CAPZA

ESG Investment Policy

March 1, 2021

PARIS | MUNICH | MADRID | MILAN

Sustainable development is a key area of concern to CAPZA. Small and mid-cap companies have a direct impact on local economy and it is our duty to make sure that the company we finance has a responsible behavior toward the society. We think that superior environmental, social and governance practices contribute to the long-term sustainability and performance of the companies we invest in. This is why we integrate ESG (Environment, Social, Governance) criteria in our investment decisions.

CAPZA signed the Principles for Responsible Investment in 2011 (PRI).

Integration of ESG criteria in the investment policy

Pre-investment

Exclusion

Capza has decided not to invest in sectors that generate additional risks (reputational risk, ethical risk, legal risk, etc.) and not to provide financial or other support, directly or indirectly, to companies or other entities because the related activities entail sustainability risks (which may have direct consequences on the value of the investment) and principal adverse impacts (ESG impacts).

We do not invest, guarantee or otherwise provide financial or other support, directly or indirectly, to companies or other entities:

a) whose business activity consists of an illegal economic activity (i.e. any production, trade or other activity, which is illegal including without limitation, human cloning for reproduction purposes).; or

b) which substantially focus on:

i. the production of and trade in tobacco and distilled alcoholic beverages and related products;

ii. the financing of the production of and trade in weapons and ammunition of any kind, it being understood that this restriction does not apply to the extent such activities are part of or accessory to explicit European Union policies;

iii. casinos and equivalent enterprises;

iv. the research, development or technical applications relating to electronic data programs or solutions, which (x) aim specifically at supporting any activity referred to in (i) to (iv) above; internet gambling and online casinos; or pornography, or which (y) are intended to enable to illegally enter into electronic data networks; or download electronic data.

c) that generates more than 20% of their aggregated annual revenues from coal-based activities, including coal extraction and/or coal power generation and/or electricity via a coal powered plant and/or coal mining activities, as well as all fossil fuel activities;

When providing support to the financing of the research, development or technical applications relating to (i) human cloning for research or therapeutic purposes or (ii) genetically modified organisms ("GMOs"), we shall ensure the appropriate control of legal, regulatory and ethical issues linked to such human cloning for research or therapeutic purposes and/or GMOs.

Due diligence

As part of the due diligence process, CAPZA aims at identifying key sustainability risks and principal adverse impacts, as well as ESG opportunities (environmental, social and governance) based on the SASB materiality map.
Sustainability risks, in terms of their impact on the value of an investment, are not quantified as such but analyzed from a qualitative point of view.

For Flex Equity, Growth Tech, Expansion and Transition, CAPZA will seek to perform a full ESG due diligence with the support of an ESG advisor on environmental, social and governance topics.

For Private Debt, the team collaborates with the sponsor in order to get ESG information. If not available the team will make its best effort to obtain specific ESG information by sending a list of questions to the management. When not possible, the team will perform its own ESG due diligence.

If after the due diligence analysis, we are not comfortable with the company's ESG Practices, or if sustainability risks are materials, we can either decide not to invest or we can ask the management (or the sponsor if any) to build an ESG action plan in order to improve the situation.

In any case, sustainability risks and adverse impacts are reviewed, integrated in the investment notes and factored into the decision processes of our investment committees.

Investments

Capza is committed to initiating and maintaining the ESG approach with the management of the portfolio companies to bring them value and make them progress on their extra-financial performance.

Depending on the situation and the fund's investment policy, ESG objectives may be formalized when the contract is signed with the portfolio companies.
In the case of private debt financing, ESG objectives are discussed with the transaction sponsor and the management team.
Where we have a majority stake, we can discuss ESG objectives directly with the management team.

CAPZA's performs an annual ESG review of the portfolio in order to identify sustainability risks, principal adverse impacts, including areas for improvement (ESG risks) and progress (ESG opportunities) for each investment, and on this basis to define action plans with the management teams.

ESG risks and opportunities are therefore identified each year after a complete analysis of the challenges and data specific to each investment.
Ad hoc missions may be set up in some portfolio companies to improve their ESG practices and reduce sustainability risks and principal adverse impacts.
In companies in which we are shareholders, we ask that the risks identified in the annual questionnaires be addressed during the board meetings.

Exits

In the case of our Private Debt activity, our position as lenders does not allow us to take part in the preparations for portfolio exits, which are exclusively reserved for shareholders.
In the case where we have a majority position, an ESG portion may be produced for investments where financial "Vendor Due Diligence" is performed. The ESG VDD highlights the key points that have been identified with the aim of reducing risk and creating value.

ESG screening of the portfolio

We perform an ESG screening and analysis for each of the companies in our portfolios.

CAPZA mandated the CSR consulting agency Sirsa to formalise and implement annual ESG scoring and reporting processes:

- Design of ESG reporting questionnaire submitted to portfolio companies
- Screening of gathered data and calls with ESG managers of portfolio companies
- Analysis and consolidation of data
- Production of consolidated ESG reporting (available in the dataroom)
- Portfolio company ESG reports passed on to portfolio companies and discussed during the following Board Meeting, allowing them to improve on ESG topics
-

Methodology

We score the companies we are invested in according to 15 criteria.
For each company the relevance and importance of each criteria is assessed on a 1 to 5 scale (based on the sector and business activity of the company). We then assess how advanced / mature the company is for the criterias on the 1 to 5 scale.
The larger the gap is between the importance of the criteria and the maturity of the company, the bigger the risk.

Environment

- Water
- Energy
- Raw material
- Waste
- Transport
- Biodivesity

- Carbon / Climate

Social and Working Conditions

- Employment
- Working conditions
- Training and development
- Social dialogue
- Discrimination

Governance

- Governance
- Business ethics
- Human rights
- Supply Chain

We aggregate those criteria at the portfolio level in order to build a synthetic view of the ESG risks embarked in the portfolio and its ESG footprint. We monitor the evolution in time.

Specific information related to climate change

Nature of criteria and methodology

Definition of criteria and indicators

Climate indicators are integrated into the reporting tool covering all ESG themes in order to determine these climate risks (in the questionnaire and criteria analysis according to the stake/maturity methodology).

The measurement of greenhouse gas emissions associated with the assets held is carried out through the following actions :

- Measurement of energy consumption (all types of energy: electricity, gas, fuel oil, share of renewables) for each investment

- Calculation of the scope 1 and 2 of the carbon balance sheets for all participations

- Analysis of the energy intensity of the investment portfolio

- Collection from the participations of the actions undertaken to improve energy efficiency and reduce consumption.

In addition, the monitoring of indicators such as the implementation of actions to reduce emissions of greenhouse gases or other atmospheric pollutants or to protect biodiversity. All of these actions are included in the ESG annual report presented to subscribers.

The contribution of the portfolio companies to meeting the international objective of limiting global warming and achieving the objectives of the energy and ecological transition has not yet been quantified. However, the reporting and analyses carried out do make it possible to identify the actions taken in this regard. Likewise, the measurement of greenhouse gas emissions makes it possible to identify the materiality of the carbon challenge for the various companies in the portfolio.

Description of the methodology implemented

We do not currently perform climate risk analysis at the portfolio level. As such, physical and transition risks, to date, are not assessed. Nevertheless, we perform carbon footprint measurements (Scope 1 and 2) at the level of all companies in the portfolio as well as at the consolidated level. These carbon footprint measurements are performed annually.

Analysis of the methodology results

After analysis, Capza has chosen to exclude certain sectors from its potential investments, such as companies generates more than 20% of their aggregated annual revenues from coal-based activities, including coal extraction and/or coal power generation and/or electricity via a coal powered plant and/or coal mining activities, as well as all fossil fuel activities;

Naturally in our investment choices, we would not invest in companies that would have too negative an impact on the climate. Thus, the portfolios do not contain any investments in carbo-intensive assets.

Engagement

When we are a majority shareholder, we systematically share our ESG analysis with the companies we invest in, covering their governance, human capital and environmental practices. We then engage on those ESG topics during supervisory boards.

For Private debt, upon agreement with the sponsor, we share our ESG analysis with the companies we invest in, covering their governance, human capital and environmental practices. We then engage on those ESG topics during supervisory boards.

In addition, when needed, we work in partnership with our CSR consulting agency Sirsa and some of the companies in our portfolio to improve their ESG practices.

Disclosure and reporting

We perform the following :

- Annual ESG report for each of our portfolio including detailed ESG analysis of each company in the portfolio.
- Annual UN PRI report
- Responsible investing policy
- Carbon footprint report on scope 1 and 2 of the portfolio and at each company level

ESG Governance within CAPZA

Team

- Laurent Benard, Managing Partner : responsible for global ESG strategy
- Bénédicte de Tissot, General Secretary : responsible for ESG reporting
- Within each strategy, a partner is responsible for ESG integration within the investment process.

Responsible Investment Committee

The Responsible Investment Committee is in charge of ensuring ESG integration within the investment process across the company.
Investment teams meet twice a year to formally review ESG topics within the portfolios.

- November/ December: preparatory meeting and review of ESG topics
- May: ESG annual portfolio analysis review

The CAPZA's staff benefit from an annual training on ESG issues.

CAPZA for Good Committee

Created in 2019, the committee is responsible for improving corporate responsibility practices within CAPZA. The members meets 4 times a year. It includes representatives from all functions within CAPZA and is steered by a representative from Sirsa.

Integration of ESG in the remuneration policy

The annual objectives of the members of the management team include an ESG dimension with, in particular, the integration of CAPZA's ESG policy in the investment process (due diligence, monitoring etc…). As the identification, integration and monitoring of sustainability risks and principal adverse impacts are integrated throughout the investment process, they have an impact on the level of variable compensation agreed by the Compensation Committee.

Promotion of responsible investing within the company and across the industry

Alignment with industry standard and promotion of ESG within the industry

CAPZA signed the Principles for Responsible Investment in 2011 (PRI).
These principles are designed to encourage the adoption of best environmental, social and governance (ESG) practices by financial professionals.

Principle for Responsible Investment	Our actions
Principe 1 – We will incorporate ESG issues into investment analysis and decision-making processes.	Integration of ESG considerations in the due diligence process and within investment committees Scoring of our investments across 15 criteria Annual review of the scorings Annual training of staff ESG risk and footprint calculation for all our portfolios
Principe 2 - We will be active owners and incorporate ESG issues into our ownership policies and practices.	Systematic sharing of our ESG analysis with the companies. Engagement during our supervisory board. Adhoc mission with some companies in the portfolio to improve their ESG practices.
Principe 3 – We will seek appropriate disclosure on ESG issues by the entities in which we invest.	Integration of ESG issues in the due diligence questionnaires. Systematic ESG analysis based on 15 criteria for all the companies in which we invest.
Principe 4 - We will promote acceptance and implementation of the Principles within the investment industry.	UN PRI signatory Active involvement within France Invest in France
Principe 5 - We will work together to enhance our effectiveness in implementing the Principles.	Collaboration with CSR consulting agency Sirsa Annual review of our methodology and relevance according to development in the industry
Principe 6 - We will report on our activities and progress towards implementing the Principles.	Annual ESG report at both investment level and portfolio

CAPZA is a signatory of the France Invest « Charte », and contributes to the ESG commission and the annual report of the association.

Signatory of the France Invest Charter

- CAPZA is involved in the integration of ESG by French Private Equity players through its involvement with France Invest (formerly AFIC).
- As a signatory of the France Invest Charter and a participant in working groups and France Invest's annual ESG reporting, CAPZA contributes to the progress of these subjects in France.

Diversity Charter

- Through its commitment to France Invest, CAPZA participated in the development of the diversity charter, a charter intended for all management companies that are members of the association. The charter, of which CAPZA is a signatory, includes 30 commitments in favor of equality between men and women.

International Climate Initiative

- CAPZA is committed to the fight against climate change by joining the ICI, an initiative developed by private equity players to assess and limit the exposure of portfolio companies to the risks of climate change.
- Thus, Capza integrates the following commitments in its investment practices:
- 1. Recognize that climate change will have effects on the economy that represent risks and opportunities for companies ;
- 2. To contribute, at their level, to limit global warming to two degrees ;
- 3. Contribute to reducing the greenhouse gas emissions of their portfolio companies and ensure the sustainability of their performance.