



2022 ESG & Sustainability Report



Starting with 2022, Arcadia SGR intends to issue its first Environmental, Social and Governance (ESG) Report, intended to detail the Company's approach to ESG factors and how these are considered both at GP and Portfolio level.

Since inception and, in particular, since the management of the second fund, Arcadia has built a long-established focus on sustainability. The company privileges investments showing a strong orientation towards **environmental protection, workforce development, business ethics**, and presenting clear opportunities for growth. With its hands on approach, Arcadia supports its

Portfolio Companies throughout the investment period in order to reach profitability goals also considering sustainability related risks and opportunities. To consolidate its commitments to ESG in the financial sector, in April 2021 Arcadia undersigned the six United Nations Principles for Responsible Investment (UN PRI).

With this ESG report, Arcadia aims at providing a description of its purpose and commitments and the governance system, illustrating the tasks related to ESG management.

Furthermore, the company has highlighted all the sustainability macro trends behind all its PCs and underlying key ESG KPIs data.

Arcadia is reinforcing its ESG framework starting from the definition of a **three-year roadmap**, including targets and concrete actions to be taken to continue its path towards ESG integration.



The roadmap is being developed in line with PRIs, EU Regulation 2088/2019 (or 'SFDR') requests, Banca d'Italia Supervisory expectations on the integration of environmental and climate related risks within the investment strategy, and best practices observed among peers. In addition to that, a **new fund** placed under Art. 8 of the SFDR and thus **aimed at achieving a set of Environmental and Social Sustainable Goals** has been launched in September 2022.

“ Our focus is on enhancing the ESG process by striving to perform ESG due diligence for all potential investments and by strengthening the engagement with Portfolio Companies through the definition of ESG action plans and an ESG performance monitoring process during the ownership period. ”

Introduction



Arcadia SGR is an independent Private Equity Firm fully controlled by its partners, investing in small and medium-sized Italian companies and supporting them in their growth. Arcadia currently manages three Private Equity Funds.



Investment Team
& Operating Partners

7
Investment professionals
–
100+ years
of cumulative experience
in the Private Equity market
–
8
Senior Operating Partners



Private Equity
Funds

Arcadia Small Cap
1 Portfolio company
+ 3 Exits
–
Arcadia Small Cap II
6 Portfolio companies
+ 1 exit
–
Arcadia Sustainable Capital III
Launched in September 2022



Investment targets'
characteristics

Territory
Companies mainly located in Northern Italy
–
ESG Factors
Companies which leverage on sustainability
as key competitive advantage
–
Perspective
Sound financials and
clear growth opportunities
–
Technology
Sectors not driven by
disruptive innovation



ESG Governance

Arcadia has established an ESG Governance system appointing an ESG Manager who coordinates all the processes related to the ESG area, supported by the Investment Team and an ESG Advisor.



ESG in the Investment Process

Arcadia is developing two proprietary tools, the ESG Pre-screening tool and the ESG Data Collection and Monitoring tool, which will be used as a guide throughout the investment process to ensure a long-term sustainable growth.



Promotion of Environmental and Social characteristics

Arcadia has launched a new fund, Arcadia Sustainable Capital III, placed in Art.8 of the EU Sustainable Finance Disclosure Regulation, promoting specific environmental and social characteristics.



PRI Signature

In 2021 Arcadia become a signatory of UN PRI (United Nation Principles for Responsible Investment).

Signatory of:



ESG Integration prior SFDR Regulation

Arcadia has enhanced ESG factors through voluntary ESG performance assessments and the implementation of ESG initiatives in all portfolio companies of its two funds, Arcadia Small Cap and Arcadia Small Cap II. In 2020, Arcadia started its collaboration with Vigeo Eiris to assign an ESG rating to Portfolio Companies.



ESG Baseline

Arcadia carefully selects the Portfolio Companies also based on ESG distinguishing factors, with the support of its proprietary tool.

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1. Arcadia ESG Journey

BOARD OF DIRECTORS

The Board of Directors (BoD) has the ultimate responsibility to oversee the implementation of the activities connected to the ESG sphere.

ESG MANAGER

The ESG Manager coordinates all the processes related to ESG at GP and Fund level. The ESG manager reports to the BoD every six months.

INVESTMENT TEAM

The Investment Team ensures that:

- the ESG Due Diligence is performed on all potential investments;
- the BoD of the portfolio companies appoints an ESG Manager, who is responsible for implementing planned ESG activities, measuring ESG KPIs and assessing training needs.



Simona Quaglia
ESG Manager

Our third fund, placed in Art. 8 of SFDR, is a natural consequence of our focus on sustainability, which has been a key pillar in the investment strategy since inception.

The BoD of the Portfolio Companies (or the Top Management) is responsible for implementing ESG activities and ESG reporting and discusses the progress achieved on ESG targets at least once a year with Arcadia's ESG Manager.

Arcadia is progressively implementing ESG best practices both at GP and Portfolio level.



- Prior to the launch of the Regulation 2088/2019 (the "SFDR"), Arcadia starts its collaboration with Vigeo Eiris to assign an ESG rating to PCs;
- Arcadia publishes its first ESG Policy.



2021



Arcadia becomes a signatory of UN PRI (United Nation Principles for Responsible Investment).

2022

- Arcadia starts a collaboration with ERM (external ESG Advisor) to further integrate ESG in the investment process;
- Integration of ESG consideration within the Responsible Investment (RI) Policy and Investment Procedures;
- Development of a three-year roadmap describing the next steps both at GP and Fund level;
- Launch of the new fund Arcadia Sustainable Capital, placed in Art. 8 of the SFDR.





MISSION



Arcadia invests in companies that can create value through a sustainable approach, balancing profit with the preservation of Environment, Social and Human capital and assuring a sustainable long-term growth.



Arcadia supports ESG awareness and knowledge by facilitating training sessions for employees of GP and Portfolio Companies.

Arcadia also addresses climate change by accounting for the GP's Greenhouse Gas emissions (monitoring and reducing them) and by defining a decarbonization plan for its Portfolio Companies as well.



The key principles of Arcadia's ESG approach are included within Arcadia's Responsible Investment Policy. These principles – Environment, Social and Governance – describe Arcadia ESG main priorities throughout the investment process.

ARCADIA SUPPORTS:

1.
The transition to a low-carbon economy
2.
The evaluation of the environmental policies implemented by the PCs
3.
The focus on strengthening the environmental management system of PCs.

ARCADIA VALUES:

1.
The respect of individual freedom
2.
The impact PCs can have on stakeholders, from employees to the supply chain

ARCADIA BELIEVES:

1.
A virtuous model of corporate governance can prove to be a key factor of value creation
2.
The dialogue with the top management of PCs is crucial to work in synergy and to build a management system applicable to the organizational context.

ESG criteria are applied across all stages of the investment process. Arcadia evaluates the size of the company and the sector in which it operates, upon which various ESG risks and opportunities depend. The whole process is implemented by the ESG Manager supported by the ESG Advisor.

Pre-Investment*

- Application of the ESG pre-screening tool;
- Performance of an ESG Due Diligence, with the support of external ESG consultant;
- Definition of the ESG target KPIs to be achieved by the Portfolio Company during the holding period, also depending on the size and materiality of sustainable factors of the Portfolio Company.

*Please note: the pre-investment phase is preceded by a screening against the GP's exclusion list.

Ownership

- Implementation of the ESG Action Plan, which includes actions to achieve ESG target KPIs for the PCs;
- Monitoring of ESG target KPIs with the goal of improving their trend, through the application of the ESG Data Collection and Monitoring Tool;

Exit

- Vendor ESG Due Diligence, which shows the progress achieved against the targets set in the ESG Action Plan through the measurement of ESG KPIs metrics.

Arcadia is partner of primary institutional organizations that promote business acceleration, sustainability topics and professional education.



- [CIP](#) The Competitiveness and Innovation Framework Program supports innovation activities (including eco-innovation) into small and medium-sized companies



- [ELITE](#) connects companies to diverse sources of capital to accelerate their growth towards a smart and sustainable future and enabling potential IPOs



- [Gianluca Spina Association](#) supports initiatives to promote excellence in teaching, innovation, the right to study and projects capable of creating sustainable value



- The [European Fund for Strategic Investments](#) (EFSI) to support the growth of the economies of European Union countries with a focus on the themes of Innovation and Green Economy



- A professor of [Politecnico di Milano School of Management](#) sits in the BoD of Arcadia and facilitates the partnership with Portfolio Companies to develop technological projects

2. Arcadia ESG Investment Rationale



Fund supported by the European Union through the Competitiveness and Innovation Framework Program ("CIP").

This initiative supports innovation activities (including eco-innovation) and promotes the increased use of renewable energies and energy efficiency through the Fund's investments.

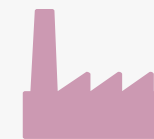
ASC KEY FACTS

KEY STATS



12

of Investors



4

of Investments



€53M

Committed Capital



€8M

Average Equity Ticket



83%

Drawdown



4

Platform Add-on



100%

Distributed



3

of Exits

INVESTORS

€53M

Committed Capital



Funds of funds



Pension funds



Banking Foundations



Family offices



HNWI



Management Team

Cornerstone Investor:
European Investment
Fund

PORTFOLIO COMPANIES



One remaining PC with high potential.
Leader in the Italian optical consumer
healthcare market

REALIZED INVESTMENTS



Production of high-strength fasteners
Exit: Sold to a trade buyer
(Max Mothes GmbH)



Adhesive tapes for industrial applications
Exit: Sold to a trade buyer (Saint-Gobain)



CMO and CDMO of drugs (mainly injectable)
Exit: Sold to a trade buyer (Asian publicly-
listed company)

Fund sponsored by EFSI, which supports the growth of the economies of the European countries with a focus on innovation and Green Economy.

ASC II KEY FACTS

KEY STATS



23

of Investors



7

of Investments



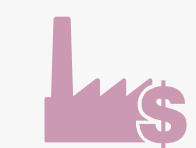
€80M

Committed Capital



€10M

Average Equity Ticket



86%

Drawdown



1

Platform Add-on



39%

Distributed



1

of Exits

INVESTORS

€80M

Committed Capital

- Funds of funds
- Pension funds
- Banks and Banking Foundations
- Family offices
- HNWI
- Management Team

Cornerstone Investor:
European Investment
Fund

PORTFOLIO COMPANIES



Leather processing for the fashion industry



Smoked salmon processing



Cardboard packaging for the pharma industry



Electromechanics devices for the lighting industry



Heat exchangers for the HVAC industry



Shaped pipes and manifolds for the HVAC industry

REALIZED INVESTMENTS










































Extrusion of special polyamide pipes for automotive and industrial
Exit: Sold to a trade buyer (ARaymond)

3. ESG at Portfolio Level





Company	Description	ESG Factors	SDG Target	Key actions implemented
	Leading Italian independent optical network in consumer healthcare	<ul style="list-style-type: none"> Improving the customers'health and addressing visual and hearing conditions 	   	<ul style="list-style-type: none"> > 40% of C-level are women 8x increase in #employees
	Finishing and ennoblement of leather for the luxury and fashion industries	<ul style="list-style-type: none"> Recycling of raw materials and finished products Transition towards vegetable tanned leather 	   	<ul style="list-style-type: none"> Patented process for leather waste recycling 100% renewable energy
	Extrusion specialist of technical tubes in polyamide and polyurethane for automotive and industrial	<ul style="list-style-type: none"> Secolar transition from fossil-based fuels towards electric-powered vehicles GHGs emissions reduction 	   	<ul style="list-style-type: none"> Reduction of pollutant emission Recycled and fully recyclable raw materials
	Cardboard packaging for pharmaceutical and nutraceutical sectors	<ul style="list-style-type: none"> Shifting from plastic to paper and cardboard packaging Contribute to reforestation and fighting against desertification 	   	<ul style="list-style-type: none"> 100% certified raw materials from the FSC 100% renewable energy
	Value added processing of high-quality smoked salmon	<ul style="list-style-type: none"> Promoting healthy lifestyles through the consumption of superfoods Protein transition from meat to fish Blue economy and preservation of marine environment 	   	<ul style="list-style-type: none"> 74% of employees are women Sustainable aquaculture, traceable fishing and BIO certification
	European leader of lighting components for smart cities applications and design fixtures	<ul style="list-style-type: none"> Energy consumption reduction with adoption of LED technologies Resource-efficient systems for urban lighting applications 	   	<ul style="list-style-type: none"> Smart cities products for low environmental impact 100% renewable energy
	Special tubes, piping and systems for the HVACR industry	<ul style="list-style-type: none"> Replacement of traditional fossil-based systems with heating pumps powered by renewable energy Energy efficiency 	   	<ul style="list-style-type: none"> In progress
	Customised high efficiency heat exchangers for the HVACR sector	<ul style="list-style-type: none"> Hydrofluorocarbons (HFCs) replacement with low-emissions natural refrigerants fluids Phase-out of ozone depletion substances and global warming reduction 	   	<ul style="list-style-type: none"> In progress



Date of investment
Feb 2014

–
Fund
Arcadia Small Cap

–
Employees
800

–
Annual Turnover
150 €Mln



Vision Group operates in the Italian market of specialised optical distribution. The company was founded in 1989 as a result of the affiliation process of a number of optical centres in Italy.

KEY ESG INITIATIVES UNDERTAKEN



ENVIRONMENT

Electricity from
renewable sources

–
Long-term planting activity
in collaboration with



SOCIAL

40% of women employed at
managerial level

–
Staff training courses and
Training Academy for the
staff and new employees

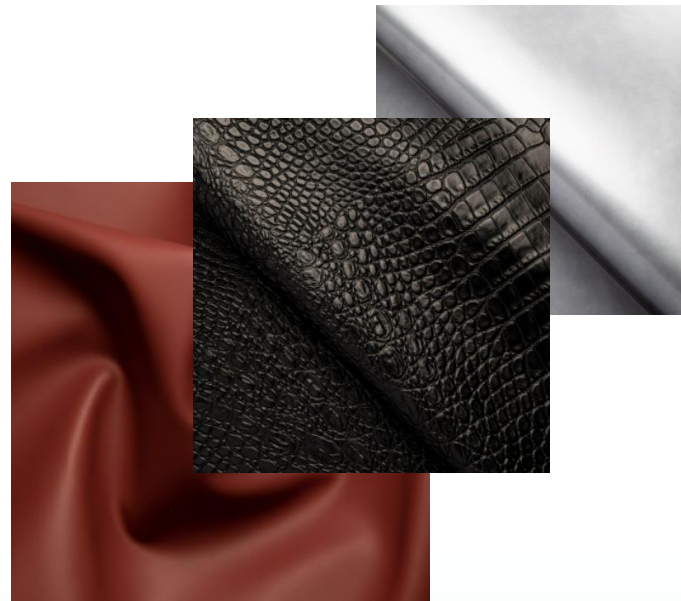


GOVERNANCE

UNI ISO 9001 - 13485 Certification
for quality management system

–
Implementation of a new Salesforce
cloud management system to improve
the link across all business functions

- The annual VisionOptica Award is designed to encourage and develop research and studies related to Optometry;
- Prizes are awarded for Degree Theses of particular scientific relevance;
- Through the Vision + Onlus, Vision Group engaged in the Andasibé project aimed at supporting the ophtalmology department of a small hospital in the north of Madagascar.



Date of investment
Feb 2018
–
Fund
Arcadia Small Cap II
–
Employees
70
–
Annual Turnover
16 €Mln

Chiorino Technology, founded at the beginning of the 1980s, specialises in the ennobling and finishing of special types of leather goods for luxury brands of leather goods and footwear.

KEY ESG INITIATIVES UNDERTAKEN



ENVIRONMENT

Life Cycle Analysis (LCA)

In 2021 Chiorino Technology carried out a product’s LCA to find out the less impacting leather tanning system

–
Project Uroboro

A system for recovering supply chain waste created in partnership with Politecnico di Milano.

The International Patent application was finalized in 2022



SOCIAL

Employees’ Retention

A monetary bonus was allocated to all employees to compensate for the higher costs of utility bills

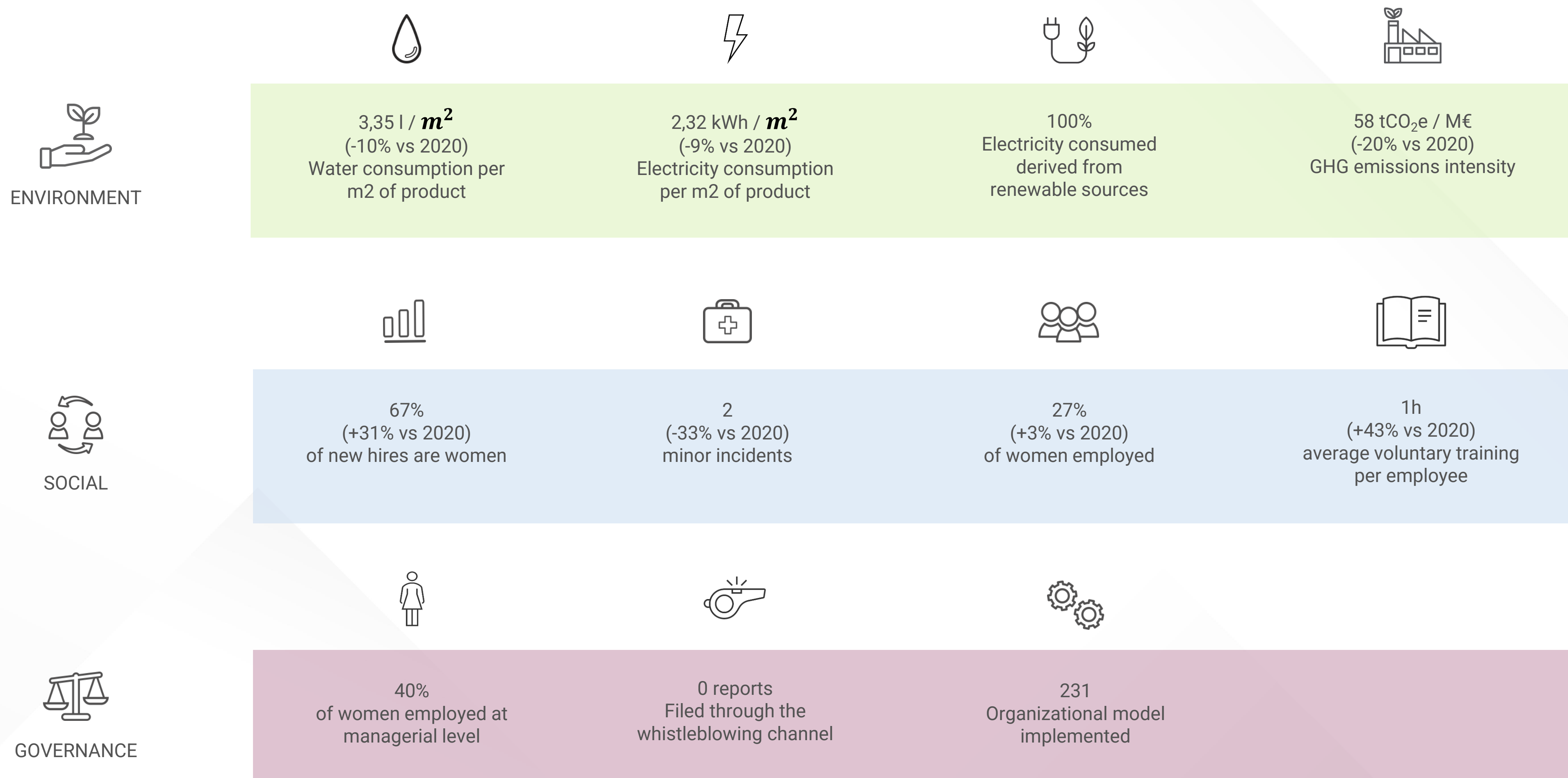
–
Female personnel has been assigned to departments not related to heavy load handling



GOVERNANCE

Supply Chain traceability

Chiorino Technology certified its tanning code of conduct in accordance with the standard UNIC SC 410 in order to ensure the traceability of raw materials across all production phases in the upstream supply chain





Date of investment

Feb 2020

–

Fund

Arcadia Small Cap II

–

Employees

168

–

Annual Turnover

25 €Mln

Grafiche Favillini, founded in Livorno in 1886, is active in the technical paper sector and specialises in the production of secondary cardboard packaging for the pharmaceutical/ nutraceutical sector.

KEY ESG INITIATIVES UNDERTAKEN



ENVIRONMENT

FSC Chain of Custody of Cardboard Certification

Guarantees the traceability of the timbers used for the production of the cardboard

–

Transitioning into a "PLASTIC FREE company"

KEY INITIATIVES

- Water dispenser in office
- Awareness on reusable water bottles
- Elimination of plastic cutlery
- Coffee dispensers in office



SOCIAL

Awareness Rising initiatives

The Company made its contribution to the Italian *RicicloAperto* initiative organized by Comieco, promoting good paper and cardboard recycling practices to raise awareness of recycling among young people














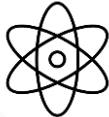



GOVERNANCE

Ethical Packaging Charter

Grafiche Favillini has signed the Ethical Packaging Charter, which includes 10 different commitments product and production chain-related

|

The commitment n.10 is Sustainable Packaging obtained from responsible sources and renewable raw materials, and with the lowest consumption of resources and energy

 ENVIRONMENT	 3UNI EN ISO 14001: 2015 Environmental Management system (Livorno site)	 3.28 Wh/unit (-3.3% vs 2020) Electricity consumption per cardbox unit	 100% Electricity consumed derived from renewable sources (Livorno site)	 1.41 gCO ₂ e/ unit (-3.3% vs 2020) GHG Emission Scope 2 generated per cardbox unit
 SOCIAL	 +14% Workforce growth vs 2020 levels	 0 Incidents	 33% (+24% vs 2020) of women hired	 5h of average voluntary training per employee
 GOVERNANCE	 ERP system (Enterprise Resource Planning) implemented and up to date	 UNI EN ISO 9001: 2015 For Quality management System	 Code of Conduct In place	 Ecovadis Silver Status (Voluntary ESG Rating)



Date of investment
Feb 2021

–
Fund
Arcadia Small Cap II

–
Employees
92

–
Annual Turnover
19 €Mln

Starlaks, based in the outskirts of Novara, operates in the smoked salmon processing since 2012.

KEY ESG INITIATIVES UNDERTAKEN



ENVIRONMENT

Key initiatives

Reduction of paper material in packaging (-10%/year) and efficiency gains per pallet (-14% transport consumption)

–
New thermoforming machines to increase production efficiency and plastic saving



SOCIAL

Involvement Rising initiatives

Introduction of periodical meetings to share current and prospective company dynamics and performance, for greater employee involvement



GOVERNANCE

Achievements

Introduction of the Organizational Model 231 in January 2022.

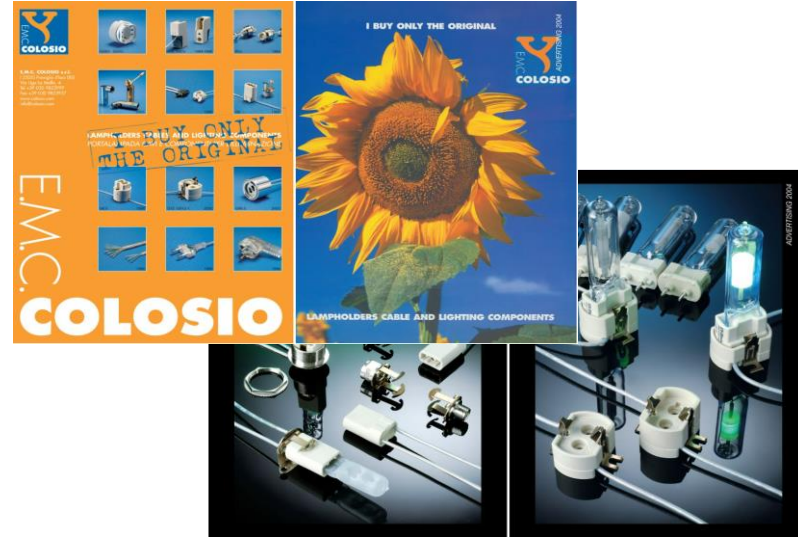


CERTIFICATIONS



BIO

- The fishing activity is carried out following sustainability criteria;
- Sustainable Aquaculture + fish products traceability along the entire value chain;
- Products contain at least 95% BIO ingredients;
- High quality breeding, production, environmental-safe methods are granted.



Date of investment
Nov 2021
–
Fund
Arcadia Small Cap II
–
Employees
40
–
Annual Turnover
23 €Mln

EMC Colosio, headquartered in the outskirts of Brescia, is a European leader in the design and production of components for the lighting industry.

KEY ESG INITIATIVES UNDERTAKEN



ENVIRONMENT

Key initiatives

Development of LED technology devices for lower energy consumption
–
Recycling of plastic production waste
–
100% Renewable energy



SOCIAL

Welfare system

Proposal to implement a welfare system with free Friday afternoons for all employees



GOVERNANCE

Key initiatives

Implementation of a new management system for the automation of customers' orders
–
Implementation of Organisational Model 231



Innovation

Development of «Nema Socket» and «Zagha Socket» systems, key components of street lighting for smart cities.
The Goal is obtaining energy efficient lighting systems through a modular use of the light source depending on the traffic (car and/or pedestrian).



Date of investment
Jul 2022
–
Fund
Arcadia Small Cap II
–
Employees
160
–
Annual Turnover
15 €Mln

CBS EST, based in the outskirts of Udine, is specialized in the production of customized products for the air conditioning, refrigeration and heating industry.

KEY ESG INITIATIVES UNDERTAKEN



ENVIRONMENT

Energy Saving Projects

The Company is currently evaluating the feasibility of solar panels installation and the opportunity of conversion to the Industry 4.0 concept



SOCIAL

Employee Development

Employee training needs are assessed annually in accordance to each job activity's specific needs; an annual training plan is then developed (800 hours of training provided in 2021)

Welfare

In 2021 the Company granted: health insurance for Covid-19, health program and a voucher of 150 Euro/employee



GOVERNANCE

Iso 9001 Certification

CBS EST S.r.l. has certified its quality management system against ISO 9001:2015, enabling the Company to maintain and improve the quality of its products and consistently meet its customers' expectations



Date of investment
 Jul 2022
 –
 Fund
 Arcadia Small Cap II
 –
 Employees
 125
 –
 Annual Turnover
 16 €Mln

KFL EST is active in the engineering, manufacturing and distribution of customized heat exchangers primarily addressed to the refrigeration and conditioning markets. The Company was founded in 1993 and is headquartered in the outskirts of Gorizia.

KEY ESG INITIATIVES UNDERTAKEN



ENVIRONMENT

Recycling

Thanks to product design, disassembly and separation of materials are possible, enabling a 100% recyclability of products

–
Renewable Energy

The Company is evaluating the possibility to install solar panels for a 100% coverage of electricity production supply.



SOCIAL

Employee Development

KFL provides both mandatory and voluntary training to its employees, assessed based on specific job needs and reported in a training plan updated annually

–
Approximately 600 hours of training were provided in 2021



GOVERNANCE

Iso 9001 Certification

The Company obtained the ISO 9001:2015 certification for its quality management system

–
The certification enables KFL to maintain and improve the quality of its products and consistently meet its customers' expectations



Date of investment
Aug 2018
Date of Exit
Oct 2021
–
Fund
Arcadia Small Cap II
–
Employees
91
–
Annual Turnover
32 €Mln

Castello Italia, headquartered in the outskirts of Cremona, operates in the extrusion of polyamide and polyurethane coils and produces tubes for industrial automation and automotive applications.

KEY ESG INITIATIVES UNDERTAKEN



ENVIRONMENT

Environmental Policy

Comprehensive environmental policy in line with the best market practices of the automotive industry
–
The company constantly monitors its progress through a wide range of indicators related to energy and water consumption, as well as emissions and the amount of waste produced.



SOCIAL

Social initiatives

The company cooperates with its main customers to further improve its offer and applies a Code of Conduct to suppliers
–
With regard to the HR area, the company has set up clear monitoring KPIs



GOVERNANCE

100 Italian Excellences

Castello Italia has been named as one of the 100 Italian Excellences of 2021 and recognized on the international market for its ability to combine in-depth knowledge of extrusion techniques with a continuous focus on innovation.
–

231 Organizational Model

An Organizational Model pursuant to Legislative Decree 231/2001 was implemented in 2015. The Company communicates its Code of Ethics to the stakeholder through its website.

4. Arcadia Sustainable Capital III

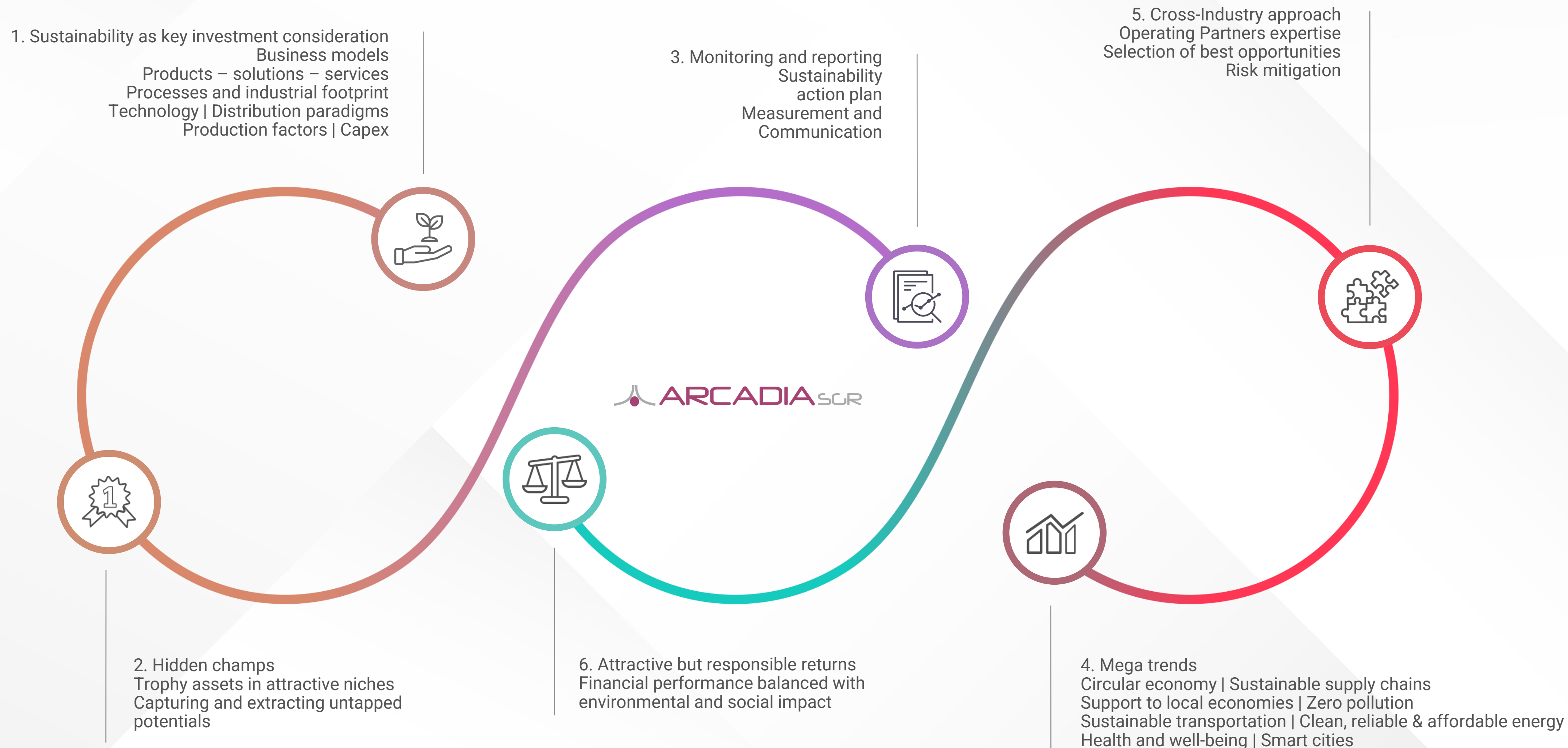




In September 2022 Arcadia has launched its new fund, Arcadia Sustainable Capital III placed in Art.8 of the EU Sustainable Finance Disclosure Regulation (SFDR). The Regulation requires the fund to promote specific environmental and social characteristics based on a materiality criteria for the investee companies.

Characteristics were chosen by considering topics' potential materiality based on the Fund's investment strategy and are inspired by UN Sustainable Development Goals (UN SDGs) and the Italian *Piano Nazionale di Ripresa e Resilienza* («PNRR») Missions 2 (Green Revolution and Ecological Transition) and 5 (Inclusion and Cohesion).

The Regulation of Arcadia Sustainable Capital III specifies that target companies should be characterized by attractive growth opportunities leveraging on strong sustainability mega trends.



The promotion of environmental and social characteristics will be monitored on a periodic basis by the GP through a proprietary data collection tool collecting a set of specific key performance indicators (“KPIs”). Part of the carried interest of the management team is subordinated to the achievement of ESG target KPIs.



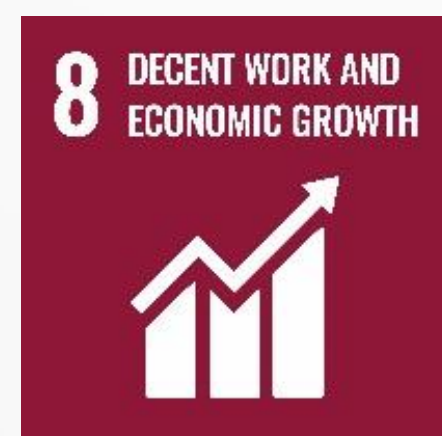
- Promote Inclusion, diversity and equal opportunities
1. % of women employed
 2. % of employees aged between 20 and 30 yrs
 3. % of women on new hiring



- Foster employee attraction and retention through the development of a corporate welfare systems
8. % of employees with access to corporate welfare



- Support the reduction of hazardous waste
13. % of hazardous liquid waste generated
 14. % of hazardous solid waste generated



- Ensure safe and good working conditions for all workers
4. Rate of accidents (#employees)
 5. # near misses
 6. Avg hrs of voluntary training (excl. H&S) per employee



- Address climate change by supporting PCs in measuring, monitoring & reducing GHG emissions
9. Scope 1 GHG emissions
 10. Scope 2 GHG emissions
 11. # of initiatives directed at reducing GHG emissions



- Support waste recycling
15. % of non-recycled liquid waste generated
 16. % of non-recycled solid waste generated



- Support the employment growth
7. % of workforce growth



- Promote the use of renewable sources
12. % use of renewable energy consumption



- Promote the use of recycled or certified raw materials
17. % of recycled and/or certified raw materials, semi-finished products



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