SUSTAINABILITY RISK POLICY

The presentation of sustainability risks (“Definition of sustainability risks”) and the way in which these risks are integrated into EMZ Partners’ investment process (“Sustainability Risk Policy”), as described below, are intended to meet the regulatory transparency obligations imposed by Articles 3, 4 and 5 of EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR”).

The Disclosure Regulation, or SFDR, introduces the principle of dual materiality: by distinguishing between two types of ESG risks, it requires sustainability risks and negative impacts to be integrated into the investment process.

Definition of sustainability risks

Sustainability risk means any environmental, labour or governance event or situation that, if it occurs, could have a material adverse impact on the value of an investment. Sustainability risks have three aspects, which focus on governance risks and environmental and labour issues. The significance of these three aspects varies depending on the specific characteristics of the company and its business sector.

Governance risks

Governance risks refer to the risk of an investment or a portfolio falling in value due to a shareholder structure that does not serve the interests of the company, poor managerial or operational practices, and poor integration of sustainability issues within the company. They also refer to risks associated with inadequate dialogue with the company’s internal and external stakeholders. Finally, governance risks include potential breaches of human rights, corruption risks, breaches of professional conduct or ethical rules, and reputational, regulatory, and legal risks. Governance issues are particularly crucial because they affect exposure to other sustainability risks, *i.e.* environmental and labour risks.

Environmental risks

Environmental risks are defined as the risks of an investment or a portfolio falling in value because of environmental issues, such as the impact of climate change, pollution, water resources or damage to biodiversity.

More specifically, climate-related risks fall into two categories:

- physical risk: any risk leading to an interruption of production, supply, or distribution. Physical risks cover the companies’ sites, their energy supply and all access routes required for their operation (*e.g.*: access for employees, raw materials). Examples of physical risks include the flooding of electricity distribution stations, the destruction of buildings by intense winds or landslides and certain roads becoming inaccessible due to rising water levels;
- transition risk: any risk that may have an impact on the company’s value chain. Transition risks may concern the company’s reputation, input prices, customers’ purchasing capacities or legal or regulatory constraints that may suspend some or all the company’s business activities. Examples of transition risks include a significant carbon tax driving up the price of a raw material, the failure by a company to take climate issues into account, reputational risk linked to the company’s environmental impact, new regulations making it impossible for the company to operate.

Biodiversity risks concern land use and land take, agricultural practices, and water pollution. They are closely related to climate risks, which have a significant impact on ecosystems, whereas biodiversity erosion magnifies the effects of climate change and increases the likelihood of physical risks occurring.

Labour risks

Labour risks are defined as the risks of an investment or a portfolio falling in value because of issues concerning working conditions, diversity in the workplace, discrimination, occupational health and safety, training, and skills development, etc. They can affect the company in many ways, such as making it difficult to hire employees or negatively impacting employee retention, increasing the risk of legal proceedings, and damaging the company's operations.

Policy on integrating sustainability risks into the investment process

EMZ Partners' sustainability risk management approach is implemented with dedicated governance. Its strategy is based on two pillars: identifying and mitigating ESG risk.

ESG governance

EMZ Partners has set up a dedicated ESG team working independently but in close liaison with the investment teams and the teams in charge of finance and risk from the pre-investment phase to the disposal phase. The ESG team is responsible for assisting the investment team in conducting ESG due diligence and ESG monitoring of holdings during the investment phase, and for identifying sustainability risks and opportunities, assisted by external partners where necessary.

Identification of ESG risks

Pre-investment phase

Prior to the investment decision, the identification of ESG risks is based on the following steps:

- sectoral exclusion policy: EMZ Partners has defined a list of sectors that are excluded from investments because of their negative impact on the environment and society or because they involve levels of risk deemed unacceptable (*e.g.*: type of activity, geography);
- the identification of material controversies entailing a significant ESG risk, and which are not covered by a satisfactory remediation plan;
- analysis of ESG risks during specific due diligence conducted on material ESG issues for the target company;
- identifying and calculating or estimating the main negative impacts of the investment (PAI);
- the use of an ESG risk score based on an internal analysis grid covering the themes of Governance, Social, Environmental and Society.

ESG risk assessment grid criteria

Corporate Governance

Basing its investment policy on the implementation of a sustainable and balanced partnership with management teams, EMZ Partners pays particular attention to ensuring that governance risks are correctly identified and assessed and makes governance risk management a key aspect of its ESG risk management policy.

Labour

The company's social practices are analysed through the prism of human resources management, diversity, working conditions and the implementation of reporting on these aspects.

Environment

The risks associated with the erosion of biodiversity are not always assessed at this stage, due to the lack of an established methodology, the complexity and diversity of the issues to be assessed and the lack of available data from portfolio companies. An assessment of sustainability risks, as well as consideration of the main negative impacts associated with the deterioration of biodiversity, are however on EMZ Partners roadmap, in line with the obligations linked to Article 29 of the French Energy and Climate Law.

Societal

Risks relating to external stakeholders (monitoring of suppliers and subcontractors, quality approach, risks or benefits of products and services).

Consideration of Principal Adverse impacts (PAI)

Principal Adverse impacts are defined as negative environmental, social or governance impacts resulting from investment decisions (non-financial risks).

As part of its sustainability risk management policy, EMZ Partners endeavours to identify the main negative impacts applying to the companies in its portfolio, giving priority to the indicators detailed by the European authorities ("Principle Adverse Impacts"). However, given the type of companies in EMZ Partners' portfolio, the data required to calculate the main negative impact indicators is not always available at this stage. They can therefore be estimated.

During the investment phase

If necessary, a more in-depth ESG analysis can be conducted during the holding phase. In addition, an annual questionnaire is sent to portfolio companies to identify any new sustainability risks.

Mitigating ESG risks

Pre-investment phase

The results of these analyses are presented to the Investment Committee, which then decides on the acceptability of the risks identified and the mitigating actions to be taken once the deal has closed.

During the investment phase

Monitoring risk trends

The annual ESG questionnaire makes it possible to monitor trends in ESG risks identified in the pre-investment phase or during previous annual campaigns. The data collected makes it possible to track holdings that have or have not assessed their exposure to climate risks, risks identified in the value chain, and ethical or social controversies.

In addition, EMZ Partners encourages its investments to raise ESG issues specific to the company at least once a year on the company's supervisory boards. These discussions make it possible to monitor developments in action plans and risk.

Engagement to mitigate risk

The shareholder agreement signed by the parties at the time of the investment include an ESG Clause. For EMZ Partners and the company, this clause affirms the importance of environmental, social, societal, and good governance issues. It invites the company to commit to a process of continuous progress in relation to these issues.

EMZ Partners encourages the implementation of good governance practices, such as diversity, transparency, and the independence of members of management bodies, as well as the widest possible dissemination of share-based incentive schemes. EMZ Partners' systematic participation on the supervisory boards of portfolio companies enables it to encourage the introduction of good practice, particularly in the areas of independence, diversity, and transparency of management bodies.

From time to time, EMZ Partners also facilitates the exchange of ESG best practice between holdings.

Financial incentives, such as ESG ratchets, can be set up and made conditional on the proper management of certain material ESG risks.

Integration of sustainability risks into the remuneration policy

EMZ Partners' remuneration policy defines the principles relating to remuneration, considering the Group's strategy, objectives, and risk policy, to align the long-term interests of all stakeholders (shareholders, customers, employees, and the community as a whole).

The main principles of EMZ Partners' remuneration policy prevent excessive risk-taking and incorporate quality, performance, and non-financial criteria. The allocation of the variable portion is correlated to the creation of wealth generated by EMZ Partners' business over the long term. It therefore does not depend solely on the performance of the funds managed and does not encourage risk-taking that is incompatible with the risk profiles, both financial and in terms of sustainability (including those relating to the principles of good governance and ethics, risks linked to climate change, or other environmental or social risks considered to be material).

Information for investors

EMZ Partners informs its investors of the procedures for identifying and considering sustainability risks in the following ways:

- pre-contractual fund documentation;
- management Company's annual ESG report;
- annual report of each Fund;
- UNPRI annual report;
- Article 29 report of the French Energy and Climate Law.

At the same time, EMZ Partners communicates regularly with its investors, through meetings and tailor-made ESG reporting, as requested by investors.