Andera Partners

# SUSTAINABLE INVESTMENT METHODOLOGY

June 2024

The Sustainable Financial Disclosure Regulation defines a sustainable investment as *“an investment in an economic activity that **contributes to an environmental or social objective**, provided that such investment **does not significantly harm any of those objectives**, and that the investee company follows **good governance practices**, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.*”

The purpose of this note is to present the methodology applied by Andera Partners’ teams in qualifying the investments made by a financial product as Article 9 and Article 8, where applicable, as "sustainable investments".

According to Andera Partners, an investment is considered sustainable if it finances companies whose activities, products or services make a measurable positive contribution to the United Nations Sustainable Development Goals (UN SDGs) or are aligned with the EU taxonomy or implements and monitors a robust decarbonisation trajectory aligned with the Paris Agreement and validated by the Sciences Based Target Initiatives (SBTi)[1].

Andera Partners’ sustainable investment methodology has been established taking into account the nature, size, sector of activity, location and degree of maturity of the financed companies (“Portfolio Companies”) and the assets held by the Alternative Investment Funds (AIFs) managed by Andera Partners.

## 1. Contribution to an environmental or social objective: our “Contribution Analysis”

Andera Partners considers a company to be contributing to an environmental or social objective if, following the “Contribution Analysis”, it is found to meet one of the three options below:

### A. SOLUTION INVESTMENT CONTRIBUTING TO UN SUSTAINABLE DEVELOPMENT GOALS

The company must make a positive contribution to an SDG through the products or services it offers or through its internal practices. In this case, the company passes the Contribution Analysis if at least 30% of its revenue, CAPEX or OPEX[2] contributes to one or more UN SDGs.

UN SDGs contribution methodology:

**The Sustainable Development Goals (SDGs)** represent a global framework developed by the United Nations (UN) to achieve a better and more sustainable future. The SDGs are interconnected and interdependent: actions taken in one area can have ripple effects and impact outcomes in other areas. There are 17 SDGs:

- SDG 1 - End poverty in all its forms everywhere
- SDG 2 - End hunger, achieve food security and improved nutrition and promote sustainable agriculture
- SGD 3 - Ensure healthy lives and promote well-being for all at all ages
- SDG 4 - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
- SDG 5 - Achieve gender equality and empower all women and girls
- SDG 6 - Ensure availability and sustainable management of water and sanitation for all
- SDG 7 - Ensure access to affordable, reliable, sustainable and modern energy for all

[1] The Science Based Targets initiative (SBTi) is a corporate climate action organization that enables companies and financial institutions worldwide to play their part in combating the climate crisis.
[2] 30% CAPEX or OPEX at some point during the fund's investment period

- SDG 8 - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- SDG 9 - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- SDG 10 - Reduce inequality within and among countries
- SDG 11 - Make cities and human settlements inclusive, safe, resilient and sustainable
- SDG 12 - Ensure sustainable consumption and production patterns
- SDG 13 - Take urgent action to combat climate change and its impacts
- SDG 14 - Conserve and sustainably use the oceans, seas and marine resources
- SDG 15 - Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
- SDG 16 - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
- SDG 17 - Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development.

The 17 Sustainable Development Goals describe 169 targets for corporates and nations. To ensure contribution to one or more of the SDGs, analysis is carried out prior to investment on the analysed company's contribution to these specific goals.

## B. TRANSITION INVESTMENT WITH A DECARBONIZATION TRAJECTORY:

The decarbonisation trajectory aligned with the Paris Agreement will be based on the reference framework and the best framework available for the business sector to which each portfolio company belongs. It will be validated by the Science-Based Targets Initiative (SBTi).

Investment in a company that has made a clear and quantified commitment to an environmental objective that forms part of an improvement plan and a specific commitment on the part of the company. This commitment is monitored over time by the investment team to ensure that the company complies with it. In the case of a build-up by a portfolio company, the trajectory would be recalculated to take into account the extension of the company's scope of activities to include those of the acquired company.

In the event of significant deviation, the company must justify and, if necessary, propose a remediation plan.[3]

For example, corporates that are engaged in a decarbonization pathway are positively contributing to environmental sustainability objective in a way that is consistent with a 2°C/1.5°C net zero emissions future. At this stage, Andera Partners is considering that corporates that have their climate targets approved by the SBTi qualify as sustainable investments, provided they also meet DNSH and good governance practices.

## C. CONTRIBUTION INVESTMENT ALIGNED WITH EUROPEAN TAXONOMY

The EU Taxonomy is a classification of “environmentally sustainable” economic activities. They are appreciated through their contribution to at least one of the six EU’s environmental objectives, without significantly causing harm to any of the other environmental objectives and while respecting minimum safeguards. Additionally, they must comply with the technical screening criteria of Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing the Taxonomy Regulation.

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[3] Force majeure cases do not imply the definition of a remediation plan.

The six environmental objectives defined in Article 9 of Taxonomy Regulation include:

1. Climate change mitigation
2. Climate change adaptation
3. Sustainable use and protection of water and marine resources
4. Transition to a circular economy
5. Pollution prevention and control
6. Protection and restoration of biodiversity and ecosystems.

Substantial contribution to at least one of the six environmental objectives of the Taxonomy will be measured according to the technical screening criteria of Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing the Taxonomy Regulation.

The alignment of sustainable investments with the EU Taxonomy will be measured by at least one of the following three indicators: turnover and/or capex and/or opex.

A company with a share of its turnover, OPEX or CAPEX[4] aligned with the European taxonomy greater than or equal to 30% is contributing to a European environmental objective and therefore qualifies as a sustainable investment.

In terms of data, the substantial contribution is established either by an external service provider or by the company itself when, given its degree of maturity, it is able to produce the alignment of its economic activity(ies) with the EU Taxonomy.

If a target or portfolio company partially comprises economic activities that are environmentally aligned with the EU taxonomy, the Management Company will apply the criteria of the Sustainable Investment Methodology to the economic activities that are not aligned with the taxonomy in order to ensure that the investment qualifies as a sustainable investment.

## 2. Do Not Significant Harm principles (DNSH)

An investment can be considered sustainable if it does not cause significant harm to any environmental or social objectives ("DNSH SFDR").

Andera Partners has adopted a normative and sectoral exclusion policy to avoid investing in companies that might have significative negative impact on the environment and people.

Moreover, the consideration of principal adverse impacts (PAIs) in the investment process takes the form of carrying out ESG analyses (prior to the investment and annually) including environmental, social issues, respect for human rights and the fight against corruption and bribery. It may vary on the sectors of activity and is specific to a company (economic situation, size, geographical distribution). It is also reflected in the consideration and systematic measurement of indicators relating to the PAIs of investment decisions on sustainability factors as defined by Article 4 of EU Delegated Regulation 2022/1288.

To this end, Andera Partners has developed its methodology, which, depending on the PAI indicator concerned, consists in applying a vigilance threshold for each regulatory PAI. The sector, size and maturity of the target and portfolio companies are taken into account when setting quantitative thresholds.

Failure to comply with a threshold leads to the determination of a roadmap including corrective actions within the following 12 months of the event or investment date.

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[4] 30% CAPEX or OPEX at some point during the fund's investment period

If the data is not available, substitute criteria relating to the same theme as the indicator for which the information is missing may exceptionally be used. Estimations can also be used. In these cases, this information will be mentioned in the Fund's annual report.

The "DNSH" principle of environmentally sustainable economic activity, in line with the EU Taxonomy, is established by applying the above technical screening criteria[5].

## 3. Good Governance practices

To assess the good governance practices of investee companies, Andera Partners relies on ESG questionnaires that include a section on social and governance issues, enabling the teams to evaluate good governance practices relating in particular to sound management structures, employee relations, staff remuneration and compliance with tax obligations.

The analysis of this questionnaire may be supplemented by specific due diligence, focusing on the financial, tax and/or social aspects.

The following key factors are analyzed:

- The good governance test will not be validated if a company reports a serious incident concerning one of the following issues: corruption, money laundering and tax regulations, unless it has a mitigation plan implemented within 12 months following the investment (for incidents identified at investment) or within 12 months following incident identification date.
- Adoption of policies relevant to the company's activity, size and geographical location (e.g. sustainability policy, code of ethics, code of conduct, responsible purchasing policy…). The relevance of implementing these policies will be determined by the Andera Partners teams.
- Structuring the governance with a Board

Andera Partners will also endeavor to put in place procedures to ensure companies' compliance with the principles of good governance:

- Issuance of an opinion by the Sustainability team on the 'sustainable' nature of the investment prior to investment.
- Inclusion of ESG clauses in companies' legal documentation (non-listed companies only)
- Annual on-board monitoring of ESG issues in companies (non-listed companies only)

## 4. Procedure in the event of non-compliance

If a company fails to meet any of the criteria set out in this methodology, it will be assessed to determine the reasons for this failure and will be given 12 months to adopt a remediation plan.

If this plan is deemed ineffective and the company still fails to meet the relevant criteria after 12 months, Andera Partners will consult with the Fund’s Investor Committee to agree on the course of action.

Possible alternatives are either the sale of the non-compliant investment or the downgrade of the Fund's classification as Article 9, unless an alternative remediation plan is proposed by the Investor’s Committee.

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[5] Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852.