



PINOVA
CAPITAL

Private Equity for
Mittelstand & Technology

SFDR Disclosures

Signatory of:



March 2023

SFDR Website Disclosures – PINOVA Capital

Entity Level: PINOVA Capital GmbH

Transparency of sustainability risk policies (Art. 3)

According to the Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR), Art. 2 (22), sustainability risks are defined as “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”. PINOVA has developed an Environmental Social Governance (ESG) management approach which is integrated along all the stages of the investment process and ensures the assessment and mitigation of such sustainability risks. In particular, sustainability risks are assessed as part of an ESG Due Diligence which is conducted prior to each potential investment and the results are taken into account for the investment decision. Our approach is documented in detail in our ESG Policy and all investment team members are trained on its application.

Transparency of adverse sustainability impacts at entity level (Art. 4)

PINOVA Capital is committed to considering principal adverse impacts on sustainability factors and will report the PAI indicators in the format required by the Delegate Regulation(EU) 2022/1288 supplementing the SFDR. Data is currently still being collected from portfolio companies and will be aggregated on entity level once a reliable data basis is achieved. In the future the status regarding data availability to report the PAI indicators will be collected as part of the ESG Due Diligence during the pre-investment phase and the actual data will be collected as part of regular ESG reviews during the holding phase.

Transparency of remuneration policies in relation to the integration of sustainability risks (Art. 5)

The assessment of sustainability risks is integrated along the whole investment process and all members of the investment team are trained on the application of PINOVA's ESG management approach. However, sustainability risks are not integrated as part of the remuneration policies.

Product Level: PINOVA Fund 3 GmbH & Co. KG

Transparency of the promotion of environmental or social characteristics (Art. 10)

Summary

The Fund's investment strategy is focused on industrial technology and information technology as core sectors. While it promotes environmental or social characteristics, it does not have as its objective a sustainable investment. Exclusion criteria are applied and an ESG Due Diligence is conducted prior to each investment. ESG-related improvement targets are set and progress towards achieving these is tracked during the monitoring phase. Negative adverse impacts of the Fund's investments are considered and regularly assessed as part of PINOVA's ESG management approach.

No sustainable investment objective

This financial product promotes environmental or social characteristics but does not have as its objective sustainable investment.

Environmental or social characteristics of the financial product

PINOVA has defined three focus areas to promote within all portfolio companies:

- Measuring, reducing and compensating GHG emissions
- Increasing diversity among management & employees
- Implementing best practice governance structures (e.g. code of conduct)

Moreover, PINOVA aims at improving the overall ESG performance of its portfolio companies which is monitored based on a proprietary ESG scoring system. Individual improvement targets are set for each portfolio company and progress towards achieving these targets is monitored.

As part of its investment process, PINOVA identifies relevant sector-specific ESG value drivers before each investment which are discussed together with the investment and integrated in the Value Roadmap for the investment period. The value levers can differ for each investment, examples include:

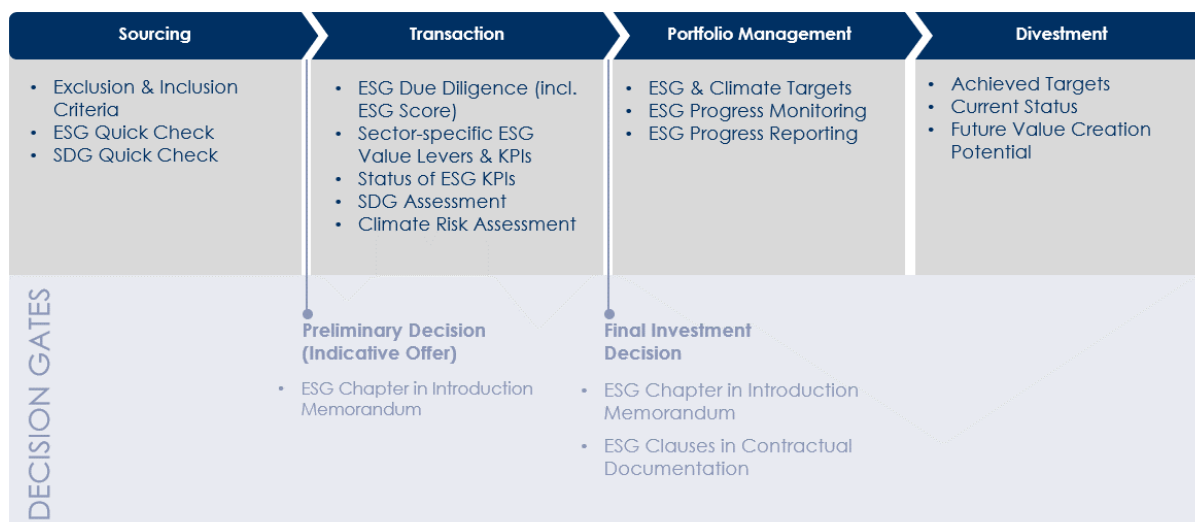
- **Environment:** increasing energy efficiency in industrial production processes through the technology solution; applying green coding to reduce CO2 emissions of information technology
- **Social:** promote diversity, equality & inclusion (DEI) within the workforce to improve employee retention and recruiting; promote DEI through the product/service e.g. by making the technology/software accessible to people with disabilities
- **Governance:** implement a Code of Conduct to raise awareness about ethical behavior and avoid non-compliance with laws; ensure IT security to protect the business from data leaks or cyber attacks

Investment strategy

PINOVA's investment strategy is focused on industrial technology and information technology as core sectors. Within these sectors investments are aimed at B2B solutions with a high growth potential and a clear technological differentiation.

PINOVA applies an extensive list of exclusion criteria to avoid investments in business activities which are considered unethical, harmful to society and/or the environment, or in breach of laws or regulations. For more detailed information on the exclusion criteria, please refer to the ESG Policy published on the PINOVA website.

ESG is an integral part of the investment strategy and is therefore anchored in every stage of the investment process, incl. sourcing, due diligence, investment decision, portfolio management and divestment preparation as illustrated below.



Good governance practices of the investee companies are assessed as part of the due diligence in the transaction phase. In addition, PINOVA is committed to improving good governance practices as part of its ESG progress monitoring processes during the holding phase.

Proportion of investments

PINOVA's ESG management approach is applied to all investments, hence 100% of investments promote environmental or social characteristics. All investments are direct exposures in investee entities.

Monitoring of environmental or social characteristics

During the holding phase the ESG performance of each portfolio company is monitored and reported. Through a yearly ESG review progress is assessed and tracked by updating the ESG score of the portfolio company based on implemented improvement measures. In addition, several sustainability indicators are collected to complement the qualitative assessment of the company's ESG performance. Key ESG aspects and progress made towards achieving defined ESG targets are integrated in regular board and fund reporting.

Methodologies

The ESG Assessment is structured along typical business model components as illustrated below. Thereby material ESG aspects can be aligned with general business value drivers. An initial ESG Quick Check is conducted during early stages of the transaction process which broadly focusses on general components such as the company's value proposition, input factors, implementation processes and its impact. In addition, a detailed ESG Assessment in more advanced stages of the investment process takes into account additional sub-components for each general component (e.g. people and materials as part of input factors). Critical challenges and material risk factors are flagged and value creation potentials are highlighted. Based on the results clear recommendations are provided to define an ESG Roadmap for the holding period including relevant targets and sector-specific ESG Levers. Based on the qualitative assessment an ESG score is calculated and serves as basis for the investment decision as well as for progress monitoring during the holding phase.

Data sources and processing

Different data sources are used to collect relevant ESG information. During due diligence public information about the target company are screened to gain an outside-in view, relevant internal company documents are reviewed and complemented by a management interview to assess how ESG aspects are managed within the company. Data quality is ensured by applying the four-eye-principle and the interview is used to validate the data obtained and close any data gaps. Furthermore, where necessary data is collected and assessed by external experts specialized in ESG topics.

Data is processed and documented in a proprietary Excel-based ESG Template for each portfolio company. No data is estimated.

Limitations to methodologies and data

As PINOVA's investment focus is on medium-sized technology companies (Mittelstand), ESG management and reporting structures are often not yet established within these companies due to their size. Furthermore, it is common for medium-sized companies to have pragmatic approaches to managing ESG topics which are not yet formalized and documented. Therefore, at the time of acquisition and during the due diligence phase there might be a lack of data and limited data quality. However, PINOVA is committed to improve data availability and quality for all its portfolio companies during the holding phase. A specific set of sustainability KPIs (including the PAI indicators) will be introduced at all portfolio companies and collected on a regular basis. Therefore, initial limitations to data availability and quality will not affect the achievement of defined sustainability targets within the holding period.

Due diligence

As information is usually limited during the sourcing phase, only a high-level ESG & SDG assessment is conducted. Based on a checklist an initial status of the main sector-specific ESG risks and value levers regarding the resources used, activities performed and impact generated by the business is evaluated. Furthermore, the company's potential harm and contribution to pre-selected SDGs and related targets is assessed focusing on the product/service of the company only.

The results of the initial ESG & SDG Quick Check are summarized and integrated as part of an ESG Chapter in the Introduction Memorandum and serve as basis (among other criteria) for the preliminary decision to continue with an indicative offer.

During the transaction phase with increased access to the target and relevant information a detailed ESG assessment is conducted to identify any potential risks and opportunities. Moreover, potential climate risks are evaluated and the initial SDG assessment is extended to cover all SDGs and the overall business model of the company.

The results of the ESG assessment conducted in the transaction phase are rated on a numeric scale and summarized in an overall ESG score. The score as well as the main ESG risks, opportunities and recommendations are illustrated in an ESG Dashboard. This dashboard serves (among other criteria) as basis for the final investment decision.

Engagement policies

PINOVA actively engages with its portfolio companies on a regular basis to support a continuous improvement of their ESG performance. Based on the due diligence results a Value Roadmap is created together with each portfolio company, including specific sustainability targets and progress towards achieving these is regularly monitored. In addition, ESG aspects are integrated in board and fund reporting and portfolio companies are required to report any potential sustainability-related controversies or incidents on an ad hoc basis. If such controversies are reported or identified during a regular ESG review relevant measures are discussed with the portfolio company and implementation of these measures is monitored.