



# Sustainability-Related Disclosure

## ESG Policy

LFP Opportunity Loans SICAV

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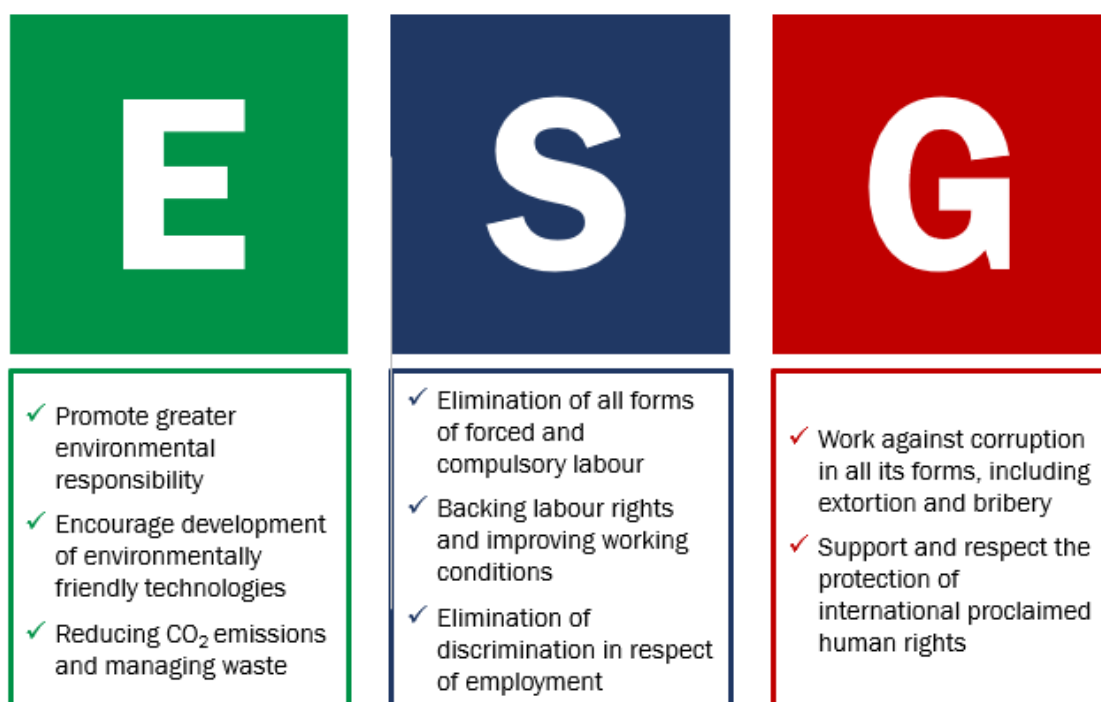
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## SUMMARY

At DELFF Management Ltd (“DELFF,” “The Firm,” “We”), responsible investment is a core priority. We believe that taking a responsible approach towards the funds we manage, our employees, suppliers, local communities, the environment, and society is crucial to our success.

For this reason, LFP Opportunity Loans – DELFF Senior Corporate Loans I (“the Subfund”) integrates Environmental, Social, and Corporate Governance (“ESG”) factors into every stage of its investment process. Our ESG approach emphasizes non-financial performance indicators, focusing on the environmental and social impact of companies’ activities and how their businesses are managed.

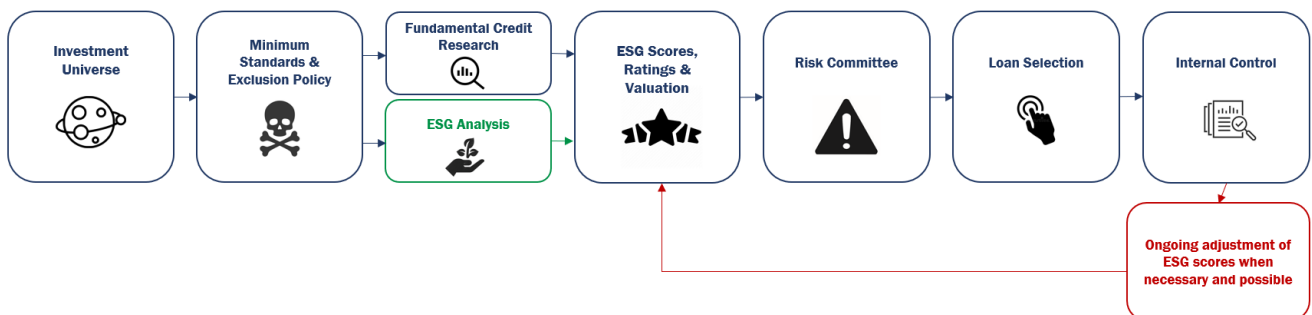


### Integration of ESG criteria into the investment and risk monitoring process:

- LFP Opportunity Loans – DELFF Senior Corporate Loans I promotes environmental or social characteristics, but it does not have a sustainable investment objective, in accordance with Article 8 of the SFDR (EU) 2019/2088.
- DELFF integrates extra-financial criteria into the Subfund’s investment process, embedding ESG risk as part of the bottom-up fundamental analysis.
- DELFF has developed a Minimum Standards & Exclusion Policy that restricts or prohibits investments in companies that do not meet specific extra-financial criteria. Investments in countries belonging to the black and red list defined by the Management Company are also prohibited.
- The Subfund’s Investment Team is using an internal ESG rating model based on the ELFA questionnaire that takes into account sector specificities and allows for a thorough analysis of the borrower’s ESG performance.
- The Investment Team has developed a qualitative model to rate borrowers and assess their appetite for ESG Risks.

- The Subfund’s Risk Committee analyses all portfolio risks, including credit risk, market risk, and any ESG-related risks or opportunities, as well as the ESG policies of the shareholders of the borrower.
- The monitoring of ESG rules is a continuous and evolving process that involves regular reviews of internal ESG scores as new information becomes available, ensuring our scores reflect the evolution of borrowers’ ESG commitment and performance. This process is dependent on the availability and quality of data.

### LFP OPPORTUNITY LOANS – DELFF Senior Corporate Loans I ESG Monitoring Process



## NO SUSTAINABLE INVESTMENT OBJECTIVE

LFP Opportunity Loans – DELFF Senior Corporate Loans I promotes environmental or social characteristics in accordance with Article 8 of the SFDR (EU) 2019/2088, but it does not have a sustainable investment objective (Article 9).

## ENVIRONMENTAL OR SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT

LFP Opportunity Loans – DELFF Senior Corporate Loans I promotes environmental, social, and governance characteristics. Through its ESG analysis, it aims to evaluate the environmental and social impact of companies’ activities, and how their businesses are managed. To this end, it has selected the following factors across these three dimensions:

### A. Environmental

The depletion of natural resources and the advent of climate change have raised concerns about the threat to the environment and its potential financial impact on businesses.

- Environmental strategy
- Atmospheric Emissions Management
- Efficient energy consumption
- Water Management
- Waste Management
- Circular Economy

## **B. Social**

The “S” in ESG looks at the impact a company has on its employees, local communities, and society. Indeed, Human and labor rights are becoming important in analysing how businesses operate, partly due to the growing scrutiny and pressure from stakeholders. When these rights are respected, they can generate competitive advantages.

- Human Rights
- Labour Rights
- Health & safety
- Workforce Diversity & Inclusion
- Working Conditions
- Philanthropy
- Cybersecurity
- Client satisfaction

## **C. Corporate Governance**

Corporate governance relates to the way companies are managed and overseen. Sound corporate governance is essential to deliver long-term shareholder value. The board of directors and senior management are accountable to investors for protecting and generating value over the long term. We expect the board to oversee and monitor the effectiveness of the environmental and social risk framework and protect shareholders' rights.

- Bribery & corruption
- Board composition
- Executive Pay
- Auditors
- Compliance team
- Finance and control team
- Covenants and publications

The portfolio manager also incorporates any relevant environmental, social, and/or governance key performance indicators included in the credit documentation.

## **INVESTMENT STRATEGY**

Responsible investment is a key priority for LFP Opportunity Loans - DELFF Senior Corporate Loans I. DELFF believes that a responsible approach towards the funds it advises, its employees, suppliers, local communities, the environment, and society is crucial to its success.

Responsible investment, and subsequently responsible ownership, require thorough analysis, sound judgement, and effective risk mitigation. Investment managers and analysts understand the ESG risks to which the portfolio is exposed through:

- Access to relevant ESG information, enabling the identification of sustainability risks and opportunities
- Integration of sustainability risks in the investment decision-making process
- Assessment of sustainability risks across the portfolio

To meet the environmental, social, and governance characteristics promoted by the Subfund, DELFF implements an exclusion policy that restricts or prohibits investments in companies that do not meet specific extra-financial criteria.

For robust ESG integration, the Subfund's Investment Team conducts an in-depth analysis of investments using a proprietary in-house rating model focused on environmental, social, and governance factors. This analysis includes a detailed examination of borrowers' governance practices based on several key risk factors: anti-corruption policy, board independence, board and executive diversity, executive compensation, auditors, compliance team, financial control team, and covenants & reporting. This governance evaluation is then integrated into the borrower's overall rating based on a materiality threshold. It is important to note that the governance of borrowers must be analysed in the context of the governance practices of borrowers owned by private equity funds.

The insights gained from this analysis guide investment decisions, with the aim of keeping the portfolio's weighted average ESG rating above the minimum threshold of 65/100. Once an investment is included in the portfolio, it is closely monitored by analysts to ensure continued alignment with the Subfund's investment strategy.

Additionally, 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.

## **PROPORTION OF INVESTMENTS**

LFP Opportunity Loans - DELFF Senior Corporate Loans I primarily invests in corporate loans arranged by banks, allocating at least 75% and up to 95% of its assets to these investments. While these loans do not have a specific sustainable investment focus, they must pass our exclusion policy.

The portfolio manager aims to assess the ESG characteristics of at least 95% of the European senior loans held in the portfolio, meeting the requirements of our ESG screening process. The data used for the screening process is collected directly from borrowers and shareholders of these borrowers and it is updated regularly. It should be noted that the analysis and ratings conducted by the Portfolio Manager are dependent on the quality of the information collected and the transparency of borrowers and shareholders.

The remainder are European senior loans for which an ESG rating cannot be determined due to a lack of information, as well as other types of assets in which the fund may invest in accordance with its investment policy. These may include securities, shares in UCITS and/or other mutual funds, money market instruments, term deposits, and derivatives.

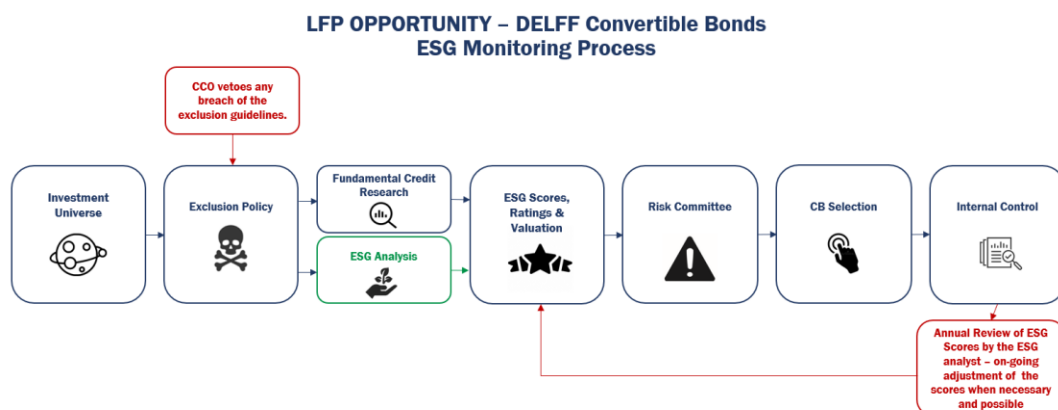
## **MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS**

The Subfund Risk Committee analyses all portfolio risks including credit, market, and ESG risks and opportunities.

Once an investment is booked in the portfolio, it is closely monitored by the analysts who regularly review company documents, independent research material and media news on that company, with oversight from the Portfolio Manager and Risk Committee.

This monitoring process:

- evaluates how the issuer is performing
- monitors any change that may occur and could affect the rationale of maintaining it as an investment
- identifies any potential reputational risk that may make the investment socially and economically unacceptable



The process of monitoring ESG rules is continuous and evolving. ESG scores are reviewed when new data becomes available to ensure that the scores reflect the current situation. If it turns out that the 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 produces monthly key performance indicators (“KPIs”) including ESG and financial risks. These KPIs are sent monthly to the Management Company.

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

## METHODOLOGIES FOR ENVIRONMENTAL OR SOCIAL CHARACTERISTICS

To meet the environmental, social, and governance characteristics promoted by the Subfund, the Investment Team resorts to several tools:

### A. Exclusion Policy

The Subfund’s investment guidelines include DELFF’s Minimum Standards & Exclusion Policy, which restricts or prohibits investments in companies that do not meet specific extra-financial criteria. Additionally, investments and financial transactions with countries on the black and red lists defined by the Management Company are prohibited. The investment manager, with oversight from the risk officer who has veto rights, ensures that all investments comply with the fund's investment guidelines.

## **B. ESG Screening**

Based on guidance from the European Leverage Finance Association, the Investment Team has developed an in-house ESG rating model that evaluates environmental, social, and governance factors. This model attributes a materiality weight for each factor as well as a score from 0 to 100 for each of these, reflecting how well companies report and manage these aspects. An ESG score is then computed with a different weight assigned to Environment, Social, and Governance depending on the industry; a score of 100 means no ESG risk. The Subfund aims to have at least 95% of the portfolio rated at any time.

Given that borrowers are not required to publicly disclose information due to the private nature of loans, it was determined that the most effective way to promote ESG characteristics is for the Board of Directors to set a minimum threshold, ensuring the portfolio's weighted average ESG rating remains above 65/100.

Companies with the lowest ESG scores are reviewed by analysts and, if needed, escalated to the Risk Committee. The Committee may request further ESG commitment from the borrower or deem the investment ineligible and seek its disposal. When material ESG risks are identified and deemed acceptable, the Committee's decision is thoroughly documented, considering both the severity of the risk and its likelihood.

## **C. Ongoing monitoring**

Once an investment is booked in the portfolio, it is closely monitored by the analysts who review new data as it becomes available, with oversight from the Portfolio Manager and Risk Committee. ESG scores are updated accordingly, and any significant downgrade prompts a review by the Risk Committee to ensure the investment remains eligible.

## **D. Integration in Decision-Making**

ESG factors are integrated into the broader investment decision-making process, guiding both the selection of new investments and the ongoing management of the portfolio. The Risk Committee and Portfolio Manager oversee this integration, ensuring alignment with the Subfund's environmental and social objectives.

## **DATA SOURCES AND PROCESSING**

To conduct thorough sustainability assessments, the Investment Team collects ESG data from several sources:

- Documentation provided by borrowers and their shareholders through electronic data rooms
- Data acquired through direct contact with borrowers

The accuracy and timeliness of ESG ratings depend on the transparency, availability, and quality of the data provided. Despite repeated requests, the Portfolio Manager may not always obtain the necessary extra-financial information from borrowers, which can affect the ability to conduct or update ESG analysis throughout the transaction's duration.

## LIMITATIONS TO METHODOLOGIES AND DATA

In applying its ESG strategy, the Investment Team has encountered one key challenge: limited sustainability reporting.

Borrowers are sharing data with their lenders exclusively through private data rooms, and the private nature of loans may exempt them from public disclosure requirements. This can result in limited data availability for other stakeholders, and the information provided to lenders may be incomplete or restricted. To address this challenge, the Subfund aims to ensure that at least 95% of the European senior loans in the portfolio are assigned an ESG score.

Despite this obstacle, the Subfund remains fully committed to promoting environmental and social characteristics, and steps have been taken to overcome this challenge, ensuring that the Subfund's ESG strategy remains robust and aligned with its objectives.

## DUE DILIGENCE

Due diligence is central to the investment process for LFP Opportunity Loans – DELFF Senior Corporate Loans I, ensuring all investments meet the ESG criteria set by DELFF Management Ltd. This process includes:

- **Comprehensive ESG Assessment:** Each potential investment is thoroughly evaluated, integrating financial and non-financial criteria using DELFF's proprietary ESG rating model.
- **Integration of ESG Factors:** ESG considerations are embedded in the bottom-up analysis, aligning investments with the Subfund's environmental, social, and governance commitments.
- **Continuous Monitoring:** Investments are continuously monitored by analysts, with oversight from the Portfolio Manager and Risk Committee, ensuring alignment with the Subfund's ESG standards.
- **Active Risk Management:** The Risk Committee, with input from the Risk Officer, regularly assesses all portfolio risks, including ESG-related risks. The Risk Officer also produces monthly KPIs that are reviewed by the Management Company, and any significant ESG concerns are addressed promptly.

This rigorous due diligence ensures that the Subfund remains committed to its ESG objectives throughout the investment lifecycle.

## ENGAGEMENT POLICIES

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

The LFP Opportunity Loans SICAV is a member of the ELFA. The European Leverage Finance Association is committed to ESG and to helping borrowers with ESG disclosures, and its ESG Committee has developed an ESG factsheet for usage by its members and market participants. It addresses a variety of topics and focuses on strategic investment-relevant matters in the context of companies' long-term activities and efforts.

## **DESIGNATED REFERENCE BENCHMARK**

No reference benchmark has been designated to achieve the environmental or social characteristics promoted by the compartment.

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