



Investment Policy of SMERemediumCap for SFDR Article 8 Funds

1. Purpose

SMERemediumCap has in place an **Environmental and Social (E&S) Policy** for all private equity investment activities. As an Alternative Investment Fund Manager (AIFM), SMERemediumCap qualifies as financial market participant, and is subject to the EU Sustainable Finance Disclosure Regulation (**SFDR**). Under the SFDR, **Article 8 funds** are investment funds that promote environmental or social characteristics, while ensuring that the companies in which they invest follow good governance practices.

2. Scope

The investment policy outlined in this document (hereinafter referred to as “**Article 8 Policy**”) applies to all funds managed by SMERemediumCap that are labelled as SFDR Article 8 funds. These funds do not necessarily have sustainability as their core objective but integrate ESG factors into their investment decisions.

3. ESG Integration

SMERemediumCap Funds labelled as Article 8 funds promote environmental and social characteristics with specific exclusions and measurable impact targets.

ESG integration includes:

- **Sustainability Risk Screening and Assessment:** Incorporate ESG factors into investment due diligence to identify potential sustainability risks.
- **Sector Exclusions:** Avoid investments in sectors that may pose high ESG risks, such as tobacco, controversial weapons, and sectors with substantial environmental impact. Exclusions also include fossil fuels, gambling, tobacco, companies with poor labor practices, etc. The comprehensive list of exclusions is detailed in the E&S Policy of SMERemediumCap.



- **Risk Monitoring:** Assess the sustainability performance of portfolio companies with specific ESG targets at least on an annual basis.
- **Targeted ESG Integration:** Each investment shall meet certain ESG criteria to align with Article 8 fund's environmental and social objectives. Portfolio companies are encouraged to adopt robust ESG frameworks (like the European Sustainability Reporting Standards – ESRS, or the EU Voluntary reporting standard for SMEs – VSMEs, the UN Sustainable Development Goals) and report on metrics like carbon emissions reduction, resource efficiency, diversity and inclusion and social impact initiatives among others.
- **Impact Targets and KPIs:** Article 8 funds set ESG impact targets, requiring portfolio companies to report annually on metrics like reduction of GHG emissions, energy efficiency targets, diversity metrics, and employee welfare.

4. Annual Reporting

Article 8 Funds shall produce an Annual Report that will provide updates to investors and interested stakeholders on progress toward Article 8 fund goals, ensuring accountability and compliance with sustainability objectives.

Fund managers shall provide transparency on how ESG characteristics are promoted, that may include:

- ESG strategy and methodology
- Metrics and performance indicators
- Consideration of Principal Adverse Impacts (PAIs) (see Annex I)

5. Final Provisions

This Article 8 Policy and its annexes:

- form an integral part of SMERemediumCap E&S Policy,
- are reviewed annually by the Board of Directors,
- are promptly communicated to all investors, portfolio companies, staff and operational employees and key business partners of SMERemediumCap.





Annex I

Principal Adverse Impact (PAI) indicators under the Sustainable Finance Disclosure Regulation (SFDR)

PAI indicators measure how investment decisions negatively impact environmental, social, and governance (ESG) factors. The SFDR Regulatory Technical Standards (RTS)¹ define a set of mandatory and optional indicators that SMERemediumCap may opt to disclose.

SMERemediumCap shall report on selected impacts from the following **environmental** and **social indicators**.

Environmental Indicators

- **Climate Change**
 1. **GHG Emissions** (Scope 1, 2, 3, and Total) – Measured in tons of CO₂ equivalent (tCO₂e).
 2. **Carbon Footprint** – Total emissions divided by total assets under management (AUM).
 3. **GHG Intensity of Investee Companies** – GHG emissions per million EUR of revenue.
 4. **Exposure to Fossil Fuels** – Percentage of investments in companies involved in fossil fuel activities.
 5. **Share of Non-Renewable Energy Consumption and Production** – Ratio of non-renewable to total energy use.
 6. **Energy Consumption Intensity** – Energy use per revenue of investee companies.
- **Biodiversity**
 7. **Activities Negatively Impacting Biodiversity** – Percentage of investments in companies affecting biodiversity-sensitive areas.
- **Water**
 8. **Water Usage and Recycling** – Share of investments in companies with high water consumption intensity.
- **Waste**
 9. **Hazardous Waste and Radioactive Waste** – Share of waste produced by investee companies.

¹ https://www.esma.europa.eu/sites/default/files/2023-12/JC_2023_55_-_Final_Report_SFDR_Delegated_Regulation_amending_RTS.pdf

Social and Governance Indicators

10. **Violations of UN Global Compact or OECD Guidelines** – Percentage of investee companies breaching international norms.
11. **Lack of Processes to Monitor Compliance with UNGC/OECD Guidelines** – Percentage of investments in companies without adequate due diligence.
12. **Management and supervisory bodies gender diversity**. The average ratio of female to male management and supervisory board members in investee companies, expressed as a percentage of all board members.

2. Additional (Voluntary) PAI Indicators

In addition to mandatory indicators, SMERemediumCap shall report on **at least one additional environmental** and **one social** indicator from a broader list, including:

- **Environmental:** Deforestation risk, emissions to water, land degradation.
- **Social:** Gender pay gap, excessive CEO pay ratio, workplace safety violations.

How are PAI Indicators Measured?

1. Data Collection

SMERemediumCap gathers data from:

- Corporate Sustainability Reports
- Third-party ESG data providers
- Regulatory filings

2. Calculation Methodologies

- **GHG Emissions:** Sum of Scope 1 (direct), Scope 2 (indirect from purchased energy), and Scope 3 (value chain) emissions.
- **Carbon Footprint** = Total GHG emissions / Total AUM.
- **Energy Consumption Intensity** = Energy used (MWh) / Company revenue (€).
- **Water Usage** = Total water withdrawals per €1M invested.
- **Biodiversity Impact** = Percentage of revenues from activities affecting biodiversity-sensitive areas.

3. Disclosure Format

- **Pre-contractual documents** – High-level ESG approach.
- **Website disclosures** – Detailed methodologies and PAI alignment.
- **Periodic reports** – Annual tracking of PAI progress.

Annex II

Acronyms & Abbreviations

AIFM	Alternative Investment Fund Manager
AUM	Assets Under Management
CEO	Chief Executive Officer
CO₂	Carbon Dioxide
DNSH	Do No Significant Harm
ESG	Environmental, Social, Governance
ESRS	European Sustainability Reporting Standards
EU	European Union
EUR	Euro
GHG	Greenhouse Gas Emissions
KPIs	Key Performance Indicators
OECD	Organization for Economic Cooperation and Development
PAIs	Principal Adverse Impact(s)
RTS	Regulatory Technical Standards
SFDR	Sustainable Finance Disclosure Regulation
SMEs	Small and Medium-sized Enterprises
t	tons
UNGC	United Nations Global Compact
VSME	Voluntary (Reporting Standard for) SME(s)