




Zencap

Asset Management

| A subsidiary of  Group



Climate and Biodiversity Policy

March 2021

Our Climate and Biodiversity Policy

This section responds to the provisions of Article 29 - Paragraph I of the Energy-Climate Act of November 8, 2019.

Zencap AM's climate and biodiversity policy applies to all private debt management.

Zencap AM's ambition is to be part of the fight against climate change and biodiversity loss and therefore to contribute to the Energy and Ecological Transition (TEE).

Climate Policy

RISKS RELATED TO GLOBAL WARMING

The work of the IPCC (Intergovernmental Panel on Climate Change) notes that global warming is steadily increasing at the global level and explains it by the strong increase in the concentration of greenhouse gases (GHG) emitted by human activities. Climate policies imply restructuring economic activities to achieve a low-carbon production and consumption model. These are possible economic trajectories, compatible with a global warming limited to + 2°C or + 1.5°C by 2100 compared to the pre-industrial era. The Paris Agreement of 15 December 2015 thus aims to contain this global warming "well below 2°C".

In this context, companies are exposed to risks related to climate change. These risks are grouped into two categories:

1. **Physical risks**, i.e. risks resulting from damage directly caused by weather and climate phenomena. The main ones are the risks linked to the multiplication of natural disasters and chronic risks such as droughts, floods or disease outbreaks.

The identification of physical hazards is based on a combination of two factors:

- The exposure of the asset according to its geographical location (e.g. coastal zone, arid zone)
- The sensitivity of the asset: the sector of activity is a fundamental element of the risk analysis

These risks are increasing. According to the World Bank (2016) ¹, natural disasters already result in consumption losses equivalent to \$520 billion each year and push nearly 26 million people into poverty.

The materialization of these physical risks has direct consequences on organizations: damage to production tools, disruption of the supply chain, relocation of assets, etc.

2. **Transition risks**, i.e. risks resulting from the effects of the implementation of a low-carbon economic model. They cover different sub-categories of risks:

- Regulatory and legal risks are related to changes in legislation (e.g., carbon prices or product regulations), and to an increase in claims and litigation as losses and damages from climate change increase.
- Technological risks are linked to innovations and technological breakthroughs that help fighting climate change (e.g. energy storage, carbon capture)
- Market risks refer to changes in supply and demand linked to the increasing consideration of climate risks (e.g., changes in commodity prices)
- Reputational risks are related to changes in the perception of customers and stakeholders regarding an organization's contribution to the transition to a low-carbon economy.

¹ World Bank (2016), Report "Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters."

The materialization of these transition risks, if not anticipated, has direct consequences on organizations: price increases, compliance costs, litigation, fines, unsuitability of production tools, business model obsolescence, loss of market share, loss of image, etc.

Physical and transition risks can therefore impact the financial performance of organizations, jeopardize their solvency and represent risks of potential loss of portfolio value. The analysis of physical and transition risks is therefore a way to make better adapted investment decisions in order to limit these risks.

COMMITMENTS OF ZENCAP AM

As part of the fight against climate change and the energy transition, Zencap AM is making several commitments:

- 1) The exclusion of activities that emit the most greenhouse gases, i.e. thermal coal, oil, oil sands, shale gas, deepwater and Arctic drilling (see details in section **Erreur ! Source du renvoi introuvable.**). Zencap AM thus also limits its exposure to these sectors that are particularly exposed to climate change risks. The application of these exclusions is verified before the investment process.
- 2) As soon as possible, directing a portion of our financing towards players in the energy transition (e.g. renewable energies, low-carbon solutions, eco-designed buildings).
- 3) Taking into account the issues, risks and opportunities related to climate change at different stages of the investment process:
 - At the sourcing stage: see above (1) "Exclusion of activities that emit the most greenhouse gases"
 - During the due diligence phase
 - As part of the ESG analysis, questions are asked about climate issues, the impact of the potential borrower on climate change and the impact of global warming on it. For example, the following criteria are scrutinized, depending on their materiality (and depending on the availability of information):
 - Assessment of exposure to physical and transitional climate risks
 - Assessment of carbon emissions
 - Initiatives to reduce carbon emissions
 - Energy consumption
 - Share of energy consumption from renewable energy sources
 - Environmental quality of buildings or infrastructures
 - As regards carbon emissions, where relevant, monitoring covers the broadest possible scope (scopes 1, 2 and 3), i.e. emissions at the level of production units but also along the entire value chain (upstream at the level of suppliers, downstream at the level of product and service use). The borrower's ability to participate in the energy transition and thus reduce its direct and indirect emissions is also taken into account.
 - The analysis thus takes into account, when the climate issue is material, the climate strategy of the potential borrower, its commitments, its objectives, the means and actions implemented and the results.
 - However, due to the asset class (private debt) and the size of the borrowers (e.g. SMEs), the assessment of the issue is often difficult due to the lack of information or data available. In this case, Zencap AM encourages borrowers to carry out the necessary assessments, but this is a long-term process.
 - During the negotiation phase of the financing terms

Where appropriate, an ESG clause or an objective relating to climate commitments may be formulated in the documentation.
 - During the life of the financing

- The annual reporting required from borrowers includes indicators on climate issues (carbon emissions, carbon reduction initiatives)
- Where a climate-related target has been set as part of the funding, it will be monitored in its own right and reviewed annually using dedicated indicators.

Biodiversity Policy

RISKS RELATED TO BIODIVERSITY

At the Rio Earth Summit in 1992, the Convention on Biological Diversity (CBD) was adopted by the United Nations. It is an international treaty with three main objectives: the conservation of biological diversity, the sustainable use of biological diversity and the fair and equitable sharing of benefits arising from the use of genetic resources. In 2010, the 190 member countries of the CBD adopted the "20 Aichi Targets" for 2020 to halt biodiversity loss. In 2020, despite the awareness, the targets are far from being achieved; according to the national reports submitted in 2020 to the CBD secretariat, only six out of twenty targets have been partially achieved. Worse, the WWF, in its report "Living Planet 2020" shows an alarming decline in populations of mammals, birds, amphibians, reptiles and fish of 68% between 1970 and 2016. This trajectory is also reflected in the 2019 Global Assessment Report of The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, which highlighted a widespread global decline in biodiversity, calling for urgent action. An alarm signal also sounded at the level of the oceans with an urgency to act as underlined by the organization One Planet Network in its report "Breaking The Plastic Wave" (2020).

The loss of biodiversity due to human activities (disappearance of natural habitats, pollution, overexploitation of species) is accelerated and aggravated by global warming, so the two phenomena are now linked. The risks for economic actors linked to the loss of biodiversity are numerous since all activities depend directly or indirectly on nature. Some sectors are particularly exposed, such as agriculture, food processing, pharmaceuticals or cosmetics, due to the risk of scarcity of certain raw materials, but there are also risks of disruption of the value chain in other sectors, not to mention the physical risks (e.g. floods, landslides) due to soil erosion.

COMMITMENTS OF ZENCAP AM

Awareness on the part of economic actors and investors seems to be accelerating with actions aimed at :

- Addressing topics related to biodiversity and the factors of biodiversity destruction.
- Apply biodiversity criteria in the selection process of suppliers or economic partners to exclude companies with negative impacts on biodiversity.
- Developing approaches to measuring biodiversity.

At Zencap AM, during the due diligence process, ESG analysis integrates issues closely related to biodiversity. For example, the following criteria are scrutinized according to their materiality:

- Ecodesign of products and services
- Waste management (production, reduction, recycling) at the manufacturing or product level, packaging reduction and circular economy initiatives
- Initiatives to protect biodiversity and ecosystems (e.g., limiting land use, protecting forests, managing herbicides, eliminating plastic, etc.)
- Management of inputs, raw materials and water (reduction, recycling)
- Development of eco-designed products, services or infrastructures
- Environmental impact assessment of buildings and infrastructures

Where appropriate and relevant to the borrower, these issues, like climate or other factors, can be the subject of targets discussed in the negotiation phase of the financing terms, incorporated into the documentation, and monitored throughout the financing. The annual reporting requested to borrowers also includes the criteria mentioned.

However, today, the precise assessment of risks and impacts directly related to biodiversity remains difficult to quantify. Businesses - especially the small ones that we finance - rarely measure their exposure to these risks; the availability of data is therefore low and it is complex to understand the issue in a reliable and relevant way. To date, a few initiatives aim to estimate these risks. We are actively monitoring these issues and risks in order to better take them into account in our investment process.

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