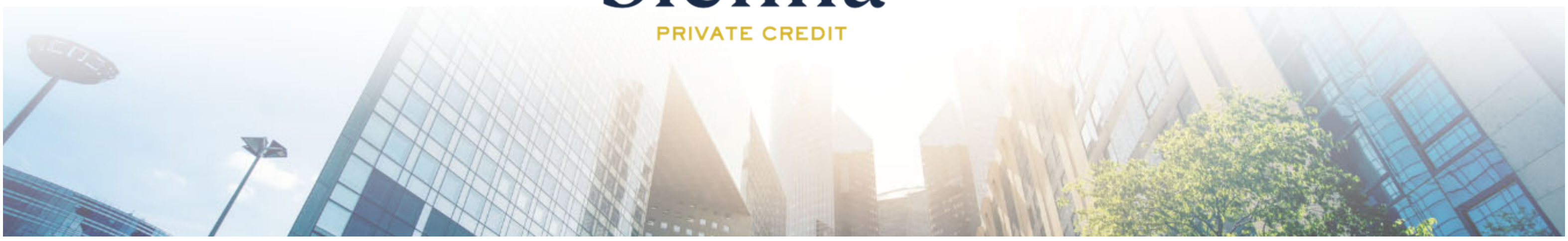
Sienna
PRIVATE CREDIT



SUSTAINABILITY AND ESG RISKS POLICY

January 2022

In its loan funds management business, Sienna Private Credit finances companies in the real economy, mostly directly, from industrial and commercial firms to operators in the energy transition, commercial real estate investors and local public sector entities. Sienna Private Credit, in its capacity as a portfolio management company subject to the AIFM directive, applies an attentive sustainability policy in accordance with regulatory requirements.

Regulatory Standard

EU Regulation 2019/2088 (“Disclosure” or “SFDR”): Article 3 [and 4]

Monetary and financial code: article L533-22-1 (drawn from the Energy-Climate law)

Principles:

In accordance with article 3 of EU regulation 2019/2088 (“Disclosure” or “SFDR”) and article L. 533-22-1 of the CMF (drawn from article 29 of the Energy-Climate law), financial market operators publish information on their web sites about their policies relating to the integration of sustainability risks in their investment decision-making process, including for French companies the risks associated with climate change and biodiversity.

The objective of this policy is to increase transparency on the way in which financial market operators incorporate significant or potentially significant sustainability risks in their investment decision-making process.

This policy aims to present an overview of the relevant information and refers, when this makes sense, to the group’s more detailed reports on the subject.

The sustainability policy is based on the principle of dual materiality:

- Sustainability risk: impact of external events on the product’s return
- Negative sustainability impacts: impact of our investments on external sustainability factors.

Identification of ESG and sustainability risks (Art.3 SFDR)

Definition of sustainability risks

Like the other risks that asset management companies try to foresee and monitor, such as market or liquidity risks, sustainability risks form part of a sound risk management process today. By sustainability risk, we mean the occurrence of an event or situation in the ESG (environmental, social or governance) sphere that could potentially or actually have a major adverse impact on the value of the investment in a fund.

Sustainability risks may either represent a risk in themselves or have an impact on other risks and correlatively contribute materially to risks such as market risk, operating, liquidity risk or counterparty risk. Sustainability risks may have an impact on long-term adjusted returns depending on the risks for investors or on the profitability of the asset management company itself.

Sustainability risks may materialise in the form of:

- a reduction in or even discontinuation of historic activities because of new consumption trends and environmental regulations,
- additional investment needs linked to consumption or regulatory changes,
- asset impairments in the form of stranded assets[1], notably in sectors that will be excluded from a decarbonised economy,
- reputational risks linked to the financing of controversial projects,
- etc.

The asset management company's sustainability risks:

Sienna Private Credit considers that its funds are exposed to several families of sustainability risks.

- Environmental risks: these are principally risks relating to climate change. They have three different aspects:
  1. Physical risks linked to a greater frequency and magnitude of extreme meteorological phenomenon, such as floods, droughts and storms.
  2. Transition risks linked to the effects of establishing a decarbonised economy and its impacts on supply, demand, innovation and technological breakthroughs, the integration of a carbon price, etc.
  3. Legal and/or liability risks linked to environmental factors and regulatory changes.
- Risks linked to biodiversity: the erosion of biodiversity has effects on the ecosystems on which our economy depends directly or indirectly, as well as a strong link with climate change. The risks associated with biodiversity are difficult to assess today for lack of established and usable data and methodologies at the scale of small or medium-sized unlisted companies. Because of the activities financed by Sienna Private Credit, it appears that most biodiversity impacts come less from risks relating directly to the value of assets than to the adverse effects that financed companies may have on biodiversity.
- Social risks: respecting the social and human rights of both employees and stakeholders in general is fundamental. Social risks also relate to the health and safety of employees, the fight against discrimination, their well-being, relations with local communities and customer satisfaction. The risks associated with social risks notably take the form of a loss of the company's attractiveness, labour unrest, de-motivation and the quality and suitability of products and services.
- Governance risks: governance issues relate to the cornerstones of the organisation, namely its strategy, organisation, the division of powers and value sharing. Governance-related risks may take the form of reputational risks for the company and sometimes even for the fund invested in this company; risks of a lack of engagement and dialogue with companies, both of which are necessary to assess its strategy and collect indispensable data for conducting analyses; risks of corruption and/or money laundering and the financing of terrorism and the related sanctions and image risk.

All exposures are reviewed on a quarterly basis at Risk Management and Valuation Committees specific to each asset class.

As a reminder, our funds are exposed to assets located in Europe in the commercial real estate sector, private midcap companies, French public sector and energy transition companies.

[1] Investments or assets whose value is impaired by a legislative change or environmental or technological constraints

Reduction of exposure to ESG and sustainability risks

Through the following commitments, Sienna Private Credit takes sustainability risks into account in the management of funds conferred by its institutional investor clients.

1. Sectoral and normative exclusions

Sienna Private Credit has developed an exclusion system at the financing selection stage. Compliance with these exclusions is validated at each investment committee meeting.

There are three different types of exclusions:

- Sectoral: exclusion of companies directly involved in the following activities: coal, non-conventional fossil fuels and development of new fossil fuel extraction fields, tobacco and, within the armaments sector, exclusion of companies involved in the production or sale of land mines, cluster bombs, depleted uranium or white phosphorus and/or chemical arms, nuclear arms (excluding NPT) or biological arms.
- Normative: attention paid to respecting human rights (child and forced labour) and exclusion of sectors with a direct risk of controversy relating to the 10 principles of the United Nations Global Compact.
- Vigilance towards certain activities impacting biodiversity, such as GMOs, palm oil, etc. and towards crypto-currencies.

For more details about exclusions, Sienna Private Credit's exclusion policy can be found here.

2. ESG analysis

Sienna Private Credit makes an ESG analysis of candidate entities for financing, complementing its traditional financial analysis. This ESG analysis applies to the three standard factors:

a) The environment, especially climate change and biodiversity, as well as management of natural resources and soil or water pollution risks.
b) The social aspect, which encompasses issues linked to human capital and to the company's stakeholders more generally.
c) Governance, particularly the balance of powers, value creation, corporate culture and, of course, the company's strategy and its formalisation in guidelines.

These ESG factors are analysed using three tools, applicable depending on the type of activity:

- An ESG questionnaire filled out by companies, with questions and indicators adapted to the type of entity and the nature of the financing. This questionnaire is filled out before the financing is granted and creates awareness among counterparties about extra-financial issues.
  [Corporate, Granular, Energy Transition]
- An internal ESG analysis, with a fundamental analytical methodology based on information submitted directly by counterparties or obtained from varied third-party sources. This analysis is performed prior to investment committees and encourages dialogue with the representatives of studied entities.
  [Corporate, Energy Transition, Public Sector]
- A follow-up of ESG controversies during the lifetime of operations.
  [Corporate, Energy Transition, Public Sector]

3. Impact clauses

Sienna Private Credit has created impact financing funds in its real estate and collateralised corporate financing businesses.

The impact approach adopted involves both the recipients of financing and the asset management company.

The recipients of financing are encouraged to improve financed projects in return for a reduction in the cost of financing if they meet extra-financial criteria.

The asset management company has to meet impact financing targets following the investment period, failing which the management fee it is due is lowered.

Sienna Private Credit also manages funds whose activity has an inherent ESG dimension, such as energy transition financing funds or public sector funds.

Consideration of adverse sustainability impacts (Art. 4)

The consideration of the principle adverse impacts (*PAI*) on sustainability is one of the requirements set by European Regulation 2019/2088 of 27 November 2019, known as the SFDR, in its article 4. Sienna Private Credit has around 40 employees and does not therefore fall within the scope of the mandatory *Comply* threshold for portfolio management companies (SGP), set at 500 employees.

However, in a best effort approach, Sienna Private Credit intends to establish a process for identifying and monitoring the PAI associated with financed companies and projects. In this perspective, the portfolio management company shall comply with PAI reporting as set out in the SFDR regulation by reporting on 18 pre-defined indicators (rounded out by one environmental indicator and one social indicator to be chosen). At the level of funds, each management team monitors sustainability factors in connection with investments through the completion of an ESG questionnaire by the borrower, a specific internal ESG analysis, the monitoring of controversies and, where necessary, the inclusion of impact clauses (see Reduction in exposure to ESG and sustainability risks (Points 2 and 3)). These tools are used for continuous improvement purposes and imply a follow-up of the ESG performance of investments. This is translated in the regular updating of the ESG questionnaire or the analysis of the match between commitments taken and results for the activation of impact clause mechanisms. In this framework, Sienna Private Credit and the management teams aim to integrate questions and indicators relating to the consideration of the principal adverse impacts in their investment and management strategy. This will initially be materialised through adjustments to the ESG questionnaire submitted to counterparties, with additional requests enabling us to report on the negative sustainability impacts of financed projects.

The asset class (private debt) in which the funds are positioned poses a real challenge in terms of data accessibility. Sienna Private Credit is therefore particularly dependent on the nature of data and indicators measured and reported by borrower companies. As part of its relationship of trust and closeness with these companies, Sienna Private Credit will make its best effort to encourage them to develop the follow-up of the PAI.

While the CSRD ("*Corporate Sustainability Reporting Directive"*) is set to increase the number of companies required to report on their extra-financial performance, it is not expected to come into effect before the start of 2024. Over the next two years, Sienna Private Credit will depend in particular on the data and indicators monitored at borrower companies. What's more, the CSRD shall apply to companies meeting at least two of three criteria: more than 250 employees, total balance sheet assets of more than €20m and sales of over €40m. Some borrowers, notably in the framework of the Granular activity or if they are SPV, shall not meet these criteria. To get the right balance, the portfolio management company's efforts for these borrowers will focus initially on transactions exceeding a materiality threshold set at €10m for 2022.

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In a best effort approach, Sienna Private Credit commits to take into consideration the principal adverse sustainability impacts. This approach, guided by a desire for better knowledge of financed projects and transparency, may change in a continuous improvement perspective.

Human and technical resources dedicated to ESG and sustainability risks

Sienna Private Credit has created a broad ESG Committee comprising a representative of each operating and cross-functional unit. This Committee is chaired by Nicolas Fourt, deputy CEO, and meets monthly. The ESG Committee has the following objectives:

- Apply the regulation governing sustainable finance in the asset management business.
- Discuss ESG issues and challenges specific to Sienna Private Credit's asset management business.

Sienna Private Credit is adjusting its proprietary fund tracking system (ACDC) to include the monitoring of borrowers' extra-financial indicators by funds (when applicable).

Sienna Private Credit also uses external resources by drawing on specific areas of expertise: an advisory contract has been signed with a sustainable finance expert to aid the work of the ESG Committee, and advisory and monitoring contracts have been signed with the company Ethifinance for the commitments of impact funds.

→ **Control**

In the framework of the annual control plan, Internal Control ensures that:

- human and technical resources have been put in place,
- the investments selection process is clearly respected, including the corporate ESG reporting dimension.
- the risks compliance and control procedure (including ESG and sustainability risks) is satisfactory,
- sales information is sufficient and proportionate.

→ **Remuneration policy:**

Sienna Private Credit's activity principally focuses on the direct financing of the economy through loan funds. It takes into account best practices in the field of sustainability. The pay policy also takes into account best practices in the regulatory and ESG areas.

1. The components of remuneration at Sienna Private Credit

The remuneration policy is designed in accordance with the provisions of the AIFM directive. In this regard, it encourages sound and effective risk management that helps to prevent any risk taking incompatible with the risk profiles of funds managed. Sienna Private Credit's remuneration policy is founded on the application of the principle of proportionality in the meaning of the AIFM directive.

Annual remuneration comprises:

- a fixed remuneration,
- a discretionary individual variable remuneration,
- a collective variable remuneration based on the company's profit-share agreements,
- a contribution to a pension plan set up by the company.

Other elements of remuneration may include a stake in the company's capital and an allocation of performance fees accruing to certain funds.

2. First-class HR Governance

A Remunerations Committee has been set up to examine each year the principles of the company's remuneration policy, any adjustments required and its implementation.

The Remunerations Committee comprises members with sufficient expertise and professional experience in fund management and risk control; half of them are independent. The Committee submits an annual report to the Supervisory Board. The Committee may recommend to General Management modifications to its remuneration policy if necessary.

The calculation of fixed and variable remuneration falls under the remit of General Management in the framework of the remuneration policy approved by the Supervisory Board, which controls its application.

The annual remuneration report drawn up by the Committee is made available to the AMF. It is also made available to investors in funds on request.

3. Inclusion of CSR and sustainability risks criteria

3.1 Primacy of investors' long-term interests

Some fund managers receive a portion of the fees tied to the performance of funds above a threshold determined by investors, where applicable. This participation is disclosed to investors, who view it as a way to align our teams with their own financial interests.

It is only accrued at the fund's final liquidation after the reimbursement of all investors, in accordance with the bylaws of the funds in question.

3.2 Alignment with the company's results

- At least 25% of the company's gross operating profit is allocated to our teams in the firm of variable individual and collective remuneration.
- Some employees have the possibility to subscribe to the capital of the holding company, benefiting from a concomitant free share allocation plan.

3.3 Implementation of a long-term retirement savings plan

The company has set up a Group Retirement Savings Plan that it automatically pays into each year to the benefit of contributing employees.

3.4 Inclusion of gender equality criteria

- Sienna Private Credit is a signatory to the France Invest charter for gender equality
- The profit-share agreement signed in June 2021 explicitly takes into account social parameters such as gender equality or access to training.

3.5 Inclusion of criteria E and S at the level of the funds' investment policy and the remuneration policy

For employees working in fund management with sustainable investment goals through the implementation of E and S criteria, individual evaluations and targets shall include qualitative and quantitative elements linked to their attainment of sustainable investment goals (objective of deploying E and S investments).

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