




# Zencap

## Asset Management

| A subsidiary of  Group



## ZENCAP AM RESPONSIBLE INVESTOR POLICY

*Financing sustainable companies and projects as a  
responsible investor*

March 2021

This document incorporates the expectations of the European Regulation 2019/2088 known as "SFDR" or "Disclosure" (Art. 3 & Art. 4), and of Article 29 - paragraph 1 of the Energy-Climate Law.

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# 1. Introduction

## 1.1. Who are we?

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Zencap Asset Management was created in 2011 as an investment management company specializing in private debt, i.e. unlisted debt. We are a subsidiary of the OFI Group and are approved by the French Market Authority (AMF) for the management of AIF (Alternative Investment Funds) or mandates (separate accounts).

We have developed complementary expertise in this private debt asset class: corporate debt, infrastructure debt, real estate debt, multi-private debt and other specialized financing. We finance the real economy.

Finally, we also invest via specific funds in listed securitization products (~10% of assets under management in December 2020).

In our investment approach, proximity to borrowers is important to us. We select structures and projects in line with our values and convictions, both in terms of financial and ESG (environmental, social and governance) issues. We position ourselves as a long-term partner.

## 1.2. The principles driving us

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Zencap AM has formalized its principles, which are at the heart of its daily activities:

- **Investing with a LASTING VIEW**

We invest long-term savings on behalf of our clients who are also our partners. We accompany our borrowers and share their long-term ambitions. Our relationships, our business, and therefore our investments are long-term. This sustainability is also expressed by taking into account ESG criteria (environmental, social and good governance) in our decision-making and in the monitoring of our investments.

- **Caring about IMPACT**

We seek to support the development of companies that integrate societal expectations and issues into their business model or that are ready to do so. In other words, we wish to finance, in accordance with our convictions, the real economy of tomorrow, an economy that has a positive impact on people and their environment.

- **Financing with ADAPTABILITY**

We act with respect for our clients and borrowers, taking into account the uniqueness of each. Our human-sized organization and our entrepreneurial spirit drive us to respond to each situation with method, pragmatism and efficiency.

- **Combining EXIGENCE AND TEAM SPIRIT**

We combine professional standards and team spirit through principles that are anchored in our way of working: benevolence, respect, humility and integrity.

### 1.3. Why a Responsible Investor Policy?

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Environmental and social issues, exacerbated by global warming, persistent inequalities and new societal aspirations, affect all economic players. As a financier of the economy, Zencap AM is confronted with these challenges, through the risks they generate, but also raises expectations as to the orientation of its financing.

This Policy explains **why we are committed to responsible investment and how this commitment is reflected in our policies and practices.**

This Policy, available on our website, is also intended to meet the transparency obligations of the **European Regulation 2019/2088 of November 27, 2019, known as "SFDR" or "Disclosure"**, on the publication of sustainability information in the financial services sector:

- **Art. 3** - the publication of information on our policy of integrating sustainability risks into our investment decision-making process,
  - including risks associated with climate change and those related to biodiversity according to the provisions of **Article 29 - paragraph I of the Energy-Climate Law** of November 8, 2019.
- **Art. 4** - the publication of the due diligence policies put in place to take into account the principal adverse impact (PAI) at the Zencap AM level in terms of sustainability resulting from our investment decisions.

For several years, Zencap AM has been developing methodologies adapted to our activities to take into account sustainability risks. We are also making our best efforts to meet these new regulatory requirements. Nevertheless, the availability of data on our investments is still patchy, given the asset class (unlisted: private debt) and the size of the structures financed, particularly SMEs. We are deploying resources to collect this data, but the fact remains that some indicators are not calculated by the companies or assets financed. We are pushing our borrowers to remedy this, but this is a long-term approach. We are therefore taking a continuous improvement approach to strengthen our methodologies and reporting on the expected issues.

## 2. Foundations of our Responsible Investment Policy

### 2.1. Our beliefs

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We are convinced that taking ESG issues into account in our investment process creates value in the medium and long term, both for our investors and the borrower, thanks to better risk management and consideration of societal expectations.

This is based on several considerations:

- **Tomorrow's economy aims at being more resource-efficient and more focused on the common good.** In light of current environmental challenges and social and societal aspirations, we are convinced that the economy of tomorrow is one of energy efficiency and more sustainable and equitable consumption patterns. We also believe that business models will have to evolve to not only reduce risks and negative externalities, but also to provide solutions, through their activities, to common social and environmental challenges.
- **CSR creates sustainable and shared value.** The deployment of an adapted CSR policy allows an entity to:
  - Reduce its operational, legal and reputational risks - and therefore its financial risks - by adopting a sustainable model, responsible practices and lasting relationships with its stakeholders.
  - Increase opportunities by retaining or attracting talent, addressing new markets or expectations, or anticipating legislative changes.
  - Responding to societal issues (climate, biodiversity, inequalities, etc.) and therefore meeting the expectations of stakeholders, including civil society. This approach allows the company or project to keep its "license to operate"<sup>1</sup>.
  - To have a sound and robust basis to go further, to position ourselves as a provider of solutions to societal issues and to be the leader of tomorrow.
- As investors and financiers, **we believe we have a responsibility to direct capital** towards socially and environmentally responsible companies and projects, and towards those that provide solutions to the global challenges defined by the UN Sustainable Development Goals (SDGs). We believe that financing companies in harmony with our values is a vector of trust and a guarantee of success. We believe that our business requires close, healthy and long-term relationships. Sharing a high level of business ethics and a common sense of responsibility is therefore a prerequisite.

### 2.2. Our objectives

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We are a committed investor and have implemented a responsible investment policy, pursuing several objectives:

- **Affirming our principles and convictions**, set out in the previous section, by driving responsible investment through our financing and investments.

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<sup>1</sup> Novethic indicates that this Anglo-Saxon expression "could be literally translated as 'authorization to operate a site' but in reality it covers much more important and subtle issues than a simple legal authorization for companies. It is a matter of them earning the right to practice their trade. In concrete terms, for political, economic, cultural or environmental reasons, or because of the rejection of local populations, they may be forced to leave a territory or to give up on setting up in another". Novethic.fr, accessed on 09/09/2020

- **Controlling our risks and making enlightened financing decisions:** the combined analysis of financial and extra-financial elements allows us to acquire a better global vision of the potential borrower, and to identify risks or opportunities that cannot be deduced from accounting and financial statements. In this respect, ESG analysis helps to reduce portfolio volatility and improve portfolio quality.
- **Seizing opportunities while responding to societal challenges:** financing companies or projects that address new markets that are both promising and sustainable (e.g., responsible consumption patterns) or that provide solutions to societal challenges (e.g., sustainable mobility, renewable energies, inclusive education, access to healthcare), is a performance driver.
- To **meet the** growing **expectations** of our shareholders and investor clients, but also of our employees, our business partners and, more generally, civil society, with conviction and transparency.
- **Accompanying borrowers in a CSR progress process**, through a "win-win" approach, by questioning, proposing ways to improve, monitoring and exchanging best practices.

We thus seek to finance:

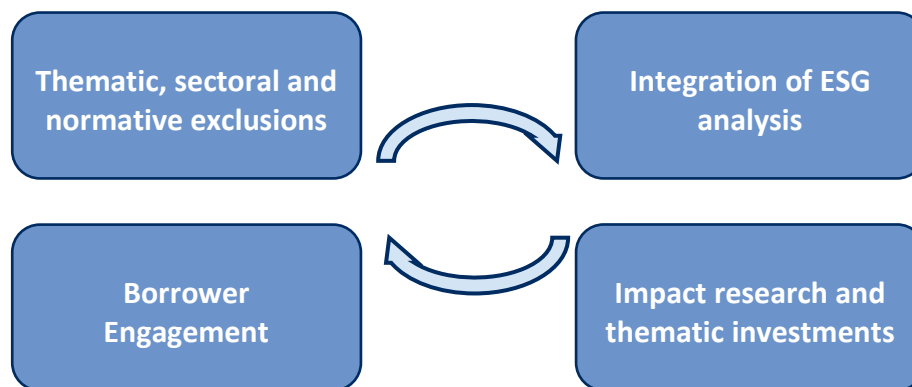
- responsible companies or projects,
  - that are based on sustainable models,
  - that operate in sustainable ecosystems,
  - or who are in the process of making progress in this area,
- .... *and as soon as the opportunity arises.*
- companies or projects that provide solutions to today's collective challenges and the UN's Sustainable Development Goals (SDGs).

## 2.3. Our responsible investment strategy

Our strategy as a responsible investor consists of applying complementary approaches and integrating strong sustainability criteria in all dimensions of our asset management, i.e. at all stages of our financing processes.

Our strategy combines the **following four complementary approaches**:

- Thematic, sectoral and normative **exclusions** (see [6.2](#)Our exclusion policy ).
- **The integration** of ESG analysis (see [3.2](#)ESG integration at all stages of the investment process ).
- Borrower **engagement** (see [6.3](#)Our stewardship, engagement and dialogue ).
- **Impact research**, including **thematic investments** (approach applied to a selection of funds, e.g. "Rebond Tricolore" fund or "Zencap Energy Transition Debt III", see [4](#)The search for impact )



This strategy is reflected in the management policies associated with each fund. Thus, for several years, Zencap AM has been striving to :

- Finance issuers with a satisfactory level of ESG maturity,  
*and / or*
- Fund issuers with **good potential to improve** on ESG issues.

## 2.4. Our ESG governance

### 2.4.1. The foundations

All the policies and procedures described in our Responsible Investor Policy are **supported and validated by** Zencap AM's **General Management**.

Compliance with these guidelines is the responsibility of **all Zencap AM employees**, including senior management, management teams (investment managers, investment officers and credit analysts), the Risk Management - ESG team and internal control (Compliance officer).

All of our teams have been trained in our responsible investment approach and are regularly made aware of these issues. Responsible investment is now part of Zencap AM culture.

### 2.4.2. An expert team in consultation with the other teams

Sustainability risks are part of Zencap AM general risk approach. **The "Risk Management (RM) - ESG" team, which** currently consists of four people, is responsible for implementing the ESG approach in the investment



process (e.g. ESG analysis), for monitoring ESG criteria of borrowers (e.g. reporting) and for dialogue on these subjects with stakeholders (clients, partners, borrowers, shareholders), **in consultation with the other teams**.

It is also responsible for the development of the ESG approach and methodologies. The implementation of any new ESG policy, procedure or methodology is validated by the General Management.

Although the RM-ESG team is independent from the Investment Team, the ESG approach is the result of teamwork at all stages of the investment process and in the monitoring of borrowers. The ESG due diligence process, the definition of ESG objectives in the financing conditions (if applicable) or the analysis of ESG reporting are indeed the initiative of the RM-ESG team, but always in close consultation with the management teams.

Zencap AM relies on its internal resources to conduct its ESG due diligence, but whenever possible, the analysis is supported by reports from external experts (e.g. environmental impact assessment report in the context of infrastructure financing, or second party opinion in the context of a green bond). We also reserve the right to call upon specialized external service providers when necessary.

### 2.4.3. The Risk Committee

A Financial and Extra-Financial **Risk Committee** meets quarterly. This committee is composed of the RM - ESG and RCCI teams and General Management. Its purpose is to present the quarterly risk report to General Management, to review news on risk and ESG issues and to make informed decisions, if necessary.

### 2.4.4. Investment Process Committees

The proper application of Zencap AM's policies and commitments presented in this Policy throughout the investment process is verified and validated by the various committees that mark out this process, in particular **the Credit Committee** (intermediate decision) and the **Investment Committee** (final decision), which include members of the General Management. The RM - ESG Director, the ESG Manager, as well as the investment directors and investment officers supporting the file also participate in these committees. The RM - ESG has a veto right.

The operation of these committees and their decision-making rules are strictly governed by a dedicated internal procedure. Minutes are kept of each committee meeting.

## 2.5. Our commitments

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Zencap AM is naturally committed to this Responsible Investor Policy.

In particular, **we commit to:**

- Integrate our ESG approach into our investment, decision-making and monitoring processes,
- Be transparent about the process, its evolution and its results.

Zencap AM is a signatory to the **Principles for Responsible Investment (PRI)**<sup>2</sup>. We are thus also committed to **respecting its six principles:**

- 1) Consider ESG issues in our investment decision-making processes.
- 2) Consider ESG issues in our shareholder policies and practices.
- 3) Requesting that the companies in which we invest publish reports on their ESG practices.
- 4) Promote acceptance and implementation of the PRI among asset managers.
- 5) Working in partnership with financial sector players who are committed to the PRI to improve our effectiveness.
- 6) Report on our activities and progress in implementing the PRI.

Zencap AM, not being a shareholder, will adapt principle n°2 to the context of its private debt activity.

## 2.6. Our CSR approach

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In order to set an example and to be consistent, **our Responsible Investor policy is accompanied by a CSR approach** deployed at the level of the OFI group. This covers issues related to employees (well-being in the workplace, professional development, profit-sharing, etc.), environmental impacts (eco-responsible management of buildings, eco-gestures, etc.) and solidarity actions (support for charitable actions, including the rounding of salaries for the benefit of associations, sponsorship and donations).

## 2.7. Scope of our Responsible Investment Policy

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This policy applies to **all of Zencap AM's private debt management**.

Securitization products, outside of this scope, represented approximately 10% of outstandings as of December 2020, essentially cash management pending deployment in private debt. They aggregate large quantities of underlyings. This granularity complicates the collection of information. There is a real desire to improve on ESG issues, but the ESG approach used by managers/servicers in selecting underlying assets is currently limited mainly to the exclusion of sectors.

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<sup>2</sup> The six Principles for Responsible Investment are a set of voluntary investment principles that propose a range of possible actions to incorporate environmental, social and governance (ESG) issues into investment practices. The Principles were developed by investors under the guidance of the United Nations (UN). They have won the support of a global base of signatories representing the majority of professionally managed assets.

## 3. Policy for integrating sustainability risks into our investment approach

This part responds in particular to Article 3 of the European Regulation 2019/2088 of November 27, 2019, known as "SFDR".

*Note that Zencap AM adopts the same approach of integrating sustainability risks into its investment advice at all stages of financing (investment advice represents less than 10% of Zencap AM turnover on a structural basis).*

### 3.1. Definition and identification of sustainability risks

#### 3.1.1. Basis of the definition and general principles

According to the European "SFDR" regulation, a **sustainability risk** is "an environmental, social or governance event or situation which, if it occurs, could have a material adverse effect, actual or potential, on the value of the investment. The sustainability factors are "environmental, social and personnel issues, respect for human rights, and anti-corruption and bribery." These are part of what we refer to more broadly as "ESG issues".

We have categorized sustainability risks in the same way as the "ESG" (Environmental, Social & Governance) issues we analyze, into four main themes:

- Governance
- Social
- Environment
- Societal

In general, sustainability risks with direct financial consequences to the borrower include **four types of risks**:

- **Reputation risk**: risk of direct or indirect financial loss due to a devaluation of the borrower's brand or image, with a negative impact on the intangible component of its value.
- **Legal risk**: risk of direct or indirect financial loss due either to the borrower's conviction by a court for its practices or to the company's failure to anticipate new regulations in a country.
- **Production risk**: the risk of direct or indirect financial loss due to the impact on the production processes of the borrower's goods or services.
- **Opportunity risk**: risk of indirect financial losses due to the lack of positioning on new markets related to sustainable development that would ensure the long-term development of the borrower.

Note that sustainability risks also include those that do not have a direct financial impact on the borrower in the short term but are likely to have a significant impact on stakeholders.

These borrower risks represent both financial risks for Zencap AM - the risk of financial losses translating into solvency risk - and reputational risks. Zencap AM therefore pays close attention to them.

### 3.1.2. Key sustainability risks through the four ESG themes

#### GOVERNANCE

We consider governance issues to be fundamental; they concern the formalization of powers, and therefore the foundations of the organization, which must be sound in order to consider any development. They concern central policies and procedures, and as such, constitute the first level of risk management, including sustainability risks. Their proper management is a prerequisite for any advanced CSR approach.

Poor management of these issues is characterized by the concentration of management and supervisory powers, insufficient or poor quality checks and balances, poor managerial practices, inadequate organization, lack of guidelines for expected behavior, or lack of formalization of key policies. The resulting risks are decision-making contrary to the interests of the entity, the occurrence of deviant behavior (e.g., corruption), and thus more generally the destabilization of the entity.

#### SOCIAL

We pay close attention to social issues, which include human capital issues. The commitment of employees to a project, their motivation, the adequacy of their skills, the control of health and safety risks, and their fair and equitable treatment are all factors in the success of an organization. The lack of control of these issues can result in the risk of loss of talent, lack of attractiveness, social conflicts or lack of commitment with immediate repercussions on the sustainability of the organization.

Particular attention will be paid to compliance with the eight core ILO conventions on freedom of association and collective bargaining, the fight against forced labor, child labor, and discrimination, and equal pay.

For each potential borrower, we select and analyze the most material social sustainability issues and risks in the context of that borrower. The process of identifying issues is described in the section "ESG Due Diligence Building Blocks" ([3.3 The elements of ESG due diligence](#)).

#### ENVIRONMENT

Risks linked to climate change or to the loss of biodiversity, the effects of which can already be seen, risks of soil or water pollution, or risks linked to poor resources management (water, energy, wood, etc.) have become unavoidable. They are likely to disrupt operations, disrupt the supply of raw materials to companies, limit markets or render certain activities of the organization unfit. Zencap AM is therefore paying close attention to them.

The physical and transitional risks related to global warming and the risks related to biodiversity are detailed in "Our Climate and Biodiversity Policy" below ([6.1 Our Climate and Biodiversity Policy](#)).

For each potential borrower, we screen and analyze the most material environmental sustainability issues and risks in the borrower's context.

#### SOCIETAL

A borrower's activities are likely to be impacted by its external stakeholders (e.g., suppliers, customers, local communities, local residents, tenants, etc.) or to impact them. This can result in the risk of supply disruptions, loss of customers, legal disputes, and site blockages, which can jeopardize the sustainability of certain activities. Zencap AM is particularly vigilant in this regard.

As the sources of societal risks are particularly vast, Zencap AM adapts to each potential borrower. Also, on this theme, we look particularly at positive impact opportunities (e.g. green products).

For each potential borrower, we screen and analyze the most material societal sustainability issues and risks in the context of that borrower

### 3.2. ESG integration at all stages of the investment process

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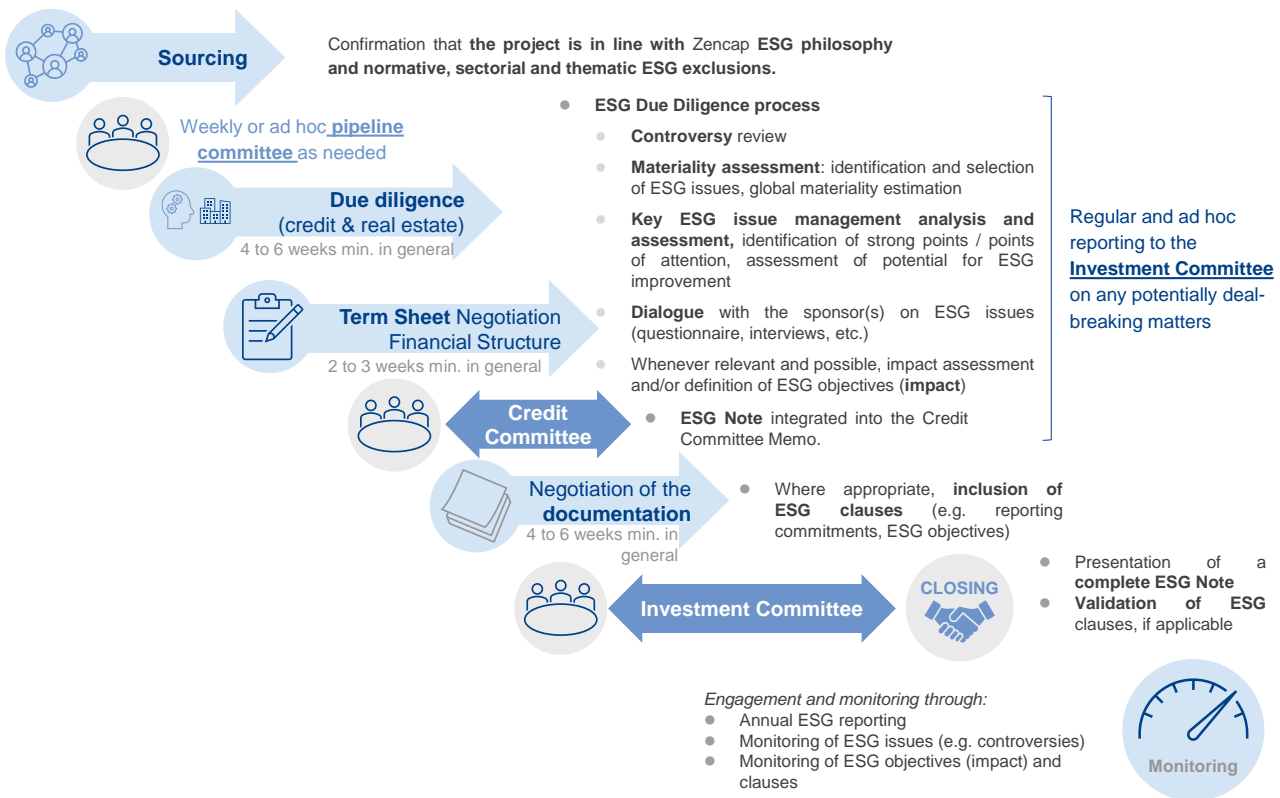
Sustainability risks and ESG issues are taken into account at **all stages of the investment process**:

- **As soon as the investment opportunities are sourced**
  - The investment teams, assisted if need be by the RM - ESG team, verify, before the "pipeline committee" occurs, that the borrower complies with our investment principles, in particular our thematic, sectoral and normative exclusion policies (see [6.2 Our exclusion policy](#)).
  - Companies or projects that provide solutions to societal issues or contribute to the UN's Sustainable Development Goals (SDGs) will be particularly welcomed.
- **During the due diligence phase:** an ESG analysis is systematically conducted.
  - It includes a review of controversies, identification and selection of the most material ESG issues, and assessment of the potential borrower's management of this selection of issues.
  - Attention will be paid to ensuring that the potential borrower's activities do not run counter to the SDGs. The analysis may be completed in the case of certain financing or certain funds, particularly those that follow an impact approach, by a qualitative assessment of the borrower's impact with respect to the SDGs.
  - An ESG rating, integrated into the investment memorandum, is prepared prior to the decision-making committees; this rating includes the overall maturity level of the potential borrower.
  - Our analysis is based in particular on exchanges with the potential borrower via the Zencap AM ESG questionnaire sent at this stage (and then annually in the event of investment) or via interviews in order to refine our perception of the approaches.

*These elements are developed in the following section "ESG Due Diligence Elements" ([3.3 The elements of ESG due diligence](#)).*

- **During the negotiation phase of the financing terms**
  - In the context of certain funds, particularly those with an impact vocation, Zencap AM may set sustainability, progress and impact objectives on ESG issues in close collaboration with the borrower. Depending on the investment context, ESG clauses may also be integrated into the final documentation (e.g. commitment to annual ESG reporting, formalization of ESG objectives).
- **Throughout the life of the financing**
  - Zencap AM asks borrowers to provide an annual ESG report based on the Zencap AM ESG questionnaire. This reporting allows us to review, at least annually, the borrower's progress in terms of CSR and gives us the opportunity to discuss with the borrower. It also feeds into the ESG reporting of the funds, if applicable.
  - A controversy watch is maintained.
  - The progress of ESG objectives is also reviewed annually, if necessary.

## ESG integration at all stages of the investment process



The monitoring process described above involves the management teams, the RM-ESG team and the members of the decision-making committees (see [2.4 Our ESG governance](#)).

As the primary contact for borrowers, the analysts and managers collect ESG information, with the support of the Risk Management (RM) - ESG team.

ESG topics and sustainability risks are discussed in the **decision-making committees** (in particular the credit and investment committees). During these committees, the RM - ESG team presents the conclusions of the ESG due diligence, any missing information, the strong points and points of vigilance, and, if necessary, the subjects on which Zencap AM can accompany the borrower in a progress approach, in particular through objectives. In addition, the committee members ensure before investing that the sustainability risk analysis is sufficient and that the ESG commitments related to the fund(s) concerned by the financing are respected.

Insufficient assessment of the potential borrower and lack of prospects for progress lead to the abandonment of the financing project by decision of the relevant committee.

### 3.3. The elements of ESG due diligence

ESG analysis is an integral part of the due diligence process for each new financing project.

An ESG analysis (environmental, social and governance issues) is systematically conducted in line with the potential borrower's material ESG issues.

The ESG due diligence process, regardless of the type of borrower, includes *at least* the following elements, after verification of compliance with our exclusion policy at the time of sourcing

- **A controversy review:** a high level of controversy with no prospect of progress leads to the abandonment of the funding project. The methodology is discussed in the section "Managing Controversies" ([3.6 Controversy management](#)).

- Identification and selection of the most material ESG issues in the context of the potential borrower.
  - This selection is the result of a **materiality analysis** for each issue, i.e. the risks likely to impact the potential borrower (reputational, legal, and opportunity risks) but also its stakeholders, as well as the borrower's potential to generate positive impacts, i.e. to contribute to social, societal, and environmental goals (e.g. potential contribution to the SDGs). Materiality is thus linked to sustainability risks without being limited to them (principles of double materiality and impact).
- **The borrower's environment** also has a significant influence on the assessment: activities, level of maturity of the sector, size of the company or assets, geographical locations, level of growth.
  - In particular, the level of risk related to **geographic exposure** is assessed. The exposure concerns the borrower itself but also its value chain (e.g. subcontractors, markets). This risk is analyzed according to indicators from international agencies (e.g. Transparency International) on country risks (corruption, human rights, compliance with ILO conventions, etc.). Depending on the risks identified as being linked to geographical exposure, the analysis of certain issues will be more detailed.
  - The materiality of the issues is assessed on a **three-level scale**: Low, Medium and High. The analysis will focus on issues of medium or high materiality.
- **Assessment of the potential borrower's management of material issues.** This analysis is carried out using a robust internal methodology based on market recommendations and international standards.
  - Issue management is assessed in terms of policies and commitments, objectives, management systems, and monitoring and evaluation of results. The assessment is translated into a maturity level assigned to each issue analyzed according to a **five-level qualitative scale**:
    - \*\*\*\*\* Leader - Best Practices
    - \*\*\*\* Involved - Best practices
    - \*\*\* Followers - Standard Practices
    - Uncertain - Weak practices
    - Overdue - Insufficient practices
  - In the case of some funds, particularly those with an impact orientation, the analysis is complemented by a **qualitative assessment of the borrower's impact on the SDGs**. The borrower's intentionality in meeting the SDGs is thus analyzed, as well as the indicators monitored and the results observed. Negative impacts on other SDGs are also observed before a conclusion is reached on the potential borrower's level of impact.
- **The summary of the assessment is formalized** in an ESG Report, which includes
  - Review of ESG process elements
  - The overall maturity level of the potential borrower according to the qualitative rating scale presented above, with an overall opinion.
  - The potential borrower's strengths and areas for attention and improvement if necessary.
  - A risk matrix on which we place the issues according to their materiality and their level of management.

### 3.4. The analysis framework: frames of reference and issues

#### 3.4.1. Taking into account recognized standards

Zencap AM's methodologies and analysis criteria are based on founding texts, conventions, standards or benchmarks recognized in France or internationally.

Our ESG approach is based on international texts related to Sustainable Development, in particular the UN Global Compact, the UN Sustainable Development Goals, the OECD guiding principles and the fundamental conventions of the ILO (International Labour Organization), the principles of international organizations (e.g. Global Reporting Initiative, PRI, SASB, IFC), the recommendations of professional organizations (France Invest, AFG, FFA, Euro PP, Afep-Medef) and those of specialized bodies (e.g. TCFD, the French Association of Financial Institutions): Global Reporting Initiative, PRI, SASB, IFC), on the recommendations of professional organizations (France Invest, AFG, FFA, Euro PP, Afep-Medef) or those of specialized organizations (e.g. TCFD for climate, INREV or GRESB in real estate).

As such, the ESG questionnaires sent to borrowers are specific to Zencap AM but are based on best practices and on these key texts.

Depending on the borrower's profile, we have developed adapted ESG questionnaires (corporates, real estate assets, developers, etc.) that are based on the recommendations that are most relevant to them.

#### 3.4.2. Issues and criteria for analysis

The governance issues described below are systematically analyzed regardless of the profile of the potential borrower (the analysis will focus on the borrower in the case of corporate financing or on the sponsor in the case of asset financing). Indeed, the base of good practices expected in this area is independent of the nature of the activities.

With regard to social, environmental and societal issues, we select and analyze the most material issues for each potential borrower, following the process described earlier in the section "ESG Due Diligence Elements" (3.3 The elements of ESG due diligence ).

Each of the issues presented below is broken down into indicators. Note that in the case of real estate or infrastructure asset financing, the analysis will focus on 1) the assets and 2) where applicable, the sponsor. The issues and criteria analyzed are likely to change as standards and recommendations evolve.

#### GOVERNANCE ISSUES

The main governance issues analyzed by Zencap AM are the followings:

- Governance structure (e.g., composition and operation of governance bodies)
- Business ethics (e.g. anti-bribery policy, data management policy)
- CSR policy (e.g. formalization, action plan) and/or responsible investment policy (e.g. monitoring of ESG indicators on the asset portfolio).

#### SOCIAL ISSUES

The main issues commonly analyzed by Zencap AM in the social field are the followings:

- Workforce trends, employment and diversity
- Quality of social relations
- Human capital and skills management



- Health and safety and well-being

## ENVIRONMENTAL ISSUES

The main environmental issues commonly analyzed by Zencap AM are the followings:

- Environmental policy, environmental management system and climate change risks (physical and transitional risks)
- Direct or indirect impacts of the potential borrower or its assets on the environment, including issues related to carbon emissions, energy consumption, renewable energy, raw material consumption, water consumption, waste and packaging production, toxic emissions, biodiversity protection, and the circular economy
- Responsible building management (e.g. environmental quality of buildings, responsible asset management)
- Share of "green" sales, in particular in the context of the "Greenfin" label. Zencap is also in the process of structuring its approach with regard to the European Green Taxonomy.

## SOCIETAL ISSUES

The main issues commonly analyzed by Zencap AM in terms of social issues are the followings:

- Responsible purchasing policy and social and environmental practices in the supply chain
- Development of eco-responsible, "green" or socially oriented products, services or assets
- Dialogue with local communities and/or occupants of real estate assets where appropriate
- Protection of personal data
- Access to products and services

### 3.5. Information sources for ESG analysis

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The sources of information used to feed the ESG analysis process are of various kinds:

- ESG data collected through the Zencap AM ESG questionnaire (or equivalent)
- Qualitative interviews with borrowers
- Annual Report, CSR Report, CSR/ESG Reporting
- Business Ethics Policy
- Other public or internal documents (CSR policy, composition of the Board, organization chart, HR dashboard, other steering tables, Supplier Code of Conduct, certifications, etc.)
- External due diligence reports (legal due diligence, environmental impact report, etc.)
- External labels or evaluations (B-Corp, Ecovadis, Second Party Opinion, etc.)
- Thematic and sectoral research (brokers, NGOs, etc.)
- External databases (Transparency International, Global Risk Profile, INSEE, Health Insurance, etc.).
- Publicly available data such as blogs, websites, etc. reflecting stakeholder opinions of the borrower.

### 3.6. Controversy management

Controversies are events, reported by the media, that negatively affect one of the borrower's stakeholders (employees, customers, suppliers, investors, local communities, civil society, regulators, environment).

Controversies are likely to damage the reputation of the borrower, and *ultimately* that of the investor, with potentially significant consequences for the business.

Zencap AM manages borrower-related controversies through two channels:

- A review of controversies is systematically carried out during the due diligence phase. It allows us to compare the company's statements and commitments with its practices and events, whether voluntary or accidental.
- A watch is kept on controversies and incidents involving borrowers in the portfolio.

#### 3.6.1. The controversy review

The review is carried out with regard to the main international conventions, in particular the Universal Declaration of Human Rights, the declaration of fundamental principles and labor rights of the ILO (International Labor Organization) and the 10 principles of the UN Global Compact.

The level of controversy is assessed according to its frequency and intensity, i.e., the impact of the event on the borrower and its stakeholders, taking into account the remediation measures undertaken. The alleged responsibility of the borrower, the geographical extent of the incident, the number of potential victims, if it is an isolated case, are elements taken into account.

The level is defined on a four-level scale, RAS (no significant controversy identified), low, medium, high according to the following grid.

*Borrower's level of controversy by frequency and intensity of events*

	Low intensity	Average intensity	High intensity
Low frequency	LOW	LOW	MEDIUM
Average frequency	LOW	MEDIUM	FORT
High frequency	MEDIUM	FORT	FORT

The review is mainly done by searching for keywords on search engines.

Reputation surveys can complement the review.

A high level of controversy and the lack of prospects for progress lead to the abandonment of the funding project.

#### 3.6.2. Controversy monitoring

Borrowers in the portfolio are subject to a news alert system in case of articles published on the internet. In addition, all Zencap AM teams regularly read the press. Finally, regular contacts with borrowers allow us to follow their newsflow.

## 4. The search for impact

Zencap AM has undertaken an impact approach on a selection of funds. This impact research is achieved in two ways:

- Impact of thematic investments
- Defining ESG and impact objectives

### 4.1. Impact themed investments

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Zencap AM intends to develop thematic investments that respond to societal issues, particularly those that provide solutions or contribute to the UN's Sustainable Development Goals (SDGs).

In the face of climate change and an increasingly threatened planet, the ecological and energy transition is one of the priorities we wish to address (SDG 7 and SDG 13). We therefore finance companies and projects that are positively committed to the social, ecological and environmental transition. This is now the case for our Zencap Energy Transition Debt III fund, which has the Greenfin label and invests primarily in renewable energies (photovoltaic and wind power). The amount of carbon emissions avoided through the financing of the various projects is measured.



SDG 7: Ensure access to affordable, reliable, sustainable and modern energy for all



SDG 13: Take urgent action to combat climate change and its impacts

Zencap AM will be able to set investment priorities aligned with other SDGs in the future. We are already seeking to align the targets set with borrowers, with the SDGs (see below).

### 4.2. Setting ESG and impact objectives

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Zencap AM has sought to integrate an impact dimension into the policies of several recent funds by setting ambitious and monitored objectives that address societal issues. This is an approach that Zencap wishes to develop.

This is systematically the case for our "Rebond Tricolore" fund launched in 2020, which is also part of the "Insurers - Caisse des Dépôts Relance Durable France" investment program coordinated by the FFA to support the French economy affected by the Covid-19 crisis of 2020-2021.

Thus, within the framework of these funds, but not only, as soon as the context requires and allows it, sustainability, progress or impact objectives may be set in consultation with the borrower. They are determined on the basis of the results of the ESG due diligence and the areas for progress identified.

The objectives are validated by the Investment Committee. They may be included in the documentation as a condition of financing.

It can also be agreed that the achievement of the set objectives influences the interest rate of the financing.

Zencap AM seeks to develop this "sustainability-linked bond" approach whenever it is relevant.

The goals are set in close collaboration with the borrower. We look for goals that are :

- adapted to the company,
- qualitative or quantitative,
- stopped in time,
- assessable according to a clear methodology,
- associated with a monitoring KPI,
- associated with targets to be achieved, annually or otherwise, and
- linked as much as possible to the SDGs if relevant.

As for the SDGs, Zencap may seek at the fund level to align the targets set with the borrowers on a few priority SDGs in order to focus our commitment on priority areas. It should be noted that the willingness to contribute to an SDG should obviously not be at the expense of other SDGs.

The borrower agrees to provide an annual progress report on the objectives set. A progress report is made *at least once* a year

This approach is virtuous for both Zencap AM (risk control, proximity to the borrower, added value distilled through support) and the borrower (progress, benefits of support, financial gains where applicable).

## 5. Statement on due diligence policies for addressing key adverse sustainability impacts

This part responds in particular to Article 4 of the European Regulation 2019/2088 of November 27, 2019, known as "SFDR".

Zencap AM is a management company that currently has less than 30 employees. The threshold designated by the "SFDR" regulation of 500 employees on average over the financial year is therefore not reached. Nevertheless, we intend to put in place the necessary due diligence to take into account the main negative impacts of our investments via our borrowers in terms of sustainability.

We are already well on our way to doing this, as Zencap AM takes into account in its investment process the most relevant sustainability factors in the context of each potential borrower.

The main negative impacts of issuers are thus reviewed as part of our ESG approach, detailed in the following three sections of this document:

- ESG integration at all stages of the investment process ([3.2](#)ESG integration at all stages of the investment process )
- ESG Due Diligence components ([3.3](#)The elements of ESG due diligence )
- The analysis framework: frames of reference and issues ([3.4](#)The analysis framework: frames of reference and issues )

Negative impacts are examined as well as the ability of borrowers to reduce and manage them.

Nevertheless, given the asset class (private debt) and the size of our borrowers (e.g. SMEs), we do not yet have all the data to measure these impacts accurately. Zencap AM intends to make the best efforts to fill these gaps by integrating new indicators into its ESG questionnaire in order to be able to collect useful information. However, Zencap AM also depends on the indicators monitored and calculated by the borrowers. While we are in the process of influencing borrowers as much as possible to define indicators and collect data, this is a long-term development.

## 6. Our specific policies

### 6.1. 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).

#### 6.1.1. 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) <sup>3</sup>, 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.

<sup>3</sup> 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 [6.2](#) Our exclusion policy ). 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.

### 6.1.2. 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.

## 6.2. Our exclusion policy

Zencap AM's exclusion policy applies to all private debt management. Some funds may also be subject to other specific exclusions in addition to these.

These exclusions are in addition to the prohibition on investing in countries on the FATF and ETNC lists, in accordance with our AML/CFT procedure.

### 6.2.1. Our thematic or sectoral exclusions

Our exclusion policies are accompanied by an approach based on dialogue and commitment in order to encourage stakeholders to improve their practices.

#### EXCLUSIONS IN THE FRAMEWORK OF ZENCAP AM CLIMATE POLICY

Given the urgency of climate change issues, Zencap AM intends to contribute to the objectives of the Paris Climate Agreement (2015) and is therefore committed to excluding fossil fuels. According to the IEA (International Energy Agency), in order to meet the objectives of the energy transition and to keep global warming below 2°C by 2100, one third of oil reserves, half of gas reserves and more than 80% of coal reserves will have to remain underground.

#### ● Thermal coal

Given the significant contribution of coal combustion to greenhouse gas emissions <sup>4</sup>and other pollutants, Zencap AM has decided to exclude from all of its current and future financings, regardless of geographic region, companies or projects whose activities<sup>5</sup> are related to thermal coal<sup>6</sup>, as described below:

- **Any holder of thermal coal mines regardless of size or share of assets.**
- **Any new project or asset development related to thermal coal:** this excludes projects or assets involving the development of new thermal coal mining or transformation capacity, coal-based energy production or dedicated infrastructure related to these projects (e.g. coal-fired power plants, coal-fired heating networks, dedicated transport infrastructure), regardless of the size of the project.
- **Any company with existing coal-fired power plants with installed capacity in excess of 2 GW, or any power company whose thermal coal-based generation (or otherwise installed capacity) exceeds 10% of the total annual generation mix,** unless the company expressly commits to a transformation plan involving compliance with these thresholds within two years and the cessation (not divestment) of all coal-based generation within five years of the grant.
- **Any borrower with more than 10% of annual revenues or activity directly related to thermal coal** (mining services, processing, construction of dedicated infrastructure, etc.), unless the borrower commits to meet this threshold within two years and to fully exit these activities within five years.
- **Including the exclusion of any company on the Global Coal Exit List (GCEL)<sup>7</sup>** established by the NGO Urgewald, whose criteria are less restrictive than those listed above, unless the company commits to meeting our thresholds within two years and to fully exiting these activities within five years.

<sup>4</sup> CO<sub>2</sub>/kWh emission factor higher than other fossil fuels such as gas or fuel oil.

<sup>5</sup> The funded companies' own activities and not those of their customers, suppliers or other stakeholders.

<sup>6</sup> This is to be distinguished from metallurgical coal used in the production of steel, for which there is no real alternative today.

<sup>7</sup> Global Coal Exit List (GCEL) of the NGO Urgewald: <https://www.urgewald.org/en/coal-exit-list>

These thresholds<sup>8</sup> allow for a pragmatic approach while the energy transition is underway. **In 2030, when the energy transition is more advanced, these thresholds will be reduced to 0**, meaning that Zencap AM will not provide any financing related to thermal coal.

- **Conventional oil**

Zencap AM excludes from its financing companies that generate **more than 10% of their revenues** from activities directly related to oil extraction, unless the borrower commits to meeting this threshold within two years or to exit oil within five years. This threshold will be reduced to zero in 2030.

- **Unconventional oils (shale oil and gas, oil sands) and wells in the Arctic or in deep waters**

**Zencap AM excludes financing companies** whose activity is directly linked to the extraction of shale oil or shale gas, the extraction or exploitation of oil sands or the exploration, extraction or exploitation of oils from drilling in the Arctic or in deep waters.

## OTHER EXCLUSIONS

These exclusions are more about beliefs.

- **Controversial weapons**

Zencap AM, like all French asset management companies, is committed to respecting the Ottawa and Oslo international conventions on the prohibition of anti-personnel mines (APMs) and cluster bombs (cluster bombs) and therefore not to finance any activity related to these weapons. More broadly, Zencap AM will not finance activities that involve the manufacture, trade, distribution or stockpiling of the following so-called controversial weapons: MAP/BASM and their key components as well as chemical and biological weapons, and white phosphorus. Zencap AM respects the [detailed position of the OFI Group](#) on this subject.

- **Tobacco**

Given the cost of tobacco to society (human cost, health cost), Zencap AM excludes from its financing all tobacco producing companies (at the 1<sup>st</sup> euro of turnover).

Zencap AM also excludes from its financing companies whose business activity (>10% of annual sales) is significantly related to the trade or distribution of tobacco.

## 6.2.2. Our normative exclusions

Zencap AM is committed to refusing to fund companies or other organizations that are directly linked to proven or strongly suspected, serious and/or repeated violations of any of the Ten Principles of the UN Global Compact. These ten principles are based on the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development and the United Nations Convention against Corruption.

<sup>8</sup> At the end of 2020, Zencap AM does not finance any company related to thermal coal. These thresholds are nevertheless defined if the subject comes up in a new case. Note that these thresholds are more restrictive than those adopted by the Global Coal Exit List (GCEL) of the NGO Urgewald.

As a reminder, the Ten Principles of the Global Compact are as follows:

#### THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT

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##### Human Rights

- 1** Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2** Make sure that they are not complicit in human rights abuses.

##### Labour

- 3** Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4** The elimination of all forms of forced and compulsory labour;
- 5** The effective abolition of child labour; and
- 6** The elimination of discrimination in respect of employment and occupation.

##### Environment

- 7** Businesses should support a precautionary approach to environmental challenges;
- 8** Undertake initiatives to promote greater environmental responsibility; and
- 9** Encourage the development and diffusion of environmentally friendly technologies.

##### Anti-Corruption

- 10** Businesses should work against corruption in all its forms, including extortion and bribery.

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The UN Global Compact's Ten Principles are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.

### 6.3. Our stewardship, engagement and dialogue policy

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*This policy applies to all private debt investment.*

Zencap AM's policy of engagement and dialogue aims at establishing a constructive, long-term and progressive relationship with our borrowers.

It includes different dimensions:

- Educating potential borrowers during the investment process

During the investment process, in particular during the due diligence phase, discussions are held with the borrower on ESG issues, using Zencap AM ESG questionnaire but not only, as ESG issues are regularly discussed during interviews. This dialogue, which is initiated during the initial contacts, allows us to raise the borrower's awareness of its key issues, the results of our analysis and, if necessary, the areas for improvement identified.

- Setting CSR and impact objectives

When the context requires and allows it, and systematically for certain funds (e.g. Rebond Tricolore), Zencap AM sets objectives with the borrower, in consultation with the latter (see [4.2](#) Setting ESG and impact objectives ).

On this occasion, the awareness-raising work goes further, it is a matter of involving the borrower in a constructive progress approach in which he believes.

- Support and continuous dialogue

Supporting borrowers over the long term, including on ESG issues, is a hallmark of Zencap AM, which we intend to continue cultivating. The proximity with our borrowers allows us to have an ongoing dialogue. This dialogue covers governance, business ethics, strategy, financial and non-financial risks, policies, financial and non-financial results, social and environmental impact and reporting. Our "RM-ESG" team listens and makes proposals.

We encourage our borrowers to build a solid CSR approach and to value it, to assess their ability to address societal issues, and to demonstrate transparency through appropriate ESG disclosure and reporting.

- Monitoring of risks and controversies

While support is part of our relationship with borrowers, we are also vigilant about new risks and any drift in our portfolio companies. We follow the press, sector studies or thematic research and are able to question our borrowers if necessary. In the event of controversy, Zencap AM will approach the borrower to ask for explanations and to ensure that remedial and/or corrective action is taken. Similarly, in case of behavior or development of activities that are in contradiction with Zencap AM commitments or those of the fund, Zencap will follow the same approach. Dialogue is always the priority before any decision is made to terminate the relationship.

- Annual ESG reporting

For most of our financings, as soon as possible, the borrower commits, as part of the monitoring during the financing period, to provide an annual ESG reporting (Zencap AM ESG questionnaire). This framework encourages regular exchanges between Zencap AM and the borrower and allows for continued awareness throughout the financing period.

- Review of ESG objectives

When objectives are set, they are reviewed with the borrower *at least* once a year and make it possible to continue quality exchanges while supporting the borrower in its progress.

- Stakeholder relations

Zencap AM's engagement approach is not limited to borrowers, we also take ESG issues into account in our business relationships or more broadly in the marketplace.

Zencap AM strives to be active in its commercial and contractual relationships with clients, partners and professional associations, as well as in various market initiatives to promote responsible investment and share best practices.

## 7. Communication and reporting

### 7.1. Internal communication

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This Policy is communicated to all Zencap AM teams, who are also trained in these issues.

All of Zencap AM teams are involved in ensuring that the Management Company's responsible investment policy is respected (see [2.4](#) Our ESG governance ).

In addition, ESG issues (news related to an ESG theme, a sector or a borrower) are discussed at **weekly meetings** involving the entire Zencap team. In addition, an ESG press watch is carried out as part of the monthly risk reporting shared with all teams.

### 7.2. External communication and reporting

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#### 7.2.1. Public communication

Our Responsible Investor policy is published in various ways, both on our website and on external platforms (PRI, Observatoire de la finance durable).

- **Reporting to PRI**

Since signing the PRI in 2020, Zencap AM has been **reporting annually on the PRI platform**. Note that prior to 2020, Zencap AM was a signatory to the PRI through its parent company, OFI AM.

- **The annual ESG report**

Each year, Zencap AM produces an **ESG report** at the management company level to report on the progress of its responsible investment policy and its results. This report also complies with article 173 of the Law on Energy and Ecological Transition (LTEE).

- **Public information under the European SFDR Regulation**

In accordance with the European SFDR or "Disclosure" Regulation, Zencap AM publishes and maintains **on its website** the information required under Articles 3 and 4, which is integrated into this Policy, as well as the way in which the remuneration policies are adapted to the integration of sustainability risks (Article 5), cf. the document published on our website "Integration of sustainability risks into Zencap AM's remuneration policy".

In general, Zencap AM is committed to transparency on these issues with its stakeholders as much as possible. For example, Zencap AM responds to requests for information from the Sustainable Finance Observatory, a collective initiative of the professional federations of the Paris financial market that meets a strong expectation of the Ministry of the Economy, Finance and Recovery.

## 7.2.2. Communication to eligible customers and prospects

Due to the nature of our funds, managed mandates and investment advisory services, the following information is only available to our eligible clients and prospects.

- **Information under the European SFDR Regulation**

Within the framework of the obligations related to the European SFDR Regulation, Zencap AM communicates in the pre-contractual documentation of its funds, the information on the risks in terms of sustainability (Article 6 of the regulation). In addition, all funds that fall under articles 8 or 9 of the regulation are subject to specific communication (pre-contractual documents and reporting) regarding the information required according to their classification.

- **ESG reporting**

Some funds, depending on their strategy, may also be subject to specific **ESG and/or impact reporting**, *at least* annually.

More generally, **Zencap AM is committed to providing its investor clients with transparent, clear and reliable information, whether in the** context of contractual commitments, periodic meetings or in response to specific requests for additional information.

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