



Investindustrial

building *better* companies

SFDR Entity Disclosures on sustainability risk policies

March 2021



This document contains disclosures of BI-Invest Endowment Management S.à r.l. (the "Manager") in accordance with articles 3(1) and 5(1) of the EU Regulation 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("SFDR"), which concern the integration of sustainability risks in investment decision-making processes and transparency of remuneration policies in relation to the integration of sustainability risks.

Integration of Sustainability Risks in Investment Decision-making Processes

Sustainability risks are defined in SFDR as environmental, social or governance ("**ESG**") events which if they occur could cause an actual or a potential negative impact on the value of the financial product (sustainability risks are referred to herein as "**ESG risks**").

The Manager is a member of the Investindustrial Group, a group of independently managed investment, holding, advisory and management companies ("**Investindustrial**"), and it follows the Investindustrial Group's sustainability related policies and procedures. Dedicated resources within the Investindustrial group advise on ESG activities, including a Sustainability Team, which supports Investindustrial in conducting ESG risk assessment and monitoring processes. The Manager also engages external advisers to support it in the evaluation and monitoring of ESG risks.

Investindustrial is committed to sustainable investing. ESG risks, and opportunities, are assessed together with other economic and financial criteria as part of the investment process. Investindustrial considers ESG risks and opportunities across all stages of the investment lifecycle, from pre-investment activities through the post-investment holding period and exit and takes account ESG risks as part of the investment process, with the results forming a key element of the overall analysis on investment opportunities. Specifically, as part of the investment decision process, Investindustrial considers the potential material valuation implications of ESG risks and opportunities alongside traditional factors in the investment process to assess the likely impact of these on returns for any proposed investment opportunity.

1. **Pre-investment stage:** Investindustrial seeks to identify and understand the relevant ESG risks and opportunities related to a proposed investment, which are considered alongside other material risks as part of its holistic approach to its investment decision-making processes. Investindustrial collects information on potential or actual material ESG risks through the completion of an ESG Due Diligence Questionnaire. Investindustrial engages external advisors to assist with the ESG Due Diligence Questionnaire, where appropriate. The ESG Due Diligence Questionnaire captures information on compliance with the United Nations Global Compact ("**UNGC**") Principles, relevant sector of operation sustainability management, cyber security, human capital, corporate governance, environmental issues and compliance matters.

In addition to the data collected via the ESG Due Diligence Questionnaire, the ESG risk assessment includes:

- a) an analysis of climate transformation risks (e.g. increased regulations related to sustainability, increased cost of greenhouse gas emissions etc.) and physical risks (e.g. increase in frequency and severity of extreme temperatures, drastic changes in weather patterns, increase in frequency and severity of weather events etc.), where relevant;
- b) an analysis of data from the RepRisk Index to identify and assess material ESG risks. The RepRisk Index is a proprietary algorithm that dynamically captures and quantifies the reputational exposure to ESG and business conduct risks based on media reports and other public sources external to the portfolio company;
- c) a desk-top analysis of ESG risks deemed pertinent to the relevant industry in accordance with the Sustainable Accounting Standards Board (SASB) industry materiality criteria;
- d) a bespoke peer benchmarking review to assess the portfolio company's business against other competitors and identify any existing or potential material ESG risks. There is no standardised methodology for such a review and the scope is determined by the Sustainability Team on case-by-case basis;



- e) a set of internal benchmarks/score cards with respect to ESG metrics in order to assess the level of sophistication of the portfolio company in relation to ESG matters which assists in identifying material ESG risks;
- f) interviews with service providers to better assess and understand the culture and ethics of the target portfolio company along with many other pertinent ESG related issues and how these may impact the value of the business. Investindustrial will also seek to understand whether a potential portfolio company has proposals in place to address defined significant future legislation on ESG issues, including but not limited to climate-related transition or physical risks.

Investindustrial assesses the information collated and the results are presented and considered at both the preliminary investment recommendation and final investment recommendation stages which are discussed at investment committee meetings. In addition to considering such ESG risks and opportunities as Investindustrial determines are relevant in respect of a proposed investment, Investindustrial will not knowingly approve investments in portfolio companies that are involved in certain excluded activities, including but not limited to, the production of firearms and tobacco, as determined by Investindustrial from time to time. Investindustrial will assess all other ESG risk criteria on a case-by-case basis.

2. **Post-investment stage:** Investindustrial will seek to engage with each portfolio company in relation to ESG risk and opportunity issues and to establish a dialogue between representatives of portfolio companies and stakeholders encouraging alignment of sustainability approaches and the adoption and integration of the appropriate sustainability strategy by the portfolio company. Investindustrial uses the ESG assessment carried out at the pre-investment state to recommend an action plan for each portfolio company in respect of sustainability issues to address material ESG risks. For the avoidance of doubt, it is the responsibility of the management of each portfolio company to operate the company on a day-to-day basis and to implement rigorous compliance systems and procedures. The decision by any portfolio company or its affiliates to adopt, enact, amend, or take any action pursuant to, any ESG policy or related matter will be a decision for the board of directors (or similar governing body) of such portfolio company or its affiliates as applicable, and not a decision of any direct or indirect shareholder including Investindustrial's fund or of Investindustrial or its affiliates. Investindustrial expects that portfolio companies apply a rigorous and conservative approach to ESG based on clear roles and with full accountability.

The Sustainability Team reports on the status of agreed key ESG milestones and provide its assessment on the value created or risks mitigated through ESG related mechanisms at the relevant portfolio company

Although the sustainability assessment process is sought to be applied to all material investments of Investindustrial's funds, in certain cases, Investindustrial will perform limited due diligence for certain assets such as minority investments, listed companies or where other circumstances impact Investindustrial's ability to assess material ESG risks.



Remuneration Policies and ESG

The Manager is committed to set out a governance process to ensure that the structure of total compensation and potential rewards are aligned with investors' interests and that remuneration does not encourage excessive risk taking with respect to sustainability risks.

Investindustrial does not adopt any explicit ESG related KPIs as part of employee's remuneration process and performance evaluation and assessment. However, as an implicit part of the value creation plan, the variable remuneration pools and awards are determined considering the progress and successful integration of Investindustrial's sustainability approach into each portfolio company. As such, individuals whose activities have a material impact on the risk profile of the Manager or the funds it manages are assessed indirectly through the ESG performance of the portfolio companies.

