

European regulations and the IBS Special Opportunities Debt Fund FGR



The IBS Special Opportunities Debt Fund FGR

This fund is classified as an article 8 fund according to European Sustainability regulations. This means that the fund promotes environmental and social characteristics. In this document, we explain how this fund complies.

1st of July

SFDR Article 8 (Sub-)Funds – based on Articles 23 to 36 SFDR Delegated Regulation (EU) 2022/1288
The present working document may be subject to further regulatory changes.



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Website section ‘Summary’

IBS Fund Management B.V. (hereinafter referred to as “IBS”, IBS FM” and / or “we”) seeks to invest in funds that are part of the solution to climate change. As we have many funds with different strategies in various sectors, we do not have *specific* social or environmental objectives. Instead, in order to achieve this overall goal, we aim to invest in funds that are led by fund managers that act as responsible investors. We only include funds and their underlying investments in the Private Markets platform that have been assessed and comply with minimum social and environmental safeguards, including those concerning labour rights, human rights, anti-corruption and environmental protection. Furthermore, we aim to invest in funds that are aligned with the United Nations Sustainable Development Goals (“UN SDGs”). Fund managers that are involved in significant controversies or have violated any of the UN Global Compact principles are excluded from the fund. “Controversial activities” are defined as any business activity over which the morality is heavily debated among international governing bodies. Such activities include indiscriminate weapons, such as biological and chemical weapons, or tobacco and gambling.

Our current sustainability policy is based on eight points. These are a combination of specific preferences and requirements that IBS requests their underlying managers to meet. The preferences and requirements apply to funds from 2019 to date. These eight points are as follows:

1. The selected fund manager has a specific sustainability fund policy.
2. The fund manager has signed the UNPRI or equivalent.
3. The underlying fund has a specific sustainability exclusion list which are best in class and follow UNPRI.
4. Sustainability is included in the consideration of the business case in the underlying deals.
5. The manager motivates to operate and invest as sustainable as possible. They can make improvements as a major shareholder where possible.
6. The fund manager will report on relevant ESG indicators. The fund manager will also issue an annual ESG report.
7. IBS has a preference to invest in funds classified as Article 8 or 9. IBS will not invest Article 6 funds, only if IBS believes the ESG policy is adequate enough that an Article 6 fund classification is sufficient.
8. IBS monitors the manager on their sustainability policy and will also proactively engage them on this where necessary.

A variety of data sources are used to assess the ESG performance of the Private Markets platform. These include self-disclosures from fund managers (including one-on-one meetings, annual reports, company presentations, website disclosures and proxy statements) and Clarity AI (CO2, comparisons with benchmarks and/or additional indicators).

Website sectie 'Samenvatting'

IBS Fund Management B.V. (hierna te noemen "IBS", IBS FM" en/of "wij") wil investeren in fondsen die deel uitmaken van de oplossing voor klimaatverandering. Aangezien wij veel fondsen hebben met verschillende strategieën in verschillende sectoren, hebben wij geen specifieke sociale of milieudoelstellingen. Om dit algemene doel te bereiken, streven wij ernaar te beleggen in fondsen die worden geleid door fondsbeheerders die zich gedragen als verantwoordelijke beleggers. Wij nemen alleen fondsen en hun onderliggende beleggingen op in het Private Markets platform die zijn beoordeeld en voldoen aan minimale sociale en milieuaanpakken, waaronder die met betrekking tot arbeidsrechten, mensenrechten, corruptiebestrijding en milieubescherming. Verder streven wij ernaar te beleggen in fondsen die afgestemd zijn op de duurzame ontwikkelingsdoelstellingen van de Verenigde Naties ("VN SDG's"). Fondsbeheerders die betrokken zijn bij significante controverses of één van de VN Global Compact-beginselen hebben geschonden, worden uitgesloten van het fonds. "Controversiële activiteiten" worden gedefinieerd als elke bedrijfsactiviteit waarvan de moraliteit zwaar ter discussie staat bij internationale bestuursorganen. Dergelijke activiteiten omvatten alle wapens, zoals biologische en chemische wapens, of tabak en gokken.

Ons huidige duurzaamheidsbeleid is gebaseerd op acht punten. Dit is een combinatie van specifieke voorkeuren en eisen waaraan IBS haar onderliggende beheerders vraagt te voldoen. De voorkeuren en eisen gelden voor fondsen van 2019 tot heden. Deze acht punten zijn als volgt:

1. De geselecteerde fondsbeheerder heeft een specifiek duurzaamheidsfondsbeleid.
2. De fondsbeheerder heeft de UNPRI of gelijkwaardig ondertekend.
3. Het onderliggende fonds heeft een specifieke duurzaamheidsuitsluitingslijst die best in class zijn en de UNPRI volgen.
4. Duurzaamheid wordt meegenomen in de business case van de onderliggende deals.
5. De beheerder motiveert om zo duurzaam mogelijk te opereren en te beleggen. Waar mogelijk kunnen zij als grootaandeelhouder verbeteringen aanbrengeen.
6. De fondsbeheerder rapporteert over relevante ESG-indicatoren. Ook brengt de beheerder jaarlijks een ESG-verslag uit.
7. IBS heeft een voorkeur om te investeren in fondsen geclassificeerd als Artikel 8 of 9. IBS zal geen artikel 6 fondsen beleggen, alleen als IBS van mening is dat het ESG-beleid voldoende is dat een artikel 6 fondsclassificatie volstaat.
8. IBS monitort de beheerder op hun duurzaamheidsbeleid en zal hen hier waar nodig ook proactief op aanspreken.

Er wordt een verscheidenheid aan gegevensbronnen gebruikt om de ESG-prestaties van het Private Markets platform te beoordelen. Deze omvatten self-disclosures van fondsbeheerders (inclusief één-op-één gesprekken, jaarverslagen, bedrijfspresentaties, website disclosures en proxy statements) en Clarity AI (CO2, vergelijkingen met benchmarks en/of aanvullende indicatoren).

Website section ‘No sustainable investment objective’

This financial product promotes environmental or social characteristics but does not have sustainable investments as its objective.

Website section ‘Environmental or social characteristics of the financial product’

We seek to invest in funds that are part of the solution to climate change. As we have many funds with different strategies in various sectors, we do not have *specific* social or environmental objectives. Instead, in order to achieve this overall goal, we aim to invest in funds that are led by fund managers that act as responsible investors. We only include funds and their underlying investments in the Private Markets platform that have been assessed comply with minimum social and environmental safeguards, including those concerning labour rights, human rights, anti-corruption and environmental protection such as protection of biodiversity. Furthermore, we aim to invest in funds that are aligned with the United Nations Sustainable Development Goals (“UN SDGs”). Fund managers that are involved in significant controversies or have violated any of the UN Global Compact principles are excluded from the fund. “Controversial activities” are defined as any business activity over which the morality is heavily debated among international governing bodies. Such activities include indiscriminate weapons, such as biological and chemical weapons, or tobacco and gambling.

Website section ‘Investment strategy’

As we are a fund of funds, we will briefly describe the strategy of IBS and then briefly describe the strategy of the underlying funds.

IBS

We aim to raise two funds annually, of which 50% are private equity, 25% infrastructure and 25% private debt. Through this strategy, we offer our clients the opportunity to build a diversified portfolio. Within these asset classes, we choose different sub-strategies that we consider appropriate for the macro environment at the time. The investment process focuses on identifying what we consider high-quality funds that enables fund managers to outperform. Our in-depth investment approach focuses on seven key investment characteristics:

1. An addressable market large enough to allocate capital properly
2. Clear and articulate investment strategy
3. A large sourcing network resulting in unique deal flow
4. Strong pipeline for initial fund investments
5. Successful business cases that reflect the fund manager skills
6. Success with strategy in previous fund(s)
7. Sustainability included in investment policy

Furthermore, the current sustainability policy is based on eight points. These are a combination of specific preferences and requirements that IBS requests their underlying managers to meet. The preferences and requirements apply to funds from 2019 to date. These eight points are as follows:

1. The selected fund manager has a specific sustainability fund policy.
2. The fund manager has signed the UNPRI or equivalent.
3. The underlying fund has a specific sustainability exclusion list which are best in class and follow UNPRI.
4. Sustainability is included in the consideration of the business case in the underlying deals.

5. The manager motivates to operate and invest as sustainable as possible. They can make improvements as a major shareholder where possible.
6. The fund manager will report on relevant ESG indicators. The fund manager will also issue an annual ESG report.
7. IBS has a preference to invest in funds classified as Article 8 or 9. IBS will not invest Article 6 funds, only if IBS believes the ESG policy is adequate enough that an Article 6 fund classification is sufficient.
8. IBS monitors the manager on their sustainability policy and will also proactively engage them on this where necessary.

We believe that environmental, social and governance (ESG) factors can influence a company's intrinsic value. A key factor in determining a company's intrinsic value is its long-term growth potential, which is driven by its sustainable competitive advantage. We believe a company can increase its competitive advantage if it considers its long-term impact on the environment and society. It allows a company to better attract and retain key stakeholders, whilst reducing monetary, regulatory and reputational risks. Good governance practices and a strong awareness of ESG factors demonstrates the desire of management teams to mitigate these risks. We assess 'good governance practices' of investee companies as part of our ESG analysis. Companies are assessed against a variety of factors including board composition; board, executive and employee remuneration relative to peers; IT governance; voting right structure and governance policies.

Pemberton

The investment strategy of Pemberton is broadly a continuation of the SCF I & II. The fund will seek to invest in loans of €50 million to €250 million to leading European mid-market companies with EBITDA typically between €15 million and €100 million. The fund will focus on senior secured loans with first ranking seniority but can also invest across the capital structure to provide solutions.

The strategy focuses on performing credit rather than stressed/ distressed debt and loan-to-own debt investments. Depending on the credit quality of the borrower, the strategy is able to provide subordinated debt to strongly performing companies with non-cyclical cash flows and high equity buffers. The strategy can also generate additional returns through warrants and equity investment.

Key target loan opportunities include:

- Growth capital: supporting continued growth of strongly performing mid-market business
- Recovery capital: Supporting post-restructuring growth
- Opportunistic investments: acquiring debt instruments in secondary transactions or from
- Incomplete syndication processes to capture attractive pricing upside.

ICG

ICG has a three pillar investment strategy

- Corporate
- Opportunity
- Sponsored LBO

Corporate revolves around family owners, founders and management teams. In this segment ICG will mostly do management led transactions, capital re-organisations in partnerships with family owners and key stakeholders, funding for acquisitions or growth and lastly, looking for investor support for the management.

Opportunity revolves around financial and complex situations and market dislocations. In this segment ICG will mostly provide capital in support of recapitalisations led by PE sponsors or lenders, Whole of cap structure solutions including senior, discounted secondary debt, and leveraging their deep credit and PE network.

Lastly, Sponsored LBO revolves around large transactions in need of intermediate capital from trusted financing providers. In this segment, ICG will mostly support European LBOs where they have a unique angle, avoid any

syndicated transactions and focus where ICG has a specific angle on the company and/or where there is a genuine gap in the structure.

Oaktree

The investment strategy of Oaktree consist out of five steps. These five steps are:

- Source
- Screen
- Diligence
- Decide
- Monitor & Exit

Sourcing consists out of identifying broad dislocations, market inefficiencies or idiosyncrasies in secondary markets. Furthermore utilizing relationships with banks, brokers, private equity firms, restructuring advisors and other investors. Lastly, leverage other Oaktree teams and the centralizes trading desk.

Screening consists out of screening for actionable opportunities, focusing on “good companies with a bad balance sheet”. Oaktree assesses viability of business model, corporate governance, and their ability to enforce creditor rights. Oaktree also determines the likelihood of default or restructuring.

Diligence consists out a detailed bottom-up company, asset and industry analyses, including when there are constraints related to information availability and timing. Oaktree also analyzes ESG factors included in the section 2 “environmental and/ or social characteristics are promoted by this financial product”. Oaktree incorporates findings into underwriting and financials and weigh potential outcomes. Lastly, they create a playbook.

Decide consists out of applying a disciplined investment criteria, evaluating risk/reward profile, focusing closely on downside risk. Furthermore, they determine the investment size based on the opportunity and portfolio diversification needs.

Monitor & Exit consists out of monitoring positions continuously to facilitate buy, hold and sell decisions. Moreover, utilize control or influence to create additional value. Finally, adhere to a disciplined sales process if the outlook deteriorates, the position reaches fair value, or a more compelling investment arises.

Website section ‘Proportion of investments’

The SFDR requires financial market participants to distinguish between direct exposures in investee entities and all other types of exposure to those entities. The IBS Private equity Growth Fund only includes proportionate indirect investments in investee companies as well as direct investments through co-investments. The Fund does not include any other indirect investments, such as derivatives.

Website section ‘Monitoring of environmental or social characteristics’

The fund managers will capture the ESG information on a quarterly basis and will report on a yearly basis. Subsequently, the managers that meet our selection criteria are assessed against environmental and social

indicators at least annually under our ESG due diligence process. The ESG analysis (see section “investment strategy”) is carried out in-house by the IBS Private Markets team. This analysis involves checking the PE managers' ESG data against a relevant benchmark. While we do utilise external data providers to support our analysis, we do not depend on any third-party. This is supplemented by periodic monitoring including one-on-one meetings with management, press releases and news alerts. We also carry out a yearly ESG survey including the mandatory KPI's for an article 8 classification. If we believe significant ESG risks are apparent, we flag these concerns with management, provide guidance and encourage them to improve performance. If a co-investment opportunity is offered and an ESG risk is present, it may be a reason for us not to co-invest.

Website section ‘Methodologies for environmental or social characteristics’

We analyse a variety of sustainability indicators in our ESG template. These indicators are based on the KPI's that fund managers are required to obtain when classifying their funds as an Article 8 fund, also known as the Principal Adverse Impact (“PAI”) indicators. The PAI indicators consist out of fourteen mandatory indicators split between three themes: environmental, social and governance. Examples of these KPI's are GHG emissions, emissions to water, board gender diversity and energy consumption. Once we receive the required information on these indicators from the underlying manager, we cross check these indicators with indices suitable to the KPI's. If we believe significant ESG risks are apparent, we flag these concerns with management, provide guidance and encourage them to improve performance.

Website section ‘Data sources and processing’

A key limitation of Private Markets centres around the lack of available ESG data among our chosen asset class. Gathering data on non-listed companies can be challenging as smaller/ non-listed companies often disclose limited ESG data. Third-party data providers also frequently lack adequate levels of ESG coverage on non-listed companies, which means we are unable to rely solely on such providers. Resulting in a lack of data availability, insufficient sustainability data from public sources of specific companies and lack consistency of information from managers.

We use the following data sources to assess the ESG performance of our fund:

- Direct information from investee sources including one-on-one meetings, annual reports, company presentations, website disclosures, proxy statements
- Clarity AI

We cross reference data sources to ensure data quality. This entails checking the supplied data from PE managers for any outliers by cross checking the data with suitable indices. These indices will be extracted from Clarity AI.

Clarity AI is a sustainability technology platform designed to deliver environmental and social insights to investors, companies, governments and consumers. The platform uses machine learning and big data with the aim of contributing toward a socially efficient capital allocation providing decision-makers with the tools to understand and optimize social and environmental impacts, enabling investors to assess the sustainability of all societal stakeholders.

The main topics on which IBS gathers information includes Greenhouse Gas Emissions, Biodiversity, Water, Waste, Social and Employee matters. These six indicators have a combined total of fourteen subcategories. These topics will also be checked against a relevant benchmark. If we believe significant ESG risks are apparent, we flag these concerns with management, provide guidance and encourage them to improve performance.

Website section ‘Limitations to methodologies and data’

A key limitation of Private Markets centres around the lack of available ESG data among our chosen asset class. Gathering data on non-listed companies can be challenging as smaller/ non-listed companies often disclose little ESG data. Third-party data providers also frequently lack adequate levels of ESG coverage on non-listed companies, which means we are unable to rely solely on such providers. Furthermore, due to variety of sectors investee companies are active in, some companies in different sectors may have different interpretations of metrics. Subsequently, aligning on the industry accepted metric for specific KPIs limits confusion. This underlines the importance of our engagement process. Engaging with our fund managers is vital as it allows us to gather information and increase the importance of ESG in our funds. Our ESG process enables us to promote continuous improvement by providing guidance and encouraging more openness and transparency.

Website section ‘Due diligence’

Sustainability risks are considered under our ESG due diligence process. ESG due diligence is an integral part of our business operations and is fully integrated into the IBS Private Markets company selection process. Before we make an investment decision, the private market teams conducts ESG research on the prospective investment. This research is based on the eight points described in the investment strategy section. The fund managers and investee companies (through co-investments) that are included in the fund are reassessed annually. The due diligence process includes the following stages: screening, proprietary ESG analysis and engagement.

During the screening phase, we verify that the co-investment does not operate in a controversial sector (e.g. midstream oil and gas), that the co-investment is consistent with the RI principle, and check what the fund manager's track record is. Moreover, during the screening phase for the selection of our fund managers, we check whether the fund managers' timelines match with our envisaged fundraising. Next, we check whether the fund manager has the preferred Article 8 SFDR rating or has a good ESG policy. Finally, we check in which sectors the fund managers operate and what their track record is.

The ESG analysis for a co-investment business centres partly around the data supplied by the fund manager and partly around the publicly available data. With that information we check for industry averages and see whether those metrics are acceptable. For fund managers we use the eight points described in the investment strategy.

The engagement for co-investment business will mostly revolve around the fund manager whom we invest with. As we do a small investment via the fund manager, we have limited influence on the business. We can engage the fund manager to implement improvements when ESG risks are apparent. For fund managers, we have periodic meetings onsite and online with the managers. If we believe significant ESG risks are apparent, we flag these concerns with the management, provide guidance and encourage them to improve performance.

Website section ‘Engagement policies’

As long-term investors, we believe in active ownership. Our focus is on building long-term relationships with our chosen fund managers by engaging on material issues with the relevant personnel. We regularly engage with the management teams of our funds on their operations, including ESG factors. Engagement topics are determined by our bottom-up analysis and are prioritised in terms of sustainability risk and impact. Engagement is conducted through one-on-one meetings and supplemented with conference calls, emails and, where possible, site visits. Our engagement process can be broken down into three key stages: initial due diligence and engagement, in-depth engagement and continued monitoring and reporting.

If we believe significant ESG risks are uncovered, we raise these concerns with management, provide advice and encourage them to improve performance. If there is no positive outcome, divestment may be considered in the worst case.

Engagement timelines can vary, but typically we meet with fund managers semi-annually. If ESG risks come to light, we monitor developments closely and meet more frequently to discuss them.

Website section ‘Designated reference benchmark’

The MSCI World Small Cap Index is used as a benchmark to compare ESG data, which is subtracted from Clarity AI. The MSCI World Small Cap Index consists of 4,434 participants in 23 developed markets (DM). This broad coverage provides sector averages, which we can use to compare against the ESG data provided.