



## **SUSTAINABLE FINANCE DISCLOSURE REGULATION (SFDR)**



March 2021

**NAXICAP PARTNERS**  
**Application of the REGULATION (UE) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL**  
**of 27<sup>th</sup> NOVEMBER 2019**  
**on sustainability-related disclosures in the financial services sector**

(Sustainable Finance Disclosure Regulation - SFDR)

Updated : 10th March 2021

## 1. Context

[Art. 1]

The EU Action Plan on Sustainable Finance was launched by the European Commission in March 2018 with the objective of financing the transition to a low-carbon economy. It has set 3 main objectives:

1. Redirect capital flows to a more sustainable economy
2. Integrate sustainability into risk management
3. Promoting transparency and long-term sustainability in financial and economic activities

The Commission's action plan has been implemented through various regulations, including the SFDR, which requires the publication of sustainability related information in the financial services sector.

*Extract from the SFDR regulation:*

**Article 1 – Subject matter**

*This regulation lays down harmonised rules for financial market participants and financial advisors on transparency regarding the integration of sustainability risks and the consideration of adverse sustainability impacts in their processes and the provision of sustainability-related information with respect to financial products.*

The enforcement of the SFDR Regulation by Naxicap Partners as an AIF (Alternative Investment Fund) management company is presented below.

## 2. Definition

[Art 2]

### **AIF or Alternative Investment Fund**

An AIF is an investment vehicle as defined in Article 4(1)(a) of the 2011/61/EU Directive. Naxicap Partners is an AIF management company, and more specifically a Professional Private Equity Fund (hereby referred to as "Funds").

As such, **Naxicap Partners is subject to the SFDR Regulation**

### **Sustainability Risk**

A sustainability risk is an environmental, social, or corporate governance-related event or condition, that, should it arise, could have an adverse effect on the value of the Investment.

### **Sustainability Factors**

Sustainability factors are environmental, social and employment related issues, respect for human rights and the fight against corruption and acts of corruption.

### **Negative Impacts**

Negative impacts are the consequences of investment decisions that result in negative effects on sustainability.

**Investment:** direct investment in companies engaged in commercial or industrial activities.

### 3. Integrating sustainability risks in the investment decision-making process [Art.3]

*Extract from the SFDR regulation:*

**Article 3 – Transparency of sustainability risk policies**

*Integration of sustainability risks in their investment decision making process.*

Naxicap integrates relevant sustainability risks, whether significant or potentially significant, into its investment decision-making process in the following manner. Each investment project is reviewed by the investment team, which applies Naxicap Partners' ESG procedures committed to:

**o Exclude certain industries and activities from its investment portfolio**

Naxicap Partners' first commitment is to invest in activities that are coherent with its values and to encourage ethical behavior. Naxicap Partners has therefore decided not to invest in:

- ✓ any form of illicit economic activities: manufacturing, trade or any other activity prohibited by law or regulations;
- ✓ the cultivation or trade in tobacco;
- ✓ the manufacture of or trade in arms or ammunition of any kind
- ✓ pornography and prostitution;
- ✓ Casinos, gambling, and any other related businesses.

The rules of certain Funds provide for additional exemptions such as activities that enable illegal access to electronic data networks, illegal downloading of electronic data, or any activity related to coal mining.

**o Integrate ESG issues, including sustainability risks, in investment decisions**

Each investment opportunity is subject to an in-depth study which is formalized in an Investment Memorandum. This includes ESG and climate analysis prior to investment. This preliminary analysis highlights key ESG and climate risks, opportunities, and recommendations, and is factored into investment decisions.

Besides major ESG risks that could harm the profitability Funds, Naxicap Partners' image, or lead to a project being withdrawn before it goes before the Investment Committee, the analysis of sustainability risks presented to the Investment Committee aims to define challenges and to establish the ESG action plan to be implemented in the company in which the Naxicap Partners would become shareholders.

Investment decisions, based on the study of the strategic, financial, social, and organizational aspects of the target company, consider the impact of the sustainability risk, likely to have a negative impact and therefore require significant investments.

The Head of risk, compliance and internal control attends each investment committee meeting.

**Focus on pre-investment climate-change assessment**

*As a signatory of the iC International, Naxicap Partners routinely takes climate risks into account in its investment process for investments falling within the scope of the ESG policy.*

*An analysis of the exposure to physical and transitional climate risks, which the company faces depending on its sector and activity, is included in the pre-investment memorandum.*

#### o Conduct ESG due diligence

Pre-investment ESG due diligence is compulsory and is carried out by external auditors, who provide an in-depth analysis of the main ESG issues, including sustainability risks, and aim to define the action plan for the coming years.

#### Include an ESG clause in shareholder agreements

As a rule, an ESG clause is included in the Shareholders' Agreements. It includes a commitment to implement a detailed action plan, to provide regular reports and to respond to ESG questionnaires. Sustainability risks are addressed in this framework.

#### Sustainability risk mapping

In addition to the pre-investment process, Naxicap Partners has produced a chart outlining ESG risks inherent to the activities of its portfolio companies. This mapping facilitates the follow-up of material risks in terms of sustainability and the implementation of measures to reduce risks to its portfolio. The sample of the analysis carried out in 2020 represents 73% of the amounts invested.

### 4. Consideration of adverse sustainability impacts

[Art. 4]

*Extract from the SFDR regulation:*

#### **Article 4 – Transparency of adverse sustainability impacts at entity level**

*Statement on their due diligence policies with respect to the principal adverse impacts of investment decisions on sustainability factors*

In addition to activities that are excluded due to, but not limited to, their negative sustainability implications, the impact of investment decisions on sustainability factors is not a decision criterion. However, negative sustainability issues and **impacts are identified at the time of the pre-investment assessment** and taken into account in the ESG action plans to be rolled-out to improve the non-financial performance of investments.

However, the Management Company is not in a position at this stage to assess the negative impacts of its investment decisions on the sustainability factors, as defined in article 4 – Transparency of negative impacts in terms of sustainability at the entity level – and in article 7 – Transparency of negative impacts on sustainability regarding financial products – of the SFDR Regulation, taking into account, in particular, the adaptation needs of the portfolio companies to set up processes, information systems and the means to meet the requirements of the SFDR Regulations.

**Post investment**, following due diligence and **data collection from portfolio companies**, **certain adverse sustainability factors**, identified in the pre-investment analysis, are evaluated and integrated into action plans aimed at reducing their impact.

*[Art 4] ... Information about their policies on the **identification** and **prioritisation** of principal adverse sustainability impacts and indicators.*

As a general investor, Naxicap Partners annually collects indicators concerning most ESG issues applicable to all sectors and activities. The selection of these indicators comes from recommendations and studies carried out by industry experts such as the PRI, the ESG Commission of France Invest, external consultants as well as peers from the Private Equity sector.

Each year, Naxicap Partners asks its holdings companies to provide a set of approximately 140 indicators relating to their ESG initiatives as well as their engagements with stakeholders (customers, suppliers and local communities).

To collect this data, Naxicap Partners has implemented an online reporting tool - Reporting21 (Sirsa) - available to all portfolio companies. Data collection via the Reporting21 tool allows Naxicap Partners to:

- respond to the Funds' investor queries;
- produce detailed ESG reports throughout the investment cycle;
- estimate the carbon emissions of the portfolio's scope 1, 2 and 3 and thus identify the main sources of emissions
- produce the information required by the SFDR regulation (starting in 2022) and thus highlight the main negative impacts not yet covered at this stage.

#### ***Climate focus***

*Naxicap Partners has integrated climate indicators into its Reporting21 online reporting tool. These indicators are presented in Naxicap Partners's annual ESG report.*

Despite the collection of a broad base of indicators, including some negative impacts, Naxicap Partners does not, at this stage, provide a comprehensive assessment of the negative impacts of its investment portfolio.

*[Art 4] ... A description of the principal adverse sustainability impacts and of **any action in relation there to taken** or, where relevant, planned.*

Naxicap Partners encourages partnership with portfolio company's management to identify relevant ESG concerns and some negative impacts and to support the progress of its ESG action plan. **The action plan is approved at least once a year at a Supervisory Board meeting**, in accordance with the provisions of the Shareholders' Agreement. Portfolio companies should report on their ongoing progress and accomplishments, including key issues and negative sustainability impacts.

At this stage, action plans are monitored with a view to improving companies' social and environmental performance. These objectives do not currently include any obligation of result.

Depending on the results of the climate-change analysis carried out prior to an investment, concrete actions to be implemented are identified. These measures are integrated into the company's action plan, whether to capitalize on opportunities associated with the transition to a low-carbon economy or to limit exposure to physical and transitional risks.

Depending on their impact, these measures may cover the following topics;

- o Assessment of the company's carbon footprint;
- o Actions to reduce greenhouse gas emissions;
- o implementing relevant and quantifiable monitoring indicators.

Naxicap Partners would like to see its portfolio companies implement measures to reduce greenhouse gas emissions. However, at this stage, Naxicap Partners does not impose any specific objectives in this respect. Naxicap is discussing the action plan which is to be approved by the Supervisory Board.

Naxicap Partners has incorporated climate indicators into its online reporting tool Reporting21 to assess portfolio companies' exposure and adaptation strategies to physical and transitional climate risks, potentially impacting their operations. Using ADEME (Agence de l'Environnement et de la Maîtrise de l'Énergie) emission factors, we can estimate the Scope 1, 2 & 3 emissions of our portfolio companies.

As a co-signer of iC International, Naxicap Partners aims to set a path to reducing the carbon emissions (scope 1, 2 & 3) of portfolio companies with high carbon content.

[Art 4] ... brief summaries of **engagement policies** in accordance with Article 3g of Directive 2007/36/CE where applicable

Naxicap Partners is a French private equity firm that has been active in all sectors of activity in LBO and growth capital transactions for over 30 years. Naxicap supports SMEs and SMLs **through majority stakes in France, Benelux, Germany and Spain.**

Naxicap's teams are always represented on the supervisory bodies of companies: Boards of Directors, Supervisory Boards, Strategic Boards, etc. and play an active and vigilant role alongside management in the running of companies and in the definition and implementation of their strategy.

Naxicap Partners' main strategy is to invest as a majority shareholder. As such, Naxicap Partners benefits from the traditional rights of a majority shareholder, including the appointment of members of the management team, full control over the exit strategy and approval of build-up transactions.

Regarding ESG, Naxicap imposes a clause in its shareholders' agreements setting out the obligations of the companies, including :

- holding a supervisory board meeting dedicated to ESG at least once a year;
- responding to the Reporting21 questionnaire;
- defining an ESG action plan and monitoring its implementation.

#### **PRI - Principles for Responsible Investment**

Signing the PRI in January 2016 marks our commitment to measure and encourage responsible actions by the companies in which we invest. Consequently, we make the following commitments whenever they are in line with our fiduciary duties:

- ✓ We integrate ESG into our investment analysis and decision-making processes.
- ✓ We are active shareholders and integrate ESG into our shareholder policies and procedures.
- ✓ Whenever possible we expect transparency on ESG issues from the companies in which we invest.
- ✓ We promote the endorsement and enforcement of the Principles in the investment industry.
- ✓ We cooperate to improve the effectiveness of our own compliance to the Principles.
- ✓ We report on our activities and progress in implementing the 6 Principles.

#### **International Climate Initiative**

In October 2016, Naxicap Partners made a commitment to the iC20 (Climate 2020 Initiative, now renamed the International Climate Initiative) to contribute to the COP21 goal of limiting global warming by two degrees. As a signatory to the International Climate Initiative, Naxicap Partners is committed to:

- ✓ Acknowledge that climate change will have effects on the economy that represent risks and opportunities for businesses;
- ✓ Consider climate change issues over the entire investment period;
- ✓ Carry out a gradual evaluation of the portfolio's carbon footprint for companies in which this issue is relevant;
- ✓ Define an action plan to reduce emissions and adapt to climate change with the management of these companies.

#### **ESG Charter**

Naxicap Partners has defined its commitments to responsible investment in its ESG Charter, which is available to the public on its website.

## 5. Transparency of remuneration policies

[Art. 5]

<b><i>Article 5 - Transparency of remuneration policies</i></b> in relation to the integration of sustainability
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Naxicap Partners has updated its procedures to clarify how sustainability risks are taken into account in its compensation policy.