Tikehau IM
Sustainability Risk Management policy

June 2023

1. Scope and objective of the policy

This Policy applies to Tikehau IM. The purpose of this document is to present information on the integration of sustainability risks into the investment decision process of the portfolios (funds and mandates) managed by Tikehau IM and into investment advice proposals. The policy also covers the consideration of climate change risks and biodiversity risks.
The publication of this document is done in line with requirements of Article 3 of the Regulation (EU) No 2019/2088 (SFDR Regulation) and Article 29 of the Climate Energy Law No 2019-1147 (29 LEC).

The sustainability risk management policy and framework are reviewed annually or as required.

2. Definition of sustainability risks

A "sustainability risk" refers to an environmental, social or governance event or condition that, if it occurs, could have an actual or potential material negative impact on the value of investments made. This risk is related to a variety of risks that may result in unforeseen losses that could affect the investments made on behalf of the portfolios under management.
The risk management system implemented by Tikehau IM aims to identify potential or actual sustainability risks and to quantify the impacts of identified risks created by external or issuer-related events in the areas of environmental, social, governance, climate change and biodiversity.
The 'sustainability' risks identified by Tikehau IM into three categories:

(i) **Environmental risks**: These include the adverse effects on living organisms and the environment of effluents, emissions, waste, resource depletion, etc. resulting from an organisation's activities. Climate risks include both the effect of an organisation's activities on climate change and the effect of climate change on an organisation or on real assets. Tikehau IM specifically considers climate-related events and loss of biodiversity resulting from climate change (such as **physical risks** related to sustained increases in temperature, sea level rise, floods, fires, droughts, and other weather-related calamities) or the organisation's response to climate change (such as **transition risks** related to regulatory, technological, market risks, etc.).

(ii) **Social risks:** these include health and safety risks (including accident prevention, product quality and safety, sales practices), social risks in the supply chain, management of the social climate and human capital development, management of quality and consumer safety risks, management and materiality of social controversies, management of innovation capabilities and intangible capital, and more generally, risks related to social events (e.g., inequality or inclusion).

(iii) **Governance risks:** These are risks related to the functional management of an organisation, regulatory risks management and the integration of sustainability into the quality of the company's strategy. Governance failures (e.g., significant breach of international agreements, human rights violations, corruption, and bribery issues, etc.) result in significant sustainability risks, including litigation and claims risks. This category also covers cybersecurity risks that result from the increasing use of digital technologies in all sectors.

3. Internal governance, organisation, and procedures

3.1. Internal governance

The sustainability risk control system is based on several levels of control:

i. At the first level, **the Research and investment teams** define the risk budgets of the managed portfolios, in line with Tikehau IM's ESG strategy. **The Research and investment teams** are also in charge of identifying the specific ESG risks of the investment opportunities studied, with the supports of the ESG team and/or ESG tools.

ii. At the first level bis, the **Risk Management team** ensures that the contractual commitments made by the managed portfolios about sustainability are respected. It also participates in the definition of internal indicators for monitoring sustainability risks (internal limits) and ensures that they are respected. The Risk Management team will gradually monitor and consolidate the portfolios' risk indicators and will present the results of its analysis at the Risk Committees alongside the financial risk monitoring indicators.

iii. At the second and third levels, the Compliance and Internal Audit teams have integrated sustainability risk into their control plans and monitor them, alongside the other risks they already control.

Regarding specific cases, where mitigants for risky activities and geographies are not deemed satisfactory, investment team members must consult a working group made of representatives of Tikehau IM Compliance, Risk and ESG teams ("the Compliance-Risk-ESG working group") for a recommendation. Such group can advise (i) not to invest or divest in the best interest of shareholders, (ii) to monitor the case with a deadline for review, or (iii) to engage with the investee company to discuss. Controversies are treated on a case-by-case basis. Where an escalation is needed, Tikehau Capital Impact Committee (made of senior members in the organization) makes a recommendation on a joint view from the underlying teams involved and further steps required. The investment teams are responsible for implementing necessary engagement and support measures with the portfolio companies.

3.2. Internal framework for sustainability risks

At the date of this Document, Tikehau IM sustainability risk management system is based primarily on the following three steps :

i. Exclusion policy

The sustainability risk management system starts with a review of the exclusion policy of the Tikehau Capital group. Through this policy, Tikehau IM excludes (i) sectors for which negative impacts on the environment or society have been demonstrated and/or (ii) sectors, types of activities, behaviours or geographies that carry a sustainability risk deemed unacceptable. These exclusions cover the three types of risks mentioned above: environmental, social and governance pillars. For additional details, please refer to Tikehau Capital Exclusion policy available on the Group website.

ii. Monitoring of controversies

In addition, Tikehau IM checks controversies related to the investment targets under review. The objective is to identify real or strongly suspected serious incidents involving the issuer related to the above mentioned sustainability criteria. During the investment process, a reputation check is carried out to identify potential or proven risks created by possible serious controversies involving or impacting the issuer. The net risk is assessed against existing mitigating factors (e.g., remediation plan put in place by the company) and is considered in the investment decision. Where the assessed risk does not preclude investment, it may be monitored to ensure that it is gradually mitigated.

iii. Integration of sustainability risks into remuneration policy

Finally, Tikehau IM's remuneration policy integrates extra-financial criteria, which can have an impact on the variable remuneration of employees to promote sound and efficient management of these risks and to prevent excessive risk-taking. Tikehau IM compensation policy is available on the website of Tikehau Capital.

4. Investment process and investment monitoring

This section aims to present how and to what extent sustainability risks, including climate and nature-related risks, are integrated into the investment decisions of the portfolios (funds and mandates) managed by Tikehau IM.

4.1. Pre-investment assessment

The investment under consideration is first subject to the exclusion policy in accordance with section 3.2. above, prior to the investment decision. Sustainability risks are then assessed as by assigning an ESG score to the investment target covering the 3 pillars of environment, social and governance. If the level of risk is too high in relation to the predefined thresholds (internal rules and extra-financial profile of the portfolio), the investment is not possible.

4.2. Monitoring during the investment period

If the level of risk is deemed significant but does not preclude investment, a commitment strategy and/or issuer support plans can be defined to lower the net risk level during the investment.

In addition, sustainability risk is monitored during the investment period through :

i. Controversy monitoring,
ii. Annual standard ESG reporting by private debt and private equity portfolio companies to review the company's own sustainability risks. Moreover, review of annual KPIs integrated into the sustainability roadmaps of certain private equity companies and in the Sustainability linked financing ("ESG margin ratchets") implemented for certain Private Debt investments,
iii. Periodic updating of the ESG score of the investment targets.

5. Risks associated with climate change and nature-related risks

In addition to being integrated into the pre-investment risk analysis, the risks associated with climate change and nature-related risks were the subject of specific identification work. This work made it possible to identify the key risks and opportunities for each sector of activity to which the managed portfolios are exposed.

This analysis covered three types of risk:

i. Physical Risks, defined as the exposure of real assets and raw materials to physical consequences directly caused by climate change (chronic events - such as global warming and rising sea levels - and extreme events - such as fires and cyclones),
ii. Transition Risks and Opportunities, covering especially regulatory, technological, market and reputational risks / opportunities,
iii. Nature-related Risks (incl. biodiversity risks).

Based on this analysis, at the date of this Document, Tikehau IM is currently defining specific due diligence measures to be carried out prior to the investment decision to identify the net risks of each investment related to climate change and biodiversity, as well as the relevant action plans and engagement /supporting measures aimed at ensuring the mitigation of these risks during the investment period.

6. Investment advice

As part of its investment advice process, Tikehau IM, in accordance with the requirements of the Delegated Regulation to MiFID 2 Directive (Delegated Regulation (EU) 2021/1253), ensures the sustainability preferences of the advised client. It thus aims to select financial instruments with a sustainability profile in line with the client's preferences.

7. Information for investors

The modalities for integrating sustainability risks into investment decisions/investment advice are presented to investors in the pre-contractual documentation of the product they subscribe to.

Each year, a description of the main sustainability risks considered and analysed, and the main actions taken to mitigate them (engagement and roadmaps) is communicated to the investors of the funds managed by Tikehau IM, as part of the annual reporting of the funds.