

# DeA Capital Alternative Funds

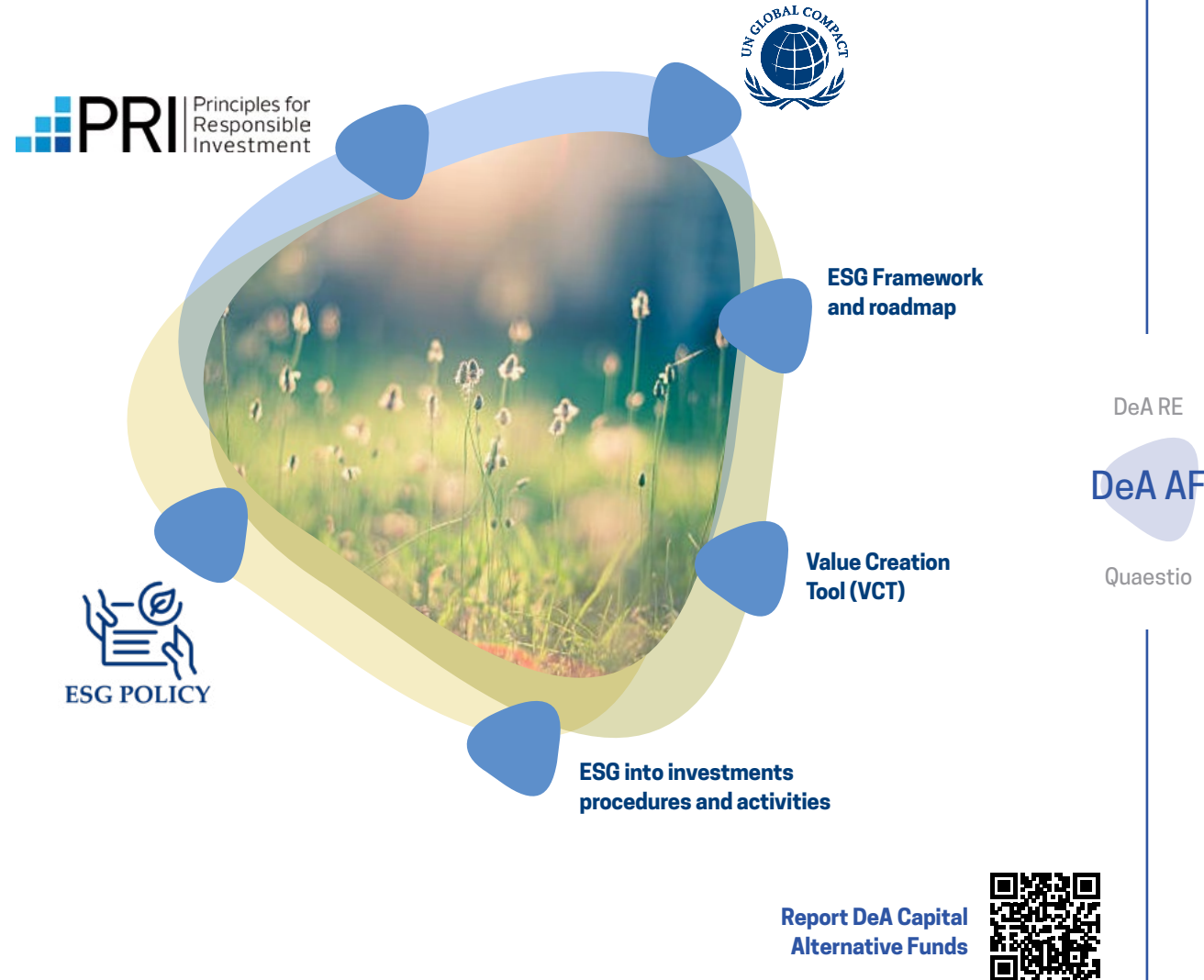
## Description

DeA Capital Alternative Funds (“DeA AF”) is a leading company in Italy for investments (direct and indirect) in Private Equity, turnarounds and NPLs; with around €5.6 billion spread across 17 funds.

In 2019 DeA Capital Alternative Funds formalized an ESG process characterized by adherence to the PRI, the drafting of the ESG Policy subsequently integrated into the investment procedures and the construction of a solid ESG framework that defines the management of risks and the methods of engagement with its stakeholders. In 2020 DeA Capital Alternative Funds achieved an ‘A’ rating from the PRI.

A key strength, especially for direct investments in Private Equity, is the Value Creation Tool (VCT), that enables the construction of an ESG framework, the highlighting and monitoring of risks and gap analysis for individual portfolio companies. Similarly, the objective of DeA Capital Alternative Funds is to create an “Action Plan” for each company acquired, to optimize the objectives to be achieved in terms of sustainability.

As of 2021, quarterly reporting for major direct investments has been introduced with the aim of strengthening disclosure for its stakeholders. With the introduction of Regulation 2088, DeA Capital Alternative Funds has two funds (TOI 2 and Sustainable Development) ex Art. 8. In 2021, the ESG framework was also extended to the NPL business:



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Alternative Funds



# DeA Capital Alternative Funds



UN Global Compact signatory



UN PRI Signatory since 2019  
(Last Score **A**)



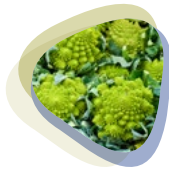
Engagement with **Invest Europe** association which aims to create **healthy and sustainable companies** across Europe



Engagement with **AIFI** to promote PE responsible investment in Italy



Member of "Forum per la Finanza Sostenibile" to promote ESG integration into financial products



**100%** of funds covered by the **ESG performance evaluation tool**



All portfolio companies appointed an **ESG Manager**



All Direct investments collect **quarterly ESG data**



**ESG Action plans** launched for **6 portfolio companies**



**Sviluppo Sostenibile and Taste of Italy 2** classified as Art. 8 under SFDR Reg. 2019/2088



**Sviluppo Sostenibile**, that invests also in hydrogen value chain, implemented a specific ESG Framework at fund level



**IDEA Agro** manages **about 1,100 hectares** for a total of **more than 990 k** of new plants



**Pieralisi (IDEA CCR II)** adopted a **Circular Thinking** approach



Survey submitted to **Multimanager Funds' General Partners** and to **NPL servicers**



**Taste of Italy Funds** focus on **energy saving and governance**



**100%** of top management and employees trained on ESG



**93%** of employees have a **permanent contract**



**Partner-Mentors4U** non-profit initiative to help talented university students



Social Project "**1+1=3 Insieme per un Progetto sociale**"



**The Next Project - New Empowerment** for young talents

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# DeA Capital Alternative Funds

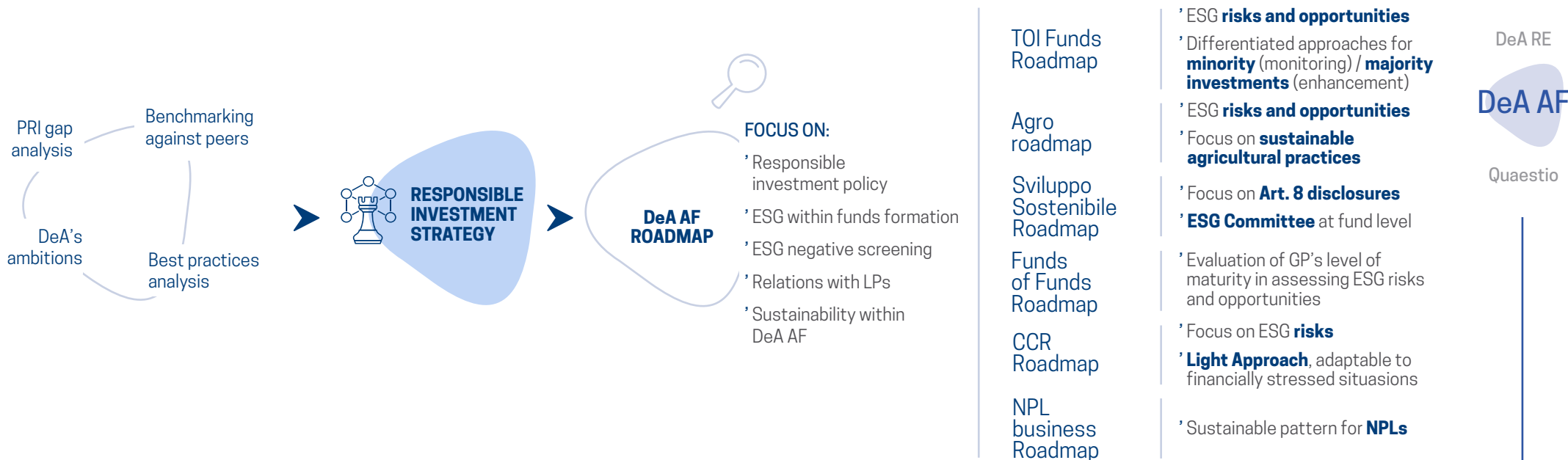
## ESG framework

The **development of the ESG framework** started in 2019 and:

- inputs collected from the Investor Relations, the Compliance Officer and Investment teams;
- analysis of sector trends, investors' expectations and PRI recommendations;
- benchmarking with responsible investment practices within the broader international industry.

The work described above resulted in the definition of our ESG roadmaps tailored to main type of investment: private equity direct investments, indirect investments (funds of funds), turnaround funds.

Finally, the different roadmaps, serving as an initial ESG action plan for the SGR, set the steps to complete the formal integration of ESG considerations in the investment process and governance.



# DeA Capital Alternative Funds

## ESG Policy

The ESG policy of DeA AF was drafted in early 2019 and approved by the Board on 31 July of the same year.

The Policy was subsequently revised, with changes mainly of a regulatory and organizational nature, i.e. the introduction of the NPL business acquired after the Policy was first approved and SFDR and its principles. Although the general rationale of DeA Capital Alternative Funds's ESG Policy was primarily a statement of sustainability principles, the document gradually became more and more specific.

The ESG Policy of DeA Capital Alternative Funds has been touched upon the main points defined by the chosen main sources. These include the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures) whose recommendations DeA Capital Alternative Funds recognizes the urgency of the fight against climate change and the crucial importance of achieving the objectives set out in the Paris Agreement; the PRI, whose principles require investors to integrate ESG principles into their internal management process and the Regolamento UE n. 2088/2019.



In this regard, two of its funds, Sviluppo Sostenibile and Taste of Italy II (TOI II), were classified under Art. 8 in 2021. ESG Governance, the core element of the Policy, requires a clear allocation of responsibilities throughout the organization. In particular, Governance of ESG responsibilities within DeA Capital Alternative Funds is shared between the following parties:

**Board of Directors.**

**ESG Manager**

**ESG Champion**

The implementation of the Policy is planned and carried out for all funds, taking into account the relevance of the investment and its characteristics, both in terms of objectives and in terms of the nature of the investment.

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# DeA Capital Alternative Funds


## ESG approach implementation along investment phases


Pre-Investment > Ownership > Exit


The main conclusions from the ESG screening and due diligence process, together with the analysis of the Risk Management Department, are included in the investment memorandum submitted to DeA Capital Alternative Funds’s Board of Directors for approval.

### DIRECT INVESTMENTS

Private Equity, Corporate Credit Recovery Funds


 Using the **ESG tool**, the **ESG Champion** compiles a **checklist** to identify **material topics**.

 **Eligible majority investments** are analyzed through an **ESG Due Diligence** process to assess the existence and severity of potential ESG concerns and to identify risk mitigation measures and untapped ESG opportunities. This process typically includes an **assessment of the maturity of the company’s approach in managing material issues**, a reputational check and a benchmarking exercise to gain an understanding of the company’s positioning on sustainability. The ESG Due Diligence is performed through review of public documentation.

 For **prospect minority investments**, a **tailored questionnaire** is sent to the company, aimed at gaining a better understanding of the company’s practices and management of potential material issues and will serve as a monitoring tool through periodic update and engagement.

### MULTIMANAGER FUNDS

Funds of Funds, Managed Accounts

 Using a **proprietary questionnaire**, the relevant ESG Champion engages with the potential GP to understand the **awareness and maturity of the GP on ESG areas** and how ESG factors are integrated in the investment process. Commitment by the GP on these areas is also assessed by review of public information, including adherence by GP to networks and/or associations promoting responsible investments and sustainable finance.

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# DeA Capital Alternative Funds

## ESG approach implementation along investment phases

Pre-Investment > **Ownership** > Exit

DeA Capital Alternative Funds constantly engages with its portfolio company's top management to promote a proactive approach on sustainability and ESG-related incidents prevention and reporting. For this reason, each portfolio company has appointed an ESG Manager in 2021.

### DIRECT INVESTMENTS

Private Equity, Corporate Credit Recovery Funds

The **Board of Directors** of the portfolio companies are responsible for the **management of ESG issues**. The **ESG Champion** shall monitor the **ESG performance of the investments**, through the review of the reports to be provided by the portfolio companies and by actively engaging with them.

As established in DeA Capital Alternative Funds' Private equity and CCR ESG roadmaps, by 2020 **all direct investments** are subject to **periodic data collection** and required to **report on selected cross-**

**portfolio ESG KPIs**. These KPIs will serve as fund monitoring tool to highlight trends and to report risk mitigation measures if necessary.

By 2021 **majority investments** are required to develop **ESG action plans** to enhance their ESG performance on material topics, including the closure of any due diligence findings if relevant. The action plan is **developed through an analysis of the company's value chain**, a benchmark with peers on ESG issues and the **identification of best practices for the specific sector**.

The plan defines objectives, activities to be performed, targets, timeframes and responsibilities and its application is monitored through the periodic reporting tools that DeA Capital Alternative Funds has put in place for all its investments.

For **minority investments** and **CCR funds, reporting requirements** and recommended actions **are fine tuned to the degree of pervasiveness** which DeA Capital Alternative Funds can implement depending on the Governance of the investment.

### MULTIMANAGER FUNDS

Funds of Funds, Managed Accounts

The relevant ESG Champion monitors the **ESG performance** of the investments, **through the review of the information** that the **GPs provides annually**, and **by actively engaging** with GPs to explain DeA Capital Alternative Funds' ESG strategy and goals.

### ESG INCIDENTS

Where applicable, DeA Capital Alternative Funds has **Board representation in its Portfolio Companies** and actively manages them through

the Investment Teams to ensure that **incidents are adequately identified and addressed**. Finally, all investments are required to fill in the annual

reporting on ESG, which also includes information on incidents. During the annual ESG training for the investment team, a specific exercise

was performed on incidents reporting. The ESG Champion of each fund **oversees the collection of incident reports from portfolio companies**.

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# DeA Capital Alternative Funds

## ESG approach implementation along investment phases

Pre-Investment > Ownership > **Exit**

### DIRECT INVESTMENTS

Private Equity, Corporate Credit Recovery Funds



In the divestment phase, DeA Capital Alternative Funds reports an **information Memorandum** consisting in a summary of:

- **ESG factors** that the SGR deemed relevant **for the specific investment**;
- **relevant ESG performance** registered during ownership;
- **potential improvements**;
- **current initiatives** in the ESG area.

### MULTIMANAGER FUNDS

Funds of Funds, Managed Accounts



An **ESG full assessment** with performance improvements connected with initiatives carried out during ownership and any residual ESG risk that might exist.

In line with the monitoring activity performed by the ESG champion throughout the whole investment lifecycle, also during the harvesting phase of the underlying portfolio the team monitors that the funds' managers **incorporate ESG considerations in the exit processes**. This latter activity may have different applications, depending on the specific type of underlying funds and the related strategy (i.e. infrastructure, private equity, private credit).

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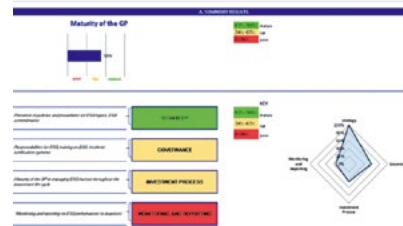
# DeA Capital Alternative Funds

## Value Creation Tool Alternative Funds

In 2019, DeA Capital Alternative Funds developed **internally an ESG proprietary tool** to support the investment teams in ESG **assessment**, to **monitor** and to **enhance companies** in line with its new ESG framework. The tool was developed considering the **international standards such as UN PRI, SASB and the Global Reporting Initiative Standards**.

### DETAILS OF VALUE CREATION TOOL

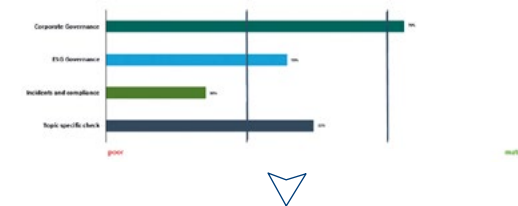
#### SUMMARY RESULT OF OVERALL MATURITY



#### DUE DILIGENCE



#### ESG OVERALL CHECK



A similar tool has been also developed **for the Funds of funds, to assess the maturity of General Partners** of the funds DeA Capital Alternative Funds invests in.

The ESG tool consists of 4 modules:

**ESG materiality checklist:** to identify -during the pre-investment phase- the relevant topics for the target investment to scope the due diligences and to check that all relevant topics have been covered.

**ESG Assessment - overall:** an **ESG questionnaire** which allows to check if the company is facing major ESG issues and **to assess its overall ESG maturity**. It can also be used for the pre-investment phase for minority investments in case ESG full due diligence are not performed directly by DeA Capital Alternative Funds and during the annual monitoring update in the post investment phase to encourage findings from the DD to be followed up and incidents to be reported.

**ESG Assessment - Specific topics:** the ESG Assessment module is integrated with a section on specific topics to assess the maturity of the Company's approach for relevant ESG topics, based on a materiality assessment in order to have a tangible impact.

**ESG KPIs:** this module is used to collect a set of ESG KPI's to evaluate and monitor the investment's ESG performance and to quantify the ESG improvements to be highlighted in the exit phase.

The tool is equipped with a dashboard summarizing the results of the Portfolio's Company performance. In particular, the dashboard displays the overall maturity of the Company, the findings from the due diligence.



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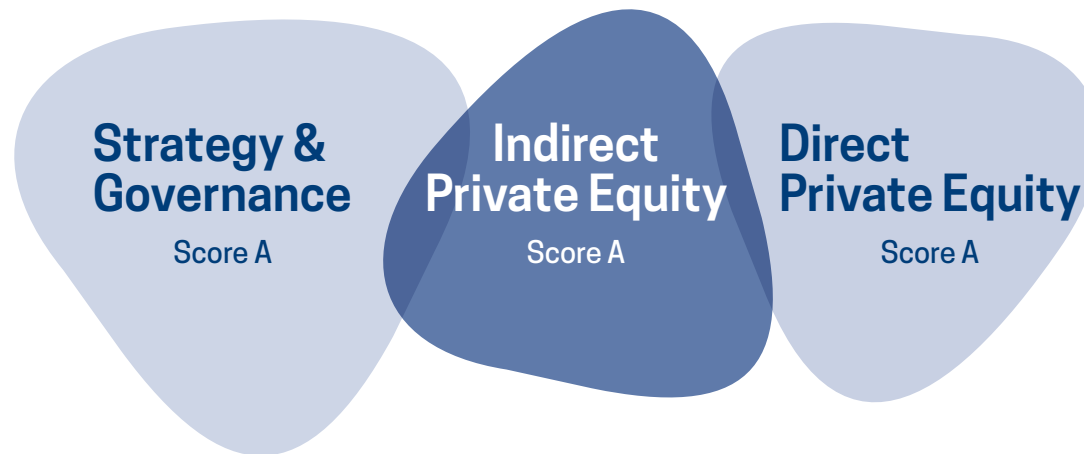
## UN PRI ESG Performance

The **UN PRI in 2021 changed its methodology** in order to further integrate the Asset Managers framework with the underlying products.

The mission of the new PRI three-year strategy is “**Building a bridge between financial risk and real-world outcomes**”, aiming at the recognition and full understanding by the signatories of interdependencies between financial markets and real-world outcomes, based on an investor perspective.

Within this new assessment, the rating score for all signatories will be the same as 2020 until the UN PRI will release the new public scores (2023).

In order to be fully compliant with the “new UN PRI assessment”, DeA Capital Alternative Funds in 2021 has worked to adapt and refine its sustainability methodologies, following the indications of the PRI and its stakeholders. The aim is to become a **best practice in stewardship** being able to correctly calculate the impact of all its activities on the environment. In addition, the progress made in 2021 in terms of engagement with its portfolio companies highlights the effort that the **SGR's business model is now finally fully integrated into ESG issues.**



DeA Capital Alternative Funds perimeter in 2021 has changed as follows:

1. more effective **engagement** with **portfolio** companies;
2. the commitment to make its **headquarters more efficient**;
3. two funds under **art.8** according to SFDR;
4. its framework has been further enhanced through a **development of the Value Creation Tool (VCT)**.

In 2021, the UN PRI assessment has covered also the **NPL business** unit so that **100%** of funds have been covered by **ESG policy**.



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# DeA Capital Alternative Funds

## “Article 8” Investment Funds (Regulation (Eu) 2019/2088)

**Taste of Italy 2** and **Sviluppo Sostenibile** have been classified **under art. 8** funds and are **committed to invest in companies that promote Environmental or Social characteristics** and demonstrate appreciation and commitment to sustainability throughout their activities. Both funds aim to invest in companies with **strong ESG profiles**, meaning they manage ESG risks or have serious ESG commitments in place compared to their peers and competitors.

The ESG commitment is demonstrated through exclusion of companies in the investable universe according to DeA Capital Alternative Funds ESG policy. These exclusions range from investments industries to markets where business practice is controversial, where human rights are not respected and where more

generally confidence is low in adherence to sustainability principles.

In addition, **portfolio managers select key Environmental or Social indicators** with the aim of improving these indicators during the fund entire lifetime:

- Taste of Italy 2, Sectorial fund specialized in the Food&Beverage sector, selected **Environmentally challenging indicators** (i.e., GHG emissions, environmental pollution, habitat destruction and species extinction).
- Sviluppo Sostenibile, selected **Social challenging indicators** instead.

Both funds aim **to support** only those **companies** which are focusing on continuing their **investments and activities in a sustainable way**.



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