Environment - Social – Governance

Annual ESG report

Private equity committed to SUSTAINABLE GROWTH

6th edition - 2018



Deloitte.

France Invest
Association of Investors for Growth

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List of the 129 responding management companies

123 INVESTMENT MANAGERS
21 CENTRALE PARTNERS
3I France
A PLUS FINANCE
ABENEX
ACCESS CAPITAL PARTNERS
ACG MANAGEMENT
ACOFI GESTION
ACTIVA CAPITAL
AFRICINVEST
AGRO INVEST SAS
ALLIANCE ENTREPRENDRE
ALTER EQUITY
ALVEN CAPITAL PARTNERS
AMUNDI ATE
AMUNDI PRIVATE EQUITY FUNDS
ANDERA PARTNERS
ANTIN INFRASTRUCTURE PARTNERS
APAX PARTNERS MIDMARKET
ARCHIMED
ARDIAN
ARGOS SODITIC
ARKEA CAPITAL INVESTISSEMENT
ASTER CAPITAL PARTNERS
ASTORG PARTNERS
ATLANTE GESTION SAS
AXELEO CAPITAL SAS
AZULIS CAPITAL
B & CAPITAL
BEX CAPITAL
BLACKFIN CAPITAL PARTNERS
BPIFRANCE INVESTISSEMENT
BRIDGEPOINT
CACEIS
CAPAgro SAS
CAPHORN INVEST
CAPITAL CROISSANCE
CAPITAL EXPORT
CAPZANINE
CATHAY CAPITAL PRIVATE EQUITY
CEREA PARTENAIRE
CITIZEN CAPITAL
CM-CIC INVESTISSEMENT
COBALT CAPITAL
DEMETER
EDMOND DE ROTHSCHILD PRIVATE EQUITY FRANCE
EKKIO CAPITAL
ELAIS Capital
ELIGE CAPITAL
EMZ PARTNERS
EPF PARTNERS
EQUISTONE PARTNERS EUROPE
ESFIN GESTION
ESSLING
EURAZEO
EXTENDAM
FINORPA GESTION
FIVE ARROWS CAPITAL
FIVE SEASONS VENTURES
FNB PRIVATE EQUITY
FRENCHFOOD CAPITAL
GALIA GESTION
GALIENA CAPITAL
GARIBALDI PARTICIPATIONS
HIVEST CAPTAL PARTNERS
HOTEL INVESTISSEMENT CAPITAL
IBIONEXT
IDIA - CRÉDIT AGRICOLE CAPITAL INVESTISSEMENT & FINANCE
IDINVEST
IFE MEZZANINE
IK INVESTMENT PARTNERS SAS
IMPACT PARTENAIRES
INDIGO CAPITAL
INDUSTRIES & FINANCES PARTENAIRES
INFRAVIA CAPITAL PARTNERS
INITIATIVE & FINANCE
INNOVACOM
INNOVAFONDS
IXO PRIVATE EQUITY
JMYX HOLDING
JOLT CAPITAL
KEENSIGHT CAPITAL
KEPLER CHEUVREUX IFE
KREAXI
KURMA PARTNERS
LATOUR CAPITAL MANAGEMENT
LBO FRANCE GESTION
LGT EUROPEAN CAPITAL
LT CAPITAL
MANDARINE GESTION
MBO PARTENAIRES
MEESCHAERT CAPITAL PARTNERS
MERIDIAM
MOMENTUM INVEST
MONTAGU PRIVATE EQUITY SAS
MOTION EQUITY PARTNERS
NAXICAP PARTNERS
NCI
NEXTSTAGE AM
NIXEN
OMNES CAPITAL
OUEST CROISSANCE
PAI PARTNERS
PARQUEST CAPITAL
PECHEL
PENINSULAR CAPITAL MANAGEMENT
PERCEVA
PHITRUST IMPACT INVESTORS
PLEIADE INVESTISSEMENT
QUAERO CAPITAL
QUALIUM INVESTISSEMENT
RAISE
RE-SOURCES CAPITAL
ROTHSCHILD and Co
SAGARD SAS
SERENA CAPITAL
SEVENTURE PARTNERS
SIPAREX (SIGEFI PRIVATE EQUITY)
SODERO GESTION
SOFINNOVA PARTNERS
SOPROMEC PARTICIPATIONS
SWEN CAPITAL PARTNERS
TCR CAPITAL SAS
TERTIUM MANAGEMENT
TIKEHAU INVESTMENT MANAGEMENT
TURENNE CAPITAL PARTENAIRES
UI GESTION
WEINBERG CAPITAL PARTNERS
WENDEL

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Key figures

129

PRIVATE EQUITY FIRMS
responded to France Invest's ESG survey.

They employ around

4 400

PEOPLE.

In 2018, they generated a total of

2 496

INVESTMENT TRANSACTIONS
(all types and across various investment vehicles).

1 813

PORTFOLIO COMPANIES RESPONDED
to the questionnaire.

They employ

1 456 000

PEOPLE

and generate total REVENUES of more than

171

€ BILLION.

Dominique Gaillard,
Chairman of France Invest

Candice Brenet,
Chairwoman of France Invest's ESG Commission

Editorial

For this sixth consecutive edition of France Invest's Annual ESG (Environment - Social - Governance) Report, the number of contributors has continued to increase, with 129 member companies of the association responding to the ESG questionnaire. This participation rate is a real source of satisfaction and a collective success. It shows the level of commitment of French private equity firms to responsible investment.

This strong participation reflects the proliferation of discussions and initiatives undertaken in 2018. Unprecedented work has been carried out on value sharing to ensure that private equity contributes to a fairer distribution of wealth created among all the employees of the companies backed. An amendment to the Pacte bill, supported by France Invest and approved at first reading by the French National Assembly in October 2018, now offers a simple and efficient framework for sharing added value between shareholders and all the employees of the companies in which they invest. We have also made progress on the climate front with the deployment of the Climate 2020 Initiative (iC20). France Invest and its members have worked not only on the substantial topics but also on promoting French leadership on ESG beyond our borders, as demonstrated by the adoption of the iC20 for worldwide roll-out under the Principles for Responsible Investment (PRI) initiative.

As in the 2017 edition, we present the results of this survey by asset class (Small cap, Mid cap, Large cap, Debt, Infrastructure, Impact and Venture) in order to reflect the great diversity of players and the highly specific nature of each class. Beyond the diversity of the various sectors, this survey demonstrates how private equity as a whole contributes to the development and sustainable transformation of start-ups, SMEs and mid caps in the service of a fairer and more inclusive economy. The results of this survey reflect an ever-growing trend that is reflected in the very concrete actions our members are taking. Take for example the increase in the number of small cap management companies that have implemented ESG reporting, of due diligences that mid cap and large cap players have carried out and that women in the investment teams of infrastructure and impact investing funds.

We applaud the involvement of all the members of the ESG Commission which, for over ten years, has been working for the benefit of the members of France Invest and helps promote a responsible shareholder model, a key tenet of sustainability and a vector for bringing French private equity to the fore in Europe and worldwide.

1.

France Invest and ESG

The ESG Commission's achievements in 2018

In 2009, France Invest set up a Sustainable Development Club at the initiative of a handful of management companies. Ten years later, the club has acquired official status under the name "ESG Commission" and has established itself as a key player in designing and promoting responsible investment practices.

The mission of France Invest's ESG Commission is to engage French private equity players in the adoption and implementation of ESG policies that create financial and non-financial value within their own management companies, the companies they back and their stakeholders.

The ESG Commission continued to roll out its roadmap in 2018 around its three main areas of work:

- **Area 1: Combating climate change**
- **Area 2: Transparency and dialogue with the ecosystem**
- **Area 3: Training and experience sharing**

Area 1: Combating climate change

Focus on the Initiative Climat 2020 (iC20)

The creation of the iC20 in 2015 on the occasion of the COP 21 was the result of a reflection on the need to create a common approach on the climate that can meet the specific requirements of private equity in France and worldwide. It has involved French private equity companies coming together to offer the sector an innovative approach that will bring together and mobilise all players wishing to make a concrete contribution to the fight against climate change.
In the words of Noëlla de Bermingham from Eurazeo, who has been steering the initiative since

Announcement of the iC20/PRI partnership by Dominique Gaillard and Martin Skancke (PRI Chair) in November 2018

2017: "The iC20 is the only sharing platform dedicated to the climate challenge for private equity players to share best practices, methodologies and tools in terms of climate". This initiative, which is a working group of France Invest's ESG commission, enables collaborative work on topics such as measuring a carbon footprint, taking into account transition and adaptation risks, assessing a company's climate materiality and defining reduction and adaptation action plans.

The signatories share the conviction that private equity has an important role to play in encouraging climate action with the companies in which they are shareholders in order to contribute, at their level, to the objective of COP21 of limiting global warming to 2°C and pursuing efforts to limit it to 1.5°C.

The three commitments made by the iC20 signatories

COMMITMENT 1

Recognising that climate change will have effects on the economy which represents both risks and opportunities for companies

HOW?
> Public commitment by signing the iC20
> Disseminating information about the initiative among private equity players

COMMITMENT 2

Becoming involved to contribute, at their level, to the COP 21 objective of limiting global warming to 2°C

HOW?
> Taking climate issues into account over the entire investment period

COMMITMENT 3

Contributing to reducing the greenhouse gas emissions of companies in their portfolio and ensuring sustainable performance

HOW?
> Gradually measuring the portfolio's carbon footprint for companies for which this issue is material
> Defining, together with these companies' management, an action plan to reduce emissions and adapt to climate change

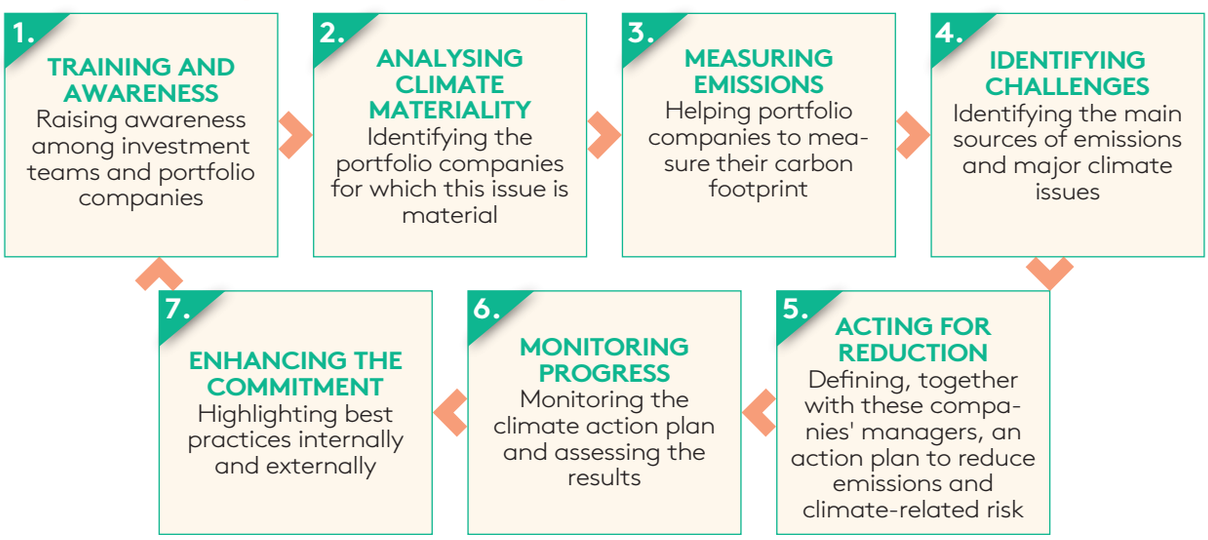
Thematic workshops are also organised to enable the sharing of experience and to jointly identify or define concrete methodologies and tools. The workshops run by the signatories cover topics such as training and awareness raising, carbon footprint measurement, climate materiality analysis, and identifying and measuring companies' positive contributions to the climate.

Ready-to-use tools have been developed such as:
- **A questionnaire for investment teams:** Seven simple questions to ask during the due diligence process to assess the materiality of the climate challenge,
- **A tool for calculating a company's carbon footprint** very simply.

At the Climate Finance Day on 28 November 2018, the UN Principles for Responsible Investment endorsed the iC20. This partnership will extend the initiative to all those who want to duplicate it in their own country.

The iC20 currently has nearly 30 signatories, representing a significant portion of the amounts managed in France. The iC20 will continue its work on publishing methodology and tools in 2019 in order to contribute to accelerating the integration of climate change issues by sharing best practices in an open source and collaborative approach.

What steps for a climate approach?



Area 2: Transparency and dialogue with the ecosystem

Facilitating dialogue between GPs and LPs on ESG issues

Joint action for constructive dialogue: the Commission met on 28 March 2018 to present the France Invest Recommendation of October 2017 intended to facilitate dialogue between GPs and LPs.

This Recommendation is based on the assessment that:
- the proliferation of LPs' ESG questionnaires has led certain portfolio companies to perceive ESG as a constraint,
- the collection and monitoring of indicators represents a real difficulty for GPs and portfolio companies in the face of heterogeneous and sometimes difficult-to-apply requests,
- some LPs find it difficult to process all the information requested and consequently to respond to the requests from their stakeholders.

To respond to these challenges, the Recommendation lays down action principles, ways to implement them and the use of a common base of 11 ESG indicators for management companies and 11 indicators for the portfolio companies of the funds concerned by the reporting.

The action principles recommend:
- enhancing the dialogue between LPs and GPs on the actual implementation of the ESG approach by GPs; at the time of fundraising and then during subsequent exchanges or in the management report;
- LPs gradually implementing feedback to their GPs that respond to the questionnaires,
- focusing on material topics and adapting indicators according to investment strategies.

In implementing these principles, GPs are recommended to:
- share the management company's and portfolio companies' qualitative ESG highlights with LPs annually,
- and deploy and monitor ESG actions in the portfolio companies and report on them annually through ESG reporting at the level of the fund in which the LP has invested. The indicators are detailed and defined in the Recommendation.

The Commission undertook additional work in 2018 for LPs and GPs who would like to further their exchange together. This is mainly the case with French or foreign LPs who, prior to the Recommendation, had already implemented a more extensive structured approach with the GPs through whom they had invested, and who wish to retain this approach due to their specific ESG positioning and/or requests from their own investors.

Area 3: Training and experience sharing

The France Invest annual ESG conference brought together more than 250 investors
The France Invest annual ESG conference on 19 September 2018 brought together more than 250 investors, a record figure. This meeting proposed three major themes on which business leaders and investors were able to exchange: climate change and its strategic challenges for investors, the circular economy and its value creation, and lastly, the ESG challenges of digital transformation. The success of this event confirmed the growing maturity of all segments of French private equity with regards to environmental, social and gover-nance issues, driven by a proactive policy to better take these issues into account.

Publication of France Invest's new ESG Guide
France Invest's new ESG guide was presented on 28 May 2018 at a ceremony organised by France Invest and the General Commission for Sustainable Development (CGDD) in the Commission's premises. Produced with the support of PwC, the second edition of this guide is the result of a collective work undertaken by some 15 management companies that are an integral part of France Invest's ESG Commission. This new edition takes stock of the increasing importance of ESG in French and global private equity, and highlights the various possible approaches to better structure an ESG policy, in particular through several case studies and interviews with company managers. It also provides an overview of the future prospects and the major challenges of tomorrow that may influence the economy and investment.

France Invest's participation in initiatives of the Paris financial marketplace
France Invest took part in many market initiatives in 2018, in order to continue to improve ESG perfor-mance in finance, in France and internationally, to better take into account investors' social responsibility. In a forum co-signed on 12 October 2018 by France Invest, the observatory for corporate social responsibility (ORSE) and AFG emphasised that unlisted companies, parti-cularly those backed by professional investors, are in a prime position to combine ecology and solidarity with a market economy. France Invest also took part in the Climate Finance Day, held in Paris on 28 November 2018. On this day, Dominique Gaillard, Chairman of France Invest, led the "Private Equity for Green" round table. During this event, the PRI formally endorsed the Climate 2020 Initiative (iC20), which opened the way for its deploy-ment on an international scale.

Thematic breakfasts in 2018
In 2018, three round tables were held during thematic breakfasts organised by France Invest's ESG Commission.

- **On 28 March 2018,** the round table dealt with the ESG Commission's recommendation to facilitate dialogue between GPs and LPs, in particular following France Invest's publication of a Position Paper on this subject in October 2017.

- **On 19 October 2018,** the meeting discussed the strategic regulatory dimensions of social purpose companies. The discussion enabled exchanges to be held on companies that place decisive social, societal and/or environmental values at the heart of their strategy and on the role they will play in the future to better integrate non-financial issues into the core of financial issues.

- **On 12 December 2018,** a thematic breakfast was held to assess the progress of the Climate 2020 Initiative (iC20), three years after its launch. Discussions focused on taking climate issues into account in investment and measuring their materiality. The stakeholders present also discussed operational tools to better support companies in implementing a climate policy.

2.

Results of the survey

Small cap

Small cap players back small and medium-sized companies in their development plans and buyout transactions. The management companies dedicated to this segment, which generally manage smaller funds than in other asset classes, have limited human and financial resources.
As a result, small cap teams do not have resources dedicated to ESG issues, a function most often held by an investor in the team. Similarly, there is no dedicated CSR manager in their portfolio companies. However, small cap players have entered a phase where they formalise their ESG approach, as demonstrated by the progress of the indicators relating to the integration of these issues in investment and monitoring practices.

MANAGEMENT COMPANIES

58%

of the responding companies are PRI signatories.

Small cap players are increasingly committed to formalising their ESG approach, applying the six Principles for Responsible Investment (PRI) launched by the United Nations in 2006 and participating in annual reporting, which is public and accessible on the PRI website. This trend is confirmed by the significant increase in the number of responding small cap signatories in 2018. This asset class therefore continues to improve by integrating ESG criteria into investment processes and shareholder practices.

21%

women in the investment teams.

The proportion of women in small cap investment teams reflects the need for this asset class to make improvements for this indicator. Efforts are continuing in the context of recruitment and structuring of existing and new teams to ensure that more women are included in the investment teams, thereby providing better female representation.

40%

of management companies have implemented ESG reporting.

The proportion of responding management companies that have implemented annual ESG reporting in their portfolio companies rose sharply in 2018. This indicator confirms the progress of this asset class, which is doing more to help its portfolio companies in the annual monitoring of ESG challenges. This monitoring is often carried out pragmatically, focusing on a limited number of operational indicators appropriate for the concerned companies.

Mid cap

The mid cap segment concerns French SMEs that are already well established in their sector. Mid cap management companies demonstrate strong commitment year after year to integrating ESG challenges, as demonstrated by the growing number of ESG due diligences carried out for new investments.

MANAGEMENT COMPANIES

86 %

of management companies are signatories to the France Invest Charter.

By signing this Charter, these companies commit to addressing social, environmental and good governance issues. The challenge now remains to convince the rest of the management companies to formalise their approach and thus join those who have already signed this Charter. 76% of mid cap companies are also signatories to the Principles for Responsible Investment (PRI).

707

acquisition ESG due diligences carried out during the year.

Mid cap players are constantly increasing their use of due diligence. Acquisition ESG due diligence encourages the creation of a formal post-investment action plan and serves as a reference document in the interaction with managers on ESG issues at the time of a new investment. In addition, in 2018, 25 ESG vendor due diligences (VDD) were carried out by mid cap players. This growth in VDD confirms that detailed ESG information is one of the valuation elements that vendors expect during a transactional process.

22%

women in the investment teams.

The proportion of women in mid cap players remains a significant area for improvement, as for all asset classes. Industry players must therefore step up their efforts to recruit within their investment teams. Statistically, women tend to focus more on consulting and investment banking. All the teams need to get involved to advance the profession.

«Environment» indicators
«Social» indicators
«Governance» indicators
«Supply chain» indicators

SMEs backed by mid cap players have often already reached a size that enables them to deploy solid action plans on strategic ESG issues. Beyond social issues, actions focus on technical and complex topics, such as integrating CSR into the supply chain or carbon footprint.

BACKED COMPANIES

86%

monitor the frequency and severity rate of workplace accidents on an annual basis.

This figure clearly shows the importance given to social issues in companies by their shareholders and managers. This monitoring criterion is often one of the priority indicators in ESG reporting. In addition, mid cap portfolio companies also closely monitor absenteeism and turnover, with respectively 83% and 80% of responding companies reporting these indicators annually.

56%

have a mechanism enabling value sharing, beyond legal obligations.

The majority of responding mid cap companies emphasise the importance of supporting French SMEs in sharing value. This results in additional pay or similar initiatives for company employees, beyond the regulatory framework. Sharing added value through measures such as employee-shareholding, incentive schemes and collective bonuses makes it possible to place employees at the heart of the company's activity.

15%

have conducted a GHG* or environmental footprint assessment over the last four years.

Action on this theme is real but still needs to be systematic, particularly in the current context of reducing these emissions and climate issues. This is a technical subject which, when taken into account in a concrete action plan, makes it possible to generate substantial savings both in energy and financially.

* greenhouse gases

Large cap

The French large cap segment is characterised by its presence in various sectors, fundraising in France and abroad, and high entry tickets. Given the greater resources they marshal and their international exposure, all responding companies have publicly formalised their ESG commitment. The majority of them deploy related tools and best practices throughout the investment cycle. As this segment is particularly exposed to regulatory changes that may directly affect management companies, such as Article 173 of the Energy Transition Act or, at the European level, the GDPR, it must ensure independence within its governance.

MANAGEMENT COMPANIES

28%

women in the investment teams.

This sharply rising rate reflects the growing trend for large cap asset management companies to include more women in their investment teams. As the increasing percentage of women in various positions is a trend confirmed only over time, this shows the first benefits of market initiatives such as those led by Club Invest with Elles or Level 20. The efforts already made must continue, particularly in recruitments and retention.

40%

of the decision-making body's members are independent.

The Sapin 2 Law on transparency published in 2017 strengthens the fight against corruption in corporate governance. This trend is being confirmed at the European level, which should therefore encourage initiatives to monitor boards of directors. It is likely to continue, leading to an increase in the proportion of independent members in large cap decision-making bodies which suggests that this indicator will evolve positively in the future.

347

acquisition ESG due diligences carried out during the year.

This amount increased significantly, with 244 more acquisition ESG due diligences carried out in 2018 in comparison with 2017. This is mainly due to the fact that these processes are becoming essential and could become systematic in the near future in large cap funds. The benefits of ESG due diligences are now better recognised by all the players in this asset class. These due diligences help define the level of ESG commitment made and determine the ESG action plan at the time of the investment. In contrast, in 2018, only five vendor ESG due diligences (VDD) were carried out.

Due to the size of the transactions carried out by large cap players, the companies backed (mainly mid caps and SMEs) have often already reached a critical size enabling them to have CSR governance and strategies. A key development for these companies in 2018 was the implementation of regulations related to good governance (GDPR, Sapin 2 Law), but also the underlying trends that materialised in 2019 such as better sharing of corporate value (Pacte Law) and the definition of a rationale that includes all stakeholders. These trends are reinforced by a buoyant context at the European level, with the European Directive on non-financial reporting concerning any investment with a potential exit via an IPO.

BACKED COMPANIES

17%

women on supervisory boards or boards of directors.

Boards are changing as the number of independent members increases. More women are being included. While this number increased in 2018 for the large cap segment, significant work remains to be undertaken to bring it closer to parity.

57%

have a mechanism for sharing value, beyond legal obligations.

Large cap players are committed to better sharing value with employees. This figure illustrates the good performance in this area of the large cap asset class, which expects to be able to continue this process. This is an objective put forward by Dominique Gaillard, Chairman of France Invest since June 2018.

41%

have formalised a CSR approach in their value chain.

The CSR approach in the value chain for large caps remains encouraging despite a decline in 2018. The implementation of the law on the duty of vigilance in 2017 has led to real progress, in particular with regard to retailers' suppliers and producers covered by this legislation. However, there are still strong expectations of transparency from European consumers, suggesting that further progress should come soon.

Debt

This segment comprises all the players that provide SMEs and mid caps with financing in the form of private debt, mainly in the context of buyout transactions (50%), but also for organic and external growth, or refinancing, in most cases (65%) to back an equity investor. This asset class continued to experience significant business growth in 2018. The ESG commitment of private debt players is now strong, as demonstrated by the numerous initiatives that private debt LPs have organised on these topics.

MANAGEMENT COMPANIES

84%

are involved in committees and working groups.

This figure, which had increased in 2018, reflects the growing importance for players in this asset class of sharing and disseminating best practices. This improvement is due in particular to the desire to improve the integration of ESG challenges through, inter alia, better coordination with LPs and other asset classes on reporting topics.

100%

have received at least one ESG questionnaire from their LPs.

It is remarkable that all the professional private debt management companies were canvassed on ESG topics by at least one of their LPs, with 11% receiving requests from 25% to 50% of their LPs. This demonstrates the interest in ESG across the "value chain" in this segment, despite the unique position of private debt players in the governance bodies of the companies they back. This partly explains the efforts of this asset class to increase ESG exchange channels with portfolio companies.

39%

have an annual ESG reporting.

ESG reporting has been put in place for 2,050 of the portfolio companies in this asset class. This is a remarkable performance given the nature of the lenders - partners rather than shareholders - which reflects private debt players' strong commitment. This also explains the importance of contractualising ESG reporting, a condition for any dialogue on ESG during the investment period. 89% of the responding companies are also PRI signatories and 84% have ratified the France Invest Charter. These two figures were up in 2018.

Companies backed by private debt players are generally of a sufficient size to devote part of their managerial resources to an ESG action plan. The challenge for private debt is to support the initial impetus or encourage integration and progress through exchange channels that differ from those of shareholders, hence the importance of contractualising and making information available. This allows a committed lender to mirror the efforts of shareholders, both in terms of ESG impetus and the development of reporting or the sharing of best practices.

BACKED COMPANIES

52%

of supervisory boards/boards of directors discussed CSR at least once in 2018.

In 2018, CSR issues were most commonly discussed in supervisory body meetings. This is an excellent way to reaffirm the importance of these topics and to ensure that the ESG action plan is carried out by the management teams. In addition, on average 15% of the members of boards of directors are women. Although this figure increased in 2018, a substantial effort remains to be made to increase the proportion of women on management bodies.

14%

have conducted a GHG or environmental footprint assessment over the last four years.

This indicator, down in 2018, shows the significant room for progress that exists for all the companies concerned, even though 36% of them have a formal environmental policy or approach in place. The large proportion of service companies in the portfolios has for a long time explained this low rate, but is no longer a valid reason to not measure the environmental footprint, as an increasing number of stakeholders are focusing on this subject.

89%

monitor the annual frequency and severity rate.

This high rate is mainly due to the strong impact that monitoring this indicator can have on the preservation of human capital and, ultimately, value creation. The indicators of accidents, turnover and absenteeism are often among the highest priorities in an ESG report. This is illustrated by the high level of monitoring regarding absenteeism (89%) and turnover (78%) in private debt-financed portfolio companies.

Infrastructure

ESG issues are particularly prevalent in infrastructure investments due to the long-term specificity of this asset class and its focus on services critical to the economic and social development of communities. Analysis of ESG criteria and areas of materiality in the investment process helps preserve and improve the value of infrastructure assets.

MANAGEMENT COMPANIES

316

acquisition ESG due diligences carried out during the year.

This number corresponds to an average of 23 ESG acquisition due diligences carried out per company responding in 2018 vs. 14 in 2017. Since the assessment of environmental and social risks is intrinsic to the life cycle of infrastructure projects, players in this asset class have naturally incorpo-rated issues related to the energy transition and positive social impacts in their investment decisions. Only eight vendor ESG due diligences (VDD) were reported in 2018. This still low rate confirms that this practice is therefore not formalised.

13

ESG incidents were specifically disclosed to investors.

Health and safety incidents, which are particularly frequent compared with other sectors, are material risks that can affect the sustainability and perfor-mance of infrastructure projects.
The primacy of labour-mana-gement dialogue and the identification of sustainable development issues are strong markers for external stakeholders. The management companies closely monitor ESG incidents and disclose them transparently to investors.

19%

women in the investment teams.

The proportion of women in infrastructure fund invest-ment teams saw a significant increase in 2018. As this proportion is still low in the investment functions, this issue remains an area for improvement. Aware of this issue, management companies are however starting to make a gradual transition, particularly in terms of recruitment policies.

«Environment» indicators
«Social» indicators
«Governance» indicators
«Supply chain» indicators

Climate change, progressive degradation of natural resources, employee well-being and health, and dialogue with local communities are examples of major ESG challenges associated with infrastructure assets. These risks require active management of the ESG performance of infrastructures, which creates a positive impact on the environment and sources of opportunities for social issues.

BACKED COMPANIES

25%

have conducted a GHG or environmental footprint assessment in the last four years.

Infrastructure assets, often energy-intensive, have large carbon footprints whose environmental impact needs to be rigorously assessed. The modest rate recorded in 2018 indicates that asset management companies must redouble their efforts to formalise the completion of GHG assessments in a sector replete with opportunities related to the energy transition. At the same time, 61% of portfolio companies have a formal environmental approach or policy in place inhouse.

71%

of supervisory boards/ boards of directors discussed CSR at least once in 2018.

This figure reflects the growing number of companies placing importance on their board's involvement in CSR and how it is becoming a governance issue in its own right. Addressing CSR issues is an excellent way to make directors assume their social responsibility and to incorporate action plans that promote the alignment of all stakeholders' interests. The increase in this indicator points to a trend that is likely to be confirmed in the coming years.

94%

monitor the frequency and severity rate of workplace accidents on an annual basis.

Oversight of health, safety and well-being is a daily management process in the infrastructure sector. Asset management companies, which are particularly exposed to human risks in this segment, pay particular attention to changes in the frequency and severity of accidents. At the same time, 72% of the companies surveyed monitor absenteeism on an annual basis. This more than respectable result shows that these areas of materiality are priorities in the management of infrastructure activities and are becoming benchmarks in private equity.

Impact

Impact investing is a market defined by France Invest's Impact Commission as involving (i) a dual objective of seeking financial performance and positive social, societal and/or environmental impact and the right balance between those two goals, (ii) actively engaging with entrepreneurs to maximise impact, and (iii) measuring the impact of investments, with regular reporting to subscribers and total or partial alignment of the carried interest on the impact, when such a mechanism is put in place in new funds. In France, impact investing players managed €1.6bn and backed more than 400 companies in 2018.

MANAGEMENT COMPANIES

82%

are involved in «market» committees or working groups.

This figure demonstrates the importance of participation in the various commissions and working groups for impact companies, which makes them active contributors to the evolution and transformation of responsible finance.
France Invest's Impact Commission is currently working on market definitions for the listed and unlisted universe, in partnership with the Forum for Responsible Investment (FIR).

61

vendor ESG due diligence audits carried out during the year.

This amount corresponds to an average of 15 vendor ESG due diligence audits per responding company. This demonstrates the importance of this tool when assessing an entity's ESG in a sales process, in particular for impact investing, which places a lot of importance on this form of valuation.

28%

women in the investment teams.

The impact asset class posted a marked increase in the number of women in investment teams and even has one of the highest results. This figure reflects the growing number of women in the asset class, as confirmed by the percentage of women in the workforce, which reached 45% in 2018 (+14%). These positive results can be explained by the fact that the players who make up impact investing have a strong desire to forge teams with diverse profiles and backgrounds that are consistent with their investment strategy.

Venture

Venture players are dedicated to backing start-ups that have not yet broken even. Open to innovation and with a collaborative culture, innovation capital funds are genuine incubators for ESG best practices. Investment decisions are made by integrating ESG criteria because they are essential for value creation. Their contribution in this respect triggers a virtuous process of ESG criteria, thereby fostering a positive impact and financial profitability in the start-up ecosystem.

MANAGEMENT COMPANIES

27 %

women in the investment teams.

The increase in the number of women in the investment teams between 2017 and 2018 reflects the desire of venture players to increase female representation in the private equity ecosystem, which is still too low at present. The venture sector, by definition more inclined to undergo rapid changes, is demonstrates its ability to integrate more gender equality than the other segments.

35 %

have implemented ESG reporting.

The percentage of portfolio companies that have formalised annual ESG reporting remains satisfactory for an asset class showing growing interest in ESG best practices. This respectable rate also illustrates the maturity on responsible investment issues of companies backed by venture funds.

69

vendor ESG due diligences (VDD) carried out during the year.

Venture funds carried out 69 vendor ESG due diligences (VDD) in 2018. This considerable increase reflects the sensitivity of private equity players to assessing the level of recognition of non-financial aspects during holding periods. It also points out an upward trend for this practice, which is not yet systematic in this segment. Much more formalised ESG vendor due diligence also increased significantly in 2018 (512 acquisition ESG due diligence audits identified).

Methodology

The information in this report was collected from 129* private equity structures, based on a questionnaire comprising 26 management company-specific indicators and 17 indicators specific to the companies they back. It should be noted that this panel includes asset managers, which explains the large number of companies in the portfolio and the volume of assets under management.

Information on the portfolio companies' ESG performance was provided directly by the management companies. Indicators for backed companies are calculated as a percentage based on the number of management companies that have answered each question, and not on the total number of companies. Accordingly, the number of companies taken into account varies from one indicator to the next. The number or proportion of responding management companies or backed companies therefore relates only to those companies that have responded to the indicator in question.

Indicators for management companies and backed companies are presented according to seven segments (Small cap, Mid cap, Large cap, Infrastructure, Debt, Impact and Venture), based on management company statements. Those that stated they were active in several asset classes were counted in each of them, with the exception of the small cap asset class, for which the multi-asset class companies were removed from the sample given the specific nature of this investment segment. These segments are not exhaustive of all asset classes, and may be added to for future versions of the report. The list of responding management companies is presented on page 4.

Lastly, it should be noted that a limited number of companies were excluded because they did not specify the type of investment to which they belong and answered less than 15% of the questionnaire. All the information presented in this report is reported by the management companies on a statement only basis and has not been verified by a third party. The information disclosed therefore presents varying margins of uncertainty, which have not been assessed for the purposes of this report.

* A total of 129 companies responded to the questionnaire; however, due to time constraints, four of them were not included in the analysis of this report.

This ESG report was prepared on the basis of information provided by France Invest. Deloitte Développement Durable was the first French and international team to cover the full value chain of sustainable development consulting, from measurement to operational deployment on the ground. By bringing together three historical players in the market, Deloitte, BIO Intelligence Service and Synergence, it is possible to combine scientific rigour, creativity, business ethics and a commitment to dialogue.

www.deloitte.com
@DeloitteDD

CONTACT:
Nicolas de Jenlis
ndejenlis@deloitte.fr

The information presented in this report was collected by Sirsa, a software publisher and consulting firm. It published the **Reporting 21** software and helps clients construct quantified sustainable development strategies.

www.sirsa.io

CONTACT:
Yannick Grandjean
yannick.grandjean@reporting21.com

France Invest
Association of Investors for Growth

Charter of Commitments OF INVESTORS FOR GROWTH

In 2008, the members of France Invest, the French Association of Investors for Growth, as professionals who provide equity finance for the creation, development and buyout of companies who are aware of the impact of their activities on economic, social and environmental issues, adopted a Charter for private equity investors.

This prior experience combined with growing societal expectations have now prompted them to update this Charter, in the form of the following Charter of Commitments.

In addition to the rules already laid down in the industry's code of ethics and the regulatory framework defined by the French Financial Markets Authority (AMF), and within the limits of their effective power and as shareholders as well as their fiduciary responsibilities toward equity contributors, the Charter's signatories commit to the following objectives:

A. Economic issues

The signatory members of France Invest recognise that their investment choices and the exercise of their shareholder responsibility help shape and develop the French economic fabric.
They accordingly commit to:

1. invest the savings entrusted to them for the purpose of actively financing, in accordance with their respective areas of specialisation, the creation, growth and long-term development of companies and, more specifically, unlisted SMEs;
2. act as an attentive and active partner, either as a minority or majority investor, for entrepreneurs or teams who are fully responsible for the management of their companies;
3. support ambitious development projects through the launch of new activities, R&D and innovation, industrial or commercial investment, international development or external growth;
4. support the implementation by companies of their sector's best practices in the area of the management and control of their development;
5. promote a financing structure (debt/equity) in the case of leveraged majority investments and with the consent of the entrepreneurs that takes into account reasonable economic contingencies so as not to jeopardise the company's operations or deprive it of the means to invest in its own development.

B. Social and human issues

Convinced that a company's overall performance depends on careful management of human capital, the signatories commit to:

6. promote constructive labour relations within the companies that are respectful of the rights of all both managers and employee representatives;
7. support the development of profitable activities that enable job creation or preservation;
8. support training initiatives undertaken by companies;
9. promote shared value creation by allowing employees to participate in success of a company through profit-sharing and incentive-based mechanisms, or through widespread employee access to company share ownership or any capital gains.

C. Environmental issues

While promoting the competitiveness of the companies in which they invest, France Invest members seek to encourage these portfolio companies to be exemplary in recognising environmental issues. Recognising that any economic activity has an impact on natural capital, the signatories commit to:

10 request an audit whenever an environmental risk is identified and encourage the company to prevent any negative environmental impacts identified as a result;

11 promote the establishment of best practices in the areas of ecosystem protection and biodiversity;

12 guide companies' development strategies toward the long term so that they take into account the challenges of natural resources dependency, energy consumption and waste generation.

D. Good governance issues

As they mainly invest alongside entrepreneurs in unlisted companies, the members of France Invest have for years established modern governance systems that contribute to the success and sustainability of the companies they back.
The signatories also commit to:

13 ensure that the companies they back comply with applicable laws, bargaining agreements and regulations;

14 act to prevent corruption and money laundering within their sphere of control;

15 act for the proper functioning of the companies' various governance bodies, in which all managers, independent directors and shareholders exercise their roles and responsibilities in full;

16 promote the transparency of their activity as investors, notably by measuring and disclosing the economic and social impact of their investments.

The signatories, aware that they can only express their commitment to the principles contained in this Charter as shareholders and, where applicable, members of the corporate bodies of the companies in which they invest, will strive to work together with managers, co-shareholders, employee representatives and employees of hese companies, and to promote awareness of this Charter by all of them.

Tour Majunga - 6, place de la Pyramide
92 908 Paris - La Défense cedex France

www.deloitte.com

23, rue de l'Arcade
75 008 Paris France

www.franceinvest.eu