



POLICY ESG

Star Capital's approach to responsible investment

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1. Introduction to Star Capital

Star Capital SGR S.p.A. (hereinafter also “Star Capital” or “Asset Manager”), headquartered in Milan (Italy), is an independent Asset Management Company, active in the management of closed-end investment funds since November 2002.

As an Italian private equity operator, the Asset Manager is actively engaged in investing in small and medium sized Italian companies (SMEs) operating in the manufacturing, service, and commerce sectors and with a strong international focus, supporting them in the process of expansion and internationalization (organically or through acquisitions). In this context, Star Capital aims to achieve an increase in the turnover and profitability of the investee companies while strengthening their competitive positioning in their reference market.

To this end, the Asset Manager recognizes the importance of adopting a responsible approach in its investment activity. The integration of ESG (Environmental, Social, and Governance) factors into the investment process represents a key driver for identifying and nurturing investment related opportunities, monitoring and overseeing potential risks, and actively contributing to generating a positive impact on the Country’s economic and social structure.

2. Main references and principles and regulatory framework

The present ESG Policy (hereinafter “the Policy”) formalizes Star Capital's responsible investment process and applies to Star V Private Equity Fund which is aligned with art. 8 of EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (hereinafter “EU Sustainable Finance Disclosure Regulation” or “SFDR”)¹.

The Policy is inspired by the main international references and standards related to the integration of ESG aspects in the investments’ activity, such as the UN Global Compact, the Global Reporting Initiative, and the Principles for Responsible Investment of the United Nations (UN PRI).

As a UN PRI signatory from 2021, the Asset Manager is committed to adhering and applying the UN PRI’s 6 Principles for Responsible Investment in its responsible investment process.

As a member of AIFI (*Associazione Italiana del Private Equity, Venture Capital e Private Debt*), Star Capital developed the present ESG Policy in accordance with AIFI’s guidelines in the matters of Private Capital and sustainability.

With the objective of integrating ESG factors within the investment process, the Asset Manager follows the requirements introduced by SFDR and, with respect

¹ In reference to the previous Funds, an ESG Policy – which includes the monitoring of ESG factors – was established at their inception and remains in effect.

to STAR V Private Equity Fund, Star Capital defined the environmental and social characteristics it intends to promote through its investment activities. In accordance with the regulatory requirements, Star Capital publishes on its website an annual statement as required under art. 3 (Transparency of Sustainability Risk Policies), art. 4 (Principal Adverse Impact Statement) and art. 10 (Transparency of the promotion of environmental or social characteristics and of sustainable investments on websites) of SFDR.

Whenever necessary, the present Policy is reviewed and updated to reflect evolutionary changes in both regulatory framework and ESG activities promoted.

3. Star Capital approach to ESG

Star Capital acknowledges that the integration of Environmental, Social and Governance (ESG) aspects in its investment decisions has a positive impact on the performance of its investments, enabling it to create lasting value in the long term for all its stakeholders.

Environment

Star Capital intends to incorporate environmental aspects into the entire investment process to limit the environmental impact associated with its investments. In carrying out this action, Star Capital's investment activities are guided by the following principles:

- Promote the adoption of renewable energy sources and optimize the disposal and recycling of waste in the direction of a circular economy;
- Support the efficient use of natural resources to reduce energy consumption;
- Manage environmental risks and adopt ESG criteria in the selection of investees' suppliers.

Social

Star Capital is committed to guarantee full respect for human and workers' rights and to creating virtuous relationships with local communities. Recognizing the importance of the social impact of its investment decisions, Star Capital's investment activity is driven by the following principles:

- Ensure working conditions respecting diversity and human dignity;
- Protect the health and safety of workers and collaborators;
- Ensure full compliance with national and international regulations in the management of health and safety.

Governance

Star Capital is committed to operating with transparency and accountability in the management of its business operations. In this regard, the Asset Manager has adopted a "Conflict of Interest Policy", outlining the approach employed to

effectively addressing and managing both actual and potential conflicts of interest that may arise during the conduction of the activities carried out by or on behalf of Star Capital.

At portfolio level, Star Capital aims to ensure investee companies have an adequate corporate structure, paying particular attention to the functioning of the board of directors as well as, whenever possible, the presence of independent directors. Moreover, specific emphasis is put on ensuring that decision-making processes are linear, accountable, and transparent.

During the investment activity, Star Capital focuses on pursuing the following objectives:

- Ensure compliance with national and international regulations in the area of corporate governance.
- Promote the segregation of duty in the company and the presence of independent directors.

The environmental and social characteristics promoted by STAR V Fund

With the launch of the new Private Equity Fund “STAR V”, aligned with Article 8 of the European Regulation 2019/2088 (SFDR), Star Capital reinforced its commitment to promote the implementation of its ESG strategy at portfolio level through the definition of the environmental and social characteristics the Fund intends to promote through its investment activity. For more in-depth information concerning the environmental and social characteristics promoted by STAR V Fund, please refer to the "Statement pursuant to Regulation (EU) 2019/2088 of the European Parliament on Sustainability Reporting for Financial Services ("SFDR") - Article 10" publicly available on the website of the Asset Manager:

4. Roles and responsibilities

With reference to Star V Private Equity Fund, Star Capital has established an ESG structure by defining internal roles and responsibilities for ensuring an effective integration of ESG factors, including climate-related ones, within the investment process. Specifically, they are substantiated by the following functions:

- **Board of Directors:** The final decision concerning investment opportunity is taken by the Board of Directors (BoD), which approves the ESG Policy. In addition, the BoD has an oversight role on the integration of the ESG and climate-related aspects within the investment process, overseeing the ESG Manager and Management Team’s activities with respect to the implementation of the ESG Policy. The BoD finally assess the adequacy and effectiveness of the information flow system over time, ensuring that reporting on ESG issues is appropriate.
- **CEO:** He is responsible for implementing ESG strategies and is the apex of the decision-making process for the implementation of the procedure.
- **Executive Committee:** It evaluates the investment proposals prior the submission to the BoD for final approval. It is in charge of reviewing the

Information Memorandum, which reports the analysis's outputs of the selection process of the target company, outlining the main results of the ESG Due Diligence and the key risk and value creation factors identified.

- **Management Team:** The Management Team is responsible for searching for and selecting investment opportunities and evaluating their alignment with the investment criteria defined in the Funds' Regulations and in the present ESG Policy. Specifically, the Management Team is in charge of carrying out operational ESG analyses oriented towards the assessment of investment associated ESG and climate-related risks and opportunities. In addition, the Management Team is responsible for integrating ESG principles into the investment and divestment process, as well as in the management of Star V, collaborating with the ESG Manager to gather ESG data for reporting purposes.
- **ESG Manager:** To ensure proper oversight of ESG aspects, at the organizational level. The Asset Manager identified an ESG Manager, in charge of:
 - a. supporting the proper implementation of the ESG Policy within the investment activity. Please refer to paragraph 7 of the present document for further details.
 - b. at portfolio level, promoting active engagement activities deemed useful to manage ESG risks, including climate related risks, identified as material at the pre-investment stage. The ESG manager, assisted by the Management Team, verifies the implementation and progress status of the ESG Action Plan for each Target Company.
 - c. ensuring that information concerning portfolio ESG performance is provided to the BoD on a semestral basis and to Subscribers on an annual basis.
 - d. periodically interfacing with Portfolio Companies for the purpose of collecting ESG data through the proprietary ESG Data Collection and Monitoring Tool.
- **ESG Key Person:** Appointed within each Portfolio Company, the ESG Key Person serves as the point of contact for carrying out all ESG engagement activities (e.g., ESG Action Plan implementation and ESG Data Collection).
- **External Control Functions** (Compliance, Risk Management and Internal Audit). They implement target ESG controls.

5. Informative streams directed towards Corporate Bodies

The BoD is to be provided with the following periodical ESG informative streams:

- semi-annual updates on ESG topics by the CEO;
- annual ESG Report, prepared by external expert ESG consultants, for approval purposes;
- semi-annual report from the Control Functions regarding controls on sustainability risks (including climate-related ones);

- at the time of any new investment, the Investment Memorandum which includes all relevant ESG findings emerging from the ESG Due Diligence.

6. Star Capital's approach to responsible investment

With reference to Star V Private Equity Fund, Star Capital has defined a responsible investment process aimed at integrating ESG criteria, including climate considerations, throughout the investment lifecycle to mitigate ESG risks, capture ESG opportunities, and create lasting value for stakeholders.

The integration of ESG criteria at each stage of investment activity is outlined below:

- **Screening phase:** During the screening phase, Star Capital ensures compliance with the exclusion criteria defined in the Fund Regulations, reporting a list of sectors where it prevents itself from investing. Please refer paragraph 4.9.7 of Fund' "Management Rules" for more information on the Exclusion list.
- **Pre-investment phase:** Following the identification of a potential investment opportunity, Star Capital ensures compliance of the potential target with Law 220 of December 9, 2021, which prohibits investing in companies involved in the production of anti-personnel mines, munitions, and cluster submunitions, in compliance of Article 1, paragraph 1 of Law 220/2021.

Star Capital also undertakes an in-depth analysis of the ESG risks and opportunities of the potential investment by performing an ESG Due Diligence through the support of external expert ESG consultants. The ESG Due Diligence analysis is conducted considering potential material topics for the Target Company and assessing its relative maturity in managing them. In order to identify the material topics to be assessed, Star Capital refers to Sustainability Accounting Standards Board's sectoral approach, which helps assess the materiality of different ESG topics based on the sector in which the Target Company operates.

During the Due-diligence phase, a climate-related high-level screening is performed to assess the level of exposure of the potential investment to physical and transitional risks and/or opportunities, considering the different geographic areas in which the target operates as well as its sector and business specificities. Moreover, during the ESG Due Diligence, a dedicated analysis is performed to assess potential Target companies' alignment to the Fund' investment strategy and to the environmental and social characteristics promoted considering its alignment with art. 8 of the European Regulation 2019/2088 (SFDR), adopting a materiality approach. The conduction of the ESG assessment allows for the mapping of ESG risks and opportunities related to the investment, on which to base the

preliminary identification of ESG improvement actions that will converge into the drafting of a detailed ESG Action Plan during the ownership phase. Furthermore, in relation to the identified ESG improvement areas, ESG targets are defined, which will be included within the company's ESG Action Plan, to be achieved during investment activity, with the aim of strengthening ESG commitment.

Based on the results of the in-depth ESG Due Diligence, the Fund may reserve the right not to pursue the investment whether critical ESG issues are identified. All relevant ESG findings emerging from the Due Diligence are included within the Investment Memorandum and presented to both the Executive Committee and the Board of Directors.

- **Ownership and monitoring phase:** Star Capital promotes an active engagement with the investees with the aim of supporting them in improving their ESG performance.

Based on the ESG Due diligence outcomes, Star Capital supports investee companies in the drafting of an ESG Action Plan to enhance the Portfolio Company's ESG performance during the holding period. The ESG Action Plan's objective is also to promote environmental and social characteristics, promote progress against the defined ESG Targets and identify sustainability indicators to measure progress.

During the ownership phase, a proprietary ESG Data Collection and Monitoring Tool is used to monitor the ESG performance of each investee and measure the progress against the defined ESG Targets. The Tool requires portfolio companies to report a set of selected ESG KPIs, which includes the so-called Principal Adverse Impact indicators (PAIs) defined by the SFDR Reporting Technical Standards.

Furthermore, KPIs related to the environmental and social characteristics promoted by Star V Private Equity Fund are monitored to assess investees' performance in contributing to the promotion of those characteristics.

Through dedicated periodical meetings with the investees, the Fund assesses the implementation status of the ESG Action Plan with each company. Based on the ESG monitoring activity's results, a review and update of ESG Action Plans could be conducted to address any potential ESG risks or critical issues identified. If the need for support from the Fund in the implementation of the ESG Action Plan arises, engagement activities are carried out with the investee companies to support them in improving their ESG performance.

With the final objective of ensuring a proper implementation of the ESG Action Plan and performance of the ESG data collection activity, a reference person (ESG Key Person) is appointed within each Portfolio Company, actively participating in all the above listed ESG engagement activities.

- **Exit phase:** During the exit phase, Star Capital discloses relevant ESG information concerning the portfolio companies' performances to the potential buyer, highlighting the improvement of the Portfolio Company's ESG profile. Where relevant, an ESG Vendor Due Diligence is performed.

7. Stewardship and Reporting

Throughout the entire investment lifecycle, Star Capital carries out engagement and stewardship activities with the Portfolio Companies, with the aim of maximizing value for investors.

The ESG and stewardship activities undertaken at both Asset Manager and Portfolio level are illustrated within the Annual ESG Report, available for investors. Within the ESG Annual Report, Star Capital discloses recorded ESG performance of Portfolio Companies during the reporting year and provides annual information regarding the progress made by each portfolio company in implementing the ESG Action Plan and the promotion of the environmental and social characteristics promoted by Star V Private Equity Fund in accordance with art. 8 SFDR.

With the ultimate goal of ensuring a high level of transparency to its investors and to implement an effective communication mechanism, Star Capital has adopted a procedure for reporting material ESG incidents that may occur within the investee companies. The form, which is distributed to all the Fund's investees, enables the ESG Reference Person to immediately notify the ESG Manager of any ESG incident that occurs.

As a UN PRI signatory, Star Capital is committed to report annually on the results of its ESG criteria integration process by submitting the UN PRI questionnaire to communicate progress related to the adoption of the Principles for Responsible Investment.

8. ESG Policy communication and review

The content of the present ESG Policy is communicated to all personnel and stakeholders. The document is publicly available on the website of the Asset Manager.

The ESG Manager is responsible, with the support of external expert ESG consultants and through the coordination of the Management Team activities, for ensuring the proper implementation of the ESG Policy, updating it to incorporate advances in ESG best practices, and to reflect evolutionary changes in the regulatory framework. Any substantive changes to the Policy must be approved by the Board of Directors.

9. Glossary

ESG criteria: it refers to environmental, social and governance (so-called "ESG") aspects potentially relevant to the activities carried out by the Asset Manager and all its Funds.

Responsible investment: it refers to the integration of ESG factors within the investment activity, with the goal of generating value for all the stakeholders and prompting the generation of a positive impact on the environment and community.

ESG risk: an environmental, social, or governance event or condition that, if it occurs, could cause a significant actual or potential negative impact on the value of the investment.

Fund ex art. 8 of Reg. 2019/2088: A Fund that promotes, among other features, environmental or social characteristics, or a combination of those characteristics, provided that the companies in which the investments are made comply with good governance practices.

ESG Action Plan: a document that reports specific actions to implement defined for each Portfolio Company in the attempt to improve their ESG performance.

PAI (Principal Adverse Impacts): refers to the negative effects that are material or likely to be material on sustainability factors and that are caused, aggravated by, or directly linked to investment decisions.

EU Regulation 2019/2088: Regulation on Sustainable Finance Disclosure Regulation (hereinafter also SFDR Regulation), concerning sustainability reporting in the financial services sector.

RTS (Regulatory Technical Standards): refers to the Technical Standards on ESG disclosure for financial market participants on EU Regulation EU 2019/2088 (SFDR).

UN PRI (UN Principles for Responsible Investments): it represents a United Nations-supported international network of investors working together to implement its six aspirational principles. It works to promote the incorporation of environmental, social, and corporate governance factors (ESG) into investment decision-making.

Physical Climate risk²: Economic impact resulting from the expected increase in natural events whose occurrence can be termed "extreme" or "chronic." Acute physical risks depend on the occurrence of extreme environmental phenomena (such as floods, heat waves and droughts) related to climate change that increase their intensity and frequency. Chronic physical hazards are caused by progressively occurring climate events (e.g., such as increasing temperatures,

² Definition used by Bank of Italy in the document "Supervisory Expectations on Climate-related and Environmental Risks," April 8, 2022. This definition is derived from the following sources: ECB Guide on climate-related and environmental risks e da EBA report on management and supervision of ESG risks for credit institutions and investment firms.

sea-level rises, water stress, biodiversity loss, land use change and resource scarcity.). All of these occurrences have an impact on the degree of productive activity and can permanently hinder it. All of these types of events affect the level of productive activity and can also permanently impair it.

Transition climate risk/opportunity³: economic impact resulting from the adjustment process towards a lower-carbon and more environmentally sustainable economy, that could be triggered, for example, by the adoption of climate and environmental policies, technological progress, or changes in market preferences.

³ Please, consider the previous footnote.