

Private Equity Transition Fund

Art.10 - Transparency of the promotion of environmental and/or social characteristics and sustainable investments on websites

Summary

The "Private Equity Transition Fund", set up and managed by Prelios SGR, is a closed-end reserved alternative investment fund for investments in companies operating in the industrial and services sectors. The Fund, through its investment strategy, will promote these characteristics, in compliance with good governance practices, in accordance with art. 8 of EU Regulation 2088/2019 - SFDR.

The Fund actively contributes to the promotion of environmental and/or social characteristics through support for projects and growth paths of the companies benefiting from the investments with a view to being able to accelerate their development in support of 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) engagement initiatives.

At least 80% of the investments promoted by the Fund are directed towards the achievement environmental or social characteristics.

The achievement of each environmental and/or social characteristic is monitored and evaluated on the basis of an approach divided into four macro-phases:

- Origination & pre-assessment;
- Due Diligence;
- Identification of Target KPIs;
- Monitoring.

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 actively contributes to the promotion of environmental and/or social characteristics through support for projects and growth paths of the companies benefiting from the investments with a view to being able to accelerate their development in support of the real economy.

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

- **Environmental:**
 - Improving energy efficiency
 - Reduction of fossil fuel and GHG emissions
 - Reduction of waste production
 - Reduction of water waste
- **Social:**
 - Workers' health and safety
 - Occupation
 - Employee Development
 - Fight against discrimination

Through the application of the ESG Guidelines both in the investment selection phase and in the monitoring of the same, the Fund before making any investment:

- carries out analyses of governance profiles in relation to the Target Companies and includes in the "investable universe" only the Target Companies that operate in compliance with good governance practices, assessed on the basis of an internal methodology;
- selects those target companies that promote environmental and/or social characteristics for individual investments on the basis of appropriate indicators.

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, also in line with the exclusions of the Climate Transition Benchmark ("CTB");
- ✓ a positive screening process (forecasting KPIs based on the SDGs, defining improvement/maintenance targets);

- ✓ engagement and active ownership initiatives, implemented on the basis of the results of the monitoring of specific KPIs, aimed at improving/maintaining the ESG performance of the companies being invested in over time.

The SGR considers the integration of environmental, social and governance (ESG) factors into its investment process to be of fundamental importance, in the belief that these elements, in addition to promoting sustainable economic and social development, can contribute positively to the financial results of the funds while reducing their risks.

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.

In particular, the Fund defines a series of indicators for calculating the alignment of the Target Companies with the requirements described above, establishing a minimum threshold of 70%.

Proportion of investments

At least 80% of the investments promoted by the Fund are directed toward achieving environmental or social characteristics. The Fund may use derivatives only for the purpose of hedging the risks associated with investment or divestment operations, without prejudice to the environmental and social characteristics promoted by the Fund and the related safeguards adopted for this purpose.

In particular, within the limits of 20%, the Fund reserves a certain flexibility to make investments that may not be used to pursue the environmental and social characteristics promoted by the Fund. Such investments, for which no maintenance/improvement KPIs will be defined, could be made in the same areas covered by the Fund's investment policy, based on market opportunities, or in cash for treasury needs.

In this sense, no minimum guarantees of environmental or social protection shall be adopted, without prejudice to the application, also in relation to such investments, of the negative screening process and good governance practices.

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, 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;

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

Methodologies related to environmental or social characteristics

The achievement of each environmental and/or social characteristic will be monitored and assessed on the basis of an approach articulated in four macro-phases:

- **Origination & pre-assessment:** through the pre-assessment phase, it is possible to pre-evaluate a potential investment, verifying compliance with the limits established by the responsible investment policy and the negative screening policies adopted by the SGR.
- **Due Diligence:** the Fund Management structure, with the support of the ESG Advisor, carries out ESG Due Diligence through: (i) sending questionnaires through an automated process; (ii) discussions with the Company's top management and analysis of sector studies by non-financial rating agencies, where available; (iii) definition of the sustainability profile of the Companies;
- **Identification of Target KPIs:** once the Due Diligence phase has been completed, the assessment process includes the following further phases: (i) definition of areas for improvement of the sustainability performance of the Target Companies consistent with the business model; (ii) selection of Quick Win actions and implementation direction; (iii) identification of sustainability strategies through related KPIs that help to track the evolution of the company in the areas identified; (iv) completion of operations and formalization of objectives through KPIs;
- **Monitoring:** A periodic monitoring process is also provided for compliance with the criteria referred to in Step 1 above, the environmental and/or social characteristics promoted, as well as the good governance measures, based on the information provided directly by the Target Companies.

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 of methodologies and data

The main limitations arising from the methodology to measure how the environmental characteristics promoted by the financial product are met, are represented by the possible lack of availability of relevant data for the purpose of measuring the performance of KPIs. The SGR will find the aforementioned data, possibly also formulating reasonable assumptions, in order to prevent such limitations from affecting the ways in which the environmental 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 to ESG *due diligence*, which forms an integral part of the analysis criteria and helps to define the investment 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 sustainability profile of the Target Companies on which to base the improvement/maintenance targets.

The due diligence will also include information useful for identifying KPIs for Target Companies consistent with the ESG strategy promoted by the Fund.

Engagement policy

In line with the Fund's objective and Prelios SGR's Responsible Investment Policy, in order to accelerate the growth path of the Target Companies, in compliance with the ESG characteristics promoted, a specific engagement strategy will be defined for each Company with the following process:

- definition of a possible ESG action plan;
- periodic monitoring of the implementation/progress of the ESG action plan;
- collaborative dialogue with the Target Companies according to the most appropriate methods that may vary depending on the individual companies, in order to raise awareness of ESG factors among the management of the Target Companies.

Designated benchmark index

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