

MAY 2021

## **ESG POLICY**

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# Purpose and context

The purpose of this document is to present CIC Private Debt's ESG approach, both within the management company and in its investor activity.

In addition, the ESG policy enables CIC Private Debt to comply with the French and European regulatory requirements - in particular [Article 173 VI of the Energy Transition Law](#) (2015), [Article 29 of the Energy-Climate Law](#) (2021) and the [Disclosure Regulation](#) (2021).

In particular, the Disclosure Regulation requires uniform sustainability disclosure at management company level in three areas:

- Policies on how sustainability risks<sup>3-Glossary</sup> are integrated in the investment processes
- Due diligence policies on adverse impacts<sup>4-Glossary</sup> of investment decisions on sustainability factors<sup>5-Glossary</sup>
- Integrating sustainability risks into investment policies

A concordance table below allows you to find the required information:

<a href="#">Disclosure Regulation (SFDR)</a>	Location in the document
Art. 3: Transparency of the sustainability risk policy	I. II. ii)
Art. 4: Transparency of adverse sustainability impact at the entity level	
a. information regarding policies related to the identification and prioritisation of key adverse sustainability impacts and related indicators;	II. ii)
b. description of the main adverse sustainability impacts and any measures taken or, where appropriate, planned in this regard;	<i>The main adverse impacts vary from one investment to the other. They will be consolidated at portfolio level in the 2021 annual ESG reporting for the year 2020, which will be communicated to CIC Private Debt's clients and investors.</i>
c. a brief summary of the commitment policies, in accordance with Article 3 octies of Directive 2007/36/EC, where applicable;	<i>As a lender, CIC Private Debt does not interfere in the governance of companies and has no formal means of engagement. However, where possible, an informal dialogue is set up to promote ESG in practices on a voluntary basis (e.g. annual ESG reporting).</i>
d. reference to compliance with codes of responsible business conduct and internationally recognised standards of due diligence and disclosure and, where appropriate, the degree of alignment with the objectives of the Paris Agreement	II. ii) a.
Art. 5: Integration of the sustainability risk into the investment policies	II. i)

## I - ESG definition according to CIC Private Debt

Created in 2003, CIC Private Debt currently manages €2.5 billion on behalf of institutional and private investors and represents a team of around 20 investors based in Paris and London. CIC, a historical sponsor, continues to invest in the funds managed by CIC Private Debt. CIC's allocation currently represents 6% of assets under management.

A leading player in disintermediated financing for European SMEs and SMIs, the management company is regulated by the AMF and is AIFM approved. CIC Private Debt assists companies, mainly unlisted, with their financing and transfer. This investment creates financial and extra-financial value - in particular local job creation, as well as the development and sustainability of the business over the medium/long term.

CIC Private Debt is a third-party asset management company, originating from the banking sector, and this status requires accountability towards its institutional clients. CIC Private Debt therefore adopts a prudent approach to risk management. This prudence enables CIC Private Debt to protect itself from the reputational risk that its activities could generate for its underwriters. As such, consideration of sustainability risks is embedded in the day-to-day behaviour of the teams.

Furthermore, as a wholly owned subsidiary of the Crédit Mutuel Alliance Fédérale Group, CIC Private Debt is a legitimate and experienced player, while retaining total independence and autonomy in the conduct of its investment activities from the rest of the Group.

As a manager of debt funds raised from third-party institutions, CIC Private Debt's ecosystem is made up of banks, management companies and companies (SMEs and ETIs). CIC Private Debt plays a positive role into this ecosystem, having an impact on all its stakeholders, leading it to adopt a responsible investor policy covering environmental, social/societal and governance issues (ESG<sup>1</sup> - Glossary).

A subsidiary of Crédit Mutuel Alliance Fédérale, which became the first bank to adopt the status of a "Entreprise à mission"<sup>2</sup>-Glossary in October 2020, CIC Private Debt is committed to respecting the values of democracy and solidarity in its investment activities. In particular, CIC Private Debt launched its philanthropic fund at the beginning of 2021 to support regional projects of general interest. The fund is committed to supporting around ten projects each year in five main areas: solidarity, education and integration, sustainable development, health and culture.

CIC Private Debt's ESG approach is in line with the mutualist and societal values of the Crédit Mutuel Alliance Fédérale group. These values reflect the uniqueness of CIC Private Debt within its market. This ESG policy is the result of a voluntary approach, while complying with the French and European regulatory requirements for management companies.

## II - Presentation of CIC Private Debt's ESG approach and strategy

### i) At the management company level

CIC Private Debt's values are shared by all its employees. The investment team, consisting of around twenty people, is aware of and trained in ESG issues and is responsible for implementing the approach at the management company level and its activities.

The ESG approach at the management company level is based on four pillars:

#### - **Governance**

- CIC Private Debt complies with the various national, European and sectoral laws and regulations, and must be exemplary in terms of business ethics and the fight against corruption in accordance with its procedures.
- CIC Private Debt's management and team are involved in ESG governance and ensure that this policy is applied. External service providers are used to provide ESG training to the teams and to ensure regulatory and sectoral monitoring.
- The remuneration of CIC Private Debt's teams is governed by the Remuneration Policy, established in accordance with the provisions required by Annex II of the AIFM Directive and by the UCITS 5 Directive on remuneration policies within management companies. Thus, the remuneration policy is consistent with sound and efficient risk management and does not encourage risk-taking that is inconsistent with the risk profiles or governing documents of the AIFs under management. Sustainability risks are listed in the risk profiles of the funds, and the investment team is therefore encouraged to take them into account in their activities.

#### - **Social commitments**

- As human resources are the main resources of the management company, CIC Private Debt is committed to developing the skills of its employees and providing them with a quality working environment, while promoting diversity within its teams.
- The Crédit Mutuel Alliance Fédérale Group has signed a Quality of Life at Work Charter, which is also applied to CIC Private Debt teams.
- CIC Private Debt has signed the France Invest Parity Charter, which aims to promote parity among French private equity players and the companies they support.

#### - **Environmental commitments**

- Although CIC Private Debt's activities have a limited direct impact on the environment (service activity), the management company aims to reduce it as much as possible. Thus, the teams implement eco-actions on a daily basis, particularly in terms of energy consumption, and in favour of reducing and recovering the waste produced at the management company level (reduction of single-use plastic waste, sorting of office waste, etc.).
- Where possible, environmental criteria are applied to purchases and travel expenses (environmental labels, low carbon criteria, etc.).
- To reinforce this commitment and demonstrate its exemplary nature, a carbon footprint of the management company will be carried out for the first time in

2021 and will be re-evaluated regularly on the main items to monitor environmental progress over time.

- CIC Private Debt is a subsidiary of CIC associated with the approach taken by the players in the Paris financial centre on climate change, which was the subject of a declaration at the “Climate Finance Day” on 22 May 2015, and which was confirmed by another declaration on 29 June 2016 from the “Paris Green Financial Center”.

- **Societal commitments**

- CIC Private Debt launched its philanthropic fund at the beginning of 2021 to support regional projects of general interest. The objective of CIC Private Debt Philanthropy is to help develop the economic and social ecosystem of the French regions. Each year, the fund will support about ten projects, falling under 5 main themes:
  - Solidarity
  - Education & Integration
  - Sustainable development
  - Health
  - Culture

This philanthropic action is fully in line with the values of its reference shareholder, Crédit Mutuel Alliance Fédérale.

CIC Private Debt Philanthropy is housed within the Fonds de Dotation Transatlantique, created by Banque Transatlantique in 2012, and thus benefits from the expertise and advice of a specialised team.

The projects supported will be selected by the management committee of CIC Private Debt Philanthropy, a committee composed of employees of the management company.

CIC Private Debt will thus strengthen its social and environmental impact in a direct and measurable way through this philanthropic approach.

## ii) As an investor

### a. Sectoral initiatives

CIC Private Debt's ESG approach is confirmed by its signature of the **France Invest Responsible Investor Charter** and its adherence to the **Principles for Responsible Investment (PRI)**. The six principles are as follows:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.

- Principle 6: We will each report on our activities and progress towards implementing the Principles.

By signing the Principles, actors publicly commit to adopt and implement them, where consistent with their fiduciary responsibilities. They also commit to evaluate the effectiveness and improve the content of the Principles over time. They believe that this will improve their ability to meet their commitments to their beneficiaries as well as better align their investment activities with the broader interests of society.

## b. Integration within the investment process

### *Investment strategy*

CIC Private Debt manages debt funds for sophisticated investors only. The funds are closed-end and generally have a legal duration of 10 years.

Sustainability risks are built into the risk profile of the funds under construction and funds to come.

On some operations, mechanisms for adjusting the credit margin indexed on extra-financial criteria are put in place. This practice is not systematic but is likely to be developed.

Although CIC Private Debt does not adopt a targeted investment strategy, approximately 20% of the companies in the portfolio are from the health and education sectors, and contribute through their core business to social and societal issues, including the following UN Sustainable Development Goals<sup>1</sup>: Goal 3 "Good health and well-being" and Goal 4 "Quality education".

### *Sectoral exclusion*

In accordance with Crédit Mutuel Alliance Fédérale group policy, CIC Private Debt follows the following exclusion criteria:

- **“Coal” sector policy:**
  - o Exclusion of companies listed in the GCEL as developing new coal capacity
  - o Exclusion of companies that do not meet any of the following four criteria, unless they have published a coal asset retirement plan:
    - Annual coal production of strictly less than 10 million tonnes
    - Annual coal production of strictly less than 10 million tonnes: Installed coal-based power generation capacity of strictly less than 5 gigawatts
    - Coal's share of turnover strictly below 20%.
    - Share of coal in the energy production mix strictly below 20%.
- **Defence and security sector policy:**
  - o Exclusion of companies involved in any of the following activities:
    - anti-personnel mines
    - cluster munitions
    - biological weapons
    - chemical weapons

<sup>1</sup> <https://www.un.org/sustainabledevelopment/fr/objectifs-de-developpement-durable/>

The Sustainable Development Goals (SDGs) are a universal call to action to eradicate poverty, protect the planet and improve the lives of people everywhere, while creating opportunities for the future. The 17 Sustainable Development Goals (SDGs) were adopted in 2015 by all United Nations Member States as part of the 2030 Agenda for Sustainable Development, which sets out a 15-year plan to achieve the goals.

- nuclear weapons on behalf of states not authorised to possess such weapons by the Nuclear Non-Proliferation Treaty
- Involvement means the development, production, use, maintenance, distribution, import or export, storage or transport of any of the above activities.
- Monitoring of controversies concerning companies involved in military combat arms: Expert assessment of companies involved in military combat arms (turnover >5% of the business) and subject to strong controversy that could lead to exclusion.
- The Funds managed by CIC Private Debt will not invest in companies providing offensive or defensive weapons, detection or communication equipment, logistical support or R&D for military use, insofar as these activities represent more than one third of the turnover of the said company at the time of investment;

In addition, CIC Private Debt considers that the following sectors represent sustainability risks and may lead to negative environmental or social impacts. Therefore, the funds managed by CIC Private Debt will not invest in:

- Companies whose activity involves illegal economic activities;
- Companies whose activity involves gambling, provided that it represents more than one third of the turnover of the said company at the time of the investment;
- Companies whose activity concerns the production and trade of tobacco
- Companies whose activity concerns pornography;
- Companies whose activity concerns the production of or trade in fossil fuels, in particular coal, insofar as this represents a majority share of the turnover of the said company at the time of the investment;
- Companies that seriously contravene one or more of the ten principles of the UN Global Compact, the four areas of which are human rights, labour standards, the environment, and the fight against corruption.

### *Pre-investment ESG Analysis*

CIC Private Debt implements due diligence measures to avoid any sustainability risks associated with its investments, taking into account environmental (including climate change and biodiversity risks), social and governance risks.

In concrete terms, for each study of target companies, CIC Private Debt generally has access to acquisition audits containing information relating to these risks, as well as to ESG reports and analyses communicated by the borrowers (e.g. social due diligence, environmental reports in the case of industrial activities carried out with target companies in order to assess their maturity with regard to extra-financial issues and to identify potential inherent risks).

In addition, an **ESG analysis grid** enables the investment team to identify potential red flags that could lead to sustainability risks, and/or ESG opportunities associated with the target activity. It also allows the identification of the target company's good practices, as well as the main points of vigilance and possible areas of improvement considered by the management or the partners of the investment/transfer operation.

The themes studied are: governance, risk and CSR management, social, environment (particularly climate and biodiversity), and stakeholders (suppliers, customers, civil society).



This grid is completed and analysed by the manager in charge of the investment and is an integral part of the file presented to the investment committee.

### *Annual ESG Reporting*

CIC Private Debt's ESG approach is also integrated into the holding phase of the portfolio companies, with the aim of assessing the portfolio's exposure to sustainability risks on an annual basis and establishing the ESG footprint of its portfolio (and therefore assessing the main negative impacts that may occur).

An annual ESG reporting campaign is conducted for all fund holdings via a dedicated external reporting tool (Reporting 21). Where appropriate, CIC Private Debt relies on the reports of co-investors/sponsor leads to collect the data.

The topics covered by the ESG questionnaire are as follows:

- Social: employment (headcount, turnover), gender equality, training, benefits, health and safety, litigations and controversies
- Environmental: environmental policy and management system, existing and future environmental initiatives (water, waste, supply chain, biodiversity), climate change and energy transition, litigations and controversies
- Governance: governance bodies (operational and shareholder), CSR governance, business ethics, responsible purchasing, protection of information systems and RGPD, litigation and controversies

### *Data analysis*

The responses to the ESG questionnaire are analysed by a specialised external consultant to ensure their reliability and consistency. For the Mezzanine fund holdings in which CIC Private Debt is an arranger, a qualitative interview between an external consultant and the company's management is carried out, followed by a formal ESG report.

This data collection and analysis enables CIC Private Debt to assess the ESG maturity of the companies in the portfolio, to identify good practices and to define areas for improvement. It also helps to raise the awareness of the management teams of these companies of the extra-financial issues in their sector of activity.

In the framework of this analysis, the concept of double materiality of the Disclosure Regulation is applied: both sustainability risks (impacts of ESG factors on the value of investments) and the main negative impacts (impact of investments on ESG factors) are taken into account. The conclusions of the analyses and details of these risks and impacts are provided in the annual reports to investors.

#### **c. ESG disclosure**

The reports resulting from these analyses are **communicated to investors** and serve as a tool for **dialogue between the CIC Private Debt team and the management of the portfolio companies**.

In addition, the pre-contractual documentation of all funds and management mandates includes information on how sustainability risks are incorporated into investment decisions and on the results of the assessment of the likely impact of sustainability risks on the fund's

performance, in accordance with Article 6 of the SFDR. However, given the nature of the funds managed by CIC Private Debt, this information is not public but is made available to eligible clients and prospects.

## Annex I - Glossary

### 1. ESG

This acronym refers to the Environmental, Social and good Governance criteria that are used to analyse and assess to what extent sustainable development and long-term issues are taken into account in the strategy of companies.

### 2. “Entreprise à mission” (mission-driven company)

Article 176 of the law of 22 May 2019 on the growth and transformation of companies, known as the Pact law, introduces the status of “Entreprise à mission” (mission-driven company). It allows a company to publicly state that it is a mission-driven company by specifying its *raison d'être* as well as one or more social and environmental objectives that the company has set itself to pursue in the course of its business.

Following a participative process of reflection with its elected representatives and employees, Crédit Mutuel Alliance Fédérale has adopted a *raison d'être* in line with its values: "Together, listen and act", in order to achieve five missions that are now included in the corporate purpose of Caisse Fédérale de Crédit Mutuel and CIC:

- As a cooperative and mutualist organisation, we support our customers and members in their best interests.
- As a bank for all, members and customers, employees and elected representatives, we act for everyone and refuse to discriminate.
- Respectful of the privacy of each individual, we put technology and innovation at the service of people.
- As a socially responsible company, we contribute to the development of our regions.
- As a responsible company, we work for a fairer and more sustainable society.

### 3. Sustainability risks

A sustainability risk is an environmental, social or governance event or situation that, if it occurs, could have an actual or potential material adverse effect on the value of the investment.

### 4. Adverse sustainability impact

A negative impact is a medium or long-term risk of an investment in an activity that has a negative impact on the social or environmental area (non-financial risk).

### 5. Sustainability factors

The sustainability factors are environmental, social, governance, human rights and anti-corruption factors.

### 6. Regulatory Technical standards (RTS)

Regulatory technical standards, corresponding to the implementing measures of European texts, issued by a third-party body (ESMA, EBA) and proposed to the European Commission. These standards are legally binding.