Frequently asked questions ("FAQ") on the European Union Sustainable Finance Disclosure Regulation ("SFDR")

CLIMATE FUND MANAGERS

1. **What is the SFDR?**

As part of the European Commission's Sustainable Finance Action Plan, the new Sustainable Finance Disclosure Regulation ("SFDR") imposes an obligation on EU institutional investors, investment fund managers and certain other regulated firms in the European Union ("EU") to integrate sustainability considerations into their investment decision-making process, to disclose information on various environmental, social or governance ("ESG") considerations to potential investors, and on their websites.

SFDR requires investment fund managers marketing funds to European Union investors from 10 March 2021 to include disclosures about environmental and social sustainability and the way in which sustainability is integrated into the decision-making processes.

2. **What are the SFDR categories ?**

SFDR requires investment fund managers to categorise their funds as falling under one of three categories and to explain the category used in the marketing material for the fund. There are prescriptive legal requirements for each category which we have summarised in broad terms below:

- Article 9 funds: the core focus of these funds is to make sustainable investments.
- Article 8 funds: these funds promote environmental and/or social characteristics and the companies they invest in follow good governance practices, including with respect to the oversight and management of those characteristics.
- Other funds: these comply with minimum SFDR requirements.

3. **How are CFM funds classified under SFDR?**

CFM's strategy is to establish, raise and deploy closed-end innovative funds to make nonlisted investments centred around climate change mitigation and adaptation in emerging markets. Accordingly, CFM takes the view that as the funds have sustainable investments as there respective objectives, it is in scope of article 9 of SFDR.

As clearer regulatory and industry guidance is developed, further consideration will be given as to the appropriate classification of CFM's funds.

Effective from 10 March 2021, the private placement memorandum for each CFM fund marketed to European Union investors shall explain the classification of that fund.

4. How does SFDR impact CFM?

CFM uses a blended finance approach in terms of which CFM first seeks to raise "donor" capital from public sources, which in turn catalyses private sector commitments to geographies and sectors where it is otherwise insufficient. This approach seeks to unlock capital at scale for the provision of climate change mitigation and adaptation in emerging markets.

CFM has implemented a comprehensive risk management framework to identify, measure, manage and monitor risks. Risk management practices are integrated across CFM. ESG standards are an integral part of CFM's processes.

As a responsible investor, CFM believes that all of its funds make sustainable investments, promote environmental and social characteristics, and place good governance practices at the core of the investment decision making process. Throughout the investment process, CFM collates and verifies data from the projects to confirm ongoing compliance with the CFM funds' requirements. Environmental and social impacts and risks are actively considered at every stage of the investment process and CFM's in-house ESG team integrates the required management, mitigation and monitoring measures within that project's operational processes.

The Responsible Investment Code sets out each fund's commitments to responsible investment in relation to ESG. This code is supported by the Environmental Social Management System with a grievance mechanism in place for external parties. CFM's policy framework provides the necessary assurance that the funds, CFM and the project companies they invest in adhere to the highest ethical standards.

CFM welcomes the increased transparency about how sustainability factors are integrated into investment decision making.

5. Does CFM consider the principal adverse impacts of its investment decisions on sustainability factors?

CFM considers the potential adverse environmental and social impacts of each investment. This analysis is carried out in accordance with the legal requirements of each country where the CFM funds invest and further is aligned to good international industry practices.

Article 4 of the SFDR requires fund managers to make a clear statement as to whether or not they consider "principal adverse impacts." It is anticipated that fund managers who confirm this will be required to:

- Make an annual disclosure against a mandatory list of adverse sustainability indicators set out in EU legislation. This list has yet to be finalised.
- Obtain a set of data mandated by EU legislation to generate this disclosure. This data has yet to be finalised.

Once the adverse impact indicators are confirmed by the EU, CFM will review these and ensure they are incorporated into its policies and processes.

Note

CFM has published this document to assist investors in the CFM funds understand the background to SFDR and CFM's approach to SFDR disclosures. This FAQ is provided for information only and readers should seek their own legal and ESG advice as appropriate.

Please contact our compliance team with any further questions governance@climatefundmanagers.com