SUSTAINABILITY RISK POLICY

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EURAZEO

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SUSTAINABILITY RISK MANAGEMENT POLICY

I. INTRODUCTION

A. Context and objectives

In accordance with Articles 3 and 4 of Regulation 2019/2088 on the publication of sustainability information in the financial services sector ("SFDR"), Eurazeo is committed to providing its clients and partners with access to comprehensive information. This information covers the policies implemented by the group with regards to incorporating sustainability risks ("Sustainability Risk").and assessing the principal adverse impacts ("PAI") in the investment decision-making process.

The objective of this policy is to heighten transparency in the way financial market participants include relevant Sustainability Risks, be they significant or potentially significant, in their investment decision-making processes.

B. Definitions

A Sustainability Risk means an environmental, social or governance event or condition that, if it occurs, could cause a negative material impact on the value of the investment, as specified in sectoral legislation (Article 2(24) of SFDR)

Environmental risk: climate and biodiversity

Eurazeo has specifically identified climate change and biodiversity risks that could have adverse effects on certain portfolio companies, including (i) their physical integrity and site operability, (ii) the resilience of their business models, and (iii) their ability to prevent environmental damage.

Depending on their location or type of activity, the impacts of climate change and biodiversity can be identified as material and carry financial risks. Potential impacts may affect, among others, production, employee health and safety, operational costs, and insurance:

- **Physical risks:** "Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption. Organizations' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting organizations' premises, operations, supply chain, transport needs, and employee safety."[1]

- **Transition risks**: "Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organizations."[2]

[1] As defined by the Task Force on Climate-Related Financial Disclosure
[2] As defined by the Task Force on Climate-Related Financial Disclosure

Contrarily, should the organization proactively anticipate climate change, addressing both its physical and transitional dimensions through the adoption of a resilient business model aligned with a low-carbon trajectory, climate risks can be mitigated, and in certain instances, transformed into opportunities. This rationale underscores Eurazeo's proactive initiatives in conducting prospective assessments on climate-related aspects. Furthermore, the engagement with counterparties on this matter aims to minimize exposure and, where applicable, capitalize on emerging market opportunities.

Social risk

Social risks refer to potential adverse effects on businesses and investments arising from social and human rights issues. This encompasses a wide range of factors related to the well-being of people, communities, and society at large, with among others:

- **Labour practices and Human Rights**: violation of labour rights, including issues related to child labour, forced labour, and unfair working conditions. It may lead to substantial, encompassing fines, penalties, and legal actions stemming from breaches of labour laws. The reputational risk may be substantial, as any association with unethical labour practices can result in damage to the company's image and brand.

- **Health and Safety**: occupational health and safety concerns for employees and communities, product safety issues that could harm consumers or the wider public. It may lead to increased operational costs due to workplace accidents or disruptions.

- **Diversity and Inclusion**: lack of diversity and inclusion within the workforce and leadership. It may result on difficulties attracting and retaining top talent if the company is perceived as lacking diversity and inclusion.

Social risks can have significant implications for companies, affecting their operations, reputation, and financial performance.

Governance risk

Governance risks refer to the potential adverse impacts on a company arising from deficiencies or inadequacies in its overall governance structure and practices including remuneration considerations. This involves the company's ability to establish and enforce effective policies, procedures, and oversight mechanisms to address sustainability challenges. Governance risks can manifest in various ways, such as inadequate board oversight of sustainability issues, lack of transparency in reporting, and insufficient integration of sustainability considerations into decision-making processes. In the absence of robust governance practices, companies may face legal, financial, and reputational challenges.

II. SUSTAINABILITY RISK GOVERNANCE

A. ESG governance

Eurazeo has a robust ESG governance structure that has been strengthened over the years and is represented at the highest levels.

Supervisory Board

A CSR Committee was created within the Supervisory Board in 2014 to orient the Supervisory Board's position on ESG topics, anticipate risks and opportunities, and make recommendations on the Group's ESG strategy. Its work covers environmental, social, ethical, human rights and governance topics at the level of Eurazeo and its portfolio companies.

Complementing the regular meetings of the CSR Committee, the Managing Partner in charge of Impact and Technology intervenes annually at the Supervisory Board to present the execution of the O⁺ strategy, including the deployment of the decarbonization pathway of the Group and its portfolio companies, a review of non-financial performance and the development of Eurazeo's impact strategies.

Executive Board

ESG is also represented at the Executive Board level by Sophie Flak, Managing Partner Impact & Technology, since early 2023. Her main roles on the ESG front are to define and deploy Eurazeo's ESG strategy, develop new sustainable investment products, engage with stakeholders, and oversee the ESG team.

Dedicated ESG team

Eurazeo has a dedicated ESG team since 2008. Its main role is to define and ensure the proper implementation of the ESG strategy within the Group and its investments. This involves supporting the different teams on ESG issues related to their activity. For example, support to the investment teams includes the development of Impact Investment funds, the application of the Exclusion Policy, the performance of ESG due diligence, the definition of objectives and action plans for portfolio companies.

ESG team members are also responsible for driving and monitoring the impact funds and global portfolio sustainable performance, particularly through the annual ESG reporting campaign, producing ESG documentation, and creating and maintaining the Group's ESG policies and processes to the highest standards. To effectively fulfil its responsibilities, the ESG team actively involves all its stakeholders, both internal and external.

Internal network of ESG delegates

Eurazeo has appointed ESG delegates across the firm to support the deployment and achievement of the Group's impact investment and ESG objectives. ESG delegates benefit from specific trainings. Within their team, their role includes:

- Overseeing the implementation of Impact & ESG action plans aimed at achieving the Group's ESG strategy and objectives within their own line of business and team.
- Promoting and ensuring the proper implementation of ESG processes (e.g. exclusion policy, …).
- Conducting market watch in Impact and ESG practices specific to their field of expertise.

Beyond their involvement in Eurazeo's operations, some of them are also active on committees and/or take part in roundtables or workgroups set up by trade associations.

Internal control and risk management system

Risk management

As requested by the Alternative Investment Fund Managers Directive (AIFMD)[3], each Group's subsidiaries duly authorised as Alternative Investment Fund Manager ("AIFM") implements its own Risk Management Policy, which identifies all the relevant risks to which the Funds it manages are or may be exposed. Thus, all Sustainability Risks, as listed above, are fully integrated into the AIFM's risk processes and mapping, mainly as cross-cutting drivers of existing risks.

At fund and strategy level, the Risk Management team monitors a set of indicators, both quantitative and qualitative, to ensure that the AIFMs' exposures respect the Group's risk boundaries, including Sustainability Risks.

At portfolio company level, risk identification and assessment are performed at the due-diligence stage by Eurazeo's investment team, supported by Eurazeo's ESG team. These risks are monitored on an ongoing basis through the investment team's relationship with our portfolio companies.

Sustainability Risks and opportunities are also integrated in the internal valuation process, under the supervision of the independent valuation function.

Compliance & Internal control

The Head of Compliance and Internal Control (RCCI) is a member of the Investment Committee and oversees that the Sustainability Risk assessment performed by the investment team complies with the Group's ESG integration process and the funds' own specific eligibility criteria.

Additionally, each AIFM has its own internal control framework, and an annual audit plan that covers ESG processes and sustainability risk management. The internal control team ensures that the ESG integration policy and the Risk Management policy are being properly implemented at all stages, and that these policies and risk mappings themselves are up to date with the latest regulations and best practices.

Both risk management and internal control teams act under each AIFM's executive management.

At the Group level, Sustainability Risks have been added into the periodic and internal audit plan.

B. Remuneration policy

Eurazeo ensures that its employees receive fair compensation and share in value creation and that paid holidays comply with the law.

Eurazeo strengthens the alignment of interests between its stakeholders by incorporating ESG objectives in up to 15% of the annual variable compensation of its Management. The nature of these objectives and their assessment varies depending on their role in the company. Each member's achievement of ESG objectives is assessed and reviewed annually by the Remuneration Committee:

- For the Executive Board members, the ESG appraisal is based on progress with the commitment of financed companies to meet the SBTi target and annual progress of the unadjusted gender pay gap.
- Each Managing Partner and Managing Director has quantitative targets tailored to their business line. These objectives are linked to the ESG integration into the investment cycle; the improvement of gender diversity within the teams and portfolio companies, and the deployment of decarbonation pathways within portfolio companies.

[3] Directive 2011/61/EU of 8 June 2011 on Alternative Investment Fund Managers (AIFMD), Delegated Regulation (EU) 2021/1255 of 21 April 2021 amended the Delegated Regulation (EU) 231/2013 as regards the sustainability risks and sustainability factors to be taken into account by Alternative Investment Fund Managers (AIFMs)

- For functional directors, targets are tailored to their specific domains.
- For article 9 (SFDR) funds, the achievement of the sustainable objectives of the fund is embedded in the carried or performance bonus.

Furthermore, Eurazeo encourage its portfolio companies to integrate ESG objectives in their management remuneration schemes.

More detailed information on Eurazeo's remuneration policy and the ESG progress plan proposed to its portfolio companies can be found in Eurazeo's Universal Registration Document.

C. Internal training

Eurazeo ensures that all its employees benefit from regular ESG training sessions every year:

- As part of the onboarding process, each new entrant has an introductory session during which the Group's ESG strategy, processes and ongoing projects are presented.
- An ESG induction program is also organised for newly joining Supervisory Board members.
- Sessions are organized throughout the year to enable the effective deployment of the ESG strategy within each investment and functional teams. Main training themes are the following: ESG fundamentals, ESG integration within the investment process; ESG exclusion policy; ESG elements of language; sustainable finance regulations; understanding the science of climate change'.
- In addition, thematic conferences with external specialists are regularly offered to all employees to raise their awareness about environmental and social topics.

III. SUSTAINABILITY RISKS IN THE INVESTMENT DECISION-MAKING PROCESS

As presented in the Responsible Investment policy, available on our website in the Section Sustainability & Impact, we integrate Sustainability Risks at each step of the investment process.

A. Generic approach

The integration of Sustainability Risks and opportunities throughout the investment process is at the heart of Eurazeo's business model. It participates to the selection, transformation and sustainable growth of financed companies. Considering Sustainability Risks at each step of the decision-making process is key to our fiduciary regulatory and reputational duties.

Eurazeo's Exclusion Policy

Eurazeo's approach is ambitious and balanced to accelerate the transition to a low-carbon and more inclusive economy. Eurazeo's Exclusion Policy defines and formalizes strict exclusions and investment restrictions with thresholds for companies operating in sectors or engaging in activities with potential negative impacts on the environment, human health, or society.

Eurazeo also developed an Exclusion tool which is an efficient instrument to mitigate a wide variety of sustainability risks, ranging from climate change and biodiversity loss to health issues.

- **Strict exclusions**: This category includes certain sectors whose direct or indirect negative impacts are incompatible with Eurazeo's responsible investment approach or cannot be overcome by transforming the business. Eurazeo will not invest in these sectors. As such, are prohibited – among others – investments in companies whose main activity is the production or marketing of coal, oil, gas, palm oil or operating in the pornography sector.

- **Investment restrictions with thresholds**[4]: The second category includes sectors for which a materiality threshold is provided. This approach allows investments in companies with less than 20% revenue derived from these sectors. In that case, Eurazeo is prepared to support them in transforming their activities, provided that the transformation objectives are formalized to ensure compliance as soon as possible. For secondary transactions (funds of funds activity), the Exclusion Policy specifies that this materiality threshold is assessed by transparency, calculated as weighted turnover on the portfolio and corresponding to 20% of weighted turnover. This approach makes it possible to assess the exposure to these sectors in relation to the weight of the assets in the portfolios. This allow to avoid the exclusion of companies whose turnover is less than 20% in the sectors concerned.

The list of sectors included in the Exclusion Policy is periodically reviewed to reflect socio-environmental developments. For instance, in 2022, it was adjusted based on changes in the European environmental Taxonomy regarding nuclear power, and in 2023, the investment restrictions related to fossil energies were tightened. For the detailed list of exclusions, please refer to the Exclusion Policy, available at www.eurazeo.com.

ESG due diligence

A due diligence process is exercised in the pre -investment phase in order to identify and analyse all social, environmental, societal, sourcing, ethical and governance risks and opportunities, taking into account the United Nations' 17 Sustainable Development Goals, as well as other regulatory and voluntary frameworks (i.e. Taking into consideration of the PAI under article 7 of the SFDR; the definition of sustainable investment under article 2 (17) of the SFDR, European Taxonomy screening technical criteria including the DNSH; TCFD, TNFD, Planetary Boundaries). Our due diligence is based on the data provided by the portfolio company, the opinions and studies conducted by experts consulted as well as publicly available data.

Shareholder agreement

Our shareholder’s agreement of portfolio companies integrates ESG audit and report clauses. ESG indicators are collected annually in order to monitor underlying companies’ progress. The indicators cover a wide variety of ESG topics, ranging from climate change and biodiversity to social and governance opportunities and risks. Reports on progress are published in an annual report.

B. Engagement and voting policy

Engagement

Eurazeo supports portfolio companies throughout the duration of the investment.

Eurazeo has developed an ESG progress plan to enable portfolio companies to incorporate ESG into their business model and gradually make progress, whatever their size or maturity in terms of ESG. This plan includes 20 “O+ essentials” that help to draw up a balanced, efficient and comprehensive ESG road map. To ensure its deployment, the ESG team works closely with the investment teams.

Eurazeo measures the integration of ESG in portfolio companies’ business models through annual ESG reporting.

[4] With the exception of LP-Interest transactions which are portfolios of assets already built up by the managers external to Eurazeo, so EIM cannot influence the composition of the portfolios. EIM may, if necessary, exclude certain fund units from the scope of the transactions if they do not meet the materiality threshold.

Voting policy

Eurazeo invests in companies for the long term. Eurazeo maintains a regular dialogue with the management of the companies it finances. This occurs particularly with Supervisory Boards and Boards of Directors. Eurazeo has adapted its strategy of dialogue and engagement with the companies it finances through debt instruments to take into account its more limited role as a lender in the company's governance. Eurazeo primarily manages unlisted assets. However, the Eurazeo's Engagement policy regarding shares traded on a regulated market is rolled out through the Voting policy.

C. Follow-up of controversies

An ESG incident or controversy is defined, at the level of a portfolio company, as an event or ongoing situation in which operations or products or services generate undesirable social, environmental and/or governance effects.

It is mandatory for the management of portfolio companies to inform the investment team of any incident or controversy involving a portfolio company.

Upon identification of an ESG incident, whether that be on pillar E, S or G, the investment team informs the ESG team, who can require a more detailed analysis and recommend the most appropriate course of actions to the investment team and the portfolio company.

IV. PRINCIPAL ADVERSE IMPACTS (PAI - SFDR)

Eurazeo considers principal adverse impacts of its investment decisions on sustainability factors. All investment funds falling under the provisions of Article 8 and Article 9[5] of the SFDR and managed by Eurazeo's subsidiaries take into consideration principal adverse impacts (PAI). In accordance with the provisions of Article 7 of the SFDR, the information on the consideration of these PAI is available for each AIF and accessible to investors in the Fund's periodic reports.

The PAIs are taken into account by Eurazeo through the Exclusion Policy, which formalizes investment restrictions related to companies that operate in sectors or that have activities with potential material negative impacts on the environment, human health or society. As such, and as examples, Eurazeo does not invest in companies active in the fossil fuel sector[6] nor in companies engaged in both conventional and controversial weapons[7]. Please refer to the Exclusion Policy at www.eurazeo.com for more details.

Eurazeo also considered the PAI through the implementation of the Responsible Investment Policy. As such, and as an example, Eurazeo complied with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, and thus did not invest in companies linked to allegations of corruption, money laundering, Human Rights violations, violations of International Labor Organization (ILO) principles or with activities located in conflict zones[8] .

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[5] Except Eurazeo Transition Infrastructure Co-Investment Fund – Electra Compartment I
[6] PAI indicator n°4 of the Table 1 of the Annex 1 of the RTS
[7] PAI indicator n°14 of the Table 1 of the Annex 1 of the RTS
[8] PAI indicator n° 10 of the Table 1 of the Annex 1 of the RTS