SUSTAINABILITY-RELATED DISCLOSURES – IN ACCORDANCE WITH SFDR ART. 3, 4 & 5

Article 3 – Transparency of sustainability risk policies – Strategies for dealing with sustainability risks

There are a variety of sustainability risks that can vary depending on the asset class and the underlying industries and sectors. In the context of the Sustainable Financial Disclosure Regulation (SFDR), YIELCO understands these as environmental, social or governance events or conditions that, if they occur, they could cause an actual or a potential material negative impact on the value of the investments.

By taking ESG criteria into account – in the context of the concept of the double materiality – risks should be minimized and negative effects on the environment and society avoided, but opportunities for growth and value creation should also be identified. For all investments in the Infrastructure, Private Debt and Private Equity segments, environmental, social and governance aspects are taken into account in order to assess whether events or conditions could actually or potentially have a significant negative impact on asset value. Sustainability risks in the environmental area include climate-related risks, which in turn can be divided into physical risks (e.g. extreme weather events, heat and drought periods, floodings, storms, loss of biodiversity, etc.) and transition risks (primarily driven by politics, technological developments and the market environment, e.g. volatility of market prices due to political intervention, innovation or disruption of new technologies, or changes in customer preferences). Events and behavior in the areas of social and corporate governance can also have a negative impact on asset values. The consideration of sustainability risks is therefore an integral part of the review process for every investment recommendation. The review focuses on known types of risk, such as potential market, liquidity or reputational risk, as well as general operational or strategic risk (risk minimization). Both short, medium and long-term negative effects of sustainability risks should be reduced as far as possible and, in the best case, avoided altogether. In addition, by taking ESG factors into account in the due diligence process, YIELCO specifically aims to promote investments that address generally recognized sustainability standards. By taking ESG criteria into account, the aim is to ensure long-term performance in order to achieve the best possible risk-adjusted return (return optimization). The aim is to achieve a sustainable risk/return profile.

The strategy for dealing with sustainability risks differs depending on the type of investment. A distinction can be made here between fund investments and direct investments or co-investments. ESG criteria, including sustainability risks and opportunities, as described above, are part of the due diligence process for every investment recommendation and are also relevant when monitoring investments. ESG criteria are extensively reviewed and analyzed in every step of the due diligence process and evaluated independently and individually as part of the proprietary YIELCO scoring model.

In the pre-investment process, fund investments are first screened for negative criteria. The YIELCO Exclusion List Policy on exclusion criteria is used for this purpose. A detailed analysis and evaluation, the ESG due diligence, takes place in the review process. The results of the ESG due diligence are incorporated into the investment recommendation in the form of a proprietary ESG scoring model. This can result in engagement with the target fund managers in order to address identified potential risks. Proven engagement tools include contractual fixation (side letter agreements) to achieve improvements in ESG activities in combination with standard clauses on ESG strategy, ESG reporting and exclusions. In addition, YIELCO relies on a constructive dialog with the GP within the scope of opportunities to exert influence, e.g. as part of the Investor Advisory Board or Limited Partner Advisory Committee (LPAC), in bilateral discussions or at AGMs. During the holding period and the monitoring process, numerous non-financial indicators and ESG KPIs are queried as part of the annual ESG monitoring, reviewed internally and reported as part of the ESG report.

It should be emphasized here that with these processes, YIELCO has created the prerequisites for appropriately recording and evaluating sustainability risks. However, the underlying investments of the target fund managers are usually only made after the target fund has been successfully subscribed, which means that not all information on the underlying portfolio is known at the time of the investment recommendation (blind pool risk). A complete and adequate consideration of all sustainability risks can therefore not be fully guaranteed.

The same standards are applied to co-investments, although they vary in their implementation. During ESG due diligence, ESG criteria are analyzed and evaluated in varying depth depending on the business model, sector and industry. In addition to ESG scoring at fund manager level, dedicated ESG scoring is carried out at co-investment level. Other external ESG due diligence materials may also be used for this purpose. During the holding period and the monitoring process, further non-financial indicators and ESG KPIs are queried as part of the annual ESG monitoring. These are also reviewed internally and reported as part of the ESG report and can be used, if necessary, to identify potential for improvement.

Further detailed information on the consideration of sustainability criteria in the due diligence process can be found in the YIELCO Responsible Investment Policy.

In addition, YIELCO has committed itself to voluntary external sustainability standards. For example, YIELCO is a signatory to the United Nations Principles for Responsible Investments (UN PRI). YIELCO is committed to supporting and ensuring compliance by target fund managers who are not yet supporters of the UN PRI.

Article 4 – Transparency of adverse sustainability impacts at entity level

No consideration of adverse impacts on sustainability factors in investment advice

YIELCO recognizes the importance of the Principal Adverse Impacts ("PAI") of investment decisions on Sustainability Factors. Environmental, social and employee concerns, respect for human rights and the fight against corruption and bribery are an important aspect in the context of responsible investment management. In principle, YIELCO therefore intends to consider the most important adverse sustainability impacts when making investment recommendations in order to mitigate short, medium and long-term impacts. ESG factors are considered throughout the review process and are incorporated into all investment recommendations. However, the ability to record, evaluate and monitor these PAIs depends to a large extent on the availability and quality of the data as well as the opportunities to exert influence.

However, in accordance with the definition in the Disclosure Regulation and the regulatory technical standards (RTS), YIELCO has not yet been able to take into account the most important adverse sustainability impacts at product level when making investment decisions, as the relevant market data is not yet available to a sufficient extent and in the required quality when making investment decisions. In addition, the ongoing regulatory developments and clarifications from the European Supervisory Authorities (ESAs) and the European Commission on the new PAIs mean that the methodology is still unclear. With the ongoing establishment and continuous improvement of data quality in all asset classes, YIELCO will carefully review this decision on a regular basis.

Furthermore, direct influence as a fund of funds, as described above, is only possible to a limited extent. Nevertheless, during the holding period of fund investments and co-investments, YIELCO intends to inquire about the most important adverse sustainability impacts or PAIs as part of its annual sustainability reporting and to track and report them where available. Through continuous efforts, YIELCO has so far been able to collect PAI data from numerous target fund managers. This data is included in regular sustainability reporting and can also be made available in the form of the European ESG Template (EET).

Article 5 - Transparency of the remuneration policy in connection with the consideration of sustainability risks

The annual review of the remuneration policy for management and all employees is an integral part of maintaining responsible corporate governance. In addition, the remuneration system is designed to avoid negative incentives for both management and all employees to take on disproportionately high-risk positions – this also explicitly implies taking sustainability risks into account. The remuneration principles are based on market standards and are aligned with the various specialist areas, functions and levels of responsibility and take legal requirements into account. This fair remuneration model enables us to achieve a high degree of alignment of interests with our investors.