

**Summary**

Green Arrow Private Debt II Fund S.C.A. SICAV-RAIF (“the Fund”) aims at building a portfolio consisting of different kind of credit/debt instruments issued by or granted to Italian small and medium enterprises.

The Fund does not have a sustainable objective, but it promotes environmental and/or social characteristics which will be identified on the basis of each borrowing company, with direct reference to “Green Arrow SGR ESG Responsible Investment Policy” (hereinafter “GAC” and “the Policy”).

The investment process is such that ESG criteria are integrated throughout all the phases and the promotion of environmental/social characteristics is carried out by defining specific topics (ESG targets) with related KPIs in co-operation with borrowing companies. Thus, the plan of improving ESG performance is agreed in pre-investment phase as it is a necessary condition for the investment project to be approved. The Fund applies a pre-investment screening against a more extended exclusion list with respect to the one included in “the Policy” and concludes the preliminary assessment with a tool able to estimate the ESG risk profile of the investment project and to support ESG target plan definition.

The Fund have direct exposure to investments and each of these complies with binding elements and investment strategy. As such, the entire portfolio will encompass only investments that promote one or more environmental/social characteristics, except for a minimum part of cash or monetary market instruments exclusively held for liquidity and hedging purpose.

**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**

The Fund aims to promote environmental and social characteristics by integrating ESG factors valuation throughout the investment process, negative screening will be executed in order to exclude certain sectors. Specific ESG Target will be defined together with each borrowing company ex-ante portfolio onboarding, thus the alignment between company and Fund strategy is ensured as well as the feasibility of the target. ESG Targets may refer to different topics such as energy efficiency, circular economy, diversity and inclusion, and the progress with respect to this targets is measured and reported by meaningful ESG KPIs.

The following is a non-exhaustive list of environmental and social characteristics that the fund can promote:

<b>Environmental characteristics</b>	<b>Social characteristics</b>
Increase in renewable energy consumption	Ensure equality and reject any form of discrimination
Increase in renewable energy self-handling	Empower women and close the gender pay gap
Definition of an energy efficiency strategy	Adoption of high standard for health and safety at work
Climate risks mitigation	Improve people knowledge and skills
Improvement of waste management system	Promote work-life balance
Improve supply chain sustainability – transition to a circular economy	Support growth and development of local communities

As such, environmental and social characteristics promoted will be linked to ESG Target plans laid out case-by-case. Such approach can be the optimal solution to promote environmental and/or social characteristics given

the operational context of the Fund. No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted.

### **Investment strategy**

The Fund responsible investment process is aligned to the Policy and it aims to consider ESG factors during the entire life cycle of investments.

- **Pre-investment screening:** This preliminary phase ensures that the investment team avoids investing in sectors explicitly excluded by the Policy: tobacco, adult entertainment, thermal coal (for more than half of revenues), controversial weapons (devices having a disproportionate and unpredictable impact on civilians) and chemical/biological warfare equipment. In addition, casino and gambling, development of IT hacking and breaching tools, and human cloning have been added to the exclusion list. Moreover, targets are screened against UN Principles and Rights in order to detect violations and eventually exclude the target from the investable universe. To conclude preliminary assessment, the investment team will adopt a tool that estimate the ESG risk profile of the target on the basis of multiple ESG factors, results are instrumental to define ESG Targets and related plans. The latter will be submitted to the “ESG Advisor”, an external and independent body appointed by GAC upon investors proposal that is in charge of providing opinions and recommendations regarding ESG Targets identified by the Fund.
- **Holding period:** The Fund is committed to monitor e measure progress of ESG Target by means of a continuous and profitable dialogue with borrowing companies. The aim is to develop a process able (i) to handle data and information of ESG Target plans and (ii) collect metrics and calculate principal adverse impact indicators accordingly to SFDR and the PASI Statement of Green Arrow.
- **Divestment:** Whereas the credit should not be held until expiration, the fund will provide potential buyers with specific documentation on ESG targets progress and improvement of borrowing company ESG performance.
- **Binding Elements:** The exposure of the Fund towards sectors and companies excluded by the above mentioned list must be zero at any time of Fund life-cycle. Each of portfolio investments has to promote environmental and/or social characteristics by setting on or more targets regarding sustainability topics.
- **Good Governance:** The Fund assess good governance practices of investee companies through the pre-screening ESG tool and performing further due diligence on:
  - Board composition;
  - Management teams expertise;
  - Long-term orientation;
  - Integration of ESG into business model;
  - Compliance and risk management system.

Whether relevant issues regarding corporate governance should be identified, the Fund would promptly prioritize improvement actions for ensuring good governance practice adoption within the shortest possible time

### **Proportion of investments**

The Fund have direct exposure to investments and each of these must comply with binding elements and investment strategy. The entire portfolio therefore consists of only investments that promote one or more environmental/social characteristics, save for a part of cash or monetary market instruments exclusively held for liquidity and hedging purpose.

### **Monitoring of environmental or social characteristics**

As described in “Investment Strategy” section, the Fund establishes a continuous dialogue with portfolio companies to carry out engagement and data collection activities. The ESG monitoring tool adopted by the Fund is developed such that indicators required by regulations and those underlying the ESG Targets, so those related to environmental and/or social characteristics are tracked.

### **Methodologies**

The adherence to exclusion list is constantly monitored to guarantee a null exposure towards avoided sectors and companies. In addition, ESG Target plans are periodically reviewed together with borrowing companies to ensure effective achievement of the ESG Targets. ESG tools developed to support pre-investment phase and holding period are intended to incorporate indications and guidelines of global recognized standards.

### **Data sources and processing**

The Fund is committed to ensure high quality and reliability of data with a direct collection across borrowing companies, any external data the Fund should rely on must derive from certified and authoritative sources. All data collected are processed through the ESG monitoring tool which is able to detect inconsistent data and to guide Fund investment team in properly manage ESG information. All data collected from portfolio companies should be nominal and reliable rather than estimated.

### **Limitations to methodologies and data**

A constant dialogue and the definition of ESG Target with borrowing companies ex-ante the investment decision should favor risk mitigation and the definition of an effective data governance. Communication flows established among the Fund and portfolio companies' ESG representatives enhances data gathering process.

### **Due diligence**

As described in the "Investment strategy" section, the pre-investment phase is characterized by a negative screening against exclusion list. Investment projects are further assessed by means of a tool which is able to estimate ESG risk profile on the basis of several factors.

### **Engagement policies**

Engaging with portfolio companies is key to generate a positive impact through investment operations. During the ownership phase, the Fund regularly communicate with borrowing companies with the aim of:

- Sharing ESG and sustainability culture, knowledge and methods;
- Reviewing ESG target plan and monitoring its progresses;
- Managing possible sustainability-related incidents.