



**ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG)
RESPONSIBLE INVESTMENT POLICY**



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1. Introduction

Green Arrow Capital SGR (“GAC” or “the Company”) is a private and independent investment platform founded in 2013 with the aim of connecting the financial industry with the real economy with the objective of generating value for all the stakeholders. The firm manages a range of strategies - including private equity, private debt and infrastructure – on behalf of institutions and individual investors in Italy and abroad. From 2019 the platform has been enriched with a special credit situations investment fund.

With more than 200 investors, Green Arrow Capital SGR is committed to value creation for its investors and stakeholders. Within its value proposition lies an important consideration for responsible investments in its business philosophy.

The objective of this Responsible Investment Policy (“the Policy”, “RIP”) is to communicate and disclose the SGR commitment to responsible and sustainable investing, as well as Company’s ESG strategy and objectives.

As such, this document highlights the official commitment of Green Arrow Capital SGR (hereinafter “the SGR” or “the Company”) to apply principles of responsible investment to its business and describe the criteria used in such approach.

In accordance with this Policy, through its managed funds, the Company intends to:

- Communicate and engage with all stakeholders its vision, the direct and indirect impacts generated by its investment activities and keep them informed about these topics;
- Define the principles that it will adhere to in the context of ESG with a tailor-made approach to the different investments;
- Enhance the positive ESG contribution of our investments, while aiming at maximizing returns on capital and respecting both the rights and the expectations of investors;
- Adhere to responsible internationally recognized investment principles and guidelines.

The Policy is intended to be updated and amended by entities in charge whenever it can be necessary and appropriate.

2. Our approach to ESG

The consideration of ESG factors regards the investment strategy of Green Arrow Capital SGR as well as its corporate governance and the behavior towards employees, investors and environment.

➤ Corporate Governance

The Company's corporate governance is designed to represent a solid guarantee of independence in the decision-making process. The investment process is a balanced decision-making set of procedures that aims to replicate best practices in the industry.

In particular, all managers and members of the governing bodies of the Company are required to be guided by the principles of the Code of Ethics in defining their objectives and carrying out their duties, as well as in any decision that may have an impact on the management of Green Arrow Capital SGR or on the fund in which it invests, as well as on shareholder value, on the employees and on the territory in which it operates.



The internal control functions of the Company has been designed as a safeguard and it is designed to assist in the investment process according to their specific role.

➤ **Employees**

Green Arrow Capital SGR's employees are expected to have a clear career path at all levels within the Company's departments and for all functions, based on their ability to develop technical and leadership skills, respecting the principles of diversity and equal opportunities.

Green Arrow Capital SGR believes that human capital, besides contributing to the implementation of corporate strategies, is the primary source for the application of ethical values adopted through this Policy. For this reason, the aim of GAC is to make employees aware of the values of responsible investment policies organizing, where needed, training meetings dedicated to learning the tools used to integrate the ESG criteria in the respective work area.

➤ **Investors**

GAC strongly believes that an important component for the success of its business is investors' trust, with respect to which the Company assures that its business is conducted according to principles of fairness, objectivity and traceability, ensuring a professional service characterized by integrity and transparency.

Similarly, information relating to third parties within the premises of the Company's business, produced or acquired through business relationships, is protected in such a way as to guarantee maximum privacy and confidentiality.

Green Arrow Capital SGR, its employees and third-party servicers are required to comply with all national and international rules and regulations regarding anti-money laundering and anti-terrorism. The Company's compliance function has adopted specific internal measures to verify the origin of the financial flows and the acquisition of an adequate knowledge regarding customers and counterparties with which transactions must be carried out, with the use of adequate databases.

➤ **Environment**

The Company is focusing on reducing any form of waste in the consumption of energy and resources in general. Green Arrow Capital SGR encourages an approach which minimizes waste, differentiating its collection and appropriately disposing material classified as dangerous. In addition, the Company implements specific initiatives and projects to minimize paper consumption and, where possible, selects among suppliers those which offer products with reduced environmental impact. The Company encourages its employees to use technology to reduce the environmental impact reducing emissions generated by business trips and private transport.

3. ESG strategy and goals

Green Arrow Capital SGR is an active investor incorporating ESG Standards and PRI into its practices both with direct involvement of the top management, in order to ensure a fully integrated ESG approach, and a direct involvement of the investment teams which are responsible for implementing ESG integration in their daily activity.

Our approach to ESG will improve the SGR's long-term performance also by reducing risks and improving management practices of its funds, all while maintaining its profitability and attractiveness to investors. Broadly speaking, GAC's commitment to ESG topics can be summarized as follows:

- **Environment** - GAC operates aiming at reducing the environmental impact as much as possible. As such, a priori (and even during the entire life cycle) of an investment, a thorough assessment of the environmental impact is carried out. Particular attention is paid to our investments in renewable energy, which are of paramount importance for the Company;
- **Social** – GAC aims to ensure that portfolio companies promote appropriate working conditions and support the social development of the community in which these companies operate. The Company actively promotes a management approach aimed at enhancing people's skills and competences, pursuing a work approach based on equal opportunities, repudiating any form of discrimination;
- **Governance** - The management of the portfolio companies' corporate governance is one of the key principles underlying the SGR process of Responsible Investment. In this context, the Company, ensuring the highest quality of management, promotes the achievement of high ethical standards in conducting the business.

In this perspective, GAC undertakes (i) to establish a proper ESG Governance with specific functions regarding ESG management and monitoring across all management levels (i.e. ESG Committee, Manager and Champions) and (ii) to improve ESG communication both with underlying portfolio companies and its stakeholders.

Our approach to ESG investing can be described as follows:

- Excluding companies or sectors from the investable universe; in this context, among other exclusions are companies involved in severe violation of the 10 UNGC Principles, tobacco, pornography, controversial weapons and companies whose revenues derive mostly from coal;
- Evaluating ESG risks and opportunities alongside traditional factors in the investment process;
- Focus on companies which are aligned to ESG best characteristics and on those for which is possible to generate positive both ESG impact and financial return.

GAC believes that adherence to PRI and ESG integration across the investment process increases the value-generating capability for all its stakeholders by means of:

- Creation and enhancement of new business opportunities able to attract investors which are aware of ESG topics and responsible investing;
- Cost reduction by increasing efficiency of resources management and by reducing potential liability exposure;
- Financial and reputational risks reduction thanks to an enhanced knowledge of non-financial metrics and KPIs.

4. Scope of Policy

The Company commitment to responsible investing and ESG criteria valuation is reflected over its key activities, hence this Responsible Investment Policy concerns all the direct and indirect investment classes in which GAC is currently involved and in which it will be involved in the future.



Green Arrow Capital SGR will have a tailored approach to each investment class in order to ensure an appropriate and effective ESG management, the consideration of material ESG factors will be fundamental not only for private equity investing but for debt/credit underwriting and infrastructure investment.

GAC as long-term shareholder and investor believes that material environmental, social and governance (“ESG”) factors are important drivers for growth which are both sustainable and value-creating for all stakeholders. Therefore, the integration of ESG criteria into our operations is key in order to develop a more sustainable strategy for our investments in every fund category:

- **Direct investments in Private Equity:** material ESG factors are an important part of the due diligence of private investments since they impact the investment perspectives and sustainability. GAC pursues growth sustainability through establishing a governance which follows best practices principles for the benefit of all stakeholders;
- **Direct investments in Private Debt:** even if these kinds of investment do not allow GAC to have control in the governance, the process of selection is aligned with our view on ESG and sustainability principles;
- **Direct investments in Infrastructure:** our efforts in responsible and sustainable investing, in combination with our strategic view on market trends, also translates into Clean Energy & Infrastructure investment operations;
- **Impact Investments:** the interest in social impact is a fortiori underlined by a special category of microfinance investing for which GAC focuses on both direct and indirect investments in debt and equity instruments of companies with high growth potential. Generally, this kind of operation is smaller with respect to the ones above mentioned from a financial point of view, on the other hand they have a positive and consistent social impact;
- **Direct investments in Special Credit Situations:** beside the potential performance for GAC investors, operations with instruments such as leasing, consumer and commercial credits improve credit market condition and positively impact on both sides of the instrument.

Green Arrow Capital SGR has applied to become a signatory of the Principles for Responsible Investment (“PRI”). This is an important step which underlines the importance of ESG criteria and their integration into the investment process; such approach aligns GAC to best practices within its competitive landscape.

5. Responsible Investment Process

Green Arrow Capital SGR believes that the introduction of ESG criteria throughout the entire life cycle of an investment is crucial for mitigating risks and creating value.

➤ Pre-investment screening

This preliminary phase ensures that the investment team avoids investing in sectors or companies which are explicitly considered non compatible with GAC’s principles.

Green Arrow Capital SGR refuses to invest in tobacco and pornography industries and in companies whose more than half of revenues comes from coal. In addition, the SGR excludes any investment in companies manufacturing and/or distributing controversial weapons. The latter are defined as weapons having a disproportionate impact on civilian population such as chemical, biological, depleted uranium, and nuclear weapons, anti-personnel landmines and cluster bombs. Finally, companies involved in severe violation of the 10 UNGC Principles are excluded from the investable universe.

If the investment is eligible, then the investment team investigates further the areas which will undergo an ESG due diligence process. This process, along assessing all the financial criteria, provides for valuation of ESG criteria:

- **For direct investments in Private Equity, Infrastructure and Special Credit Situations**, the due diligence is based on preliminary assessment and onsite visits in order to identify and assess key ESG issues and understand how they can be managed. The investment team may be advised by an external consultant for ESG audit;
- **For direct investments in Private Debt**, the ESG analysis considers (i) the lead sponsor under a sustainability point of view and (ii) the business itself through the ESG valuation of the underlying companies.

For both direct and indirect investments, all data regarding ESG topics which have been collected in due diligence phase became an integral part of the final decision-making process.

➤ **Acquisition**

For both direct and indirect investments, all data regarding ESG topics which have been collected in the due diligence phase become an integral part of the final decision-making process. GAC's Investment Committee will consider material ESG risks for the final recommendation and, in accordance with the nature of the investment, it can include a corrective action plan for the target.

➤ **Ownership**

The SGR coordinates the monitoring ESG practices and performances of its portfolio companies and funds guaranteeing a constant communication flow within the organization and its external stakeholders. During the monitoring phase of its investments, the SGR aims to ensure that a sustainable and responsible investment approach is in place coherently with the strategy tailored for the specific investment class:

- **For direct investments in Private Equity, Infrastructure and Special Credit Situations**, ESG risk management and monitoring responsibility is performed by the portfolio company's Board of Directors. The SGR maintains a constant dialogue with the companies' management teams and actively monitors their ESG practices performance;
- **For direct investments in Private Debt**, monitoring activities are carried out via a constant interaction with the lead sponsor and the portfolio companies;
- **For indirect investments**, GPs are directly responsible for ESG activities of their portfolio companies, for this reason GAC's investment teams engage continuously in order to (i) share GAC's ESG strategy and (ii) evaluate ESG methodology and performance of the GPs.

➤ **Divestment**

During the divestment phase, the investment team aims to estimate the ESG impact on the acquisition, comparing the ex-ante situation with the ex-post situation and thus evaluating the improvement of the investment's ESG profile and of the residual risk. These analyses are an integral part of ad hoc reports prepared pre-divestiture.

GAC reporting process will be aimed at providing potential investors with a summary of:

- Critical ESG factors related to that specific investment;
- ESG performance tracked throughout the ownership phase;

- Improvements of company's ESG profile from GAC's investment;
- The Company's ESG activities supported or promoted by GAC.

6. Governance

Governance of ESG responsibilities shall be shared among the following:

- **Board of Directors**

The Board of Directors shall approve the ESG policy and the ESG Strategy. It may also define the degree of materiality of the ESG factors that may impact the business, its investment portfolio and its stakeholders, taking into account the reports from the ESG Manager.

- **ESG Manager**

The ESG Manager reports to the Board of Directors and is responsible for ensuring, supervising and improving the implementation of the ESG policy and processes across the organisation, collecting reports and information provided by the ESG Champions.

- **ESG Champion**

The ESG Champion, appointed within the investment team of each single fund, shall be responsible for the assessment and monitoring of ESG risks and opportunities during pre-investment, acquisition, ownership and exit. ESG Champions shall be given appropriate training and shall receive instructions from the ESG Manager.

Within its governance of monitoring phase, the BoD is updated on a semi-annual basis by the investment teams.

7. Approval of ESG policy

Our commitment towards environmental, social and corporate governance issues is decisive and thorough. Given our particular focus on ESG, we will monitor, review and publicly report our ESG performance in order to achieve a best practices approach going forward.

In this context, on 19 November 2019, GAC's Board of Directors approved this Responsible Investment Policy.