Paris, 10 March 2021

Application conditions for the European regulation "SFDR[1]" within Azulis Capital

Since the Paris agreements and the European Commission's action plan, awareness of environmental, social and governance issues, as well as the problems associated with climate change, are accelerating the transformation of the "traditional" vision of finance.

As part of its action plan on sustainable finance, the Commission aims to:
- redirect capital flows towards sustainable environmental, social and governance investments;
- integrate sustainability into risk management;
- promote transparency and a long-term vision.

Azulis Capital recalls that its team has long been committed to promoting the ethical values and issues of ESG as a responsible investor. Since 2010, these values and commitments have been recorded in internal charters and external publications (annual Azulis Capital ESG Report and PRI reporting) that forged the foundation of Azulis Capital's ESG policy. The management company has been a signatory to the PRIs since 2011, and IC France since 2016.

ESG issues are integrated into each stage of an investment project (analysis, negotiation, governance, support, reporting), and the Azulis Capital team, thanks to its sectoral expertise and extensive ESG experience, makes managers aware of the various ESG issues at a very early stage by integrating the specific characteristics of the sectors in which the company operates and involving as many of the company's employees as possible.

The Team's initiatives make Azulis Capital one of the mid-market private equity funds most committed to this approach.

The purpose of this document is to specify the conditions under which Azulis Capital applies the provisions of Regulation (EU) 2019/2088 "SFDR[1]."

The Disclosure Regulation introduces two important concepts:
- The sustainability risk, which corresponds to a potential financial loss associated with the impact ESG factors have on the value of an investment;
- The adverse impacts, which can be defined as the negative impact that fund investments may have on ESG factors.

[1] Sustainable Finance Disclosure Regulation

How are sustainability risks taken into account in the investment decision process?

Sustainability risks are taken into account as part of our ESG initiatives and approach which lie at the heart of our investment practice.

All members of the Azulis Capital team are fully committed to implementation of the ESG initiatives and approach in all investment, monitoring and exit processes, and to collecting and analysing the ESG metrics of the investments for which they are responsible.

During the analysis phase of an investment opportunity, ESG issues are systematically included in the preliminary discussions with the managers of the company approached, as well as in the letters of intent, investment ratings and shareholders' agreements.

Pre-acquisition due diligence is carried out by the team on the basis of an ESG questionnaire adapted as appropriate to the economic sectors in which the companies operate.
Each investment committee file contains a chapter on ESG. If the company's management team objects to any ESG approach, this calls the investment decision into question.

In addition, the funds managed by Azulis Capital exclude a certain number of activities that are inconsistent with the values promoted by the team and with Corporate Social Responsibility (tobacco, weapons, games of chance, coal activities, pornography, human cloning).

All shareholders' agreements include a CSR clause stipulating the obligation to have a comprehensive CSR diagnosis carried out within 12 months following the investment and to implement an action plan.

The CSR diagnosis makes it possible to initiate a concrete action plan favouring:
- A global business project including its mission, values and long-term vision,
- Governance and evolution of the corporate culture placing the human element and customers at the centre of all projects;
- Analysis of climate risks as well as those associated with cybersecurity. Simplification of decision-making processes to make the company more flexible and proactive, without sacrificing rigorous analysis and implementation;
- The integration of new eco-design concepts and other sector-specific innovations in support of the ecological transition,
- Taking into account working conditions, safety conditions and regulatory change,
- And finally, the integration of value-sharing, equality and diversity into social policy.

Once the investment has been completed, one of the first intentions of Azulis Capital is to have the company's CSR diagnosis carried out by a specialised firm with the concrete aim of:
- Raising awareness of CSR issues and the company's mission among managers,
- Taking stock of the company's strengths and weaknesses/risks in terms of CSR, taking into account the specific characteristics of the economic sector in which the company operates,
- Defining areas of improvement with the management, setting targets, and formalising the approach in terms of corporate culture, ESG risk prevention, monitoring and compliance with changes in regulations, innovation, and reducing resource consumption,
- Developing agility and flexibility, with a focus on equality and diversity within the organisations, mobilising teams around concrete and meaningful projects, and strengthening dialogue with stakeholders on CSR,
- Performing a measurement of carbon footprint within scopes 1, 2 and 3, accompanied by an action plan to reduce carbon intensity for companies in sectors with the heaviest greenhouse gas emissions,
- Structuring the company's social policy by incorporating value-sharing mechanisms into it,
- And finally, setting up indicators (collection and monitoring of more than 120 ESG indicators) to measure CSR performance and risks and to report on the progress made and/or difficulties encountered by involving a CSR officer.

All actions implemented with regard to both the management company and the portfolio holdings are subject to an in-depth, qualitative and quantitative review every year, shared at team level and through ongoing interactions with the managers of the companies monitored, particularly within the supervisory boards.

Since 2013, the progress of these initiatives and the main portfolio-level ESG factors have been presented in an annual ESG report available online on the Azulis Capital website, and in the specific PRI reporting.

Upon the sale of our shares in an affiliated company, we include, in the documentation prepared by the Business Bank in charge of the transaction, the CSR diagnosis and all CSR actions carried out by the company during our involvement in its capital.

Additionally, Azulis Capital is very active within the ESG Committee of the France Invest investment capital professional association and the association Initiative Climat France.

How is Azulis Capital's remuneration policy adapted to the integration of sustainability risks?

Azulis Capital's remuneration policy is built on principles of consistency with the values defended by the team since its inception and convergence of interests with the investors of the funds it manages.

In particular, for persons whose professional activity within the management company may have a substantial impact on the risk profile of the funds, it sets reasonable remuneration practices consistent with sound and effective risk management including CSR risks.

The remuneration of team members is thus based on the allocation of a fixed remuneration and a contractual variable bonus assessed annually according to the quality of the investment projects carried out to successful completion, the monitoring of shareholdings, the sale operations, the quality of investor relations and the results of the management company. Since 2020, a significant share of the employee's variable bonus has been based on compliance with the ESG criteria-analysis process at the time of the study of an investment opportunity, the employee's assessment of the sustainability risk and his or her proactivity in terms of awareness and support for companies as part of an approach towards making progress on CSR improvement.

Does the Azulis Capital team take into account the adverse sustainability impacts of the investments of the funds it manages?

Due to the size of the funds managed (AUM < €500 million) and the nature of the target companies (French SMEs valued between €20 million and €120 million in Enterprise Value, often family-owned companies needing to strengthen their management structure and reporting tools, majority but also minority shareholdings), Azulis Capital does not at this stage formally integrate the management of adverse impacts on sustainability generated by investments into its investment monitoring processes. Management of adverse impacts would require the development of specific frameworks and tools, something Azulis Capital plans to work on together with its peers and France Invest.

The team is, however, very attentive to the sustainability impacts of the investments it makes, and its objective is to detect the main adverse impacts, which are often sectoral in nature, and to alert and encourage the managers of the companies concerned to correct these impacts in order either to reduce them by involving the stakeholders in its value chain as far as possible or to neutralise them if it has the means to do so.