Environment - Social - Governance

ESG annual report

Private Equity committed to SUSTAINABLE GROWTH

5th edition - 2017



Deloitte.

France Invest
Investors for growth

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Content

Olivier Millet,
President of France Invest
(June 2016 – June 2018)

Editorial

For the fifth edition of the ESG annual report (Environment - Social - Governance), France Invest is pleased with the record-breaking number of contributors that makes this unique document significant for the global private equity industry. 122 out of the 308 asset management companies that belong to the association[1] accepted to complete the ESG questionnaire, thus doubling the participation rate compared to last year's.

This increase in participation clearly shows the commitment of the French private-equity companies to include extra-financial elements in the assessment and support of unlisted companies, which investors encourage particularly. It contributes to better inform, assess and qualify, and thus reinforce the materiality and transparency of the actions carried out throughout the year 2017 by the members of our community in the environment, social and governance fields.

This year, the survey results are presented by asset classes. This new format enables to show the specificities of each class: each of them is aware they still face ESG challenges, with priorities and action plan implementation that highlight the diversity of trade and corporate culture. In addition, the survey indicators were aligned with the recommendation produced by the ESG Commission in 2017 on the dialogue between investors and asset management companies.

We thank our contributors, but also our two partners, Deloitte and Sirsa - manager of the platform Reporting 21 - for their amazing work of data structuring, collection and analysis that enabled to publish this Annual Report. We also want to thank the continuous commitment of the ESG Commission, a central hub, which has been setting objectives, outlining the road map and delivering concrete productions for France Invest members for over 10 years.

This voluntarist approach and this dynamic place French private investors, in terms of capital and debt, as leading actors regarding the sustainable development and transformation of start-ups, SMBs and ISEs.

[1] Number of active members on 31 December 2017

Synthesis

The private equity members of France Invest are committed to facilitating the sustainable transformation of unlisted companies that they support. The professional shareholders of a non-listed entity therefore act as originators to promote and structure the approaches of supported companies looking to improve the impact of their activities on the environment and their stakeholders (employees, partners, sub-contractors and clients).

These initiatives are also supported and nourished by asset owners, who are increasingly attentive to the way ESG issues are taken into account by asset management companies in their investment strategies and in daily company support.

France Invest members gather into working groups. A Club "Invest avec Elles" and three ESG, Impact and Climate Commissions were set up. These commissions and club were very active in 2017, as show the events that were organized and the documents that were published throughout the year.

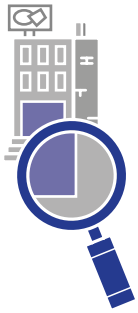
The 2017 survey shows that France Invest members do not face the same issues in terms of ESG or sustainable development. These issues differ according to the companies they finance: social and governance issues are crucial for a small company, an infrastructure must monitor its environmental impact, a social-impact business wants to measure its positive contribution, etc.

The ESG objectives need to be adapted to the asset management company and especially to the supported businesses. France Invest encourages different ways of integrating these issues, as it is aware that there is no standard method and that its members must adjust their recommendations to the specificities of the companies they support.

EXTRA-FINANCIAL ELEMENTS AT THE HEART OF INVESTMENT

1. STAKE ACQUISITION

Before becoming shareholders, investors define analytical criteria to understand the main environmental, social and governance issues, as well as the associated risks and opportunities. These upstream works enable to define the main ESG challenges of the target company and to build an action plan.

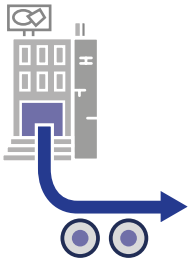


2. HOLDING PERIOD

Once shareholders, the latter support the company in its CSR strategy (Corporate Social Responsibility). They implement a regular dialogue, initiate social responsibility approaches, build action plans with the management and collect information to monitor performance.

3. COMPANY EXIT

The ESG performance impacts the companies' ability to create value over time. At the company exit, shareholders can assess this performance in order to show the progress that was made during the holding period and highlight the actions that were carried out.



Key figures

122
PRIVATE EQUITY COMPANIES,

EMPLOYING OVER
3,250
PEOPLE,
COMPLETED THE
FRANCE INVEST ESG SURVEY.

THEY MANAGE
218
€ BILLION OF ASSETS

AND SUPPORT NEARLY
5,800
COMPANIES.

IN 2017, THEY PERFORMED A TOTAL OF
1,500
INVESTMENT OPERATIONS.

1,450
SUPPORTED COMPANIES
COMPLETED THE QUESTIONNAIRE

THEY EMPLOY
845,000
PEOPLE.

Joint interview

Candice Brenet, Managing Director at Ardian in charge of the Corporate and Investment Responsibility program and digital transformation, and Chair of the France Invest ESG Commission since April 2017. The role of this commission is to encourage private equity firms to integrate extra-financial criteria in their investment process and in their shareholder practices.

Christian Thimann, Special Advisor to AXA President, presides the High-Level Expert Group (HLEG) on sustainable finance. Made up of experts from the civil society as well as the financial and academic sectors, this group was created by the European Commission in December 2016 to make recommendations on the implementation of a European strategy that covers all the aspects of sustainable finance in order to integrate sustainable development into the European Union's financial policy.

Among ESG issues, climate change is a major challenge. How can investors contribute to reaching the objectives set by the Paris Agreements on climate?

Candice Brenet: The private-equity business consists in supporting the growth of unlisted companies of any size, in the medium and long terms. This long period is an advantage. Strengthened by the proximity that links funds and companies, it opens the way to deep changes, rooted in the operational reality that is specific to each company. It is therefore also a transformation work that enables to support companies in their adaptation to the major challenges that they face, the most important of which being climate change. In France, the private-equity business is willing to think about the action levers that shareholders can use to fight against climate change, with no international framework. This is what led to the Climate Initiative 2020 - iC20 (see page 14), that was launched in 2015. It is a collaborative approach: we share experiences, difficulties, reflections, to reach a very operational work environment, that each fund can implement with the companies that it supports. This very pragmatic approach is intended to expand out of the French market and already generates interest among our European and American peers.

Christian Thimann: The following figure illustrates the significance of this issue: the European Union estimates at €170 billion the investments that are necessary to reach the objectives of the Paris Agreement which, for the first time, explain the role of financial services. Indeed, financial services play a very important role because they facilitate and orientate capital flows. First of all, we must help investors identify key sectors for the energy transition. Then, we must connect projects and investors. In order to achieve great things at the local scale, we need not only great infrastructure projects, such as great solar or wind fields, but also many small projects. Finally, more information and transparency will foster the financing of this sustainable economy.

In March 2018, the European Commission published an action plan on sustainable finance that stems from the HLEG recommendations. What conclusions can we draw from that and what will the consequences be for private-equity actors?

Christian Thimann: The work carried out by the HLEG and the action plan of the European Commission aim to restructure the European financial system. The first line, that echoes my answer to the former question, consists in orienting the capital towards sustainable projects. This movement requires, among other things, a taxonomy, that can then become a norm and later a European label for green funds and other sustainable assets. Financial institutions and companies must also be more transparent regarding the integration of ESG criteria in their decision-making processes. Private and institutional investors will need clear information, in terms of both risks and opportunities, to guide their decisions.

Candice Brenet: With this action plan, the fight against climate change and sustainability issues become a priority for all European investors. It is a validation, in a way, of all the work carried out in the ESG Commission since 2009, in line with the objectives of this action plan, even though they may be operated differently. The ESG Commission develops a shared vision of sustainable development and ESG for the private equity industry, and at the same time, ensures it does so in a very pragmatic way. Asset management companies are offered references and work tools that they can use straight away. Our work is not really at the same level as the HLEG and the European Commission, but they are definitely additional.

Can ESG issues change the relations between investors and asset management companies?

Candice Brenet: What is for sure is that ESG is increasingly part of the dialogue between investors and asset management companies. ESG deepens this dialogue. Investors' criteria are evolving. Of course, they look at company's financial performance, but they also take into account their responsibility in a larger sense. This is good news for our profession because integrating extra-financial criteria in the way we lead our investments is a long-term competitiveness factor for companies.

Christian Thimann: The nature of relations will undoubtedly change, in a positive manner, and both parties will want to make changes. Investors will look for responsible assets and they will ask asset management companies to provide them with tangible elements to assess such responsibility, and therefore to be as transparent as possible as to the funds' origin. As for asset managers, they will have to be able to meet this demand for responsible investment, under the pressure of both the public and notation agencies. They will have to study these problems in order to be able to make enlightened decisions on behalf of their clients, by considering beforehand the environmental impact of an investment.

If the social object of the company evolved to take into account stakeholders' interests, how would the investment business evolve?

Candice Brenet: These considerations on companies' social object seem very healthy to me. Within our business I do not expect major disruptions because this consideration is part of our profession. Firstly, because it relies on a great proximity with companies, their teams a fine understanding of their "culture" and their stakeholders: the specificity of the unlisted sector is strongly rooted in the real economy. Secondly, because it is a commitment over time: we build trustworthy relationships with companies and we support them in their development by planning in the medium and long terms. When the financial performance is linked to the success of a company over several years, it is normal to take into account all of its dimensions and with all its stakeholders. The France Invest charter integrates many commitments that take them into account, regarding the environment, employment or profit sharing. We already have an integrated vision of our industry's ecosystem.

Christian Thimann: The current issue on companies' purpose is probably an important step in the current transformation. It encourages investors to reflect, in order to integrate new criteria in companies' objectives, define relevant indicators and tools to measure their non-financial performances. These tools could concern investors themselves, in order to assess not only their direct but also indirect footprint, including that of companies in which they invested. Investors, and companies, who take an interest in these questions and who try to anticipate the difficulties generated by the solutions that need to be implemented will probably be 10 or 15 years ahead of their time.

1.

France Invest and ESG

Clubs and commissions: additional works, a common vision

The members of France Invest are aware of the impacts of their operations in the economic, social and environmental fields, as well as on company governance. Private-equity companies also pay close attention to businesses' expectations. This is why they formalized their responsibility in **a Charter that defines the 16 commitments** of the signatories to meet the economic, social, human, environmental and good-governance objectives.

To help its members shift from commitment to action, France Invest created clubs and commissions that aim to foster places to exchange, work and get together. They work independently, and they are open to all members that want to join. Four of them are related to extra-financial impacts of private equity.

- **The ESG Commission** aims to promote the integration of extra-financial issues in the practices of asset management companies and that of the companies they support.
- **The Impact Commission** gathers the members that support projects aiming to generate both financial and social performance.
- **The Club "Invest avec Elles"** aims to promote the place and role of women in private equity.
- **The Climate Commission** gathers the active members in clean technologies and those who want to promote eco-industries in France and abroad.

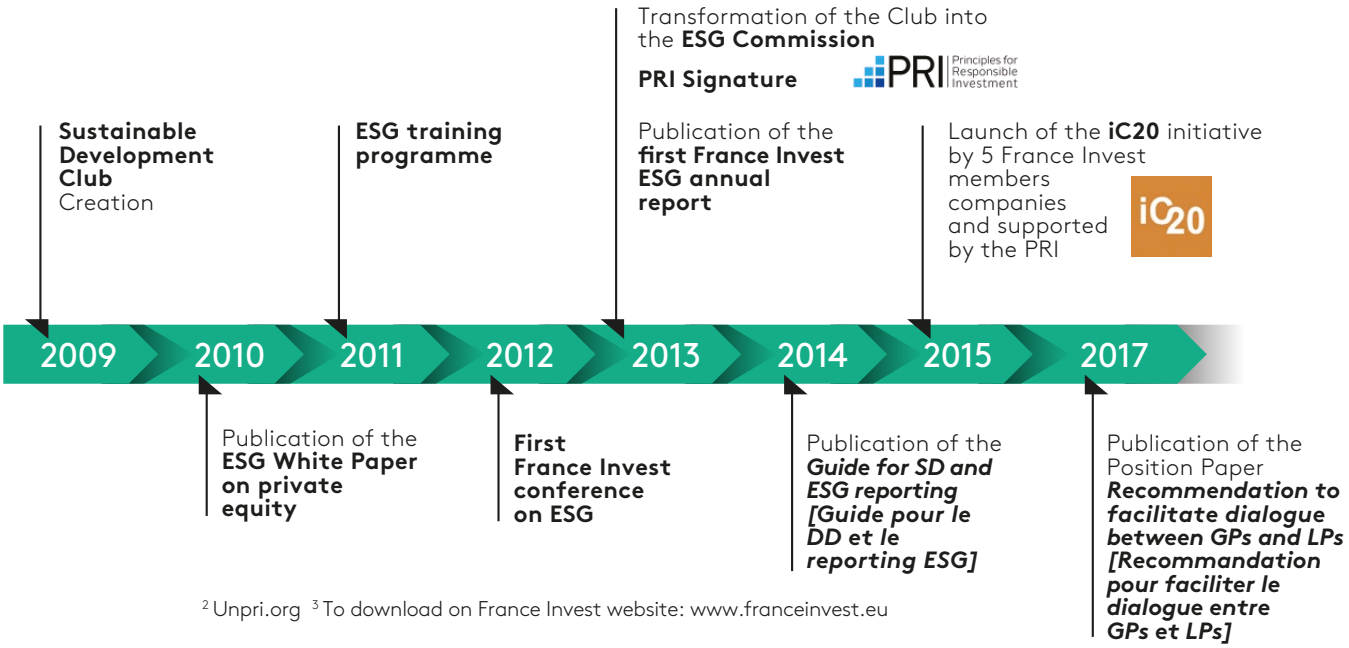
France Invest contributes to sustainable development by working on the practices of asset management companies and by financing activities with a positive environmental and social impact.

The ESG Commission, a driving force

From the Sustainable Development Club to the ESG Commission

In 2009, France Invest created a Sustainable Development Club at the initiative of a few asset management companies, in order to encourage its members to integrate extra-financial criteria in their investment processes and their shareholder practices. Informally led by a steering committee made up of about ten members, it mostly serves as a platform to share experiences, but also to make strategic and tactical recommendations to France Invest's Board of Directors in terms of ESG.

In 2013, the Sustainable Development Club became an official commission: the ESG Commission, which imposed itself as an essential actor that promotes and structures sustainable investment practices in the industry. The Commission works in coordination with international and European organizations, among which the Principles for Responsible Investment (PRI)[2], that is regularly invited to present their initiatives at France Invest. The ESG Commission regularly presents and promotes these initiatives. The **guide First approaches for ESG reporting and due diligence [Premières approches pour le reporting et la due diligence ESG[3]],** published in September 2014 is the first significant working group of this commission. It perfectly illustrates the "open source" spirit that governs the reflections of asset management companies in order to progress together to the benefit of the profession.



[2] Unpri.org [3] To download on France Invest website: www.franceinvest.eu

The ESG Commission today

The mission of the ESG Commission is to encourage the actors of the French private equity sector to adopt and implement ESG policies that create financial and extra-financial value, in their own asset management companies, but also in the companies that they support as well as their stakeholders. It aims to permanently bring knowledge on these questions to the France Invest members, be it about regulations, methodological advice or good practices. The Commission is also a platform to exchange ideas on future evolutions in terms of ESG and to take part in international debates with France Invest counterparts and more generally with stakeholders (investors, public authorities, professional associations, etc.).

The ESG Commission has three major objectives:

- **Promoting the integration of ESG criteria** throughout the investment process of France Invest members.
- **Supporting France Invest members in the implementation of ESG policies.** Sharing experiences, organizing thematic breakfasts, developing guides and tools help asset management companies better understand the ESG challenges that face their companies in order to work efficiently with them on these topics.
- **Ensuring coordination with France Invest governance bodies,** other associations and the stakeholders involved on this topic, in France and abroad, such as the Principles for Responsible Investment (PRI), Invest Europe, the British Private Equity & Venture Capital Association (BVCA), the European Venture Philanthropy Association (EVPA), Medef, (the leading network of entrepreneurs in France), the French asset management association (AFG), etc.

The ESG Commission is organized around a steering committee that gathers about ten members and several working groups on current or long-term topics. Various working groups enable to develop relevant reflections and methodologies for France Invest members and the works produced several publications that can be downloaded from its website.

Exchanging and sharing knowledge remain central, especially through the organization of thematic breakfasts (4 to 8 per year) and an annual conference, organized with the support of the PwC audit firm, that highlight substantive, current and prospective topics. They are an opportunity for investors and supported companies' managers to exchange views on and progress in the understanding of ESG issues.

The ESG Commission is also in relation with many relevant actors of the ecosystem in France and abroad, especially the PRI and Invest Europe.

The Commission's achievements in 2017

The year 2017 was particularly intense for the ESG Commission: several working groups, gathering dozens of France Invest members, were active over this financial year. The groups were divided into three main workstreams defined in the road map: fight against climate change, transparency and dialogue with the ecosystem, training and experience sharing.

WORKSTREAM 1: fight against climate change

The iC20 Climate Initiative 2020: launched in 2015, the iC20 is the first collective initiative of French private-equity actors to fight against climate change in order to contribute to the COP21 objective to limit global warming to two degrees. The signatories of the iC20 are committed to a long-term approach that aims to reduce greenhouse gas emissions of companies in which they have shares and to ensure their performance's sustainability in relation to the materiality of this issue. Today, the iC20 has over 20 signatory asset management companies and develops training and methodologies to analyze the climate risk and measure the carbon footprint. It shares them with all the actors of the climate sector that want to get involved into the fight against climate change.

WORKSTREAM 2: transparency and dialogue with the ecosystem

ESG communication between investors and fund managers: in October 2017, the Commission published a recommendation to facilitate the ESG dialogue between investors (LPs) and asset management companies (GPs). The document presents the conclusions of the works that were carried out over 15 months on the potential evolutions of the dialogue between investors and managers in the ESG field. This reflection was carried out by a group gathering French GPs and LPs. The recommendation offers an approach to reconcile increased transparency needs and potential complexities that can arise from the multiplication of LPs-GPs reportings. More specifically, it proposes essential operational indicators dedicated to both asset management companies and the businesses they support.
Besides, to this day France Invest is the only private-equity professional association in the world to publish an annual ESG report, produced in cooperation with Deloitte and Sirsa firms since 2016.

WORKSTREAM 3: training and experience sharing

The Guide *Private Equity and Sustainable Development* [Capital-Investissement et Développement Durable] was finalized in 2017. The 2010 version was updated and focuses on the main evolutions that have been observed in this field in the meantime, as well as methodological advice and a prospective dimension. This work has been published in 2018. In 2017, ESG considerations were increasingly addressed by investors. In a few years, they have become essential stakeholders, increasingly demanding in terms of ESG information during fundraisings or holding periods.

Eight thematic breakfasts were held in 2017, especially on the adaptation of business models to climate issues, ESG in IPO (Initial Public Offering), ESG and crisis management, ESG in client-supplier relationships, as well as a focus on the current global trends, with the participation of the PRI. Investors and business managers were invited to present case studies, bring testimonies and debate on the issues raised with the members.

The 2017 ESG Annual Conference focused on the consideration of ESG in infrastructures and capital venture. A prospective part, with three talks of business managers, raised the question of sustainable development as a factor of transformation, of the consideration of human rights in the value chain and the "mission businesses". This status, that stems from the PACTE law (Plan d'Action pour la Croissance et la Transformation des Entreprises [Action Plan for Business Growth and Transformation]), would include a non-financial responsibility at the heart of businesses.

Future objectives

Given the growing importance of this subject in the private equity sector, the ESG Commission will continue its mission by working on several areas.

- The topics of the future thematic breakfasts are being defined by a dedicated group.
- The Annual Conference will focus on major topics such as the digital, the climate or the circular economy.
- The reflection on optimizing the LPs-GPs dialogue will continue, with an international dimension along with the PRI and Invest Europe.

The ESG Commission remains in direct contact with the regulatory, political and strategic situation around sustainable development issues in order to keep supporting the consideration of these questions in the industry in a pragmatic and operational way, to make it a driving force of sustainable performance.

The Climate Commission

The Climate Commission was created by France Invest in order to federate investors who are active in the field of green technologies and to promote their roles in the development of eco-industries in France and abroad. The Commission publishes a **bi-annual barometer of cleantech fundraisings** that highlights the influence of its members in the sector's evolution. It encourages exchanges and synergies by working on **the creation of an ecosystem between the various actors** (public authorities, decision-makers, SMBs, start-ups, research centers, etc.).

Sophie Paturle-Guesnerot,
President of the Climate Commission

2017 has been a great year for the Commission. The publication of cleantech barometers enabled to highlight the sector's trends. Investments are no longer limited to energy topics (renewable energies and energy efficiency), they now reach the fields of mobility and agriculture (agri-tech, agri-innovation). An increase in the number and sum of fundraisings can also be observed. In line with this investment diversification, the Climate Commission organized **the Smart-Mobility round table** around the most promising trends in applying information and communication technologies to transports. Financers and project holders who take part in the white paper *For an innovative Growth of our Green Economy* [Pour une croissance innovante de notre Green Economy] met at the **Invest Smartgrids event,** thus showing the capacity of innovation and operation of the "ecosystem's" companies. As for the brochure released by ADEME France, *the Cleantech place to be,* it enabled to promote French cleantech actors and sector.

The Climate Commission took part in the creation of the Energy and Ecological Transition for Climate label [label Transition Energétique et Ecologique pour le Climat (TEEC)], that was launched in 2016. This label ensures the environmental transparency and commitment of financial products. The Commission is now encouraging the funds that invest in these fields to adopt the label.

The Club "Invest avec Elles"

The objective of the Club "Invest avec Elles", created in 2011, was to raise the issue of gender diversity and to encourage the networking of women who work in the investment teams of asset management companies. The Club gathers women from France Invest active or associated members. It promotes the place and role of women by highlighting the fact that women can bring value and that diversity is a performance factor.

Its first mission consists in identifying the obstacles to gender diversity through the implementation of indicators. Their objective is to quantify and analyses women's professional journeys in private equity. Once inequalities have been identified, the Club works to solve them by increasing the number of women entering the profession, by facilitating their access to responsibility roles and by increasing their visibility. Changing practices also requires pedagogy and dialogue. The Club organizes events that are open to women and men during which women with key functions deliver speeches.

In 2017, the Club "Invest avec Elles" published its annual study on gender diversity in the private-equity sector. Even though there is still room for improvement, the report showed a progression of gender diversity with women accounting for 40% of the headcount of the whole sector in 2016, across all functions, and of 23% in investment teams (against an average of 17% in 2010). These results were presented during a lunch of the France Invest Club, during which Laurence Rossignol, former Minister of Women's Rights, gave a speech. The Club also continued its networking actions through events such as the breakfast on digital education, in which young entrepreneurs took part. Its annual cocktail "100% Elles" sheds light on inspiring women by presenting the career of a sailor in 2016, or a fighter pilot in 2017.

In 2018, the Club "Invest avec Elles" will continue studying and promoting the role of women in the private-equity sector.

Alexandra Dupont,
President of the Club "Invest avec Elles"

The Impact Commission

Mathieu Cornieti,
President of the Impact Commission

The Impact Commission was created in 2012 by gathering about ten asset management companies around the idea that finance must play a role for society, and that financial performance must be combined with social, ecological and societal impacts. These "impact investment" actors all support business answers with this double objective of impact and financial benefit.

At first, the Commission created a clear and federating definition of social-impact investment. This definition was formalized in 2012 in a charter, the signatories of which support business ventures that generate social, ecological and financial performances. The Impact Commission's investors help their entrepreneurs meet this double objective, by measuring their achievements. Although the fund has implemented a carried[4] mechanism driven by economic performance, it must be entirely or partly restrained by the social performance thus reported.

The Commission also supports its own members with regulatory, financial and standardization issues of impact measures.

The conferences of May and November 2017 organized at the Bpifrance Hub and dedicated to impact investments gathered over a hundred people each time. It was showed that this market is particularly dynamic. The 19 French asset management companies that are members of the Impact Commission manage €1.3 billion, which is 5 times more than 5 years ago, invested in over 400 businesses. In a national context that is characterized by social challenges, the notion of impact was broadened to include environmental issues as well. The Impact Commission wants to maintain the same dynamic in 2018 by focusing on corporate funds during a conference that should take place in September.

[4] Share of the capital gain realized by an investment fund that is paid to its managers

2.

Survey results

This chapter presents the main results of the survey that was submitted to asset management companies members of France Invest and to the businesses they support, according to six asset classes: Small Cap, Mid Cap, Large Cap, Impact, Infra and Debt. These asset classes are not exhaustive, but they are representative in terms of participant numbers and in relation to the activities of France Invest members.

These segments are individually presented, as well as their ESG issues. Indeed, asset management companies create different investment strategies, target various asset typologies and have variable resources, in terms of budget and dedicated teams, depending on their sizes to deal with ESG topics. Various approaches also influence the way supported companies deal with ESG issues. This diversity can be found simultaneously within the businesses supported by these asset management companies.

The quantitative indicators highlighted for each asset class, for asset management companies as well as their portfolio companies, were chosen to illustrate the diversity of issues or approaches, the progress made as well as the progression margins for each investment category.

List of the 122 participating asset management companies

123 INVESTMENT MANAGERS
17CAPITAL
21 CENTRALE PARTNERS
3I FRANCE
4D GLOBAL ENERGY ADVISORS
ABENEX
ACCESS CAPITAL PARTNERS
ACTIVA CAPITAL
ADVENT INTERNATIONAL SAS
AFRICINVEST
AGRO INVEST SAS
ALLIANCE ENTREPRENDRE
ALTER EQUITY
AMUNDI ATE
AMUNDI PRIVATE EQUITY FUNDS
ANTIN INFRASTRUCTURE PARTNERS
APAX PARTNERS MIDMARKET
AQUASOURCA
ARCHIMED
ARDIAN
ARGOS SODITIC
ARKEA CAPITAL INVESTISSEMENT
ASTER CAPITAL PARTNERS
ASTORG PARTNERS
AURIGA PARTNERS
AXA STRATEGIC VENTURES
AXELEO CAPITAL SAS
AZULIS CAPITAL
B & CAPITAL
BLACKFIN CAPITAL PARTNERS
BREEGA CAPITAL
BRIDGEPOINT
CAPAGRO SAS
CAPHORN INVEST
CAPITAL CROISSANCE
CAPITAL EXPORT
CAPZANINE
CEREA PARTENAIRE
CITIZEN CAPITAL
CM-CIC INVESTISSEMENT
CM-CIC PRIVATE DEBT
COBALT CAPITAL
CONNECT PRO
CREADEV
DAPHNI
DEMETER PARTNERS
EDMOND DE ROTHSCHILD INVESTMENT PARTNERS S.C.A.
EDMOND DE ROTHSCHILD PRIVATE EQUITY FRANCE
EKKIO CAPITAL
ELIGE CAPITAL
EQUISTONE PARTNERS EUROPE
ESFIN GESTION
ESSLING
EURAZEO
EUROMEZZANINE CONSEIL
EXTENDAM
FA DIESE
FCDE - FONDS DE CONSOLIDATION ET DE DEVELOPPEMENT DES ENTREPRISES
FINANCIERE FLORENTINE
FINORPA GESTION
FIVE ARROWS MANAGERS
FONDINVEST CAPITAL
FOREIS
GALIA GESTION
GALIENA CAPITAL
GARIBALDI PARTICIPATIONS
IBIONEXT
ICI CAPITAL
IDF CAPITAL
IDIA - CRÉDIT AGRICOLE CAPITAL INVESTISSEMENT & FINANCE
IDINVEST PARTNERS
IFE MEZZANINE
IK INVESTMENT PARTNERS SAS
INDIGO CAPITAL
INDUSTRIES & FINANCES PARTENAIRES
INFRAVIA CAPITAL PARTNERS
INITIATIVE & FINANCE
INNOVACOM
INNOVAFONDS
IRDI SORIDEC GESTION
IXO PRIVATE EQUITY
JOLT CAPITAL
KEENSIGHT CAPITAL
KREAXI
KURMA PARTNERS
LATOUR CAPITAL MANAGEMENT
LBO FRANCE GESTION
LGT EUROPEAN CAPITAL
MBO PARTENAIRES
MERIDIAM
MONTAGU PRIVATE EQUITY SAS
MONTEFIORE INVESTMENT
MORINGA PARTNERSHIP SAS
NAXICAP PARTNERS
NCI
NEWFUND MANAGEMENT
NEXTSTAGE AM
NIXEN
OMNES CAPITAL
OUEST CROISSANCE
PAI PARTNERS
PARIS ANGELS CAPITAL
PARQUEST CAPITAL
PARVILLA
PECHEL
PERCEVA
PHITRUST IMPACT INVESTORS
PLEIADE INVESTISSEMENT
QUAERO CAPITAL
QUALIUM INVESTISSEMENT
RE-SOURCES CAPITAL
SAGARD SAS
SIPAREX (SIGEFI PRIVATE EQUITY)
SOPROMEC PARTICIPATIONS
SPRING INVEST
SWEN CAPITAL PARTNERS
TCR CAPITAL SAS
TERTIUM MANAGEMENT
TIKEHAU INVESTMENT MANAGEMENT
TRUFFLE CAPITAL
TURENNE CAPITAL PARTENAIRES
UI GESTION
WEINBERG CAPITAL PARTNERS

Small cap

The small cap (small capitalization) actors support the development projects of small and medium-size businesses that are generally in a strong structuring phase. The asset management companies dedicated to this segment are often smaller structures than other asset classes and have limited human and financial means. Given this specificity, small cap teams rarely have a member who works on ESG issues, and there is no dedicated CSR manager in their portfolio companies. Yet, these actors have started to formalize their approach and to integrate ESG issues in investment practices.

ASSET MANAGEMENT COMPANIES

95%

signed the France Invest Charter.

The signatories of this charter commit on economic, social, human, environmental and good-governance issues.

This particularly high rate shows that the small cap actors have started to formalize their approach. They acknowledge, through this commitment, that ESG issues are part of their professional shareholder prerogative.

50%

signed the PRI.

They commit to applying the six Principles for Responsible Investment (PRI) launched by the United Nations in 2006 and taking part in the annual public reporting that can be accessed on the PRI website. One small cap actor out of two signed the PRI. This shows the commitment of this asset class to take ESG criteria into account and to integrate them into investment processes and shareholder practices.

23%

implemented ESG reporting.

Small cap actors have started to implement annual ESG reporting with their portfolio companies. Given the specificities of asset management companies in this segment, the practice will develop thanks to a pragmatic vision of ESG reporting, especially through a limited number of material indicators, and an empowerment of team members who are responsible for ESG in asset management companies.

Mid cap

The mid cap segment regards French SMBs that are already quite established in their sector. Mid cap asset management companies invest on ESG issues. They carry out ESG due diligences during acquisition or selling phases and work on the percentage of women working for them, including within investment teams.

ASSET MANAGEMENT COMPANIES

33%

of supported companies realize an annual ESG reporting.

ESG reporting is a frequent practice that can improve with the evolution of reporting focused on issues' materiality. This practice also echoes investors' growing demands: on average, mid cap actors indicate that they receive 3 to 4 ESG questionnaires per year. The volume to be treated remains limited, but most of the time it requires a person who works part-time or full-time on it.

338

Vendor Due Diligences over the year.

This figure corresponds to 57 on average per company. Due diligences are constantly growing for mid cap actors. ESG due diligences favor the formalization of action plans and the involvement of managers on ESG issues when new investments are made. Besides, in 2017, nearly fifteen ESG Vendor Due Diligences (VDD) were carried out by mid cap actors, which confirms that ESG information is increasingly structured and relevant.

17%

of women in investment teams.

The percentage of women among mid cap actors is an area of improvement, like for all asset classes. Some asset management companies work in that direction in their recruitment campaigns, especially with schools and universities. Historically, women tend to choose jobs in the consulting and banking sectors. Actors of this profession must increase their efforts to recruit them in their investment teams.

Generally, the small and medium-size businesses supported by mid cap actors have already reached a size that allows them to deploy real action plans on strategic ESG issues. Beyond social issues, their actions focus on complex subjects, such as CSR integration in the supply chain or the carbon footprint.

SUPPORTED COMPANIES

44%

addressed ESG issues at least once in 2017 with the supervisory board / board of directors.

Addressing ESG issues with supervisory bodies requires a mature relationship between asset management companies and the managers of the companies they support. This rate is therefore encouraging because it means that many actors and businesses have a formal dialogue on ESG as part of their strategy.

44%

formalized an ESG approach with suppliers and clients.

In line with good ESG practices in the operational implementation of their strategy, many mid cap companies formalize the ESG policy with their stakeholders. This should keep progressing in the coming years, as expectations in terms of business transparency are growing in the companies' ecosystem.

40%

formalized an environmental approach and / or policy

Environmental issues go beyond investment horizons of this segment (5 years on average). This rate shows a real maturity of asset management companies and supported businesses. Besides, 21% of participating asset management companies measured their carbon footprint or conducted an environmental assessment over the past four years. There is a real commitment on this topic, but it needs to be more systematic and initiated by asset management companies.

Large cap

The French large cap segment is represented by several sectors, fundraisings in France and abroad, and high entry tickets. Given the significant resources on hand and their international exposure, all participating companies publicly formalized their ESG commitment. Most of them also deploy tools and good practices during transfer and merger processes.

ASSET MANAGEMENT COMPANIES

100%

signed the PRI.

This rate shows the success of the UN Principles for Sustainable Investment as representation and discussion organization for the investment sector. For large cap actors, answering the PRI questionnaire is now an essential step of the reporting process. This indicator also reflects the international exposure of this segment. Large-cap actors are committed to promoting the integration of ESG issues in the profession practices.

88%

are involved in commissions and working groups.

This is proof that actors have understood the importance of sharing, demonstrating and spreading good practices to develop the entire sector. This rate can also be explained by the fact that large cap companies have a higher ESG budget as well as dedicated teams.

103

Vendor Due Diligences over the year.

This amount corresponds to an average of 11 per company. ESG due diligences is a common and often systematic practice in some large cap funds. This exercise has two advantages: it contributes to formalizing in-house ESG commitments and it draws the lines of an ESG action plan upon investment. With stronger dedicated teams, this trend will accelerate. However, in 2017, only 4 Vendor Due Diligences were carried out. This practice is therefore not systematic yet.

Given the significance of the operations carried out by large cap actors, the supported companies (mostly intermediate-sized companies and small companies) have often reached a sufficient size to have an ESG governance and strategy. Some are also subject to statutory requirements or due diligence. Environmental, social and governance issues are therefore well integrated by these companies.

SUPPORTED COMPANIES

70%

addressed ESG issues at least once in 2017 with the supervisory board / board of directors.

Addressing ESG issues with supervisory bodies has become necessary to make sure that the action plan is accepted by executives and that asset management companies and the managers of the supported businesses agree. This trend is expected to intensify for large cap actors in the coming years. 63% of participant asset management companies share the value created, which is another mechanism that favors the alignment of asset management companies and portfolio companies.

63%

measured their carbon footprint or conducted an environmental assessment of the past four years.

The large cap segment is more likely to be subject to regulations (Article 173 of the law on energy transition for sustainable growth) and therefore in 2016 and 2017 the sector took measures to evaluate the carbon footprint of portfolio companies. Besides, 57% of these companies formalized an environmental approach. Even though this is a good rate, it can be improved so that the greenhouse gas emission record be part of a more global approach.

62%

formalized a CSR approach within the value chain.

The enforcement of the Due Diligence act had a ripple effect on distributors' and producers' suppliers that are concerned by this legislation. These companies have many standards and monitoring tools at their disposal to better control the supply chain. This should therefore progress in the coming years with a European regulation and higher expectations of final consumers in terms of transparency.

Debt

This segment gathers all the actors that bring funding under the form of debt mostly to transmission-capital operations, in most cases by supporting equity investors. In 2017, the activity of this asset class grew significantly. The ESG commitment of private debt actors is now strong, as shows the high percentage of PRI signatories.

ASSET MANAGEMENT COMPANIES

85%

signed the PRI.

The majority of private-debt actors signed the UN Principles for Responsible Investment, which shows that the actors in this category are committed to promote ESG issues integration in the companies they finance, but also before investments, in the decision phases, or during the life cycle of these investments, in connection with the reporting exercise.

64%

of ESG questionnaires submitted to asset management companies by their investors.

The number of ESG questionnaires addressed over the year by investors to asset management companies (3.37 per company on average) confirms the interest in ESG issues in this segment, even though the position of private debt actors is unique in the governance of the companies they support. This partly explains the efforts of this asset class to diversify ESG channels with portfolio companies.

36%

of supported companied benefit from an annual ESG reporting.

An ESG reporting was implemented with 895 portfolio companies in this asset class. This is a remarkable performance given the quality of debt provider – who are partners but not shareholders - which shows that private-debt actors are strongly committed. This also explains how important it is to formalize ESG reporting, which is necessary to have a dialogue on ESG issues during the investment life cycle.

One of the main challenges for private-debt actors consists in promoting ESG best practices without being shareholders of the supported companies. Very often, this is done by implementing an ESG reporting that is formalized with the borrower on types of indicators that the members of this asset class actively promote in structuring the operations they take part in.

SUPPORTED COMPANIES

21%

of board of directors members are independent.

This rate can be explained by the strong tendency of private-debt funded companies to open their governance bodies to independent members, since the latter are open to debt investors – generally as censors.
Operating without equity investor, and resorting more often to independent members, must also be taken into account.

20%

measured their carbon footprint or conducted an environmental assessment of the past four years.

This indicator shows that there is room for improvement for the companies involved: this topic will be of interest for more and more stakeholders over the coming years. Besides, 43% have a formalized ESG approach in the value chain. This approach shows a strong link between ESG issues and risk control in general. The ecosystem actors see a significant progress potential in this field.

92%

track accident occurrence and gravity rates on an annual basis.

This high rate is mostly due to the strong impact that the follow-up of this indicator (just like turnover or absenteeism follow-up) - and appropriate managerial responses - can have on preserving the human capital and, in fine, value creation. Accident, turnover and absenteeism indicators are often a priority in ESG reporting.

Infrastructures

The specificity of investments in infrastructures is the duration of the ownership period (about 10 to 15 years). Given the importance of environmental and social issues associated to these assets, asset management companies systematically carry out ESG assessments before making any investment decision and they communicate the ESG incidents to investors. Investors pay attention to these specific issues.

ASSET MANAGEMENT COMPANIES

154

Vendor Due Diligences over the year.

This figure corresponds to 14 due diligences per participating asset management company. These assets are subject to very strict regulations, especially environmental ones. The sector's actors have thus integrated this dimension, which is often systematically assessed. The questions related to the environment and human resources can be essential in the investment decision. Asset management companies must implement strict policies on these topics.

10

of ESG incidents led to a special communication to investors.

These assets often require heavy industrial processes, they include more hazardous jobs in relation to other sectors, and the social dialogue policy is essential. Given their potential impact on the environment, they are more sensitive to the dialogue with external stakeholders. Companies are more likely to experience ESG incidents, which will be rigorously followed by asset management companies and reported to investors.

51

ESG questionnaires submitted to asset management companies by their investors.

This rather high figure (3.5 questionnaires per company on average) shows the interest of investors in ESG issues that are specific to this sector. However, only 29% of asset management companies publish an ESG annual report. This rate is rather low given the materiality of ESG issues in this type of companies, but this can be explained by the small size of companies that do not always have dedicated resources.

"Environmental" indicators
"Social" indicators
"Governance" indicators
"Supply chain" indicators

The major ESG issues on this segment are the environmental impact as well as staff health and safety. The dialogue with local communities and the value chain responsibility are also essential to properly manage the ESG performance of infrastructures. Besides, these assets can help create a positive impact on the environment through projects to install renewable energy production units.

SUPPORTED COMPANIES

73%

formalized an environmental approach and / or policy.

Infrastructure companies implement this type of approach to meet strict environmental regulations. They often concern major projects, the impact of which needs to be controlled rigorously. 32% of companies assessed their greenhouse gas emissions or their environmental footprint over the past four years (from direct emissions to all indirect emissions).

62%

formalized an ESG approach within their value chain.

The infrastructure assets must comply with strict regulations at each step of the value chain. These norms mostly concern these companies' suppliers and clients. They are strengthened by the enforcement of the law on Due Diligence of 27 March 2017 for the companies concerned. The formalization rate of ESG approaches in the value chain should keep increasing in the coming years.

74%

track accident occurrence and gravity rates on an annual basis.

The health and safety of people working in the infrastructure sector, especially manual workers, is an essential material issue for these companies. Therefore, asset management companies have implemented a rigorous follow-up of accidentology. Besides, 48% of companies track absenteeism on an annual basis. The rates are good in the private-equity sector, but they need to improve in order meet the objectives.

Impact

Impact investing can be defined as any investment made in order to generate a positive environmental or social impact (poverty, disability, access to education...) combined with financial benefits. These actors also commit to measuring and optimizing this impact. This asset class is growing: today, in France, its actors support over 400 businesses.

ASSET MANAGEMENT COMPANIES

88%

are involved in commissions and working groups.

The actors of impact investing are very involved in the France Invest ecosystem. This presence and this investment aim to be visible and to carry the vision of impact investing in the private equity sector. Investors must take into account all the companies' stakeholders in its assessments and decisions.

75

Vendor Due Diligences over the year.

This amount is of 9 on average per company. The impact investing asset management companies are mostly on the small cap segment. The limited resources of these asset management companies are therefore mostly dedicated to defining and following up impact objectives that are defined for each investment. Due diligences are important but not sufficient in relation to these objectives.

40%

of women in companies' headcounts.

This rate is among the highest, even though it remains at 15% in investment teams. This increase in female employees can be explained by the fact that impact investing actors mostly want to create teams with various profiles and experiences, in keeping with their investment strategy and their wish for a more global approach of the investing profession.

Impact investing actors pay close attention to respecting ESG standards and performance. However, this is not sufficient. Companies that want to generate a positive social or environmental impact must show that their activities and business model are committed to solving societal challenges.

SUPPORTED COMPANIES

41%

formalized an environmental approach and / or policy.

Investors in this segment are convinced that there are potential synergies between economic value creation and societal approach. Impact investing asset management companies encourage the businesses they support to formalize and highlight their environmental approach.

71%

track their absenteeism rate on an annual basis.

The monitoring of absenteeism on an annual basis is a major area of improvement that is mostly due to the weak structure of supported companies. For similar reasons, 59% of them follow up their turnover and 79% the accidentology.

33

jobs created per supported company.

Given the object of impact investing, asset management companies in this segment orient their investments towards activities that generate sustainable employment and they support businesses in this direction. Therefore, their portfolio companies create significant employment.

Methodology

The information contained in this report was collected from 122 private-equity structures, members of France Invest, through a questionnaire that contains 22 indicators dedicated to asset management companies and 18 indicators dedicated to the businesses they support. It must be pointed out that this panel includes listed equity asset managers, which explains the significant number of portfolio companies and the amount of managed assets.

Moreover, because of portfolio evolutions (entries and exits depending on the operations) comparisons are inappropriate. Besides, the communicated information cannot be compared with other surveys carried out by France Invest as the samples are different. Indicators related to supported businesses are calculated in percentage based on the number of asset management companies that answered all the questions but not based on the total number of companies. Therefore, the number of companies that are taken into account varies from an indicator to another. The number or the proportion of "participating asset management companies" or "supported companies" thus refers solely to companies having answered the relevant indicator in question. It must be pointed out that some businesses may be counted twice, since they can be supported by several asset management companies.

For the first time since the publication of the France Invest ESG report, the results are presented by asset class in order to highlight their specificities. The number of indicators was also reduced so that they are aligned with the recommendation to facilitate ESG dialogue between investors (LPs) and asset management companies (GPs).

Indicators regarding asset management companies and supported businesses are presented according to six segments (Small Cap, Mid Cap, Large Cap, Impact, Infra and Debt), based on the declaration of asset management companies. Those that declared being active over several asset classes have been counted in each of them, except for the Small Cap asset class, for which multi-asset class businesses have been taken out of the sample given the specificities of this investment segment. These segments are not thorough for all the asset classes, they can be enriched for future versions of the report. The list of participating companies is presented on page 20.

Finally, it is important to note that all the information presented in this report is declaratively communicated by asset management companies and that it was not subject to a verification work by a third party. Therefore, the information communicated is subject to variable uncertainties that have not been evaluated in the framework of this report.

France Invest
Investors for growth

CHARTER OF COMMITMENTS FOR INVESTORS IN GROWTH

The members of France Invest, i.e. professionals who provide equity financing for company development and buyout transactions and who recognize the economic, social and environmental impact of their activities, adopted a Private Equity Charter back in 2008.

This prior experience combined with growing societal expectations have prompted them to transform the initial Charter into its current version as the Charter of Commitments.

In addition to the rules already set forth in the industry code of ethics and the regulatory framework defined by the French Financial Markets Authority, and given the limits of their effective power as shareholders as well as their fiduciary responsibilities toward equity investors, the Charter's signatories agree to uphold the following objectives:

A. Economic issues

France Invest signatory members recognize that their investment choices and the performance of their duties as shareholders have an impact on the French economic fabric and its development. They also agree to:

1. invest the savings entrusted to them for the purpose of actively financing, in accordance with their respective areas of specialization, the creation, growth and long-term development of companies, and more specifically of unlisted small- and medium-sized businesses;
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 and commercial investment, international development and acquisitions;
4. support the implementation by companies of their respective sectors' best professional practices with respect to 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 jeopardize 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 agree to:

6 promote constructive labor 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 the companies;

9 promote shared value creation by allowing employees to participate in the 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 recognizing environmental issues. Recognizing that all economic activity has an impact on the natural world, the signatories agree 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 orient the 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. Governance issues

Investing primarily alongside entrepreneurs in unlisted companies, France Invest members have for years established modern governance systems that contribute to the success and sustainability of the companies in which they invest. The signatories also agree to:

13 ensure compliance with laws, bargaining agreements and the by-laws of the companies in which they invest;

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

15 act on behalf of the smooth operation of various company governance bodies, in which each – managers, independent directors and shareholders – exercise in full their roles and responsibilities;

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

The signatories, recognizing the fact that their commitment to the principles contained in this Charter, may only be expressed in their capacity as shareholders and, where applicable, members of the administrative bodies of the companies in which they invest, will strive to work together with managers, co-shareholders, employee representatives and employees of these companies and to promote awareness of this Charter by all of them.

The present ESG report was prepared by Deloitte in accordance with the information provided by France Invest. Deloitte Sustainability (Deloitte Développement Durable) is the first French and international team covering the comprehensive value chain of sustainable development consulting, from assessment to operational implementation on the ground. Joining three historical market players, Deloitte, BIO Intelligence Service, and Synergence allows the combination of scientific rigor, creativity, business ethics and dialogue.

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The information presented in this report was gathered by the Sirsa company, publisher of the software **Reporting 21**
As a consulting firm and software publisher, Sirsa supports its clients in building quantified sustainable development strategies. The company provides services ranging from ESG risk analysis, ESG data gathering, analysis and exploitation to extra-financial reporting repositories design.

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