

Sustainability-related information

This operation benefits from support from the European Union under the InvestEU Fund



Summary

ALTERALIA III S.C.A. SICAV-RAIF (from now on, “Alteralia III” or “the Fund”) is managed by Alantra Multi Asset SGIC, S.A.U (from now on, “AIFM” or “the Company”).

The Fund promotes both, environmental and/or social (E&S) characteristics by defining specific Key Performance Indicators (KPIs) that are monitored during the lifetime of the investment and are linked to each investment’s margin ratchet, as expressed in the loan documentation.

The KPIs defined relate to the most financially-material environmental, social and governance (ESG) aspects of each investment to ensure that these KPIs are impactful and measurable. On this end, prior to each investment the team carries out an analysis to identify the most material ESG aspects for each investment. The due diligence process includes an internal ESG questionnaire; an ad hoc assessment on each investment based on their financial activity and sector; and an external due diligence, if applicable.

In addition, prior to any investment, the Fund carries out a negative screening process that ensures that the Fund avoids investing in companies operating in controversial sectors or in activities which are not considered to be aligned with the Fund’s investment philosophy. The complete list of excluded economic sectors can be found on the pre-contractual disclosures (Annex I of the Offering Memorandum).

Once invested, the team will also accompany the portfolio companies on their management of ESG matters by carrying out periodic assessments on the ESG KPIs defined and maintaining a continuous dialogue with them. In this way, the Fund seeks to achieve long-term economic profitability by reducing risks and creating opportunities linked to a more robust and responsible management model.

Last of all, it is important to recall that the activities of the Company, as part of Alantra Group’s Asset Management business (Alantra AM), are ruled by Alantra Group and Alantra AM corporate policies. Therefore, the Company counts with strong legal support and its activities are based on a robust ESG framework which is aligned with the most recognised standards in the sector, as reflected in Alantra Group Sustainability policy and Alantra AM Responsible Investment policy.

No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment. Therefore, the Fund is not subject to the additional disclosure requirements for financial products under Article 9 of the SFDR Regulation.

Environmental or social characteristics of the financial product

The Fund promotes environmental and social (E&S) characteristics through the integration and consideration of these factors in the Fund's investment decision process and holding period. In this regard, the Fund aims to allocate at least 51% of its portfolio in investments that are aligned with the E&S characteristics promoted under the Fund's investment strategy.

The E&S characteristics promoted by the Fund depend on the different portfolio companies as the Company selects the most financially material E&S aspects for each Company based on their activity, country and background. Once these aspects have been identified, the Company defines at least two KPIs to measure the E&S performance of each portfolio company. The ESG KPIs are then linked with a margin ratchet, implying that the interest rate will either increase or decrease depending on the evolution of such KPIs. A catalogue of the potential ESG KPIs can be found on the pre-contractual disclosures (Annex I of the Offering Memorandum).

Some of the most relevant E&S matters to which the Fund will contribute are:

- Social
 - o Health and Safety
 - o Diversity and Employee Engagement
 - o Labour Practice and Social wellbeing
 - o Supply Chain Management (related to social aspects)
 - o Data Security and Privacy
 - o Ethical Marketing & Professional Integrity
- Environmental
 - o Climate Change (incl. Greenhouse Gas emissions and Energy Consumption)
 - o Water Management
 - o Waste Management
 - o Product Design, Packaging and Lifecycle Management
 - o Ecological Impact
 - o Supply Chain Management (related to environmental aspects)

As a result, the Fund will be aligned mainly with the following Sustainable Development Goals (SDG):

- SDG 3 – Good Health and Well-being;
- SDG 5 – Gender Equality;
- SDG 7 – Affordable and Clean Energy;
- SDG 8 – Decent Work and Economic Growth;
- SDG 11 – Sustainable Cities and Communities;
- SDG 12 – Responsible Consumption and Production;
- SDG 13 – Climate Action;
- SDG 17 – Partnership for the Goals.

In addition, the Company, as part of Alantra Group's Asset Management division, is subject to Alantra Asset Management Responsible Investment policy and the Group's corporate policies. This means that the Company acts in accordance with the most recognised ESG practices and standards, including the UN Principles for Responsible Investment and the OECD Guidelines for Multinational Enterprises. During the pre-investment phase and along the engagement period the Fund analyses the alignment of the portfolio companies with the Company's values and policies,

promoting its responsible investment procedures and ensuring that their investee companies act according to good corporate governance standards, follow sound management structures and comply with tax and other relevant regulations. If a potential risk is identified, the team will engage with the investee company to assess the investee company's management team in the process of mitigating or controlling for the identified risk.

Investment strategy

AIFM believes that the most pragmatic and impactful way of promoting E&S characteristics through its investments is by adapting the criteria to be promoted to the nature of each investment. As a result, the Company focuses on monitoring and improving the performance of two or three KPIs per investment, rather than trying to encompass all the different factors that compose the ESG performance of each portfolio company.

Here below the investment strategy of the Fund is described.

Pre-investment:

1. The Company performs negative screening, excluding investments falling under a wide range of categories which might threaten long-term sustainability, or which are not aligned with the investment philosophy of the Fund. This includes energy-intensive and high CO₂-emitting industries, fossil fuel-based energy production, among others. The complete list of excluded economic sectors can be found on the pre-contractual disclosures (Annex I of the Offering Memorandum).
2. The Company has elaborated an ESG specific questionnaire that all prospective Portfolio Companies need to fill out prior to the investment. This questionnaire aims to assess the management and performance of each potential investment on ESG and identify the most financially-material ESG aspects for each investment. This questionnaire can then be complemented with an external ESG Due Diligence, if applicable.

The result of the analysis is included in the Investment Committee memorandum and therefore, it is considered when deciding whether to move forward with the transaction. If the decision is positive, the Investment Committee decides on the financially material ESG-related KPIs that will be included in the loan documentation and the level of the margin ratchet that will be linked to.

Holding period:

1. Once the above-mentioned selected KPIs are included in the investment loan documentation, these are tested at least on an annual basis by either the portfolio company management team or by an independent expert engaged to that end. The assessment of the KPIs will produce a certificate which will determine if the portfolio company has achieved its ESG objectives and consequently, if the margin ratchet will apply for the following interest period.

In addition to monitoring the predefined ESG KPIs, during the holding period the investment team will maintain a constant dialogue with the portfolio companies' management team to provide guidance on how to improve the ESG management and performance of the company, if applicable. Please see also the "Engagement policies" section.

Proportion of investments

The Fund does not commit to make any sustainable investment. Nevertheless, the Fund aims to allocate at least 51% of its portfolio in investments that are aligned with the E&S characteristics promoted under the Fund's investment strategy.

The proportion described above does not consider investments in derivative financial instruments, as these are only used for management purposes.

Monitoring of environmental and/or social characteristics

The Company will monitor the ESG KPIs defined in the due diligence phase for each portfolio company, at least on annual basis. In this way, the Fund will continuously track the degree of progress and performance of each portfolio company against the predefined ESG objectives and will collaborate with the management team of the portfolio companies to develop action plans that help achieve the ESG objectives defined. Likewise, in the divestment phase, the percentage of achievement of the designated KPIs will be evaluated.

In addition to the specific KPIs, the Company will also measure the following indicators to assess the degree to which the E&S characteristics of the Fund are being promoted:

- The % of portfolio companies that are involved in one or more of the excluded economic sectors.
- The % of portfolio companies that have fulfilled out the ESG questionnaire prior to the investment.
- The % of portfolio companies having subscribed to a loan pertaining margin ratchet linked to the sustainability-related performance.
- The % of portfolio companies having received a confirmation of compliance (or not) of the two KPIs set prior investment.

Methodologies

The methodology used to measure the progress of the Fund in the promotion of its E&S characteristics takes as a reference the available information published by the entities in which it invests, as well as the internal monitoring of the four indicators included in bullet points in the previous section Monitoring of environmental and/or social characteristics.

For defining the portfolio companies' E&S KPIs linked to margin ratchets focuses on sustainability-related financial materiality. In this regard, the Company seeks to identify the most relevant aspects for each portfolio company by analysing the ESG performance of each investment in the due diligence process and comparing the findings obtained with the ad hoc assessment elaborated for each investment, based on the standards issued by the Sustainability Accounting Standards Board (SASB). Once these aspects have been identified, the specific indicators are defined. Please refer to the pre-contractual disclosures (Annex I of the Offering Memorandum) for further information on the predefined KPIs.

Data sources and processing

To assess the progress of the Fund in the achievement of the E&S characteristics promoted, the Company will use its own methodology and indicators, as described above.

To track the ESG performance of the portfolio companies against the ESG KPIs defined in the due diligence phase and included in the investment loan documentation, the Company will use and review the available information published and/or facilitated by the entities in which it invests, and the information provided by independent third parties (if applicable).

The collected data and calculated KPIs will not be estimated.

Limitations to methodologies and data

For the analysis of the Fund's compliance with its E&S objectives, the team will measure the progress and performance of the Fund against the indicators described in the section Monitoring of environmental and/or social characteristics. In this context, no limitations have been identified.

When monitoring the performance of the portfolio companies against their correspondent ESG KPIs, the Fund's management team will rely on the reporting and calculations of the portfolio companies. In this regard, the Fund expects their portfolio companies to collect the data and calculate the defined ESG KPIs in a robust and periodic manner. In this regard, during the due diligence process, the Company will always seek to identify ESG KPIs which are material for each portfolio company and guide them on the definition of the KPI and its calculation process to ensure that these are monitored accurately over time. The Fund will ask for a third-party opinion to ensure the correct compilation and processing of the data, if applicable.

Due diligence

The due diligence process is exercised in the pre-investment phase and counts with an ESG analysis that aims to identify the financially-material ESG aspects for each potential investment and therefore, the most significant contribution of each investment to E&S matters.

The process can be carried out internally and/or externally. To do so, in any new transaction, the investment team requests each potential portfolio company to fill out an internally developed ESG questionnaire and an ad hoc assessment:

- The questionnaire covers the most relevant environmental, social and governance aspects for any company and therefore, assesses the overall ESG status of each potential portfolio company. The questionnaire analyses each investment from both, the management and performance perspectives.
- The ad hoc assessment identifies the most financially material ESG issues for each potential portfolio company based on the standards issued by the Sustainability Accounting Standards Board (SASB).

If any further analysis is required, the investment team will complement the assessment with an external due diligence.

The final outcome is then included in the Investment Committee memorandum and is taken into consideration when deciding whether to move forward with the transaction. If positive, the Investment Committee will decide on the financially material ESG KPIs that will be included in the loan documentation (at least two) and the level of the margin ratchet that will be linked to the KPIs.

This process ensures that: (1) each portfolio company contributes to their most material E&S issues, based on their activity, location, etc; (2) and that the ESG KPIs are measurable and truly representative of the contributions of each portfolio company.

Engagement policies

The Company encourages dialogue with the portfolio companies' management team to successfully achieve the ESG objectives of each portfolio company and promote the Fund's E&S characteristics.

In this regard, AIFM counts with a Shareholder Engagement Policy that sets down the general principles and criteria governing the manner in which the Company exercises its involvement in the portfolio companies. Regarding the ESG management of the Fund's portfolio companies, the Company evaluates the portfolio companies at least on an annual basis and maintains a continuous dialogue with their management teams seeking to improve the company's financial and non-financial performance through a better management of these factors, particularly in the long-term.

Designated reference benchmark (not applicable)

No specific benchmark has been established for the management of this Fund. As mentioned in the Monitoring of environmental and/or social characteristics section, Alantra Private Debt employs a variety of ways to measure the attainment of its promoted E&S characteristics as described in the sections above.