idiCo

Sustainability risks

Policy on the integration of sustainability risks

April 2023

This document has been produced in accordance with Article 3 of EU Regulation 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR) and describes how sustainability risks are integrated into idiCo's investment processes and advisory activities ("Sustainability Risk Policy").

Sustainability risk refers to the occurrence of an ESG event or situation that could potentially or actually have a material negative impact on the value of the investment in a fund.

Sustainability risks can either represent a risk in themselves, or have an impact on other risks and thus contribute significantly to the risks already identified, such as market, operational, liquidity or counterparty risks.

Sustainability risks can have an impact on long-term returns for investors and are addressed in terms of the following key areas:

- Environment: issues relating to physical and transition climate risks (air pollution, carbon intensity, greenhouse gas emissions, etc.), impact on habitats, use of resources (water, natural disasters, etc.) and biodiversity
- Social: issues relating to the rights and well-being of people, human resources management within companies, etc.
- Governance (issuers): issues relating to corporate strategy, shareholder value creation, corporate culture, balance of power, etc.

The assessment of sustainability risks can be complex not only because it covers three dimensions (environment, social progress and good governance) but also because risks have to be analysed differently depending on the business sector and the stage of maturity of the companies. Secondly, the sustainability analysis is carried out on the basis of indicators that have to be appropriate for each portfolio company using the same methodology in each case.

idiCo relies mainly on audits and feedback from its portfolio companies. Therefore, fund managers must also consider the risk of misinformation in ESG analyses.

idiCo is committed to following the regulatory timetable and progressively identifying and prioritising indicators and methodologies for calculating and monitoring the principal adverse sustainability impacts.

The purpose of this Policy is to describe the integration of sustainability risks in the investment strategies of the funds under management.

idiCo has grouped sustainability risks into four main categories:

1. Climate change risks

- Physical risks related to climate change
- Transition risks related to climate change
- Risk of litigation and/or liability related to environmental factors

2. Biodiversity risks

3. **Governance risks**
   - Reputational risks
   - Risk of litigation and/or liability related to non-financial factors
   - Risks related to shareholder disengagement
   - Risk of lack of constructive dialogue with companies
   - Corruption and money laundering risks

4. **Social risks**
   - Risks related to changes in the organisation of human activities
   - Insurance risks
   - Medico-social risks

1. Climate change risks

idiCo identifies three types of climate risks:

- Physical risks resulting from damage directly caused by climate and weather events. These can be acute (due to natural events) or chronic (linked to rising temperatures, ocean acidification and long-term geographical changes such as rising sea levels). These factors can be encouraged by human activity and must therefore be limited.
- Transition risks related to the effects of implementing a low-carbon business model: legal, regulatory and political developments, market opportunities, innovations and technological breakthroughs and customer and stakeholder perceptions of their potential impact.
- Environmental liability risks due to a failure to consider risks created by providing financial backing to companies that commit environmental breaches and fail to keep their commitments in the long term. idiCo aims to invest in a range of European companies (mainly French). idiCo does not commit to investing in "clean" companies but is committed to supporting growth companies in their transition to an economy with limited impact on the environment and greater consideration of human factors.

idiCo incorporates sustainability risks and opportunities into its research, analysis and investment decision-making process in order to capture all potential long-term risks and generate sustainable returns for investors.

Initially, transition risks may affect investors and if the transition is not successful, investors may be impacted by physical risks and liability risks, e.g. if a financed company is convicted of non-compliance with environmental rules (the crime of “ecocide").

While these risks are difficult to quantify at this stage, idiCo aims to pre-empt and prevent them through the following measures:

- Implementation of an exclusion policy targeting those sectors most likely to cause environmental and/or social damage;
- Extension of ESG due diligence during the investment process to each portfolio company, accompanied by ESG action plans tailored to the companies financed. Because the companies financed by idiCo come from all types of industries and are at different stages of maturity, idiCo develops an appropriate and achievable action plan to allow each company to embark on or continue its green transition;

2. Biodiversity risks

Biodiversity loss has as much effect on ecosystems as global warming and increases the risk of the physical climate risks occurring. Biodiversity loss affects all business sectors (installation of new buildings/warehouses in greenfield sites, raw material needs and consumption, waste management, use of natural resources, transport and infrastructure, etc.).

Biodiversity risks are not currently assessed due to a lack of data and established methodology.

idiCo therefore follows the regulatory timetable for assessing the sustainability risks associated with maintaining biodiversity and the principal adverse impacts.

3. Governance risks

- Reputational risks

Reputational risk is the impact that a negative event can have on an organisation's image.

Any problem, whether related to the environment, working conditions, safety or ethics, may have an impact on both the valuation of the assets held in our funds and on the management company itself.

The most likely causes of reputational risk for the fund may include a failure to implement measures to monitor the companies financed, potential corruption or money laundering & terrorist financing scenarios, and unsustainable social or societal practices and/or governance practices of any of the financed companies held in our funds.

- Risk of litigation and/or liability related to non-financial factors

The risk of litigation and/or liability arises from possible legal action for non-compliance with environmental and social regulations.

Such risks could limit the financial profitability and future liquidity of the funds under management.

- Risk of shareholder disengagement

idiCo has formalised a voting policy for general meetings and exercises voting rights in all portfolio companies, whether listed[1] or unlisted.

The risk in this case comes from a failure to identify resolutions that need to be voted on, including resolutions with a direct or indirect impact on the climate, the introduction of employee schemes (e.g. profit-sharing and training programmes) and good governance (e.g. remuneration, appointment of corporate officers, audits, etc.).

[1] For listed companies, the exercise of voting rights is mandatory once idiCo holds 5% or more of the share capital and/or voting rights. Below this threshold, the exercise of voting rights is possible but not mandatory.

- Risk of lack of constructive dialogue with portfolio companies

idiCo's organisational structure allows us to engage in constructive and active dialogue with the companies we finance, enabling us to better understand the development strategies their managers want to pursue.

The risk in this area arises from a failure to analyse and understand our partners.

4. Social risks

Social risks are the risks to which communities of individuals or even nations are exposed. These risks may affect individuals and create significant adaptation needs or expenses for them that require collective support.

- Risks related to changes in the organisation of human activities

The policies to be implemented by governments and compliance with the objectives by the community as a whole will require adjustments to our current way of life. The adjustments will concern means of transport, consumption patterns, waste reduction and management, and training and awareness needs.

These lifestyle changes will affect the professional and personal lives of communities.

- Insurance risks

The evolution of physical risks linked to climate change and the decrease in biodiversity will lead to additional insurance costs (natural disasters, rising sea level and its impact on the coastline, etc.).

- Medico-social risks linked to climate change and adaptation needs

All these upheavals (climate change, pandemics, resulting organisational changes) may have an impact on human health (related to remote working or the absence thereof, sick leave, stress, etc.). Companies will have to anticipate these impacts in their human resources management policies and recruitment policies.