Application of EU Regulation 2019/2088 'SFDR[1]' within Isatis Capital

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Regulatory framework and key concepts

The SFDR is part of the European Union's action plan on sustainable finance launched in 2018. The plan has three main objectives:

- Redirecting capital flows towards sustainable investments in terms of environmental, social, and governance criteria.
- Integrating sustainability into risk management.
- Promoting transparency and a long-term vision.

Disclosures to end investors on the integration of sustainability risks, on the consideration of adverse sustainability impacts, on sustainable investment objectives, or on the promotion of environmental or social characteristics, into investment decisions and in advisory processes are insufficiently developed because such disclosures are not yet subject to harmonised requirements[2].

EU Regulation 2019/2088, known as the 'SFDR' or 'Disclosure' Regulation, aims to reduce information asymmetries [...] by requiring financial market participants and financial advisors to make pre-contractual and ongoing disclosures to end investors[3].

Beginning on 10 March 2021, all portfolio management companies are therefore subject to the SFDR on 'sustainability-related disclosures in the financial services sector'. The transparency requirements of the Disclosure Regulation apply at both the financial product and entity levels, with several levels of disclosures required (pre-contractual, periodic, and website). This document aims to meet the transparency requirements at the entity level, namely Isatis Capital.

The Disclosure Regulation also introduces certain key concepts, presented below:

Sustainability risk[4]: an environmental, social, or governance event or condition that, if it occurs, could cause an actual or a potential material adverse impact on the value of the investment. In other words, it is a potential financial loss due to the impact of ESG factors on the value of an investment.

[1] Sustainable Finance Disclosure Regulation
[2] Source: Recital 5 of EU Regulation 2019/2088 (SFDR)
[3] Source: Recital 10 of EU Regulation 2019/2088 (SFDR)
[4] Definition 22 of the SFDR

Adverse sustainability impact: conversely, this is an adverse impact of investment decisions on sustainability factors[5].

Financial product promoting E and/or S characteristics[6]: a financial product that promotes environmental and/or social characteristics, provided that the companies in which the investments are made follow good governance practices.

Sustainable investment[7]: an investment in an economic activity that contributes to **an environmental objective[8] or a social objective[9]** while respecting the 'do not significantly harm' (DNSH) principle and provided that the companies in which the investments are made apply good governance practices[10].

Introduction to Isatis Capital's investment policy

Isatis Capital's investment philosophy is based on the belief that considering environmental, social, and governance (ESG) issues is essential to the creation of sustainable value and performance of the businesses in which we invest.

As a reminder, Isatis Capital invests in profitable, innovative, growing businesses based in France, generating at least €5 million in revenue, mainly in the IT and software, business services, health and nutrition, and high-tech industries. Traditionally, Isatis Capital has never invested in highly polluting sectors.

Isatis Capital has an ESG Policy, an Exclusion Policy, and an ESG Charter, all available on our website. An annual ESG report providing an overview of ESG issues in our investments is also published.

The place of ESG is important from the beginning of the investment decision process until the investment is sold.

Having signed the Principles for Responsible Investment (PRI[11]) in 2018, Isatis produces an annual report in connection with this initiative. Since April 2021, Isatis Capital has also supported the TCFD recommendations[12].

[5] 'Sustainability factors' mean environmental, social, and employee matters, respect for human rights, anti-corruption, and anti-bribery matters (Definition 24 of the SFDR).
[6] Article 8 of the SFDR.
[7] Definition 17 of the SFDR.
[8] Measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water, and land, on the production of waste, and greenhouse gas emissions or on its impact on biodiversity and the circular economy.
[9] For example, an investment in an economic that contributes to tackling inequality or that fosters social cohesion, social integration, and labour relations or an investment in human resources or economically or socially disadvantaged communities.
[10] Sound management structures, employee relations, remuneration of staff, and tax compliance.
[11] The PRI, launched in 2005, is an initiative of the United Nations Secretary General. The signatories are committed to the six principles on the integration of ESG criteria into their investment practices: https://www.unpri.org/pri/what-are-the-principles-for-responsible-investment
[12] TCFD: Task Force on Climate-Related Financial Disclosures: https://www.fsb-tcfd.org/about/

With regard to market initiatives, since its approval, Isatis Capital has been a member of two French professional associations: AFG[13] and France Invest[14].

In December 2021, Isatis Capital also joined the International Climate Initiative (ICI), initially launched by private equity players in France and now backed by the PRI at the international level.

Below we present the conditions under which Isatis Capital meets the transparency requirements of the SFDR:

Article 3 of the SFDR

Transparency of sustainability risk policies

At Isatis Capital, we take sustainability risks into account through our ESG approach, which has been an integral part of our investment philosophy since 2018.

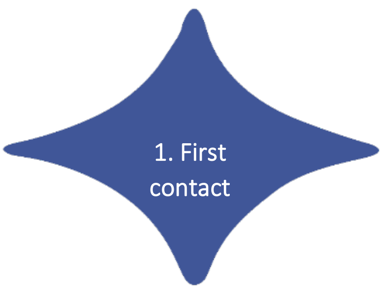
Integrating environmental, social, and governance criteria into our analyses improves our knowledge of the business by identifying sustainability risks as well as market and competitiveness opportunities that may impact the business's valuation. Before we commit to a business on a long-term basis, we must be reassured about the ESG sustainability risks.

This involves:

- Selecting sectors with relatively low external adverse environmental, social, and/or governance effects.
- Excluding businesses operating in controversial sectors, as identified in Isatis Capital's Exclusion Policy.
- The business leaders' agreement to Isatis Capital's support role in developing the business, which also covers transparency on sustainability risks, within the limits of Isatis Capital's tools and powers according to the adopted ownership scheme.

The entire management team is involved in taking ESG criteria into account, from the first contact to the sale of the company.

Isatis Capital's ESG integration process is outlined below:



- Present Isatis Capital's ESG policy.
- Explain what Isatis Capital expects from its portfolio companies in terms of CSR and with what measurement tools.
- Gather initial views from management.

[13] Association Française de la Gestion Financière (Financial asset management association–AFG): https://www.afg.asso.fr/
[14] https://www.franceinvest.eu

2. ESG Due Diligence

- Use the ESG questionnaire to further investigate and identify issues.
- Establish an initial ESG risk scale and a SWOT analysis.

3. Investment report

- A dedicated ESG page, including a materiality matrix.
- Analysis regarding this matrix.
- Areas for improvement.
- Opportunities for improvement with management.

4. Shareholders' agreement

- Include a dedicated ESG clause with appended data tables to be provided annually.

5. Monitoring of portfolio companies

- Organise contacts on problem areas to understand and consider solutions.
- Support the business in structuring its ESG policy and raise the subject of CSR within the boards.
- ESG reports: assessment, progress, worsening, and actions to be taken.
- ESG alerts: describe the incident, the actions to be taken, and the impact on the business's results or image.
- Collect data.

Isatis Capital's ambition is to help its investee businesses initiate or advance their CSR[15] approach, including tools to measure the implemented actions, within the limits of its tools and powers. To this end, Isatis Capital includes a specific ESG clause in the equity interest contract

[15] Corporate Social Responsibility

to make businesses more aware of sustainability risks and monitor their impacts on their activities.

Since 2018, the assessment of these ESG issues has been presented in Isatis Capital's annual ESG report, available on our website, and in its PRI reports.

In addition, Isatis Capital's teams are working to implement a system for rating its portfolio companies, which considers the main ESG risks and the potential adverse impact of their activity on ESG themes. This rating system must be adapted to the sector-specific characteristics of the portfolio companies: some indicators may be deactivated depending on the characteristics of the business's activity.

Article 4 of the SFDR

Transparency on the consideration of principal adverse impacts on sustainability of its investment decisions

As a reminder, Isatis Capital applies a growth capital strategy for growing, innovative French SMEs, often already established internationally or aiming to be. The operations that we fund are mainly as a minority shareholder and are intended to fund the organic development or external growth of these businesses.

As a result, the vast majority of our investments are in equity or convertible bonds. We use little debt leverage so that businesses can maintain their cash flow to fund their growth. In addition to providing funding, our role includes guiding the leaders of our portfolio companies to set up the organisation that will enable the business to manage its growth and its transition from an SME to an intermediate-sized company as smoothly as possible.

We are always members of the board of directors or supervisory board of our portfolio companies. We also provide a 'toolbox' to allow them to optimise their organisation and accelerate their growth.

Isatis Capital considers sustainability issues and adverse impacts once it has identified the investment opportunity, starting from the first contact with the business.

That said, before our final investment decision, we confirm certain key points:

- The business model of the analysed business must not be based on operating in controversial sectors considered to have adverse sustainability impacts, in line with Isatis Capital's exclusion policy.
- The business leaders' agreement to Isatis Capital's support role in the future development of their business, within the limits of their powers according to the adopted ownership scheme. This also means respecting good governance rules, respecting human resources, and applying an environmentally friendly policy. This agreement also covers transparency on sustainability risks.

Given the characteristics of the businesses described above, it may be difficult to develop formalised tools to manage adverse impacts. At this stage, Isatis Capital does not systematically incorporate all the mandatory indicators required by Annex 1 of the Regulatory Technical Standards (RTS) of the SFDR when a portfolio management company considers the principal adverse impacts (PAI). However, we reserve the right to move towards considering these impacts as soon as our internal organisation allows and the underlying data flow is in place.

Furthermore, although the formalisation of a quantitative monitoring tool is under development, Isatis Capital already help the management of portfolio companies identify the main ESG issues and any significant adverse impacts. The support actions take Isatis Capital's ownership structure (majority or minority) into account and aim to improve the business's ESG practices, among other objectives.

In terms of commitments made by our company as part of our ESG approach:

- Isatis Capital systematically proposes the shareholders' agreement signed by the portfolio companies.

- In 2018, Isatis Capital signed the PRI, marking its commitment to measuring and encouraging responsible actions by our investee companies. In particular, we are committed to the following six principles:
  1. We will incorporate ESG issues into the investment analysis and decision processes;
  2. We will be active investors and incorporate ESG issues into our shareholder policies and practices;
  3. We will seek appropriate disclosure on ESG issues by our investee entities;
  4. We will promote acceptance and implementation of the Principles among the asset management community;
  5. We will work together to increase our effectiveness in implementing the Principles.
  6. We will each report on our activities and progress towards implementing the Principles.

- ESG Charter: Isatis Capital's commitments to responsible investment are set out in its ESG Charter, available on its website.

- TCFD recommendations: since April 2021, Isatis Capital has also adhered to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Their objective is to encourage consistent, reliable, clear financial reporting based on four pillars: governance, strategy, risk management, and defining indicators/targets.

- International Climate Initiative (ICI)[16]: In December 2021, Isatis Capital also joined the International Climate Initiative (ICI), originally called 'Initiative Climat 2020', a French project launched in 2015 in France and now supported by the UN PRI as a way to bring together and

[16] https://www.franceinvest.eu/nos-engagements/esg/initiative-climat-international-ici

mobilise private equity players wishing to make a concrete contribution to the fight against climate change.

Article 5 of the SFDR

Transparency of remuneration policies in relation to the integration of sustainability risks

Isatis Capital's remuneration policy encourages the consideration of sustainability risks in the investment decision process.

In particular, Isatis Capital's remuneration policy aims to promote sound, effective risk management consistent with the risk profiles of the managed funds.

The team members' remuneration is thus based on the allocation of a fixed remuneration amount and a variable contractual bonus assessed every year based on the company's long-term objectives, determined according to quantifiable, factual indicators.

Disclaimer

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