

REPORT

Drawn up in
application of the
provisions of Article
173 of the LTEE
(French law on ecological
and energy transition)

September 2018

1. Information about SWEN Capital Partners

SWEN Capital Partners was created in January 2015 when OFI Group and Arkea Investment Services merged their respective activities involved in the multi-management of unlisted securities. SWEN CP has established itself as a reference in the field of responsible investment in unlisted securities.

As a signatory of the Principles for Responsible Investment, SWEN Capital Partners takes a pro-active and thorough approach to responsible investment and is convinced that factoring in ESG issues when running a company helps to create more value and manage risks more effectively. SWEN Capital Partners has thus developed considerable expertise in non-financial issues, spanning due diligence right up to investment monitoring, which it applies when assessing and reporting on its investments.

GENERAL APPROACH

SWEN CP's Responsible Investment (RI) policy is part of a general approach to integrating sustainable development principles and is applied to its investment management process. SWEN CP has transcribed this approach officially in an RI Charter and RI policy, both of which are available to the public on its website <http://www.swen-cp.fr/>.

- The RI Charter is based on SWEN CP's commitment to observe the 6 Principles for Responsible Investment (PRI). It describes all the different commitments made and initiatives taken to cover the full range of issues addressed by the PRI.
- The RI Policy is a document that provides details about SWEN CP's general approach to responsible investment. It describes the procedures applied to each of its investment strategies and to each stage of the investment process.

SWEN enhanced its ESG profile further in the second half of 2017 by incorporating an official climate strategy. Its purpose is to meet the challenges raised by the Ecological and Energy Transition and it explains how SWEN CP factors climate change into its investment strategy. It is available on request from SWEN CP and also features in its annual response to the PRI

questionnaire (<https://www.unpri.org/signatories/swen-capital-partners/1827.article>).

GOALS

We take this approach because we are convinced that businesses and infrastructure assets that incorporate Environmental, Social and Governance (ESG) issues into their strategies offer better long-term prospects and will be among the leading players in their respective sectors in the future and, therefore, outperform over the long term. In general there are several reasons for including ESG criteria when assessing fund management companies and shareholdings alike:

- this approach provides a broader view of performance and helps us improve our investment decision-making tools.
- it enables us to foresee and prevent non-financial risks as well as their financial impact, and thus to protect value.
- it allows us to gauge our exposure to the big ESG issues of today but also those of tomorrow and thus to create value.
- we can report on these matters to our investor-clients and cater to their needs and commitments.

SCOPE COVERED BY OUR RESPONSIBLE INVESTMENT POLICY

SWEN CP incorporates the full range of ESG criteria (including climate issues) systematically into all its institutional investments (funds and mandates managed by SWEN CP). As regards the FIPs (local investment funds) and FCPIs (venture capital funds) that SWEN CP manages, it began applying ESG criteria gradually between 2015 and 2018 to those that are not delegated to third-party fund management companies with their own investment policies and for which SWEN CP takes the investment decisions.

Starting from 2019, ESG analysis will be factored into all the investment decisions taken by SWEN CP when managing these investment vehicles.

You can find more details about the percentage of assets under management including ESG criteria in their investment strategies on SWEN CP's website: <http://www.swen-cp.fr/>

REPORTING ON THE PRACTICES AND PERFORMANCES OF SWEN CP'S RESPONSIBLE INVESTMENT POLICY

SWEN's responsible investment strategy and commitments are presented on its website in its publicly available reports (e.g. PRI reporting), marketing documents and also in the legal documentation regarding its funds (regulations and articles of association). The results of SWEN CP's responsible investment policy are reported to all its stakeholders (clients, subscribers, fund management companies, employees and, more generally, all those involved in responsible finance) through various means:

- **ESG reporting.** Each year SWEN CP produces annual ESG reports for most of its managed funds and delegated funds. These reports describe the ESG performances of the fund management companies to which SWEN CP subscribes and also of the businesses and assets in its portfolios (co-investments or look-through investments). These reports are sent to SWEN CP's clients.
- **ESG controversy reporting.** SWEN CP monitors ESG incidents affecting its direct investments as well

as the main underlying assets in its funds and mandates (see part "2.3.3 ESG risk assessment" for more details). It prepares quarterly ESG controversy reports and sends them to the clients of the funds and mandates that benefit from this monitoring system.

- **ESG Best Practices Honours, by SWEN.** As part of its responsible investment strategy, SWEN Capital Partners has since 2014 promoted and honoured the international private equity and infrastructure fund management companies that implement the most outstanding ESG practices among over 200 fund management companies overseen by SWEN Capital Partners in its unlisted asset portfolios and investment universe.
- **PRI reporting.** SWEN CP was created in 2015 when OFI Asset Management and Federal Finance Gestion merged their respective activities involved in the multi-management of unlisted securities, and it became a signatory of the PRI in its own name in its first year (it was previously a signatory as part of OFI Asset Management). In 2018, SWEN CP's third annual PRI report prepared in its own name received the highest rating, A+, for each of the following modules: "Strategy & Governance", "Indirect - Private Equity" and "Indirect - Infrastructure". SWEN CP had previously reported on PRI as part of a consolidated report prepared by the OFI AM Group (SWEN CP's majority shareholder).
- **Financial and marketing meetings.** SWEN CP holds regular meetings with representatives of unitholders and fund management companies, giving its investment teams an opportunity to discuss the Group's responsible investment position and strategy with them. They are also an ideal occasion to gain insight into what our stakeholders expect from us today and in the future.

INVOLVEMENT IN MARKET INITIATIVES

SWEN CP is actively involved within French and international trade associations in encouraging the inclusion of ESG (Environmental, Social and Governance) criteria across the industry (in the private equity and infrastructure segments). For instance SWEN CP participates in the governance of various market organisations specialising in responsible investment as well as a number of working groups. It also keeps a permanently close eye on ESG issues by participating in a large number of conferences, interviews and publications. Details about SWEN CP's involvement in these different organisations can be found in its annual response to the PRI questionnaire

(<https://www.unpri.org/signatories/swen-capital-partners/1827.article>).

2. Information on the incorporation of ESG criteria by AuM subject to SWEN CP's RI policy

SWEN CP's ESG strategy is steered by its General Management and presented to its Board of Directors which ensures on a regular basis that it is applied properly. The investment team is particularly involved in deploying this strategy as it incorporates it into its analyses and its regular discussions with the fund management companies and the businesses held directly in its portfolios. The "Business Development and ESG" division is also involved in the ESG strategy and in rolling out the ESG policy internally; it has two members of staff (FTE) responsible for ensuring that SWEN CP observes its ESG commitments and meets its ESG goals.

The ESG analysis can vary depending on the stage of the investment process (due diligence, investment monitoring) and the subject under review, i.e. a fund management company or shareholding / asset. But it can also depend on the type of transaction: primary transaction (selection of investment funds), secondary transaction (acquisition of fund units or portfolios) or co-investment (direct investment made alongside fund management partners in equity or mezzanine debt).

2.1 TYPE OF ESG CRITERIA TAKEN INTO CONSIDERATION

We select our ESG criteria based on an examination of basic texts, major international treaties, founding sustainable development texts (such as the Global Compact), and current regulations and laws. The criteria selected are also based on the works of various market initiatives that have come to lead the movement both internationally (PRI, Invest Europe, OECD, TCFD) and nationally (France Invest, Afep-Medef, etc.).

ESG criteria are applied to fund management companies but also to the underlying investments made by the funds subscribed by SWEN CP and its direct investments. The criteria used will differ depending on whether the subject under review is a fund management company or a shareholding.

2.1.1 Fund management companies

The ESG criteria selected are used first of all to assess the intrinsic ESG performances of the fund management company (CSR policy) and then to analyse the responsible investment practices implemented by it. So a fund management company, as a business, will be subject to an analysis of its environmental performance, social performance and governance quality. The same goes for the responsible investment practices implemented during the fund raising, investment and investment monitoring phases, and also in the reporting and communication processes.

2.1.2 Shareholdings

Prior to any investment, underlying investments will be analysed depending on the type of transaction:

- when it comes to primary transactions, most of the funds under review have not yet begun to roll out an ESG strategy.
- when it comes to secondary transactions and co-investments, ESG analysis will focus on the most material ESG issues and take into consideration the sector and size of the business / infrastructure asset. So ESG criteria are customised.

The ESG criteria used during investment monitoring will differ depending on the type of shareholding under review: i.e. private equity (and mezzanine debt) or infrastructure asset.

- **Private Equity:** the criteria are selected so as to cover most of the ESG issues that businesses might face. The criteria examined fall into the following different categories: employment, equality in the workplace, training, health and safety, environmental impacts, business ethics and risk management, governance bodies.
- **Infrastructure:** the criteria examined will depend on whether the underlying under review is a greenfield or brownfield investment. This is the case for environment and social criteria specific to the design, construction and operational phases.

Specific focus on environmental criteria

Environmental criteria are considered first of all when analysing a fund management company's ESG performance but also in light of its investment policy. The aim is to assess the extent to which the fund management company considers and handles its environmental impact, be it direct (via its activity) or indirect (via the investments made by its funds). The analysis will seek to identify the commitments, mechanisms and policies adopted by the fund management company in order to assess how exposed its shareholdings are to the physical and transition risks relating to climate change and find out how it manages these risks. The criteria examined may include the following: an official environment policy, environmental due diligence carried out, membership of the Initiative Climat 2020, assistance offered to shareholdings in managing physical or transition risks, environmental KPIs established for underlying investments.

Specific focus on environmental criteria

Private equity. *The environmental criteria selected will first of all seek to establish the company's impact on the environment and the measures it takes to mitigate this impact. The aim is also to determine the extent to which the company has assessed its exposure to climate change risks or, at the very least, whether it has addressed the issue. Ecological transition risks are assessed based on measurements of greenhouse gas emissions and on any GHG reduction initiatives in place.*

Infrastructure. *The criteria used seek to establish whether climate change impacts have been assessed but also whether the project or asset is implicitly involved in the ecological transition process on account of its field of activity (renewable energy, waste treatment and recycling, etc.). Environmental issues may differ depending on whether the asset is at the design, construction or operational stage. Ecological transition risks are assessed based on measurements of greenhouse gas emissions and on any GHG reduction initiatives in place (during the operational phase).*

2.2 ETHICAL CRITERIA

As part of its responsible investment policy, SWEN CP seeks to do all it can to ensure that the following international treaties are observed properly:

- the 1997 Ottawa Convention to ban anti-personnel mines.
- the 2007 Oslo Convention to eliminate cluster munitions.

For this reason, it undertakes not to invest (either on its own behalf or on behalf of its actively managed funds) in firms known to specialise in manufacturing the arms targeted by these conventions. SWEN CP routinely asks for these exclusions to be specified in the side letters agreed with the fund managers.

SWEN CP's responsible investment policy also features exclusions among its key investment convictions, i.e. weapons.

Exclusions also feature in SWEN's climate strategy, i.e. it excludes activities involving coal mining. SWEN CP's climate strategy can be found in its annual response to the PRI questionnaire

(<https://www.unpri.org/signatories/swen-capital-partners/1827.article>).

2.3 INFORMATION USED DURING ANALYSIS

The information used during analysis comes from various sources and they may differ if the subject being analysed is a shareholding. SWEN Capital Partners uses the whole range of available documentation, be it public (websites, reports, etc.) or private (e.g. access to dataroom documents). SWEN Capital Partners also makes use of its internal database (which it has built up over the years thanks to the data collection campaigns it carries out with its fund management companies and shareholdings). SWEN Capital Partners also has direct access to external databases as a subscriber to specialist services (World-Check, Google Alerts, etc.) and indirect access to information provided by external consultancies (e.g. when estimating carbon footprint).

Another particularly valuable source of information during the analysis process consists of our contacts with fund management companies and shareholdings (either directly or via the ad hoc questionnaires we send them).

2.4 ESG ANALYSIS: METHODOLOGY AND RESULTS

2.3.1 Fund management companies

Prior to any investment, the ESG analysis methodology is applied to all the fund management companies under review, irrespective of their investment strategy or size. The cornerstone of this analysis is the feedback provided by fund management companies to SWEN CP's ESG due diligence questionnaire and the available documentation. So the fund management company's ESG profile is established based on two factors that are assessed using a rating grid:

- CSR performance
- an analysis of its policy and approach to responsible investment

A quantitative and qualitative assessment of the fund management company is incorporated into the investment memo and presented with a view to taking an investment decision.

However, we will not rule out a fund management company if it has no ESG policy at the time the due diligence is carried out. This is because SWEN CP is keen to promote awareness of such issues and encourage progress. The fund management company will be encouraged to gradually introduce an ESG policy and SWEN CP will offer to assist and advise it during the process.

Fund management companies with funds to which SWEN CP subscribes are surveyed each year **during the investment monitoring phase**. The ESG analysis is based on our "annual ESG questionnaire" designed for fund management companies which is filled in online. This will give rise to a rating of the ESG practices implemented by the fund management company under review but also of its responsible investment policy.

2.3.2 Shareholdings

Prior to any investment (as regards direct investments), SWEN Capital Partners routinely checks that the investment under consideration complies with its sector exclusion policy, as previously presented, as well as with its climate strategy. SWEN CP will also identify and examine the most material ESG issues faced by the shareholding under consideration as well as the initiatives and policies in place to address them. This analysis will highlight any scope for improvement and investigation which will be complemented / enhanced with interviews or feedback from an ad hoc ESG questionnaire.

Portfolio shareholdings will be surveyed each year **during the investment monitoring phase**. The ESG analysis is based on annual ESG questionnaires designed for “shareholdings” and for “infrastructure assets”, which are filled in online via an ESG data collection and management tool. This analysis will not give rise to a rating of the ESG practices implemented by the underlying investment as is the case for fund management companies. However, the data collected from each shareholding will then make it possible to calculate many different ESG performance indicators, which will be presented in aggregate form in the annual ESG reports of the institutional funds and mandates managed by SWEN.

2.3.3 ESG risk assessment

ESG risks are assessed prior to any investment by examining i) the fund management company’s practices and policies, and ii) the most material ESG and climate issues faced by the shareholdings under review along with the feedback they have provided.

SWEN CP also introduced an ESG incident monitoring system in 2017. This system is monitored internally by SWEN CP’s ESG team but also benefits from the expertise of OFI AM’s team of SRI analysts. The list of shareholdings monitored includes all of SWEN CP’s direct investments, the main look-through investments made by the funds subscribed as well as certain shareholdings and infrastructure assets identified as being particularly sensitive on account of their field of

activity, location or track record. The process established makes it possible to monitor any incidents on a daily basis and offer appropriate solutions depending on their severity. Depending on the type of incident, the ESG team, the Head of Compliance, the entire investment team and also the management team will get involved in the process to varying degrees. SWEN CP prepares quarterly reports on the funds and mandates it manages and sends them to its clients.

2.5 METHODOLOGY FOR ANALYSING ENVIRONMENTAL, CLIMATE CHANGE AND ENERGY TRANSITION CRITERIA

2.4.1 Method for analysing the ecological and energy transition

SWEN CP analyses the contributions made by fund management companies and shareholdings to the ecological and energy transition during the due diligence phase and also annually via yearly follow-up questionnaires. SWEN Capital Partners’ climate strategy also adds a new perspective on the way in which it analyses and monitors fund management companies (in the case of primary or secondary transactions) and direct investments, with particularly close attention paid to climate risks (physical and transition risks):

- Due diligence: i) coal mining activities are excluded and ii) climate risks are analysed
- Investments: i) investments are directed towards assets that contribute to the energy transition, ii) “climate” review clauses are included in side letters, iii) guidance is provided by an independent climate expert (who participates in advisory investment committee meetings)
- Monitoring: i) carbon footprint is measured annually for funds and direct investments, ii) we maintain a dialogue with our fund management companies and offer them assistance.

2.4.2 Carbon footprint estimates

SWEN CP decided that it needed to review the current state of its investments in order to gauge whether the underlying investments in its funds are consistent with

energy transition goals. As a member of the Initiative Climat 2020, SWEN CP has thus undertaken to regularly measure the carbon footprints of its funds and direct investments.

In 2017, SWEN Capital Partners estimated the carbon footprints of its funds and mandates for the second time. Two external consultancies assisted it in making these estimates. Among the indicators calculated, SWEN CP opted to estimate weighted average carbon intensity for its **private equity funds**, as recommended by the TCFD, expressed in tCO₂eq / €m of revenue. These estimates were calculated taking into consideration the business sector (GICS 4), number of employees and revenue of each shareholding in the portfolio. For its **infrastructure funds**, SWEN CP opted to measure induced carbon intensity, expressed in tCO₂eq / €m invested.

2.4.3 Green share

The resources currently deployed to analyse the climate issues faced by underlying investments are unable to measure the consequences of climate change and extreme weather events. The same goes for the exposure of underlying investments to the consequences of increasingly scarce natural resources. However, part of SWEN Capital Partners' climate strategy involves examining whether its direct investments are consistent with a low-carbon strategy. Investments are therefore

analysed based on their contribution to green growth, as defined by the TEEC (Energy and Ecological Transition for the Climate) label, referred to as the "green share". So the aim is to determine the extent to which "investments [are] directed to activities that participate directly or indirectly in efforts to tackle climate change, protect the environment and/or contribute positively to the energy and ecological transition".

2.4.5 Engagement and voting policy

Via the various initiatives it is involved in, SWEN CP is committed to encourage and help the fund management companies with which it works, as well as its direct and indirect investments, to incorporate ESG and climate issues into the investment process.

Last of all, SWEN CP systematically exercises its voting rights in its capacity as an investor when called on by one of its underlying funds to express its views on a particular matter, in keeping with said fund's regulations. In addition, when SWEN CP is represented on one of its fund's advisory investment committees, a member of its investment team will attend the meetings and express his/her opinion on the issues discussed.