Sustainability Related Disclosure ESG Policy

LFP Opportunity Loans –
DELFF Senior Corporate Loans I

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DELFF
ASSET MANAGEMENT

INTRODUCTION

The assessment of Environmental, Social and Governance (ESG) risks and opportunities has become an increasing area of focus for both asset owners and investment managers. ESG means different things to different investors and is becoming an increasingly important consideration for investors and market participants and the role that ESG will play in their strategies and portfolios. This is reinforced by the EU Sustainable Finance Disclosure Regulation (“SFDR”), the EU regulation that imposes transparency and disclosure requirements on firms and products. This document therefore seeks to lay out the approach to integrating ESG into the investment processes of **DELFF SENIOR CORPORATE LOANS** I, “the Subfund” of the **SICAV LFP OPPORTUNITY LOANS.**

DEFINING ESG

ESG (Environmental, Social, and Governance) investment covers the range of investment activities which recognise the relationship between companies and the societies and environments in which they operate, and between companies and the shareholders which control them.

ESG investing is also known as sustainable investing. It is an umbrella term for investments that seek positive returns and long-term impact on society, environment, and the performance of the business. It is used by investors to evaluate corporate behavior and to determine the future financial performance of companies.

ESG are a subset of non-financial performance indicators which include sustainable, ethical, and corporate governance issues such as managing a company’s carbon footprint and ensuring there are systems in place to ensure accountability. ESG are factors in investment considerations, used in risk assessment strategies incorporated into both investment decisions and risk management processes.

ESG integration looks at investment decisions in a wider context than traditional financial analysis and explicitly includes analysis of a range of risks and opportunities related to environmental, social and governance (ESG) drivers. In principle, this can lead to a broader assessment of the environment in which companies operate and their performance in managing different stakeholders, giving a fuller understanding of future opportunities and risks than traditional fundamental analysis. In practice, its effectiveness in doing so hinges on how that integration is approached and implemented.

Responsible investment focuses on companies’ citizenship and their contribution to social outcomes.

Screening excludes companies involved in controversial activities as defined in the prospectus or those that are not aligned with investor objectives or preferences.

Sustainable investment has ESG analysis as a cornerstone of the investment process.

I. ENGAGEMENT TO ESG

The Subfund promotes environmental and social characteristics and does not have as its objective a sustainable investment.

The Board of Directors, the Management Company (La Française Asset Management), and DELFF Management Ltd as defined in the prospectus will implement a robust framework to ensure compliance with the promotion of ESG characteristics.

To deliver ESG compliance of the Subfund, its ESG framework will be based on various pillars:

- The integration of an ESG risk assessment combined with financial criteria into the investment process
- The implementation of clear roles and responsibilities for the supervision and review of internal ESG policies
- The training in the ESG process of all employees of the Investment Manager working in relation with the Subfund
- ESG due diligence, with a potential action plan for ESG improvements if deemed required.

The Investment Manager engages on a wide range of issues including ESG ones with a variety of market participants even if the Subfund does not carry voting rights as it invests in senior secured loans. The Investment Manager has relationships with the Senior Management of the borrowers and the shareholders to engage on matters that are material to the credit assessment and the relevant ESG factors.

The Subfund is also a member of the European Leverage Finance Association ("ELFA"). An example of ELFA's commitment to ESG and to help borrowers on ESG disclosures, is the ESG factsheet for public consultation developed by its ESG Committee. The topics in the ESG factsheet range in scope and focus on strategic investment-relevant matters in the context of companies' long-term activities and efforts.

II. INTEGRATION OF THE SUSTAINABILITY RISK IN THE DELFF SENIOR CORPORATE LOANS I INVESTMENT PROCESS

Responsible investment is a key priority to the Subfund. Therefore, the Investment Manager will seek to combine competitive returns, capital, and liquidity protection with a responsible approach towards extra financial criteria.

The Investment Manager and the Fund's Board of Directors believe that responsible ownership and business success go hand in hand. Consequently, the Investment Manager has embedded consideration of ESG factors throughout all stages of its investment process. The Subfund is fundamentally committed to invest in debts of sustainable businesses, which will grow, provide employment, and generate economic benefit in an environmentally and socially responsible manner.

Responsible investment, and subsequently responsible ownership, require proper analysis, judgement, and mitigation of risk. The Subfund aims to invest in the debt of companies that take a responsible approach towards the environment, society, and corporate governance.

The Senior Portfolio Manager, including its analysts understand the ESG risks to which the portfolio is exposed, thanks to:

- an access to the relevant ESG information, making it possible to identify sustainability risk and opportunities i.e. differentiating between borrowers having low, medium, or high ESG scores
- the integration of sustainability risk as part of the senior secured loans investment decision
- an assessment of sustainability risks across the portfolio.

In addition, the Chief Risk Officer produces risk reporting to control that the asset selection and portfolio construction are consistent with the strategy of integrating ESG risk and financial criteria in the investment process.

III. ENVIRONMENTAL, SOCIAL AND GOVERNANCE CHARACTERISTICS PROMOTED BY THE SUBFUND

ESG processes and procedures focus on non-financial performance indicators that address a company's approach towards responsible investment, sustainability, its impact on society and the environment, as well as other ethical and corporate governance considerations.

A. Environmental

The depletion of natural resources and the threat of climate change have raised concerns about the environment and the potential financial impact on businesses. Sustainable options are increasingly being considered as part of investment choices. The issues are diverse and the factors contributing to the rating performed by the Investment Manager are as follows:

- Environmental Strategies
- Energy Consumption
- Atmospheric Emissions Management, in particular greenhouse gas
- Water Management
- Waste Management
- Supply Chain Standards

B. Social Inclusion

Diversity and equality are becoming important considerations in relation to the way in which businesses operate and can generate competitive advantage, with these areas attracting increasing scrutiny from a range of stakeholders. In particular, there are increasing commercial benefits for businesses which have inclusive and diverse work ethics and practices. The internal rating looks at the impact a company has on its employees, local communities, and society. The main factors of consideration for the rating performed by the Investment Manager are as follows:

- Human Rights
- Labour Rights
- Health and Safety
- Employee Diversity
- Philanthropy
- Working Conditions
- Client satisfaction
- Cybersecurity

The Investment Manager will perform a compliance assessment of these factors, considering existing advanced regulations on most of these topics in Western Europe, proper implementation, and respect of such regulations as would be expected from target companies.

C. Corporate Governance

Corporate governance relates to the way companies are managed and overseen. A sound corporate governance is essential to deliver long-term shareholder value. The board of directors and the senior management of the companies are accountable to investors for protecting and generating value over the long-term. Furthermore, we expect the board of directors to oversee and monitor the effectiveness of the environmental and social risk framework and to protect the shareholder's rights. The main factors of consideration for the rating performed by the Investment Manager are as follows:

- Bribery and Corruption
- Board Independence, as applicable in the context of companies generally owned by Private Equity Funds
- Board/Executive Diversity
- Executive Pay
- Tax Compliance
- Auditors
- Compliance team
- Covenants and publication
- Financial Control team

IV. METHODOLOGY AND DATA USED TO ASSESS ESG RISK OF SUBFUND

The methodology and data used are described below.

The Subfund investment guidelines, as described in the prospectus, contain an ESG exclusion list. ESG exclusion compliance is fully considered and documented when analysing a potential investment and before making any investment:

- Investing in loans issued by tobacco producers, coal producers and in defense sector loans are prohibited for the Subfund;
- Investments and financial transactions with countries belonging to the black and red list defined by the Management Company are prohibited (See Appendix I).

The Investment Manager and the Risk Officer who holds a veto right, ensure any investment is eligible and always within the fund investment guidelines.

The Investment Manager has built a proprietary ESG rating model which is sector specific with a materiality attributed on a borrower basis for each ESG factor. For every sector, a weight for environmental, social and governance risks has been attributed; the sum of these weights is equal to 100%. The analyst will then provide a score from 0 to 100 based on how well managed/reported each factor is within the company. A 100 score means no ESG risk. The objective of the Investment manager if to have at least 95% of the loans portfolio rated. Achieving this objective is dependent on the availability and quality of the data.

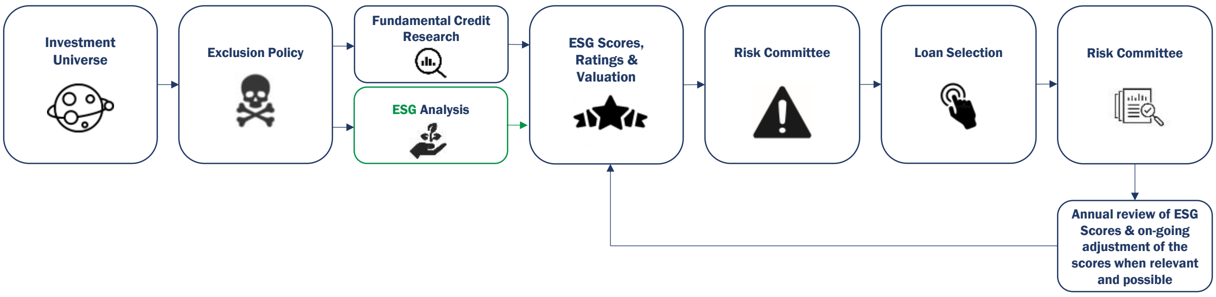
A qualitative model to rate the shareholders has been developed to assess their appetite for ESG principles.
Regular contacts with the borrowers (and their shareholders) in which the Subfund invests, are at the heart of the Investment process. To collect its ESG data, the research team of the Investment Manager uses either an internal ESG questionnaire or the ELFA questionnaire which both cover all factors in detail. One of these questionnaires is sent to every borrower of the portfolio.

Additional sources of data are: due diligence documents provided during the syndication process or during the life of the loan, external data, and internet websites. The analysts review the data quality, freshness, history, coverage, and the methodology used by the data provider. The data collected are input in the proprietary model to compute the rating. It is important to point that the accuracy and the update of the rating depend on the transparency, availability and quality of the data provided.

The outliers having the worse scores as identified by the model will be reviewed by the analyst and where relevant escalated to the Risk Committee to decide appropriate action. The Risk Committee might make various decisions ranging from asking the borrower to get further ESG engagement, to contacting the shareholders, to make the investment not eligible and ask for its liquidation. In cases where material ESG risks are identified and deemed acceptable by the Risk Committee, the approval will be documented with detailed explanations. In deciding the appropriate action, the Risk Committee will take into action the severity of the risk impact and the probability of occurrence of this risk.

V. MONITORING AND DUE DILIGENCE ON THE ESG CHARACTERISTICS OF THE SUBFUND

The Subfund Risk Committee of the Investment Manager analyses all the risks of the portfolio including credit risk, market risk, and any ESG related key risks or opportunities among others, as well as the ESG policies of the shareholders of the borrower. Once an investment is booked in the portfolio, it is closely monitored by the Portfolio Manager, Risk Committee and the analysts who review all the financial and ESG data and independent research material and media news on that company. The Risk Committee evaluates how the borrower is performing, monitors any change that may have occurred and could affect the rationale of maintaining it as an investment, and lastly reviews any potential reputational risk that may make the investment socially and economically unacceptable.
The chart below describes the Investment Manager organisation to monitor the ESG characteristics:



The process of monitoring ESG rules is a continuous and evolving process. A complete annual review of ESG scores (depending on the quality or availability) is performed to ensure that the scores reflect the current situation. During the period between complete reviews, all publications having an impact on our ESG score are considered and the necessary modifications are made. If it turns out that changes result in a downgrade of the ESG rating such that the company is no longer eligible for investment, the Risk Committee will take the necessary measures.

The Risk Officer will produce monthly key performance indicators (“KPIs”) including ESG and financial risks. These KPIs will be sent monthly to the Management Company.

LFP Opportunity Loans’ Board of Directors will closely monitor that the Subfund promotes Environmental, Social and Governance values. At every meeting, the Board of Directors will review and supervise the compliance of the Subfund with the Article 8 of the SFDR. To perform its duty, the Board of Directors will receive reports from the Risk Committee of the Investment Manager, and if required will receive legal advice from its external counsel.

This Policy shall come into effect with effect from October 20h of 2022 and shall be annually reviewed.

Annexe

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