

Green Arrow Private Equity IV Fund Sustainability Related Disclosure

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Summary

Green Arrow Private Equity IV Fund S.C.A. SICAV-RAIF (“the Fund”) aims at building a diversified private equity portfolio of shareholdings in middle-market companies with significant growth prospects and with revenues ranging from EUR 30 million and EUR 250 million and an EBITDA from EUR 5 million and EUR 30 million across a variety of sectors.

The Fund does not have a sustainable objective, but promotes environmental and/or social characteristics which will be defined case-by-case for each investee company always referring 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 means of stewardship activities: ESG action plans specifically developed in cooperation with each portfolio company. The Fund applies a pre-investment screening against activities excluded by “the Policy” and concludes the preliminary assessment with a tool able to estimate the ESG risk profile of the investment project; results are then submitted to the GAC ESG Committee to obtain approval or denial and in case of acceptance they constitute a starting point for active ownership strategy. To support stewardship activities, the Fund developed an ESG monitoring tool with external consultant with the objective of monitoring indicators related to environmental/social characteristics promoted. 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 from the investable universe accordingly to “Green Arrow Capital SGR ESG Responsible Investment Policy”. Furthermore, the Fund will define an ESG action plan in cooperation with portfolio company in order to improve ESG performance and properly manage ESG risks identified during due diligence. As such, environmental and social characteristics promoted will be derived from ESG action plans case-by-case.

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

Environmental characteristics	Social characteristics
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

The Fund believes in effectiveness of this approach considering the investment objective of building a diversified portfolio in Italian private middle-market companies. No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted.

Investment strategy

Considering investable universe and investment style, the Fund believes that stewardship and active ownership activities are the most effective instruments for the promotion of environmental and social characteristics. 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. 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 target ESG risk profile on the basis of multiple ESG factors; results will be submitted to GAC ESG Committee and eventually they will be a starting point for active ownership strategy and ESG action plan. This tool has been developed with the support of external ESG consultants and it will be regularly reviewed.
- **Active ownership:** The Fund establishes a continuous dialogue with portfolio companies and ESG representative are appointed. The aim is to develop ESG action plans which are coherent with characteristics and peculiarity of portfolio companies and effectively integrable within their business model. In addition, data collection and monitoring systems are put in place to (i) properly report PAI indicators accordingly to SFDR and the PASI Statement, and (ii) monitor ESG KPIs identified within the action plan. The Fund is committed to share corporate sustainability and responsibility culture to its portfolio companies and to accelerate implementation and improvement of ESG governance systems.
- **Divestment:** In the exit stage of the investment, the fund will provide investors with adequate documentation on ESG action plan progress and improvement of portfolio company ESG performance.
- **Binding Elements:** The exposure of the Fund towards sectors and companies excluded by the Policy must be zero at any time of Fund life-cycle. Target ESG risk profile is submitted to GAC ESG Committee that has the faculty of rejecting investment project whether sever risk exposure is assessed and feasibility or effectiveness of an ESG action plan is considered insufficient to guarantee mitigation of those risks and improvement of target ESG performance
- **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 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.

Monitoring of environmental or social characteristics

As described in “Investment Strategy” section, the Fund establishes a continuous dialogue with portfolio companies and ESG representative are appointed. To support engagement and data collection activities, the Fund developed an ESG monitoring tool with external consultant aimed at tracking, among others, indicators related to environmental/social characteristics promoted.

Methodologies

Adherence to exclusion list is constantly monitored to ensure zero exposure to avoided sectors and companies. In addition, the Fund and portfolio companies’ ESG representatives periodically review ESG action plans in order to monitor progresses and results; the ESG monitoring tool will include indicators deriving from action plans and it support the Fund in measurement of environmental/social characteristics promotion.

Data sources and processing

As described in the “Investment Strategy” section, most of the data is collected directly from portfolio companies during active ownership and the Fund is committed to ensure that data and information are precise, reliable and audited where possible. External data which may be considered useful must be derived from authoritative and/or certified 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

The definition of ESG action plans in cooperation with portfolio companies allows to minimize risk of lacking data and to build up an effective data governance. Communication flows established among the Fund and portfolio companies’ ESG representatives enhance 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. Results of this preliminary assessment are submitted to GAC ESG Committee for the investment approval/denial.

Engagement policies

Engaging with portfolio companies is key for developing effective ESG action plans through which promote environmental/social characteristics are promoted. During the ownership phase, the Fund regularly communicate with ESG representatives and top management of portfolio companies with the aim of:

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