



ESG policy

1. Environmental, Social and Governance (ESG)

1.1. Context and governance

1.1.1. Context

Tikehau IM signed the Principles for Responsible Investment (UNPRI) in 2014 requiring the firm to integrate ESG criteria analysis throughout the investment cycle. In 2015, Tikehau IM and other entities of Tikehau Capital decided to adopt a common responsible investment policy and set it down in the Tikehau Responsible Investment Charter. In 2017, Tikehau Capital SCA replaced Tikehau IM as signatory of the UNPRI and the Tikehau Responsible Investment Charter is available in appendix.

1.1.2. Implementation and ESG Committee

All levels of the Group's hierarchy are involved in the responsible investment process and a dedicated ESG officer has been appointed. In each business line, key people have been designated to promote the integration of ESG criteria.

An ESG Committee composed of 12 senior members has been set up to steer the ESG policy within the Group. Accordingly, the Committee undertakes the following missions:

- i. steer, oversee and integrate the ESG and broader CSR strategy at all levels of the organization;
- ii. define sectors flagged for exclusion, as well as a watchlist at Group level;
- iii. provide recommendations when a Tikehau Capital team member flags an ethical question, a social risk, pollution risk or any other ESG issue during the course of his work;
- iv. monitor and respond to emerging ESG and CSR issues and make recommendations where appropriate to increase the Group's ESG and CSR performance;
- v. review and monitor its affiliates' compliance manuals in relation to ESG and CSR matters; and
- vi. ensure that the Group's engagements pertaining to ESG and CSR are respected.

Where so requested by an investment team, the ESG Committee decides whether to authorise an investment presenting ethical issues or giving rise to ESG problems. The committee can be consulted by email (ESG-Committee@tikehaucapital.com) at any time if the teams have any doubts. The supporting note shall include:

- a) a brief summary of the contemplated transaction or project including the investment rationale if the ESG issue is related to a potential investment (specific financial information should not be detailed in order to prevent restricting ESG Committee members),
- b) a description of the ethical, environmental, social, corporate governance issues and mitigants,
- c) a deadline for the ESG Committee decision (otherwise, the Committee will strive to provide an advice within 48hrs).

Please see ESG Committee consultation template presented in appendix.

1.2. Exclusions and Watchlist

In line with the Tikehau Capital Responsible Investment Charter, all investments are subject to an ESG screening comprising:

- Geographic and sector restrictions ("the Firm exclusions")
- A watchlist for sensitive geographies, sectors and behaviors ("the Firm ESG watchlist"); and
- An ESG analysis grid specific to each asset class.

1.2.1. Countries under restrictive measures

The Firm's geographical exclusions

The Firm will not invest in companies established or having significant operations in:

- Countries that are under sanctions of recognized international organizations and governments (especially the UNO, the EU and the USA);
- FATF high-risk and non-cooperative jurisdictions.

Affected countries for an international embargo and / or subject to restrictive measures are listed in appendix.

The Firm must not realize investments in those countries or set up any business relationships with any natural or legal person who would have its main interests in the countries of this list.

1.2.2. Restricted business sectors

The Firm's sectorial exclusions

Controversial weapons

The Firm decided to exclude from its investments entities involved in the production and / or marketing of controversial weapons, specifically cluster bombs, anti-personnel landmines, biological and chemical weapons due the humanitarian, social and economic impact.

The approach of the Firm is based on:

- the Ottawa Convention in December 1997, bringing together 160 countries prohibiting the use, manufacture, stockpiling and transfer of anti-personnel mines;
- the Oslo treaty in December 2008 prohibiting the use, production, stockpiling and transfer of cluster-bombs.
- the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on Their Destruction effective since 1975; and
- the Chemical Weapons Convention adopted in 1992 bringing together 189 countries prohibiting the use, production, stockpiling and transfer of chemical weapons.

The Cluster Munition Coalition has published a list of companies suspected of involvement in anti-personnel mines and / or cluster bombs. Based on Tikehau Capital research, additional issuers have been excluded. The resulting list is available in appendix "2.1. Companies involved in the production of anti-personnel landmines, cluster bombs, chemical or biological weapons".

Thermal coal

The firm decided to exclude from its investment universe deriving more than 30% of their revenues from thermal coal including mining, trading and power production. For the avoidance of doubt, metallurgical coal or coking coal remains allowed as well as subsidiaries with a significant renewable energy activity and subsidiaries issuing green bonds. This exclusion shall be effective from 1st January 2019.

Tobacco and cannabis production

The firm decided to exclude from its investment universe companies deriving more than 30% of their revenues from (i) the ownership of tobacco plantations and (ii) the manufacture of tobacco products, including revenues from the sale of own products (e.g. cigarettes, cigars, pipes, water pipes and other forms of burn tobacco). Manufacturers of cannabis for recreational use are also prohibited. Certain activities related to tobacco (and cannabis for recreational use) are not prohibited but are on the ESG watchlist (please see ESG watchlist in appendix).

Adult entertainment

The firm decided to exclude from its investment universe companies involved in pornography and adult entertainment services.

1.2.3. ESG watchlist

A number of cases have been identified as sensitive and require a higher scrutiny pertaining to four areas:

- 1) high risk jurisdictions;
- 2) highly controversial activities;
- 3) severe pollution risks; and
- 4) misconduct-based risks.

For new investments falling under the watchlist and any new or existing investment posing a material ESG issue, the Firm teams may need to consult the ESG Committee.

The Firm ESG watchlist is presented in appendix.

1.3. ESG integration processes

1.3.1. ESG integration at the stage of analysing investments

Across all of Tikehau IM strategies, the approach focuses primarily on fundamental analysis and selective investments. Consistent with this thorough fundamental analysis, the teams perform a detailed review of each potential investment which includes a range of ESG factors. Such analysis is being formalized by way of the implementation of a proprietary ESG analysis grid specific to each of the Firm's activity.

1.3.2. ESG integration during the investment period

During the investment period, the Firm continues to be attentive to ESG issues under procedures adapted to each investment, encouraging portfolio companies to improve their ESG performances, integrating these considerations into the risk mapping reviews, exercising voting rights in AGMs or participating in governance bodies. Enterprises in the investment portfolio are subject to an annual ESG analysis, based on questionnaires sent to the issuers or ESG analysis grids' updates.

1.4. Proxy voting policy

1.4.1. Principles of the proxy voting policy

The Firm has a team of buy side analysts and fund managers who prepare and analyze resolutions put forward by the directors of listed companies in which the Firm's funds are invested.

Voting rights are exercised in respect of French, European and international equities. However, the Firm has laid down the following voting principles:

- voting rights will always be exercised if the Firm, through the funds that it manages, holds more than 2% of a company's capital or voting rights and if the exposure to a company exceeds 500k€;
- if the company in which the funds are invested is incorporated outside of France, the previous threshold are raised to 5% and 2 000 k€.

As a voting proxy on behalf of a client's portfolio or funds, the Firm has a responsibility to act in its client's best economic interests which includes taking into account the following non-exhaustive circumstances:

Type of resolutions	Principles
Organization and governance	
Governance and structure	Case-by-case basis analysis. No preference for a one-tier structure (board of directors) or two-tier structure (executive board and supervisory board)
Separation of powers	The Firm favors the separation of executory and supervisory powers. Where the positions of chairman and chief executive officer are held by the same person, it is important that the board checks for the presence of sufficiently independent and effective counterweights to ensure proper oversight of executive powers.
Size of the board	Tikehau IM has noted that to be able to work in an efficient, optimal manner, a group often has 5 to 15 members.
Composition of the board and appointment of directors	The Firm takes into account: the skills and track record of the directors, the balance of the board in terms of nationality/age/gender/experience, directors' availability and rate of attendance, proportion of independent board members, attendance of directors to other committees (such as audit committee, remuneration committee, etc)
Rights of minority shareholders	
Compliance with the "one share = one vote" principle	The Firm wants voting rights to be proportionate to the economic interest held in a company, and for the companies in which it invests to amend their articles of association to maintain the principle of "one share = one vote". The Firm is not in favor of limiting voting rights or having more than one share class with different voting rights or having convertible preference shares that carry higher voting rights than ordinary shares.
Change of legal structure	Case-by-case basis analysis. A company's legal structure can have a considerable influence on the rights of minority shareholders.
Remuneration policy	
Say on pay	The introduction of "say on pay" in France has led Tikehau IM to place even more emphasis on transparency and the quality of the criteria and targets on which directors' pay is based. The Firm attaches particular importance to the clarity of remuneration plans, the transparency of and reasons for past awards, the relevance of performance targets and criteria, and respect for the main rules of governance as set out in national and regional governance codes
Changes to the financial structure	
Capital increases with pre-emptive subscription rights	The Firm will vote in favor of capital increases with pre-emptive subscription rights as long as they do not account for more than 50% of the capital.
Capital increases without pre-emptive subscription rights	Out of principle, Tikehau IM is not in favour of capital increases without pre-emptive subscription rights (and without a mandatory priority period) or private placements that have not been discussed with shareholders beforehand.
Share buybacks	Case-by-case basis analysis. No vote in favor if it could threaten the company's ability to continue as a going concern.
Other	
Approval of accounts	Approval of financial accounts when the auditors' report is included in the management report and no reservations have been issued.

Changes to articles of association	Proposals that would bring about an amendment to articles of association are analyzed on a case-by-case basis.
Appointment, rotation and remuneration of auditors	The auditing company used must be changed at least once every ten years. Tikehau IM would also like auditors to be primarily remunerated for auditing rather than for non-auditing services.
Shareholders' resolutions	Resolutions put on the agenda by shareholders other than the management are analyzed on a case-by-case basis

1.4.2. Principles held for the attendance to shareholders' meeting

Beyond the principles adopted for the exercise of voting rights that condition the participation at meetings, the participation of portfolio managers to the shareholders' meetings may also be motivated by a desire to meet with the management of the company concerned.

As Tikehau IM also promote investments in the medium and long-term by focusing on sustainable investments in companies regularly monitored, the portfolio managers are interested in following the consistency of the management and check if it matches their analyses and expectations.

1.4.3. Conflict of interest

As set out above, Tikehau IM is particularly vigilant about the risks of conflicts of interest arising from its activities. The organization set up by Tikehau IM helps the prevention of conflicts of interest, including the establishment of Chinese walls between the different investment teams and maintaining restricted lists.

Furthermore, the Firm has a code of ethics governing personal account dealings by its employees. They must report their securities accounts and can invest in diversified funds or financial instruments such as indices.

In case of voting, the Compliance Officer is responsible for ensuring that the exercise of this right is generating no conflict of interest.

2. Appendices

2.1. Companies involved in the production of anti-personnel landmines, cluster bombs, chemical or biological weapons

Red Flag List:

Company	Country	Ticker
Aeroteh	Romania	ROAROBACNOR1
Arab Organization for Industrialization	Egypt	VGO000271
Avibras Indústria Aeroespacial	Brazil	VGO000273
Bharat Dynamics Limited	India	BDL:IN
Bharat Earth Movers Limited (BEML)	India	INE258A01016
China Aerospace Science & Technology Corporation	China	CND100006HP7
China Aerospace Science and Industry	China	AEROTI
China National Precision Machinery Imp. Exp. Corp	China	VGO000275
China North Industries Group (norinco)	China	CND100003805
China Poly Group Corporation	China	VGO000276
Elbit Systems	Israel	IL0010811243
General Dynamics	United States	US3695501086
Hanwha	South Korea	HANWA, KR7000880005
Hanwha Techwin	South Korea	KR7012450003
Heliopolis Company for Chemical Industries	Egypt	VGO000281
Indian Ordnance Factories	India	VGO000282
Israel Military Industries	Israel	VGO000283
Larsen & Toubro	India	INE018A01030
LIG Nex1	South Korea	079550:KS
Makina ve Kimya Endustrisi Kurumu (MKEK)	Turkey	VGO000284
Motovilikhinskiye Zavody	Russia	RU0006763570
Norinco	China	(state-owned as at Dec-2018)
Poongsan Corporation	South Korea	POSANE, KR6103141265
Premier Explosives	India	INE863B01011
Roketsan	Turkey	VGO000287
S&T Dynamics	South Korea	KR7003570009
S&T Holdings	South Korea	KR7036530004
SPLAV State Research and Production	Russia	VGO000280
Tata Power	India	INE245A01021
Union of Military Industries	Cuba	VGO000291
Yugoimport SDPR	Serbia	VGO000292

Sources: [Cluster Munition Coalition study - 2018](#) and Tikehau Capital research.

2.2. Tikehau Responsible Investment Charter

Tikehau Capital is a financial group investing in diversified asset classes, listed or unlisted, on behalf of its investor clients (institutional and private) and its balance sheet. Amongst the investments it offers are a variety of financing solutions adapted to the stage of development of French and foreign companies: credit (bonds, leverage loans, unitranche, mezzanine), listed equities, private equity, etc.

Tikehau Capital's approach to its investment duties is based on a common set of core values:

- Entrepreneurship: The Group was founded in 2004 by entrepreneurs from the financial sector and has since seen considerable growth in its activities. Today it has retained its original values of innovation, reactivity and performance.
- Active management: Tikehau Capital bases its investment decisions on its own convictions.
- Long term ambitions: The Group's objective is to create value whilst ensuring that its investor clients' and shareholders' interests are in line with its own, and control its reputational risk.
- One team culture: Tikehau Capital seeks to develop a homogeneous approach amongst its teams and avoid potential conflicts of interest by strict management.

These values have quite naturally led Tikehau Capital to build a responsible investment approach over the years, in which environmental, social and governance (ESG) criteria are decisive in investment choices. As a signatory of the United Nations Responsible Investment Principles (UNPRI) since 2014, the Group is committed to integrating ESG criteria throughout the investment cycle and to reporting on its progress. The Group's responsible investment policy was set down in the initial version of the present Charter.

Environmental, Social and Governance (ESG) integration throughout the investment cycle

Tikehau Capital integrates ESG criteria at every stage of the investment cycle:

- Implementation of the exclusion policy at the investment selection stage – Tikehau Capital refers to geographical or sectorial exclusion criteria applying to all businesses, not least the statutory exclusions of controversial weapons or issuers from non-cooperative countries listed by the FATF¹. Investments in issuers likely to cause ethical risks arising from their sector or domiciliation are submitted to the ESG Committee on a case by case basis.
- An ESG analysis grid at the stage of analysing investments – Across all of Tikehau Capital's strategies, the approach focuses primarily on fundamental analysis and selective investments. Consistent with our thorough fundamental analysis, the teams perform a detailed review of each potential investment which includes a range of ESG factors. Such analysis is being formalized by way of the implementation of a proprietary ESG analysis grid specific to each of the Group's activity. The investment universe is broad and each ESG analysis of an issuer depends on the availability and the quality of information related to governance and Corporate Social Responsibility ("CSR"). Meetings with company executives are also conducted where possible.
- During the investment period, Tikehau Capital continues to be attentive to ESG issues under procedures adapted to each investment, encouraging portfolio companies to improve their ESG performances, integrating these considerations into the risk mapping reviews, exercising voting rights in AGMs or participating in governance bodies. Enterprises in the investment portfolio are subject to an annual ESG analysis, based on questionnaires sent to the issuers or ESG analysis grids' updates. At Group level, non-financial information is published at least annually and includes a carbon assessment for certain funds.

¹ The Financial Action Task Force (FATF) is an inter-governmental organisation created in 1989 to combat money laundering, terrorist financing and other related threats to the integrity of the international financial system.

Good governance is the main thrust of ESG analysis

The Tikehau Capital teams are convinced that corporate governance is an essential factor of performance and risk control. Model governance is based on transparent rules organising power and checks and balances. This type of governance enables Tikehau Capital to ensure the interests of all the stakeholders (employees, executives, financiers, shareholders, the public etc.), to anticipate trends, and to improve risk management. Analysing governance quality is at the heart of all our teams' investment decisions.

The other aspects of sustainable development are also taken into account from the angle of risk control and ESG performance. Our teams are particularly attentive to the following criteria and risks that could jeopardise a company's performance and solvency.

- Social: recruitment and retention of high quality staff, employee health and safety and social dialogue.
- External stakeholder: supply chain risk management, quality control and customer satisfaction, relationships with authorities and the public.
- Environment: controlling environmental risks arising from company sector and size, monitoring or estimating greenhouse gas emissions, energy consumption, air pollution, waste production and recycling.

Tikehau Capital applies to itself this requirement of good governance, ESG risk management, as well as the development of human capital.

Implementation

All levels of the Group's hierarchy are involved in the responsible investment process. In each business line, key people have been designated to promote the integration of ESG criteria. An ESG Committee has been set up to steer the ESG policy within the Group, with a view to create value for all stakeholders and promote sustainable development. Accordingly, the Committee undertakes the following missions:

- d) steer, oversee and integrate the ESG and broader CSR strategy at all levels of the organization;
- e) define sectors flagged for exclusion, as well as a watchlist at Group level;
- f) provide recommendations when a Tikehau Capital team member flags an ethical question, a social risk, pollution risk or any other ESG issue during the course of his work;
- g) monitor and respond to emerging ESG and CSR issues and make recommendations where appropriate to increase the Group's ESG and CSR performance;
- h) review and monitor its affiliates' compliance manuals in relation to ESG and CSR matters; and
- i) ensure that the Group's engagements pertaining to ESG and CSR are respected.

Where so requested by an investment team, the ESG Committee decides whether to authorise an investment presenting ethical issues or giving rise to ESG problems.

Finally, internal control and compliance officers ensure the effective deployment of the present responsible investor policy.

2.3. Tikehau Responsible Property Investment Charter

Tikehau Capital believes that the effective integration of Environmental, Social and Governance (ESG) factors is key in achieving a long-term sustainable performance. Tikehau Capital became signatory of the UN Principles for Responsible Investment (UN PRI) in 2014 and is committed to report on its progress.

Our ESG approach for real assets

The Tikehau Capital teams are convinced that model governance is an essential factor of performance and risk control. Hence, the investment team consider policies and governance of all parties including operating partners, developers, property managers and tenants.

Real estate is a sector with a strong environmental footprint due to energy consumption used in the construction and running of buildings. In France and the rest of Europe, thermal regulations are increasingly strict. For Tikehau Capital, compliance with and anticipation of environmental standards are essential. Where possible, we seek to monitor the environmental impact of our real estate assets and increasingly consider areas for improvement.

In social and societal terms, the well-being of the building's occupants and its impact on local communities are issues that are at the heart of the concerns of the sustainable city. For new developments and major renovations, we seek to create healthy and low carbon buildings that are attractive to users and adapted to new ways of working, shopping and living.

ESG integration throughout the investment cycle

We integrate ESG criteria at every stage of the real estate investment cycle:

- An ESG analysis grid at the stage of analysing investments
- The teams perform a detailed review of each potential investment, which includes a range of ESG factors. Such analysis is being formalized by way of the implementation of a proprietary ESG analysis grid based on the global ESG benchmark for real assets ("GRESB").
- During the investment period, the teams monitor ESG key KPIs for selected real estate assets on an annual basis. Where possible, our teams engage with property managers and/or tenants.

Implementation

All levels of the group's hierarchy are involved in the responsible investment process and key people have been designated to promote the integration of ESG criteria.

2.4. Tikehau ESG Watchlist

ESG Committee approval necessary if issuers are involved in ESG watchlist level 1 highly sensitive activities or misbehaviours as presented below:

Criteria type	ESG Watchlist Level 1 Criteria	Description
Ethical – Highly controversial activities	Adult entertainment	
Ethical – Highly controversial activities	Armament	- All armaments and firearms (for civil and military uses)
Ethical – Highly controversial activities	Cloning	
Misconduct-based exclusions	Serious public allegations of UN Global Compact breach	- Corruption and money laundering; - Violations of human rights; - Violations of international labour standards (in particular forced labour and child labour); and - Severe environmental damage
Misconduct-based exclusions	Governance breaches	- Serious management misbehaviours (abuse of rights or conflict of interest, other); - Highly contentious management compensation package; - Below average and weak checks and balances compared to market standards (board Committees or Committees consisting of few or a single member, lack of independent board and audit Committee members or inadequately qualified board members)

The ESG Committee is further drawing the attention to certain sensitive sectors/products, misbehaviours and/or geographies listed in the ESG Watchlist level 2 below. If investment team members are uncomfortable with an issuer, an ESG committee consultation is highly recommended:

Criteria type	ESG Watchlist Level 2 Criteria	Description
Ethical – Highly controversial activities	Animal welfare	- Intensive farming operations (including factory farming of cattle, pigs, salmon, cage hens) - Controversial fishing; - Cosmetic products tested on animals; - Fur products; and - Other controversial treatments of animals
Ethical – Highly controversial activities	Gambling activities and casinos	- Gambling operations or products
Ethical – Highly controversial activities	Opioids	- Powerful pain-reducing medications (including oxycodone, hydrocodone, fentanyl and morphine)

Ethical – Highly controversial activities	Tobacco and cannabis	- Production, trade and distribution of tobacco and/or cannabis and supporting services (packaging, filters, etc.)
Environmental – Severe pollution risks	Chemicals of concern	- Hazardous chemicals - Highly hazardous pesticides; and - Ozone depleting gas
Environmental – Severe pollution risks	Genetically modified organisms	- Genetic engineering; production of genetically modified organisms and ingredients (for human consumption or industrial uses)
Environmental – Severe pollution risks	Highly polluting fossil fuels (other than coal)	- Highly polluting extraction and processing due to fossil fuel sources (shale gas, tar sands and tight oil) or technologies (fracking, dumpflood, etc.)
Geographic - High risk jurisdictions	Exposure to risky jurisdictions	- Significant exposure to non-restricted but problematic countries and businesses involving agents and lobbyists

2.5. Tikehau ESG Committee Consultation Template

Business line	
Tikehau Capital entity	
Target company (if any)	
Project / transaction (if any) <i>Please do not provide nonpublic pricing or financial details that could restrict ESG Committee members</i>	
Key ESG risks & topics	
ESG risks mitigants & opportunities	
Deadline for ESG Committee resolution (if any)	
Other comments	