



## **Article 29 Report**

**LGT Private Debt (France) S.A.S.**

**30 June 2023**



## **Contents**

- A. Information relating to the Firm's general approach on the consideration of environmental, social and governance quality criteria
- B. Information relating to the internal resources deployed by the Firm
- C. Information relating to the approach to taking account of environmental, social and governance quality criteria at the level of the Firm's governance
- D. Information on the strategy for engagement with issuers or management companies and its implementation 8
- E. Information relating to the European taxonomy and fossil fuels
- F. Information on the strategy for alignment with the international objectives for limiting global warming set out in the Paris Agreement
- G. Information on the strategy for alignment with long-term biodiversity objectives
- H. Information on steps taken to take account of environmental, social and governance criteria in risk management including physical, transition and liability risks related to climate change and biodiversity
- I. List of financial products mentioned pursuant to Article 8 and Article 9 of SFDR
- J. Summary of the principal adverse impacts of the Firm's investment decisions on sustainability factors
- K. Description of the principal adverse impacts of investment decisions on sustainability factors and Historical comparison
- L. Description of policies to identify and prioritise principal adverse impacts of investment decisions on sustainability factors
- M. Engagement policies
- N. References to international standards



## **A. Information relating to the Firm's general approach on the consideration of environmental, social and governance quality criteria**

### **Summary presentation of the entity's general approach to taking account of environmental, social and governance criteria**

#### **Our Approach to Sustainable Investment**

Within LGT Private Debt (France) S.A.S.- and the wider LGT Capital Partners group, we believe that investors and asset managers that invest on their behalf have a responsibility to invest in a way that their investments effectively support a sustainable society.

At the core of our commitment to help our clients achieve their financial objectives is the conviction that this can be achieved by investing responsibly.

We value the importance of integrating Environmental, Social and Governance ("ESG") factors into our investment processes and fundamentally believe that this is aligned with the aim of achieving long-term positive financial performance for our investors. We also recognize and value the fact that this will also support the better functioning of companies we invest in, enhancing behaviour in a wide range of markets and industries, and having a positive societal impact beyond the financial markets.

#### **Information on how we integrate sustainability into our Investment Decision-Making Process**

As part of the process to undertake appropriate due diligence on investments, consistent with our approach to sustainable investing (as outlined above), we will generally conduct a level of research on each company we invest in, which will give us an understanding of the company or issuer. This includes a consideration of fundamental and quantitative elements such as financial position, revenue, capital structure etc. At the same time, we aim to minimize the negative impact of our investments on the Sustainable Development Goals ("SDGs"). Towards this end, we assess and manage relevant financial risks stemming from climate change, resource depletion, environmental degradation and social harm. This can result in the exclusion of certain business activities and sectors from our investment solutions. Exclusions vary from zero-tolerance issues, such as child labour and controversial weapons, to sensitive business activities that require additional investment scrutiny. The latter includes natural resources (such as coal, oil and gas) and certain entertainment services and consumer goods. We apply a basic set of exclusions across all of our portfolios. We further consider a company's operations, its products and services and potential ESG controversies. We recognize the importance of integrating these ESG factors and this sustainability risk assessment into our investment research process – both initially and on an ongoing basis for the duration of the period we hold an investment or pursue a particular investment strategy. We therefore continuously refine our ESG process.

Our proprietary ESG screening tool draws on publicly available raw ESG data from well-established information providers. This data is then processed by the tool using a range of proprietary Key Performance Indicators ("KPIs") and combined with the analysis of the sector specialists. This enables us to assess the ESG performance of companies expressed in a numerical ESG score. The tool is also applied to implement sector exclusions and to measure the ESG performance of aggregate portfolios relative to a benchmark or reference portfolio. For our investment activities with third-party managers, the consideration of ESG issues is also an integral part of our investment due diligence process. We have developed the process to align with the UN's six Principles for Responsible Investment (PRI). LGT takes a holistic approach to ESG considerations, which largely avoids formal screens and concentrates instead on selecting the best managers/sponsors that share our commitment to high standards on ESG issues. Our due diligence process seeks to assess managers' overall commitment to ESG and the sophistication of their approach, so we examine whether the manager/sponsor has institutionalized ESG processes in place and whether they have a willingness or plans to improve in this area.

Any opportunity that is recommended to our Investment Committee ("IC") for approval will have been reviewed for ESG issues. These assessments form an important input into the discussions held by the



IC in order to determine whether to invest or not. Particularly in private markets, we monitor our portfolio companies for ESG controversies with a solution that tracks in real time more than 80,000 independent information sources in 20 languages. This enables us to engage with managers regarding ESG matters on a well-informed basis, as well as to offer advice on further ESG integration. We recognize the dynamic development of ESG in the financial industry, which is why we follow developments closely and adapt our investment policies and processes accordingly. As part of our ESG integration activities for various portfolios, we analyse the impact of our investments on the SDGs and use the SDGs as indicators to identify positive and negative impacts of an investment on sustainable social, environmental and economic development. In respect of each investment fund, our investment approach and decision-making processes are based on clearly defined investment objectives, investment policies, investment strategy, investment restrictions and risk management parameters, as contained in the respective offering documentation.

### **Impact Management and ESG fully integrated in deal process:**

Private Debt has an established four step process whereby the concepts of ESG and Impact screening form a core element of the sourcing, evaluation, execution and monitoring of investment opportunities:

1. Source investment opportunities: screening includes formal eligibility analysis and ESG and impact analysis performed with support from the LGT Capital Partners ESG team, and if needed for Impact investments independent third party advisers.
2. Evaluate ESG and Impact: due diligence steps are assessed using an LGT Private Debt 6-factor ESG scoring model and the LGT Capital Partners impact framework analysis
3. Negotiate ESG and Impact incentives, measurement tools & reporting: the objective of such negotiations is to determine ESG margin ratchets and/or ESG reporting obligations and CO2 footprint metrics (as applicable). For Impact deals this may include an Impact Action Plan and more focussed Impact KPIs.
4. Monitoring and reporting on performance: investments formalise investment specific ESG and Impact KPIs, and participate in annual ESG and Impact surveys, the results of which are collated and shared with investors on a portfolio basis.

### **Investments assessed using ESG scoring model:**

The scoring model leverages existing Private Debt's ESG assessment, LGT Capital Partner's approach, and international frameworks. The model hosts six ESG factors: Public Controversy & ESG committee, Sponsor assessment/rating; sector & sustainable development goals "SDGs"; Principal adverse impacts "PAIs"; Climate Resilience; and SASB based ESG due diligence. The model takes a wider approach looking at the company, the sponsor, climate resilience, and specific sector considerations. ESG scoring model provides insightful tools for LGT Private Debt to assess opportunities across the private debt landscape and enhances the analysis of both scope and quantification of our ESG assessment. And is presented as a weighted average score incorporating the assessment of all the above elements.

### **Investments assessed using Impact Assessment:**

The impact scorecard is divided into four core concepts for which the opportunity is assessed. Alignment, Reach, Inclusiveness and Risk.

- Alignment considers the extent to which there is a direct positive alignment to one or more of the UN SDGs as well as one of the fund impact strategies (as applicable). This also considers the extent to which impact and financial returns are mutually enforceable.
- Reach explores the extent to which a business can create efficiency gains in the value chain, have the ability to scale and replicate processes to drive impact and also consider the depth and duration of the impact initiatives.
- Inclusiveness considers the accessibility, affordability and quality of the company's products and services. Also the extent to which the business contributes to diversity, inclusion and equality in its primary activities, operations and customer base.



- Risk focuses on the identification and mitigation of impact risks from both the shareholder (ie. Sponsor) and management perspectives. Also the quality and sustainability of the ESG approach within the company.

**A bespoke Impact Action Plan is available for each eligible investment opportunity:**

- Measuring impact:
  - Impact KPIs are defined with management using impact best practices (IRIS+) to measure and monitor impact delivery. Including an agreement on reporting frequency (generally annually).
  - Illustrative impact KPIs could include (but are not limited to: Green Gas Emissions Avoided; Waste Reduced; Recycled Materials; Health care cost savings; number of patients served).
- Improving impact and ESG practices:
  - Based on the Impact and ESG Due Diligence findings and references to industry best practices (including SASB Materiality Mapping), allows the investment team to identify key levers to accelerate impact delivery and improve ESG practices to the respective stakeholders (eg. The borrower and sponsor).
  - Enabling the investment team to develop a multi-year operational action plan with the involvement of LGT impact and ESG team, eventually complemented by specialists consultants as required.
- Mitigate risk of not achieving the set objectives:
  - Define and include mitigation measures through a multi-year action plan
  - Define KPIs to evidence that risks are under control and drawing upon reference to the PAIs if applicable.

**Content, frequency and means used by the entity to inform subscribers, members, contributors, beneficiaries or customers about the criteria relating to the environmental, social and governance quality objectives taken into account in the investment policy and strategy**

We, within LGT Private Debt and more generally within LGT Capital Partners, believe that transparency is the foundation of long-term partnerships with investors and we are committed to complying with the highest standards of reporting.

The following channels are used by the Firm to communicate ESG-related information to investors:

- Quarterly investor reports (issued by each individual fund)
- Quarterly investor update calls with investors
- Specific LGT Private Debt “Annual ESG survey findings report” published for external stakeholders, and made available on the public LGT website
- LGT Capital Partners’ website, which contains a specific section on sustainability and includes the regulatory SFDR disclosures that LGT Private Debt (France) is required to make
- The Annual Sustainability Report of our group (i.e. LGT Capital Partners) as well as ESG studies on specific investment activities on a case-by-case basis, available on LGT Capital Partners’ website
- The Annual non-Financial Report of our group (i.e. LGT Capital Partners) which includes concrete Sustainability initiatives, publicly available on LGT Capital Partners’ website
- Annual General Meetings with investors



- Annual UNPRI Transparency and Assessment reports publicly available on LGT Capital Partners' website
- One-on-one calls on request.

**Adherence by the entity, or by certain financial products, to a charter, a code, an initiative or a label on the consideration of environmental, social and governance quality criteria, as well as a brief description of these criteria, in accordance with d) of 2 of article 4 of SFDR**

We adhere to business conduct rules and international standards including:

- the Principles for Responsible Investment ("PRI"),
- the United Nations Global Compact ("UNGC"),
- United Nations Universal Declaration of Human Rights ("UDHR"), and
- the OECD Principles of Corporate Governance.
- LuxFLAG label credentials for designated fund(s) annually verify our ESG processes and governance

The LuxFLAG label is an independent non-profit labelling agency that is engaged to verify the ESG credentials for the Private Debt business (including governance, investment process, portfolio monitoring and ESG documentation). Private Debt has been awarded the ESG label for the third consecutive year (since 2021) for the latest flagship direct lending fund.

**B. Information relating to the internal resources deployed by the Firm**

**Description of the financial, human and technical resources dedicated to taking environmental, social and governance criteria into account in the investment strategy, in relation to the total assets managed or held by the entity.**

**Dedicated internal resources deployed to ESG and Impact initiatives**

Individuals within the Private Debt team have expanded responsibilities covering specific aspects of the Impact and ESG investing and reporting obligations. The coverage spans across multi-disciplinary teams, which includes the investment / origination team, the portfolio monitoring team and the finance & operations team. This is considered to be the equivalent of 2.0 FTEs based on a total of 46 Private Debt FTEs. The investment and portfolio teams complete regular training to supplement their knowledge. Recently this has included third party training on Climate Resilience, internal training on Impact assessments and training on construction and monitoring of KPIs used for sustainability linked loans (both Impact and ESG KPIs)

<b>Team member</b>	<b>Primary role</b>	<b>Impact / ESG responsibilities</b>
<b>Jonathan Smith</b>	Co-head of the London-based investment team, responsible for origination in the UK, Nordic and Benelux regions. Head of ESG and Impact for Private Debt and member of the Private Markets ESG Committee	Coordinating the key stakeholders which includes the Private Debt management team, Impact & ESG subject matter experts from the broader LGT Capital Partners group and external specialist consultants to develop, define and implement the Private Debt investment strategy.
<b>Alix Jariel</b>	An Associate Director in the Private Debt investment team based in Paris.	Material contribution to the development of the impact framework for the Private Debt funds. Supporting the investment team during the assessment and review of new impact opportunities.



<b>Beatriz Villate</b>	Head of the Portfolio Monitoring Team (“PMT”), with full oversight of: (1) independent asset valuation analysis; (2) core middle office functions such as: Deal funnel and pipeline analysis, portfolio management analysis; and (3) portfolio monitoring, which includes review of underlying company KPIs and financial performance, covenants, review of watchlist / underperforming assets.	Material contribution to the review of the Impact and ESG datapoints and analysis performed to be included in the consolidated reports presented as deliverables to external investor or regulatory requirements.
<b>Muhammed Sisman</b>	An established member of the Portfolio Monitoring Team (“PMT”), performing: (1) independent asset valuation analysis; (2) core middle office functions such as: Deal funnel and pipeline analysis, portfolio management analysis; and (3) portfolio monitoring, which includes review of underlying company KPIs and financial performance, covenants, review of watchlist / underperforming assets.	Material contribution to the coordination and execution of the annual ESG survey, including the analysis and publication of the findings.  Performing quantitative analysis on taxonomy and PAI related metrics for ongoing and periodic reporting obligations. Including the preparation of the SFDR Annex 2 schedules (to accompany the statutory audited Financial Statements), compilation of the EET template and drafting of the annual PAI report.
<b>Gavin Lau</b>	Head of Private Debt Operations, with oversight of the financial and operational aspects of the fund structures. Organised into three teams: Fund Controlling, Treasury & Loan Servicing Operations, Systems & Projects.	Maintaining an active dialogue with subject matter experts from the broader LGT Capital Partners group to retain current technical developments across Impact and ESG related reporting requirements. Sharing knowledge and best practice with the Private Debt Operations team and designing and implementing scalable and automated solutions to address the ongoing reporting obligations.  Oversight and review that the various reporting obligations are met: the SFDR Annex 2 schedules (to accompany the statutory audited Financial Statements) and process controls in preparing and maintaining the EET template.
<b>Faisal Sethi</b>	Head of Fund Controlling, responsible for the overall administration and investor reporting obligations across the Private Debt funds.	Taking the lead with the external auditors and coordinating internal subject matter experts to draft and submit the periodic reporting SFDR Annex 2 that accompanies the statutory audited Financial Statements.

The dedicated tools include an ESG 6-factor scorecard. This assesses portfolio companies using the: climate resilience and CO<sub>2</sub> assessment tool, completing a public controversy check via RepRisk, and discussing matters with the LGT Capital Partners ESG committee (if applicable). The investment team (via the ESG 6-factor scorecard) also benchmarks portfolio companies against sustainable development goals (“SDGs”) Sustainable Accounting Standards Board framework (“SASB”) and Principal Adverse Indicators (“PAIs”).



Core technical and commercial knowledge related to impact and ESG investing also exists at the LGT Capital Partners level. And consists of a number of individuals deemed to be subject matter experts. The Private Debt team have active dialogue with these individuals to ensure that up to date market intelligence and analytical best practices are shared. Thereby giving the team the capabilities to design and implement an appropriate Impact and ESG framework to address the specific Private Debt asset class reporting obligations.

Team member	Primary role	Impact / ESG responsibilities
<b>Keimpe Keuning</b>	Head of ESG and Impact in Private Markets. Leading the development of LGT Capital Partners' impact framework (focused on private equity). Role includes acting as Chair of the Private Markets ESG SubCommittee. And responsible for implementing the ESG and impact strategy across Private Markets.	Materially supports the adaptation of the impact framework for the Private Debt funds. Has an active role in reviewing the impact assessment of opportunities proposed by the Private Debt investment team.
<b>Stefan Lügstenmann</b>	Responsible for impact assessment, management, and reporting in Private Equity. Covering ESG and Impact analytics across Private Markets and specifically assessing direct investments.	Materially supports the adaptation of the impact framework for the Private Debt funds. Acts as a sparring partner for the Private Debt investment teams during the assessment of new impact opportunities.

### **Actions taken to strengthen the Firm's internal capacities**

#### **Enhancing the internal teams' commercial and technical knowledge of ESG and Impact investing**

The sharing and accumulation of specialist ESG and Impact investing knowledge is a priority for the Private Debt team. The group employs a number of approaches to cascade the relevant training sessions across the management team, the investment team and operations teams. This includes, and is not limited to:

- Mandatory firm-wide ESG training required by all employees (including the PRI academy certificate);
- Targeted workshops with the Private Debt investment team on how to appraise investment opportunities with clearly defined impact and ESG criteria;
- Formalised Investment Committee process changes to incorporate mandatory screening and due diligence criteria;
- Targeted operations workshops on impact of ESG ratchets to commercial terms of loan agreements, and consequences in fund NAV/performance and investor reporting outputs;
- Targeted fund controller workshops to develop knowledge of mandatory SFDR requirements at year-end reporting dates;
- Inclusion of the Private Debt business unit at the point of inception for all relevant flagship Capital Partners wide projects related to development and enhancement of ESG and impact related processes. This includes the objectives to improve ESG data quality; design and implement scalable and automated solutions to generate periodic deliverables. Ultimately to meet regulatory requirements, internal management and external investor led obligations.

The firm engages with the underlying business units with structured communication in various forums, to promote ESG and Impact investing related topics:

- Mobilisation of Partner and principal initiatives to promote strategic objectives and best practices into the underlying business units, including Private Debt;





- Specific and frequent interaction from the Private Debt team with central LGT Capital Partners subject matter experts and technical ESG forums, which promote knowledge sharing and best practice in the fast moving and continually changing ESG regulatory environment.

In utilising this knowledge base and analytical capability, the private debt team also contributes to the preparation of:

- the Annual LGT Capital Partners ESG report, specifically the latest Private Debt insights including sharing portfolio level KPIs based on survey responses from our portfolio companies.
- A detailed analysis of the full Private Debt asset portfolio, using the Impact and ESG framework to complete a historic assessment of each underlying investment under the defined Impact/ESG criteria. This concluded valuable insight and quantified that 15% of the aggregate historic portfolio would be classified as ‘impact investments’ under the currently prescribed parameters.

Recent fund developments in addition to the incorporation of the Impact and ESG criteria into the formal investment process, includes the formation of the Crown Impact Private Debt (“CIPD”) fund. CIPD has a specific investment thesis covering three specific impact themes: Climate Action; Inclusive Growth; Healthcare (supporting 11 SDGs).

#### **C. Information relating to the approach to taking account of environmental, social and governance quality criteria at the level of the Firm’s governance**

**Knowledge, skills and experience of the governance bodies, in particular the administrative, supervisory and management bodies, in taking decisions relating to the integration of environmental, social and governance quality criteria into the investment policy and strategy of the entity and any entities it controls.**

#### **ESG Capital Partners Committee and ESG Private Markets Committee**

Private Debt France and those charged with governance have respective oversight of the investment and operational activities across the Private Debt funds. This includes the integration of the concepts of ESG and Impact criteria when making investment decisions. Etienne Haubold, the lead Private Debt partner, participates in the LGT Capital Partners Executive Committee, representing the Private Debt business at group level. Kevin Abrial, partner is a member of the Private Debt management team. Both are board members of LGT Private Debt (France) SAS, and are ultimately responsible for the oversight of the Impact and ESG initiatives across the Private Debt platform. Private Debt is represented on the ESG Capital Partners Committee and the ESG Private Markets Committee by Jonathan Smith.

There is proactive engagement with the dedicated Private Debt subject matter experts to design and implement the relevant processes and controls to fulfil the internal and external ESG requirements and obligations. They are guided from this sub-group and is a valuable forum to consolidate technical and commercial knowledge, and allows those in charge of governance at Private Debt France to be adequately informed of the latest regulatory and reporting obligations.

The Private Debt Finance Director, Gavin Lau is also a member of the Private Debt management team, and provides additional supervision that the formal Investment Committee processes and Finance & Operations processes are sufficiently designed and implemented to include these enhanced measures specific to fulfilling the ESG obligations and reporting requirements.

**Inclusion, in accordance with Article 5 of SFDR, in remuneration policies of information on how those policies are adapted to the integration of sustainability risks, including details of the criteria for linking the remuneration policy to performance indicators**

#### **Remuneration policy**



All Private Debt employees formally includes a standalone ESG objective incorporated into the appraisal process and contributes to the year-end compensation reviews.

Specifically, the Private Debt investment team members are assessed against a Balanced Scorecard of ESG metrics for performance purposes:

- Facilitate the continuous ESG and Impact content and due diligence improvement in our credit assessment process (including the ESG 6-factor analysis and the Impact Framework (for eligible deals), and pushing to get ESG due diligence reports), and being prepared for scrutiny
- Negotiate and monitor ESG margin ratchets (when applicable) and in particular the definition of material and ambitious SPTs
- Use all levers to obtain CO2 footprint assessments (and KPIs more generally) in our portfolio (regardless of maturity stage for each company)
- Bring ESG and impact topics at the agenda of portfolio companies

These are reviewed and amended annually as our strategy and approach to ESG becomes increasingly sophisticated.

#### **Integration of environmental, social and governance criteria into the internal regulations of the Firm's board of directors or supervisory board.**

PD France does not currently integrate such criteria into the internal regulations of the Board of Directors or Supervisory Board.

#### **D. Information on the strategy for engagement with issuers or management companies and its implementation**

##### **Scope of companies covered by the engagement strategy**

Our Investment strategy results in engagements with various companies, shareholders and advisers including:

- Dialogue with equity sponsors and/or investee companies and annual ESG campaign feedback to portfolio in debt investments;
- Promotion of carbon footprint assessment

##### **Presentation of the voting policy**

The Firm i) monitors any change in voting rights that may result from corporate actions, ii) ensures that the exercise of voting rights is in accordance with the investment objectives and policy of the funds it manages and iii) ensures that there is no conflict of interest arising from the exercise of such voting rights.

##### **Reporting on the voting policy**

As a specialist private debt provider, the funds do not have formal voting policies. There are legal undertakings and representations required from the borrower throughout the duration of the lending relationship.

##### **Engagement strategy implemented**

As part of the initial and ongoing qualitative ESG assessment, LGT Private Debt use company meetings to discuss firms' current ESG efforts and any areas of further development, including companies that already perform well. LGT Private Debt may at times also be invested in companies that do not perform well on certain ESG aspects but are on track to implement changes to improve in these areas. LGT Private Debt typically engages with these companies to gain a better understanding of processes implemented and the current progress regarding these topics. This type of research-related engagement



provides companies with the opportunity to offer further clarification and insight into their ESG practices and aspirations. This increased understanding and knowledge of companies' or issuers' ESG practices further allows us to identify areas for improvement and gives us the opportunity to encourage companies to improve or scale up their efforts on environmental, social and governance aspects.

#### **Decisions taken in terms of investment strategy, particularly in terms of sectoral disengagement**

For each fund structure, the formal documentation, specifically the Limited Partnership Agreement ("LPA") explicitly states the segment of the credit market, the geographical range, indicative business size and also sectors and industries that the fund will either actively pursue or avoid. This is determined prior to each fund launch, and reinforced throughout the fundraising period and also into the active investment period of the fund life. Specifically, the exclusion policy is reviewed periodically to ensure consistency with the fundamental investment strategy and criteria intended.

#### **E. Information relating to the European taxonomy and fossil fuels**

**Share of outstanding amounts relating to activities in compliance with the technical review criteria defined within the delegated acts relating to Articles 10 to 15 of Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to promote sustainable investment and amending Regulation (EU) 2019/2088, in accordance with the delegated act adopted pursuant to Article 8 of that Regulation**

The firm does not currently perform this quantitative analysis related to the European taxonomy and fossil fuels.

**Share of exposure to companies active in the fossil fuel sector, within the meaning of the delegated act adopted pursuant to Article 4 of this Regulation**

We do not invest directly in the fossil fuel sector or businesses with material operations affiliated to the extraction of fossil fuels. Our firm excludes this sector from its investment universe.

#### **F. Information on the strategy for alignment with the international objectives for limiting global warming set out in the Paris Agreement**

**Alignment of the ESG and impact strategy with the international objectives of the Paris Agreement**

The Asset Manager joined the Net Zero Asset Managers initiative (NZAMI) and committed to reach net zero emissions by 2050 or sooner across all assets under management. The Asset Manager has set ambitious interim targets for its investments. Against a baseline year of 2020, the aim is to reduce emissions by 50% until 2030. The Asset manager invests in multi-asset classes, offering a diverse product offering to access exposure to different investment strategies. Private Debt forms one of the many sub-strategies and adheres to these central initiatives and commitments.

As an initial target, the Asset Manager committed to manage 22% of its total assets under management in line with net zero by 2050 or sooner. The Asset Manager decided to define asset classes as "in scope" where it has a robust GHG measurement framework and the ability to effect change through investment decisions. Therefore, the Asset Manager included listed corporate investment instruments of our in-house and externally managed funds and customized mandates in asset classes such as listed equities and fixed income as well as liquid alternative strategies. Not yet in scope are asset classes such as money market instruments, sovereign debt and insurance linked strategies. For these, the Asset Manager recognizes that methodologies are still at an early stage and that data coverage / quality needs further improvement. Through a review of targets which will take place at least every five years, the scope of the net zero strategy will gradually increase and reach 100% of AUM.



The alignment of the committed assets under management with the carbon targets is measured by setting carbon budgets. The carbon budgets of the Asset Manager's methodology are based on the International Energy Agency (IEA) Net Zero 2050 scenario. The IEA scenario starts in the year 2019 and shows what is needed for the global energy sector to achieve net-zero CO<sub>2</sub> emissions by 2050. This is consistent with limiting the global temperature rise to 1.5 °C without a temperature overshoot (with a 50% probability).

The Asset Manager's climate action strategy is built on three pillars:

1. "Mitigation" aims at tackling the causes and minimizing the possible impacts of climate change.
2. "Adaptation" focuses on providing capital to businesses that help communities cope with the negative implications, while taking advantage of potential new opportunities.
3. "Integration" means considering climate-related factors at all levels of decision-making.

### **Information on the methodology used to assess the alignment of the investment strategy with the Paris Agreement**

Private Debt uses an internally developed Climate Resilience framework to analyse potential risks and impacts of climate change. Our investment process includes a review of climate change related risks resulting in a climate resilience rating for each investment opportunity with the objective of constructing a more climate-resilient portfolio.

The investment team analyses "*physical risks*" related to climate change impacts on a business, alongside "*transition risks*" for that business as we move towards a lower carbon economy. Assessing physical risks the investment team looks at 5 criteria and scores the business against each of these: (i) Operations, (ii) Supply Chain, (iii) Workforce, (iv) End User Environment and (v) GHG emissions. Assessing transition risks the investment team looks at 5 more criteria: (i) Technology, (ii) End-Markets, (iii) Supply Chain, (iv) Regulatory and (v) Reputation. Against comprehensive guidance notes and criteria the investment team will score each risk with supporting commentary and present a materiality score to the investment committee to assess the overall climate resilience of the company and how this fits into the portfolio construction for Private Debt.

The investment team reviews and updates the Climate Resilience analysis and score annually upon receipt of the ESG/Impact survey the management team have completed for that year. Any material deviations are flagged to the investment committee and discussed with the financial sponsor and management if needed particularly if remedial actions are needed by the business.

### **Quantification of the results**

Using data provided by portfolio companies we calculate an estimate for CO<sub>2</sub> footprints. This is completed for the portfolio companies who are in a position to estimate their carbon footprint and it enables us to show, as a proxy, our portfolio CO<sub>2</sub> intensity based on emissions per million EUR invested and also CO<sub>2</sub> intensity based on emissions per million EUR of revenue. For comparative purposes we look at the LGT Private Debt "owned" emissions (per metric tons of CO<sub>2</sub> p.a.) vs. the total company emissions and also compare this intensity vs. leading market indicators such as the MSCI Europe.

### **The role of valuation in the investment strategy**

The valuation methodology considers both quantitative and qualitative factors for each individual investment to determine the carrying value of the underlying portfolio in the funds under management. The primary analysis is based on the financial position, financial performance, cash flow activities and specific metrics and KPIs of each respective business. Specific ESG and impact factors are considered to the extent if there is a potential affect either directly or indirectly on the future financial performance or exposure to future liabilities on metrics such as: downward pressure on gross revenues, material



increase in operating costs; reduction of margins; the trigger of contingent liabilities, fines or penalties. Or other negative or adverse consequences.

### **The changes made to the investment strategy in relation to the strategy of alignment with the Paris Agreement, and in particular the policies implemented with a view to phasing out coal and non-conventional hydrocarbons**

We do not invest directly in the coal and/or hydrocarbon sector or businesses. Our firm excludes this sector from its investment universe.

### **Monitoring results and KPIs**

LGT Private Debt monitors ESG data and KPIs on a periodic basis alongside further engagement with the shareholders or management team of the respective portfolio investments. Were any actions identified and required remediation, these would be escalated to the shareholder and management group to address and report the subsequent outcomes.

LGT Private Debt receives ESG data and KPIs from the underlying portfolio companies. This is underpinned by a requirement for all portfolio companies to submit data on an annual basis to be consolidated and analysed in a formal LGT Private Debt ESG survey report.

## **G. Information on the strategy for alignment with long-term biodiversity objectives**

### **Compliance with the objectives set out in the Convention on Biological Diversity adopted on 5 June**

#### **Aligning the investment strategy with long term biodiversity objectives**

Biological factors are captured and assessed by the investment team during our due diligence process and are considered and included in the scoring for the company in terms of its ESG and Impact score. This is based on information provided by the company, its shareholders and third party diligence providers pre-investment. Post investment the company will submit information through the LGT Private Debt annual ESG and Impact survey. For potential Impact investments the investment team will use a third party to complete an Impact analysis which includes assessments and net impact scoring around biological factors.

### **An analysis of the contribution to the reduction of the main pressures and impacts on biodiversity defined by the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services**

The current ESG investment process does not explicitly complete detailed biodiversity analysis. Nor does it currently use a quantitative approach for a potential biodiversity footprint indicator.

## **H. Information on steps taken to take account of environmental, social and governance criteria in risk management including physical, transition and liability risks related to climate change and biodiversity**

**The process for identifying, assessing, prioritising and managing risks related to the consideration of environmental, social and governance quality criteria, how the risks are integrated into the Firm's conventional risk management framework, and how this process meets the recommendations of the European Supervisory Authorities of the European System of Financial Supervision**



At LGT Private Debt, ESG and Impact risks are systematically integrated in the investment process pre and post investment.

Pre-investment the investment team will initially analyse the company to ensure it adheres to our deal parameters from an ESG and/or Impact perspective including ensuring it complies with our exclusions list. If the potential investment is viewed as having any direct exposure the opportunity will either be declined, or discussed with the LGT Capital Partners ESG Committee.

Each investment is then assessed using a rigorous and consistent ESG and Impact analysis incorporating our ESG 6-factor scoring model, and if eligible for our Impact fund, the company will also be subject to an Impact assessment and third party review generating a net impact score.

The investment team is responsible for completing due diligence and will complete an assessment which cover the following on every opportunity discussed at our investment committee regardless of sector or strength of the companies operational and financial position and performance:

- Public controversy check and referral to the Capital Partners ESG Committee
- Alignment to UN Sustainable Development Goals
- Qualitative review, assessment and score for the financial sponsor involved in the transaction (as shareholder), if applicable
- Assessment of performance against the Principal Adverse Impact factors
- Climate Resilience and CO2 and emissions profile
- Reference to and performance versus relevant KPIs proposed by the Sustainable Accounting Standards Board for businesses in the relevant sector

This is all completed in parallel with customary investment considerations such as financial performance and commercial, tax, legal, insurance, IT, market diligence alongside the investment teams views on management, proposed capital structure and other deal specific considerations.

### **Review of the risk management framework**

The risk framework is continually reviewed and amended based on latest best market practice, regulatory guidance and requirements and internal developments recommended by the ESG team within LGT Capital Partners and Private Debt teams. This is performed at least annually by those responsible for ESG governance.

### **Action plan to reduce the Firm's exposure to the principal environmental, social and governance risks taken into account**

Our Impact and ESG analysis and criteria demonstrate our commitment to invest in portfolio companies who are inclined to improve their own ESG profile and performance. We include ESG and Impact KPIs in financing documentation and work with management to develop Impact Action Plans to help reduce ESG related risks but also improve ESG performance in individual companies.

### **Quantitative estimate of the financial impact of the main environmental, social and governance risks identified and the proportion of assets exposed**

LGT Private Debt completes regular valuation exercises which encompass all aspects of the company's financial and operational performance, and this inherently includes ESG factors. We do not quantify ESG risks with standalone financial impacts.

## **I. List of financial products mentioned pursuant to Article 8 and Article 9 of SFDR**

### **List of financial products mentioned pursuant to Article 8 and Article 9 of SFDR**



As of 31 December 2022, LGT Private Debt (France) S.A.S. manages the following fund: Crown European Private Debt III S.C.Sp. This fund is classified as Article 8 of SFDR, and is not authorised for distribution to non-professional investors. As of 31 December 2022, this fund represents 26.2% of the assets under management of LGT Private Debt (France) S.A.S.

**J. Summary of the principal adverse impacts of the Firm's investment decisions on sustainability factors**

Please refer to Section 1 of the PAI statement of LGT Private Debt (France) available on our website:

[https://www.lgtcp.com/shared/.content/publikationen/cp/esg\\_download/230627\\_PAI\\_V8\\_LGT-PD\\_en.pdf](https://www.lgtcp.com/shared/.content/publikationen/cp/esg_download/230627_PAI_V8_LGT-PD_en.pdf)

**K. Description of the principal adverse impacts of investment decisions on sustainability factors and Historical comparison**

Please refer to Section 2 of the PAI statement of LGT Private Debt (France) available on our website:

[https://www.lgtcp.com/shared/.content/publikationen/cp/esg\\_download/230627\\_PAI\\_V8\\_LGT-PD\\_en.pdf](https://www.lgtcp.com/shared/.content/publikationen/cp/esg_download/230627_PAI_V8_LGT-PD_en.pdf)

**L. Description of policies to identify and prioritise principal adverse impacts of investment decisions on sustainability factors**

Please refer to Section 3 of the PAI statement of LGT Private Debt (France) available on our website:

[https://www.lgtcp.com/shared/.content/publikationen/cp/esg\\_download/230627\\_PAI\\_V8\\_LGT-PD\\_en.pdf](https://www.lgtcp.com/shared/.content/publikationen/cp/esg_download/230627_PAI_V8_LGT-PD_en.pdf)

**M. Engagement policies**

Please refer to Section 4 of the PAI statement of LGT Private Debt (France) available on our website:

[https://www.lgtcp.com/shared/.content/publikationen/cp/esg\\_download/230627\\_PAI\\_V8\\_LGT-PD\\_en.pdf](https://www.lgtcp.com/shared/.content/publikationen/cp/esg_download/230627_PAI_V8_LGT-PD_en.pdf)

**N. References to international standards**

Please refer to Section 5 of the PAI statement of LGT Private Debt (France) available on our website:

[https://www.lgtcp.com/shared/.content/publikationen/cp/esg\\_download/230627\\_PAI\\_V8\\_LGT-PD\\_en.pdf](https://www.lgtcp.com/shared/.content/publikationen/cp/esg_download/230627_PAI_V8_LGT-PD_en.pdf)

End.