



FSI II

Disclosure pursuant to art. 10 EU
Reg. 2019/2088

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Summary

The close-ended reserved Italian alternative investment fund called "FSI II" (the "**Fund**"), managed by FSI SGR S.p.A. ("**FSI**"), promotes, among others, a combination of environmental and social characteristics, pursuant to Article 8 of the EU Regulation 2019/2088 (or "**SFDR Regulation**").

The Fund promotes a combination of environmental and social characteristics by investing in companies that demonstrate a concrete commitment to sustainable development and follow good governance practices, and by excluding companies that belong to controversial sectors or engage in controversial activities that may have significant negative social and/or environmental impacts.

The environmental and social characteristics promoted in combination by the Fund are protection and preservation of the natural environment, respect for human rights and promotion of diversity and inclusion, and development of human capital. It should also be noted that no specific index has been designated as a benchmark for determining whether the Fund is aligned with the environmental and/or social characteristics it promotes.

The investment strategy involves:

- **Negative screening:** exclusion from the investable universe of controversial sectors and activities, which may have significant negative social and/or environmental impacts.
- **Positive screening:** selection of companies that record an ESG rating above a predetermined threshold, constructed based on the assessment of indicators associated with the Fund's characteristics.
- **Monitoring of negative impacts:** measuring and managing the adverse impacts of investment decisions on sustainability factors (PAI).

In addition, the Fund's investment process also foresees that key sustainability risks are incorporated within the investment process.

The achievement of the environmental and social characteristics promoted in combination by the Fund is measured through an ESG rating assigned to companies by a framework defined by FSI using the main international standards currently available for making measurements in the environmental, social and governance spheres. The ESG rating is calculated by measuring the achievement of each environmental and social characteristic promoted by the Fund through the following indicators:

- **Protection and preservation of the natural environment:** adoption of a strategy for energy efficiency, biodiversity protection, water conservation and sustainable waste management; use of energy produced from renewable sources; sanctions received for violation of environmental regulations;
- **Respect for human rights and promotion of diversity and inclusion:** adoption of a strategy to ensure human rights in the company; presence of the least represented gender in management bodies and top management; sanctions received for violation of regulations related to human and labor rights;
- **Human capital development:** adoption of a strategy to foster skills development and career paths; sanctions received for violation of labor law regulations.

For the purpose of monitoring, FSI directly requests from the portfolio companies the necessary data with respect to performance on sustainability indicators: data is subjected to analysis and processing, in order to assess the need for in-depth studies on the matter with individual companies and, ultimately, compliance with the environmental and social characteristics promoted. To this end, FSI undertakes to verify that all portfolio companies are able to provide all the necessary data and according to the required timelines.

FSI conducts due diligence activities on target companies using a proprietary framework that allows for in-depth investigation of general ESG aspects and specific to the formulation of the ESG rating, the latter being a binding element for the promotion of the combination of environmental and social characteristics. Any serious shortcomings found during ESG rating formulation, which may invalidate compliance with the characteristics, result in the establishment of action plans agreed upon with portfolio company management to align their business models with the combination of social and environmental characteristics promoted by the Fund.

Finally, FSI plans to carry out engagement activities with investee companies, establishing a direct dialogue with them aimed at promoting a sustainable approach and positively influencing their management.

No sustainable investment objective

The Fund promotes, among others, a combination of environmental or social characteristics, but does not have as its objective sustainable investment.

Environmental or social characteristics of the financial product

The environmental and social features promoted in combination by the Fund are protection and preservation of the natural environment, respect for human rights and promotion of diversity and inclusion, and development of human capital.

Investment strategy

The promotion of the Fund's combination of environmental and social characteristics is done through the implementation of an investment strategy that includes:

- **Negative screening:** exclusion from the investable universe of controversial sectors and activities, which may have significant negative social and/or environmental impacts. Specifically, the Fund does not, under any circumstances, invest in, among others:
 - companies, or other entities, whose business activity consists of illegal economic activity (i.e. any production, trade or other activity, which is illegal under the laws or regulations applicable to the Fund or the company or entity in question, including, but not limited to, human cloning for reproductive purposes);
 - companies or other entities that base their business on, and/or derive at least 30 percent of their revenues from (i) tobacco production and trade, or financing of such production and trade; (ii) betting and gaming, casinos and equivalent enterprises;
 - companies or other entities whose business activities include: (i) the production or trade in illegal drugs, or the financing of such production or trade; (ii) the production and trade in weapons and ammunition of any kind and, weapons of mass destruction (including nuclear, biological, chemical, and radiological weapons) or the financing of such production or trade; (iii) pornography and/or prostitution (including research, development, or technical applications related to computer programs specifically targeting pornography and/or prostitution) or their financing or trade; (iv) coal mining.

Additional sector exclusions are regulated in detail within the Fund Regulatory document.

- **Positive screening:** selection of companies with an ESG rating above a predetermined threshold, built based on the assessment of indicators associated with the Fund's characteristics.

This activity, carried out during the ESG due diligence phase, is aimed at assessing the level of ESG integration within the target companies' business models. The assessments conducted are summarized in an ESG rating constructed according to a proprietary methodology and calculated by measuring the achievement of each environmental and social characteristic promoted by the Fund through specific indicators.

Obtaining a score below a predetermined tolerance threshold normally results in the exclusion of the target company from investment. Any serious shortcomings found in some of the target companies result in the establishment of action plans agreed with the target companies' management and monitored during the investment management phase.

- **Monitoring of negative impacts:** measuring and managing the negative effects of investment decisions on sustainability factors (PAI). During the investment management phase, on a voluntary basis, FSI monitors the development of negative impacts on sustainability factors, with particular reference to (i) GHG emissions, (ii) biodiversity, (iii) water, (iv) waste, (v) indicators on social and employees matters, and additional negative impacts subject to the assessment of the materiality of the same with respect to the investments to be made.

In addition, the Fund's investment process also involves the Risk Management Function (FRM), that adopts Fund-wide risk estimation models that have specific key risk indicators (KRIs) for estimating sustainability risk; the latter includes ESG risks that arise predominantly from the activity carried out by the Fund and its investees. The results of this process are analyzed and integrated within the documentation relevant to investment or divestment.

It should also be noted that the good governance practices of target companies are subject assessed during ESG due diligence and ESG rating formulation.

Proportion of investments

With the exception of cash held exclusively for treasury needs and time lags in the use of resources, the Fund carries out investment operations carried out exclusively to build a portfolio that contributes to the promotion of the combination of environmental and social characteristics promoted - with no sustainable investment objective - in compliance with the binding elements and the strategy envisaged.

Monitoring of environmental or social characteristics

Compliance with the environmental and social characteristics promoted in combination by the Fund is measured by an ESG rating assigned to companies by a framework defined by FSI using the main international standards currently available for making measurements in the environmental, social and governance spheres.

The monitoring of the ESG rating is carried out through the following indicators:

- **Protection and preservation of the natural environment:** adoption of a strategy for energy efficiency, biodiversity protection, water conservation and sustainable waste management; use of energy produced from renewable sources; sanctions received for violation of environmental regulations;
- **Respect for human rights and promotion of diversity and inclusion:** adoption of a strategy to ensure human rights in the company; presence of the least represented gender in management bodies and top management; sanctions received for violation of regulations related to human and labor rights;
- **Human capital development:** adoption of a strategy to foster skills development and career paths; sanctions received for violation of labor law regulations.

The Fund monitors on a regular and periodic basis compliance with the promotion of the characteristics promoted through the sustainability indicators. If during the ESG due diligence phase, and at the time of ESG rating development, critical issues are detected and corrective action plans agreed upon with the companies' management are defined, the implementation of such corrective plans will be monitored during the management phase.

Methodologies

The process of monitoring the combination of environmental and social characteristics adopted is based on methodologies consistent with the ESG Policy adopted by FSI for the integration of sustainability risks into investment processes. In particular, FSI periodically requests from portfolio companies the data needed to evaluate the sustainability indicators used to monitor the environmental and social characteristics promoted in combination by the Fund.

Data sources and processing

Monitoring of the environmental and social characteristics promoted in combination by the Fund and related indicators is based on the collection of public information and data directly provided by the investee companies on a periodic and regular basis.

The collected data are analyzed and verified, in order to assess the appropriateness of any in-depth analysis with the investee companies.

The ESG rating is constructed according to a proprietary methodology and includes ESG performance indicators that incorporate the provisions of international reporting standards and the guidance contained within EU Regulation 2022/1288.

Limitations to methodologies and data

There are no limitations on the methodology and sources related to the data used.

In the event that there are limitations for formulating or monitoring the ESG rating, caused, for example, by the unavailability of certain data or by the provision of erroneous data, it will be the care and responsibility of FSI to analyze and verify such data, in order to ensure its availability and verify its validity through appropriate analysis or in-depth analysis.

Due diligence

Once it has been ascertained that the target company does not operate in one of the excluded sectors, FSI initiates ESG due diligence, which is required for all investments and is carried out alongside the traditional due diligence focusing on purely economic-financial aspects (i.e., the target company's updated economic and equity situation, analysis of the business plan and budget, information on ownership and governance structures, management and organizational structure). In addition to the verification of safeguards on general aspects, the due diligence activity focuses on the analysis of the most relevant issues as revealed by the materiality analysis. In addition, the checklist related to ESG due diligence includes the indicators/questions preparatory to the formulation of the ESG rating.

Engagement policies

Engagement and active dialogue with investee companies is an essential aspect of the Fund's strategy, as makes it possible to monitor the risk profile of portfolio companies, promote their sustainable growth, and gather ongoing feedback for evolutions of the strategy. FSI establishes and maintains a transparent and continuous dialogue so that if ESG risks related to portfolio investments are detected, through engagement activities, the adoption of a sustainable approach can be encouraged.