

ESG policy – 31 December 2020

This document displays LBO France's ESG policy in view of section 173 of law 2015-992 issued 17 August 2015 and section 4 of Regulation (EU) 2019/2088 ("SFDR") issued 27 as November 2019.

LBO France's documents and procedures are updated consequently to meet these texts as well as section 29 of law 2019-1147 "Energie et Climat".

LBO France adopted an ESG approach as early as 2003 for its real estate activity, and then more globally in 2011 by becoming a signatory of the PRI and producing its own charter of commitments. A variety of initiatives were to follow in the investment and reporting processes.

In 2015, the company decided to accelerate these developments in order to become one of the leading companies in the field. The initiative covers four areas: portfolio companies, the management company, investors and professional institutions.

2019 Statement of LBO France's Chairman:

"In a world coming to grips with new objectives, the value creation must take into account the future of its people and the environment. Respect on both counts is a duty. Equity investors have a particular responsibility because they more than others have the power and means to exert influence and take action.

Environmental, social and governance criteria frame and direct LBO France's investment decisions and development plans and underpin its collective projects."

LBO France has appointed a professional to manage ESG issues in collaboration with the company's various departments. All employees attend meetings during which portfolio company managers present their company and explain their CSR policy. Employees also sign the company's code of ethics.

Regarding portfolio companies and new acquisitions, ESG represents a lever for transformation as it helps to reinforce the solidity and resilience of the various businesses while also offering development opportunities. It is therefore integrated within all investment processes, including venture since 2017 and debt since 2018, in a coherent and pragmatic manner.

I. Incorporation of ESG criteria within the investment policy

1. At the time of acquisition and during the holding period

ESG questions are tackled at an early stage during the initial investment analysis process, enabling certain opportunities to be ruled out if they fail to comply with our CSR charter or as a result of discussions held with the investment team.

If the process is taken to the next step, LBO France systematically conducts ESG due diligence which, depending on the risk analysis, will consist in:

- either a comprehensive due-diligence which will be initiated before issuing a binding offer and completed before closing at the latest,
- or a preliminary simplified analysis (Initial ESG Review) with possible extension to specific highlighted items (environmental, reputation audit, etc.) and a management meeting, before issuing a binding offer. A full ESG review is then conducted after closing.

LBO France uses the same approach for material build-ups or build-ups located in sensitive areas which are made by portfolio companies.

The nature of the due diligence performed is defined on a case-by-case basis in accordance with the particular risks, opportunities and development strategy of the company under review: business activity, geographical location, position in the value chain, partners, etc.

The process calls on the person in charge of ESG assisted by expert consultants, for the following reasons:

- More operational and impactful approach than that of consultants.
- Independence vis a vis the deal teams;
- Tailored work;
- Privileged relationships with management teams due to daily or new operational items discussed; detection of sensitive issues;
- Logics to identify ourselves transformation items that will be developing during the whole holding period of the company.

Based on the PRI and the work by the France Invest ESG Committee, LBO France has considered the following main areas of analysis:

- Culture and management,
- Governance and organization,
- Business ethics
- Assets protection, risk management, compliance,
- Internal control, cybersecurity, business continuity plan, data management,
- Management of human resources,
- Health and safety: employees, partners, raw materials, products, services,
- Direct environmental impact of the activity, biodiversity,
- Environmental and social impacts upstream and downstream within the supply chain,
- Climate change,
- Incorporation of ESG questions within product/service design and customer applications;
- Relations of the company with the society,
- Position of the companies vis-à-vis the UN Sustainable Development Goals.

The due-diligences thereby consist in investigating on the organization (various entities) of the company and of its value-chain: culture, governance, protection of assets, risk management, internal control, business and behaviour ethics, human resources, health and safety (employees, partners, products, services), environment (natural resources, energy, water, climate, biodiversity, wastes, circular economy), upstream and downstream supply chain and company stakeholders.

The due-diligence results in an analysis of the risks, costs and opportunities for the company (brand appeal, reputation, savings, additional sales, change of the business model, etc.). The work also anticipates ESG trends and regulations in the environments concerned and possible benchmarking with competitors.

ESG risks, like other operational risks, are included in LBO France's risk management. They can thereby have an impact on the remuneration policy of the company.

The working sessions with management teams are based on interview guides and data provided ahead of meetings, site visits, documentary review and possible external interviews.

The conclusions of the process are compared with those from specific strategic, legal and possible specific environmental due diligences.

They then result in due-diligence reports and the to a post-closing action plan specified in cooperation with management teams, which include priorities, KPIs and operational shared and updated dashboards. The purpose is more to build a management tool than a reporting for shareholders.

These dashboards are designed to

- help companies manage their risks, answer to tenders, manage their continuous relations with clients and partners, write possible CSR reports, answer questions from third parties and certification bodies;
- feed common thoughts on actions to take and provide necessary information to issue reports to investors and to organize any communication. These dashboards are part of the elements for building and monitoring budgets, as well as for monitoring achievements. They also identify all material costs and investments that have an ESG dimension.

They include nine parts:

- A presentation which explains objectives and how to use the dashboard.
- A part to be inserted in investor's periodic reports.
- A summary which presents the company's situation to date: it is supplied by the company and LBO France and includes
 - o General data on the company and graphics
 - o Its action plan in the face of a possible re-emergence of Covid-19 and changes in its strategy and organization.
 - o Its CSR approach and its strategy in view of SDGs.
 - o Its main stakes and action plan priorities
 - o Observed/expected societal trends.
 - o Good practices and possible improvements

- Existence and scope of business continuity plans
- HR data with graphics and comments
- Environmental data with comments
- Governance data with comments
- Company's specific data and, among others, impact data including contribution to SDGs
- Action plan with rank 1 priorities and corresponding priorities and KPI(s)
- 3 most critical risks not yet coped with
- Specific or sensitive stakeholders with corresponding action plans
- Certifications and labels
- Main achievements
- ESG diagnosis at the time of due-diligence or review
 - Valuation of ESG maturity at the time of due-diligence or review with comments
 - Action priorities
 - Position vis a vis Initiative Climat International and UN SDGs.
- Competitive benchmark
- Comprehensive action plan (internal use only)
- Risk mapping (internal use only)
- RH diversity data
- Information on SDGs and targets.

Dashboards are evolving during all the holding period.

Additionally, ESG clauses may be inserted into the contract for management signature where they affect reporting commitments or management practices.

2. For companies acquired before 2015

For the companies held by the Hexagone III and acquired before 2015, LBO France has agreed a multi-annual action plan with the management incorporating indicators covering key issues, which is subsequently reviewed in specific working sessions and by the supervisory board on an annual or bi-annual basis.

3. Additional support during the holding period

LBO France offers managers to meet different experts when they are confronted by specific issues in this area or to take part to various conferences.

In early 2017 LBO France launched an operational ESG club to enable managers from all portfolio companies to hold discussions with LBO France teams. The meeting is held once or twice a year and includes topical discussions, good practices and brainstorming, with external expert support when required. LBO France organized a visio session in 2020 for managers of DH2 fund venture companies on impact matters and KPIs.

All this work with management teams is processed in close connection with that of LBO France operating team, as both actions contribute to the value creation approach.

4. At the time of disposal

Save for exceptional circumstances presented by the transaction context, LBO France always has vendor due-diligences conducted by external specialist consultants with the objective, via the ESG angle, of covering elements not taken into consideration by traditional approaches, including certain more intangible factors:

- Management commitment to the issue;
- Risk management organisation;
- Enhancement of operational performance;
- Innovation or market development opportunities;
- Internal and external image benefits.

And for less advanced matters, of objectively disclosing current or planned management action with corresponding priorities.

These vendor due-diligences include a benchmarking section with the competition and sometimes interviews with operators from the markets in which the company is active, designed to obtain an optimum assessment of the value of ESG actions and positioning.

5. Specific approach for certain activities

5.1. Venture

Private equity sometimes considers that venture has no real ESG issues because of the small size and often the activity of the companies.

We see things differently.

First of all, it is essential to understand the drivers of the entrepreneur, and in case of several founders, the nature of their relations. Attention is brought to identifying the culture of the company and future operational practices.

Besides, creating and developing a company is complex: need to execute quickly, to regularly adapt strategy and business model; level of risk, young managers, financial and legal stakes (dilution, distribution of powers) when new investors join, large number of partners, accelerated growth, limited resources and time. This requires time spared and share of experience with managers to point out stakes of successive steps.

Growing digital presence raises various questions according to business fields (ethical stakes, regulation, data protection, work organization and load (remote working, management style, disconnection, etc.), environment, community management, etc.

There is also an important generational aspect: these companies often employ young professionals with high expectations: commitment, transparency, autonomy, demand, which creates recruitment and talent retention challenges.

Therefore, our general approach has additional elements:

- The person in charge of ESG has a long interview with the entrepreneur very early in the process.
- The ESG Due-diligence includes deep management style, ethical, governance aspects...With the assistance of external experts, we pay specific attention to new ethical risks related to artificial intelligence, medical evolutions, new therapeutics...

After closing, we take into account the limited human resources of the companies. We focus on priorities, one after the other and we use adapted and lighter dashboards, which, however, from 2020, start including data related to impact and to Sustainable development Goals of the United Nations.

The Head of ESG is attending boards meetings of the portfolio companies at his request. These boards almost systematically include independent board members.

5.2 Debt

After exchanging with various professionals, we have chosen to have a case by case approach: we will go from relying on the work of the equity sponsor to having a direct dialogue with the borrowing companies.

Depending on business sectors, financial situation, ESG risks, history, amounts, exposition, legal clauses, etc. we will go from:

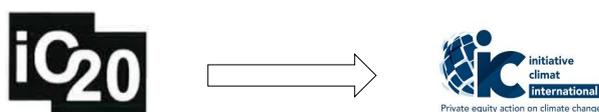
- reviewing public information and have a formal discussion with the equity sponsor based on a house questionnaire and Q&A (which general approach, which specific diligences, which action plan, communication of documents, possible presence at the board meeting examining this subject, reporting, etc.), to
- sending a questionnaire to the borrower and then ask for an annual reporting.

II. Incorporation within the investment policy of climate criteria

1. Initiative Climat International

Climate issues are integrated within the ESG policy implemented by LBO France and are now systematically fully taken into consideration for each investment.

This approach is part of the 2020 Climate Initiative of which LBO France was one of the founder members in 2015. Climate Initiative 2020 became Initiative Climat International and was endorsed by the PRIs in 2019. French part now is called Initiative Climat France.



The commitment IC 20 stipulated:

- the incorporation from 2016 of climate issues within the investment process with the objective of gradually extending the initiative to all controlled companies;
- publication from 2020 of the carbon footprint of the investments for which this issue is material.

More specifically, the methodological approach is structured around 3 phases:

- Investment phase: assessment of carbon issues in the future development of the company;
- Holding phase: familiarisation of management teams with climate issues, definition of an action plan to reduce emissions and to adapt to climate change ;
- Disposal: evaluation of the main progress achieved.

Accordingly, an upstream analysis of climate issues is conducted during the investment phase by establishing answers to the following questions:

- Is the company affected by carbon/climate regulations?
- Have any of its clients (public sector, large groups, etc.) already formulated expectations in terms of climate strategy?
- Is any part of the value chain located in countries or zones with a high climate risk?
- Are any of its commercial partners (suppliers, subcontractors, distributors, etc.) affected by climate regulations?
- Has the company or its industrial sector recently been involved in a carbon-related controversy?
- Are the company's market conditions sensitive to climate and energy issues (dependence, competition, technological challenges, etc.)?
- Has the company conducted a voluntary carbon footprint assessment (Scopes 1, 2 and 3)?
- Is the company planning an IPO?

Depending on the results of the analysis, specific work is undertaken with the portfolio company on completion of the acquisition as part of a carbon plan. This work may cover the following themes: performance of a carbon footprint assessment, introduction of reduction and offsetting scenarios, analysis of physical and transition risks with appropriate action plans, creation of indicators, etc.

On completion of the carbon footprint assessment at company level, methodologies of the Carbon Footprint type employed by the ABC carbon footprint association are favoured if appropriate.

In 2019 and 2020, LBO France worked further with other IC International signatories on

- Carbon footprint simplified methodologies,
- 2° path.

Carbon assessments are scheduled in some companies with material carbon issues, followed by reduction/compensation targets.

Companies with less material stakes will nevertheless implement a minimum action plan including: energy savings, percentage of green energy, percentage of decarbonated transportation, inducement to good practice, etc.

2. LBO France

In order to be consistent and to set an example, LBO France Gestion produced its own carbon footprint assessment in 2016 and started its own action plan in early 2017. Travel policy, videoconference, printing, energy savings, selective sorting and end of plastic bottles.

III. Other dimensions of the LBO France ESG policy

1. Management company

We update our Corporate Social Responsibility Charter regularly after the modifications made in 2017, so as to take into account changes made and new regulations.

The company decided to improve its management of human resources in late 2017 and created a HR Manager position. An employee survey was conducted and a HR Road-Map for was designed for the following years.

LBO France has structured the second step of its sponsorship policy by calling for projects among its employees. The winning project is selected via electronic vote.

2. Investors

Every quarter, LBO France produces for its investors a management report for each fund. It reports on ESG initiatives and includes relevant data on the various companies in the portfolio.

LBO France Gestion issues a mandatory annual report on the management company and on the different funds that includes an ESG section.

LBO France responds to formal requests from its investors, presents its activities at the investors' annual meeting and shares its practices in a more informal manner during bilateral discussions.

3. Professional bodies and others

LBO France is a signatory of the France Invest Charter and of its recent charter for gender equality, has joined the Equator Principles, chairs France Invest ESG commission and is member of the *Cercle Ethique des Affaires*.

LBO France regularly organises meetings to exchange experiences with other parties involved in CSR, including company managers, CSR managers and institutions.

The company seeks to accelerate awareness of these topics in our professional environment (participation in drafting the France Invest White Paper, leading the workshop on relations between GPs and LPS, contribution to workshops on climate change, participation and speaker in the European Business Ethics Forum in 2018 and 2019, etc.).

LBO obtained A+ valuation from PRIs for strategy and governance and fixed income – corporate non financial and A for Private Equity and real estate. LBO France won the Private Equity Magazine ESG sustainability Prize in 2017, 2018 and 2020 and was nominated in 2019 and was nominated in 2017, 2018, 2019 and 2020 to the ESG Best Practice Honours by Swen Capital Partners.