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ESG Report 2022

Cohen & Company Financial (Europe) S.A.

(CCFESA)

This report is CCFESA's first ESG report. It refers to the 2022 activity.

It aims to comply with the Sustainable Finance Disclosure (SFDR) & Loi Energie Climat (LEC / Art. 29) regulations.

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The European insurance sector is sustainable

The insurance sector (that represents 97% of CCFESA's AuM as of 31/12/2022) is a key player in supporting the development of Environmental, Social and Governance improvements. Mutual insurers, as a large subsector accounting for 1/3rd of the industry in Europe, are amongst the oldest non-for-profit organizations. These entities are engaged in the Social Solidarity Economy.

❑ Environment

- Increasing asset portfolio exclusions based on environmental / carbon considerations
- COP-26 insurer commitment : promote circular economy, "repair rather than replace" and promote recycling

❑ Social

- Protection against Accident & Health (A&H) is at the very heart of the insurance business
- Supporting and promoting prevention is a natural behavior for insurers
- Equal treatment / opportunities and good working environment are deeply established practices in the insurance industry

❑ Governance

- Adequate governance structures and fit-and-proper requirements are central in insurance regulatory supervision, even more so under Solvency II
- In the case of mutual insurers, the absence of shareholders encourage an ethical and value-based approach to economic development that prioritizes the welfare of people and the preservation of the planet, over profits and "blind" growth

Sustainable Governance / Policies

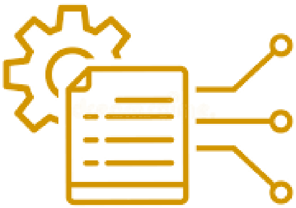
- <u>Update process :</u>

  All our policies are updated annually and whenever needed.

- <u>ESG related policy list :</u>

  CCFESA has implemented the following ESG-related policies:

  - Anti-Bribery policy
  - Anti-Money Laundering Policy
  - Conflict of interest policy
  - Cyber security policy
  - RGPD policy



- <u>ESG related policy that are in progress :</u>

  CCFESA will formalize the following policies in 2023 :

  - ESG Investment policy
  - Internal CSR policy
  - Diversity/ equality and inclusion policy

Sustainable Governance / Remuneration policy

Our investment advisory activity is 97% focus on **financing small and mid-sized insurance companies** in the form of tier 2 subordinated debt.

The insurance sector is historically a social sector and naturally concerned with climate change.

As such, **we do not make any investments in industrial sectors at risk** which could bring more gains in the short or medium term because they would carry a strong sustainability risk.

GOVERNANCE : investment decisions are exclusively collective. They are taken through a two/three-step procedure, that would make a Sustainable Remuneration Policy not useful :

1 **Internal Investment Committee** (all funds)

Based on the investment analysis, all analysts, the ESG Officer and the CEO vote in favor or against each investment proposal.

If

2 **External Investment Committee** (on some funds)

The investment proposal is sent to an External Investment Committee made up of the largest investors in the fund and insurance professionals, who will vote for or against it.

If

3 **External Management Company** (all funds)

The recommendation is sent to the fund management company for final approval.

The above-described decision-making processes in our funds is not intended to change in 2023.

Sustainable Governance / Engagement policy

Our investments are in **bond / note format** and **do not give us any voting rights**.

\+

As **insurers**, our issuers also have little engagement options, since their assets are generally invested in :

- **debt securities** and for a large part, **sovereign debt securities**.

NEVERTHELESS

We aim at obtaining better consideration of ESG criteria from our issuers using the following options **:**

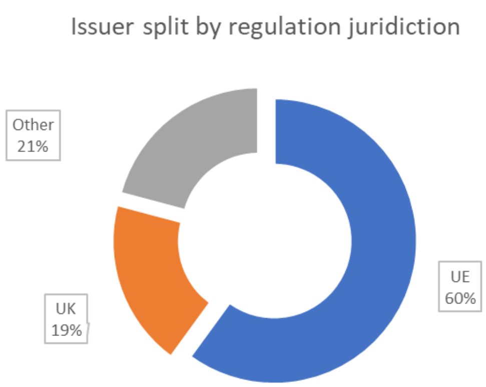
- New bilateral funding : the note spread vary depending on the issuer's ESG Score, reviewed annually and improving discussions are in place.
- Existing funding + new syndicated issuers : we score them and open discussions related to ESG topics .
- We scrutinize new regulation to ensure issuers provide us with mandatory improved and deeper extra-financial data.

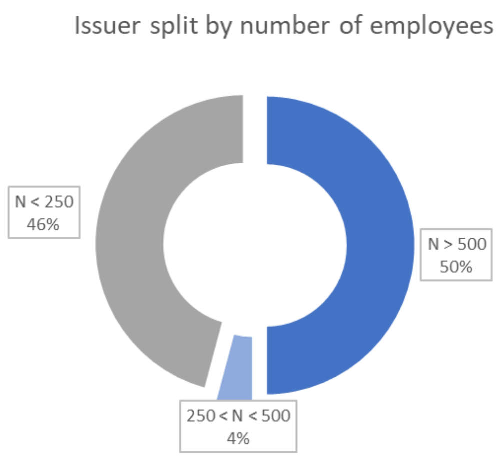
Extra financial data disclosure / Issuers

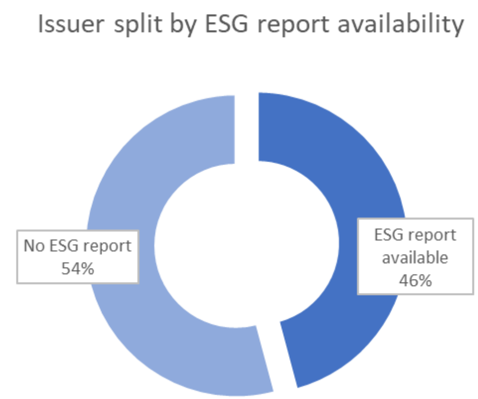
We have included the Social Environment and Governance dimensions in our investment analysis since 2019, based on:

Due Diligence document | **Cohen ESG specific questionnaire** | **Issuer website**

The existence or quality of ESG information depends on the regulator of the jurisdiction, the size of the company and the choice of the issuer to be proactive on sustainability (ESG Report issuance is a good proxy).







In 2023, we expect significantly more ESG information from the companies we finance, through the progressive implementation of the different "Disclosure regulation" applicable within their respective jurisdictions.

Extra financial data disclosure / PAI (Principal Adverse Impact)

As a company below 500 employees, SFDR allows us not to disclose our investments PAI, but we explain why below.

CCFESA financial investment advisory activity involves the financing of insurance companies by issuing hybrid debt.

As such, we do not directly make any investment in risky sectors that would have negative impacts on the environment or society.

In addition, the companies we finance, usually small, are currently in the process of improving their ESG reporting and are more and more concerned by new and stricter ESG regulation.

→ We will follow-up on these potential negative impacts when this information is available on the SFDR or specific climate reports of our issuers.

For information, SFDR's Principal Adverse Impact declarations must relate to 2 of the following points:

MANDATORY ADVERSE SUSTAINABILITY INDICATORS

Climate and other environment indicators

- GHG Emissions (Scope 1,2,3 & Total)
- Carbon Footprint
- GHG Intensity
- Fossil fuel sector
- Non-renewable energy consumption and production
- Energy consumption intensity per high impact climate sector
- Biodiversity sensitive areas
- Emissions to water
- Hazardous waste ratio

Social and governance indicators

- Violations of UN Global Compact principles and OECD Guidelines
- Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines
- Gender pay gap
- Board gender diversity
- Exposure to controversial weapons

Sustainable Investment Policy / process

Analyzing

- Review publicly available ESG information on the company
- Search for public controversy
- On bilateral deals, CCFESA requires the issuer to fill-in a specific ESG Due Diligence Questionnaire
- Based on the information available, CCFESA generates an ESG score

Investing

- ESG scores and analysis are included in the Investment Report with a dedicated ESG chapter
- The Investment Committee reviews all (including extra financial) aspects of the investment case
- On bilateral deals, CCFESA will ask the issuer to provide a list of ESG information required annually from the company
- Whenever possible, the note spread level will be tied to the ESG score of the issuer (and its evolution over time)

Monitoring

- ESG parameters are included in the regular monitoring analysis which leads to a potential change of the note spread, based on the T&Cs of the notes
- CCFESA has regular exchanges with issuing companies, with an increasing emphasis on ESG strategy and disclosure improvement needs
- CCFESA will publish a PriDe IV ESG Report with ESG quantitative and qualitative outputs

Sustainable Investment Policy / Questionnaire

- ESG scoring of potential issuers is based on a specific ESG questionnaire in addition to CCFESA's own independent research
- Our ESG questionnaire is primarily based on 3 pillars :

Environment

- Identifying climate risks for the insurer
- Identifying and reducing the negative impact of the company
- Climate-related initiatives
- Analysis of the issuer's climate report addressed to regulators, investors and clients

Social

- Gender proportion and position in the company
- Employee turnover
- Social initiatives
- Employee profit-sharing plan

Governance

- Internal governance set-up
- Independency of Board Members
- Cyber Security Policy
- Controversies / Litigations

Sustainable Investment Policy / Products

Sustainable Finance Disclosure Regulation (SFDR)
Fund classification : Article 6, 8 or 9.

European Commission

SFDR Article 6

- To date, we only have **Article 6** funds, which do not promote environmental and/or social characteristics and which do not have a sustainable investment objective. As a reminder, our last fund was raised in 2020.

- However, since 2019, the company has decided to analyze the ESG data made available by issuers as part of its Due Diligence. The quantity and quality of this information being very disparate, this does not yet allow these funds to be classified as Article 8, (funds which promote, among other characteristics, environmental and/or social characteristics or a combination of these characteristics, provided that the companies in which the investments are made apply good governance practices).

The Green Bond Principles

- Green bonds represent 5.3% of current investments.

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- Bonds with ESG driven coupons represent 5.2% of all investments made to date and 29,5% of all investments made in 2022.

- Since 2022, CCFESA has been implementing, whenever possible, a mechanism by which the notes funded by the PriDe program on a bilateral basis will have a spread that will vary over time depending on the issuer's ESG score, reviewed annually by CCFESA.

SFDR Article 8

The next fund of the PriDe program :
- will give an ESG scoring to every issuer (bilateral + syndicated)
- and spreads on bilateral fundings will vary depending on the issuer's ESG scoring,

  ➢ We expect it to be classified as **Article 8**.

Sustainable Investment Policy / UN-PRI

Cohen & Company has been a UN-PRI signatory since 2018.

Signatory of:

- As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

- We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

  - Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
  - Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
  - Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
  - Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
  - Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
  - Principle 6: We will each report on our activities and progress towards implementing the Principles.

- In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

- We encourage other investors to adopt the Principles.

Corporate Sustainable Responsibility / CCFESA

CCFESA is also in the process of setting up an internal sustainable policy :

- CCFESA is promoting ESG certifications among its staff: 75% of the analysts are in the process of certification:
  - 3 analysts out of 4 are intended to be certified either ESG or Climat specific in 2023 (CFA / SFAF …)

- In January 2022 CCFESA has formally appointed an ESG officer.

- CCFESA's everyday Climate Efforts
  - We set up an energy usage charter to lower our daily consumption (heating / air conditioning / lights / computers and servers / emails)
  - We subscribe to renewable electricity contract
  - We aim at decreasing transportation carbon footprint (both international flights and daily transportation)
  - We check sustainability of our suppliers
  - We use recycled materials from our suppliers
  - Majority of our waste are recycled
  - We are defining indicators to monitor each topic of our sustainable internal policy

CCFESA ambitions for sustainability in 2023

- Improve CCFESA's ESG related policies by implementing the following ones :
  ESG Investment policy / Internal CSR policy / Diversity/ equality and inclusion policy

- Put in place a progressive and comprehensive dialogue with our ESG lagging issuers to incentivize them to improve their existing sustainable policy and provide more extra financial disclosures to investors

- Apply internal ESG Scoring method to the existing issuers in the portfolio for an exhaustive sustainable monitoring process

- Align with European and French regulations' upcoming requirements of extra financial data disclosure

CSR +

- Enlarge and quantify our internal Corporate Sustainable Responsibility

- Achieve the goal of 75% of ESG certified analysts

SFDR Article 8

- Launch a new CCFESA fund that is expected to be eligible to Article 8 SFDR classification

Cautionary statement

Cautionary statement regarding forward looking statements and important legal information

This Report may include statements with respect to future events, trends, plans, expectations or objectives and other forward-looking statements.
Such statements are based on Management's current views and assumptions and, by nature, involve known and unknown risks and uncertainties; therefore, undue reliance should not be placed on them.

CCFESA assumes no obligation to update or revise any of these forward-looking statements, whether to reflect new information, future events or circumstances or otherwise, except as required by applicable laws and regulations.
This Report refers to certain non-financial metrics, such as ESG scores, key performance indicators, climate or sustainability-related metrics, as well as other non-financial data, all of which are subject to measurement uncertainties resulting from limitations inherent in the nature and the methods used to determine them. Non-financial metrics used herein generally have no standardized meaning and may not be comparable to similarly labelled measures used by other companies.

Extra financial data are not yet systematically disclosed by issuers, or, when disclosed by issuers or collected from third party data providers, may be incorrect, incomplete or follow various reporting methodologies. Furthermore, most of the information used to determine non-financial metrics or factors is based on historical data, which may not be complete or accurate or may not fully reflect the future non-financial performance or risks of the underlying investments.

The information contained in this Report may have been obtained from, or established on the basis of, various third-party sources. CCFESA does not guarantee the accuracy, adequacy, or completeness of such information, and shall not be obliged to update or revise this Report.