Rothschild & Co Merchant Banking

Sustainability Risks Policy

10 March 2021

Rothschild & Co
Merchant Banking

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1. Introduction

1.1 This document sets out the policies of 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**"), on the integration of sustainability in our investment decision-making process.

1.2 The EU Sustainable Finance Disclosure Regulation ("**SFDR**") requires the Firms to formalise how sustainability is integrated into the Merchant Banking business and processes, and to make new public and product disclosures on sustainability matters.

1.3 The integration of Environmental, Social and Governance ("**ESG**") factors into Merchant Banking investment processes and decision-making is amongst our 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.

1.5 This document sets out Merchant Banking's policies in respect of the integration of sustainability risks in our investment decision-making process, as required by Article 3 of SFDR. The policy applies to each Firm, and applies in respect of all portfolio management services, investment advisory services and alternative investment fund management carried on by the Firms.

1.6 For reference, Merchant Banking maintains other policies and documentation related to sustainability, including but not limited to:

- Merchant Banking Environmental, Social and Governance (ESG) Policy;
- Investment Principles for the Thermal Coal Sector;
- Fundamental Principles Exclusion Policy

1.7 This policy applies as from 10 March 2021.

2. Purpose of this policy

2.1 Under SFDR, "**sustainability risk**" means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.

2.2 This policy therefore approaches sustainability risk from the perspective of the risk that ESG events might cause a material negative impact on the value of our products' investments. To give an example if a Merchant Banking fund has significant exposure to digital services businesses which collect and process large volumes of personal data, then Merchant Banking might consider that there is a data security risk which, if a breach were to occur, could cause a material negative impact on the value of the relevant business (i.e., a governance risk to the value of the digital services business). To give a further example, if a Merchant Banking fund has significant exposure to a company which is people intensive, then any breach of applicable labour laws and employment rights could result in an adverse impact on Merchant Banking's investment (i.e. a social risk to the value of the company).

2.3 Merchant Banking recognises that the world faces growing environmental, social, and governance-related risks. A part of our role as a fiduciary is to act in the best interests of our funds, and this includes appropriately taking account of how those ESG risks could impact on our funds' investments.

2.4 For the purposes of SFDR, sustainability risk is not concerned with the risk of harm that our investment decisions may do externally to sustainability factors. In other words, this policy covers "value" rather than "values". The external harm of investments is covered by a separate regime under SFDR, which considers the principal adverse impacts of a firm's investment decisions on sustainability factors. The Firms are entitled to decide whether or not to implement the principal adverse impact ("**PAI**") arrangements under Article 4 of SFDR, and they have elected not to comply for now. Merchant Banking has separately published a public statement to explain our decision not to implement such arrangements. Nonetheless, Merchant Banking is supportive of the policy aims of the PAI regime and will keep its decision not to comply with the PAI regime under regular review.

2.5 In addition, SFDR is not specifically concerned with the risks that sustainability events may cause to the Firms' own balance sheet or prudential position.

3. Governance and senior management responsibility

3.1 The Firms' governing boards are ultimately responsible for each firm's policies and procedures in respect of sustainability risks.

3.2 However, the Merchant Banking ESG Board has overall responsibility for sustainability risk matters as it defines and oversees Merchant Banking's ESG strategy. This board is supported by the Merchant Banking ESG Champions, a group of investment professionals from across each Merchant Banking investment strategy. The Merchant Banking ESG Champions lead the day-to-day implementation of Merchant Banking's ESG programme.

3.3 The governing bodies of each Firm have approved this policy and the related procedures, and the Firm's integration of sustainability risks into investment decision making.

4. Sustainability risk management

4.1 As part of our broader risk management processes when investing, Merchant Banking has implemented procedures to (i) identify, (ii) assess, (iii) manage and (iv) monitor sustainability risks.

4.2 Merchant Banking's approach to sustainability risk management varies from strategy to strategy. In general, our approach is based on a variety of factors, including but not limited to:

- the time horizon for our investments which varies depending on the relevant investment strategy (e.g. our private equity fund investments tend to be long-term investments, while our credit management investments tend to be for the short/medium term);
- the types of assets in which we invest;
- and the sectors / geographies in which we invest.

(i) Identify

4.3 Merchant Banking has separately reviewed the sustainability risks which are potentially likely to cause a material negative impact on the value of our products' investments, should those risks occur. Examples of such risks are summarised below in section 5 of this policy and are broadly divided into the three categories of environmental, social and governance risks.

4.4 The Firm treats sustainability risk as both a standalone risk, and also a cross-cutting risk which manifests through many other established principal risk types (such as financial risks, operational risks, credit risks, etc).

(ii) Assess

4.5 Merchant Banking believes in the benefits of responsible investing for long-term value creation. To ensure that we consider ESG factors in our investment process, each Merchant Banking investment strategy has developed a proprietary ESG questionnaire which is applied to all potential investments. One common requirement is to exclude investments which do not meet the requirements in relation to the exclusion policy as per Principle 1 of the 7 pillars of the Merchant Banking ESG Policy. [The questionnaires generally comprise of two sections. The first section is utilised to exclude investments which do not meet the requirements in relation to the exclusion policy as per Principle 1 of the 7 pillars of the Merchant Banking ESG Policy. The second section is a points-based system whereby each potential investment is rated based on variety of ESG factors. Each potential investment is assigned an ESG score.]

4.6 For certain investment strategies, such as private equity, the questionnaire may identify potential ESG issues that may either require a more detailed technical assessment or require management post-investment.

4.7 In completing the ESG questionnaires, we may rely on any of the following: including our own internal analysis and assessment, third party data sources as well as independent specialist advisors.

4.8 In assessing sustainability risk, we take account of the "physical" or tangible risks of a sustainability event (for example, the impact of severe climate events leading to business disruption or losses for our investment positions). In addition, we also take account of the "transition" risk, which focuses on the risk to investments as the world moves towards a more sustainable environmental and social model. For example, the move towards mandatory use of electric vehicles may negatively impact the value of manufacturers of combustion engines.

(iii) Management

4.9 Merchant Banking manages sustainability risk in a number of ways. As mentioned above, Merchant Banking uses its proprietary ESG questionnaires to assist with the calculation an ESG score for a particular investment.

4.10 Merchant Banking applies exclusionary screening for particular issuers; industries; jurisdictions and geographies which it has identified as unusually high risk as per Principle 1 of the 7 pillars of the Merchant Banking ESG Policy. These exclusions are specified in the relevant investment strategy's ESG questionnaire.

4. Sustainability risk management

4.11 In addition, Merchant Banking may manage certain products on a thematic and/or impact basis, with the specific purpose of pursuing particular ESG-focused outcomes or objectives, including for example, by seeking investments that will make a positive environmental/social impact along with a financial return. Due to the ESG thematic and/or impact focus of such investments, Merchant Banking generally considers that ESG risks to the value of these portfolios will be lower.

4.12 Although Merchant Banking's investment teams are encouraged to take sustainability risks into account when making an investment decision, sustainability risk would not by itself prevent Merchant Banking from making any investment. Instead, sustainability risk forms part of the overall risk management processes, and is one of many risks which may, depending on the specific investment opportunity, be relevant to a determination of risk. However, Merchant Banking currently does not apply any absolute risk limits or risk appetite thresholds which relate exclusively to sustainability risk as a separate category of risk.

(iv) Monitoring

4.13 Across several Merchant Banking strategies, the investment teams will often liaise with investee companies on ESG related issues and practices. Investment teams will engage with investee companies by requiring them to complete an annual ESG questionnaire. Depending on the strategy, an ESG audit of an investee company may be undertaken by a third-party specialist firm. In respect of the Credit Management strategy, a review of ESG factors as outlined within the Credit Management ESG questionnaire is embedded into the ongoing monitoring of all investments on the Credit Management Approved Purchase List ("**APL**").

5. Relevant sustainability risks

5.1 As noted above at section 4 of this policy, Merchant Banking has taken steps to identify each key environmental, social and governance risks which could, if they were to occur, cause an actual or a potential material negative impact on the value of an investment. It should be noted that the existence of such risks would not within itself prevent Merchant Banking from making any investment. These are summarised below.

5.2 **Environmental** sustainability risks for the value of our products' portfolios may include but are not limited to:

- Climate change
- Carbon emissions
- Air pollution
- Water pollution
- Harm to biodiversity
- Deforestation
- Energy inefficiency
- Poor waste management practices
- Increased water scarcity
- Rising sea levels / coastal flooding
- Wildfires / bushfires

5.3 **Social** sustainability risks for the value of our products' portfolios may include but are not limited to:

- Human rights violations
- Human trafficking
- Modern slavery / forced labour
- Breaches of employee rights / labour rights
- Child labour
- Discrimination
- Restrictions on or abuse of the rights of consumers
- Restricted access to clean water, to a reliable food supply, and/or to a sanitary living environment
- Infringements of rights of local communities / indigenous populations

5.4 **Governance** sustainability risks for the value of our products' portfolios may include but are not limited to:

- Lack of diversity at board or governing body level
- Inadequate external or internal audit
- Infringement or curtailment of rights of (minority) shareholders
- Bribery and corruption
- Lack of scrutiny of executive pay
- Poor safeguards on personal data / IT security (of employees and/or customers)
- Discriminatory employment practices
- Health and safety concerns for the workforce
- Poor sustainability practices in the supply chain
- Workplace harassment, discrimination and bullying
- Restrictions on rights of collective bargaining or trade unions
- Inadequate protection for whistleblowers
- Non-compliance with minimum wage or (where appropriate) living wage requirements

6. Disclosure of this policy

6.1 SFDR requires that Merchant Banking must publish on our website information about this policy. Merchant Banking satisfies this requirement by disclosing this policy itself on our website.

6.2 SFDR also requires that Merchant Banking must include, in the pre-contractual disclosures for our financial products, a description of the manner in which sustainability risks are integrated into our investment decisions. Merchant Banking satisfies this requirement by disclosing a copy of this policy as part of pre-contractual disclosures.

6.3 For these purposes, “pre-contractual disclosures” means the prospectus or offering document for a fund, and the investment management agreement or other terms and conditions for a portfolio management service.