

Sustainability Risk Policy (Article 3)

EU Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation (“SFDR” or the “Regulation”) applied from 10 March 2021 (the “Application Date”). The Regulation requires financial market participants such as Capital Dynamics (the “firm”) to provide information to investors with regards to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment.

This Sustainability Risk Policy specifically addresses the obligation in Article 3(1) of the Regulation:

“Financial market participants shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process.”

More information related to the firm’s responsibilities under the SFDR, and the firm’s approach to ESG (Environmental, Social, and Governance factors) and Responsible Investment in general, can be found [here](#), including:

- Remuneration Policy (Sustainability Risks)
- Adverse Impact Policy
- Responsible Investment Policy
- Modern Slavery Act Statement
- Responsible Investment Annual Report 2019-20
- TCFD Disclosure Report 2020

Sustainability risks

“Sustainability Risks” as defined in Article 2 (22) of the Regulation: *“an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment”*.

Sustainability Risks include (but are not limited to) the following:

- environmental risks such as the impact of environmental events such as increased flooding risks on operations of portfolio companies;
- social risks such as impact of non-compliance with anti-slavery or working conditions laws and regulations by portfolio companies; and
- governance risks such as inadequate management oversight of portfolio companies.

Integration of sustainability risks in investment processes

The firm has a long-standing commitment to corporate responsibility; it is deep-rooted in the firm's DNA. In recognition of the importance of responsible investment, the firm has implemented a Responsible Investment Policy (available [here](#)) pursuant to which each of the firm's three business lines (Private Equity, Private Credit and Clean Energy Infrastructure) integrates the United Nations-supported Principles for Responsible Investment ("PRI"), the United Nations Sustainable Development Goals ("SDGs") and ESG factors throughout the investment appraisal, due diligence, decision making and post investment monitoring process. Moreover, the firm's proprietary R-Eye™ (inspired by the shape of the human eye) Rating System (with the pupil of the R-Eye™ containing the average score) has furthered the level of transparency offered to clients.

As set out in the firm's Responsible Investment Policy, the firm defines ESG evaluation as:

"a process of the identification of potentially material sustainability opportunities and/or risks that could positively or negatively affect an investment made by any business line constituting its private assets platform."

Prior to the Application Date, the firm has implemented its Responsible Investment Policy across all business lines. Pursuant to the Responsible Investment Policy, Capital Dynamics formally incorporates the PRI, the SDGs and other ESG factors in investment appraisal, due diligence and decision making. The firm has created a proprietary R-Eye™ rating system for each business line. This rating system is designed to review a specific set of responsible investment matters, assess sustainability risk and provide transparency to clients. Capital Dynamics' business lines are likely to reject an investment on responsible investment grounds if certain essential R-Eye™ criteria are not met at the point of initial investment appraisal.

However, as disclosed in more detail in the Responsible Investment Policy, the firm may consider an investment if it does not meet all R-Eye™ criteria on initial appraisal and from time to time, business lines may invest in situations that do not meet all R-Eye™ criteria at completion provided that the investment team can demonstrate a clear action plan to achieve the required standards within a reasonable period of time post-investment (e.g., by implementing remedial action plans developed in the light of due diligence findings).

Further, as disclosed in more detail in the Responsible Investment Policy, Capital Dynamics will use commercially reasonable efforts to never knowingly invest in businesses which are exposed to certain Sustainability Risks (such as exploitation of vulnerable groups in society) above a certain materiality threshold.

Business Line and Strategy-specific Approach

Given the inherent differences in Capital Dynamics' indirect and direct investment business lines (i.e., fund-of-funds or secondaries versus direct equity or credit), the firm's R-Eye™ grades each investment based on a set of criteria specific to the respective offering, versus those of a standardized model. The latter would not be appropriate for multiple business lines. Reference should be made to sections 10 through 12 of the Responsible Investment Policy for further details at the level of each individual business line.

Investment Monitoring

After an investment has been made, Capital Dynamics actively monitors its underlying investment portfolio holdings with respect to ESG issues and opportunities and Sustainability Risks. The firm undertakes a range of

such monitoring activities, as described in more detail in the Responsible Investment Policy. Capital Dynamics also monitors its investments to evaluate best practices relating to a diverse range of topics including anti-bribery and corruption, sustainable sourcing and worker safety. Moreover, the firm has adopted a post-closing review, which includes confirmation that anti-bribery, corruption sanctions and conflict screenings are completed.

Investor Reporting

Capital Dynamics reports ESG matters to investors regularly, and each of the firm's fund's annual reports include a section on ESG and Capital Dynamics' R-Eye™ assessment. Further, Capital Dynamics has established processes to report ESG-related incidents in a timely manner. Incidents are reported to the RI Committee co-chairs and tracked on a central ESG Alert tracker. Depending on the severity of the incident, the co-chairs will advise if the incident should be further reported to the RI Committee who reviews and recommends appropriate action, identifying lessons learned to share with the broader group. Such incidents will also be reported to clients where deemed sufficiently significant and relevant to a particular program.

Capital Dynamics also issues an annual Responsible Investment report across all of its investment funds. In addition, Capital Dynamics issues a report on the recommendations of the Task Force on Climate-related Financial Disclosures (or "TCFD") which is updated from time-to-time. Both of these reports are available on its website.

Impacts of Sustainability Risks

Throughout the processes outlined above, and as elaborated upon in more detail in the Responsible Investment Policy, Capital Dynamics takes a robust and pro-active approach to integrate Sustainability Risks into its investment decisions. These are not limited to initial screening or due diligence; the firm monitors and reports on investments throughout the investment cycle and commits to reporting on such risks to investors as outlined above.

The nature of the different products means that Sustainability Risks can impact the returns of the financial products that Capital Dynamics makes available in different ways. For example, within the firms' private equity business lines, Capital Dynamics engages with the managers of all its investee funds to assess the capability of those managers to manage and integrate Sustainability Risks with respect to these investee funds. Any given product within the private equity business line will invest in line with its binding diversification criteria, such that the product's exposure to a single manager's fund is limited to a fixed proportion of the product's overall capital commitments. Other business lines benefit from both the integration of the Sustainability Risk Policy and the Responsible Investment Policy together with binding diversification criteria applicable at the product-level to reduce the likely impact of Sustainability Risks on financial returns.

Through the integration of the processes outlined above and in the Responsible Investment Policy, Capital Dynamics believes that likely impacts of Sustainability Risks on the returns of any given product are **low**. However, the relevant pre-contractual disclosure of each product will provide a more bespoke risk rating as is suitable for that product and its activities.

Review of the Policy

This Sustainability Risk Policy (Version 1) is effective as of 10 March 2021 and will be reviewed at least once a year by the firm's Responsible Investment Committee.