

# Environmental, Social and Governance (ESG) Policy



Statement on the ESG Approach, Article 173 of the French Act on Energy Transition

2018



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**In 2008, the Private Equity and Private Debt arm of Rothschild & Co Merchant Banking (MB), was created.**

**Between 2008 and 2011, Five Arrows Managers SAS (FAM), the management team of MB completed investments that support the Environment and the Community: samples include investments in childcare (Les Petits Chaperons Rouges), education for disabled (Kisimul) and cancer diagnostics (The Binding Site).**

**In 2012, FAM adhered to the United Nations PRI and therefore formalised its responsible investment approach.**

# 1. Merchant Banking ESG Policy

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Merchant Banking has built its reputation on providing the highest levels of excellence. To maintain this we have defined our guiding principles to encompass a responsible and sustainable approach to Environment, Social and Governance (ESG) standards.

Our guiding principles have been established in line with the UN Principles for Responsible Investment (“UN PRI”) which Merchant Banking agreed to adhere to in September 2012.

This policy statement sets out the principles and commitments of our approach to ESG challenges and opportunities.

## 1.1 The 7 Pillars of the « ESG » policy

**Principle 1 - Taking ESG criteria into accounting during the analysis and decision making processes for investments made by Rothschild & Co Merchant Banking including:**

- Taking into account the non-financial performance of target companies: governance, social, environment
- Consideration of whether the investment is ethical

**Principle 2 - Disseminate the UN PRI and ensure the application of these principles throughout the entities in which we invest including:**

- Request all entities in which we invest to communicate and promote ESG issues within their business
- Provide support to senior management in developing mid-long term activities within a sustainable and trustworthy partnership

**Principle 3 - Inform our investors of this ESG policy and provide them with information on our approach to ESG issues on a regular basis through:**

- Provision of adequate, transparent and objective information in our annual report

**Principle 4 - Adopt a responsible and ethical approach to governance including:**

- Remuneration of senior management and a policy on bonuses that is compliant with international standards
- Implementation of compliance policies and procedures and on-going monitoring of the group' systems and controls
- Implementation of rigorous risk controls throughout the business
- Consideration of our ethical obligations in all business conduct (anti-money laundering, anti-corruption, reputational due diligence)

**Principle 5 - Encourage a human resources policy which values and respects all employees through:**

- Objective criteria to measure performance and competencies
- Support programs requiring senior management involvement in all employees' career progression
- Equality across all staff irrespective of role, gender, race, age, religious belief or sexual orientation. In 2005, Rothschild & Co signed the Diversity Charter

**Principle 6 - Reduce the environmental impact of our activities**

- In line with Rothschild & Co's approach to environmental management we will minimise, wherever practicable, the negative environmental impact of our business including the impacts associated with energy, water and materials use, waste production and CO2 emissions
- Promote a circular economy practice by recycling and reusing as far as practicable
- Align with responsible purchasing practices and encourage our suppliers to respect sustainable development criteria
- Became a Signatory of Initiative Climate (IC20) since 2018

**Principle 7 - Promote employees' commitment to society**

- Partnership with Epic Foundation
- Rothschild & Co's community investment programme combines long term partnerships and employee volunteering with strategic charitable giving
- Encouragement for employees to become involved in one or more of the 250+ volunteering commitments that the Management Company, through the Group, is involved in

## 1.2 Implementation of the ESG Policy to Merchant Banking Investments Strategies

The ESG Policy is implemented across various investment strategies:

- FAPI (Five arrows Principal Investment): Corporate Private Equity
- Multi Strategies: Secondary Private Equity, Global Multi-Managers Funds, Co-investments
- Direct Lending: mezzanine and unitranche debt financing solutions
- R&Co CM (Rothschild & Co Credit Management): senior credit activities

## 2. ESG in each investment strategy of FAM

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Each investment strategy has a long term investment approach and strongly believes in the benefits of responsible investing in long term value creation.

We try to promote the principles of responsible investment within our investments and strongly encourage fund managers to consider ESG criteria in their activities.

### 2.1 ESG in each investment process:

#### a) Pre-Investment Process:

In line with each investment strategy, the investment team invests across a set of carefully chosen sectors. We ensure that we do not invest in sectors we consider unethical and which are explicitly listed as banned by the Five Arrows Managers Investment Exclusion Policy:

The Investment Strategies of FAM will not invest in:

- Companies (or portfolio companies) where core business is engaged in activities in severe reach with international conventions,
- Companies (or portfolio companies) that engage in material or systematic corruption evidenced by an official source such as Court, UN, OECD, government, etc.,
- Companies (or portfolio companies) that deliberately and repeatedly violate law in markets where they operate,
- Companies (or portfolio companies) that export certain goods and services targeted by trade embargoes imposed by the UN or EU,
- Companies (or portfolio companies) that are involved or derive the majority of their revenues from the production, trade and/or distribution of controversial weapons and munitions, and/or the production, trade and/or distribution of tobacco, prostitution, pornography or coal based activity.

#### b) Due Diligence & Investment Decision

Our due-diligence is based on a dialogue with the management team (of companies or fund managers when relevant) and onsite visits in order to identify and assess the management of key ESG issues.

The ESG review focuses on the availability of ESG related information and will be used to identify whether there may be any significant issues, that require either more detailed technical assessment or need to be managed post-investment.

An ESG analysis is a necessary part of our investment process (for direct private equity funds).

#### c) Monitoring / Detention Period

Our Investment teams maintain an ongoing dialogue with the portfolio company's management teams or fund managers (when relevant) and encourage them to identify and raise material ESG issues.

We also request that our portfolio companies or fund managers (when relevant) a report on their approach and on defined key ESG indicators through either the Annual Monitoring Program (for direct private equity funds) or the Annual ESG Questionnaire.

We use the support of external consultants to carry-out an ESG review of our portfolio companies (for direct private equity funds).

### 3. Merchant Banking Commitments

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**In 2012, we decided to adhere to the United Nations Principles for Responsible Investment (the “UN PRI”) in order to publicly formalise our commitment to ESG and adhere to a global community seeking to build a more sustainable financial system. The 7 pillars of our approach (as set out in the point 1.1 above) have been established in line with the UN PRI.**

We have also committed to the Charter of the French Private Equity Association (France Invest), which focuses on the growth and long term development of companies, and promotes the establishment of best practices in the areas of human capital management, environment and governance.

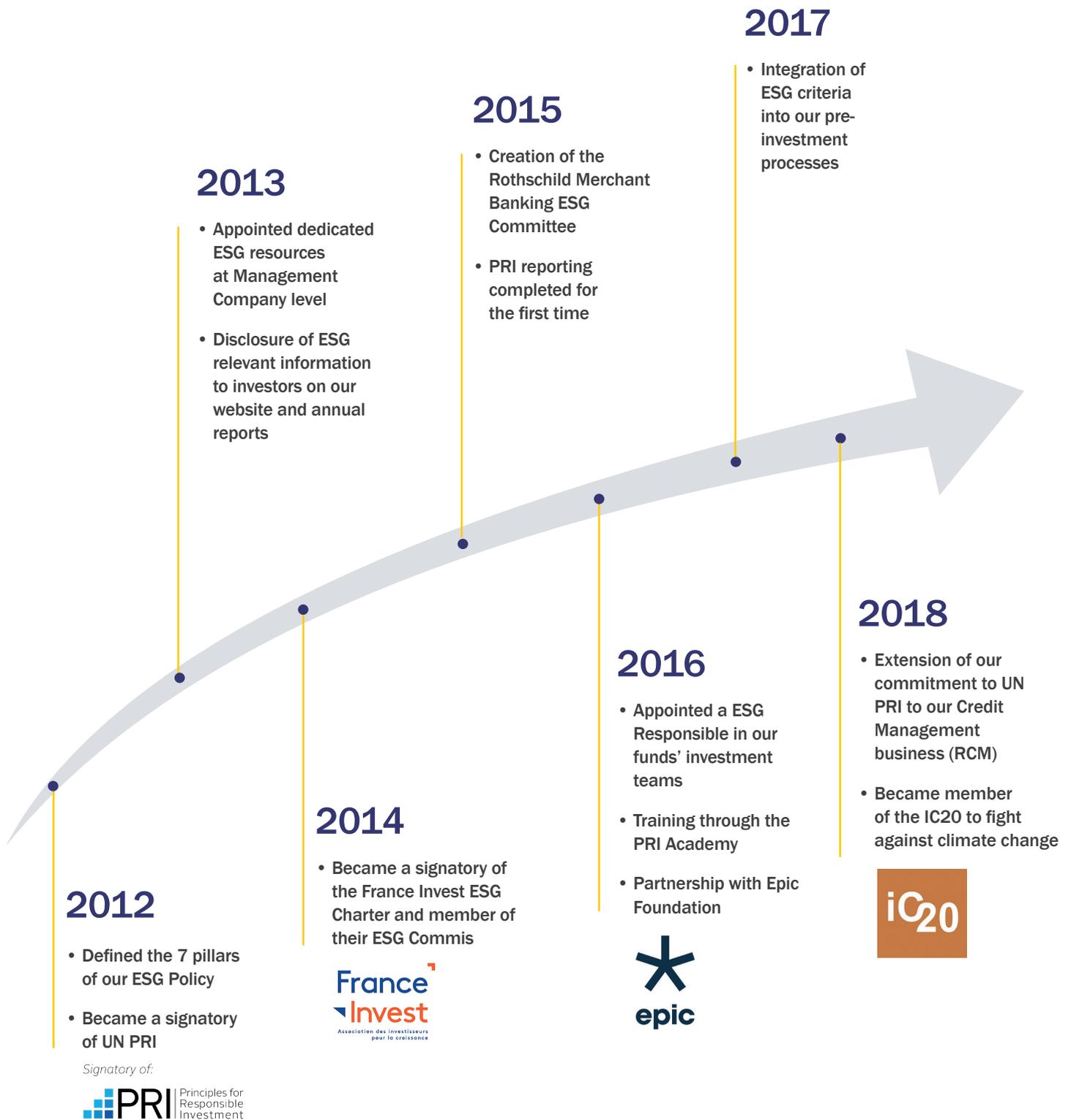
In 2017 and in 2018, MB supported non-governmental organisations and social enterprises that focus on enhancing the prospects of disadvantaged young people globally, through a partnership with Epic Foundation. Our partnership is based on individual commitments from our staff with a matching scheme from our management company.

In 2018, our direct private equity team, FAPI, became a signatory to IC20 in order to contribute to the fight against climate change by aiming to reduce the greenhouse gas emissions of our portfolio companies and ensure sustainability of performance.

Within MB, we have two dedicated resources committed to ESG working in the Investor Relations Department, supported by ESG champions from each of our investment teams. These champions have been trained through the UN PRI Academy.

The Group Head of MB who is a Managing Partner of Rothschild & Co and a member of the Rothschild & Co Group Executive Committee chairs our internal ESG Committee which meets annually.

### 3.1 Rothschild & Co's Merchant Banking ESG Journey



## 3.2 Support to community: EPIC

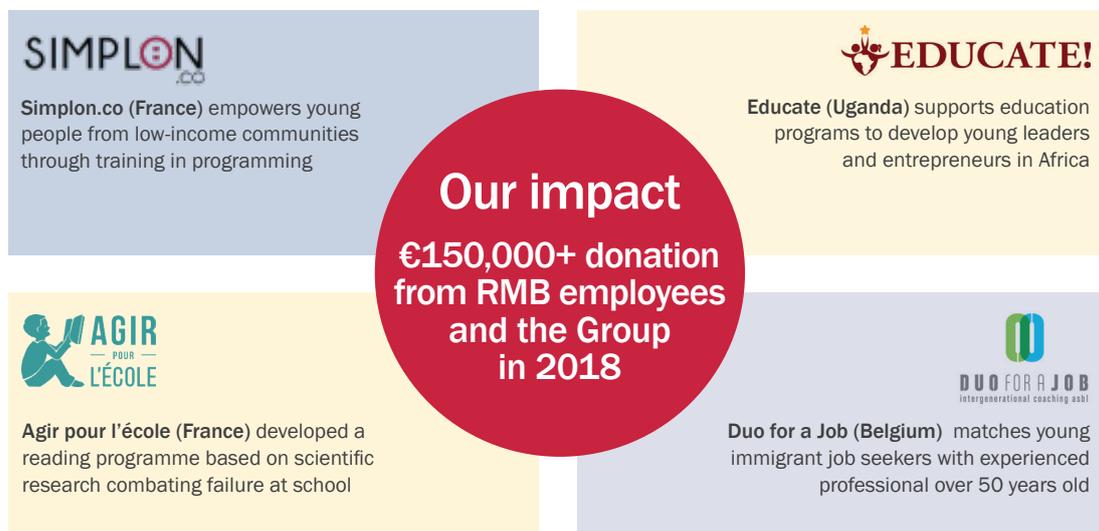
In line with the group's Community Investment programme, MB has decided to support non-governmental organisations and social enterprises that focus on enhancing the prospects of economically disadvantaged young people globally through a partnership with Epic Foundation.

This partnership is based on individual commitments from our employees and a matching scheme from the MB management company.

Founded in 2014, Epic is a global non-profit startup which provides solutions to make giving

the norm. Epic leverages volunteering and giving solutions for individuals and corporations in order to support high-impact social organisations that tackle youth and child issues globally. Epic strictly partners on a pro bono basis so that 100% of the money received goes to Epic portfolio organisations.

In 2017 and in 2018, MB supported four non-governmental organisations and social enterprises by raising more than 150.000€ per annum:



## Our impact since 2017



### 3.3 Initiative Climate 2010 (IC20)

**In 2018, FAPI became signatory of IC20 to contribute to the fight against climate change.**

Launched in 2015, IC20 is a French initiative from private equity players committed to fighting against climate change.

Conscious of our responsibility as shareholders, we wish to make a pragmatic and operational contribution to be a driving force in building a climate-conscious world.

The IC20 signatories are thus launching a long-term approach to reducing the greenhouse gas emissions of their portfolio companies and

securing sustainable performance by considering this material issue in their activities and investment decisions.

This approach is in line with the Task force on Climate-related Financial Disclosure recommendations (“TCFD”) and the expectations of Article 173 of the Energy Transition for Green Growth French Act regarding climate risks and transparency.

### Our Commitments

Recognise that climate change will have effects on the economy that represents risks and opportunities for companies in which we invest

Join forces to contribute to the objective of COP21 of limiting global warming to two degrees

Contribute to reduce the greenhouse gas emissions of our portfolio companies and ensure sustainability of performance

## 4. Transparency for our investors

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**FAM funds provide their investors with information on our responsible investment approach on a regular basis through the provision of transparent, objective and adequate information:**

- In the funds' Annual Reports
- At our Annual Investor Days
- UN-PRI Reporting, publicly available
- The MB ESG Policy, available on our website
- Our ESG commitment, available on our website

# 5. ESG in the way Rothschild & Co Group operates its business

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## 5.1 Social and Ethical criteria

### 5.1.1 Social Criteria

#### Equal Opportunities Policy

- We are committed to providing equal opportunities in employment and aim to ensure that we do not unlawfully discriminate in employment because of race, colour, religion or belief, gender, national or ethnic origin, disability, age, nationality, marriage or civil partnership, pregnancy or maternity, sexual orientation or gender-reassignment.
- We believe that we can contribute to the diffusion of our employees' welfare by applying group standards on a global basis. This holds particularly true in the following areas: parental leave, sabbatical leave, flexible working...For this reason we have devised a global Human Resources policy.

#### Plan of Action on Senior Employment

We are committed to guaranteeing job security and career development opportunities for senior staff members. Rothschild & Co is particularly involved in:

- The fight against discrimination towards older employees, within the company, during recruitment process and regarding access to training,
- Highlighting and facilitating the transmission of experience of the oldest employees,
- Implementing working conditions adapted to age needs.

### 5.1.2 Ethical criteria

#### Anti-corruption statement

Rothschild & Co takes a zero tolerance policy approach to corruption and bribery.

Employees must at all times:

- Act honestly
- Comply with the local law of any country in which they operate together with our group policy, or whichever provides for the highest standard of anti-corruption behaviour, and
- Avoid offering, giving or receiving an advantage (whether financial or otherwise) in return for improper conduct.

Involvement in any form of corruption will have serious consequences, including dismissal or termination of employment.

#### Money laundering and reputational due diligence

- Rothschild & Co has in place a group policy on client acceptance, which includes the requirement to complete anti money laundering and reputational due diligence on prospective new clients. This due diligence should include the requirement to conduct proper enquiries as to whether any prospective new clients have ever been convicted of a crime relating to bribery or corruption.
- Where any such conviction is identified, whether they are current or historic, it must be fully disclosed to the relevant client acceptance committee for that business.

## 5.2 Environmental criteria

### **Rothschild & Co recognises its environmental responsibilities and the importance of being actively engaged with environmental issues.**

In 2017 it adopted the Group Environmental Policy (applicable and adopted by all group entities) and guiding vision:

*“Through our operations, products and services we will aim to add value to our and our clients’ businesses in a sustainable, environmentally responsible way, to conserve and protect the world’s natural resources.”*

The Group Environment Policy and vision are underpinned and aligned with the six most relevant United Nations Sustainable Development Goals<sup>1</sup> (‘SDGs’) for the group, from the 17 SDGs defined by the United Nations. Whilst the Group recognises the importance of all the SDGs, it has specifically aligned itself with those it feels most relevant to the environmental management of the business operations.

To maintain a consistent, focused approach on the most material environmental impact areas of the group’s locations, Rothschild & Co has implemented a continuous improvement programme called the Environmental Management Action Plan (EMAP). The EMAP is aimed at reducing the negative environmental impact of the group’s operations.

### **Energy**

The group has and will continue to identify energy efficiency opportunities and energy-saving actions for office operations. The Group procures about 38% of its electricity from certified renewable sources and intends to further expand the purchasing of renewable energy in due course.

### **Greenhouse gas emissions from operations**

Rothschild & Co’s greenhouse gas (“GHG”) emissions reporting is in respect of its operational activities and includes Scope 1 and 2 emissions, and Scope 3 emissions in respect of business travel, water supply and wastewater treatment, materials, waste disposal, and electricity transmission and distribution losses. In line with best practice, the group’s “dual report” for Scope 2 GHG emission uses both location and market-based reporting methods.

The Scope 2 market-based figure reflects emissions from energy purchasing decisions that Rothschild & Co makes, thus taking into account purchased energy from 100% renewable sources.

### **Responsible use of resources**

The Group continues to broaden its circular economy activities across office locations by rolling out more centralised recycling stations, switching more offices to 100% recycled/sustainable paper, eliminating single-use cups and adopting electronic payslips, these ongoing activities will ultimately reach all Rothschild & Co Merchant Backing employees over time.

Whilst the Group is not a major consumer of water, it does recognise its responsibility to responsibly manage this resource, particularly in the countries it operates in and the people who live there.

<sup>1</sup> SDG 6 - clean water and sanitation, SDG 7 - affordable and clean energy, SDG 8 - decent work and economic growth, SDG 12 - responsible consumption and production, SDG 13 - climate action, SDG 15 - life on land

