.

Both the Circularity & ESG Scorecard and Sustainability Plan are based on the most acknowledged international standards and frameworks for ESG measuring and reporting, such as the Sustainable Development Goals (SDGs), the Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB).

FIDEC is a private equity fund, targeting majority control investments in Italian assets. By nature, it is an active shareholder. FIDEC intends to use its ownership rights to engage with portfolio companies in a constructive manner. Engagement consists of a constructive dialogue between the Fund and investee companies to discuss how they manage ESG risks and opportunities, as well as stakeholder impact. FIDEC engagement activities with portfolio companies, stakeholders and investors take place periodically and in various ways and primarily through the Stewardship Policy. As per paragraph 5.4 of FIDEC's ESG Plan, the Stewardship Policy ensures the achievement of the Sustainability Targets, through the role of active ownership. FIDEC coordinates the monitoring of ESG practices and performances of its portfolio companies, guaranteeing a constant communication flow within the organization and its external stakeholders.

Given the Fund will have controlling interest in its portfolio companies, it will not be difficult to collect data directly at company level, also in accordance with each Sustainability Plan and the guidelines decided on data collection and methodologies decided on a case-to-case basis together with the Independent ESG Advisor during the drafting of each Sustainability Plan. The Independent ESG Advisor will further certify ESG data and achievements of Sustainability Targets at entry and at exit.

FIDEC's ESG governance can be divided in three levels: Fund level, portfolio company level and third party level. At the Fund level a key role is played by FIDEC Investment Committee and by FIDEC ESG Director, while at portfolio level FIDEC will nominate a Sustainability Manager. Moreover, given the controlling interest in portfolio companies, FIDEC will usually nominate the majority of the directors in the Board of Directors in each portfolio company. One of the directors nominated by the Fund will be responsible for the ESG performance of the company at board level. Finally, at third party level an Independent ESG Advisor shall support the drafting of the Sustainability Plan for each target company, including the definition of the relevant Sustainability Targets, and shall certify them, as well as any amendment thereto. The Independent ESG Advisor shall also review and certify the ESG Results of FIDEC.

NO SIGNIFICANT HARM TO THE SUSTAINABLE INVESTMENT OBJECTIVE

FIDEC investments do not significantly harm any of the sustainable investment objectives. This is achieved by considering principal adverse impacts and aligning with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

Full detail on Principal Adverse Impacts ("PAIs") indicators is disclosed within FIDEC's "Principal Adverse Impact Policy" ("PAI Policy"). PAI indicators will be considered and actively monitored and regular updates will be provided through the periodic reporting in accordance with the SFDRs. The reporting of PAI indicators will be based on the indicators illustrated in Table 1 of Annex I of the SFDR Delegated Act, listed below:

Adverse sustainability indicators						
Adverse sustainability indicator	**Metric**		**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Indicators applicable to investments in investee companies						
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS						
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions				
		Scope 2 GHG emissions				
		Scope 3 GHG emissions				
		Total GHG emissions				
	2. Carbon footprint	Carbon footprint				
	3. GHG intensity of investee companies	GHG intensity of investee companies				
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector				
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentafe of total energy sources				
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector				
Biodiversity	7. Activities negatively affecting bio-diversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas				
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average				
Waste	9. Hazardous and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average				

Adverse sustainability indicators						
Adverse sustainability indicator	**Metric**		**Impact [year n]**	**Impact [year n-1]**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Indicators applicable to investments in investee companies						
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS						
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises				
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises				
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies				
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members				
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons				

FIDEC will adhere to all the relevant legislation applicable given its SFDR art. 9 classification. PAI indicators will be computed with regards to materiality and proportionality criteria and the PAI Policy will be kept under constant review to reflect latest regulatory requirements.

Compared to the full list contained in Table 1 of Annex I of the SFDR Delegated Act, only a handful of indicators are excluded, namely:

- PAI 15 and PAI 16 – namely indicators applicable to investments in sovereigns and supranational – are excluded as outside FIDEC investment scope.
- PAI 17 and PAI 18 – namely indicators applicable to investments in real estate assets – are excluded as outside FIDEC investment scope.

FIDEC's holistic approach to sustainability allows the Fund to include some optional indicators taken from Table 2 and Table 3 of Annex I of the SFDR Delegated Act.

FIDEC's activities are aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights. Full detail is available in FIDEC's ESG Plan.

SUSTAINABLE INVESTMENT OBJECTIVE OF THE FINANCIAL PRODUCT

FIDEC's investment objective is combining strategic impact with a commitment to achieve sustainable development goals, in accordance with its sustainable investment objective pursuant to art. 9 of Regulation (EU) 2019/2088. FIDEC will invest primarily in targets that enable decarbonization processes or circular business models, or in targets where the Fund can improve the circularity or reduce the carbon footprint, with the aim of:

a) extending the useful life of products and raw materials;
b) using renewable energy and recycled materials;
c) regenerating natural capital and biodiversity;
d) decarbonizing the economy cycles and production.

In accordance with the art. 9 of Regulation (EU) 2020/852, the following shall be defined as environmental objectives:

(a) climate change mitigation;
(b) climate change adaptation;
(c) the sustainable use and protection of water and marine resources;
(d) the transition to a circular economy;
(e) pollution prevention and control;
(f) the protection and restoration of biodiversity and ecosystems.

To various degrees and depending on the single cases, FIDEC sustainable investment objective aims at contributing to all of these environmental objectives. However, the main a focus will be on letter (a) climate change mitigation, letter (c) the sustainable use and protection of water and marine resources and letter (d) the transition to a circular economy.

INVESTMENT STRATEGY

FIDEC is a fund specialised in decarbonization and circular economy. It will primarily target control investments in Italian companies active in industrial sectors key for the ecological transition and green infrastructures, especially in relation to material recycling, hydrogen, biofuels & biomethane.

FIDEC investment strategy is focused on the following sectors (but not limited to):

- Green transition enablers: companies that enable decarbonization processes or a circular transition of their clients through their products or services. These companies are pivotal for the success of the green transition as they can help the transition efforts in key industrial sectors such as cement, steel, plastics, shipping, trucking, agriculture, energy and construction, responsible today for the majority of GHG emissions.
- Green Hydrogen value chain: primarily in consolidated handling technologies and their manufacturing, as well as in key segments such as valves, piping, tanks, storage integration systems, fuelling stations for applications in the industrial and transportation sectors.
- Energy efficiency, smart grids and storage: as highlighted by the amendment of the "EU Energy Efficiency Directive" in 2021, energy efficiency is a priority in Europe, where Member States are expected to reduce primary energy by 39% in the next 10 years compared to 1990. Smart grids and storage are key for the increasing deployment of renewables in the energy sector.
- Sharing economy and digitalization.
- E-mobility: investments in key segments of the e-mobility sector, which is crucial for the decarbonization of the transportation sector.
- Recycling of materials and waste management: Pivotal sectors of the circular economy transition, the Fund will invest in recycling facilities and waste management companies in order to maximise the recovery of resources and secondary raw materials. Special focus on specific waste such as WEEE, batteries, solar panels and plastics.
- CO_2 capture and handling: growing sector of key importance to meet net-zero goals in Europe and reduce societies' carbon footprint.
- Chemical, rubber, plastic: investments that can lower the environmental impacts of these sectors and increase their circularity.

The Fund will primarily target majority control investments in Italian assets. The Fund will also have the flexibility to do minority investments, with strong governance protection. The Fund intends to build eight platforms, with a typical enterprise value lower than € 40 million, it being understood that the foregoing value

may be higher in case of co-investment. For each platform, FIDEC will invest between € 12 million and € 22 million and will execute three add-ons on average for each platform.

In accordance with SFDR article 9, FIDEC considers the ESG factors central not only to risk mapping, but also to the value creation process. For this reason, ESG factors are integrated into decision-making at all stages of the investment process of the Fund and ESG performance is monitored and reported in the same way as financial performance. Moreover, FIDEC will adopt an active ownership approach to make sure sustainability goals are reached and commits to conduct stewardship activities towards portfolio companies leveraging its controlling interest due to its majority investments.

1.1. Restriction policy

As described in section 3 of FIDEC ESG Plan or art. 2.27 of the Supplement, companies active in specific sectors are explicitly excluded from the investable universe of FIDEC.

1.2. ESG integration in the investment strategy

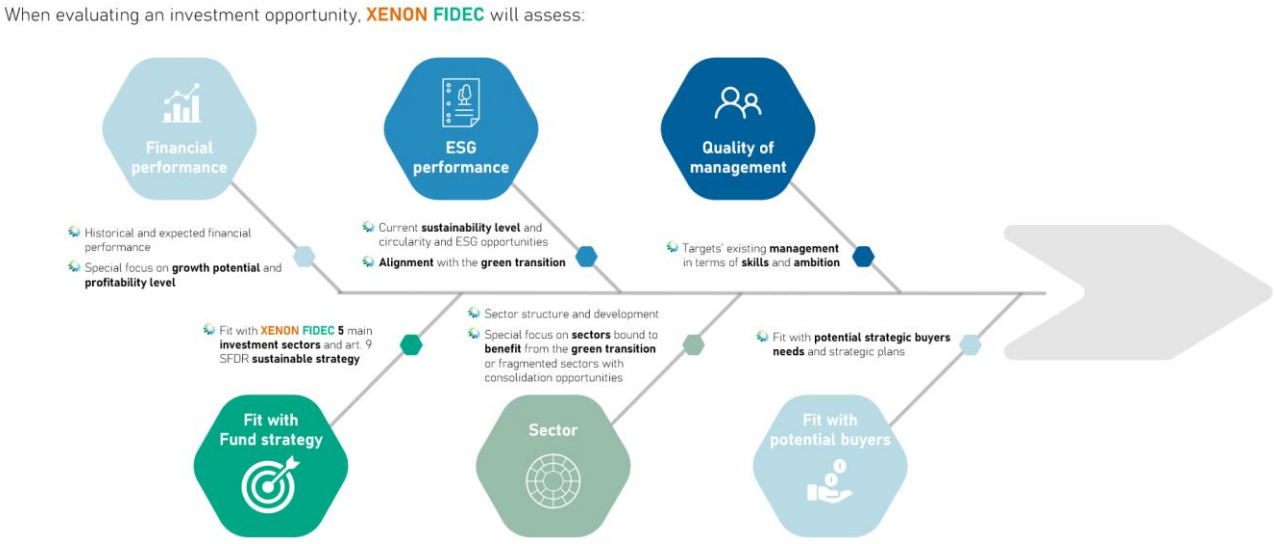
As detailed in section 5 and 6 of FIDEC ESG Plan, the integration of ESG in FIDEC investment strategy as well as the dedicated ESG governance are put in place to achieve FIDEC sustainable investment objective of combining strategic impact with a commitment to achieve sustainable development goals, in accordance with art. 9 SFDR. FIDEC will invest primarily in targets that enable decarbonization processes or circular business models, or in targets where the Fund can improve the circularity or reduce the carbon footprint, with the aim of:

- extending the useful life of products and raw materials;
- using renewable energy and recycled materials;
- regenerating natural capital and biodiversity;
- decarbonizing the economy cycles and production.

1.3. Pre-acquisition phase

FIDEC will identify potential targets not only based on financial performance, but also based on:

1. Fit with FIDEC art. 9 SFDR sustainable strategy and five main investment sectors, namely:
   - Recycling and environmental clean up technologies
   - Energy transition and hydrogen technologies
   - Water efficiency and treatment
   - Biofuel, biomethane & carbon capture
   - Digital economy, software & e mobility
2. ESG performance. Current sustainability level and circularity and ESG opportunities are assessed, along with alignment with the green transition



Therefore, while investments in restricted sectors are always excluded, FIDEC approach in the scouting phase goes beyond the exclusionary approach of its restriction policy, and effectively looks for companies consistent with its sustainable investment strategy and that can contribute to letter (a) climate change mitigation, letter (c) the sustainable use and protection of water and marine resources and letter (d) the transition to a circular

economy of the environmental objectives referenced in art. 9 of Regulation (EU) 2020/852 (EU Taxonomy), while not significantly harming any environmental objective in compliance with art. 17 of the same Regulation.

1.4. Acquisition phase – The Circularity & ESG Scorecard

Once consistency of a potential investment with FIDEC sustainable investment strategy is ensured in the pre-acquisition phase, during the due diligence phase the Circularity & ESG Scorecard is used to get to a first evaluation of target companies sustainability level and to identify any potential red flag. The Circularity & ESG Scorecard clusters 17 key ESG factors for FIDEC in 12 areas and in 3 macro areas – environment, social and governance – with a maximum score equal to 100. The 17 key ESG factors have been identified through a thorough analysis of the main ESG rating agencies methodologies and the most acknowledged standards for sustainability reporting at global level – Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB) in particular, as detailed in section 4 of the FIDEC ESG Plan. FIDEC's goal was to map and identify the most recurrent and therefore most relevant ESG factors for the evaluation of sustainability performance of target companies. Through this analysis, the team has identified 17 key ESG factors, which form the basis of the XENON FIDEC Circularity & ESG Scorecard developed by the Fund.

XENON FIDEC key ESG factors

Environmental	*Social*	*Governance*
1. Materials	7. Employment	14. Governance structure
2. Energy	8. Labour/management relations	15. Composition of the highest governance body
3. Water	9. Health and safety	16. Remuneration policies
4. Emissions	10. Training and education	17. Anti-corruption
5. Waste	11. Diversity and equal opportunity	
6. Environmental compliance	12. Local communities	
	13. Customer privacy	

Xenon FIDEC Circularity & ESG Scorecard

SCORE	0.0

Circularity & ESG Score

	Areas	Score	Max
Environment	Circularity		15.0
	Decarbonization and emissions		15.0
	Environmental compliance		4.0
Social	Employment and labour/management relations		5.5
	Health and safety		5.5
	Education and training		5.5
	Diversity and equal opportunity		5.5
	Local communities		5.5
	Customer privacy		5.5
Governance	Governance		11.0
	Remuneration policies		11.0
	Anti-corruption policies		11.0
	Total score	**0.0**	**100.0**
	% of max Score	*0.0%*	
	Circularity		15.0%
	Decarbonization		15.0%
	Other ESG factors		70.0%
	Macro areas		
	Environment		34.0
	Social		33.0
	Governance		33.0

Coherently with FIDEC's focus, the assessment of the environmental criteria is built primarily upon the concept of circularity, measuring consumption of non-renewables materials, energy and water, and upon target companies' decarbonization goals. Social and governance macro areas cover the remaining ESG factors of pivotal importance for FIDEC, allowing the Fund to conduct a thorough analysis of the target company approach towards employees, health and safety, diversity, communities, privacy, governance, remuneration and anti-corruption policies.

During this acquisition phase all proper assessments to verify whether a potential investment qualifies as a "sustainable investment" pursuant to Regulation (EU) 2019/2088 and therefore can be performed by the Fund

are ensured, including the assessment that the potential investment do not significant harm any environmental or social sustainable investment objective, taking into account the indicators for adverse impacts on sustainability factors and its alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, as well as the assessment on the good governance practice of the target company (the "ESG Compliance").

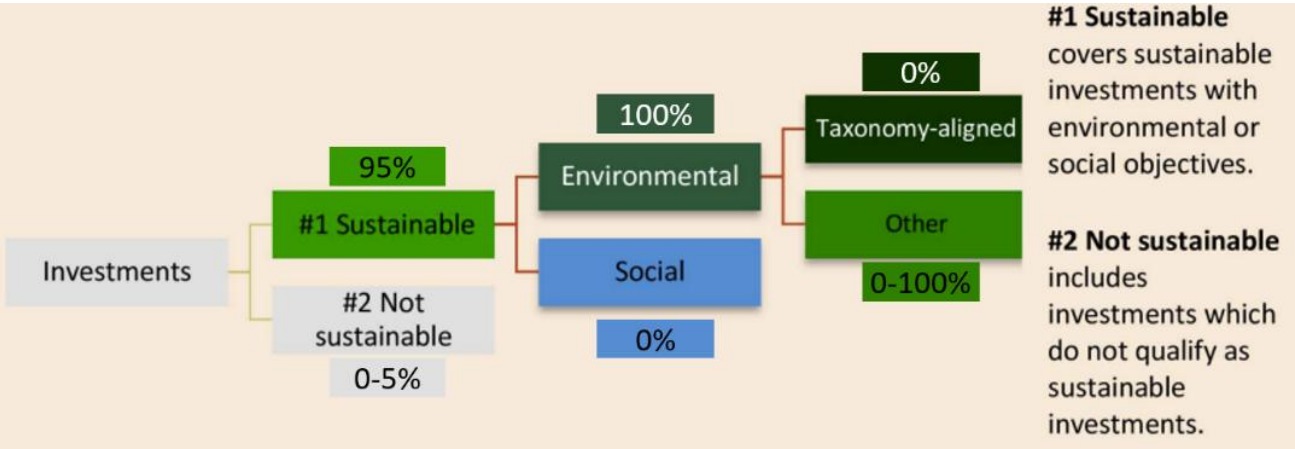
Assessment of good governance practices of the investee companies
FIDEC has a holistic ESG view, which means it gives the three criteria (Environmental, Social and Governance) the same weight in Circularity & ESG Scorecard. This is to ensure a correct management of environmental, social and governance aspects in all portfolio companies. Coherently, even if FIDEC sustainable investments have an environmental objective, governance aspects are always assessed meticulously.

The Circularity and ESG Scorecard contains nine due diligence questions on governance topics, covering three macro areas: governance, remuneration and anti-corruption policies, ensuring target companies possess good governance practices, including with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

Governance		
Governance		
Code of Conduct adoption	NO	YES
	0.0	2.8
Disclosure corporate governance structure	NO	YES
	0.0	2.8
Designated Sustainability manager	NO	YES
	0.0	2.8
Adoption of Modello di Organizzazione, Gestione e Controllo ex D.Lgs. 231/2001	NO	YES
	0.0	2.8
Remuneration policies (GRI 102-35, updated by GRI 2-19)		
Variable top management compensation linked to sustainability goals	NO	YES
	0.0	11.0
Anti-corruption policies (GRI 205)		
Adoption of anti-corruption code	NO	YES
	0.0	2.8
Adoption of Whistleblowing system for corruption cases	NO	YES
	0.0	2.8
Corruption cases in the last 2 years, ascertained with final ruling	NO	YES
	2.8	0.0
Anti-corruption training for personnel	NO	YES
	0.0	2.8

PROPORTION OF INVESTMENTS

Coherently with its investment policy, FIDEC will only invest in companies that can be considered sustainable. While FIDEC's ESG Plan shows a holistic approach to sustainability, the main focus of the Fund will be on Environmental sustainability, as specified in question 1. Therefore, FIDEC plans to make a minimum of 95% sustainable investments, as assessed through the Circularity and ESG Scorecard and detailed in each Sustainability Plan. The investment in the category non-sustainable, estimated between 0-5% are transitory in nature. The planned asset allocation is monitored continuously and evaluated on a yearly basis.



MONITORING OF SUSTAINABLE INVESTMENT OBJECTIVE

1.5. Management phase – The Sustainability Plan

Following the acquisition and based on the Circularity & ESG Scorecard findings, FIDEC team, supported by an independent third party which is a reputable ESG Advisor (the "Independent ESG Advisor"), drafts a Sustainability Plan tailored to each portfolio company. The Sustainability Plan is approved by the target company's Board of Directors (the "BoD") following the input of FIDEC Investment Committee (the "IC").

Each Sustainability Plan is made up of a different number of Sustainability Targets, specifically designed for each company. Three are the common features between all Sustainability Plans:

- they span from 0 to 100, where 80 points are made up by Environmental factors, 10 by Social factors and 10 by Governance factors. This is to ensure a holistic approach to sustainability is always achieved while also assigning priority to the environmental side consistently with the focus of the Fund – circular economy and decarbonization. The 80 points for the Environmental factors shall be computed as the environmental performance of the portfolio company itself and/or as the impact of the product/service offered by such portfolio company;
- they are coherent with the SDG(s) pursued by the relevant portfolio company pursuant to art. 2.29 of the Supplement;
- they have a multi-year horizon with yearly milestones.

Sustainability Plans will be designed taking into consideration the 17 ESG factors which are key for FIDEC, as well as the aforementioned renowned international standards – GRI, SASB, TCFD and other relevant international conventions. In particular, Sustainability Targets will pursue at least 1 environmental SDG and 1 social SDG in every portfolio company. Sustainability Targets will be designed with an hands-on approach, focusing on the most material ESG factors from case to case and on a small number (10 to 20) of clearly defined and impactful ESG goals. For this reason, the nature and number of the Sustainability Targets is different from one Sustainability Plan to the other, as they are built upon each portfolio company characteristics.

This is to maximise the impact of management actions in each company sustainability performance. Given the reduced size of these companies, which at the moment of acquisition will not usually have a clearly built out C-level, Sustainability Targets will have to be ambitious but at the same time achievable, designed with the goal of aligning strategic goals with sustainability goals. FIDEC goal is not to create a separate corporate agenda for ESG, but rather to highlight how the correct management of ESG factors can translate into superior corporate performance compared with peers and to integrate sustainability into corporate decision-making. This is why FIDEC team and targets' top management remuneration is linked to the Sustainability Targets of each Sustainability Plan.

In case any add-on is executed, or any major event impacts a portfolio company sustainability level, the original Sustainability Plan is reviewed together with the Independent ESG Advisor to reflect the new scenario and the new targets; any such change shall be certified as well by the Independent ESG Advisor. The revised Sustainability Plan is approved by the target company's Board of Directors following FIDEC Investment Committee input.

During this management phase, proper monitoring of the ESG Compliance of the portfolio companies is performed and should it reveal any issue in that regard, the SGR shall promptly take action with the concerned

portfolio company in order to prepare and implement a corrective plan, on the basis of which the Sustainability Plan is reviewed. The above shall be also promptly disclosed to the Advisory Committee and regular update shall be ensured thereto.

1.6. Exit phase

Finally, at exit phase a final assessment of the portfolio company sustainability level is carried out. The Independent ESG Advisor which assisted the Fund in the drafting of the Sustainability Plan after the acquisition certifies the results achieved in the last year before exit. The final assessment is key not only to evaluate the ESG progress made by the portfolio company during FIDEC ownership, but also to compute the final results on the Sustainability Plan, which make up 20% of FIDEC team carried interest. In fact the ESG part of the carried interest is distributed according to cumulative ESG portfolio performance, which is assessed by averaging each portfolio company final score on the Sustainability Plan:

- if the average score across all Sustainability Plans is equal or higher than 80%, then FIDEC team carried interest is equal to 20%
- below 80%, FIDEC team carried interest decreases on a linear basis to a floor of 16%, corresponding to the achievement of no Sustainability Targets.

Moreover, the final assessment may represent a useful tool for the company itself, underlining the progresses made and identifying any areas for further improvements. FIDEC goal is to integrate sustainability at the core of strategic decision-making and therefore to produce a positive impact that can last beyond its investment period.

Therefore, final ESG assessment will allow to:

- Track ESG performance throughout the ownership phase;
- Comparing the ex-ante situation with the ex-post one;
- Check improvements in the company ESG profile since FIDEC investment;
- Highlight the company ESG activities supported or promoted by FIDEC;
- Identify any area for further improvements.

1.7. Governance – Internal and external control mechanisms

FIDEC ESG governance can be divided in three levels: Fund level, portfolio company level and third party level.

The main actors involved in the governance of sustainability performance are:
At the Fund level:

- Investment Committee (IC). As detailed in paragraph 5.5 of the Supplement, FIDEC Investment Committee has a key role in the ESG governance. In particular:
    - The IC has supported the General Partner in the definition of the ESG Plan (including, for the avoidance of doubt, the Circularity & ESG Scorecard), as well as shall support it in the definition of the investment guidelines and the issuance of mandatory non-binding opinions on all the investment and divestment opportunities.
    - Moreover, the Investment Committee shall issue its binding opinion on the definition and approval of the Sustainability Plan and the Sustainability Targets of each target company, and the ESG Results.
- FIDEC ESG Director reports to FIDEC IC and is responsible for ensuring, supervising and improving the implementation of the ESG policy and processes across the organization, collecting reports and information provided by portfolio companies. In particular:
    - Supported by the team and through the Circularity & ESG Scorecard, FIDEC ESG Director will perform the sustainability due diligence of target companies and include the findings and results in the final investment recommendation to be presented to FIDEC IC.
    - Throughout the holding period, she will be responsible of monitoring and managing sustainability performance of portfolio companies and of addressing any issue that may arise.
    - She will also be in charge of keeping FIDEC ESG Plan updated with applicable regulatory framework and industry best practices.

At portfolio company level:

- Director in charge of portfolio company ESG performance. Given the controlling interest in portfolio companies, FIDEC will usually nominate the majority of the directors in the Board of Directors. In each portfolio company, one of the directors nominated by the Fund will be responsible for the ESG performance of the company at board level.
- Sustainability Manager. At the same time and usually at managerial level, a professional will be identified as Sustainability Manager. He/she will become the person in charge of ESG policies inside

the firm and will report directly to the CEO and to the company Board of Directors. He/she will also be the person in direct contact with FIDEC ESG Director, and will be responsible for the implementation of specific ESG policies and for addressing any ESG issue from the inside, reporting on a regular basis with FIDEC ESG Director and with the Fund.

At third party level:

- Independent ESG Advisor. The Independent ESG Advisor shall support the drafting of the Sustainability Plan for each target company, including the definition of the relevant Sustainability Targets, and shall certify them, as well as any amendment thereto. The Independent ESG Advisor shall also review and certify the ESG Results of FIDEC.

METHODOLOGIES

As mentioned in section 4, FIDEC Circularity & ESG Scorecard is based on 17 key ESG factors, which have been identified through a thorough analysis of the main ESG rating agencies methodologies and the most acknowledged standards for sustainability reporting at global level. FIDEC's goal was to map and identify the most recurrent and therefore most relevant ESG factors for the evaluation of sustainability performance of target companies. The same factors are also pivotal in the drafting of each Sustainability Plan. In particular, the analysis has focused on two of the most renowned and used standard internationally, namely Global Reporting Initiative and Sustainability Accounting Standards Board – but they also take into account the following standards and frameworks.

1.8. 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 identified by FIDEC team and covered by the Circularity & ESG Scorecard align with 14 of the 17 Sustainable Development Goals (SDGs). Of these, 4 can be considered key themes for FIDEC:

- SDG 5: Gender equality;
- SDG 7: Affordable and clean energy;
- SDG 12: Responsible consumption and production;
- SDG 13: Climate action.

While of pivotal importance for global sustainability efforts, the SDGs represent general sustainability goals and as such they do not possess the level of detail of the major reporting standards in terms of goal-setting, measurement and reporting. For this reason, FIDEC acknowledges the SDGs as the starting point for its ESG framework. At the same time, the Fund considers its ESG framework to go beyond SDGs, adopting a more granular approach that delves into standards inspired by specific GRI and SASB on a case-by-case basis and leverages the Circularity & ESG Scorecard to first assess target companies' sustainability level during the due diligence phase.

1.9. Global Reporting Initiative – GRI

In the definition of the 17 ESG factors which are key for FIDEC, great relevance has been given to the GRI standard. The GRI framework defines principles and KPIs to measure and report on economic, social and

environmental performance of firms. FIDEC has decided to build the Circularity & ESG Scorecard starting from selected GRI standards because of two main reasons:

- The geographical relevance of the GRI standard. The majority of FIDEC investments will be in Italian based companies and the GRI is the most widespread ESG reporting standard in Italy, used by 100% of Italian firms. The consistency with this standard will put FIDEC portfolio companies on the best path to increase the reporting and disclosure of non-financial aspects in the future and will ensure compatibility with the ESG requirements of bigger companies, that are potential customers (and acquirers).
- The double-materiality concept of the GRI standard. This idea of materiality, which requires firms to report not only on ESG factors influencing their financial results – financial materiality, but also social and environmental impacts deriving from firms' activities – outward materiality, is aligned with FIDEC approach and with the best practices of the ESG reporting sector.

1.10. Sustainability Accounting Standards Board – SASB

SASB takes into account the ability of a company to manage social and environmental impacts, divided in five topic: Environment, Social Capital, Human Capital, Business Model & Innovation e Leadership & Governance. SASB standards are industry-specific and today cover 11 sectors and 77 industries with a multi-stakeholder orientation based on the financial materiality concept. As the GRI, also SASB Standards have been analysed by FIDEC team and have contributed to the definition of the Circularity & ESG Scorecard.

1.11. Climate-related Financial Disclosure – TCFD

When evaluating ESG risks, a special focus is placed on climate-related risks. Also in light of the work of the Financial Stability Board Task Force on Climate-related Financial Disclosure (TCFD), FIDEC considers the mapping of climate-related risks central to risk management activities. Climate-related risks can be classified in physical risk and transitional risk. The first concerns the financial impact of climate change, in terms of the financial damages caused by more frequent extreme weather events or gradual changes to climate directly or indirectly impacting the firm's productivity. The second covers any financial losses arising from the necessity to adapt the firm's activity to a more sustainable conduct.

For FIDEC managing climate-related risks goes beyond reducing emissions. Firms that successfully evaluate and understand climate-related risks and opportunities are able to take superior strategic decisions. By leveraging an efficient corporate governance structure, they are able to maximise the company value. Today, companies around the world already face an unprecedented number of extreme weather events like hurricanes, wildfires and floods. While difficult to predict, these events can't be considered black swan events anymore and needs to be taken into consideration, at least at the level of scenario analysis, in order to correctly map and mitigate risks and to evaluate possible reactions. This also in line with the press release by Consob – the Italian government authority responsible for regulating the securities market – supporting the recommendations of the Task Force on Climate-related Financial Disclosures and encouraging Italian public companies to include in the Non-Financial Declaration risks and opportunities related to climate.

In FIDEC, climate-related risks are assessed for each portfolio company immediately after the acquisition as part of the ESG assessment needed to draft the Sustainability Plan. As part of this process, FIDEC will identify, together with the Independent ESG Advisor, any climate risk that may disrupt the portfolio company activities. If during the drafting of the Sustainability Plan a climate-related risk is identified, specific targets and metrics are selected and added to the Sustainability Plan of the company. These metrics will be measured annually and reported to investors. Moreover, they will impact the portfolio company management compensation and the carried interest of FIDEC team.

1.12. Principles for Responsible Investment – PRI

Xenon is a signatory of the Principles for Responsible Investment (PRI) and reports annually on its progress regarding ESG related issues in its investment processes against the PRI's six principles. Xenon is committed to implementing the six principles with a view to aligning its investment management activities to the interests of wider stakeholders.

1.13. Other relevant international conventions

FIDEC Circularity & ESG Scorecard and specific Sustainability Plans also takes into account other relevant international conventions, such as:

- OECD Principles of Corporate Governance;
- OECD Guidelines for Multinational Enterprises;
- UN Convention on Corruption;
- UN Guiding Principles on Business and Human Rights;
- ILO conventions on labour standards;

- Universal Declaration of Human Rights;
- Children's Rights and Business Principles.

Finally, also given the geographical focus of the Fund, the Circularity & ESG Scorecard and the Sustainability Plans take into consideration the latest review of the Italian "Corporate Governance Code", issued by the "Italian Corporate Governance Committee". In particular, they reflect the principle on the remuneration policy stating that "*The remuneration policy for directors, members of the control body and the top management contributes to the pursuit of the company's sustainable success and takes into account the need to have, retain and motivate people with the competence and professionalism deemed adequate for their role.*"

Further detail is available in section 4 of FIDEC ESG Plan. Finally, it is worth noting that while the Circularity & Scorecard is a standard tool used to get to a first evaluation of target companies sustainability level, Sustainability Plans will be tailored to each portfolio company and therefore will depend on their activity and sustainability impacts. When defining Sustainability Targets, specific guidelines on data collection and methodologies for data evaluation will be clearly defined on a case to case basis, together the Independent ESG Advisor that will certify ESG Results.

DATA SOURCES AND PROCESSING

Given the Fund will have controlling interest in its portfolio companies, it will not be difficult to collect data directly at company level, also in accordance with each Sustainability Plan and the guidelines decided on data collection and methodologies decided on a case to case basis together with the Independent ESG Advisor during the drafting of each Sustainability Plan. The Independent ESG Advisor will further certify ESG data and achievements of Sustainability Targets at entry and at exit. Whenever external data is used, the Fund will use reliable and authoritative sources and will clearly state the source of the data.

LIMITATIONS TO METHODOLOGIES AND DATA

The main limitation on methodologies and data regards the availability of specific data at company level. In fact, FIDEC invests in small and medium-sized enterprises ("SMEs"), which generally suffer from a lack of structured information-sharing and data gathering. Target companies do not usually have a C-level management and are run by a single entrepreneur with a family-like management style. Activities with a positive social impact are usually implemented in practice, but in the absence of a clear written policy. This is especially true for flexibility measures for what concerns work-from-home, or parental leave, or flexible working hours, which are managed through a direct communication between the employee and the entrepreneur. FIDEC mission is to translate into written policies this culture of flexibility built by the entrepreneurs.

FIDEC target companies always contribute positively on the environment or on specific sustainability factors, as the core business of the companies have a positive impact per-se on the external environment. However, in the vast majority of the cases such impacts have not been measured or mapped so far and therefore no historical data is available. FIDEC main challenge is to begin working with the existing management after the acquisition to identify Sustainability Targets, that are specific to each portfolio company and that can be objective and measurable. FIDEC team will be supported by the Independent ESG Advisor in this phase, in order to define for each Sustainability Target specific guidelines on data collection and methodologies for data evaluation.

It is important to note that in some cases specific data may not be available. In such cases, FIDEC will work to identify any possible alternative, with the support of the Independent ESG Advisor and taking into consideration materiality and proportionality criteria. Possible alternative may be using public data or estimates. Whenever external data is used, the Fund will use reliable and authoritative sources and will clearly state the source of the data.

In any case, such limitations do not affect the attainment of FIDEC sustainable investment objective as clear Sustainability Targets will be defined for each portfolio company after the acquisition. Such Sustainability Targets will be approved by the same Independent ESG Advisor that will certify the results at exit, together with specific guidelines on data collection and methodologies for data evaluation, therefore ensuring the correct measurement of portfolio companies sustainability performance. It is also worth underlining that 20% of FIDEC team carried interest is linked to cumulative ESG portfolio performance, which needs to be objectively and thoroughly measured.

DUE DILIGENCE

FIDEC is a private equity fund, targeting majority control investments in Italian assets. By nature, it is an active shareholder. Even before the investment, FIDEC establish a clear and constant communication with the target company management. During the due diligence phase, all usual analyses are performed, in particular with the support of expert consultants for the financial, tax and legal due diligence. Sustainability due diligence is carried out by FIDEC ESG Director, supported by the team and through the Circularity & ESG Scorecard. When needed, specific technical or environmental due diligence is also carried out. Due diligence findings and results are presented to FIDEC IC in the final investment recommendation.

After the acquisition, FIDEC is in constant and close communication with the portfolio company. FIDEC Directors frequently meet with the company top management, both in Xenon offices or in the company premises. As described in the Stewardship Policy, part of FIDEC ESG Plan, and consistently with the engagement policies described below, FIDEC will adopt an active ownership approach to make sure sustainability goals are reached and commits to conduct stewardship activities towards portfolio companies leveraging its controlling interest due to its majority investments. FIDEC will also nominate the majority of Directors in the Board of Directors, ensuring an effective and active ownership is implemented on its underlying assets.

ENGAGEMENT POLICIES

FIDEC actively uses its ownership rights to engage with portfolio companies in a constructive manner. Engagement consists of a constructive dialogue between the Fund and investee companies to discuss how they manage ESG risks and opportunities, as well as stakeholder impact. FIDEC engagement activities with stakeholders, investors and the broad industry take place periodically and in various ways and primarily through the Stewardship Policy. As per paragraph 5.4 of FIDEC ESG Plan, the Stewardship Policy ensures the achievement of the Sustainability Targets, through the role of active ownership. FIDEC coordinates the monitoring of ESG practices and performances of its portfolio companies, guaranteeing a constant communication flow within the organization and its external stakeholders.

While formal policies to address arising ESG issues are in place and FIDEC has the authority to execute them, given the controlling interest the Fund has in portfolio companies, the Fund strongly believes that a proactive approach based on constant dialogue with the companies' management teams can minimize ESG risks and deliver better results. Therefore, the Fund, and FIDEC ESG Director, in particular, constantly and actively monitors portfolio companies ESG performance and trains portfolio companies' Sustainability Managers.

On an annual basis, sustainability performance is assessed through the monitoring of the annual milestones of each Sustainability Plan and the measurement of PAIs indicators. FIDEC ESG Director is in charge of these annual measurements. Whenever a problem is identified or a company is lagging behind on its Sustainability Targets, corrective actions are suggested by the Fund to the company BoD or the Sustainability Manager, in order to swiftly address the issue. Given the Fund controlling interest in portfolio companies, FIDEC has the power to suggest and effectively implement corrective actions and quickly resolve any ESG issue that may arise.

ATTAINMENT OF THE SUSTAINABLE INVESTMENT OBJECTIVE

This point is not relevant for FIDEC as in accordance with art. 9 paragraph 2 of Regulation (EU) 2019/2088, FIDEC is a financial product with sustainable investment as its objective but has no index designated as a reference Benchmark nor it has a reduction in carbon emissions as its objective.