

XENON AIFM S.A.

Xenon Private Equity Small Cap II SCA SICAV-RAIF ("Xenon Small-Cap II")

[Sustainability-related product disclosure in compliance with Commission Delegated Regulation (EU) 2019/2088 Art. 10 and Regulation 2022/1288 Art. 24-36]

INTRODUCTION

Xenon AIFM S.A. 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 2025, Xenon launched Xenon Private Equity Small Cap II SCA SICAV-RAIF ("Xenon Small Cap II" or "the Fund" or "the financial product"), in accordance with art. 8 of the Sustainable Finance Disclosure Regulation – Regulation (EU) 2019/2088.

Xenon Small Cap II is committed to promoting environmental and social characteristics by actively integrating Environmental, Social, and Governance ("ESG") factors throughout its investment process. The Fund will systematically integrate ESG considerations into all stages of the investment life cycle to ensure that sustainability risks and opportunities are appropriately identified and managed. This approach will be aligned with Xenon's ESG Policy and support the broader objectives of the Fund, which include fostering responsible investing practices, generating long-term value for stakeholders, and contributing to positive environmental and social outcomes.

Summary

Xenon Small Cap II 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 Small Cap II and its underlying portfolio companies will follow a defined ESG integration approach, including negative and positive ESG screening, active ESG management and monitoring, as well as due diligence reviews at all stages of the investment process. ESG performance will be tracked via a programme of ongoing engagement and the use of bespoke ESG assessment tools and plans that will include ESG targets aligned to the E&S characteristics promoted by the Fund, 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 [Xenon's ESG Policy](#), and it will therefore not take into consideration companies that:

- i. Produce weapons and ammunition
- ii. Are directly related to adult entertainment sector
- iii. Are directly related to the production, sale and distribution of tobacco
- iv. Are directly related to the gambling sector
- v. Are engaged in human cloning

The financial product will also 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:

- i. Contributed to systematic denial of basic human rights,
- ii. Demonstrated a pattern of non-compliance with environmental or climate change regulations,
- iii. 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.

In addition to performing an initial ESG screening, the three ESG macro-areas will be considered and then monitored throughout the full investment process, with the aim of improving the Fund's portfolio companies' ESG performance and overall sustainability and resiliency.

The Fund will primarily focus its investment strategy on the knowledge-based business-to-business ("B2B") service sector, investing predominantly in companies providing knowledge-intensive business services ("KIBS"). Within this sector environmental impacts are considered generally less significant compared to other industries. However, the Fund will aim to make a positive environmental contribution while remaining mindful of the broader implications of its activities, seeking opportunities to integrate sustainable practices, foster responsible innovation, and reduce its carbon footprint. Social factors on the other hand play a critical role, as these businesses greatly benefit from human capital and the value of skilled, innovative, and diverse talent is central to their success. Key social issues such as employee well-being, education and continuous skill development, diversity and inclusion, and collaborative work environments are crucial in driving productivity and fostering innovation. The Fund recognizes that fostering a positive, supportive culture within KIBS businesses not only enhances employee engagement and retention but also contributes to the long-term success of the organization.

With these considerations in mind, the Fund will aim to promote the following environmental and social characteristics in the management of its portfolio companies on a case-by-case basis:

Environmental macro-objectives	Specific characteristics
i. Climate change adaptation and mitigation / energy use	<ul style="list-style-type: none"> • Promote use of energy from renewable sources • Promote education initiatives aimed at improved environmental management
Social macro-objectives	Specific characteristics
i. Diversity & Inclusion	<ul style="list-style-type: none"> • Promote greater diversity and inclusion • Promote equitable salary structures • Promote high health and safety standards • Promote projects and initiatives that benefit communities
ii. Health and safety at work	
iii. Social initiatives	

Implementing robust governance practices is also considered essential, with processes designed to uphold corporate ethics, data management, and security, deemed critical to ensuring the long-term prosperity of businesses. Various initiatives to promote sound governance structures will be pursued, including the adoption of a defined ESG governance framework and management approach, the promotion of the disclosure of a

code of ethics and the Modello Organizzativo pursuant to Legislative Decree 231/2001, as well as the encouragement of adherence to international conventions and standards, such as the UN Global Compact.

An alignment towards the Sustainable Development Goals (“SDGs”) will also be sought with a key focus towards those that will help promote the Environmental and Social characteristics identified for the Fund, including:

- SDG 3: Good Health and Well-being
- SDG 5: Gender Equality
- SDG 7: Affordable and Clean Energy
- SDG 10: Reduced Inequalities
- SDG 11: Sustainable Cities and Communities
- SDG 12: Responsible Consumption and Production
- SDG 13: Climate Action

The financial product will also consider and seek alignment to key international conventions in line with Xenon’s ESG Policy, such as the:

- Principles for Responsible Investment (“PRI”)
- 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 (“UNGPs”)
- 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

As previously highlighted, the Fund will target B2B KIBS companies located predominantly in Northern Italy. From an ESG perspective, the financial product will adopt a responsible investment strategy aligned with Xenon’s ESG Policy, which is characterised by:

- **Negative Screening:** The financial product will be subject to a variety of investment-related restrictions and exclusion criteria outlined in Xenon’s ESG Policy, as previously outlined.
- **ESG Screening and Due Diligence:** The financial product 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.
- **Sustainability Plans / Targets:** Following the acquisition and based on the findings of the ESG Due Diligence sustainability targets will be defined for each portfolio company. These will outline opportunities and objectives aligned with the environmental and social characteristics considered most relevant to both the Fund and the individual company and will support the ongoing monitoring of each company’s ESG performance.
- **Stewardship:** To ensure the achievement of the sustainability targets, active ownership will be a key priority. Xenon will maintain ongoing, constructive dialogue with the management teams of portfolio companies and will actively monitor their ESG practices and performance. This approach ensures that sustainability goals are consistently pursued, with close oversight to drive meaningful progress and continuous improvement in ESG outcomes. An ESG manager or representative will be appointed for each portfolio company / group to facilitate ongoing engagement.
- **Exit:** At exit, a final assessment of the portfolio company sustainability level will be carried out. The final assessment will be 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.
- **Governance:** The sustainability strategy (including the sustainability targets and overall performance) will be overseen at both company and Fund level. At Fund-level, oversight will be provided by Xenon’s Investment Committee and Sustainability Committees, with ultimate oversight from the Board.

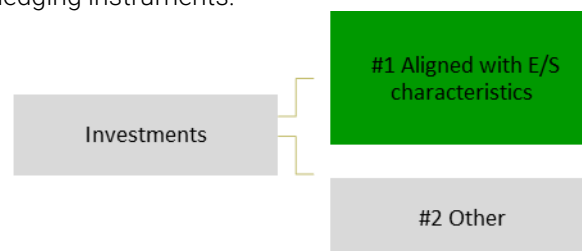
Within its ESG Policy Xenon also outlines its commitment to comply with relevant regulations and appropriate best practices governing the protection of human rights, public health, safety, labour and business practices of the jurisdictions in which Xenon conducts business. Target companies will be considered 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 factors and their alignment against Xenon’s ESG Policy. Post-investment, the companies will be subject to ongoing monitoring on key governance key performance indicators (“KPIs”) supported by ongoing engagement with the companies’ key stakeholders.

PROPORTION OF INVESTMENTS

The financial product 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.

#2 Other 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 Small Cap II 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, in line with the approach detailed within Xenon’s ESG Policy.

The Fund’s team will maintain ongoing engagement and dialogue with the companies’ management teams and will actively monitor their ESG performance with reference to the companies’ sustainability targets and supported by the use of a 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, corrective actions will be suggested to swiftly address the issue.

METHODOLOGIES

As detailed in previous sections, an ESG due diligence review and assessment will be conducted on the target companies prior to investment. The aim of this review is to identify any potential red flags, key risks, and opportunities related to environmental, social, and governance factors that may impact the long-term performance of the companies and align with the Fund’s ESG strategy.

Following the investment, based on the findings of the ESG due diligence, specific sustainability targets will be defined for each portfolio company. These targets will aim to address any identified gaps and to promote the environmental and social characteristics defined for the Fund. The targets will be aligned with the Fund’s overall ESG strategy and will guide the companies in improving their ESG performance in a way that supports both long-term value creation and responsible business practices.

To facilitate the ongoing monitoring of the companies' sustainability performance, a bespoke ESG Questionnaire will be employed. This tool will be used to gather relevant data and KPIs on an annual basis. The ESG Questionnaire is designed to ensure alignment with key frameworks and standards, including the SDGs, the Principal Adverse Impact ("PAI") indicators, and the Global Reporting Initiative ("GRI") standards. By integrating these globally recognized frameworks, the ESG Questionnaire will help ensure that each company's sustainability initiatives are comprehensive, measurable, and aligned with internationally accepted best practices.

This structured approach will also enable the Fund to track progress on ESG targets over time, ensuring that the portfolio companies remain accountable to their sustainability goals and continue to improve their ESG performance. Additionally, it will provide transparency and facilitate communication with stakeholders about the Fund's ESG impact.

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 an exclusive and proprietary methodology for sustainability performance assessment has been developed.

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 Small Cap II 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 the responsible investment strategy. This includes oversight by the 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 Small Cap II 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.

Last review / update: **June 2025**