ESG Due Diligence

As part of an acquisition, every potential new investment undergoes a thorough review process in which, in addition to the commercial, legal and technical review, the ESG criteria are also considered.

The six environmental objectives of the EU taxonomy take centre stage:

1. climate protection,
2. adaptation to climate change,
3. sustainable use of water and marine resources
4. transition to a circular economy,
5. prevention of pollution,
6. protection and restoration of biodiversity.

An economic activity is compliant with the EU taxonomy if it fulfils the following criteria:

- **“Taxonomy Eligibility”:** the economic activity is taxonomy-eligible, i.e. makes a significant contribution to climate protection and is assigned to one of the following categories in accordance with Annex 1 of the EU Taxonomy: Electricity generation using photovoltaic technology, electricity generation from wind power, electricity generation from hydropower, storage of electricity or installation, maintenance and repair of charging points for electric vehicles.
- **“Sustantial Contribution (SC) Criterion”:** the economic activity makes a substantial contribution to at least one of the above six environmental objectives.
- **“Do No Significant Harm (DNSH) Criterion”:** the economic activity does not significantly harm any of the aforementioned environmental objectives.
- **“Technical Screening”:** the economic activity fulfils the technical assessment criteria according to Annex 2 of the EU Taxonomy, such as the assessment of physical climate risks that are material to the activity.
- **“Minimum Safeguards”:** the economic activity fulfils a minimum of safety standards in the social context in order to avoid a negative social impact, such as compliance with the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights.

With the two funds *FP Lux RE Infrastructure Opportunities and FP Lux Energy Transition Fund*, investments are made in projects that are categorised as environmentally sustainable investments under Article 9 of the EU Taxonomy. In contrast to Article 6 funds, which must provide information on the inclusion of sustainability risks in their investment decisions, and Article 8 funds, which must fulfil further disclosure requirements if the financial product is advertised with environmental and/or social characteristics, Article 9 funds, so-called ‘dark green’ funds, must aim to make decidedly sustainable investments.

As an independent investment advisor, re:cap global investors ag conducts extensive ESG due diligence (ESG DD) during the acquisition process of new assets for these funds. The ESG compliance of each individual project is analysed in a total of up to 25 process steps with four “yes/no gates”.

First, the potential new asset is assigned to an activity in accordance with the EU taxonomy; depending on whether it is an investment in a solar park, wind park, charging infrastructure or battery storage project, technology-specific test criteria are applied in each case. In the next step, the asset is analysed according to the EU taxonomy checklist and the relevant documents are filed. Risks are recognised at an early stage and possible measures are identified.

If the asset fulfils every point of the EU taxonomy checklist, i.e. is 100% compliant, the acquisition of this project is recommended to the fund's Investment Committee. If not all criteria can be met, or if the relevant documents are not yet available, measures are formulated and defined that the asset must fulfil in order to subsequently achieve EU taxonomy eligibility. In this process step, the asset is also recommended to the Board of the fund, provided that the formulated measures are fulfilled.

However, if critical points are identified during the review that rule out EU taxonomy eligibility or that cannot be resolved even with the help of measures, no recommendation is made to acquire the asset and the transaction is cancelled.

With this process, re:cap ensures that the EU taxonomy criteria are examined in detail and adhered to for every potential new asset in order to guarantee the sustainability of the investment.

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