

**XGEN Venture SGR S.p.A.**

EuVECA Alternative Investment Fund Manager

**Responsible Investment Policy**

Approved on September 28, 2022

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## 1. Glossary

- **ESG:** *environmental, social and governance aspects;*
- **ESG Roadmap or ESG Strategy:** *means a three-year oriented strategy that has been defined by XGen Venture SGR in order to guide the process of integrating ESG criteria into the investment process;*
- **ESG Action Plan:** *means an operational action plan defined for Portfolio Companies to improve their sustainability performance, reducing risks and maximising opportunities;*
- **EU Regulation 2019/2088:** *Regulation on Sustainable Finance Disclosure Regulation (hereinafter also SFDR Regulation), concerning sustainability reporting in the financial services sector;*
- **Fund ex Art. 8 of EU Reg. 2019/2088:** *A fund that promotes, among other characteristics, environmental or social characteristics, or a combination of such characteristics;*
- **PAI (Principal Adverse Impacts):** *means the main adverse effects caused by the investment decisions made by the Asset Manager on the sustainability factors identified in the ESG framework;*
- **RTS (Regulatory Technical Standards):** *defines Technical Standards on ESG disclosure for financial market participants on EU Regulation EU 2019/2088 (SFDR);*
- **EU Regulation 852/2020 or EU Taxonomy Regulation:** *on establishing a framework for sustainable investment and amending Regulation (EU) 2019/2088; The EU Taxonomy, aims to create a ‘green list’ of environmentally sustainable economic activities, to facilitate sustainable investment.*
- **UN PRI (UN Principles for Responsible Investments):** *is a United Nations-supported international network of investors working together to implement its six aspirational principles, often referenced as "the Principles". Its goal is to understand the implications of sustainability for investors and support signatories to facilitate incorporating these issues into their investment decision-making and ownership practices. In implementing these principles, signatories contribute to the development of a more sustainable global financial system.*
- **Universal Declaration of Human Rights:** *is an international document that articulates fundamental rights for people, adopted by the United Nations General Assembly in its third session, on 10 December 1948 in Paris.*

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## 2. Premise

XGEN Venture SGR (hereinafter also “the AIFM” or “XGEN” or “the Asset Manager”) is a management Company founded in 2021, specialized in Venture Capital Investments. XGEN Venture is currently managing XGEN Venture Life Science Fund, active in the life sciences sector with particular reference to early stage companies operating in the development of new therapeutics, medical devices, diagnostics and digital health solutions and primarily based within the Italian geography.

XGEN aims at generating a positive impact through its activities and, for this reason, has chosen to integrate responsible investment criteria throughout its investment process. In fact, the AIFM considers t ESG (Environmental, Social and Governance) principles integral to its investment activities, and acts through the adoption and implementation of processes aimed at preventing and identifying potential sustainability risks, i.e. events or conditions that could have a negative impact on the value of the investment. ESG principles are, furthermore, viewed as essential to creating and developing corporate value, inspiring all stakeholders involved (investors, shareholders, employees, management of investee companies, etc.).

Accordingly, XGEN has identified an ESG Roadmap to serve as operative guideline for the implementation of its ESG Strategy and, simultaneously, has drafted this Policy, which embeds XGEN’s responsible investment principles.

The Responsible Investment Policy aims at communicating to all stakeholders the AIFM’s commitments towards responsible and sustainable investing, describing its ESG governance structure, ESG objectives pursued and responsible investment approach adopted. More in depth, it defines the way in which XGEN intends to integrate ESG factors into its business activities in accordance with the legislative requirements of the *EU Sustainable Finance Disclosure Regulation*<sup>1</sup> (hereinafter also EU Sustainable Finance Disclosure Regulation or "SFDR"), which came in to force on March 10 2021, and the *ESAs Final Report on Draft Regulatory Technical Standards (RTS)*, April 6, 2022<sup>2</sup>.

Whenever necessary, at least every two years, the present Policy is updated and amended by the Board of Directors.

<sup>1</sup> [Regulation \(EU\) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.](#)

<sup>2</sup> [Final Report on supplementing Regulation \(EU\) 2019/2088 of the European Parliament and of the Council with regard to regulatory technical standards specifying the details of the content and presentation of the information in relation to the principle of ‘do no significant harm’, specifying the content, methodologies, and presentation of information in relation to sustainability indicators and adverse sustainability impacts, and the content and presentation of the information in relation to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports.](#)

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### 3. Main references and principles

As for the integration of ESG criteria within the investment process, the AIFM abides with the requirements introduced by EU Regulation No. 2088/2019 (SFDR). Under the latter, XGEN has aligned the Fund XGEN Venture Life Science to Article 8 of the SFDR at the AIFM level as well as at the managed Fund level. Moreover, XGEN Venture SGR annually publishes on its website information as required under art. 3 (Transparency of Sustainability Risk Policies), 4 (Principal Adverse Impact Statement) and 10 (Transparency of the promotion of environmental or social characteristics and of sustainable investments on websites) of the Regulation (EU) 2019/2088 SFDR.

XGEN also refers to the *United Nations Principles for Responsible Investment* (UN PRI)<sup>3</sup> as guideline for the integration of ESG factors across all phases of its investment process and has aligned its ESG Strategy accordingly. To this regard, the AIFM is committed to becoming a signatory of the UN PRI during 2023. As of today, the voluntary and inspiratory principles of the UN PRI are the following:

1. Incorporating ESG principles into investment analysis and decision-making processes;
2. Being active shareholders promoting ESG criteria into ownership policies and practices;
3. Seeking appropriate disclosure on ESG issues by the Fund's portfolio companies;
4. Promoting acceptance and implementation of the Principles within the investment industry;
5. Working together to enhance our effectiveness in implementing the Principles;
6. Reporting on activities and progress towards implementing the Principles.

XGEN Venture is committed to promoting the UN PRI adopting a Responsible Investment approach across all phases of its investment process. Such ESG approach is structured to yield a reduction of risk while preserving profitability and investors' attractiveness.

In addition, XGEN has defined its ESG Objectives in line with the SDGs, or Sustainable Development Goals<sup>4</sup>, the 17 goals for global development that have been defined by the United Nations as part of the 2030 Agenda for Sustainable Development. In particular, XGEN has identified 7 SDGs to which it can best contribute through its activities, and has defined its ESG Objectives in line with them. Please refer to Article 4 "ESG Objectives" for more information. Furthermore, XGEN conducts all activities in full compliance and alignment with the Universal Declaration of Human Rights<sup>5</sup>.

Finally, XGEN's Policy has been formulated in accordance with the Associazione Italiana del Private Equity, Venture Capital e Private Debt's (AIFI) guidelines in the matters of Venture Capital and sustainability.

<sup>3</sup> [UN Principles for Responsible Investment](#)

<sup>4</sup> [UN Sustainable Development Goals](#)

<sup>5</sup> [Universal Declaration of Human Rights](#)

#### 4. ESG Objectives

XGEN Venture SGR recognizes the importance of integrating ESG factors into its investment processes in order to assess and manage ESG risks and opportunities, thus enabling to create value in the medium-long term for all its stakeholders (e.g. Investors, shareholders, employees, portfolio companies, community, NGOs, Governments, etc.).

In particular XGEN has defined specific ESG objectives to be pursued through its investment activities in addition to related UN SDGs that are most relevant to XGEN's activity, such as:

- **ENVIRONMENTAL:** XGEN is committed to assessing the impact of its activities in environmental terms, tackling climate change and addressing environmental impacts associated with energy consumption;
- **SOCIAL:** Given the nature of its activities and the investment focus, XGEN is clearly committed to the identification of medical therapies and technologies capable of satisfying so-called Highly Unmet Medical Needs. XGEN will also further strengthen diversity and inclusion within the management company as well as the portfolio companies, creating a climate of personal protection aimed at eliminating any form of discrimination based on gender, religion, ethnicity, political orientation, sexual orientation, etc;
- **GOVERNANCE:** XGEN aims to contribute to the shaping of new companies that integrate sustainability-oriented business practices into their operations, adopting an ethical and responsible approach, enabling both the creation of value and the strengthening of the reputation of the Asset Manager and its portfolio companies.



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## 5. ESG Governance

XGEN Venture SGR has adopted an ESG governance structure to oversight the integration of ESG factors in all phases of the investment process as follows:

- ❖ Board of Directors (*oversight responsibility*): approves the Responsible Investment Policy and related updates and the ESG Strategy of XGEN Venture SGR. Additionally, it oversees the ESG Manager and ESG Responsible activities. Furthermore, in line with the Bank of Italy's Expectations<sup>6</sup>, the Board plays an active role of direction and governance in integrating climate and environmental risks into the corporate culture and strategy as well as into the corporate risk appetite framework (where applicable) and in the risk limits of managed portfolios, coherently addressing key corporate policies and the adaptation of organizational and management systems.
- ❖ ESG Manager (*oversight responsibility and implementation responsibilities*): reports to the Board of Directors and is responsible for supporting the implementation of the Responsible Investment Policy along all the phases of the investment processes and collecting reports and fund-related information provided by the ESG Responsible.
- ❖ ESG Responsible (*implementation responsibilities*): is appointed within the investment team of each Fund and is responsible for the implementation of the responsible investment approach – i.e., assessment of ESG risks and opportunities and monitoring of ESG performance during the whole investment process.
- ❖ ESG Key Person: the reference person within each Portfolio Company involved in ESG Engagement activities (ESG Action Plan implementation and ESG Data Collection).

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<sup>6</sup> [Aspettative di vigilanza sui rischi climatici e ambientali, Banca d'Italia, 2022](#)

## 6. Exclusion List

XGEN Venture SGR has defined an exclusion list to exclude certain sectors from its investment activities, thus implementing responsible investment considerations and minimizing image and reputational risks for investors. In particular, the AIFM and all managed funds do not carry out investments nor provide (directly or indirectly) financial support of any kind to:

- ❖ Companies whose operations limits people’s individual rights and freedoms or violating human rights;
- ❖ Companies or enterprises that are in a prohibited situation (e.g. bankrupt) or whose focus is on illegal economic activities (i.e. any activity, which is illegal under the laws or regulations applicable to the Company or entity);
- ❖ Companies involved in production, distribution, packaging, marketing, and/or sale of tobacco, alcoholic beverages and related products, recreational drugs, weapons and ammunition of any kind (including the relevant components) and military systems or the financing thereof;
- ❖ Companies involved in the casinos sector including internet gambling and online casinos;
- ❖ Companies involved in the production or trading of pornography and related products and/or the provision of services of a sexual nature;
- ❖ Companies involved in research, development or technical applications relating to electronic data programs or solutions intended to illegally download or enter into electronic data networks;
- ❖ Companies involved in fossil fuel-based energy production and related activities (including extraction of mining, exploration, processing or refinement);
- ❖ Companies involved in energy-intensive and/or high CO2-emitting industries unless the specific final recipient transaction qualifies as environmentally sustainable investments as defined in the “EU taxonomy for sustainable activities” (Regulation (EU) 2020/852, as amended from time to time) as supplemented by the technical criteria established under the “EU Taxonomy Delegated Acts” (Commission delegated Regulations (EU) supplementing Regulation (EU) 2020/852 or upcoming Taxonomy Delegated Acts, as amended from time to time, respectively);

Please note that the above list is only an extract of the full XGEN Exclusion List, reported in the Regulations of the Fund.



## 7. Integration of ESG factors into the Investment Process

XGEN Venture SGR has defined a responsible investment approach to integrate ESG criteria throughout the whole investment life cycle in order to mitigate ESG risks, capture ESG opportunities and create shared value within its portfolio.

### **Pre-Investment Phase**

With the aim of identifying and assessing potential sustainability risks and opportunities related to the investment, during the pre-investment phase XGEN performs an assessment using the proprietary ESG Pre-Screening and Due Diligence Tool which, as a first step, performs a “*negative screening*” in order to verify the coherence between the opportunity of investment and the Exclusion List, presented in Article 6 of the present Policy.

Secondly, through the information provided by the target company and based on the relative business sector in which the company operates, the ESG Pre-Screening and Due Diligence Tool highlights potential material topics for the company and assesses its relative maturity and ability to manage them. The Materiality Analysis performed is mainly based on the Sustainability Accounting Standards Board's sectoral approach. Furthermore, the ESG Pre-Screening and Due Diligence Tool evaluates the applicability on target to contribute to the promotion of the environmental and social characteristics that the Fund is promoting. By applying the ESG Pre-screening and Due Diligence Tool, XGEN performs a “*positive screening*” of the Target, highlighting best practices already conducted by the Company and potential opportunities related to the investment.

If critical issues emerge through the application of the ESG Pre-screening and Due Diligence Tool, the Investment Team may assess the need to perform an in-depth ESG Due Diligence through the support of external expert ESG consultants. If, as a result of the in-depth ESG Due Diligence, critical issues are found to be significant, the Fund reserves the right not to pursue the investment.

ESG Findings emerging from the Pre-investment phase are then included in a short memo within the Investment Memorandum and will be the basis on which a specific ESG Action Plan will be built for each Portfolio company, during the ownership phase.

**Ownership  
Phase**

Once the sustainability risks and opportunities are identified during the Pre-investment phase, XGEN's objective is to act properly during the ownership phase in order to reduce risks and maximize opportunities, shaping a structured management of ESG issues within Portfolio companies. The first step consists in drafting a tailor made ESG Action Plan identifying the concrete actions to be put in place to enable the promotion of environmental and social characteristics within the investee company as well as the sustainability indicators to measure these characteristics. In particular, the ESG Action Plan has the, with the objective of assessing sustainability risks emerged as material from the ESG Due Diligence, improving investee's management of ESG topics and establishing good governance practices through the definition of actions, targets, KPIs and timeframes that will guide the company's activities.

Moreover, during the ownership phase, ESG performance of the investees is monitored using the proprietary ESG Data Collection and Monitoring Tool. The Tool requires portfolio companies to report a set of selected ESG KPIs, which include the so-called Principal Adverse Impact indicators (PAIs) defined by the SFDR Reporting Technical Standards. In addition, a company's performance in promoting the environmental and social characteristics promoted by the Fund is monitored. At the same time, progress versus the ESG Action Plan defined for the company is tracked, in order to monitor whether the targets set have been reached.

ESG Assessment activities carried out on each Portfolio company are monitored by the ESG Responsible, who is in charge of maintaining relations with the ESG Key Person of each Portfolio Company, supporting them in the monitoring phase. The ESG Responsible is in charge of reporting periodically to the ESG Manager on the performance of the portfolio companies, who then periodically reports to the Board of Directors.

Furthermore, during the Ownership phase, each Portfolio company is provided with the Reporting Form for Relevant ESG incidents (see Annex XX for a template), through which the investee can promptly notify the ESG Responsible, and consequently inform the ESG Manager and the Board of Directors, of the incident, if occurring, in order to maintain the highest level of transparency.

**Exit Phase**

During the exit phase, XGEN is committed to highlighting the ESG impact on the Portfolio company, comparing the ex-ante situation with the ex-post one, thus evaluating the improvement of the Portfolio Company's ESG profile, the percentage of

ESG targets met and of the residual ESG risks. These analyses are an integral part of ad hoc reports prepared pre-divestment.

## 8. Stewardships initiatives

Stewardship activities carried out by XGEN primarily consist of direct engagement with all Fund investees, constantly engaging and providing support to Portfolio Companies in order to ensure correct integration of ESG criteria or routinely assessing the status of the ESG Action Plan. Our investment team communicates with companies to maintain strong, constructive relationships. These ongoing interactions provide additional context and information that help mitigate risk and maximize long-term value for the Fund. To encourage best corporate governance practices, especially in those portfolio companies where XGEN is the lead investor, XGEN leverages its influence in the Board of Directors to engage on topics such as executive and equity compensation plans, director independence, shareholder rights proposals, talent retention, diversity and inclusion culture. In addition, XGEN remains focused on providing educational ESG resources and insights to its investment teams and portfolio companies management to ensure alignment in ESG topics across the whole organization.

In order to enhance the impact of its responsible investment activities, XGEN Venture undertakes to report to its investors, through dedicated sections of its periodic reporting, on the progress of ESG criteria integration within the Asset Manager and its investees, reporting any recorded ESG incidents and any initiatives implemented. In addition, during Investor Meetings, the Asset Manager aims to keep investors updated on the overall progress of the investees in the ESG criteria integration process and in the progress recorded in the implementation of ESG Action Plans.

In order to operate with greater awareness, XGEN is committed to providing training sessions to all individuals involved in the Investment Process, both at Asset Manager level and at Fund level. For this reason, XGEN is in the process of establishing a Voluntary ESG Training Program, specifically targeted to the ESG Manager role, the ESG Responsible role and the Investment Team. Such ESG Trainings are assessed periodically, in order to ensure they are up-to-date with any changes in the Sustainable Finance Framework.

Furthermore, XGEN has made a commitment to publish an annual ESG Report, reporting the level of achievement of the commitments made in the Responsible Investment Policy and the ESG Strategy defined by the AIFM. Also, within the ESG Annual Report, XGEN will disclose recorded ESG performance of Portfolio companies during the year.

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As mentioned in Article 3 “*Main references and principles*”, the AIFM is committed to becoming a signatory of the UN PRI during 2023, and therefore will soon complete and submit the PRI questionnaire in order to communicate progress on the adoption of the Principles for Responsible Investment.

Finally, as an investor in early-stage life science companies, XGEN Venture is intrinsically committed to fostering translation of innovative research from academic and research institutes to the market and, hence, over time will engage in numerous partnerships with such entities. The AIFM will update on a regular basis its investors on the establishment of such partnerships.