



Compliance with the Article 173 of the French Energy Transition Law

Procedures for the inclusion of environmental, social and governance indicators

Complying with Article 173 of the French Energy Transition Law is a priority for PAI Partners' ESG Team.

PAI's dedicated ESG team is composed of Cornelia Gomez, Head of ESG & Sustainability and Thomas Carlier, ESG Associate. Since January 2020, Cornelia Gomez is also a member of PAI's Portfolio Performance Group (PPG), a team of senior functional experts for operational due diligence and support of transformation.

As an effort to include environmental factors in our investment approach, we have outlined a comprehensive Climate Policy which was launched in 2019. The policy, following the TCFD (Taskforce on Climate-related Financial Disclosure) recommendations, includes our climate strategy and risk management approach to climate change, as well as our initiatives and commitments. The policy is publicly available on our website. For more details, please read [here](#).

To answer the increasing demand from our investors of a detailed vision on our portfolio's ESG performances, in 2019 our ESG team drafted PAI's very first Portfolio Sustainability Report. This confidential document, only dedicated to our investors, includes an ESG performance scorecard and other specific information for every portfolio company. The 2018/2019 report was sent on September 2019 to our investors, through PAI's Intralinks. The 2019/2020 report will also be transferred via our investor's PAI Intralinks account.

In May 2018, the team published on the PAI Partners' website, an ESG review called "Impact" describing PAI Partners' ESG approach and actions. A review dedicated to the COP21 and Carbon footprint commitments called "The PAI Carbon project" had been published in 2016 on the website.

The present document aims at providing our clients with more detailed information concerning our procedures to include criteria related to environmental, social and governance qualitative and quantitative objectives pursuant to the Article 173 of the French Energy Transition Law.

Approach to guarantee the inclusion of environmental, social and governance qualitative and quantitative criteria in our investment policy

Our commitment to responsible investment is central to our activities and fully integrated into our policies, processes and outcomes.

We commit to:

- (1) Systematically integrate ESG at all stages of the investment process, through a collaboration between the Investment Team and our dedicated ESG Team, to identify key issues and opportunities of the deals. All findings related to ESG are systematically submitted to our Investment Committee before acquisition decision;
- (2) Avoid determined sectors from our investment strategy: tobacco, weapons and pornography;
- (3) Ensure improvement of ESG performance within our portfolio companies. First with a specific ESG review after acquisition, alongside an external consultant. This lays the groundwork for an ESG Post Investment Action Plan based on a deeper analysis of the due diligence key findings. In



addition, during the ownership period, our dedicated reporting tool collects more than 100 data points per portfolio companies to provide consistent ESG information across our portfolio. This enables our investment managers, portfolio companies and investors to monitor and improve performance at both the portfolio and company level;

(4) Provide regular and transparent information on ESG to our investors;

(5) Promote responsible investment principles among our peers.

PAI Partners is always a member of the board of directors and/or supervisory board of our portfolio companies. We participate in board of directors or supervisory boards, to strategic meetings, and to the general meetings during which we exercise our voting rights.

As a responsible investor, PAI integrates ESG matters at each phase of the investment cycle. We have always sought to drive sustainable growth, and our ESG strategy underpins how we invest, manage and realise value.

Content, frequency and means used by PAI Partners to inform subscribers, affiliates, contributors, beneficiaries or clients about the criteria relating to the social, environmental and governance quality objectives taken into account in the investment and, where applicable, risk management policy

Investors can find all PAI's information linked to ESG on the Principles for Responsible Investment (PRI) platform, thanks to our 2020 Transparency Report, freely available for all PRI signatories.

In addition, whenever requested by any investor, PAI enters into ESG-related side letters. Those typically cover the ESG integration in the investment process, monitoring, ESG reporting requirements, etc.

A new reporting policy to investors was drafted by the ESG Team, and was implemented in September 2019 through the publication of the 2018 PAI Partners' Sustainability Report. The 2019 Sustainability Report will be shared to investors in Q3 2020.

Finally, we believe transparency and accountability must be at the heart of sustainable private equity investment. Towards our investors, we commit to:

- 1) Integrate the litigation and incident indicators in our annual reporting campaign for each pillar (Environment, Social, Governance, External stakeholders)
- 2) Report any ESG incident deemed material to our LPAC with prior approval and involvement of the concerned investment team.

Number of portfolio companies covered by ESG plan

As of today, 100% of our invested assets implement an ESG policy.

Subscription to a Charter, a code, an initiative or obtaining a label

We publicly advocate responsible investment and share our experiences with the wider community:

- iCI (Initiative Climat International, former IC20): our head of ESG, Cornelia Gomez, has had a key role in this organisation, as a member of its steering and operational committees. Since January 2020, Cornelia Gomez has been appointed as the coordinator of the iCI in charge of taking the initiative to an international level through the creation of other local networks.
- France Invest:
 - Member of the Steering Committee of France Invest ESG commission (100+ members)
 - Leading the workgroup in charge of collecting ESG data from all France Invest members, redacting and publishing the annual ESG report of France invest in 2018 and 2019



- Active participation in the LP/GP communication workgroup
- PRI: PAI is a signatory of the PRIs since 2010. PAI is also part of the PRI Plastic Investor Working Group
- SASB: PAI has been a license holder of SASB since 2018. Since January 2019, PAI has also taken into considerations the findings of the SASB Climate Technical Bulletin in its ESG Due Diligences
- Invest Europe:
 - We have adopted the Invest Europe code of conduct (European Private Equity and Venture Capital Association)
 - Cornelia Gomez is a member of the Core Roundtable for Responsible Investments (as of January 2019)
- Walker Guidelines: we adhere to the Walker Guidelines for Disclosure and Transparency in Private Equity
- CDP: we are an Investor Signatory of the Carbon Disclosure Project (CDP) to drive greater corporate transparency and to provide the market with comparable environmental data
- In 2019, PAI also formalised its first climate strategy, following the recommendations of the TCFD. For more details on this strategy, please refer to section 6 of this document.
- Our “ESG Best Private Equity Firm” award, awarded by the Private Equity Exchange Awards in 2019 is a testament to the way we promote our ESG activities among our employees and throughout our portfolio companies

When the entity implements a risk management policy, a general description of its internal procedures for identifying risks associated with social, environmental and governance quality criteria and the exposure of its activities to these risks, a general description of these risks

During the screening phase, PAI adopts a negative screening strategy and *de facto* excludes certain sectors from its investment universe. For example, we do not invest in the following sectors: tobacco, pornography, weapons. We also perform a background check of the all-potential acquisitions’ top management, and an e-reputation analysis through a web crawler solution.

During the due diligence, key issues and opportunities are identified in collaboration with the investment team prior to an investment. The ESG indicators selected for each target in Phase II and on which PAI will operate a comprehensive analysis, depending on their level of materiality. At the onset of the investment process, the ESG team works with the investment team and external service providers to identify key issues and opportunities. The depth and level of detail will vary according to the overall risk level. Given the wide array of topics, we focus only on what is highly material i.e what could impact the company’s ability to create, preserve or erode economic, environmental and social value for itself, its stakeholders and society at large.

The Due Diligence period, the materiality of each ESG pillar and underlying topics (e.g. Social pillar and Employee health & safety topic) is determined thanks to the Investment team and ESG team understanding of the business, with the help of the materiality map developed by the Sustainability Accounting Standard Board (SASB) that PAI has been using since early 2018.

During the ownership period, the ESG team typically mandates an external consultant to carry out a specific ESG review. It helps confirm the first materiality assessment based on SASB carried out in the due diligence phase and the key findings identified. Most importantly, it lays the groundwork for a post-acquisition ESG Action Plan

In addition, the ESG team carried out in August 2018 a CSR materiality survey of its entire portfolio. Since then every new acquisition performs this survey as part of PAI’s ESG process at entry. This survey is sector and company-specific based on the SASB, DJSI and CDC standards. The companies’ feedback help clarify what is relevant and material to each portfolio company. Please refer to pages 23 to 27 of our Sustainability Report to see the results of those surveys.



Overall, the ESG team has a 360° vision of what is material for the portfolio company (through the materiality survey), their international standards (through the SASB license), the external consultants (through the ESG review) and the ESG and Investment teams.

The follow-up of the different points determined ESG-wise company is annually conducted per company through our reporting campaign, collecting more than 100 data points per portfolio companies to provide consistent ESG information across our portfolio.

ESG Incident Management System:

The ESG team has also been working on a classification of ESG incidents based on various factors and intends to include our investors in this process. Our view is that it is important to adapt the response to the type and level of materiality of the incident, but also to clarify with our investors their expectations in terms of transparency and reporting on incidents.

Our ESG team has three methods for identifying ESG incidents:

- 1) Direct communication with our portfolio companies (through the annual reporting campaign, where the companies are asked whether environmental/social/governance incidents have happened in the reporting year; or on an ad-hoc basis)
- 2) Communication from the investment team in charge of the company (through the quarterly Portfolio Review Committee or directly on an ad-hoc basis)
- 3) Via our online reputation tool, Talkwalker, which on a daily basis tracks and reports on any negative online news related to our portfolio companies. An alert is automatically sent by email to the ESG team in case of a material incident

Once an incident has been reported, the ESG team develops a plan on identification, mitigation, action, tracking and monitoring. All concerned teams are notified and management is fully briefed. Both the investment team and the ESG team requests the portfolio company for a formal follow up including: detailed description of the incident, probable root causes, key lessons & action plan to avoid re-occurrence, and leader in charge. The incident is thereafter tracked and monitored until resolved.

Please refer to PAI Partner's Climate Policy for more details on our risk management approach to climate change, as well as our initiatives and commitments.