DISCLOSURES EX ART. 3, 4, 10 SFDR

1. Introduction

Regulation (EU) 2019/2088 on *Sustainability Disclosures in the Financial Services Sector* (hereinafter the "SFDR Regulation" or "SFDR"), which came into force last March 10, 2021, requires financial market participants, including asset management companies, to meet specific transparency obligations on sustainability risks related to management and investment activities. The SFDR has been supplemented by Regulation (EU) 2019/1288, which contains regulatory technical standards to specify, among other things, the content and presentation of information regarding the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites[1]. The transparency obligations to which market participants are subject also vary depending on the type of financial product, and among them, the SFDR Regulation pays special attention to those financial products that promote, among other, environmental or social characteristics or a combination of such characteristics (Article 8 SFDR) or have sustainable investment objectives (Article 9 SFDR), with a different impact on the investment process.

In particular, in accordance with the provisions of Article 2 point 17 of the SFDR, 'sustainable investment' *means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance*.

2. Transparency in sustainability risk policies (according Art. 3 SFDR)

In order to acquit the transparency requirements of the aforementioned SFDR Regulation, market participants must first supplement their decision-making processes with policies designed to continuously assess and measure the sustainability risks associated with investments.

In accordance with the provisions of Article 2 point 22 of the SFDR Regulations, "'sustainability risk' means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment"

Indaco Venture Partners SGR (the "SGR") understands that managing of risks and opportunities related to Environmental, Social, and Governance (ESG) matters and integrating related aspects into the investment and risk management process enables it to foster and enhance value creation in the medium to long term.

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[1] The Commission Delegated Regulation (EU) 2022/1288 of April 6, 2022, 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 information related to the "do no significant harm" principle, which specify the content methodologies and presentation of information related to sustainability indicators and adverse sustainability effects, and the content and presentation of information related to the promotion of environmental or social characteristics and sustainable investment objectives in pre-contractual documents, on websites and in periodic reports*. These Regulations enter into force since January 1, 2023.

The SGR's goal is to adopt a focused approach to social and environmental responsibility, cascading value for all stakeholders involved: investors, portfolio companies within the managed funds, as well as the communities involved.

In light of the above regulations, the SGR has adopted:

- a differentiated Investment Decision Making Process according to the type of AIFs managed by the SGR and, in particular, it has been supplemented to illustrate the specific activities envisaged with reference to the AIFs under Article 8 SFDR (hereinafter also referred to as "ESG Product") currently managed by the SGR;
- a Risk Management Policy (the "Risk Management Policy") integrated to consider, among other things, sustainability risk (and to the extent applicable environmental and climate risks) at the individual asset level as well as at the AIF level;
- an ESG Policy in which are, among other things, defined (i) the roles and responsibilities of the Board of Directors, the ESG Responsible and the ESG Officer in charge; (ii) the essential aspects related to the investment decision-making process and the related monitoring of the investments of the Article 8 SFDR AIFs established by the SGR and the related engagement activities with target companies; and (iii) training initiatives on ESG matters.

ESG product

SGR manages two SFDR Article 8 AIFs named, respectively, Indaco Bio fund and Indaco Bio Parallel fund (hereafter referred to as "SFDR Article 8 AIF" or "ESG Product").

Article 8 SFDR AIFs promote social features since they are funds whose investments are focused in the research and biotechnology sector with special attention to the development of new drugs or therapies to be submitted to the authorization processes of the competent authorities in the sector. It is understood that attention is also paid to the environmental characteristics and good governance practices of the target companies involved in research and development activities.
In particular, the SGR is inspired promoting the social characteristics of investments in target companies by some of the Sustainable Development Goals (SDGs) defined by the United Nations in line with the financial market's increasing attention to the sustainability profiles of investments and sustainability risk management. At this early stage, the SGR does not have an index designated as a benchmark for the social characteristics promoted [2].
The SGR operates in compliance with the need to ensure proper treatment and management of, among other things, the sustainability risks associated with the Article 8 SFDR AIFs it manages.
It therefore adopts internal policies and procedures aimed at the proper identification, management and mitigation of sustainability risks, excluding (as detailed in the funds' Management Rules), on the one hand, the possibility of investing in sectors typically characterized by higher sustainability risks (according to international market practice) and, on the other hand, integrating the assessment and management of these risks into its investment and risk management process.
Considering the investment object of the ESG Products managed by the SGR, the main sustainability risks that the SGR has identified mainly concern the risks of:

- Failure of target companies to respect human rights in relation to testing and research activities and clinical trials;

[2] This circumstance essentially stems from the fact that the investment object of the Article 8 SFDR AIFs is focused toward (i) innovative start-ups and (ii) innovative small and medium-sized enterprises operating in the field of research and development of new drugs and biotechnology, for which appropriate benchmark indices are not yet available in the market. However, the SGR made use of and took SASB (Sustainability Accounting Standard) 2018 - Health Care Sector document "Biotechnology & Pharmaceuticals" as a reference to define the questions under the due diligence ESG (with particular regard to the section on due diligence on the "S" factor) taking into account that the Article 8 SFDR AIFs intend to promote social characteristics. In addition, the following documents and Guidelines, among others, were used in preparing the due diligence ESG questionnaires:
- "Model Questionnaire for Investees" contained within the "AIFI Sustainability Engagement and Transparency Report on ESG Issues," dated March 2022;
- "How to Invest Responsibly A Guide to ESG due diligence for Private Equity GPs and their Portfolio Companies" published by Invest Europe.

- Failure of target enterprises to respect the workforce, gender equality, enhancement and retention of professional talent, and safeguarding excellence;
- Failure of the management of investee companies to comply with good governance practices.

Regarding the investment strategy, when evaluating an investment opportunity, the SGR conducts due diligence on the ESG matters of potential target companies (engaging specialized consultants where necessary) aimed at assessing whether and to what extent potential target companies can be aligned with the social characteristics that the AIFs promote, also highlighting potential improvements that can be made from an ESG perspective by such companies thanks to the SGR's engagement activities with the target companies. The SGR takes into account the results of ESG due diligence in the context of investment transactions, maintaining full discretion in deciding to carry out investment transactions within the limits set by the Management Rules of the AIFs it manages.

3. Transparency of negative sustainability at the SGR level (Art. 4 SFDR).

The SGR agrees with the general principle that investment choices made on the Article 8 SFRD funds may have impacts and produce negative effects on sustainability factors E, S, G. At present, due to the size, nature of assets and overall type of financial products under management, the stage in which they are as well as the areas in which they invest, the SGR does not yet intend to report negative effects on sustainability. The SGR will re-evaluate this position from the second half of 2023 in view of regulatory developments and following clarification of relevant interpretive issues.
While it does not intend to report on the negative sustainability effects right away, also in view of further assessments in this regard as represented above, the SGR has, since the inception of the Article 8 SFDR funds set up a thorough investment selection process that involves screening, ESG due diligence, and then monitoring of the target companies in which are collected among other things, the necessary information, instrumental in the preparation of the Statement on the Main Negative Impacts of Investment Decisions on Sustainability Factors according to the template in Annex I of Delegated Regulation (EU) 2022/1288 supplementing Regulation (EU) 2019/2088 of the European Parliament on Sustainability Reporting in the Financial Services Sector. The SGR therefore intends to carry out an accurate identification and prioritization of the main negative effects on the basis of still evolving market practices and the concrete and full availability of information on individual indicators, also taking into account the peculiarities of the target companies. Among others, it is given importance, at every useful opportunity of meeting and/or contact with target companies in which AIFs are invested, to adopt an open dialogue on the responsible approach and how ESG factors affect their business. Engagement with portfolio companies is therefore also carried out in order to mitigate, where necessary, any negative sustainability effects related in the investment choices of the Article 8 SFDR AIFs managed.

4. Transparency of promotion of environmental or social characteristics of sustainable investments on websites (SFDR Art. 10)

Article 8 SFDR AIFs promote predominantly social characteristics, with attention also given to environmental characteristics and good governance practices.
In promoting the social characteristics of investments in the target companies of Article 8 SFDR AIFs, the SGR is inspired by some of the Sustainable Development Goals (SDGs) defined by the United Nations (UN), including:
- Goal No. 3 Good health and well-being;
- Goal No. 8 Decent work and economic growth;
- Goal No. 5 Gender equality.

in line with the financial market's increasing focus on the investment's sustainability profile and sustainability risk management.
Specifically, the Article 8 SFDR AIFs support research in life sciences and applied biotechnology in the medical field for the development of new drugs and/or innovative therapies within the scope of those therapeutic areas described in the AIF Rules, promoting and facilitating access by the general public or groups of people or patients to such new drugs and therapies. As explained above, at this early stage, SGR

does not have an index designated as a benchmark for the promoted characteristics, given the type of investments

- *Relevant sustainability indicators used to measure the predominant social and environmental characteristics promoted*

The characteristics promoted by Article 8 SFDR AIFs as part of the investments made in the target companies, are measured through examples by the indicators and metrics listed below [3].

Feature	Description
Social (*good health and well-being*) Goal No. 3 of the United Nations SDGs	Progress of the drug candidate
Social (*good health and well-being*) Goal No. 3 of the United Nations SDGs	Patents obtained/filed for commercialization of the drug candidate
Social (*good health and well-being*) Goal No. 3 of the United Nations SDGs	Use of alternative testing techniques
Social (*good health and well-being*) Goal No. 3 of the United Nations SDGs	Involvement of patient associations

The listed characteristics are incorporated into the investment process, following an ESG integration logic as illustrated in the following points.

The SGR adopts internal policies and procedures aimed at the proper identification, management and mitigation of sustainability risks, excluding (as detailed in the AIF Rules), on the one hand, the possibility of investing in sectors typically characterized by higher sustainability risks (according to international market practice) including, for example:

- criminal or otherwise illegal activities in violation of human rights, including illegal activities related to human cloning;
- distribution or sale of pornographic materials or images;
- production, distribution or sale of tobacco and related products;
- production, distribution or sale of weapons or ammunition;

and, on the other hand, integrating the assessment and management of these risks into its investment process, as summarized below.
Considering the investment object of the Article 8 SFDR AIFs, the main sustainability risks that the SGR has identified mainly concern the risks of:

- failure of the Target Companies to respect human rights in relation to experimentation and research activities and preliminary trials of potential drugs or its components;
- failure of the Target Companies to respect the workforce, gender equality, the enhancement and retention of talent, and the protection of excellence;
- failure of the Target Companies to comply with good governance practices.

When evaluating an investment opportunity, the SGR conducts due diligence on the ESG issues of potential target companies (engaging specialized consultants where necessary) aimed at assessing whether and to what extent the potential target companies can be aligned with the social characteristics that the funds intend to promote, while also highlighting the potential improvements that can be made from an ESG perspective by such companies through the investment of the AIFs. The SGR takes into account the results of the ESG due diligence in the context of investment transactions, maintaining full discretion in deciding to carry out investment transactions within the limits set by the funds' Rules.
In particular, the SGR highlights the main sustainability risks associated with the potential investment, the results of which are reported in the investment report. This verification activity is carried out with reference to

[3] However, the SGR in preparing the indicators made use of the following documents and guidelines, among others:
- "Model questionnaire for investees" contained within the "AIFI Sustainability Engagement and Transparency Report on ESG Issues," March 2022;
- document called “How to Invest Responsibly A Guide to ESG due diligence for Private Equity GPs and their Portfolio Companies” published by Invest Europe;
- of SASB (Sustainability Accounting Standard) accountability standards 2018 - Health Care Sector “Biotechnology & Pharmaceuticals”.

risk areas that take into account, in relation to the target company, the mission and activities of the Target Companies and the type of experimental and research activities carried out. At the end of the due diligence activity, the related due diligence report (which will have a section dedicated to ESG verifications) highlights the main areas of potential sustainability risk, with particular reference to social and environmental characteristics (if any) and the existence or non-existence of good governance practices within the potential target company, and indicates the actions to be considered, as part of the possible investment, to improve the situation of the potential target company on the identified points. After the acquisition of the stake in the target company, sustainability risks are monitored and managed throughout the period of participation, through (by way of example): (i) the development and implementation of an action plan, where defined aimed at advancing the target company's operations in relation to ESG profiles and related defined KPIs; and (ii) periodic verification of the achievement of the objectives agreed with the target company in relation to the action plan developed. As part of the disinvestment activities, the SGR selects the potential counterparty to which it will sell the stake in the target company, taking care, among other things, to give preference, under equal economic conditions, to the sale in favor of entities that can continue the activities carried out by the SGR in order to support and promote the continuity of the pursuit of the social characteristics of the target company, with a logic of mitigating sustainability risks regarding the economic system, taking into account the growing attention to ESG issues.