

Real Economy Lending Fund

Art.10 - Transparency of the promotion of environmental and/or social characteristics

Summary

The closed-end reserved Italian alternative investment fund named "Real Economy Lending Fund" (the "**Fund**"), through its investment strategy, promotes environmental and social characteristics in compliance with good governance practices, although it does not have sustainable investment objectives, in accordance with Article 8 of EU Regulation 2088/2019 - SFDR.

The Fund actively contributes to the promotion of environmental and/or social characteristics by supporting financially distressed companies with a view to their recovery and support to the real economy.

Several elements are considered to promote these characteristics, such as: (i) investments in companies that comply with good governance practices; (ii) negative and positive screening processes; and (iii) eventual investments that are considered sustainable for the purposes of Article 2.17 SFDR.

At least 65% of the investments promoted by the Fund are directed towards the achievement of environmental or social characteristics.

The achievement of each environmental and/or social characteristic is monitored and evaluated on the basis of a three-step approach:

- ex-ante identification of key metrics (KPIs) linked to the UN SDGs
- definition of the expected objectives for the development of the KPIs identified during the holding period of the target investment;
- periodic sustainability monitoring (reporting).

The data necessary to assess and monitor the achievement of environmental and/or social characteristics are collected, directly or through third parties, during the due diligence process.

The SGR applies ESG due diligence to every investment opportunity submitted to the Investment Committee and the Board of Directors, or the Chief Executive Officer (where applicable), carried out by the Fund Management structure with the support of the ESG Advisor.

No sustainable investment objective

This financial product promotes environmental or social characteristics, but has no sustainable investment objectives.

Environmental or social characteristics of the financial product

The Fund promotes the following characteristics, in line with some of the United Nations Sustainable Development Goals ("**UN SDGs**"), which may include by way of example:

- **Environmental:** through the ways in which an issuer contributes to the following environmental challenges:
 - reduction of fossil fuel and GHG emissions;
 - reduction of waste production
 - reduction of water consumption;
 - protection of biodiversity.
- **Social & Governance:** through the ways in which a company develops its human capital with reference to the following underlying principles that have universal application:
 - Social:
 - health and safety of workers;
 - employment;
 - exclusion of unethical sectors;
 - Governance:
 - ethics and transparency;
 - inclusiveness and diversity;
 - quality.

Investment strategy

The Fund adopts the following ESG investment strategies in order to promote environmental or social characteristics:

- investments in companies that respect good governance practices;
- a negative screening process both sector and norm based;
- a positive screening process through the provision of target KPIs (also based on the SDGs), defining targets for improvement/retention for each investment and assessing the commitment level;

The good governance practices of the target companies are assessed on the basis of the criteria the Fund pursues, in particular considering the provisions of Article 2.17 under SFDR:

- sound management structures;
- staff relations;
- remuneration of staff;
- compliance with tax obligations.

Proportion of investments

At least 65% of the investments promoted by the Fund are directed toward achieving social or environmental characteristics. For the remainder, the SGR reserves some flexibility to make investments that do not promote social or environmental characteristics and that are not aligned with the United Nations Sustainable Development Goals.

Monitoring of environmental or social characteristics

The monitoring process consists of two macro-phases, managed by the Fund Management structure; the final results will also be monitored by the Risk Management structure:

- during the holding period of the investment, at least once a year, a periodic monitoring of sustainability factors is carried out on the basis of information provided directly by the Target Companies through the completion of dedicated questionnaires;

- Moreover, on an annual basis, the Fund's management team analyses the target KPIs in order to assess and quantify the social and environmental performance generated by the investment also in relation to the contractual provisions.

Methodologies

The achievement of each environmental and/or social characteristic will be monitored and assessed based on a three-step approach:

- **Ex-ante identification of key metrics (KPIs) associated with the UN SDGs:** the SGR identifies and defines ex-ante the main sustainability KPIs associated with the UN SDGs; the sustainability profile of the Target Companies is analysed through a proprietary ESG analysis tool that considers metrics inspired by international standards and the "IRIS+" system (which provides a set of standard metrics that can be used to measure and describe the performance of portfolio companies from a social, environmental and financial perspective);
- **Definition of expected objectives for the development of the KPIs identified during the holding period of the target investment:** the SGR investment team identifies ex-ante expectations for the development of the defined KPIs, including assessments of the sustainability of the investment in the documentation required for the approval of each transaction;
- **Periodic monitoring (reporting) of sustainability:** the SGR monitors on an ongoing basis the status and development of sustainability metrics on the basis of an annual report.

Data sources and processing

The data needed to assess and monitor the achievement of environmental and/or social characteristics are collected, directly or through third parties, during the due diligence process. Where possible, external or public databases and sources are also used.

In order to ensure data quality, checks are carried out to identify any biases. The impact of different sources on investment decisions is also assessed.

Data are received in different ways, ranging from information transmitted by email to information received through automated processes. The latter is the preferred method to avoid any form of operational risk or unnecessary human intervention. The data received are entered into internal databases so that they are always available to the Fund for its various evaluations. Where possible, accurate data is always preferred. In occasional situations where accurate data are not available, estimation procedures are used, with adequate disclosure of the proxies used.

Limitation to methodologies and data

The main limitations arising from the methodology to measure how the environmental/social characteristics promoted by the financial product are met, are represented by the possible lack of availability of the relevant data for the purpose of measuring the performance of the KPIs. The SGR will find the aforementioned data, possibly making reasonable assumptions, in order to prevent such limitations from affecting the way in which the environmental/social characteristics promoted by the Fund are met.

Due Diligence

The SGR subjects each investment opportunity presented to the Investment Committee and the Board of Directors or the Chief Executive Officer (where applicable) to ESG due diligence, which forms an integral part of the analysis criteria and helps to define the investment (credit or stake in the Target Company) through the analysis of the Target Company.

The ESG due diligence is carried out by the Fund Management structure with the support of the ESG Advisor and may include, depending on the Target Company

- sending questionnaires through an automated process;
- discussions with the top management of the company or analysis of sector studies by non-financial rating agencies, where available;
- definition of the Target Company's sustainability profile.

Engagement policy

Engagement practices consist of a constructive dialogue between institutional investors and investee companies to discuss how to manage ESG risks and seize business opportunities associated with sustainability challenges.

The SGR uses a proactive approach focusing on long-term, financially relevant ESG opportunities and risks that can affect the valuation of companies and their ability to create value. The primary objective is to create value for investors by improving sustainability behaviour and corporate governance. The main objective of increased engagement is to address reported weaknesses with respect to internationally accepted codes of conduct for corporate governance, social responsibility, environment and transparency, such as the UN Global Compact and the OECD Guidelines.

Designated benchmark index

No index has been designated as a benchmark to meet the environmental or social characteristics promoted by the financial product.