



# Responsible Investment Policy (summary)

January 2019



---

# Table of content

---

<b>Our firm</b>	<b>3</b>
<b>Introduction: our ESG philosophy</b>	<b>4</b>
<b>PAI's Commitments &amp; Initiatives</b>	<b>5</b>
<b>Oversight of PAI's responsible investment approach</b>	<b>7</b>
<b>ESG reporting &amp; communication to investors</b>	<b>12</b>
<b>PAI's dedicated ESG organisation</b>	<b>13</b>



# Our firm

PAI Partners (“PAI”) is one of the leading private equity firms in Europe. PAI performs Leverage Buy Out transactions. It focuses on acquiring controlling stakes in mid to large-sized B2B and B2C companies headquartered in Europe or in respect of which PAI determines that a substantial proportion of revenues, profits, or assets derive from Europe, or a substantial proportion of their employees are based in Europe.

PAI combines an industrial approach to private equity ownership with sector expertise developed through a large number of investments focusing on five core industries: Business Services, Food & Consumer, General Industrials, Healthcare and Retail & Distribution.

This strategy and PAI's sector knowledge integrated with its strong local presence to source investment opportunities has enabled PAI to develop extensive transaction and sectorial expertise and to build a strong reputation on the back of PAI team's:

- Ability to unlock the complex,
- Drive to transform investments,
- Real sector and investment focus,
- Local market knowledge and networks,
- Pan-European culture and capability.

## PAI in figures:

**8**

offices in London, Luxembourg, Madrid, Milan, Munich, New York, Paris and Stockholm

**68**

experienced professionals worldwide

**3**

people in the ESG team

**5**

sectors: Business Services, Food & Consumer, General Industrials, Healthcare and Retail & Distribution

**€18bn**

realised cash proceeds since 2001

**7<sup>th</sup>**

generation fund raised buyout transactions since 1994



# Introduction: our ESG philosophy

As one of the first Private Equity house to develop an integrated approach to ESG management, PAI chose to apply to ESG the same transformative and value-creating mind-set it applies to its investment strategy. PAI considers that the integration of environmental, social and governance criteria into its investment and management processes helps to better manage investments and, *in fine*, add value for investors.

## PAI commits *inter alia* to:

- Systematically integrate ESG at all stages of the investment process,
- Avoid determined sectors in the investment strategy that run high reputational risk or ESG risk,
- Be an active owner and ensure improvement of ESG performance within the portfolio companies,
- Provide regular and transparent ESG information to PAI's investors, and
- Promote Responsible Investment Principles among peers.

## PAI's ESG journey

Since 2010, and the signing of the UN Principles for Responsible Investment (hereafter "PRI"), PAI has paved the way for a steady and systematic integration of ESG into its operations. Throughout the years, PAI has continuously innovated through the development of new media to interact with its different stakeholders.

For instance:

- PAI organises Sustainability Clubs on a yearly basis. They gather the CSR & Sustainability managers of all portfolio companies and allow to share best practices, meet experts and discover solutions to ESG issues,
- PAI also puts on ESG labs, a collaborative initiative taking place every year for our investors that aims to discuss and share views on responsible investment.

Today, PAI's commitment to responsible investment is core to the team's activities, and fully integrated into PAI's set of policies, processes and outcomes. It is currently on an ESG journey towards becoming a responsible investor.

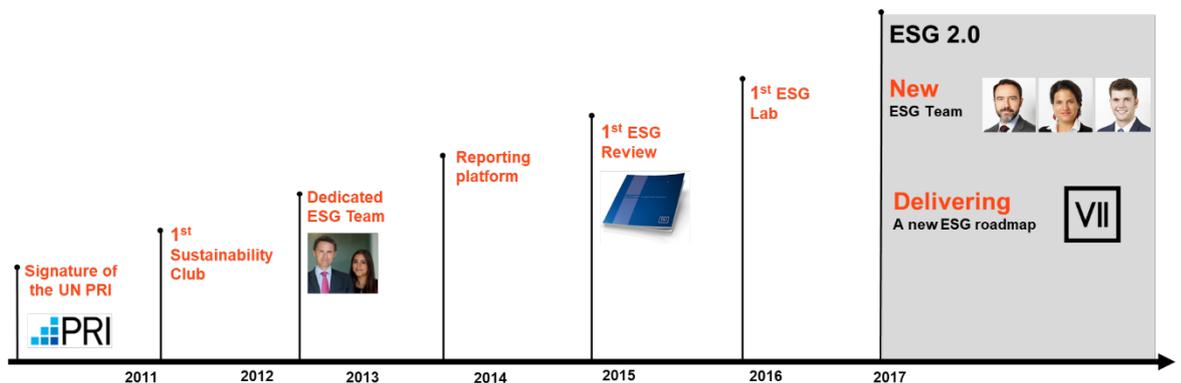


Figure 1: PAI's ESG journey since 2010



---

## PAI's Commitments & Initiatives

As a pioneer and an active market player in the field of ESG, PAI publicly advocates responsible investment and shares its experience with the wider community. Over the years, PAI has joined several French and international organisations and launched or participated in a number of ESG initiatives.

---

### United Nations Principles for Responsible Investment ("UN-PRI")



The UN-PRI were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

PAI became a signatory of the UN-PRI in 2010. Therefore, where consistent with its fiduciary responsibilities, PAI publicly commits 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.

PAI also commits to evaluating the effectiveness and improving the content of the Principles over time. In 2013, it completed the PRI reporting framework requirements for the first time.



---

## Initiative Climat 2020 (iC20)



PAI was one of five private equity firms that came together in 2015 to launch the Initiative Carbone 2020 (“iC20”), the first long-term approach allowing private equity investment managers to manage and reduce the greenhouse gas emissions of their portfolio companies. The iC20, now renamed Initiative Climat 2020, is a recognition of the growing importance of climate change for the private equity industry, and of the responsibility of investment managers to address the climate risks and impacts of and for their portfolio companies.

Through the signature of the iC20 Manifesto in 2015, PAI is committed notably to:

Recognising that climate change will have effects on the economy which represent risks and opportunities for businesses,

Joining forces to contribute, at their level, to the objective of COP21 of limiting global warming to two degrees,

Including the climate issue in the investment process in order to contribute to reduce the greenhouse gas emissions of their portfolio companies and ensuring sustainability of performance.

PAI is part of the steering committee of iC20 and presides the workshop on Training and awareness.

---

## Invest Europe, France Invest Charters and BVCA Walker Guidelines



Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors and is the guardian of the private equity industry's professional standards, demanding accountability, good governance, responsible investment and transparency from its members.

In addition, PAI follows Invest Europe's Handbook of Professional Standards as a member of Invest Europe Affiliate Network and is an active participant of Invest Europe's roundtable on climate change.

PAI is a member of France Invest (the French Private Equity association) and an active stakeholder of its ESG Commission since 2013. PAI leads the ESG commission of France Invest's working group dedicated to the creation of a standardised ESG annual report.

PAI also complies with the BVCA Walker Guidelines for Disclosure and Transparency in Private Equity.



---

## Oversight of PAI's responsible investment approach

PAI ESG team is strategically positioned at the heart of PAI organisation. Indeed, ESG matters lie at the crossroads of investor relations, investment issues, portfolio company relations and external communication:

---

### Responsible investment main stakeholders





## Responsible investment main criteria

The criteria used by the ESG team are based on an analysis and integration of several French and international standards which PAI has adopted e.g. SASB, DJSI, MSCI, CDC.

This analysis led PAI's ESG team to identify four pillars used to build a comprehensive ESG framework:

- Social (employment, work organization, health and safety, training, etc.),
- Environment (general policy, pollution, carbon emissions, water and energy consumption, etc.),
- Governance (loyalty of practices, CSR governance, compliance procedures, etc.),
- Impact on external stakeholders (procurement, customers, etc.)

This framework is used and applied to ESG Due Diligence, the external review carried out post-acquisition and the annual reporting campaign.

## Integration of ESG in PAI's investment process

PAI's ESG team intervenes in the 3 main phases of the investment cycle:

- Pre-acquisition period: before a fund invests in a targeted company,
- Ownership period: during the holding period of the investment,
- Divestment period: when an investment is under exit consideration.

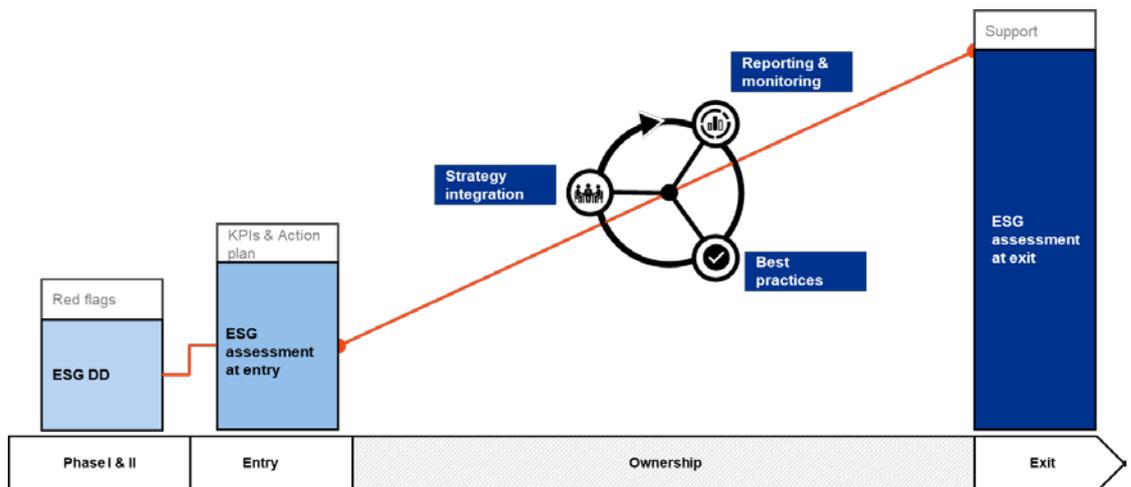


Figure 2: Integration of the ESG processes into the investment lifecycle

## Pre-acquisition phase

PAI adopts a negative screening strategy and de facto excludes the following sectors from its investment scope: tobacco, pornography and weapons.

The next phase is the ESG Due Diligence which aims at detecting ESG red flags, key risks and opportunities in targeted companies. This is done in a systematic way, always adapting the output to the level of risk and the information provided.

Depending on risk assessment, the ESG team may:



- Be able to conduct full internal due diligence,
- Query external databases or experts, and/or
- Fully delegate due diligence to external experts.

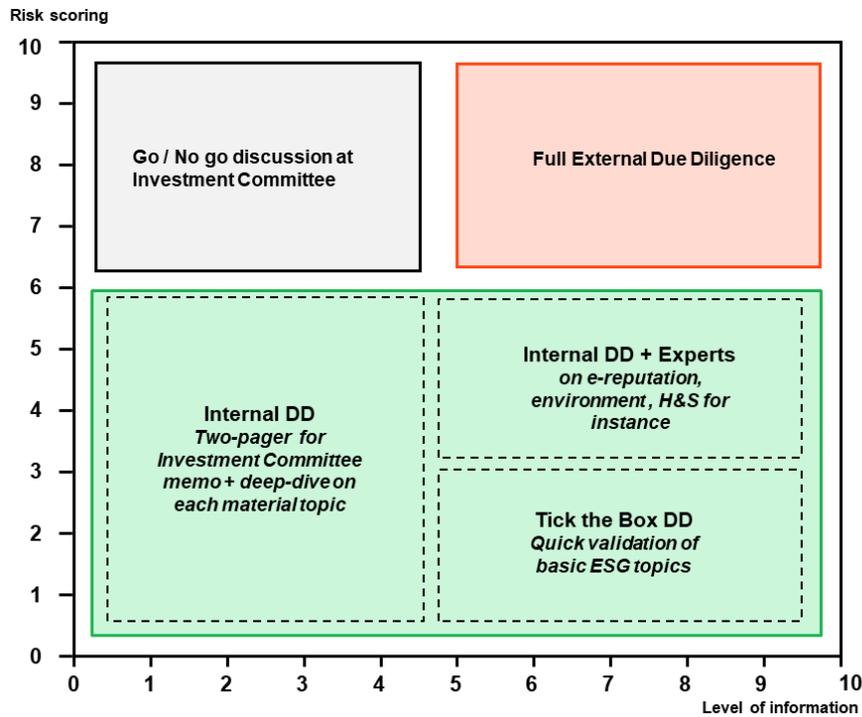


Figure 3: A tailored ESG Due Diligence procedure according to the level of risk and information available

Taking into account the level of risk, PAI investment teams collaborate with the ESG team to define the indicators that have the highest potential impact on business. The indicators selected for each company depend on their materiality.

Materiality level is determined thanks to the investment and ESG teams' understanding of the business, with the help of the materiality map developed by the sustainability Accounting Standard Board (SASB).

Using the list of ESG key indicators, investment teams identify a set of priority items to be addressed in the due diligence analysis. The related questions are embedded in the general due diligence process and the interactions with management.

At the end of the due diligence process, an ESG memo is systematically presented to the Investment Committee prior the final investment decision. This memo includes a comprehensive list of all relevant risks and opportunities linked to the potential acquisition. The ESG analysis outcomes can influence the final investment decision positively or negatively: for example, ESG-related conditions can be applied from the signing to the closing period of a deal.

Climate risks are integrated into this overall analysis integrating physical, transition and financial risks.



---

## Ownership phase

To kick-start the ownership phase, ESG criteria are integrated in the build-up of the Value Creation Plan build-up.

This includes a systematic post-acquisition ESG review carried out by an external third-party. The resulting audit is used as a basis to develop the Value Creation Plan's main output: the ESG-CSR<sup>1</sup> action plan. It is a 3-year CSR<sup>1</sup> roadmap including quantifiable goals that has to be validated by the company's supervisory board. This process is based on a collaborative effort between PAI and the newly acquired company.

Monitored by PAI teams, this action plan is adapted to the specificities of each portfolio company.

### Focus on Environment

For every portfolio company, a set of specific ESG criteria is defined by the ESG team. As part of the criteria, climate and energy risks are integrated into PAI's approach and included in case-by-case risk analysis. They are therefore taken into account in the global study for each investment.

In the year following the acquisition, an environmental consulting firm carries out a simplified carbon assessment for the portfolio company, which results in the calculation of a carbon footprint. On an annual basis, the reporting is implemented, energy efficiency and climate awareness initiatives are defined and monitored through reporting campaigns and Q&A sessions between PAI's ESG team and the portfolio companies.

During the ownership period, the information used for the ESG analysis includes the following:

- The annual ESG reporting campaign, during which all portfolio companies answer questions classified by indicators, both qualitative and quantitative (environmental policy, carbon footprint, electricity and water consumption, etc.) - *see figure 4*,
- A "CSR<sup>1</sup> Materiality Questionnaire", sent to all portfolio companies, completing the general reporting campaign and enabling PAI to ask portfolio companies specific questions about each key indicator linked to their activity,
- Meetings with CSR managers of all portfolio companies to discuss the evolution of their environmental practices, monitor their ESG development plan and steer the implementation of their upcoming CSR policies. This privileged relationship with CSR managers ensures a continuous improvement of all portfolio companies' ESG performance.

The ESG team maintains also close relationships with the investment teams, which allows them to be aware and conscious of the ESG issues at each stage of the investment process.

---

<sup>1</sup> Corporate Social Responsibility



Environment	Social	Governance	External stakeholders
<b>Environmental risk management</b> regulations, policy, commitments	<b>Human resources policy</b> regulations, social report	<b>Board and executive committee</b> structure, members, gender equality and independence, content	<b>Supply chain</b> organisation, tracability
<b>Energy efficiency</b> electricity, gas, fuel, air, renewable energies	<b>Labor force</b> workforce, diversity, turnover, absenteeism	<b>CSR Resources</b> governance, report, charter, commitments, awards	<b>Suppliers contracts</b> audits, responsible purchasing policy
<b>Climate change</b> carbon footprint	<b>Health and safety</b> working conditions, workplace accidents, health insurance	<b>Fair trade practices</b> ethics, anti-corruption	<b>Environmental and social impacts</b> related to the supply chain
<b>Water management</b> consumption, initiatives	<b>Training and retention</b> policy, content, budget, hours	<b>Risk and crisis management</b> crisis management plan, crisis communication	<b>Customer relationship management</b> requests, survey, product safety, ethical marketing
<b>Waste management</b> hazardous and non hazardous waste, food waste	<b>Employee engagement and dialogue</b> survey, well-being, shareholders, trade unions	<b>Cyber security</b>	<b>Corporate philanthropy</b> donations, guidelines

**Figure 4: PAI's annual reporting touches upon 4 pillars and underlying topics**

If an ESG issue arise (detected, among other things, through the information collected during a reporting campaign), the ESG team and PAI's investment teams interact directly with the management of the concerned portfolio company to understand the risks and to set up an action plan.

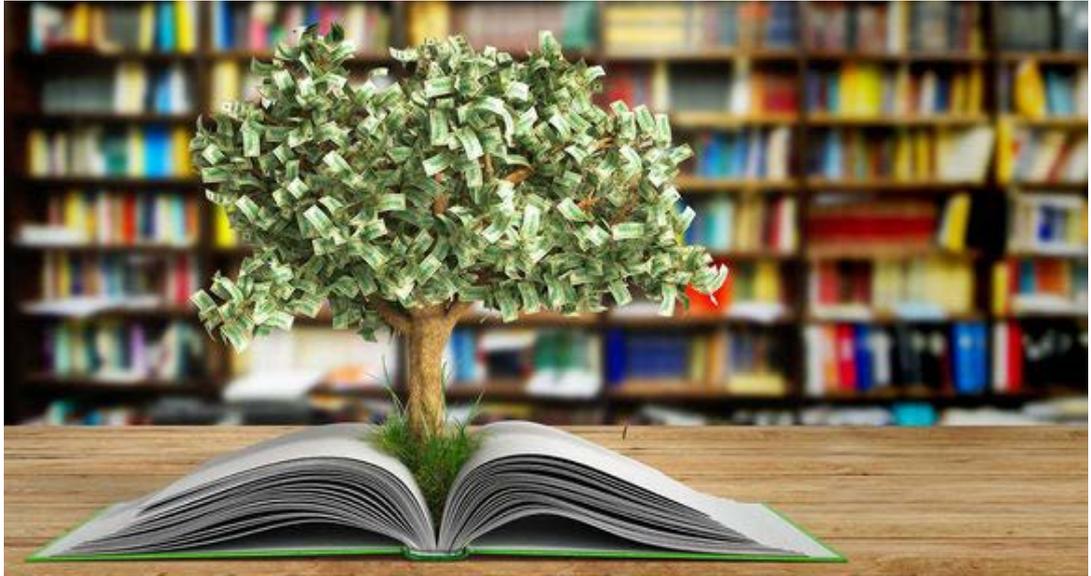
In addition, PAI is systematically represented by at least one of its employees in governance and decision-making bodies of the portfolio companies. Further support is provided by a regular attendance to strategic and/or audit meetings.

---

## Divestment phase

During the divestment or exit period, an internal or external "start-to-finish" review is carried out either internally or externally, based on several criteria.

This inventory includes the analysis of the company ESG performance over time and the review of the ESG action plan defined initially. Some criteria may be subject to a specific study by external auditors, if they are considered substantial/material.



---

## ESG reporting & communication to investors

PAI strives to add value to ESG actions by providing its investors with regular and transparent information about the objectives, practices and ESG performance of its investments.

PAI's ESG information linked to the Principles for Responsible Investment (PRI), namely the Transparency Report, is made available to investors on the PRI platform. PRI signatories are guaranteed a free access to the database.

An annual ESG publication ("PAI ESG Review" up to 2016, "Impact" in 2018) describing PAI Partners' ESG approach and actions is published on PAI's website every year.

In addition, for each fund managed by PAI, the annual report contains a description of the nature of the considered ESG criteria and their impact on the fund's investment process. This report is provided to investors through a dedicated virtual data room on an ad-hoc basis.

Operating methods to provide additional ESG information necessary to PAI's investors may be discussed with the ESG team on a direct basis.



---

# PAI's dedicated ESG organisation

The range of knowledge and expertise of our ESG team includes ESG fundamental analysis and research, quantitative analysis, engagement and monitoring of controversies as well as all legal aspects related to the governance of portfolio companies.

It is made up of a sponsor, two full-time employees and is supported by an intern. Cornelia Gomez was appointed head of PAI Partners' ESG department in September 2017. She is assisted by Thomas Carlier, Analyst, and supervised by Ivan Massonnat, Partner.

---

## ESG team



**Ivan Massonnat**  
Partner



**Cornelia Gomez**  
ESG Manager



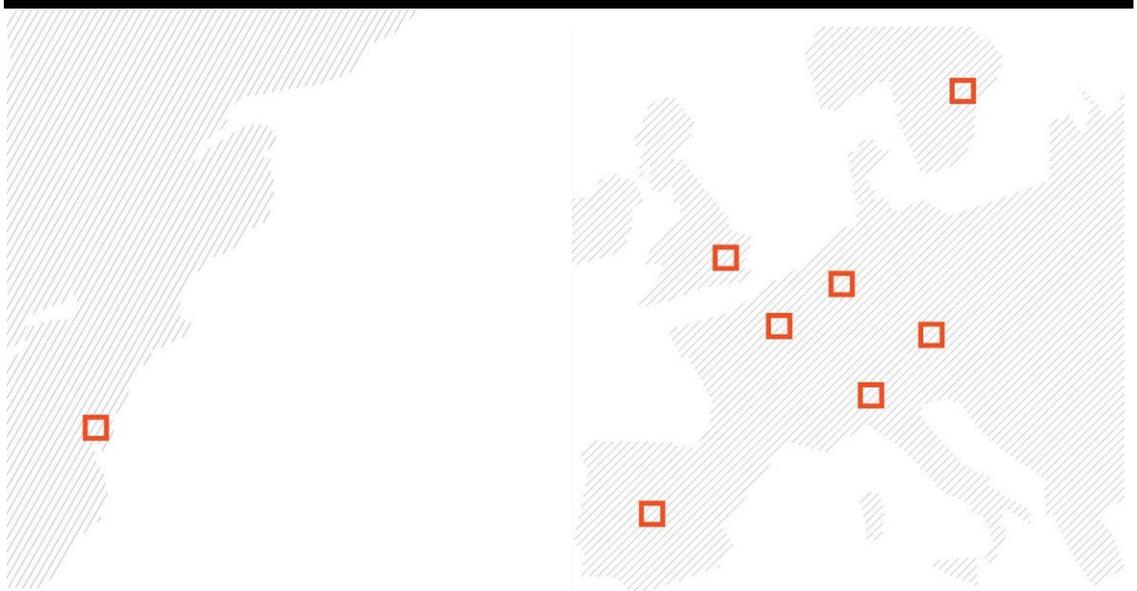
**Thomas Carlier**  
ESG Analyst

---

## ESG team missions

PAI's dedicated ESG team is responsible for *inter alia*:

- Producing thorough ESG Due Diligence analysis for the PAI's investment committee,
- Identifying and presenting ESG risks, opportunities and key indicators of companies, at acquisition and regularly during the time of the portfolio companies ownership,
- Communicating openly and transparently with PAI's investors on the ESG policy, challenges and evolutions through face-to-face meetings, reporting publications and investor meetings' roundtables,
- Organising or participating in any relevant conference and workshop related to ESG (e.g. ESG labs, roundtables),
- Fostering best-practice sharing between portfolio companies during PAI Sustainability Clubs, and
- Benchmarking other approaches and external data on ESG criteria.



<b>London</b> PAI Partners 4 Albemarle Street London W1S 4GA United Kingdom T +44 207 297 4660	<b>Luxembourg</b> PAI Partners S.à.r.l. 43-45 Allée Scheffer L-2520 Luxembourg Luxembourg T +352 26 26 97 7178	<b>Milan</b> PAI Partners Via Brera, 3 20121 Milan Italy T +39 02 85 45 151	<b>Madrid</b> PAI Partners Velázquez, 41 28001 Madrid Spain T +34 91 590 22 50	<b>Munich</b> PAI Partners GmbH Lenbachplatz 5 D-80331 Munich Germany T +49 89 5151 4650	<b>New York</b> 1325 Av. of the Americas Suite 2103 New York, NY 10019 United States T +1 (212) 887-1690	<b>Paris</b> PAI Partners 232, rue de Rivoli 75054 Paris CEDEX 01 France T +33 143 16 63 00	<b>Stockholm</b> PAI Partners AB Kungsträdgårdsgatan 12, 111 47 Stockholm Sweden T +46 8 440 57 90
---	---	--	---	---	---	--	---