

June 2024

# Statement on principal adverse impacts of investment decisions on sustainability factors

Art. 4 SFDR<sup>1</sup>

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<sup>1</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector („SFDR“).

### Introduction

The following information applies to Palladio (Luxembourg) S.à r.l. as an Alternative Investment Fund Manager (AIFM) and financial market participant within the meaning of Article 2, No. 1 (e) of the SFDR. The following statements do not refer to a specific Alternative Investment Fund (AIF) but to the activities of Palladio (Luxembourg) S.à r.l. in general.

Palladio (Luxembourg) S.à r.l. will publish an annual statement on the principal adverse impacts on sustainability factors (PAIs), disclosing the adverse effects of its investment decisions on environmental (E), social (S), and governance (G) factors. The statement will be published in the format specified in Table 1 of Annex I of the Regulatory Technical Standards to the SFDR. It will consist of the following sections:

- (a) „Summary“.
- (b) „Description of the principal adverse impacts of investment decisions on sustainability factors“.
- (c) „Description of policies to identify and prioritise principal adverse impacts of investment decisions on sustainability factors“.
- (d) „Engagement policies“; and
- (e) „References to international standards“.

For both indirect and direct investments, the statement will include information on 18 mandatory indicators (SFDR) and two additional indicators. The disclosed information will consist of a current assessment of the indicator, historical comparison data, and any measures taken.

Financial market participant *Palladio (Luxembourg) S.à r.l.* (LEI 9845006FFD0AAFB77828)

**Summary**

*Palladio (Luxembourg) S.à r.l.* (LEI 9845006FFD0AAFB77828) considers principal adverse impacts of its investment decisions on sustainability factors within the meaning of Article 4 (1) (a) of the SFDR<sup>2</sup>.

This statement is the consolidated statement on principal adverse impacts on sustainability factors of *Palladio (Luxembourg) S.à r.l.*. This statement on principal adverse impacts on sustainability factors covers the reference period from January 1 to December 31, 2023.

*Palladio (Luxembourg) S.à r.l.* is an asset management boutique focusing on illiquid investments that places responsible investing and long-term orientation at the core of its strategic positioning to invest responsibly by creating enduring value. The focus is on investing in companies and projects fulfilling basic needs and providing longterm social and economic value. *Palladio (Luxembourg) S.à r.l.* thereby adopt a life cycle perspective. Long-term positive and potential negative outcomes are consistently considered in the daily activities, by considering scenarios which are unlikely in the medium term. This naturally includes integrating Environmental, Social, and Governance (ESG) aspects into all investment and management decisions.

*Palladio (Luxembourg) S.à r.l.* considers the principal adverse impacts on sustainability factors (“sustainability indicator”) that may arise from investments, both in the due diligence process and in the asset management and monitoring process, based on quantitative and qualitative methodologies in line with a risk-based approach. The identification of the principal adverse impacts on sustainability factors is carried out according to regulatory requirements, where the indicators are divided into so-called mandatory indicators, which always lead to principal adverse impacts, and additional indicators. No investments in sovereigns and supranationals and in real estate assets have been made during the reporting period, so no data were collected for these categories.

The identification, assessment, and weighting of the consideration of the principal adverse impacts on sustainability factors are based at least on the mandatory indicators for all companies and, where relevant, for infrastructure projects, as well as at least one additional optional indicator from the areas of environment, social and employment. For the environmental area, the indicator “investments in companies without carbon emissions reduction initiatives” has been selected, and for the social and employment area, the indicator “investments in companies without workplace accident prevention policies” has been chosen.

Processes and procedures are implemented to consider the principal adverse impacts of investment decisions on sustainability factors, depending on the asset class and the access method, such as commitments from target fund managers using a best-effort approach. In addition, a separate consideration at the fund level can be made, which, according to Article 8 of the SFDR (funds with environmental and/or social characteristics) or Article 9 of the SFDR (funds that make only sustainable investments), mandates the consideration of PAIs in the pre-contractual documents and reports on the consideration in the respective annual report of the fund.

The availability and quality of relevant data and information for the systematic assessment of sustainability factors and indicators are still not considered sufficient for all asset classes in which the investment funds managed by *Palladio (Luxembourg) S.à r.l.* invest. It is also expected that resources to provide quantitative information on all sustainability factors and indicators in sufficient scope and frequency do not exist equally at all levels of the structures (mainly affecting fund-of-funds structures), particularly for smaller target fund managers and smaller portfolio companies.

Information on the indicators listed below for the principal adverse impacts will be collected throughout the year from various data sources for the investments. For fund-of-funds, *Palladio* relies on the data provision by the target fund managers at the time of preparing this statement, whereas for direct investments and co-investments, data from the respective portfolio investments can largely be referenced. One of the central and overarching activities during the reporting period was to enhance data availability and quality through collaboration with external service providers and partners, as well as by improving internal processes.

<sup>2</sup> Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector („SFDR”).

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Palladio (Luxembourg) S.à r.l. will regularly reassess the availability and quality of relevant data and information with the aim of expanding the consideration of principal adverse impacts on sustainability factors. The approach of Palladio (Luxembourg) S.à r.l. to considering adverse impacts in the investment decision-making process will also evolve over time, considering regulatory developments and industry best practices.

During the reporting period, there has been a significant improvement in the quality and availability of data. Targeted measures have closed data gaps and significantly improved data integrity. However, there is still potential for optimization to further expand data coverage and quality.

The summary in other languages is provided on request.

Description of the principal adverse impacts on sustainability factors

Indicators applicable to investments in investee companies							
Adverse sustainability indicator	Metric	Impact 2023	Impact 2022	Impact 2021	Explanation	Actions taken, and actions planned, and targets set for the next reference period	
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS							
Greenhouse gas emissions	1. GHG emissions	Scope-1-GHG emissions	399.074	57.577	N/A	The information is provided in tCO <sub>2</sub> e (Tons of CO <sub>2</sub> -equivalent). Data coverage: 41,2 % (2022: 28,2 %).	Indirect investments: For the next reference period, efforts will continue to improve data coverage. To this end, data delivery will be negotiated with the target funds during the subscription process based on the best-effort approach.
		Scope-2-GHG emissions	218.455	8.217	N/A	The information is provided in tCO <sub>2</sub> e (Tons of CO <sub>2</sub> -equivalent). Data coverage: 41,1 % (2022: 28,0 %).	A significant portion of the investments is made in the fields of renewable energy and projects for the sustainable transformation of the energy sector. This will be continued.
		Scope-3-GHG emissions	2.321.215	83.310	N/A	The information is provided in tCO <sub>2</sub> e (Tons of CO <sub>2</sub> -equivalent). Data coverage: 35,4 % (2022: 22,3 %).	Direct investments: The largest portfolio investments provide data as part of the regular monitoring and reporting process.  Efforts will continue to establish a process for smaller portfolio investments, which rely much more on the support and guidance of the asset manager.

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		Total GHG emissions	2.886.700	91.139	N/A	The information is provided in tCO2e (Tons of CO2-equivalent). Data coverage: 35,4 % (2022: 23,5 %).	
	2.	Carbon footprint	67	32	N/A	The information is provided in tCO2e (Tons of CO2-equivalent) per one million euros invested. Data coverage: 32,5 % (2022: 23,5 %).	
	3.	GHG intensity of investee companies	547	673	N/A	The information is provided in tCO2e (Tons of CO2-equivalent) per one million euros of company revenue. Data coverage: 34,7 % (2022: 22,7 %).	
	4.	Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	5 %	2 %	N/A	For this indicator, selection criteria are applied depending on the financial product, using both exclusion and positive lists, within the investment strategy and the  Indirect investments: For the next reporting period, efforts will continue to improve data coverage. To achieve this, data delivery will be negotiated with the target funds during the subscription process based on a best-effort approach.

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						<p>due diligence process.</p> <p>The proportion has increased compared to 2022, as more target funds have provided data than in 2022. The activities affected include, among others, district heating and storage infrastructure.</p> <p>Data coverage: 44,6 % (2022: 31,3 %).</p>	<p>Direct investments: There is no engagement in fossil fuels within direct corporate and infrastructure investments for the reporting period, hence no further actions are required.</p>
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	19 %	14 %	N/A	<p>Data coverage: 34,8 % (2022: 22,7 %).</p> <p>To increase transparency, the share of non-renewable energy consumption is reported separately.</p>	<p>Indirect investments: For the next reporting period, efforts will continue to improve data coverage. To achieve this, data delivery will be negotiated with the target funds during the subscription process based on a best-effort approach.</p> <p>Direct investments: Where possible due to new contracts, portfolio investments will be encouraged to switch to green electricity.</p>

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		Share of non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	3 %	2 %	N/A	Data coverage: 26,0 % (2022: 12,7 %).  To increase transparency, the share of non-renewable energy sources is reported separately.	Indirect investments: For the next reporting period, efforts will continue to improve data coverage. To achieve this, data delivery will be negotiated with the target funds during the subscription process based on a best-effort approach.  Direct investments: Investments in renewable energies are planned for the coming years.
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	Section A Agriculture, Forestry and Fishing: 0,00  Section B Mining and Quarrying: 0,92  Section C Manufacturing: 88,30  Section D Electricity, Gas, Steam and Air Conditioning supply: 6,36  Section E Water supply; Sewerage, Waste Management and Remediation Activities: 0,06	0,07	N/A	The data coverage by sections is as follows:  Section A: 0,3 % Section B: 0,03 % Section C: 0,2 % Section D: 4,7 % Section E: 0,1 % Section F: 0,4 % Section G: 0,1 % Section H: 5,7 % Section L: 0,02 %	Indirect investments: For the next reporting period, efforts will continue to improve data coverage. To achieve this, data delivery will be negotiated with the target funds during the subscription process based on a best-effort approach.  Direct investments: Currently no measures planned.



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			<p>Section F Construction: 0,17</p> <p>Section G Wholesale and retail trade; repair of motor vehicles and motorcycles: 0,00</p> <p>Section H Transportation and Storage: 131,39</p> <p>Section L Real Estate Activities: 0,07</p>				
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	4 %	1 %	N/A	<p>For investments where information on such activities is available, an ESG due diligence is conducted to analyze the extent to which measures, such as those within an environmental management system, are implemented.</p> <p>Data coverage: 42,5 % (2022: 23,5 %).</p>	<p>Indirect investments: For the next reporting period, efforts will continue to improve data coverage.</p> <p>Direct investments: Currently no activities.</p>

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Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	0,05	0,00	N/A	Data coverage: 16,7 % (2022: 12,8 %).	Indirect investments: For the next reporting period, efforts will continue to improve data coverage. To achieve this, data delivery will be negotiated with the target funds during the subscription process based on a best-effort approach.  Direct investments: Currently no high materiality for portfolio investments.
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	4,67	64,21	N/A	Data coverage: 32,9 % (2022: 21,7 %).	Indirect investments: For the next reporting period, efforts will continue to improve data coverage. To achieve this, data delivery will be negotiated with the target funds during the subscription process based on a best-effort approach.  Direct investments: Currently no high materiality for portfolio investments.
<b>INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS</b>							
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0 %	0 %	N/A	Data coverage: 43,9 % (2022: 27,5 %).	Indirect investments: For the next reporting period, efforts will continue to improve data coverage.  Direct investments: No known breaches or lack of processes in this context.

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	<p>11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises</p>	<p>Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/ complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises</p>	<p>15 %</p>	<p>3 %</p>	<p>N/A</p>	<p>As part of the DD process, various analyses are carried out at the level of the target fund as well as the target fund manager or portfolio investment to obtain an assessment of compliance with good corporate governance practices. Depending on the financial product, exclusions are also used for this purpose in conjunction with the agreement of suitable side agreements. Data coverage: 43,8 % (2022: 27,5 %).</p>	<p>Indirect investments: For the next reporting period, efforts will continue to improve data coverage. To achieve this, data delivery will be negotiated with the target funds during the subscription process based on a best-effort approach.  As this also includes pure infrastructure projects and smaller companies, the development of the indicator will continue to be monitored.  Direct investments: The largest portfolio investments provide the data as part of the regular monitoring and reporting process.  The aim is also to establish a process for smaller portfolio investments, which are much more dependent on the support and assistance of the asset manager.</p>
	<p>12. Unadjusted gender pay gap</p>	<p>Average unadjusted gender pay gap of investee companies</p>	<p>7 %</p>	<p>3 %</p>	<p>N/A</p>	<p>In connection with data coverage, it should be noted that investments are also made in pure infrastructure projects without a corporate character. It is assumed that no</p>	<p>Indirect investments: For the next reporting period, efforts will continue to improve data coverage.  Direct investments: The largest portfolio investments have implemented measures such as the inclusion of a diversity officer.</p>

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						data is collected for these investments. Data coverage: 30,0 % (2022: 21,1 %).	
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	7 %	5 %	N/A	In connection with data coverage, it should be noted that investments are also made in pure infrastructure projects with no corporate character. It is assumed that no data is collected for these investments. Data coverage: 41,1 % (2022: 26,1 %).	Indirect investments: For the next reporting period, efforts will continue to improve data coverage.  Direct investments: The largest portfolio investments have implemented measures such as the inclusion of a diversity officer.
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0 %	0 %	N/A	Activity is already part of the exclusion policy. Selection criteria are used for this indicator depending on the financial product, both based on exclusion and positive lists, as part of the investment strategy and in the DD process.	Indirect investments: For the next reporting period, efforts will continue to improve data coverage. To achieve this, data delivery will be negotiated with the target funds during the subscription process based on a best-effort approach.  Direct investments: In the case of direct investments in companies and infrastructure, there was no exposure to controversial weapons in the reporting period.

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						<p>To determine the data, assumptions were made in part based on the business models and available information on exclusions at target fund level.</p> <p>Data coverage: 44,9 % (2022: 32,2 %).</p>	
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Table with Indicators applicable to investments to sovereigns and supranationals

Indicators applicable to investments to sovereigns and supranationals							
Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Impact 2021	Explanation	Actions taken, and actions planned, and targets set for the next reference period
Environment	15. GHG intensity	GHG intensity of investee countries	N/A	N/A	N/A	N/A	N/A
Social	16. Investee countries subject to social violations	Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law	N/A	N/A	N/A	N/A	N/A

Table with indicators to investments in real estate assets

Indicators applicable to investments in real estate assets							
Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Impact 2021	Explanation	Actions taken, and actions planned, and targets set for the next reference period
Fossil fuels	17. Exposure to fossil fuels through real estate assets	Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels	N/A	N/A	N/A	N/A	N/A
Energy efficiency	18. Exposure to energy-inefficient real estate assets	Share of investments in energy-inefficient real estate assets	N/A	N/A	N/A	N/A	N/A

**Other indicators for principal adverse impacts on sustainability factors**

Information on the principal adverse impacts on sustainability factors referred to in Article 6 (1), point (a) in the format in Table 2.

Additional climate and other environment-related indicators							
Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact 2023	Impact 2022	Impact 2021	Explanation	Actions taken, and actions planned, and targets set for the next reference period
<b>Indicators applicable to investments in investee companies</b>							
<b>CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS</b>							
Emissions	4. Investments in companies without carbon emissions reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	4 %	8 %	N/A	Data coverage: 16,2 % (2022: 18,6 %).	<p>Indirect investments: For the next reporting period, efforts will continue to improve data coverage. To achieve this, data delivery will be negotiated with the target funds during the subscription process based on a best-effort approach.</p> <p>Direct Investments: Support and guidance for smaller portfolio investments.</p>



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Information on the principal adverse impacts on sustainability factors referred to in Article 6 (1), point (b), in the format in Table 3.

**Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters**

INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS							
Adverse sustainability impact	Adverse impact on sustainability factors (qualitative or quantitative)	Metric	Impact 2023	Impact 2022	Impact 2021	Explanation	Actions taken, and actions planned, and targets set for the next reference period
<b>Indicators applicable to investments in investee companies</b>							
Social and employee matters	1. Investments in companies without workplace accident prevention policies	Share of investments in investee companies without a workplace accident prevention policy	0 %	0 %	N/A	Data coverage: 23,7 % (2022: 19,9 %).	Indirect investments: For the next reporting period, efforts will continue to improve data coverage. To achieve this, data delivery will be negotiated with the target funds during the subscription process based on a best-effort approach.  Direct investments: Measures to prevent workplace accidents are already implemented for direct investments.

Information on any other adverse impacts on sustainability factors used to identify and assess additional principal adverse impacts on a sustainability factor referred to in Article 6 (1), point (c), in the format in Table 2 or Table 3.

To the reference period, no other indicators pursuant to Article 6 (1), point (c), which are used to identify and assess additional principal adverse impacts on a sustainability factor, were taken into account.

## Description of policies to identify and prioritise principal adverse impacts on sustainability factors

*Information referred to in Article 7*

The strategy is approved at product level. The adverse sustainability impacts can differ significantly depending on the asset class, sector and sections of the portfolio companies and projects. Palladio (Luxembourg) S.à r.l. therefore uses appropriate methods during the due diligence phase to include all available information and determines the material sustainability factors that could be relevant for the selected section and country strategy as part of a materiality analysis. These are then considered in the further due diligence process and exchange with the respective target fund manager.

Palladio (Luxembourg) S.à r.l. has implemented processes and procedures to consider the principal adverse impacts of investment decisions on sustainability factors, depending on the asset class and access method, such as commitments by target fund managers using a best-effort approach. For funds according to Article 8 of the SFDR, a binding consideration of PAI indicators can take place. If such binding consideration exists, the corresponding PAI indicators and the strategies for their consideration are disclosed in the pre-contractual documents and reported in the annual reports.

Funds according to Article 8 or 9 of the SFDR, which make sustainable investments in part, must provide information in the pre-contractual documents, on the website, and in the annual reports about how the principle of avoiding significant harm according to Article 2 Number 17 of the SFDR in connection with the main indicators for adverse impacts in Annex I of the SFDR has been adhered to. Thus, for such funds, PAI consideration is binding, and the corresponding fund-related indicators are also reported in the fund's annual report.

If there is a non-binding consideration of PAI indicators for individual funds or mandates, this is also disclosed in the pre-contractual documents as well as in the fund's annual reports. Depending on the investment strategy, sustainability strategy, sector, and country allocation, different quantitative and qualitative methods can be used to consider adverse sustainability impacts. Possible methodologies:

1. Exclusions:

- Investments in selected sectors, companies or countries are excluded, where the risk of a material adverse sustainability impact is considered to be particularly high, e.g. oil/ coal production, controversial weapons according to e.g. the Ottawa Convention.
- Exclusion criteria are used as a filter before deciding on an individual investment.
- Often in connection with materiality thresholds: Investments in companies/projects are possible, but only if there is a small proportion of revenue of excluded activities (practice: 5-10 %) where the risk of negative damage is considered very high.

2. Positive criteria: Investments are selected in sectors and countries, which are associated with positive or desirable effects, e.g. renewable energies, education; this often results in thematic investments, best-in/of-class or best-in-progress strategies.
3. ESG due diligence processes and assessment of potential adverse sustainability impacts, e.g. bases on the most important PAI indicators.
4. Internal ESG support and monitoring of the sustainability performance of investments in which investments are made through mandatory reporting.
5. Stewardship-strategies in which the target fund manager (direct and co-investment portfolio, including the manager) exerts a positive influence as an investor on investments regarding their approach to sustainability aspects.

Indirect investments:

As the target fund manager is responsible for selecting the portfolio companies when investing in target funds, the decision-making and investment processes of the target fund managers are at the focus of the ESG integration process. These are assessed according to the importance of sustainability aspects and the associated adverse effects on sustainability factors in the management of the respective portfolio. Target fund managers are encouraged to support positive environmental and social framework conditions or to work towards improving them. For this, minimum standards are set for the ESG approach and integration of the target fund manager. As part of the due diligence, the extent to which the target fund manager is committed to responsible investment (UN PRI) and has integrated ESG aspects into its investment decision-making process is evaluated and monitored on an ongoing basis as part of qualitative and, if possible, quantitative monitoring (e.g. SFDR disclosure, PAI statement, etc.).

Direct investments:

As a manager of direct-investments funds, Palladio has several mechanisms in place to ensure that, for example, the investments of a financial product in accordance referred to Article 9 of the SFDR do not materially impair the objectives it pursues. Where relevant in individual cases, these include the following:

- Due diligence in relation to the area of social and governance.
- Due diligence by the manager using a positive list of sectors regarding the SDG contribution of the respective eligible investments.
- Risk mitigation and/or management plans covering sustainability objectives at the level of the investee company.
- Prioritization of sustainability-related topics at advisory board meetings of companies in which the manager is represented.
- Monitoring the sustainability performance of investee investments through mandatory reporting.

The weighting of the principal adverse sustainability impacts is carried out at the level of the respective fund holding the portfolio company/project, as the relevance and materiality of the individual PAI indicators depend on the sectors as well as investment structures (Investee Company vs. SPV).

For the social and employment area, the indicator "investments in companies without workplace accident prevention policies" has been chosen, as there may be a higher risk of work-related accidents in the infrastructure section, e.g. in greenfield projects. In the environmental area, the indicator "investments in companies without carbon emission reduction initiatives" has been selected and is in line with the Palladio Group's sustainability strategy.

The probability of occurrence and the severity of the principal adverse impacts, including their potentially irremediable character, depend on various factors such as the company's size and activities in climate-intensive sectors.

Currently, no margin of error can be identified.

ESG-related information on the investments is included in the investment proposals for the respective investment opportunity, which are also made available to investors. In addition, ESG aspects are regularly discussed with the company or fund management and at LP Advisory Board Meetings. Furthermore, Palladio (Luxembourg) S.à r.l. evaluates the respective reporting for fund investments as part of a qualitative monitoring process and discusses any anomalies with the management. Ongoing information, including significant ESG incidents, is incorporated into investor reporting. In the event of significant ESG incidents, direct communication with the respective clients usually takes place. The follow-up of such significant incidents generally involves the management of the target investment, with the aim of conducting a root cause analysis and subsequently identifying and implementing measures to prevent or at least mitigate significant ESG incidents in the future.

The implementation and ongoing consideration during the investment phase is reported on during the year based on internal/external reports, ad hoc disclosures in the event of significant events and at least as part of the annual reporting under the Disclosure Regulation or a comparable reporting format.

Investments that reveal a significant negative impact on sustainability factors during due diligence should only be acquired or held on the basis of a substantiated analysis.

### Important note on data quality and data sources

The availability and quality of relevant data and information for the systematic assessment of sustainability factors and indicators is still not considered sufficient for all asset classes in which the investment funds managed by Palladio (Luxembourg) S.à r.l. invest. It can also be assumed that resources are not available at all levels of the structures (mainly fund of funds structures) to provide quantitative information on all sustainability factors and indicators to a sufficient extent and frequency (especially for smaller target fund managers as well as smaller portfolio companies).

In the case of target funds, the specific portfolio companies and projects of a target fund are generally not yet known at the time of the investment decision. For this reason, Palladio focuses in the first step on qualitative methods that place the decision-making and investment processes of the target fund managers at the center of the due diligence process, in connection with a materiality analysis of the sector and country allocation. Depending on the relevance and results, mitigation strategies are discussed with the target fund managers. Depending on the investment strategy and client-specific requirements, the selected methodologies can be supplemented by exclusions and positive criteria can be added.

In the direct portfolio, Palladio (Luxembourg) S.à r.l. aims to continuously implement ESG-compliant business activities. This also means that a monitoring and reporting process for the required information will be set up jointly with companies that are not yet required to disclose sustainability information under the regulatory obligation.

The information on the indicators listed for the main adverse effects is collected over the course of a year from various data sources for the investments. For the funds of funds, Palladio (Luxembourg) S.à r.l. relies on the data provided by the target fund managers, whereas for direct investments and co-investments, reference is largely made to data from the respective portfolio investments.

To generate this data, a service provider was also commissioned to request data from target fund managers at least once a year using a standardized documentation process via the European ESG Template (EET) in accordance with a best-effort approach. The external service provider continues to answer technical queries from the target fund managers and validates the EETs received using automatic validation checks, including completeness, consistency and format. It then generates validation feedback for the target fund managers and asks them to take this into account by the deadline. In some cases, estimates and additional calculations are carried out at the level of the service provider and AIFMs, e.g. if there are indications of discrepancies in the calculation. However, an in-depth methodological review for target funds cannot be carried out at the level of Palladio (Luxembourg) S.à r.l. at the present time. The following aspects were identified as key issues, particularly for the "Infrastructure" asset class:

- Handling of Greenfield-projects (infrastructure projects under construction and development) in the calculation of scope 3 greenhouse gas emissions
- Data provision for infrastructure projects for social and governance indicators, particularly greenfield projects
- Lack of resources at portfolio investment level, particularly in the area of smaller companies
- Indications of incorrect pro rata calculation of the financed values at target fund level, e.g. by simply adding up the values of the respective portfolio investments
- Lack of information on data coverage and the proportion of investments that should be included for data determination (so-called eligibility rate).

In addition, incomplete information and assumptions may result in discrepancies between the data published in this statement and the actual values at portfolio investment level. On the one hand, this is due to the process of data processing within the investment path from portfolio investment to investors and the resulting time delay. On the other hand, the reported values may differ, for example, due to different interpretations of legal requirements, different methods for calculating and/or estimating values and/or input data, data from older reference periods, calculation errors at the level of the data source or other factors.

Palladio (Luxembourg) S.à r.l. continues to strive to improve the data quality and data coverage of these indicators through its own efforts as well as the assessability through ongoing processes and analysis over time. However, it can be assumed that the challenges of data gaps and uncertainties regarding regulatory requirements for calculation methods will continue to exist in the coming years, particularly for illiquid asset classes.

### **Engagement policies**

*Information referred to in Article 8*

The provisions regarding the engagement policy referred article 3g of Directive 2007/36/EC: article 3g of Directive 2007/36/EC is expected not to apply, as investments are generally not made in companies whose shares are admitted to trading on a regulated market located or operated in a Member State.

Palladio (Luxembourg) S.à r.l. pursues sustainability-oriented management (stewardship) of entrusted funds within its developed Stewardship and Engagement Policy, aiming to optimize both the financial values and non-financial aspects of the investor portfolio.

Palladio (Luxembourg) S.à r.l. takes active steps to collaborate with invested companies to ensure compliance with standards of good governance and relevant certifications. Through the principles of this policy, influence is exerted on the principal adverse impacts on sustainability factors (PAIs), particularly indicators related to climate, environment, social, and governance aspects, depending on their materiality and relevance to underlying investments and respective sectors, where necessary.

Palladio (Luxembourg) S.à r.l. considers the principal adverse impacts on sustainability factors ("sustainability impacts") that could arise from investments, both in the due diligence process and in asset management and monitoring processes, based on quantitative and qualitative methodologies following a risk-based approach. This includes activities based on the Stewardship and Engagement Policy and the Voting Policy, where Palladio (Luxembourg) S.à r.l. as an investor exercises positive influence on companies or strategic partnerships regarding their handling of sustainability aspects.

These policies involve the consideration of ESG aspects in due diligence to identify relevant sustainability factors, which are then measured post-investment and addressed and prioritized through governance roles as shareholders and advisory board members in relation to management.

Should there be no reduction in the most significant adverse impacts over multiple reporting periods, Palladio (Luxembourg) S.à r.l. will review and revise its engagement policy accordingly.

### **References to international standards**

*Information referred to in Article 9*

Palladio (Luxembourg) S.à r.l. observes responsible corporate governance and fiduciary duty, as well as responsibility towards the environment and society, which it has manifested in a Code of Conduct (e.g., "We reject unethical or illegal business practices under all circumstances").

As part of the Palladio Partners Group, Palladio (Luxembourg) S.à r.l. is a signatory to the UN PRI Principles for Responsible Investment and is also an active member of associations aiming for the long-term and sustainable development of economies and regions, such as the Initiative deutsche Infrastruktur e.V. and the Long-term Infrastructure Investors Association. Additionally, Palladio Partners supports the goals of the Paris Agreement to limit global warming, for instance through investments in renewable energies and transformation financing.

Initially, the manager's compliance with international standards is not directly linked to specific PAI indicators. Therefore, there is no measurement of compliance with international standards based on individual PAI indicators, nor can methods or data for measuring of compliance or alignment with these standards be disclosed.

## Statement on principal adverse impacts of investment decisions on sustainability factors



For financial products under Article 8/9 of the SFDR, reference is made to the respective PAI indicators from the Social and Governance domains in connection with compliance with good governance practices. These include, among others, the UN Global Compact principles, and efforts to avoid serious, systematic human rights violations (following the UN Guiding Principles on Business and Human Rights), as well as the avoidance or tolerance of inhumane working conditions and child labor (in violation of ILO Core Labor Standards) without positive improvement.

Currently, no forward-looking climate scenarios are used due to insufficient data availability, particularly across all asset classes within fund-of-fund structures.

## **Important notes**

This document is a mandatory publication under the SFDR and not a marketing communication or other marketing material.