



Rothschild & Co Merchant Banking

Explanation of non-compliance with SFDR's principal adverse impacts regime

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Introduction

This document sets out disclosures by Five Arrows Managers LLP, Five Arrows Managers SAS, Five Arrows Managers North America LLC, Five Arrows Managers USA LLC and the Merchant Banking division of Rothschild & Co Investment Managers (each a “**Firm**”; collectively the “**Firms**”; “**Merchant Banking**”; “**we**”; “**our**”), in respect of the principal adverse impacts of our investment decisions on sustainability factors.

The EU Sustainable Finance Disclosure Regulation (“**SFDR**”) requires the Firms to make a “comply or explain” decision whether to consider the principal adverse impacts (“**PAIs**”) of our investment decisions on sustainability factors, in accordance with a specific regime as outlined in SFDR. The Firms have decided not to comply with that SFDR regime. We are therefore required to publish and maintain on our website a statement to explain our reasons for not complying with the PAI regime in SFDR, and information as to whether and when we intend to comply with such regime.

1. Non-compliance with the PAI regime in SFDR

- 1.1 Merchant Banking has carefully evaluated the requirements of the PAI regime in Article 4 of SFDR, and in the draft Regulatory Technical Standards which were published in April 2020 (the “**PAI regime**”).
- 1.2 The Firm is supportive of the policy aims of the PAI regime, to improve transparency to clients, investors and the market, as to how financial market participants integrate consideration of the adverse impacts of their investment decisions on sustainability factors. However, taking account of the nature and scale of our activities and the types of products we make available we consider that it would be challenging to comply with the specific regime in the SFDR.
- 1.3 In addition, Merchant Banking notes that some of its investment strategies cannot currently support the adoption of the PAI regime within SFDR given that these strategies involve products, such as secondary funds, where it is often not possible to conduct detailed diligence on the principal adverse impact of our investments on sustainability factors.
- 1.4 Finally, Merchant Banking is also concerned about the lack of readily available data for all asset classes under management to comply with many of the technical reporting requirements of the PAI regime. Merchant Banking will continue to engage with issuers and market data providers on this issue.
- 1.5 The Firm will keep its decision not to comply with the PAI regime under regular review and will formally re-evaluate the decision at least annually.
- 1.6 Notwithstanding our decision not to comply with the PAI regime, Merchant Banking wishes to re-affirm our overall commitment to ESG matters. We summarise in the remainder of this document the positive ESG-related initiatives and policies adopted by Merchant Banking. For the avoidance of doubt, none of the following information is intended to suggest that the Firms comply with the PAI regime.

2. Responsible investing policy

2.1 The integration of Environmental, Social and Governance (“ESG”) factors into Merchant Banking investment processes and decision-making is amongst our top priorities as an investor. As per our Merchant Banking Environmental, Social and Governance (ESG) Policy; we are focussed on three main objectives from a sustainability perspective:

- i. The integration of ESG criteria into our investment decisions to create long term value for investors and support the development of a sustainable economy as a responsible investor;
- ii. Pursuing an ESG engagement policy to create constructive dialogue with our companies, fund managers or sponsors to help them improve; and
- iii. Offering innovative sustainable investment products.

All our strategies have a long-term approach and we strongly believe in the benefits of responsible investing for long-term value protection and creation. We aim to promote the principles of responsible investing within our investments and encourage our partners to consider ESG criteria in their activities.

2.2 Our ESG Policy is available on our website at:

<https://www.rothschildandco.com/en/what-we-do/merchant-banking/responsibility>

3. Adherence to responsible business codes and international standards

3.1 In connection with ESG, Merchant Banking adheres to responsible business codes and internationally recognised standards for due diligence and reporting. For these purposes, Merchant Banking refers to its adherence to the following codes and standards:

- UN Principles for Responsible Investment
- Initiative Climat International
- France Invest ESG Charter
- France Invest Charter for Gender Equality

In addition, Merchant Banking is a member of the following bodies:

- Global Impact Investing Network
- The ESG Commission of France Invest
- ESG Committee of the European Leveraged Finance Association.