

# Sustainability (ESG) Policy

February 2023

## 1. Introduction

Apera provides private capital solutions to lower/mid-market companies in the DACH, the UK, the Nordics, France and Benelux.

Responsible investing is a key area of concern to Apera. We believe sustainability / ESG (Environmental, Social and Governance) factors are fundamental in achieving long-term value for our investors as well as stronger and more profitable growth for our portfolio companies, given poorly managed ESG risks can lead to operational issues or reputational damage which may negatively impact the performance of our investments. Moreover, small and mid-cap companies have a direct impact on local economies, and it is our responsibility to make sure that the companies we finance uphold their social responsibilities. ESG is therefore a key consideration in our investment decisions.

Apera signed the United Nations Principles for Responsible Investment (UNPRI) in 2018 and has formally implemented an internal ESG sustainability policy. As part of the firm's commitment to responsible investing, all employees receive regular ESG training to ensure that ESG issues remain at the forefront of our decision-making. This policy document outlines the extent and process of Apera's ESG investment activities. The objective of this document is to provide transparency around Apera's ESG beliefs and investment approach, while also serving as a formal guideline to its readers. The policy applies as standard to all investments made within all Funds and Managed Accounts managed by Apera, including investment recommendations to SANNE LIS S.A.

## 2. ESG commitment

As a signatory to the United Nations Principles for Responsible Investment, Apera confirms that these principles are incorporated into our investment analysis and our investment decision-making processes. This is performed in the context of being a private debt investor, as such we are not active owners of the companies we invest in and have no direct control / stewardship over the issuers.

Nevertheless, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that incorporation of ESG issues can positively affect the performance of our investment portfolios. We also recognise that applying these principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- During the due diligence (pre-investment) phase of potential investments and during the holding period (post-investment), Apera will incorporate environmental, social and governance considerations.
- Apera will encourage the companies in which it invests to consider relevant environmental, social and governance issues, with the goal of improving performance, minimizing adverse impacts in these areas and ultimately providing long-term sustainability for the benefit of multiple stakeholders. To that extent, Apera has implemented an annual ESG reporting requirement for its portfolio companies.
- Apera will continue to remain committed to comply with applicable national, state, and local labour laws in the jurisdictions in which it invests.
- Apera will seek to use governance structures that provide appropriate levels of oversight in the areas of audit, risk management and potential conflicts of interest.
- Apera will continue to maintain strict policies that prohibit bribery and other improper payments to public officials consistent with the OECD Anti-Bribery Convention and similar laws in other jurisdictions in which it invests.
- Apera will provide timely information to its investors on the matters addressed herein, and work to foster transparency about Apera's activities.
- Apera will work toward reporting on its ESG activities and progress and will seek appropriate disclosure on ESG issues by the companies in which it invests, to foster transparency.
- To respect the human rights of those affected by Apera's investment activities and seek to confirm that Apera does not invest in companies that utilize child or forced labour or maintain discriminatory policies (see section 3 for the full exclusion list).

### 3. ESG Risk Management Approach

Apera’s framework to assess sustainability risks (including Principle Adverse Impacts (PAI) and opportunities impacts incorporates a number of steps, detailed in the following sections. During the pre-investment period this comprises ESG negative screening, assessment of sustainability investment criteria (ESG pre-investment grid) and consultation of the ESG committee where necessary. During the holding period (post-investment) there is continuous ESG monitoring based on an ESG questionnaire answered by all portfolio companies on an annual basis. Principal adverse impact indicators mandatory to be tracked under the European SFDR regulation have been integrated in to the ESG pre-investment grid and ESG annual questionnaire.

Negative Screening	Pre-investment grid & Investment criteria	Review & Consultation	ESG Monitoring
			
There are companies and industries that we do not invest in, because they entail sustainability risks and are not compatible with our responsible investment objectives	ESG related factors to be incorporated in the investment analysis to identify investment risks and opportunities. This is done based on a pre-investment grid covering key ESG criteria and applying a scoring methodology to investment opportunities	In case there are any controversial results from the pre-investment ESG grid, investment professionals must reach out to the ESG Committee for consultation and investment recommendation	Post- investment, Apera monitors ESG related factors including PAIs based on a dedicated ESG questionnaire to be completed by portfolio companies on an annual basis. This ESG reporting is conducted by our independent ESG adviser SIRSA
<b>Pre-investment</b>			<b>Post-investment</b>

#### 3.1. Exclusion and Negative Screening

This section outlines the list of activities that are excluded from Apera’s investment universe. This is the first stage of Apera’s approach to responsible investing. We believe that some activities are not compatible with Apera’s responsible investment objectives, because they entail sustainability risks or generate additional risks (e.g., legal risks, reputational risk). We therefore elect to exclude these borrowers from our investment activities. This policy is reviewed on a regular basis.

Criteria	Comments
Alcohol	Production and trade of alcoholic beverages and related products (materiality threshold at 20% of the revenues)
Tobacco	Production and trade of tobacco and cigarettes
Gambling	E-gambling businesses, casinos etc.
Pornography	Production and trade of any pornography media
Munitions / military	Production and trade of antipersonnel landmines, cluster munitions, nuclear and biological weapons, any products only used for cruel, inhuman or degrading punishment, conventional weapons deemed excessively injurious or have indiscriminate effects
Fossil fuel	Production, refinement and trade of fossil fuel
Thermal Coal	Mining, coal-based power generation and trade of thermal coal (revenue threshold at 20% of the revenues)
Nuclear	Production and trade of nuclear power products or services (materiality threshold at 20% of the revenues)
Illegal activities	An illegal economic activity (i.e., any production, trade or other activity, which is illegal under the laws or regulations applicable to the Partnership, including without limitation, human cloning for reproduction purposes)

#### 3.2. Pre-investment ESG grid – identification of sustainability risks (including PAI) and opportunities

The investment industry uses a variety of definitions for sustainability / ESG. The term is generally considered to refer to factors that, while not measured in traditional financial units, are important to corporate financial performance

and, therefore, investment performance. We have adopted a structured approach to ESG diligence using a pre-investment ESG grid as a lens through which we can identify potential investment risks (including PAI) and opportunities in a systematic way. The following ESG criteria are specifically included at the pre-investment screening stage:

### **Environmental**

Sustainability, and limiting the impact on the environment, is increasingly a critical societal and business issue. The issues in this field are diverse but key criteria include:

- Pollution (air, ground, water, soil and groundwater) and destruction of natural habitats
- Sustainability of resources and efficiency of energy consumption
- Biodiversity risks
- Climate change related risks
- Carbon emission

### **Social**

During Apera's due diligence process we analyse the impact a company has on its staff, local communities and society as a whole. Key areas of consideration are:

- Avoidance of any complicity in human rights abuses
- Avoidance of child labour and exploitative business practices
- Social dialogue within the company
- Employee health and safety
- Responsibility towards employees (redundancy / restructuring plans)

### **Corporate Governance**

Apera understands corporate governance to refer to the key responsibilities of the management and the oversight of a company including values, structures, and accountability processes. Apera's governance considerations focus on:

- Structure of governance bodies (e.g., diversity on the executive board)
- Sustainability governance included in operational risk management
- Cybersecurity and data protection
- Business ethics and best practices
- Sites / facilities and suppliers in countries at risk with regard to corruption and human rights

### **3.3. Review & Consultation Process**

The ESG Committee must be systematically consulted by the investment teams if ESG issues are identified during assessment of an investment opportunity. This typically applies to investment opportunities which are in a "grey area", i.e., are not technically excluded according to the Exclusion List but still raise questions from an ESG perspective. The ESG Committee will then form a view on this specific opportunity and provide the investment team with a recommendation on whether to move forward with the transaction or not.

### **3.4. ESG monitoring**

In 2021, Apera implemented an annual ESG reporting requirement for each of its portfolio companies. This reporting is based on a specific questionnaire covering ESG relevant issues including all principal adverse impact indicators listed in Table 1 of Regulation (EU) 2022/1288. Based on this annual ESG questionnaire we will be able to provide (i) an annual Fund specific ESG report to investors enhancing ESG transparency and (ii) a portfolio company specific ESG score card assessing portfolio company's ESG performance raising further awareness of ESG related topics (score card to be discussed with respective management of each portfolio company).

#### 4. Internal Resourcing: Apera ESG Committee

The ESG committee, headed by Salim Lemseffer (Principal, based in Paris) and further supported by Sarah Arnold (London) and Victor Gottberg (Munich) are responsible for all ESG related topics at Apera. The Committee receives additional support from Apera's senior management team. The main responsibilities of the ESG Committee include:

- Being systematically involved by the investment teams where risks are identified for an investment opportunity. The ESG Committee will form a view on the specific opportunity and provide the investment team with a recommendation whether to proceed with the transaction
- Overseeing the annual ESG reporting provided by the portfolio companies
- Implementing ESG policies & guidelines (e.g., ESG investment criteria & exclusion list) and ensuring that policies are up to date
- Communication of ESG policies and best practices to the investment teams ensuring that all team members are up to date on ESG related matters

#### 5. Engagement

Engagement is key to manage and monitor ESG risks. Lenders can engage with borrowers throughout the investment process, from initial investment assessment through to the monitoring phase.

During the investment process, the investment teams meet management teams and may raise questions relating to ESG. Based on sustainability investment criteria (pre-investment ESG grid), further scrutiny may be applied and will be carried out throughout the investment due diligence. Post-investment, we engage on ESG topics during our lender meetings and supervisory boards (when we have board observer rights).

In addition, we share our annual ESG analysis (ESG score cards) with the companies we invest in to continue raising awareness of ESG related topics.

Given Apera's role as a provider of debt finance, we do not seek to take a stewardship role with regard to investments.

#### 6. UN Principles for Responsible Investment

Apera has been a signatory to the UNPRI's Principles for Responsible Investment since 2018. The issues described in the Global Compact and Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)) regulations are incorporated in our investment analysis and investment decision-making process. We report to the UNPRI on an annual basis.

#### 7. The FSB Task Force on Climate-related Financial Disclosures

Apera has been a supporting organisation of the Task Force on Climate-Related Disclosures (TCFD) since April 2020. The TCFD seeks to develop recommendations for voluntary climate-related financial disclosures that are consistent, comparable, reliable, clear, and efficient, and provide decision-useful information to lenders, insurers, and investors. A full list of supporters can be seen here: <https://www.fsb-tcf.org/tcf-supporters/>.

#### 8. Membership of Industry Bodies

Apera uses membership of industry bodies, including the BVCA, to ensure we are kept abreast of best practice and regulatory updates.

#### 9. Transparency and Sustainable Financial Disclosure Regulation ("SFDR")

We are committed to providing relevant and timely information and reporting of our ESG efforts internally (communication between the investment teams or board level) as well as externally (investors and other stakeholders). Apera is compliant with article 3 SFDR with regard to the elements present in this sustainability policy (e.g., Apera's commitments and integration of sustainability at each stage of the investment phase). In addition, and in accordance with article 4 SFDR Apera prepares consolidated ESG reports at the level of each fund.

The information given by Apera in this policy are

- (i) for Fund I and II in accordance with article 6 of the SFDR, i.e. information on the integration of sustainability risks in the investment decision-making process
- (ii) for Fund III in accordance with article 8 of the SFDR, i.e. funds that promote environmental or social characteristics. Fund III intends to promote for at least 80% of the portfolio environmental and social characteristics such as permanent job creation, employee health and safety, inclusion, equality, diversity, climate change and sustainability of resources as well as efficiency of energy consumption. Based on the annual ESG reporting we will also collect data on the principal adverse impact indicators listed in Table 1 of Regulation (EU) 2022/1288 in relation to each portfolio company.

## Appendix 1: ESG integration

Apera employs an ESG integration strategy across our core activities, assessing ESG considerations in conjunction with the investment considerations during our due diligence process. As outlined in the table prepared by PRI below, there are a number of steps between pre-deal and exit during which traditional and ESG considerations will be analysed.

		Typical considerations for private debt investments	ESG considerations	Engagement activity
Pre-transaction	Pre-deal cycle	<ul style="list-style-type: none"> <li>Develop statement of investment principles</li> <li>Define investment universe - geography, sector, credit strength, deal size etc</li> </ul>	<ul style="list-style-type: none"> <li>Develop responsible investment (RI) /ESG policy</li> <li>Define ESG screening criteria</li> <li>Educate external agents on RI policy</li> <li>Define ESG impact</li> </ul>	<ul style="list-style-type: none"> <li>Not applicable</li> </ul>
	Phase I Origination & Pre-assessment	<p><i>Sourcing &amp; origination:</i></p> <ul style="list-style-type: none"> <li>Generate investment ideas</li> <li>Identify investment opportunities</li> </ul> <p><i>Pre-assessment:</i></p> <ul style="list-style-type: none"> <li>Conduct high-level due diligence</li> <li>Identify any red flags for further consideration in due diligence process</li> <li>Take decision to proceed to due diligence phase</li> </ul>	<ul style="list-style-type: none"> <li>Identify any ESG red flags for consideration in due diligence process</li> <li>Consider jurisdictional ESG issues such as local governance, legal systems, ESG policy and regulation</li> </ul>	<ul style="list-style-type: none"> <li>Engage senior management of prospective borrowers for disclosure of potential ESG risks</li> </ul>
	Phase II Due diligence & Investment approval	<ul style="list-style-type: none"> <li>Conduct credit analysis</li> <li>Conduct in-depth due diligence</li> <li>Write up investment memorandum</li> <li>Negotiate/finalise terms</li> <li>Take investment committee decision</li> <li>Transact</li> </ul>	<ul style="list-style-type: none"> <li>Conduct pre-investment ESG grid</li> <li>Integrate ESG summary in investment memorandums as applicable</li> <li>Educate investment committee on relevant ESG considerations</li> <li>Include ESG reporting requirements for borrowers in terms</li> <li>Determine ESG monitoring needs</li> </ul>	<ul style="list-style-type: none"> <li>Request management changes relating to ESG (e.g., board independence)</li> <li>Arrange regular dialogue with management</li> <li>Educate borrowers about investor ESG needs</li> <li>Define requests for ongoing monitoring of pertinent ESG criteria</li> </ul>
Post-transaction	Phase III Investment holding period	<ul style="list-style-type: none"> <li>Ensure on-going borrower reporting and monitoring</li> <li>Address developments and incidents that pose risks/potential defaults</li> <li>Provide technical assistance</li> <li>Undertake potential restructuring process</li> </ul>	<ul style="list-style-type: none"> <li>Carry out on-going ESG monitoring</li> <li>Support improvements that address ESG risks</li> <li>Identify potential positive impacts</li> <li>Ensure manager ESG reporting to investors</li> </ul>	<ul style="list-style-type: none"> <li>Include ESG agenda items in regular borrower meetings</li> <li>Manage ESG risks relating to potential defaults</li> </ul>
	Phase IV Exit	<ul style="list-style-type: none"> <li>Consider possible refinance options</li> <li>Close out process</li> </ul>	<ul style="list-style-type: none"> <li>Undertake ESG impact assessment</li> <li>Facilitate manager ESG reporting to investors</li> <li>Consider internal close-out process including ESG lessons learned</li> </ul>	<ul style="list-style-type: none"> <li>Consider close-out process with borrower, including ESG lessons learned</li> </ul>