Environment - Social - Governance

ESG Guide

Private Equity

a key player for

SUSTAINABLE DEVELOPMENT

Current situation, vision and guide for action

pwc

France Invest

Association des investisseurs pour la croissance

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France Invest

France Invest is the French Association of Investors for Growth. France Invest is recognised by the French Financial Markets Authority (AMF - Autorité des Marchés Financiers) and is the only professional association specialised in the private equity business. France Invest's mission is to represent and promote the private equity industry among institutional investors, entrepreneurs, opinion leaders and public authorities. The association has more than 300 active members and nearly 200 associate members from all the business lines that support and advise investors and entrepreneurs in setting up and managing their partnerships.

France Invest manages several commissions and clubs including the ESG Commission.

France Invest's ESG Commission

The ESG Commission, which succeeded the Club Développement de France Invest in 2013, has around forty active members. Its mission is to promote the integration of non-financial ESG (Environment, Social, Governance) criteria with private equity companies that are members of France Invest and their portfolio companies. It represents France Invest abroad on ESG issues and liaises with the main stakeholders on these issues. It regularly organises dissemination of knowledge through the production of methodological manuals and conferences. In particular, it produces France Invest's ESG Report every year, which gives an overview over the state of the sector in terms of ESG practices. With the support of PwC, it organises France Invest's annual ESG conference.

PwC's Sustainable Development department

In France, PwC's Sustainable Development department counts about 45 dedicated employees. Founded in 1993 and a leader in France, this department has experience in most business sectors, enabling it to offer its customers a strategic and operational vision of best practices. As a major contributor to ESG issues in private equity in France and the rest of the world, it was a key contributor to the first report "Private Equity and Sustainable Development" in 2010.

WARNING:

This guide is designed to be addressed by various entry points or chapters, according to the readers' expectations. It is therefore normal for certain subjects to be dealt with or included in various places in the document, so that each party can read independently.

Similarly, references are made to many texts that may change or be amended. For readers wishing to go further, it is always preferable to search for the latest versions either via the France Invest website or more generally on the Internet.

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Editorial

In 2009, a small group of five management companies met in what was to become the Sustainable Development Club of France Invest in 2010, which itself preceded the ESG Commission. The founding act was the creation, already in cooperation with PwC, and the publication of a reference book "Private equity and sustainable development" that gave an overview of the emerging ESG initiatives in France and abroad.

This document enabled many members of France Invest to take the first steps in their approach in this area and was the source of France's very strong position on ESG issues. Eight years on, the search for initiatives and best practices is no longer a complex issue as French private equity has set to work on ESG issues. The aim of this second guide is both to show the progress made since 2010, but also to shed light on current practices and the challenges of the future.

It has been prepared with the participation of members of France Invest representing all our investment categories, and is truly intended for all management companies and, beyond our ecosystem, for all our stakeholders, especially our LPs, who will be able to see the French vision of ESG and thereby measure the progress of our management companies in this area. It has been translated into English and made available internationally for this purpose.

It will complement the annual vision given by France Invest's ESG Report at the strategic level and will also enable public authorities to become aware of the practices of responsible investors in our industry.

> *"To date, it is the only reference work in the world dealing in such a precise manner with ESG issues within private equity."*

The fact that it is published by France Invest is a source of pride for us, but also requires us to constantly strive for excellence in this area. This obligation is good news for our industry, as ESG is one of the key elements of our future performance and our ability to mobilise more funds and savings to contribute to economic growth. This is also the best way for us to solidify our "license to operate" sustainably. At a time when companies are looking for purpose or "mission", that of French private equity is clear: contributing to the success of the national economy by giving our SMEs and mid-caps the means of responsible and international growth.

I am therefore very grateful to all the contributors of the ESG Commission to this guide, the employees of France Invest that have been involved and PwC, who remain our methodological and strategic reference point over time.

Olivier Millet
Chairman of France Invest
(June 2016 - June 2018)

Editorial

The progress made since the publication of "Private Equity and Sustainable Development" in 2010 is significant. This new document is a product of France Invest's ESG Commission that, with PwC's methodological support, brought together more than ten management companies of all sizes.

It illustrates the dynamism of the ESG Commission, the aim of which is to constantly provide knowledge on these issues to the members of France Invest at the regulatory and methodological levels and also best practices. The number of French members of the PRI, as well as the interest of our industry in innovative initiatives, such as the IC20 (2020 Climate Initiative), in line with the current concerns of investors and companies, is a perfect example of the increasing importance of the ESG issue within French private equity.

The Commission is a forum for discussing future developments in ESG matters and participating in international debates with our counterparts and more broadly with our stakeholders (investors, public authorities, professional associations, etc.).

This guide is intended for all members of France Invest, regardless of their size or type of investment. Experience shows that the ESG issue is currently addressed in venture, debt, infrastructure, real estate as well as LBO, and whether for a majority or minority shareholders, including in small-caps.

You will see that the developments since 2010 have been significant. You will also find many concrete examples and best practices to launch, implement and manage your ESG approach.

This guide also presents the forward-looking vision of France Invest and its members on this subject. Future themes such as climate change, the circular economy and the role of the United Nations Sustainable Development Goals will undoubtedly have an impact on how we invest and support our portfolio companies. ESG is not and should not be an administrative issue. This is the best way to prepare our companies by structuring them for the challenges they will face while giving them the means to project themselves into sustainable growth.

It is the result of collaborative work, in which each member of the working group led by Yann Collignon from Azulis Capital was able to provide reflections and examples on all aspects of the construction of an ESG approach, both in terms of the difficulties encountered and the benefits obtained.

I would like to warmly thank the members of the ESG Commission working group who have dedicated themselves to the production of this guide, and PwC who brought us its knowledge of CSR issues internationally and its broad vision of ESG practices in our industry and who also produced this document.

I am looking forward to seeing you in 2020 for an initial review of the first ten years of French private equity in terms of ESG and to prepare the way for the next ten years, when this topic will undoubtedly be more than ever at the heart of our investment decisions and the plans to transform our companies.

Candice Brenet
Chairwoman of France Invest's ESG Commission

> *"It illustrates the dynamism of the ESG Commission."*

1.

ESG, a criterion of performance and sustainability for the industry, eight years of major developments

In 2010, France Invest published a reference guide entitled "Private Equity and Sustainable Development", a first reflection and an initial assessment of emerging ESG practices. Since then, this topic has evolved very significantly, both in its definition, its implementation, its regulatory context and in its understanding by all players in the industry.

In addition to highlighting the main concepts, this first part presents the major changes in the industry and regulations at national and international level. It also sets out the trends that could have an impact on future business trends and how ESG issues are taken into account in investment policies.

A. Reminder: Understanding ESG in concrete and simple terms

1. Sustainable development, CSR, SRI, CSR, ESG, etc. - differences and similarities

Definition of the different concepts

Various concepts surround the ESG issue. This concept appeared only recently (in the mid-2000s), and remains specific to the financial sphere (mainly private equity). It completes various similar concepts appearing in the following chronological order:

- Sustainable Development
- Corporate Social Responsibility (CSR)
- Socially Responsible Investment (SRI)
- ESG (Environment-Social-Governance) criteria

From the same foundations, it is possible to distinguish between different practices. In companies' daily lives, there are few real differences between "Sustainable Development" and "CSR". In large companies we therefore find CSR or Sustainable Development directors, CSR or Sustainable Development policies interchangeably. The ESG concept remains little known outside the investor sphere.

It is therefore wise to use the terms CSR or Sustainable Development when addressing the managers of the portfolio companies and to take time to explain the concepts, so that they are not reduced to environmental aspects alone, as is sometimes the case.

The concept of Sustainable Development appeared for the first time and is defined in the Brundtland Report produced by the World Commission on Environment and Development in 1987. It was supplemented at the Johannesburg Summit in 2002 and aims to be"a development that meets the needs of the present without compromising the ability of future generations to meet their own needs". "Poverty eradication, changing unsustainable patterns of production and consumption and protecting and managing the natural resource base of economic and social development are overarching objectives of, and essential requirements for, sustainable development."

The aim is therefore to envisage economic growth, but one that takes into account demographic changes and their social, societal and

environmental consequences, in particular resource management.

This development aims to reconcile economic growth, social and societal inclusion and environmental protection. It challenges the viability of traditional business models based exclusively on the resource extraction/production/consumption/waste scheme. The return to the forefront of issues related to the circular economy is merely a reflection of the progress of the thinking for more sustainable growth.

The practical implementation of Sustainable Development for companies is carried out through Corporate Social Responsibility (CSR).

Corporate Social Responsibility (CSR) is a concept in which companies integrate social and environmental concerns into their strategy and economic development; this within their activities and in their interactions with their stakeholders. This is therefore the operational contribution of companies to the challenges of sustainable development. The terms appeared officially for the first time in a European Commission report in the early 2000s.

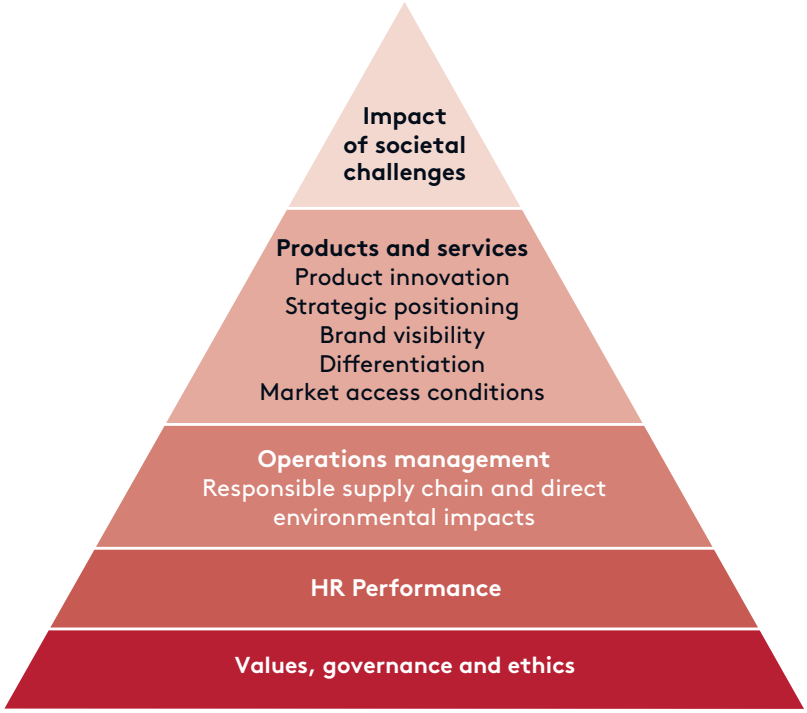
ESG criteria are used by the financial community to refer to the Environmental, Social and Governance (ESG) areas, which generally constitute the three pillars of non-financial analysis. They apply to the management of management companies and that of their portfolio companies. The integration of these criteria for private equity is therefore an active and dynamic approach aimed at integrating CSR into the operation of the management company, its investment policy and the management of its portfolio companies.

Socially Responsible Investment (SRI) is the way to integrate CSR, sustainable development or ESG criteria into the asset manager's investment or management policy. It is therefore naturally focused on the world of management of listed assets, etc. This term also characterises the analyses carried out by so-called "non-financial" rating agencies or specialised in-house teams in asset management firms.

SRI can take different forms (in decreasing order of importance among French capital market managers): socially responsible funds (best-in-class positive approach thanks to a selection of the best companies in the same sector based on these criteria); exclusion funds (more widespread in Anglo-Saxon countries excluding, for moral or religious reasons, certain sectors such as armaments, gaming, alcohol, tobacco, etc.); thematic funds (focused on the environment: renewable energies, carbon impact; on human rights or on the solidarity economy); and lastly, the less common funds for shareholder engagement (direct dialogue and exercise of voting rights in general meetings in order to encourage companies to implement a stronger social responsibility policy).

The ESG criteria area

In order to better understand ESG and the various issues covered, we need to know its foundations and their order of priority. The diagram below (source: PwC Business Sustainability Strategic Analysis Model) lists the areas to be considered in a company's ESG analysis:



Source: PwC

The base of the triangle consists of the three layers that form the basis of a responsible, effective, pragmatic and sustainable approach:

- The governance part covers the issues of corporate governance, the organisation of power and decisions, the existence of values and their embodiment, ethical management (both in terms of business and individual behaviours), ESG regulatory watch, risk analysis and crisis management. The existence of a strategy (vision/mission) and actions in the ESG area is also included in this first layer.
- The human resources dimension goes beyond regulatory issues, often reviewed in social due diligence. The topics addressed generally deal with the company's HR performance and well-being at work through themes such as:
  - Support for job creation and maintenance
  - Training, skills development and managerial changes
  - Talent management
  - Diversity and equal opportunity

- Health and safety at work
- Quality of climate and social link
- Sharing of the project and the value of the company

- Operation management forms the third layer of the base for an ESG analysis. It consists of two sub-dimensions:
  - Taking into account direct environmental impacts: if they are potentially regulated and at risk, they will generally be covered by a dedicated due diligence process. Otherwise, they may be subject to an ESG review (for example, taking into account energy efficiency, circular economy issues, etc.) or may even not be covered if the environmental dimension is not material for the company. However, the inclusion of issues and risks linked to climate change and the contribution of companies to energy and ecological transition will become increasingly important in drawing up medium-term development plans.
  - Taking ESG issues into account in the supply chain: the aim here is to ensure that the company has properly analysed all ESG risks according to the countries and categories of purchases and has put in place the necessary control mechanisms to ensure ethical practices, working conditions, respect for human rights, and environmental production conditions at its suppliers, agents and distributors.

The following two layers complete the initial analysis (the first three layers above) in areas this time directly focused on customers and civil society:

- Taking into account ESG in the design, distribution, use and end of life of the company's products and services. Topics such as environmental innovation and the ability to access new markets thanks to eco-design, for example, are topics that will fall within the scope of ESG analysis. Indeed, they may contribute to performance or constitute a risk factor if the company has not been able to seize an opportunity anticipated by its competitors. ESG's influence on the business itself will be increasingly taken into account and will thus allow companies to open up to new development models (circular, collaborative and functional economy).
- Analysis of the relationship between the company and society: lastly, taking into account the challenges of civil society as a whole is the last aspect of an ESG review. It will be important to understand whether societal debates are a threat or an opportunity for the company and whether there are controversies that could affect its performance. Furthermore, any social commitment whatsoever will be analysed according to its motivations: image, attractiveness and/or retention (employees, investors, customers..., etc.), customer benefits, involvement in local life, etc.

In addition to all these themes, three major principles should guide any ESG analysis: materiality, consistency and purpose.

Materiality, because not all areas are equally important, depending on the sector of the company being reviewed. For example, environmental issues may weigh less heavily in the case of an SME in services, while human resources issues will probably be given higher priority.

Consistency because it fosters ESG excellence. It is better to cover all material areas pragmatically than to aim for excellence and visibility on one issue to the detriment of others. An approach based on a "small steps" policy, proactive, all consistent and focused primarily on material issues is the only one likely to create lasting value and gain the support of company managers.

Its purpose, because an ESG approach is a driver for transformation and innovation for the company if it is integrated into its core business and long-term strategy.

When teams are motivated and involved thanks to clear and shared perspectives, everyone rethinks their work and sees their own contribution in a more precise and creative way.

In terms of HR, training in new forms of leadership, initiative-taking, innovation and business agility are transformative factors to give both social and ecological meaning and utility to development projects.

2. Historical vision: knowing the key steps to understand the current situation

From the Brundtland report to COP 21: gradually gaining momentum in the public, societal and economic spheres

The sustainable development issue has gained momentum over the last thirty years. It started in the UN spheres and has spread to the corporate world, political life and civil society. A number of major stages have marked this development, including political, regulatory, societal and economic stages. Each time, significant progress has been made under strain or in pain at times, with dynamism and optimism in others.

It takes a long time to make progress on certain issues. This is the case, for example, with climate change, which was mentioned in environmental and scientific circles from the seventies onwards, widely covered in Kyoto in 1997, and which finally gave rise to European regulations in 2005.

Here are some key dates that have marked the rise of sustainable development:

1987: the concept of sustainable development first appears at the World Commission on Environment and Development in the Brundtland report.

1992: the second Earth Summit in Rio allows 173 Heads of State to take

decisions on the environment: the adoption of the Rio Convention and the implementation of Agenda 21 (action programme for the 21st Sustainable Development Century). The foundations of the Kyoto Protocol are laid in Rio.

1996: Nike is singled out for its working practices, including child labour, the use of sweatshops and the use of mass redundancies. These scandals force Nike to change its practices and adopt the concept of corporate social responsibility extended throughout the value chain.

1997: The Kyoto International Protocol aims to reduce greenhouse gas emissions, adding to the United Nations Framework Convention on Climate Change. It came into force in 2005 and has given rise to the various COPs (Conference of Parties) since then.

1990s: the mad cow crisis clearly demonstrates the need for transparency and traceability in the value chain and reinforces emerging initiatives towards "better consumption".

2000: The Global Compact is a United Nations initiative aimed at encouraging companies around the world to adopt a socially responsible attitude by committing to incorporate and promote several principles relating to human rights, international labour standards and the fight against corruption.

2001: the French law on new economic regulations (the NRE law) stipulates that listed French companies in their annual management report must present data on the environmental and social consequences of their activities, alongside their accounting and financial information.

2007: the French government initiates a consultation process, the "Grenelle de l'Environnement", to define new actions to ensure sustainable development in France.

2010: the "Grenelle 2" law supplements and implements the Grenelle 2 project, in particular on the following topics: building and urban planning, transport, energy and climate, biodiversity, health and environment, governance. Article 225 requires listed and unlisted companies with more than 500 employees and €100 million in revenues to publish a detailed CSR report in their management report, audited by an external third party.

2013: The collapse of the Rana Plaza building in Bangladesh kills more than 1,100 people and ranks among the deadliest disasters in labour history. This tragedy highlights the poor working conditions now associated with certain production processes, in particular due to globalisation.

Since COP 21, sustainable development issues have become increasingly central to corporate strategies

2015: The 2015 Paris Climate Conference (COP 21) takes place in the context of the United Nations Framework Convention on Climate Change (UNFCCC). Each year, the conference participants meet to decide on the measures to be put in place to limit global warming. An international climate agreement applicable to all countries is validated by all participants. Its objective is to limit global warming to between 1.5°C and 2°C by 2100.

2015: the French law on energy transition for green growth sets the main objectives of a new French energy model and also aims to encourage "growth", by reducing France's energy bill and by favouring so-called "new", clean and safe energies. It also includes provisions promoting the circular economy and better waste management.

2017: transposition in France of the European Directive on non-financial reporting. This directive, strongly inspired by Article 225 of the Grenelle 2 law, extends a public CSR reporting obligation to all European companies with more than 500 employees from the end of 2017. Each State can adapt it when it is applied.

We could have added to the above the major regulatory changes concerning ethics, corruption and money laundering that mark significant changes in economic life. They will be discussed in more detail in section D of this part.

At the same time, if we look at the corporate world over the same period, we note a change in the motivations for integrating sustainable development issues:

1992-1999: approach to environmental and social risks such as workplace safety.

2000-2005: cost-benefit approach (optimisation of consumption, reduction of accidents, turnover, etc.).

Since 2005 : the first two dimensions are combined and are supplemented by benefits in terms of the company's image, attractiveness, innovation and overall performance. Lastly, the question of the contribution to companies' "license to operate" is currently highly considered.

Today, CSR has become an operational and strategic component of corporate management and must be seen as such, with two particularities, however, highlighted by the most advanced managers on this issue:

- It is the foundation of all the other components because shared values, ethics, governance, human resources and taking environmental issues into account are the basis of any responsible corporate project and contribute to innovation.
- CSR has never been as important as it is today and will be even more so in the future, where companies' growth is achieved

through their potential vulnerabilities: permanent innovation, international development in high-risk markets, acceleration and digitalisation that disrupt their organisation, and all this in a world that is increasingly open through interaction with a growing number of stakeholders, the power of social networks, the various reputational risks, etc. In the face of these increased risks of "dislocation", the foundation of the various CSR components is then seen as an indispensable backbone .

CSR is becoming a real lever for transformation in that it contributes to strengthening the robustness and resilience of activities by providing development opportunities and/or changes in their own development model (circular, collaborative economy, etc.).

Some companies are now even going further: it is no longer just a question of integrating social and environmental concerns into their activities and interactions with their stakeholders, but of fully assuming their responsibility for the positive (innovation, wealth, jobs, etc.) and negative (environment, risks, etc.) effects that they produce on society. For some companies, this can go as far as modifying their own economic model in line with the major issues related to sustainable development.

CSR is at the heart of the company, at the heart of its strategic DNA. Its processes (production, distribution, etc.) and value chain become aligned with CSR requirements. To this end, we can see that companies are working in particular on two issues:

- their mission must be broad enough to enable us to see through it that CSR issues are present: for example, Danone "bringing health through food to as many people as possible" and Essilor "helping the world's population to live better thanks to a better view".
- they need to move towards even more openness and authenticity:
  - openness to global issues and to stakeholders;
  - authenticity: here we come back to the issue of consistency and underlying motivations.

The interest generated by the United Nations Sustainable Development Goals and the reflections on the expansion of the company's social purpose (see section E-4 of the same section) constitute strong "tracers" of what CSR will be in the coming years: an essential component of sustainability for companies.

B. The private equity sector has developed rapidly

1. The financial sector and CSR

Since the early 2000s, the banking and financial sector has become increasingly interested in CSR, both in terms of the direct social and environmental impacts of its activity and gradually in its financing activities.

In 2003, under the aegis of the World Bank, a group of international banks created the Equator Principles. This is a set of provisions intended to incorporate CSR criteria into project financing. By signing the Equator Principles (EP), a bank undertakes to take into account a number of social and environmental assessment criteria in the choice of projects it finances.

The 2007 financial crisis severely damaged the financial sector's public image and trust capital. On this occasion, the private equity world was often treated as stigmatised " investment funds", with no differentiation between hedge funds, speculative funds, private equity, etc.

At the same time, at the United Nations initiative, the PRI (Principles for Responsible Investment) were launched in 2006 and were at the root of the increasing importance of ESG issues, first timidly in various countries, then exponentially accelerating, the inclusion of asset managers, private equity players, banks, etc. In early 2018, the signing of the PRI brought together more than 1 800 investment players worldwide, of which more than 160 in France (unpri.org). The first ESG initiatives emerged and have developed significantly since then.

2. Strong reasons for action explain why it rapidly gained momentum in private equity

In the late 2000s, the ESG topic gradually, but firmly gained momentum in the investor sphere. The first initiatives in private equity appeared between 2005 and 2010. In France, the publication of the book "Private Equity and Sustainable Development" by France Invest and PwC, with the support of a group of investors (Activa, Ardian, Céréa Partenaire, Eurazeo PME, Natixis, Pragma Capital), was the first "marker" of a formalised approach at the national level.

From the outset, there were many reasons to act. They are still relevant today and are gaining strength:

- A necessary restoration of the industry's image with respect to public authorities, the media and society, which sometimes see private equity and hedge funds [or virtual finance players] as destroyers of national wealth. Now, more than ever, the "responsible investor" dimension remains a major lever for accessing public and private financing and a question of "license to operate",[1] current and future.
- The fact that a few LPs (notably the Caisse des Dépôts in France) relatively rapidly took into account ESG issues was also an accelerator for the sector. Some European fundraising operations are currently highly dependent on the quality of the ESG approach implemented by the management companies.
- Investors' awareness of the benefits generated by the ESG measures taken by the portfolio companies: improvement in risk coverage, potential sources of savings, brand valuation, employee engagement, societal involvement, anticipation of major changes, transformation and innovation lever.

These reasons have led to an increasingly systematic consideration of ESG issues by management companies in France, the United Kingdom and several other countries.

Today, this issue is an integral part of business practices and is even regulated in France (Article 173 of the Energy Transition Act– see section D of this part).

The main transactions (acquisitions or exits) of the French market in 2016 were subject to due diligence on buyers and/or sellers. According to the France Invest 2016 Annual ESG Report, there were approximately 580 ESG analyses during acquisitions (ESG due diligence, post-acquisition review, carried out internally and/or externally) that year.

[1] *("the licence to operate"), i.e. the legitimacy and support needed to drive the company's business to success.*

Major national and international initiatives have been taken on the issue of climate change: Climate Initiative 2020 (IC20) in France (see section E-1 of this section) and Montreal Carbon Pledge worldwide.

More than the other sectors, private equity has developed rapidly and has increased the integration of ESG issues into its operating processes. The industry's entire value chain (from funders to regulators) has been aligned with ESG. And this movement, at variable but consistent speeds, is similar worldwide.

Last concrete illustration: the structuring of France Invest. France Invest's ESG Commission was launched in 2009 from a sustainable development club that had less than ten members (Activa Capital, Apax Partners, Ardian, Céréa Partenaire, Demeter, Eurazeo, NiXEN, PAI Partners, Pragma). In 2018 it has around forty active participants.

3. The French case, a sector that has developed quickly and efficiently: from Sustainable Development Club to France Invest's ESG Commission

As soon as the book "Private Equity and Sustainable Development" was published, the informal group of key participants involved in its publication formed a "Sustainable Development Club" within France Invest. This club grew quickly, welcomed more and more players and took concrete initiatives to promote the consideration of ESG issues in the sector. The main stages were as follows:

2009: creation of an informal think-tank of a few investors on the ESG issue.

2010: publication of the book "Private Equity and Sustainable Development" by France Invest and PwC and creation of the Sustainable Development Club (SD Club).

2011: First annual France Invest-PwC conference on ESG, bringing together more than 150 investors.

2012: further development of the SD Club through several initiatives such as the exchange of best practices, studies, work guides, etc.

2013: the SD Club is transformed into an ESG Commission made up of several working groups steering various projects.

2014-2017: the ESG Commission continues to coordinate the various working groups, in particular around France Invest's Annual ESG Report, the organisation of thematic conferences with the involvement of investors and companies, etc. During this period, France Invest adheres to the PRI and organises several events in conjunction with them.

2016: France Invest publicly supports the 2020 Climate Initiative, a long-term approach launched by five GPs, aimed at reducing the greenhouse gas emissions of companies in their portfolios and ensuring the sustainability of their performance (see section E-1 of this part). Nearly 20 management companies joined this initiative in early 2018.

4. France Invest's ESG Commission: its role and main achievements and publications

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.

France Invest's ESG Commission has three objectives:

- Promoting the integration of ESG criteria throughout the investment process among the members of France Invest;
- Supporting the members of France Invest in implementing ESG policies by sharing experiences, organising thematic conferences and developing guides and tools;
- Ensuring coordination with the governance bodies of France Invest, and with other associations and stakeholders involved in this issue in France and abroad (PRI, Invest Europe, BVCA, EVPA, MEDEF, AFG, etc.).

The ESG Commission is organised around a steering committee of 10 to 15 members and several working groups dealing with current or long-term issues. Many working groups allow the development of thinking and methodologies relevant to the members of France Invest. The work gives rise to several downloadable publications on the France Invest site.

The transmission and sharing of knowledge are important areas of work, in particular through the organisation of thematic breakfasts (four to six per year) and an annual conference, organised with the support of PwC, which highlight current and prospective basic

issues and news. They are an opportunity for investors and the managers of the portfolio companies to exchange ideas and improve their understanding of ESG challenges.

The ESG Commission is also in contact with many relevant players in the ecosystem in France and abroad, such as the PRI and Invest Europe.

Since 2013, it has published an ESG Annual Report that measures the concrete actions of the investment companies and the companies they support.

5. Taking ESG into account in the industry's national and international bodies

Several international bodies promote ESG practices in order to facilitate their adoption by investors. Among them, BVCA and Invest Europe are the most active in Europe.

The British Private Equity & Venture Capital Association (BVCA) is the body representing private equity and venture capital players in the United Kingdom. Its objective is to facilitate understanding of its members' activities and to promote the sector to entrepreneurs and investors as well as to governments, the European Union, trade unions, international media and the general public. The association communicates on the economic impact of the sector and seeks to strengthen the role of its members in the global economy as a catalyst for change and growth.

The association has around 600 member companies: 250 private equity and venture capital companies, institutional investors, professional advisers, service providers and international associations.

The various committees formed within the BVCA cover topics such as regulations, taxation, investor relations, responsible investment, impact investment (see section E-2 of this part), etc.

BVCA is actively involved in promoting ESG challenges in the sector: it communicates extensively on PRI initiatives (see below) and guides private equity companies in their ESG risk management and communication on these topics

In the same spirit, Invest Europe (formerly EVCA) is a not-for-profit organisation based in Brussels that aims to promote private equity and its stakeholders. Invest Europe represents and defends the interests of its members internationally, both with various domestic and international authorities.

Like BVCA, Invest Europe communicates on many topics relating to ESG issues such as reporting, international ESG standards and the various studies on private equity and related ESG risks.

Invest Europe has also set up a body dedicated to ESG issues.

The 2016 PwC international study on ESG integration in private equity shows that in several countries, national private equity associations have, like France Invest, initiated think tanks on ESG issues. For example, in December 2016, the ESG Commission of the AMIC (Moroccan Capital Investors Association) held an important session on ESG at the association's annual general meeting. Other countries such as Spain, Germany, Italy and the Nordic countries show strong growth in the activity of national private equity associations on these issues.

6. An international reference framework: the PRI. Their role and major publications

The PRI (or UNPRI, United Nations Principles for Responsible Investment) were drafted by a group of investors under the aegis of the Environment Program, the Finance Initiative and the United Nations Global Compact.

Designed in 2005 under the impetus of Kofi Annan, they develop the idea that taking into account environmental, social and corporate governance (ESG) dimensions has a beneficial effect on investment decisions and portfolio management. They are intended to help institutional investors incorporate environmental, social and corporate governance considerations into investment decision-making and asset practices, and thus to improve the beneficiaries' long-term investment returns.

The United Nations has set out a list of six principles that allow institutional investors to best serve the long-term interests of their beneficiaries, by taking ESG issues into account:

1) Incorporate ESG issues into investment analysis and decision-making processes.;

2) Be active owners and incorporate ESG issues into their ownership policies and practices;

3) Seek appropriate disclosure on ESG issues by the entities in which they invest;

4) Promote acceptance and implementation of the Principles within the investment industry

5) Work together to enhance their effectiveness in implementing the Principle;

6) Each report on their activities and progress towards implementing the Principles.

These six PRI principles initiated in 2006 brought together around a hundred signatories. Originally aimed at investors and funds of funds, the PRI then integrated other types of investors such as private equity.

The signing of the PRI has become a virtually mandatory passage for a management company wishing to have its ESG approach recognised, particularly with regard to its investors. Since 2006, the number of signatories has continued to grow. The initiative now includes more than 1,800 signatories worldwide, based in more than 60 countries. The regularly updated PRI website (unpri.org) gives a view by investor category and by country.

The PRI is a voluntary and non-directive commitment. Nevertheless, signing these principles indicates an investor's commitment to progress in the application of them and to work to improve them. It therefore undertakes to produce annual reports: "Reporting and Assessment Survey". It leads the signatories to carry out an ESG assessment of their activity and their portfolio companies. This reporting is publicly available on the PRI website.

The recent changes in the PRI will enable a more rigorous monitoring and control of the signatories' commitments and, in particular, "delist" those who do not fulfil their annual reporting obligation.

Moreover, the PRI conducts studies in many countries and organises conferences on best practices in terms of responsible investment. Several guides and tools are available on their website and enable investors to make progress in deploying and implementing their ESG approach.

Interview

Fiona Reynolds, PRI, Managing Director

Since its launch in 2006, the signatories of the Principles for Responsible Investment have increased to over 1,800, from over 60 countries, representing approximately US$70 trillion in assets under management. After more than a decade establishing the PRI as the global voice of the responsible investment movement, the PRI has, with considerable input from signatories, put plans into place for strengthening and focusing its impact over the next ten years.

Part of strengthening our impact means strengthening signatory accountability, and we are set to implement minimum requirements for membership in 2018 alongside ways to highlight leadership and best practice, through the use of PRI Reporting & Assessment data.

In 2017, we published A Blueprint for Responsible Investment – establishing a vision for the direction of the PRI and the wider responsible investment community over the next decade. Across the globe, governments have come together and for the first time achieved a meaningful, widespread agreement on a sustainable direction for the world – including ending poverty, improving education and protecting natural resources through the UN Sustainable Development Goals, and a zero-carbon future through the Paris Agreement. The PRI's role over the next decade is to work with investors on playing their part in delivering this future. This Blueprint will guide our work to do so.

The PRI private equity program will continue to deliver a global platform to understand and share good practices, align LP-GP expectations and support reporting practices. France Invest is a valued partner in France for their leadership on ESG reporting, and for their role in encouraging awareness and adoption of the PRI by French GPs, who are our largest GP constituency according to our reporting data. The private equity data also shows French GPs to be leading on public disclosure of their Responsible Investment activity and on climate action. This is surely in no small part due to the leadership of France Invest in encouraging transparency from their members and in demonstrating the role of private equity in building a sustainable, prosperous and low-carbon French economy.

C. Global overview of LPs and GPs

1. Summary and main conclusions of PwC's study "Are we nearly there yet?"

The "Are we nearly there yet?" study conducted in 2016 by PwC aims to identify the various drivers behind ESG integration by the private equity sector. In 2016, the study included 111 participants from 22 countries, including 31 French management companies. The participants surveyed consistently cover the diversity of the sector's players (sizes and investment approaches).

The results of the study reveal a significant change in management companies' ESG approach and motivations. Indeed, during the last study in 2013, external factors such as regulation or investor pressure explained the growing integration of ESG into investment. Three years later, management companies see ESG more as a better approach to risk management and to take into account opportunities:

- More than half of the French management companies surveyed turn to ESG with the aim of improving their risk management (compared with 44% for the overall study);
- Operational efficiency is one of the main ESG motivation factors in France: one third of the participating French management companies attach importance to it, i.e. more than double the overall percentage;
- Lastly, nearly one third of French asset management companies believe that investor pressure is still pushing the private equity sector to develop an ESG strategy. However, the impact of external pressure on ESG integration has fallen significantly since 2013.

Other signs point to the importance that ESG rapidly is gaining in investment strategy and processes:

- Almost all investment teams in France are systematically made aware of and trained in ESG issues;
- More than 80% of French respondents have formalised an ESG policy;
- 90% have publicly disclosed their commitment to responsible investment;
- 100% state that they are reporting on the ESG indicators of their portfolio companies;
- More than half of the French participants claim to take ESG risks and opportunities into account from the pre-investment phase.

Lastly, the study highlights the main emerging topics for the private equity sector over a 5- to 10-year horizon:

- Cybersecurity;
- Human rights;
- Climate risks;
- Carbon footprint;
- Gender equality.

2. Major LP trends

The growing importance of ESG issues among LPs often leads them to produce and send their GPs ESG questionnaires aimed at assessing their performance and sometimes that of their portfolio companies in this area. These questionnaires are part of both the due diligence process in the investment phase and the monitoring of performance throughout the life of the invested fund. The influence of the GP on its portfolio companies in this area is also, in some cases, part of LPs' expectations.

In this context, many discussions are currently aimed at making demands converge and ensuring that the entire investment value chain benefits from the necessary, relevant and material transparency.

The question of the materiality of the issues is at the heart of the debate. In fact, when addressing portfolio companies, it is important to identify the priority and meaningful ESG challenges in terms of value creation. If this is easy to understand at this level, things can become more complex for an investor LP with many GPs, who themselves hold many portfolio companies.

Some major institutional investors go further by putting ESG at the heart of their investment strategy for reasons linked, for example, to their very mission (public players in particular) or to the perception of the economic impact of ESG, beyond more generic considerations.

This applies, for example, to the French Pension Reserve Fund (FRR) which, in its presentation on its responsible investment strategy for 2013-2017, specifies:

"The FRR has thus gradually established the bases enabling it to take into account, across its entire portfolio, social responsibility criteria

in the choice of its asset managers and the securities they invest in. It has also put in place a comprehensive policy to exercise its voting rights. Furthermore, since April 2006, it has committed itself to applying the Principles for Responsible Investment drawn up under the aegis of the UN (PRI).

The first reason that led the FRR to become a responsible investor is linked to its fundamental mission and objective: to optimise the return on the funds entrusted to it, on behalf of the community, and under the best possible security conditions. In this respect, it has to take into account ESG criteria in its management in order to fully understand the risks and opportunities relating to the companies in which the FRR is invested. The FRR is indeed convinced that these criteria may have an impact on the valuation of the fund's companies and therefore its return. Therefore, not including these criteria in decisions could undermine its purpose.

The second reason is economic: the return on investments depends not only on the impact of companies' financial and non-financial strategy, but also on the externalities they generate for their industry as a whole or the entire economy. An analysis of the environmental and social externalities of companies' strategies and their impacts on the community is necessary, especially for a public universal investor, a player in the pension system, which intends to preserve its investments over time.

Despite the reduction in its investment horizon in 2010 with the pension reform, the FRR has maintained its objectives of preserving the long-term value of its investments. The size of its assets makes it a universal investor whose diversification constraints lead it to be present in all asset classes, sectors and geographical regions".

Other French public sector players such as ERAFP (managing the public sector's additional retirement) and Caisse des Dépôts include ESG issues at the heart of their investment approaches (in private equity or other segments).

The PRI, together with investor working groups (LPs and GPs) have developed two main tools designed to standardise and simplify exchanges between LPs and GPs in terms of ESG. The first (ESG Disclosure Framework) structures how GPs should meet the expectations of LPs in terms of ESG. The second (Due Diligence Questionnaire) guides LPs in assessing GP ESG practices when raising funds. More recently, France Invest's ESG Commission brought together a group of LPs and GPs for almost 18 months to propose a convergence framework for ESG exchanges.

Reporting - ESG Disclosure Framework (2013)

The ESG Disclosure Framework was published in 2013 and is an international framework developed by a group of more than 40 LPs, 10 GPs and 20 associations (including the PRI). It defines the ESG themes expected by the LPs with regard to funds in the investment phase and then during the life of the investment. The ESG Disclosure Framework is divided into two parts:

- ESG approaches in the LP's investment process: these are the areas that the GP will have to provide information on to an LP likely to invest in one of its funds.
  - Assessing the GP's alignment with the LP's ESG investment policies;
  - Assessing the GP's existing policies, processes and systems to identify ESG-related value creation drivers and to control ESG-related risks;
  - Understanding whether and how the GP supports and disseminates the policy of risk management and opportunities search through ESG in its portfolio companies;
  - Assessing how the GP will help the LP to track and, where appropriate, ensure that the GP acts reliably and in accordance with the previously established ESG policies;
  - Assessing the GP's approach to managing and communicating ESG incidents at its level and at the level of the portfolio companies.
- ESG approaches after fundraising: after a fundraising, a GP will have to provide sufficient information to its LPs to inform them of the management of ESG issues so that the LPs can:
  - DETERMINING whether the GP acts in a manner consistent with its own investment policies, processes and agreements regarding the management of ESG matters;
  - Understanding the positive and negative developments in ESG likely to impact the portfolio companies;
  - Determining whether the responses to ESG incidents that have occurred at the level of the GP or its portfolio companies are in line with the investment agreements signed with the LP on the subject.

The "Responsible Investment" Due Diligence Questionnaire (DDQ) for use by LPs (2015)

In 2015, the PRI published the "responsible investment" DDQ for use by LPs. The purpose of this document is to understand and assess GPs' approach to integrating ESG factors into their investment practices and also to understand the level of responsibility they have in this approach.

It is based on the ESG Disclosure Framework: where the latter provides global guidelines and explains the logic of the questions relating to ESG issues, the "responsible investment" DDQ for use by LPs provides a detailed list of standard questions that LPs can ask GPs in the pre-investment phase. There are four types of questions:

1. What are your ESG policies, and how do ESG factors influence your investment convictions?
2. How do you identify and manage material ESG risks, and how do you use the ESG approach to create value?

3. How do you contribute to taking ESG issues into account, in terms of risks and opportunities, in the companies in your portfolio?

4. How can LPs control and, where necessary, ensure that the management company implements all policies and practices agreed with the LPs, including information on ESG incidents?

It is interesting to point out that the LP DDQ regularly refers to issues at stake or material risks. This materiality trend can also be seen in all major texts (regulatory, normative or voluntary) dealing with CSR reporting in the world of listed companies.

Céréa Partenaire

1. Qualitative presentation of the latest fundraising

Céréa Partenaire is a third-party management company, created in 2004, approved by AMF and AIFM, which has three separate activities: Céréa Mezzanine (mezzanine and unitranche debt), Céréa Capital (buyout) and Céréa Dette (senior private and unitranche debt). In these segments, Céréa Partenaire is the leading investor across the agrobusiness value chain. During the last fundraisings:

	ESG-related questionnaires	Separate ESG Questionnaires
Céréa Capital II	78%	33%
Cerea Mezzanine III	67%	33%
Céréa Dette I	70%	30%
TOTAL	**73%**	**32%**

2. ESG themes addressed in the questionnaires *(examples of questions asked in the due diligence questionnaires)*

- *What is the behaviour of the management company as a company?*
- *Have you implemented environmental conservation actions?*
- *From a social / societal perspective:*
  - *Has your management company deployed ESG awareness actions and/or training programmes?*
  - *Do the employees obtain a share of the management company's results?*
- *Behaviour of the management company as an investor:*
  - *Have you formalised a policy to take ESG criteria into account in your investment process?*
  - *What resources have you put in place to "implement" this policy?*
  - *Have you set up an ESG scorecard to monitor your portfolio companies?*

3. The presentation of ESG in side letters

Quantitative data

During the fundraisings for the Céréa funds, the percentage of side letters signed including an ESG chapter was:

- *83% for the Céréa Capital II fund,*
- *33% for the Céréa Mezzanine III Fund, and*
- *0% for the Céréa Dette I fund.*

Qualitative data

In the specific content of these ESG chapters, the recurring mentions are as follows:

- *Investment policy*
  - *Lists of exclusions defined: trade in mines, bombs, casinos, prostitution, speculation in raw materials, tobacco, electronic manipulation, etc.*
  - *Consideration of the main ESG principles (guidelines)*
- *Socially responsible investment*
  - *Reminder of the commitment to apply the PRI (specific list systematically included)*
  - *Adherence to the investor charter (charter regularly mentioned in the appendix)*
  - *Concrete applications requested with production of ESG reports or filling of tables appended in the side letter.*

Demeter Partners: Fundraising and LPs

- *Institutional investors: the Energy Transition Act requires institutional LPs to provide ESG communication. Labels such as TEEC obtained by our Demeter 4 infrastructure fund give institutional investors material to highlight as part of their ESG reporting obligation. However, the effect on fundraising is still not very noticeable.*
- *Corporate investors: the Demeter funds specialised in the environment yesterday attracted strategic energy and environment investors such as Total and Suez. Just like the digital revolution, the ecological transition revolution crosses all sectors of industry. So subscribers to Demeter's new innovation funds are not only energy and environmental players, but also construction and mobility players.*

France Invest's ESG Commission's 2017 recommendation on dialogue between LPs and GPs on ESG matters

Published at the end of 2017 after nearly 15 months of work, France Invest's ESG Commission proposed a reflection on a common set of practices and indicators relating to dialogue between investors and managers in the ESG area. This work was carried out by a group involving French GPs and LPs.

This recommendation aims to continue to promote ESG for the sustainable performance of investments and to commit the various private equity players to even greater transparency on these issues, by proposing an approach of pragmatic cooperation and communication between LPs and GPs.

This initiative is a continuation of previous international work such as the ESG Disclosure Framework, published in 2013. It aims to be the first step in an iterative and collaborative process aimed at sharing principles of action and a common set of indicators, in order to improve communication between LPs and GPs on the ESG performance of the funds and their portfolio companies.

Drawing on the wealth of ESG practices of French GPs and LPs, France Invest will share this recommendation with the PRI and its international counterparts, including Invest Europe.

Details of this approach will be presented in part 3 of this guide in the section on investor relations at the time of fundraising.

D. A broad and rapidly developing regulatory corpus

France is a pioneer in the creation and implementation of regulations in favour of high corporate transparency on sustainable development issues. The beginnings date back to 2001 with the NRE (New Economic Regulations) Act, which asked listed companies to publish environmental and social information in their management report. In 2010, the Grenelle law strengthened and broadened the system since listed companies, but also certain unlisted companies, will have the same publication obligation, this time accompanied by external verification.

Other texts have enriched this regulatory framework and France is gradually no longer alone on these issues. The latest regulatory developments increasingly concern the extension of corporate responsibility to their supply chain in the social and environmental areas (Slavery Act in the United Kingdom, Law on the Duty of Vigilance in France), business ethics and the extension to the European level of the obligation of CSR reporting for companies.

Consequently, a brief presentation of the main texts in force on the date of publication of this work appeared useful. Since the thresholds for the application of certain texts or their scope may vary over time, the choice has been made, in some cases, to present only the main principles here. For more details, it is advised to consult the sites of the administrations in question directly.

1. Article 225 of the Grenelle 2 round table – France and the European Directive on non-financial performance (2010 and 2017)

The Decree implementing Article 225 of the Grenelle 2 Law requires listed companies as well as those (only limited companies (SA) or partnerships limited by shares (SCA)) whose revenues exceed €100 million and employing more than 500 people to mention in their information management report:

- Social
- Environmental
- Societal

This information must be verified by an independent third party organisation (OTI) which will issue a report to:

- Certify the presence of all the required information. In the strict sense of the law, this means that for listed companies, the forty or so themes of the Grenelle 2 round table must be addressed. For unlisted companies, only around thirty selected themes must be addressed.
- Provide a reasoned opinion on the accuracy of the information and on the justification of the possible absence of information.

From financial years beginning on or after 1 September 2017, the Grenelle 2 law was replaced by the transposition of the European Directive on non-financial performance. This Directive is strongly inspired by French law, but enriches the texts by introducing a more strategic dimension to the presentation of information. The company will now have to present CSR questions as follows:

- Presentation of a business model (approach in line with the integrated report);
- CSR risk analysis;
- For the main risks identified, presentation of policies, action plans and results in the form of indicators.

We are thus entering into a logic of materiality of information in line with the main global repositories. The company must always publish its data in the management report, but also on its website. Verification by an independent third party is always mandatory.

Lastly, the application of this Directive changes the different thresholds applicable to companies: while they do not change for unlisted companies, a minimum threshold is introduced for listed companies excluding the smallest of them from the scope of the text. Unlike Grenelle 2, these thresholds now apply to the consolidated company. This last point may have consequences for many management

companies' portfolio companies. Simplified limited companies (SAS) are still excluded, only limited companies (SA), partnerships limited by shares (SCA) and partnerships (SNC, under certain conditions) remain included.

2. Article 75 of Grenelle 2 – France (2010)

The decree implementing Article 75 of the Grenelle 2 Law requires companies employing more than 500 people– or 250 in overseas territories (by SIREN registration number) - to draw up a greenhouse gas emissions report (BEGES). This report could be presented as a lighter or very simplified carbon footprint over a reduced scope of emissions. This is also mandatory for the State, regions, departments, urban communities, conurbation communities and municipalities or communities of municipalities of more than 50,000 inhabitants as well as other public legal entities employing more than 250 people (counted as FTE). The BEGES must be made public via a platform administered by the ADEME (French Environment and Energy Management Agency), and updated every four years for companies (in accordance with the order and decree of 24 December 2015) and every three years for the State, local authorities and legal entities governed by public law, subject to a penalty in the event of non-compliance with this frequency. The first report was to be filed no later than 31 December 2012.

3. Article 173 of the Energy Transition Act – France (2015)

A text from COP 21, the Energy Transition Act for Green Growth amends many existing texts, including Article 225 of the Grenelle 2 Law, but above all establishes an obligation to report on ESG issues for investors (institutionals and management companies in particular). It clearly reflects the increasing importance of the ESG issue for the legislator, and even though it remains purely French at this stage, developments, at least European, can be expected.

For companies already covered by Article 225 of the Grenelle 2 law, Article 2 of the law on energy transition for green growth requires the inclusion of information on "impacts on climate change" in the management report. It is applicable from the financial years ended 31 December 2016.

For investors (insurance companies, mutual insurance companies, provident institutions, portfolio management companies, Caisse des Dépôts, supplementary pension institutions, pension institutions, etc.), a threshold concept is introduced:

- €500 million of total consolidated or combined balance sheet for the institutional investors concerned;
- €500 million in assets under management for portfolio management companies.

The topics to be published are as follows:

- Obligation to inform their subscribers (annual report and dedicated information) of the procedures for taking into account ESG issues and the measures implemented to ensure energy and ecological transition;
- Taking climate risk into account in investment policies.

Entities below the €500 million threshold are only concerned by the publication of general ESG information and do not have to produce reports on climate change issues. However, they may be subject to this latter point indirectly via some of their LPs, which are themselves concerned by all the information.

The application deadlines are as follows:

- For financial years ended 31/12/2016

  Application of the provisions of Article L 533-16-1 of the French Monetary and Financial Code
- For financial years beginning on 01/01/2016 to 30/06/2017

  Publication of information to be included on the website and on the annual report
- For financial years beginning on or after 01/01/2016

  Publication of information to be included in the entities' annual reports

At the end of 2016, France Invest published an implementation guide for this article intended for all its members. This guide is available on the association's website.

4. Energy Audit Law – France (2013)

The law on the energy audit of companies is a transposition of the European Directive 2012/27/EU, via the DDADUE Law (various provisions adapting to European Union Law). It applies to all companies with more than 250 employees (by SIREN registration number) or which have generated revenues of more than €50 million and have a balance sheet of more than €43 million. Companies certified NF in ISO 50001 are exempt for the first financial year and must submit their certificate on 30 June 2016.

Companies subject to these provisions are required to conduct an energy audit covering at least 80% (or 65% for audits carried out before 5 December 2015) of the amount of energy bills paid (leased buildings and transport). The frequency of audits is four years, the first to be initially submitted before 5 December 2015, but the deadline

was extended to 30 June 2016. The result of the audit must be sent to the platform administered by the ADEME. A penalty of 2% of revenues (and 4% in the event of recurrence) is applied if this audit is not carried out.

For co-ownerships, the energy audit must be carried out in accordance with law no. 2010-788 of 12 July 2010, the order of which was published in February 2013. Co-ownerships of more than 50 lots, with a collective heating or cooling installation and a building permit dating from before 1 June 2001, are required to carry out an energy audit before 1 January 2017. The establishment the audit must be supervised by the co-owners' association.

5. Law on the duty of vigilance – France (2017)

The March 2017 text concerns companies with more than 5 000 employees on a consolidated basis (including subsidiaries) when their registered office is in France, or more than 10 000 employees when their registered office is abroad. These companies will be required to implement a vigilance plan to identify, prevent and mitigate risks and human rights violations in their supply chain, and" they could reasonably have avoided". The text specifies the nature and detail of the elements constituting the vigilance plan. As with the Sapin 2 law, it constitutes a relevant reference framework for a company below the thresholds and which would like to address the subject in a formal and structured manner.

Even though the financial sanctions initially provided for were withdrawn by the Council OF State, the text nevertheless establishes criminal liability for a company that presents social and environmental failings in its supply chain.

6. Slavery Act – UK (2015)

The Slavery Act voted in the UK in October 2015 is very similar to the California Transparency in Supply Chains Act. It was written to prevent the use of slavery and human exploitation throughout the supply chain, as well as in any sector of activity and the goods and services of these sectors of activity. It applies to companies operating in the United Kingdom with annual revenues of £36 million or more (compared with $100 million for California-based companies). In practice, these companies are obliged to publish an annual report detailing the measures they and their suppliers have taken to avoid the use of slavery and human exploitation. This report must be posted on the company's website, or be provided in paper format to anyone who requests it.

7. Extraterritorial anti-corruption laws: from FCPA to Sapin 2

In 1977, the United States passed the Foreign Corrupt Practices Act, which applies to any company of any nationality and sector if it partly trades in dollars, uses a U.S. access provider or trades on U.S. soil.

The U.S. Department of Justice (DoJ) can use U.S. law to investigate suspicions, and apply legal action if there is proof of corruption.

The Alstom case is emblematic of the extra-territorial dimension of these texts. It led the US justice system to fine the group several hundred million dollars and to imprison some of its managers for several months.

Other countries have enacted similar laws, such as the United Kingdom in 2010 through the Bribery Act and Brazil in 2014 with the Clean Company Act. In France as well, on 8 July 2016, the Senate adopted - with amendments - the draft law on "transparency in economic life", known as the Sapin 2 law. It covers anti-corruption issues, but also the creation of a general status and a regime for the protection of whistleblowers.

The Sapin law concerns companies with more than 500 employees and €100 million in French revenues (consolidated approach) and requires them to strictly formalise ethical and anti-corruption measures. In addition to legal constraints, it above all provides a protective framework for French companies as part of their international development and with respect to foreign non-territorial laws. Although this text is not applicable to certain SMEs, it constitutes a working and inspiration framework relevant to the implementation of a business ethics approach. Lastly, it should be noted that a provision of this law only affects companies with more than 50 employees: the establishment of an ethical alert system.

E. Forward-looking themes likely to influence investment policies

1. The specific context of climate change: IC20, Montreal Carbon Pledge and other initiatives

Faced with the challenges raised in particular by COP 21, private equity players are organising and committing themselves, like the IC20 in France or the Montreal Carbon Pledge in Canada.

2020 Climate Initiative

The signing of voluntary commitments in France, such as the Charter of Commitment of Investors for Growth (France Invest), or at the international level the PRI, brings together an increasing number of management companies each year.

Desiring to go further on one of the major challenges of sustainable development, five private equity companies, members of France Invest (Apax Partners, Ardian, Eurazeo, LBO France and PAI Partners), in 2015 decided to launch the "2020 Carbon Initiative" with PwC's methodological support. It became the "2020 Climate Initiative" in 2017 to strengthen the overall approach to climate change related issues.

Through this initiative, the signatories are thereby launching a long-term approach aimed at taking climate issues into account in investment policy and mobilising their portfolio companies in these issues whenever this issue is material for them.

Specifically, the signatories undertake to:

- Recognise that climate change will have effects on the economy that represent risks and opportunities for companies
  - Public commitment via the signing of the IC20
  - Spread information about the initiative among private equity players
- Become involved to contribute, at their level, to the COP 21 objective of limiting global warming to two degrees
  - Take climate issues into account over the entire investment period
- Contribute to reducing greenhouse gas emissions from companies in their portfolio and ensure sustainability of performance
  - Carry out a gradual measurement of the carbon footprint of the portfolio for companies for which this issue is material
  - Define, together with the management of these companies, an action plan to reduce emissions and adapt to climate change
  - Awareness of climate issues by management teams

The methodological approach consists of three stages:

1) In the investment phase: assessment of the carbon issue in the company's future development;
2) During the holding phase: Raising awareness in the management teams about climate issues, analysis of the materiality of the company's carbon impacts. Depending on the issues involved, in-depth calculation and definition, with company management, of an appropriate action plan;
3) On exit: valuation of the progress made.

At the time of publication of this charter, the ICC20 has almost twenty signatories.

The Montreal Carbon Pledge

With the Montreal Carbon Pledge, investors undertake to calculate and publicly disclose the carbon footprint of their investment portfolios each year. The Montreal Carbon Pledge allows investors (asset owners and investment managers) to formalise their commitments to the objectives announced by the Portfolio Decarbonization Coalition (PDC).

To meet the requirements of the Montreal Carbon Pledge, the signatories must calculate the carbon footprint of their equity portfolios each year, at least in part. Disclosure is via a website, annual report, sustainability report, responsible investment report, or other public and visible means of communication for customers and beneficiaries.

The Pledge was launched on 25 September 2014 in Montreal. More than 100 investors have signed the Montreal Carbon Pledge since then (at the end of 2017).

COP 21, 22 and 23

COP21 (Paris) concluded on 12 December 2015 with the adoption of the first international climate agreement (agreed to by 195 countries and applicable to all). The text provides for limiting the increase in temperature to less than 2 degrees while even aiming at 1.5 by 2100. It is (i) flexible and takes into account each country's needs and capacities, (ii) balanced on adaptation and mitigation, and (iii) sustainable with a periodic increase in ambition. It determines milestones through an entry into force in 2020, revision clauses every five years and, lastly, sets a major milestone, from 2050, for "low carbon" by planning the decline of polluting fossil energies. The agreement therefore lays down a framework and an architecture intended to reduce greenhouse gas emissions collectively and sustainably, a vital requirement to safeguard the planet and protect humanity.

Each country party to the UNFCCC (United Nations Framework Convention on Climate Change) was invited to publish its national contribution or NDC ("Nationally Determined Contribution, formerly known as INDC for "Intended Nationally Determined") presenting its measures to reduce greenhouse gas emissions by 2025 or 2030. 189 countries have published their action plan, which will be assessed during an initial global assessment in 2023.

The 22nd Session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 22) was held in Marrakech from 7 to 18 November 2016. COP 22 is part of the action to implement the various measures adopted in the Paris Agreement, in particular those relating to adaptation, transparency, technology transfer, mitigation, capacity building and losses and damages.

COP 23, held in Germany at the end of 2017 was rather a conference on "progress" and follow-up. Few big news came out, except the launch of the coal "alliance," initiated by the UK and Canada. Tensions between developed and developing countries have emerged, reflecting the complexity of weak global governance on these issues.

In early 2018, a report was published by the HLEG (High Level Expert Group on Sustainable Finance), a group formed by the European Commission in December 2016 with 20 experts whose aim was to make recommendations on the implementation of a global strategy for sustainable finance in the European Union. This report calls for greater transparency in the policies implemented by private actors in terms of climate risk management. It stresses the importance, or even the urgency, of maintaining the 2 degree trajectory, from which we seem to be moving away according to the latest expert work (in particular the IPCC).

Lastly, it emphasises the existence of issues as important as the climate and which will gradually become part of companies' strategies, such as biodiversity.

Last element of the global approach to climate change issues: The TCFD (Task Force on Climate-related Financial Disclosure). It is under the aegis of the G20 and has produced a series of recommendations on transparency in organisations' climate policy. These recommendations were the subject of a statement by the President of the French Republic, calling on economic players to follow the TCFD approach to report on how they take climate-related issues into account.

It appears in all laws, regulations or incentives, that the climate change issue is not just a matter of measuring the carbon footprint, but of analysing the risks (transition or adaptation). Thus, a company may be hardly or not at all affected by greenhouse gas emissions but may, on the other hand, be severely threatened by climate change (e.g. rising water or extreme temperatures) due to its location. It is indeed about all these issues that the experts from the TCFD and the HLEG talk and it is from the same perspective that French private equity approaches the subject via the IC20.

2. A new investment approach: impact investing

Investment with a social impact, or "impact investing", is an investment strategy that seeks to generate synergies between social, environmental and societal impact on the one hand and positive financial return on the other. This definition differs from that of philanthropy (which does not target financial returns) and socially responsible investment (for which negative impacts are avoided without necessarily requiring positive impacts).

Impact investing investors are not distinguished from traditional investors by their financing tools, products, markets or sectors on which they focus, but rather by the motivations underlying their investments. Impact investing refers to a wide range of approaches that share the aim of achieving social/societal returns combined with financial returns. Impact investors can be distinguished by the nature of the companies they support:

- Certain investments in so-called "social "companies aim to finance social needs, and in particular social needs that are not very or not solvent. These companies seek economic viability more than profitability
- Other investments seek to promote business models and an economy that place a social or environmental purpose at the heart of the corporate vision, with tangible, positive impacts

Three main characteristics define impact investing, formalised in 2013 in a charter by the France Invest IMPACT commission:

- A dual objective of seeking financial performance and social, societal and/or environmental impact
- Active engagement with entrepreneurs to maximise impact, with strong synergy between economic development and impact
- A methodology for measuring the impact and regular reporting to subscribers as well as a partial or total alignment of the carried interest to the fund's social/societal performance

In five years, these principles have resulted in Bpifrance adopting a standard that is becoming a marker for the industry: the full or partial alignment of the carried interest to the impact, when such a mechanism is put in place in the new funds.

Impact investing within France Invest

France has around twenty impact funds combined within the France Invest IMPACT Commission with funds under management dedicated to the impact of €1.2bn and 400 investments made (2017 figures). The impacts sought are numerous and focus in particular on the issues of education, inclusion & employment, health, the environment, citizenship and local development.*

** Alter Equity, Arkéa "we positive invest", BNP Paribas Social Business, Citizen Capital, Colam Impact, Inco, Engie Rassembleurs d'Energies, Esfin Gestion, Financière Pouyanne, Impact Partenaires, Investir &+, Investisseurs & Partenaires, Mandarine gestion, Mirova, Nef Capital Ethique, Phitrust Impact Investors, Sadev, XAnge Impact.*

Interview

Interview with Christophe Poline in charge of managing impact funds within the Schneider Electric Group's Sustainable Development Division (interview by Yann Collignon – Azulis Capital)

Christian Poline is in charge of directly managing the solidarity component of Schneider Electric's solidarity employee savings fund and monitoring portfolio companies in impact investment funds aimed at reducing the energy gap worldwide.

Impact funds located between the worlds of "venture philanthropy" in the social and solidarity economy, on the one hand, and "mainstream" private equity, on the other on the other hand, have developed singular practices that may prove rich in experience for other investment classes.

What are they?

"We could highlight two major practices in the exercise of our investment activity:

- *To have a broad and long-term view of specific sectors.*
- *Promote creativity and the spirit of innovation.*

Most impact funds focus on defined sector themes, such as agriculture, energy, finance and health, which leads us to develop strong sector skills and broader ecosystems in order to have the capacity to respond to complex and global issues involving a wide variety of actors (states, NGOs, development banks, local politics, etc.)

It is therefore necessary to "see far ahead" and anticipate the many possible scenarios by integrating flexible development models that are capable of addressing risks and opportunities that are still poorly identified at the time of investment.

The time factor is therefore key, extending it is a necessity. We should think for five or even seven years.

When the search for impacts is free from the constraints of short-termism, it is often the source of greater creativity in the development of companies that will more boldly integrate innovative models and proposals, cross-cutting and agile management methods, geared towards the usefulness and real need of people and the planet in the face of the crucial challenges facing the world (climate, poverty, etc.).

Here are a few peculiarities of today's impact investing, which in a few years' time will undoubtedly have an impact on the practice of most asset classes."

Impact investing at Demeter Partners

Demeter has been developing sustainable and profitable investment offers since its creation. This positioning is now reinforced by the acceleration of the ecological transition. The fundraising for the FMET fund, a fund for the ecological modernisation of transport infrastructures testifies to this: investors are increasingly keen on assets - by their very nature resilient to the digital revolution and its wave of disintermediation, and of low-carbon assets - that are currently deemed less risky than traditional productive assets, threatened by the carbon price, and neglected by the corporates themselves (cf. the splitting up of the large energy groups).

LBO France

By jointly acquiring Piex, LBO France and Bertrand Talbotier, a leader in the pharmaceutical industry, chose an investment thesis resolutely focused on CSR. This is in line with the growing ESG approach of LBO France.

Founded in 1980 and until now a family business, Piex historically distributes medicines in Africa and has a very good reputation there. The ambition of the new shareholders is to speed up the development of the company by pursuing a jointly defined more general mission: "to contribute to better access to health and quality medicines for a large population in Africa."

This mission notably involves:

- *the continued rigorous distribution of medicines based on significant values: contributing to the fight against counterfeiting and corruption, limiting the accumulation of margins, bringing the right quantities of good products in good condition, at the right price, at the right time, in the right place, in an accessible manner, and with expiry dates consistent with market needs. This with high environmental, social and governance concerns in the company's management methods;*
- *reflection on new services and partnerships that can enable the mission to be performed even better and interact even more with local markets.*

This operation took place in the context of a very partnership-focused transition with the former founder and his team. Further on, in order to better collect, retain and carry his testimonial, LBO France invited this 88-year-old man with a remarkable, highly-recognised and appreciated pioneering career both within the pharmaceutical industry and in various African countries, to come and speak to all its employees at one of its team meetings. These moments are an opportunity for interactions that contribute to the cultural evolution of LBO France.

It is by fulfilling this social mission to the best of its ability that the company will create value for all stakeholders. With this in mind, managers and shareholders are working to align the strategy, organisation and management methods with the mission.

3. New models: the example of the circular economy

Since 2015, the Energy Transition Act for Green Growth has provided for provisions favouring the circular economy and a gradual decoupling between economic growth and the consumption of raw materials.

In a world where half to three quarters of the resources consumed return to the environment as waste and where two planets will be needed for our needs by 2030, the linear model "extract-produce-throw away" is not sustainable. The circular economy aims to recycle, renovate, reuse and maintain products to maximise and retain all the value created. It also encourages the use of renewable resources while ensuring that their consumption rate is compatible with regeneration capacity.

Increasing the company's circularity may require a new design of products to extend their lifespan, facilitate their recycling, or even turn them into a service related to their function (e.g. selling a lighting service rather than bulbs) or rethink their positioning in the value chain and in their territory.

The circular economy is leading to the emergence of new economic models, facilitated by the digital revolution, and able to reduce the risks associated with the increasing price volatility of certain raw materials or the environmental impacts of the activity.

It also represents an opportunity to reduce the company's operational costs, accelerate innovation for new markets and strengthen relations with its partners, in a context where customers are increasingly demanding about the sustainability of products and people who share goods, facilitated by new technologies and urbanisation. It is therefore the company's economic performance that is improved in the long term.

The increasing momentum of this theme was strongly reinforced by the publication in the first quarter of 2018 of the government's roadmap on the circular economy. The objectives of this roadmap are innovation opportunities for companies and investors:

- Reducing resource consumption relative to GDP
- Reducing non-hazardous waste landfilled by 50%
- Aiming for 100% recycled plastics in 2025
- Saving CO2 emissions by recycling plastic
- Creating 500,000 jobs

These objectives are fully in line with the French SDG strategy and will lead to numerous public and private policies and initiatives centred around targets such as:

- Consuming better
- Producing better
- Managing waste better
- Involving all stakeholders

Private equity will see strong points of attention and opportunities for its portfolio companies.

4. United Nations Sustainable Development Goals

The Sustainable Development Goals represent the seventeen objectives established by the United Nations Member States and included in the 2030 Agenda. This agenda was adopted by the UN in September 2015 after two years of negotiations involving governments and civil society. It defines targets to be achieved by 2030, defined by SDG by SDG. There are 169 targets and they are common to all countries involved. They meet the general objectives of eradicating poverty, protecting the planet and ensuring prosperity for all. These 169 targets are combined with 244 quantitative and qualitative indicators for each country.

These objectives replace the Millennium Development Goals, which ended in 2015, and whose progress enabled an initial development towards a broader sharing of global issues between States and private actors.

The 2030 Agenda also establishes an international review process, in which States are called to account for their progress towards targets. The implementation of the SDGs, which apply at the level of each State, requires the active involvement of governments and all stakeholders (companies, local authorities, associations, researchers, etc.).

As soon as they were released, the SDGs were very successful at the level of States, but especially at the company level. This clearly responds to a desire to integrate the long term into the strategic vision and to explain the company's role as it is faced with the major global challenges.

The SDGs are a perfect illustration of the discussions around the company of the future: a company with a broad and shared vision of the major challenges. They will be the "language" of CSR 3.0 and will frame its actions.

In order to avoid a green washing approach to the SDG issue, a company interested in its contribution to its objectives will have to make a real analysis of its positive and negative contributions to the objectives of the countries where it operates, whether via its value chain, its own activities or its customers.

To date, the world of investors is increasingly interested in the SDGs and many of them, both LPs and GPs, are planning to gradually integrate them into their investment policy.

2.

ESG at the management company level, or how to lend credibility to the approach with respect to LPs, portfolio companies and all stakeholders in a consistent approach

The management company's ESG challenges lie mainly in its portfolio companies. Indeed, it is within the portfolio companies that the largest number of employees are located, the environmental impacts are strongest (especially if the sectors invested are in industry, infrastructure, etc.), and the externalities on local communities are most sensitive.

However, in order to ensure consistency and credibility, both with regard to the LPs and the portfolio companies and all relevant stakeholders for it, the management company will have an interest in initiating a reflection both on its own ESG challenges and on the measures to be implemented to deal with them, even before questioning the companies invested.

Lastly, while the term "management" is indeed a reality in the private equity industry, it can sometimes make us forget that we are really talking about a company that is sometimes the size of an SME, and for which ESG issues are fully legitimate as in any other company. This is all the more true as we are in a business that is subject to potential controversies, as well as significant human, economic and financial issues, while sometimes being carried out by small teams.

A. Understanding the issue and raising team awareness: challenges, difficulties and solutions

1. How can support points and blocking points be captured?

Sometimes considered as "surprising" a few years ago, the implementation of an ESG policy in a management company seems as legitimate as in any other company today. It also has a very significant impact in terms of governance and HR performance in particular.

It is likely to lead to a new paradigm in the approach towards stakeholders, in particular the companies invested and the LPs. Internally, it can lead to real cultural change conducive to development. Lastly, it can lead to the strengthening of external communication (particularly via the website) that is traditionally discreet and relatively undifferentiated within the industry.

As in any change phase, blocking points will appear while driving elements will create momentum. Relying on these drivers and identifying the reasons for blocking is essential. The situation has changed considerably since 2010. The teams are more open to ESG issues, as they at least see the LPs' interest in this issue. Effective internal communication on the objectives of the approach and educational efforts may be necessary.

There may be many obstacles: the perception of ESG as a dogmatic concept, the resulting additional workload (construction of a charter, ESG procedures, reporting, dialogue,

etc.), the resulting costs (time spent, use of external service providers, etc.) and the feeling that additional constraints are being imposed.

In order to have a consistent and effective approach, all functions of the management company must feel involved, from front to back office. It is therefore important to have clear communication on the incentives leading to the establishment of the ESG policy and on the expected changes according to the different teams within the management company.

Awareness-raising will make it possible to show that ESG is an approach that increases understanding and measurement of the societal and environmental challenges companies are and will be faced with. It is also, and above all, a tool for creating long-term financial and non-financial value by managing risks and costs and developing opportunities. Lastly, it is a means of being aligned with investors' expectations and strengthening the management company's image. Unlike 2010, this work will be able to draw on many concrete examples and the work of France Invest's ESG Commission.

Depending on the function, the responsibilities may differ (see section B of this part).

2. The importance of setting the ambition: how and why?

The first factor to be determined is the motivations and level of ambition of the approach.

The roadmap will depend on these factors, a roadmap that will make it possible to maintain the approach and derive the corresponding expected value from it.

Similarly, depending on the type of investors in the GP (pension funds, sovereign funds, insurers, etc.) and the expectations weighing on the management company, the need to implement an in-depth approach will be more or less strong.

French regulations (Article 173 of the Energy Transition Act for Green Growth, see section D-3 of Part I) provides a framework to structure management companies' ESG approach and France Invest's Guide on this regulation enables them to structure their ESG approach at a minimum level (regulatory compliance).

In addition to regulatory compliance, the ambition can range from a simple ability to meet the requirements of the LPs to a desire to more or less publicly assert a commitment to ESG. We could thus summarise the four main types of ambition as seen currently:

- Leadership: determination to be among the ESG leaders and to have the external visibility associated with this leadership if necessary;
- Good pupils: being in the lead group, "doing the job well" and not necessarily have ambitions for high visibility other than that with regard to LPs and other stakeholders;
- *Minimum* level: regulatory compliance and responses to LP requests on a one-off basis;
- Nothing: formally mention on its website and in the annual reports (management company and fund) that ESG is not taken into account in the investment policy and operating method. The latter position cannot be an ambition in itself, but reflects certain situations.

The management company will thus have to define its level of ambition in the short, medium and long term and define the level of commitment, process and monitoring as well as, by construction, the associated resources:

- Commitment: from the simple formalisation of a charter to signing the PRI or participation in sectoral initiatives (Climate 2020 Initiative, participation in the ESG Commission of France Invest, etc.);
- Process: from a one-off procedure according to investors to an integration of ESG considerations into all activities and at all stages of the investment cycle, i.e. at acquisition (ESG due diligence), during the holding period (ESG action plan and non-financial reviews for all or part of the portfolio companies) and at exit (vendor due diligence for companies whose CSR practices can be valued);
- Monitoring: limited annual reporting on part of the assets, with a few indicators, to a broader reporting system covering the entire scope, with indicators covering all key issues.

The level of ambition is set by the managers according to the mentioned parameters. In general, a working meeting on the subject, including benchmark factors from the industry and a summary of the demands of the LPs can make it possible to take a decision.

3. The need to train teams

Team training is an essential step in the deployment of an ESG approach. All teams must be made aware of the issue and some must undergo operational training according to the organisation that will be selected, for example:

- Back office for PRI and LP reporting topics, regulatory monitoring;
- Investment teams to identify issues, monitor due diligence and follow up the action plans during the portfolio holding phase and reporting.

Awareness-raising/training will enable everyone to be involved in the management company's approach and to adhere to it.

Steps to involve employees

Raising awareness of the challenges of sustainable development and having a vision of the practices of companies and those of the private equity industry at national and international level

Involving them in the commitment made by the management company

Training the business lines concerned (e.g. for investment teams: consideration of ESG criteria in investments)

Empowering the employees (e.g. including non-financial criteria in the variable compensation)

These steps are an important factor in integrating ESG aspects into the investment policy in an understandable, credible and structured manner.

To optimise the work of the investment teams, it is useful to provide training to identify the major ESG challenges by sector of activity with concrete cases. The use of external experts can quickly provide these analysis elements.

For the business training phase, it is recommended to train the teams in the general ecosystem of ESG in the management companies: regulatory environment for GPs and ESG practices of the main players in France and abroad, expectations of LPs on ESG, main initiatives on the issue (PRI, etc.), risks and opportunities for GPs.

Continuous training of teams is necessary, in particular the sharing of best practices. Content on the management company's intranet may in particular be a good way to help the teams integrate non-financial issues into their activities.

Investment in marketplace working groups (example of commissions from France Invest) is also a source of continuous enrichment and improvement: sharing of best practices, information on current initiatives and emerging risks for companies (cybersecurity, implementation of the Sapin 2 law on the prevention of corruption, circular economy, etc.).

4. Examples of actions

Activa Capital

Monitoring is an essential element in implementing the ESG approach, particularly internally. The aim is to find good examples to generate investor awareness on HR, environmental and governance, cybersecurity and supply management issues. In our opinion, it is therefore important that a team member has time to do this, whether the ESG manager or not. Concrete examples make it possible to engage in dialogue with the various stakeholders of companies and investors and combine a rational demonstration of impacts and "storytelling".

As a press review is sent to the teams each morning, an ESG tab has been added. This makes it possible to broadcast news on ESG in private equity and CSR in companies.

- *There are several specialised media on these topics (RSE Magazine, WeDemain, Socialter) even though most general newspapers regularly cover the subject (Les Echos, The Guardian, the Financial Times, the Wall Street Journal, RealDeal, etc.). Among the newsletters, that of the Ellen MacArthur Foundation on the circular economy, Circulate or Efficycle newsletters are good resources for accessing concrete ESG integration and innovation cases.*
- *The Alliances Network initiative (http://bipiz.org/), in northern France, presents a large number of well-informed case studies in all sectors. This platform brings together companies' best practices in terms of CSR and in particular cases of companies with little knowledge but which often have the merit of explaining their approach very well.*
- *To find concrete and quantified cases of companies financed by private equity funds, the ESG reports published by various management companies are a significant source of information. In France, more and more private equity funds are publishing ESG reports including quantified case studies that demonstrate the link between ESG actions and shareholder value creation. In the United States, KKR has even developed several thematic platforms that make it possible to access ESG case studies for the portfolio companies according to different themes. The Green Solutions Platform", for example, offers a very instructive set of environmental Case Studies: http://green.kkr.com/results/.*

Moreover, training times are a time of privileged awareness, often neglected by management companies. The size of the management company (20 people) allows us to consider lightweight awareness-raising modules during the weekly team meeting. We have therefore conducted several sessions on a specific business case to raise the team's awareness of innovative corporate practices.

In 2016, the investment team was made aware of PwC's approach to understanding the ESG rationale in private equity. In 2017, the training was further developed, focusing on societal innovation and business opportunities represented by a CSR approach in SMEs, with a MySezame day. The training, carried out at Station F, enabled us to increase the impact of our awareness-raising by offering the investment team and corporate management a day of sharing and strategic reflection on ESG issues.

Apax Partners

In 2011, Apax Partners decided to adopt a detailed and comprehensive environmental, social and governance (ESG) strategy. The company therefore strives to develop an ESG mindset within its teams and implements the following actions throughout the year:

- *internal training by an external service provider in May 2011, during which the management of Apax and the service provider explained the ESG challenges for a management company and detailed the firm's ESG policy and ambitions;*
- *regular working meetings of the partners with a specialised consulting firm throughout the year;*
- *discussions on ESG policy during the company's strategic meeting.*

In order to cultivate this ESG mindset, internal training is organised each year around a current ESG issue. In addition, the ESG manager presents monthly reports to the teams on the actions carried out in the portfolio companies, in the working groups of France Invest, with regard to the LPs, etc.

Apax Partners is also one of the case studies for integrating an ESG policy into the strategy of a management company in the 2014 guide to PRI for GPs.

Demeter Partners' approach

A pioneer in terms of the environment, backed by LPs such as Robeco, Demeter had to also drive the other ESG criteria. Our approach was based on involvement within the working groups of, notably, France Invest (France Invest Climate for the Environment, France Invest with "Women for equal opportunities", France Invest ESG); a careful reading of the reports of colleagues in this area; numerous meetings with professionals offering generalist or specialised support programmes; and finally by involving our internal teams, without the involvement of external service providers for the time being, with the creation of working groups and involvement of all teams from front to back to propose and implement a strategy that results in the publication of an annual ESG report and the strengthening of our practices at the time of investment. So although Demeter is not under the obligation to publish quantified results and objectives (as it is for the time being below the threshold set by the energy transition law), it has put in place a constructed and quantified approach that lays the foundations for a continuous improvement in practices.

B. Organising to manage the ESG approach: what options?

1. What organisation to deal with ESG issues?

Whatever the ambition, it is essential that it be raised and regularly confirmed at the highest level, especially if it is strong.

ESG must be subject to appropriate regular treatment at the management level of the management company (overall monitoring of the approach, major requests from the LPs, position of the competition, major events in the portfolio companies, etc.) and the investment committee. Some asset management companies systematically require a presentation of a pre-investment ESG internal report for each deal at the investment committee meeting and/or the presence of the person responsible for ESG issues in the meeting.

The minimum option consists of assigning this issue to one of the managers as well as, more operationally, to a person from the investment team or to cross-cutting functions. The latter will be responsible for coordinating the process. It is sometimes noted that for the integration of the ESG approach into the investment policy it is more appropriate to have a person from the investment team. This is why in many management companies that do not have a dedicated person, there is an allocation between front and back office:

- A manager in charge: ensures sustainability and visibility;
- Cross-cutting functions: PRI and LP reporting, investor relations;
- Investment team: links with the investment committee, specialised external advisors where applicable (ESG due diligence) and with the portfolio companies.

In the most ambitious management companies, it may be appropriate to set up an ESG committee reporting to the management board. External experts can ideally contribute to this. Its task will be to help the management company monitor ESG challenges and anticipate opportunities and risks. Its role will therefore consist mainly of conducting reflections and making recommendations on the work to be carried out. The discussions of this committee may be supplemented by working groups organised with the portfolio companies (e.g. working group with the portfolio companies in the supply chain, the environment, etc.).

The operational responsibility of the ESG issue can therefore be spread across several people without requiring a full-time position. We note, however, that in some management companies (and not only those of large size) a dedicated position has been created.

In fact, the deployment of an ESG approach within a management company should commit and involve all its members in line with their responsibilities.

The person in charge forms the link between the investment teams to ensure the consistency of the approach and intervenes in the investment process and then with the portfolio companies to support them. According to a survey carried out by PwC[2] in 2016 in France, 36% of management companies had created a function dedicated to ESG and 16% had created a dedicated committee.

In some companies that are very advanced on these issues, the person in charge of ESG oversees due diligence and monitoring processes by fully involving the investment teams and consultants in the work.

In summary, beyond this or that organisation, there are four prerequisites for a successful implementation of an ESG policy within a management company:

- the will of the managers;
- regular decisions in favour of this implementation;
- consistent and sustained internal communication;
- dedicated resources.

[2] *Are we nearly there yet? Private equity and the responsible investment journey, PwC, 2016.*

2. Examples of actions

Activa Capital

Since January 2017, one person has been working full time on ESG issues for Activa Capital. This issue was until then managed by one of the management company's partners and the administrative and financial director.

The ESG manager that was hired follows the topics from an operational point of view, but receives regular support from an ESG working group made up of the partner and the CFO - who were already working on the issue - as well as an investment manager. Weekly working meetings are organised on the issue to monitor progress and launch new projects.

The rest of the teams are trained on ESG issues as part of an annual training programme. Team training also includes bi-monthly case studies that present concrete cases of ESG application in SMEs.

Activa's ESG policy was formalised in 2013 thanks to a charter that defines ESG objectives at the time of investment. It is built around four lines of action:

- *Optimising the environmental impact*
- *Promoting responsible human resources management*
- *Ensuring exemplary governance*
- *Developing responsible and societal commitment*

The operational integration of ESG is carried out in two ways: in the analysis of new cases and in the context of new investment projects.

ESG in the pre-investment phase:

An initial analysis is made when the team decides to provide a letter of interest on a lead. This analysis completes the financial and economic analysis to define the scope of the planned ESG due diligence and budget it if carried out by external advisors.

Here is the model of the Activa internal analysis grid, which summarises the challenges for the investment team.

A summary of the issues is then made for the final memorandum. It includes the various points of due diligence

General ESG Topics	Primary analysis	Envisaged process	Estimated prejudice
Human resources	E.g.: Main activity of the employees, turnover in the sector, kind of job contracts, training, HR reputation, etc.	SD / call expert / Q&A management / Other	Money / reputation / penal / others
Sustainability of the business	E.g.: Supply chain management; training and evolution of the jobs; regulation; climate change sensitivity;		
Environmental impact of the business	Carbon footprint / waste management / water consumption / geography of the business		
Business ethics	E.g.: Incorporation of the company in at least one"corruption sensitive country"; cybersecurity issues;		

and includes recommendations on the legal factors to be included at the time of signing.

ESG in the investment period:

The investment team takes ownership of the ESG issues in several stages:

1) *During the review of ESG challenges by an external advisor, management and Activa Capital agree on a list of priority projects dedicated to the company's challenges.*
2) *The list of these projects is shared internally and with the various managers within the portfolio company via a tool common to all companies.*
3) *This tool is an integrated table in each monthly report to monitor the implementation of the dedicated ESG projects and on a quarterly basis in the supervisory committee to provide a more detailed update on the progress.*

Some ESG issues thereby become fundamental issues in operational terms and are no longer only labelled as ESG. This is the case for supply chain risk management and cybersecurity.

Bpifrance

The responsible investor approach is managed by the CSR Department, which reports to the Strategy, International, Studies and Development Department. The SD&CSR is responsible for:

- *managing and leading discussions on the actions to be implemented so that Bpifrance can carry out its activities as a responsible financial entity, i.e. take into account the economic, environmental and social impacts of its activities;*
- *being proactive, supporting the business lines and support functions, facilitating and supporting the action plans and their implementation on these issues;*
- *ensuring that Bpifrance meets all social responsibility requirements, particularly with regard to the law on its own creation.*

In this context, since the creation of Bpifrance and the consolidation of the investment activities of CDC Entreprises and its subsidiary FSI Régions and of the Strategic Investment Fund, the SD&CSR has carried out, together with representatives of the various teams, work to overhaul and harmonise responsible investment approaches and the processes and tools deployed by the three structures.

This work with the operational teams has resulted in:

- *changes to the public approach of responsible investor,*
- *the development of an ESG analysis support tool for the direct investment teams,*
- *the deployment of e-learning training modules, which have been improved since then, and over time, by involving the teams and, in particular, external experts.*

The actions of the CSR Department are implemented in three areas:

- *to the business lines, to raise their awareness and help them with the CSR assessment of companies invested or financed:*
  - *by raising their awareness, with the participation of newcomers in welcome sessions or thematic sessions,*
  - *with a dedicated training offer,*
  - *by supporting them, by providing methods and tools.*
- *to the directors, representing Bpifrance on the management committees or boards of directors of the companies invested, to encourage them to address ESG issues in these bodies, or even to be proactive by participating in the development and implementation of responsible actions:*
  - *with involvement in training sessions,*
  - *and by offering online training on current issues.*
- *to companies, to raise their awareness and encourage them to evolve and progress:*
  - *forums and exchanges between entrepreneurs on their practices and feedback are encouraged,*
  - *a semi-collective support offer is offered to entrepreneurs to implement an operational approach and action plan, and an individual support offer is being tested,*
  - *an online conference programme, based around experts and companies, was launched in November.*

ESG correspondents are responsible for relaying and transmitting information and requests. The SD&CSR Department is also invited to attend the seminars of the investment departments and to cross-cutting awareness sessions on ESG issues and processes deployed.

External interventions by experts and specific training (on energy and environmental transition, for example) are also offered to the teams, sometimes in a targeted manner.

Lastly, the CSR Department conducts an annual ESG survey of the companies and funds invested, as well as their underlyings, and returns the results of this survey to the management committee of each investment division.

Naxicap Partners

Commitment

In 2015, the Executive Board of Naxicap Partners decided to strengthen its commitment to responsible investment by developing a formal approach dedicated to ESG. The signing of the PRI in December 2015, followed by the IC20 in October 2016, marked our determination to improve our practice with regard to ESG and attests to our commitment both to our investors and our employees.

Creation and organisation of the ESG team

Angèle Faugier, a member of the Executive Board, led the ESG project and undertook a study with our peers and the most advanced ESG players in the market. An ESG policy has been defined and an action plan has been drawn up for its implementation; we have set up a team of four people to support this effort: an ESG manager dedicated 100% to this function has been recruited, two members of the investor relations team dedicate part of their time to ESG and Angèle Faugier directs the team's work.

The ESG team sets annual objectives and meets as often as necessary and presents a progress report at a quarterly meeting. This formal meeting is also an opportunity to share the fruits of our monitoring and discuss new opportunities or threats.

To complete our system, we maintain regular relations with our peers and ESG expert consultants; these meetings and its trainings feed into our thinking and help refine our processes.

Raising awareness, ownership

Each year, the investment teams undergo ESG induction training provided by an external service provider. In addition, the ESG team presents its action plan to all employees each year and makes them aware of their role in having the portfolio companies adopt best practices. This is also an opportunity to present the procedures implemented internally and to communicate on the regulatory aspects to be integrated into the portfolio companies.

Naxicap Partners has adopted a formal ESG framework to which each employee can refer: the ESG policy is communicated to the employees. It details the steps to be followed in the investment process and gives an official character to taking ESG criteria into account. The middle office ensures the proper application of the procedures, including the obligation of an ESG audit upon acquisition, the inclusion of an ESG clause in the shareholders' agreement, the preparation of an action plan discussed by the supervisory board of the companies in the portfolio, etc.

PAI creates an ESG ecosystem around the portfolio companies

Since 2013, PAI has had a dedicated ESG team with two members under the direct responsibility of the CEO of the management company, Michel Paris.

The team is responsible for ensuring the entire ESG integration through the various phases of PAI's investment process.

In the pre-investment phase, the ESG team participates fully in the due diligence process with the deal teams. The results of the ESG analysis are grouped together in a 15 to 20-page document that is systematically included in the general documentation presented to the investment committee.

In the holding phase, the ESG team involves various external consultants who provide their expertise in specific areas. Thus, after each investment, two audits are carried out: one to assess the carbon footprint of the newly acquired company, the other to assess its ESG strategy as a whole and to define a specific action plan.

Moreover, PAI has internal reporting system that enables it to support the ESG performance of its portfolio companies through monitoring across 145 indicators. This monitoring, updated annually, enables the PAI ESG team to manage the ESG action plan drawn up for each company, but also to better report to investors on the ESG status of the various funds.

Lastly, PAI has since 2011 organised half-yearly meetings, the PAI Sustainability Club, which allow the various ESG managers of the portfolio companies to meet and exchange information. These meetings are an opportunity for them to be updated on the new regulations and trends to come, as well as to meet external consultants invited according to the theme addressed by each edition (e.g. new regulations on carbon, well-being at work, etc.).

Ultimately, all of these measures provided by PAI form a genuine ESG ecosystem around the portfolio companies, where they can benefit from a range of personalised solutions and various expertise depending on the issues specific to them.

C. The management company's challenges: ESG or GSE?

1. A management company's ESG challenges

Environmental issues are logically not at the heart of a management company's priorities, even those of a large size. The governance and human resources management dimensions are by far the main priorities. The ESG for such an entity could therefore be called GSE, a good way of quickly setting the order of priorities.

As already mentioned, the management company's ESG approach will only make sense and contribute to value creation if it is driven by its managers. Governance is therefore an essential foundation for the GP's approach. The clarity of the organisation, power and decisions and the internal and external ethical rules are all essential elements for the credibility of the ESG approach, but also for its sustainability.

Requiring an ESG approach from the portfolio companies will only be fully effective if the management company is able to explain its implementation at its own level with, first and foremost, the quality of its governance and ethics. Some LPs include in their questionnaires the management company's ESG vision for itself and not only in its investment policy or the achievements in its portfolio companies.

HR issues are also key, as the success of a management company depends largely on the women and men who make it up, their skills and their motivation. And even though most of them are small to medium-sized companies (sometimes around 10 employees), the quality of human resources management remains a major element: meaning given to action, team spirit, transparency, quality of organisation, equity and diversity, distribution of value, training, well-being at work, etc.

Lastly, environmental impacts appear to be limited at first reading, but ecological actions contribute to overall consistency and can also contribute to the social dimension by contributing to the internal environment and by giving overall consistency to the ESG approach "we have even addressed environmental issues!"

Among the governance issues most relevant to a management company, the following are mentioned in particular:

Challenges	Breakdown
Functioning of governance bodies	• Existence of decision-making bodies and formalisation of decision-making procedures • Clarity of the roles of the different decision-making bodies and responsibilities • Sharing of value created and transparency on executive compensation
Business ethics	• Prevention of corruption • Independence and prevention of conflicts of interest • Transparency with regard to the portfolio companies, in particular regarding shareholders' agreements • Formalisation, deployment and implementation of the management company's values • Ethics of relations with partners, suppliers and subcontractors
ESG strategy and policy	• Formalisation of an ESG policy and strategy • Management of the ESG (allocated responsibilities, training, setting objectives and monitoring) • Inclusion of non-financial criteria in the establishment of the variable component of compensation

The social issues relevant to the management company include:

Challenges	Breakdown
Employee attraction and retention	• Ability to attract talent (employer image) • Welcome and integration of newcomers • Ability to retain talent: opportunities for development, transparency of compensation
Training and skills development	• Anticipating training needs, training teams, supporting change
Well-being at work, stress management	• Developing a team spirit in a business with a strong human dimension and trust • Quality of organisation and internal communication • Team autonomy and empowerment • Equal treatment between employees • Management training, workload management • Stress management and prevention of psychosocial risks (disconnection, work/life balance, attention paid to employees, etc.) • Teleworking and part-time possibilities • Workstation ergonomics
Diversity and equal opportunity	• Prevention of the risk of discrimination • Promoting diversity (women/men, origin, age, disability, etc.)

In the social chapter, the "social commitment" dimension can also be taken into account. Beyond the possible impact on external visibility, it is above all a means of contributing to uniting teams and giving meaning to action. This could be, for example, sponsorship actions, and more broadly, opening up the management company in its territory and to all its stakeholders (supporting young people in difficulty/facing difficulties in finding employment, etc.). Many public examples (websites) exist today in French asset management companies.

Also, while environmental challenges appear to be less of a priority and less significant, certain actions will make it possible to give overall consistency to the ESG action, and may at the same time contribute to reducing certain costs:

Challenges	Breakdown
Reduction in carbon footprint	• Identification of the main sources of carbon emissions (often linked to business travel and energy consumption of buildings) via a carbon footprint (e.g. carbon footprint) • introduction of actions aimed at reducing the carbon footprint (travel policy, etc.)
Sustainable use of resources (energy, paper, etc.)	• Use of electricity from renewable sources, responsible paper supply or other supplies (ecolabels) • Monitoring consumption and setting reduction targets
Reducing pollution linked to waste production	• Waste reduction and recycling (papers, water bottles, boxes, printers, etc.)

2. Examples of actions

Apax Partners

Since its creation, Apax Partners has supported the AlphaOmega Foundation, created by Maurice Tchenio in 2010. This foundation, recognised as a public utility, is designed to help disadvantaged children and young people to have lasting access to financial autonomy through education and employment. It applies the principles of venture philanthropy to provide long-term support to associations working in the area of education, such as AFEV, Coup de Pouce, Réseau des Ecoles de la 2 chance, Entreprendre pour Apprendre.

Ardian environmental policy and carbon footprint

Ardian, committed to respecting its environment, has implemented measures to limit the impact of its activities. In each of its 12 offices, the company has therefore implemented an overall energy efficiency policy, including recycling, videoconferencing to reduce the number of business trips and the use of low-emission taxis. In addition to these measures, Ardian recently revised its company car policy, encouraging employees to prefer electric or hybrid vehicles.

As co-founder of the Climate 2020 Initiative, Ardian had already committed to measuring and reducing the carbon footprint of its majority-owned portfolio companies. To set an example, Ardian has calculated its carbon footprint at the management company level. The objective was to be consistent with its ESG policy by aligning its practices with those promoted by its portfolio companies, by measuring its own issues, and to define areas for improvement.

Ardian thus calculated its first carbon footprint in 2016 on the 1.2 and 3 scopes, covering 11 international offices. The exercise covers a period of three years (2013-2015), in order to obtain a dynamic view of the evolution of its emissions compared with that of its activities, workforce and revenues. The aim was initially to draw up a summary of the issues linked to the management company's activity and to identify the main emitting items.

As a service company, direct emissions (scope 1.2), which cover waste and the energy consumption of buildings, for example, account for a minimal share of Ardian's CO2 emissions. In order to have a complete view of its carbon footprint, Ardian has also calculated its indirect emissions (scope 3). This highlighted Ardian's two main emitter items: procurement and travel. Business travel accounts for half of Ardian's emissions, particularly related to air travel. Procurement accounts for 45% of the company's total emissions. They mainly correspond to intangible services (insurance, litigation, consulting firms, etc.) that Ardian uses. These services are taken into account through the operating costs of the companies of which Ardian is a client.

The results of the carbon footprint were presented to the Ardian CSR Committee, initiating reflection on the implementation of new actions to improve the company's impact while involving the employees. These actions should include increasing awareness of the use of digital tools (videoconferencing, etc.) to further reduce travel, and the use of green means of transport. The development of teleworking has been implemented.

Azulis Capital

From our core business, giving to and reaching out to those excluded from our economic environments. A long-term initiative that involves the entire team.

As a private equity player, we are convinced that openness to the outside world beyond our ecosystems and interaction, with players in the social and solidarity economy, with NGOs and associations committed to sustainable development, constitute a human experience of great wealth, creative stimulation and a source of real performance.

As a continuation of our business as an equity investor, we have supported the entrepreneurial initiative for more than 10 years through a partnership with the Association for the Right to Economic Initiative ADIE (AIDE- Association pour le Droit à l'Initiative Économique).

The contribution of Azulis Capital is reflected in a financial commitment and, above all, the availability of time from the entire team to help entrepreneurs and creators excluded from normal economic channels.

ADIE, founded in 1989 by Maria Nowak, is a recognised public utility association that thanks to microcredit helps people excluded from the labour market and who do not have access to traditional bank credit, to set up their business.

ADIE has awarded more than 150,000 microloans, thus contributing to the creation of more than 120,000 companies, with a sustainability rate of 70% and an integration rate of people financed of 84%, after two years.

The support provided by Azulis Capital made it possible over the period 2007-2017 to:

- *Support 180 micro-entrepreneurs.*
- *Create 230 jobs.*

In addition to this rich and meaningful experience, Azulis Capital is committed to encouraging its affiliated companies to pursue or develop a social approach in their area of activity.

Bpifrance

Bpifrance supports social commitment in its activities and subsidiaries, including in the investment area.

The main sponsorship action concerns support for Démos (a musical and orchestral educational programme with a social vocation), a cultural democratisation project focused on musical practice in orchestras. This nationwide project, initiated in 2010 and coordinated by the Cité de la musique - Philharmonie de Paris, is aimed at children living in neighbourhoods covered by urban policy measures, as well as in rural area with an inadequate presence of cultural institutions. It works where access to artistic and cultural education is made difficult due to economic and social factors or because of the geographical remoteness of educational structures. Démos' goal is to enrich children's educational pathway, promoting the transmission of traditional heritage and contributing to their appropriate social integration. It is built on strong professional cooperation between cultural and social players.

Bpifrance also supports, through partnerships, associations and initiatives for access to employment or learning for young people from underprivileged or special profile neighbourhoods (NQT), and initiatives dedicated to women entrepreneurship or improving the daily lives of people with disabilities, for example by supporting Handi Tech Trophy. Partnership agreements have been concluded with 41 sports clubs throughout the country to facilitate access to private funding. Lastly, Bpifrance supports and encourages employees' initiatives and commitments on major causes such as Telethon, the fight against breast cancer, etc.

Demeter Partners

We are very keen to invest in marketplace initiatives, as they are part of a practical and material approach that can simply be applied to our portfolio companies. For example, we joined the Climate 2020 Initiative (IC20), committing ourselves to reducing the carbon footprint of our portfolio companies (and thus being able to measure it). The sharing of experience in this type of collective initiative is particularly useful and relevant, notably in establishing ESG practices.

We are always keen to see our portfolio companies improve their ESG practices. We strive to innovate so that the ESG approach is attractive to them and provides tangible added value. This is why last year, we organised an ESG working group for eight of them with different maturities, with the support of BPI and the expertise of Greenflex. The seminar focused on measuring and enhancing the impact of these companies, positioned in the energy transition sector. Companies can use these environmental or societal performance indicators by defining appropriate communication with their shareholders, employees and customers.

Lastly, our by-laws state that the companies financed are required to complete an ESG questionnaire before the investment, and then once a year during the entire holding period. They are also strongly encouraged to address ESG issues at least once a year during a board meeting.

LBO France

In addition to its action in favour of responsible investment, LBO France has more generally questioned its possible societal contribution.

As an economic player with strong levers for action within a vast ecosystem, the company aims to support the economy by contributing to innovation in key parts of society: education, research, culture and development aid.

The company wanted to adopt an approach with the following characteristics:

- *sufficiently targeted to be effective and visible, and broad enough to respond to different sensitivities;*
- *support to high performing entities or specific projects;*
- *concentration of resources to have an economic impact and be more effective in action;*
- *support, if possible, of an initiative by an employee of LBO France;*
- *commitment over a minimum period, even if it is conditional, to follow a project over a longer time;*
- *gradual building-up of expertise, in order to support projects and their initiators and to be able, where necessary, to express themselves legitimately on these issues;*
- *implementation at LBO France of skills sponsorship and possibly occasional collective actions on the ground.*

With an experimental phase before a more structured approach.

Experimental phase: 2014 - 2016

LBO France supported the founding of the Avions du Bonheur corporate foundation created by the Promovacances group; this foundation allows disadvantaged families to go on holiday together in popular destinations combined with cultural discoveries.

It then supported the Goélands Foundation (foundation under the sponsorship of the Fondation pour l'Enfance), created by one of its employees, which fights genetic diseases and provides human and financial support to disadvantaged high school students and students. This has resulted in joint events.

At the same time, LBO France has invested in research by becoming a multi-year sponsor of the Innovation Prize awarded to the best business project for students of the Master Bioentrepreneurs created by the Imagine Institute, the Paris Descartes faculty, the École Polytechnique and HEC Paris.

Structuring phase: since 2017

Following a call for projects among all employees, eligible projects were presented orally by their sponsors to all the teams, followed by a one-page summary in a common format. Each employee received these summaries and the winning project was designated following an electronic vote.

An LBO France team will be in charge of supporting the winning project alongside its sponsor.

The PAI Human Capital Foundation

In addition to its action in favour of responsible investment, PAI provides financial support to philanthropy projects through its Foundation, PAI Human Capital.

Since 2012, the Foundation has had an annual budget of 500,000 exclusively dedicated to financing social and solidarity initiatives, working to promote the professional integration of people most isolated from the job market.

This contribution is not only financial, and each PAI member is strongly encouraged to join the foundation committee in order to personally support the projects supported. This allows PAI Human Capital to share with the associations the management company's expertise and know-how in areas as varied as budget management, reporting and fundraising.

In 2016, 17 associations were supported, four of which benefited from the public label "France is committed" ("La France s'engage"), recognising the most innovative projects serving society Clubhouse, Lulu in my street, Log'ins (Ares), and Solidarités Nouvelles face au Chômage. The full list of projects is shared and detailed on the PAI website.

Lastly, PAI's societal commitment is also illustrated by the annual participation of its members in a charity race to raise additional funds for one of the Foundation's associations. For example, at Paris-Versailles in 2016, €20,000 was collected in favour of the "A la bonne ferme" (Lazare association) project, which designs a market gardening activity in permaculture in order to produce organic farm products while allowing its employees to gradually return to work through integration contracts.

D. What communication for the ESG approach?

1. Overview of developments in practices and new regulatory requirements

The various regulatory requirements[3], have gradually led investors of different kinds to greater transparency in the disclosure of ESG information. The major asset managers, bank subsidiaries, were the first in the early 2000s, then the constraints linked to non-financial reporting in France from 2010 accelerated this movement among financial institutions (banks, insurers, etc.). The issue of the transparency of CSR data is now well established in France, Europe and many regions of the world. It was logical that, by extension, it should affect private equity players.

Furthermore, the best practices of the sector leaders are driving the other players in a dynamic move towards more extensive, but also more qualitative communication.

More and more management companies are thus communicating their ESG strategy, policy and practices publicly through a dedicated ESG report or a dedicated part of the annual report and their website. The question of whether to produce a dedicated ESG report depends on the ambition set by the managers, but often makes it possible to deal with, or even anticipate, the questions raised by LPs during the fundraising phase, for example.

Some management companies, like large listed companies, even go further by publishing an integrated ESG report, i.e. by dealing with ESG issues in the strategy in synergy with financial issues, thus showing that ESG is a full and complete operational component of their action, like the others.

Article 224 of the Grenelle 2 law was a first sign of French public authorities' determination to strengthen investor communication on ESG issues. It was quite limited in its expectations, and has now been replaced by Article 173 of the Energy Transition Act for Green Growth.

This article strengthened the obligations in terms of publication, both on the media and on the nature of the information (see section D-3 of Part I). Beyond general ESG issues, a very clear focus is placed on climate issues. A stronger trend since COP 21 is to push all categories of investors to become actors in the energy transition by leading them, or even forcing them, to direct their investments in this direction.

This particular focus on climate is explained by the fact that the financing needs of the energy transition and the risks linked to climate change (supply risks, insurance costs, damage to infrastructure, etc.) are weighing on investors. Nevertheless, communication on the climate issue must not obscure that on other environmental or social issues, the associated risks of which may be equally significant.

2. Communication options and choices

Compared with 2010, this reflection is now facilitated by the numerous public examples on management companies' websites and by France Invest's publications.

Ensuring regulatory compliance

The minimum disclosure is that required by the regulations according to the expected thresholds: general ESG information below €500 million of assets under management and broader information with a climate focus above it (see section D-3 of Part I). The France Invest-PwC guide on the implementation of Article 173 provides the broad guidelines possible for this communication. It sets a minimum, bearing in mind that it is possible to go further by providing information that is both richer and broader at the discretion of the management company.

The regulation merely sets out a framework and themes, but leaves room for investors to determine the nature of the information or indicators to be published. No method is imposed and the "comply or explain" principle leaves a great deal of leeway. The text of the law must therefore be seen more as a source of inspiration for building and structuring ESG communication than as a list of information to be published at any cost.

ESG communication must in all cases be pragmatic and consistent with the investments (types of investment, durations, sectors of activity, geographical areas, etc.). Thus, even if the law particularly emphasises the contribution to energy transition as well as the management of climate-related risks, it will be more consistent for an investor focused on service companies with limited environmental impacts to focus its reporting more on social and governance issues than on environmental issues. The investment policy guidelines will justify a small contribution to climate impacts.

[3] *The regulatory obligations relating to ESG for management companies (Article 224 of the Grenelle 2, extended by Article 173-VI of the Energy Transition for Green Growth Act (TECV)) are presented in section I.D. of this document.*

Making regulation an opportunity by deploying specific communication: making ESG an element of brand appeal

The first question to ask is what the targets are and the impact of advertising such communication: the general public, LPs, competitors, portfolio companies, etc. The answer to this question will guide both the form and the substance of the document. For example, one can prepare a detailed report for the LPs, containing information that one does not wish to convey to the general public, while limiting the information that will be disseminated more widely to general information.

The aim is generally to report on its positioning, the progress of its ESG approach and the actions taken internally and/or within its portfolio companies. The credibility and demonstration of the contribution of the ESG approach to value creation are also a key point targeted by this type of communication. It should therefore at least cover several areas:

- the management company's understanding and vision of ESG
- its commitments (e.g. ESG charter) and objectives
- the practical implementation within the management company
- the implementation in the investment policy
- relations with the portfolio companies
- the collection of non-financial data over time
- the comprehensibility and measurement of corporate ESG actions

The following principles applied by companies that have a formal (regulatory or voluntary) communication on CSR issues can serve as a framework for management companies:

Materiality

- Focus on major issues by adopting a materiality approach (prioritise the most "material" issues, i.e. those that are of strategic interest and/or that are subject to significant risk factors)
- Present the challenges and issues by taking into account both their impacts on the management company and its stakeholders

Consistency

- Ensure that ESG reporting is consistent with the investment strategy and the challenges, whether in the commitments made, the objectives set and the indicators chosen
- Be consistent over time, as the challenges of the management company and its portfolio companies do not change drastically in the short term

Objectives and continuous improvement approach

- Report on the strategy adopted and its deployment (review of the key elements of the approach, description of the progress made and the actions carried out)
- Clearly respond to the major challenges by setting out commitments broken down into pragmatic and attainable objectives (nevertheless without lacking ambition); a "small steps" approach is better than unfulfilled commitments

Transparency

- Demonstrate humility and credibility by communicating on the firm's policies and actions as well as on its difficulties and areas for improvement without concealing any controversies at its level or that of its portfolio companies (in the event of controversy, an explanation of the response provided and the choices made is then expected)
- Communicate indicators in line with the commitments and objectives in order to measure the impacts and progress made (a pitfall may be to communicate only on the positive/negative impacts of the portfolios)
- Estimate the companies' positive contribution to society (carbon emissions avoided, job creation, etc.)
- Once the approach is mature, estimate, using a cost-benefit approach, the economic impact of the ESG approach in terms of value creation

Comprehensibility

- Clearly define the methodology of the indicators communicated (scope, sources, units, years, etc.); better a small number of well-chosen indicators than a long list not used
- Develop an appropriate iconography to illustrate and explain aesthetically and pedagogically

Communication on ESG is a trend in which regulation is strengthened globally and in which strategic thinking is major: communication choices must really be based on the management company's ambition. It is possible to create real differentiation and attractiveness for both investors and employees, but strong consistency is needed. It does not rule out pragmatism and progressivity. Like the practices of large listed groups, some of which have more than 20 years of CSR communication behind them, this communication is built in stages and improves over time. Pragmatism, consistency, simplicity and transparency must be the permanent reference framework for this.

3.

From the fundraising to the exit from portfolio companies, ESG in all the stages of the investment

The ESG approach is developed throughout the investment cycle, from the fundraising to the exit from the portfolio companies.

Currently, the success of fundraising can, according to LPs, depend on the GP's ability to present a clear responsible investor policy. This trend is growing strongly, although it varies depending on the geographic region.

The ESG policy is then applied to equity investments in companies: at the time of acquisition or purchase of a stake, to identify the major ESG challenges (mainly in terms of risks) and to understand how the portfolio companies follows them up.

It is during the holding period that value creation can increase with the support of an ESG approach that should form part of the company's transformation plans and receive the same attention as any other action undertaken, whether in the areas of risk reduction, improved operational efficiency and innovation.

At the time of exit, the management company is increasingly required to answer questions from potential purchasers about ESG. It is also an important reference point for future investors in the way they look at the values embodied by the companies' management teams. The ESG VDD (vendor due diligence) is not the only answer, and will only be imposed in a mature company or one that has worked on this issue. The absence of a dedicated VDD will not prevent management and the investment bank from preparing for these themes ahead of the process.

The GP's liability is not the same depending on its investment method. The proposed approaches may therefore vary depending on whether the investor is a majority or a minority shareholder, or, for example, whether it invests in equity or debt. The issue of leverage, linked to the size of its ownership of the capital and its presence in the management/control bodies, will be decisive in calibrating the nature of the ESG effort.

However, regardless of the type of investment, the management company is partly responsible for ESG issues and may at least question other investors, as well as have specific clauses included in shareholders' agreements.

A. Fundraising: is the ESG criterion a differentiating, necessary or optional factor?

1. Current situation and challenges

Consideration of ESG by private equity players has been largely encouraged by a large number of LPs, and for some of them this became a must from 2009-2010.
The original trends in responsible investment on the LP side first appeared in religious communities (notably in the 17th century among the Quakers, the first to refuse to take advantage of the war and slavery industry). Congregations were thus pioneers in addressing moral, ethical or exclusionary issues in their investment philosophy. First in the United States and then in Europe, public institutions (sovereign funds, public or public-private banks, etc.) gradually took the same path for reasons of transparency in the management of public funds.

Gradually, and in line with the growing importance of sustainable development themes in the economic, public and societal sphere, the principals and originators of institutional investors and other private equity funders began to integrate ESG themes into their GP selection and investment policy.

Today, the **French R**egulation (Article 173 of the Energy Transition Act for Green Growth) make this type of concern official for a large number of investment players. In the absence of specific legislation, the other European countries have made progress on this subject, which on the other hand remains more diffuse or variable in Asia and North America.

PwC's international LPs study in 2015[4] highlights changes in institutional investors' motivations. A few years ago, reputational risk was the main reason why LPs took ESG issues into account. Investors then identified the operational risks associated with these issues. In 2015, 83% of investors considered that better management of ESG issues would improve the return on their investment or reduce its risks, considering ESG management to be part of their fiduciary responsibility.

Also, LPs may be required to carry out enhanced due diligence at the time of fundraising. In the PwC study, more than two thirds of the investors surveyed stated that they could refuse to participate in a fundraising or co-investment because of ESG issues. Among the reasons mentioned are the GP's refusal to implement a responsible investment policy or procedures, or the existence of past investments in controversial sectors, such as arms or the tobacco industry. The same percentage of investors indicate that they are ready to impose ESG criteria as a condition before investing with a GP.

Almost all of the institutional investors surveyed agreed that taking into account ESG will gather momentum. This issue has now become a must for GPs in the initial discussions with their potential LPs.

Already in 2015, nearly all investors stated that they were assessing GPs' ESG approach before entrusting them with fund management. These assessments are often qualitative, but almost one third of the LPs give the GP an ESG rating that has a weight in the fund allocation decision. For example, a French LP indicated that it raised questions on four aspects: responsible investor policy, ESG due diligence process, ESG reporting and ESG performance monitoring. These four points are assessed and account for 10% of the overall rating assigned to the GP.

The inclusion of ESG in fund allocation is concretely reflected in requirements in side letters. Among the examples of requirements mentioned, the GP is most often prohibited from investing in certain sectors (tobacco, alcohol, pornography and weapons in the majority of cases) or in certain geographical areas.

Some investors go so far as to provide their future GPs with detailed ESG procedures manuals, including the implementation of ESG management systems and specific dedicated reporting.

Although ESG is now largely integrated into the dialogue between LPs and GPs, at the time of fundraising and throughout the life of the fund, the situation is nevertheless not homogenous: we are moving from the situation of LPs awaiting information provided by GPs to that of LPs with very structured formal requirements, up to reporting by the companies in the portfolio.

Nevertheless, although the ways of approaching the subject vary, ESG has become a compulsory factor at the time of fundraising, particularly in Europe. The recent work of the France Invest ESG Commission (see section C-2 of Part I) is a perfect illustration of the increase in the wealth of interactions between LPs and GPs on these issues and reflects the potential complexity.

[4] *Bridging the gap: Aligning the Responsible Investment interests of Limited Partners and General Partners, 2015.*

2. Key points and best practices

In the fundraising phase, the GP's best practice consists in demonstrating to the LPs the concrete and operational dimension of its ESG approach. The overall consistency of the approach (from investment to exit, not forgetting the operation of the management company itself) and the integration of the concept of materiality into the portfolio management are likely to convince an LP of the GP's seriousness and understanding of the ESG issue. This is recommended by the PRI, in a spirit of dialogue, "The Limited Partner' s Responsible Investment Due Diligence Questionnaire" (see section C-2 of Part I).

The commitments made by the GP may be formalised as follows:

- Management company charter;
- GP's adherence to the France Invest charter;
- GP's adherence to the PRI or any other international initiative or organisation;
- Appointment of an ESG manager (not necessarily 100% dedicated) who will lead the dialogue between the GP and the LPs on this subject
- Possible ESG clauses in the by-laws of the funds under management, etc.

These commitments can then be explained through a description of some concrete ESG processes such as:

At the management company level

- The implementation of an ESG policy within the management company itself;
- Fund by-laws clearly explaining the integration of ESG into the investment, monitoring and exit processes;
- Examples of pre- and/or post-investment ESG due diligence or assignments;
- Examples of shareholder agreements including specific ESG clauses;
- ESG training/seminar plans within the management company;
- Extracts from the annual reports pursuant to Article 173 of the Energy Transition Act for Green Growth;
- The annual management report including ESG or the management company's annual ESG report;
- The annual Assessment Report of the PRI;
- Any GP contributions to the private equity financial community;
- Public communication methods or strictly limited to LPs in terms of ESG.

At portfolio company level

- Examples of ESG action plans identifying risks and/or opportunities for actions for the company with monitoring indicators;
- ESG reports of the portfolio companies and/or GP's specific portfolio reports;
- Supervisory board minutes dealing with ESG issues among affiliates;
- Testimonials/interviews with CEOs in the GP portfolio;
- Sessions of sharing of experiences between the managers of the portfolio companies, etc.

3. Examples of actions

Demeter Partners

ESG is at the heart of our fundraising strategy, which corresponds to the subscribers' expectations. We include a presentation of our ESG approach in all our sales documents, even the shortest ones. Many subscribers are asking us for our full ESG report, which we are delighted to provide.

In addition, we systematically examine the possibility of labelling our funds, to testify to and highlight our investment strategy, dedicated to ecological and energy transition. Our Demeter 4 Infra fund was one of the first funds to receive the French Energy and Ecological Transition for Climate (TEEC) label. We have since chosen to label two other funds. This approach aims to make our investment commitment to climate and sustainable development more visible.

Eurazeo PME, the company's ESG VDD management

To prepare for its last fundraising, which was completed in June 2017 for an amount of €658 million, Eurazeo PME carried out an ESG VDD exercise for the entire management company. This VDD, the first of its kind in the world, covered both the management company's consideration of ESG, the integration of ESG in the investment process and the management of ESG in portfolio monitoring.

This innovative approach, carried out with an external advisor, presenting in a single document a summary of the positioning of Eurazeo PME and its ESG portfolio companies, helped providing the management company with visibility among LPs.

In the VDD report, the consulting company of Eurazeo PME carried out a materiality analysis of the portfolio companies, identifying the most important issues for each of the portfolio companies, and detailing the actions implemented during the investment period.

PAI integrates ESG into its due diligence process for Europe VII PAI

As part of the fundraising for the PAI Europe VII fund, PAI systematically incorporated ESG into the due diligence work carried out by the investors.

The entirety of PAI's ESG programme was presented to the investors, providing a clear vision of its commitments and making it possible to measure the progress made and the new initiatives implemented throughout the life of the fund. LPAC members now pay particular attention to the portfolio's non-financial performance. PAI thereby offers a clear and transparent view of its ESG footprint and its responsible investment policy.

More specifically, ESG is naturally present in the private placement memorandum of the PAI Europe VII fund and a special section in the dataroom has been created for this topic. Investors also secured the signing of numerous ESG clauses in their side letters. For example, PAI was able to make a special commitment to the exclusion sectors and to ESG reporting.

On the other hand, ESG is not only the subject of a dedicated section within the fund's Due Diligence Questionnaire (DDQ), but there is also a dedicated fifty-page DDQ on this issue. The latter really functions as a fundraising document and an assessment of the appropriateness of an investment in PAI's new fund and complements the annual ESG review (available on the PAI website).

Lastly, thanks to PAI's internal reporting system on ESG, each portfolio company is subject to an ESG scorecard reflecting the most decisive indicators with regard to the ESG challenges specific to each business sector. These scorecards, partly presented graphically in the form of radars, enable investors to have a clear and quantified view of the ESG performance within each company in PAI's portfolio.

SWEN Capital Partners

SWEN Capital Partners carries out an in-depth study of GPs' responsible investment practices for all primary and secondary investment cases. These analyses are an integral part of the process leading to the investment decision. In particular, they seek to determine to what extent ESG is deployed within the said GPs throughout the investment cycle and with what depth. The commitments as well as the documentation available (PPM, Due Diligence Questionnaires, PRI reporting, etc.) are central elements in carrying out these analyses, supplemented by the sending of specific ESG questionnaires and interviews with ESG managers and teams. This emphasis placed on ESG analysis at SWEN CP is entirely due to the existence of a genuine culture of responsible investment within its teams. In addition, SWEN Capital Partners, in its desire to support non-listed financing players (private equity, debt and infrastructure), also monitors the ESG practices of its GPs in the portfolio by asking them to send an annual monitoring questionnaire. In particular, it ensures that the GPs' practices are consistent with their commitments.

4. France Invest's proposals

Mentioned in Part I, the work of France Invest's ESG Commission has paved the way for progress to be made on the nature of exchanges between LPs and GPs during fundraising, but also during the holding phase.

As the LPs' ESG approach is presented to the GPs at the time of fundraising, we felt it appropriate to position this recommendation of the ESG Commission in this chapter.

Recommendation of France Invest's ESG Commission to facilitate dialogue between LPs and GPs

Challenges of the LPs-GPs relationship on ESG issues

There is a convergence between LPs concerned with taking ESG issues into account in order to be aligned with their own convictions and to meet the expectations of their customers, and GPs wishing to share with their investors - as well as with all stakeholders - that the ESG dimension is fully integrated into their actions throughout the value chain: portfolio companies, management company, relations with investors and civil society as a whole.

Accordingly, GPs see the LPs' approach as supporting their own approach and enhancing their thinking on these subjects.

However, there is a great disparity in demands from LPs: a single GP can have an ESG questioning scope from its LPs, ranging from no request to a detailed questionnaire including the portfolio companies, all with variable timelines.

This disparity currently raises five major questions:

- Availability and quality of information requiring significant work by GPs and their portfolio companies: definition, collection and control of indicators (in particular when it concerns information from the portfolio companies);
- Quantity of work for the management companies and the portfolio companies when faced with demands that are strong, heterogeneous and sometimes difficult to apply;
- Impact on the companies in the portfolio likely to perceive this ESG approach as an administrative constraint and not as a real opportunity to create value, in contradiction with their approach and that conducted in cooperation with the management companies;
- Difficulty for LPs in effectively handling all the information requested, and subsequently in genuinely satisfying their customers. This is all the more so when they invest in a large number of funds that themselves are shareholders in multiple underlying companies with different challenges;
- Homogeneity and comparability of information.

Although it requires a gradual approach to solve these difficulties, integrating the diversity of the stakeholders (including on an international scale) and their expectations, the working group is convinced of the need to review the link between the exchange of ESG information between LPs and GPs in order to improve the transparency of practices and to encourage effective consideration of ESG, applied to material issues in funds and companies.

It is with this in mind that, with the wealth of ESG practices of French companies, GPs and LPs, France Invest's ESG Commission has issued a recommendation that it will subsequently want to share with its international counterparts, including Invest Europe and the PRI.

This initiative is a continuation of previous work such as the ESG Disclosure Framework, published in 2013. It aims to be the first step in an iterative and collaborative process aimed at sharing principles of action and a common set of indicators, in order to improve communication between LPs and GPs on the ESG performance of the funds and their portfolio companies.

Recommended approach

Principles of action

- Further dialogue between LPs and GPs on the effective implementation of the ESG approach by GPs; this at the time of fundraising and then during subsequent exchanges or in the management report;
- Backed by this dialogue, stabilisation and convergence (content and timetable) of the reports requested by LPs;
- Focus on material topics for each actor in the chain: LP, GP, relevant fund and portfolio companies, in order to promote the desired stabilisation and convergence, while bearing in mind that these material subjects may partly differ depending on these players;
- Use of a common set of ESG performance monitoring indicators applied to the management company and its portfolio companies;
- Adaptation of indicators according to investment strategies (majority, minority, venture, debt, mezzanine, infrastructure, etc.).

Operational coordination of recommendations

The working group recommends:

- To adopt an investment due diligence approach based on the LP DDQ proposed by the PRI. This in-depth work would lead to an assessment of the maturity of the management company in terms of ESG.
- To GPs, to deploy and monitor ESG actions in the portfolio companies and to report on them on an annual basis with ESG reporting at the level of the fund in which the LP has invested. To properly understand the fund's ESG performance, the group recommends monitoring indicators covering (details in Part III):
  - The management company;
  - Taking ESG into account in the investment process;
  - The fund's underlying portfolio companies.

These indicators are intended to form a common platform, aimed at promoting smooth and efficient interactions. It is the responsibility of LPs and GPs, based on their own approaches and bilateral relations, to define the ESG reporting framework to be applied to their investments:

- To GPs, to share with LPs the significant qualitative ESG elements of the companies in the portfolio.
- To LPs:
  - To share with GPs any changes in reporting as early as possible before the end of year Y so that they can interact with the various portfolio companies and include these demands in their own work with the managers;
  - To harmonise, as far as possible, the dates requested for returning these reports.

The working group also encourages LPs to regularly contribute to the dialogue with GPs on the basis of the information collected, in order to foster a dynamic of continuous progress.

Common indicators used

Management company

Approach

- Distinguishing between the two main complementary categories:
  - Those concerning the management company as a company: example of its practices;
  - Those that concern it as an investor: investment and monitoring process for portfolio companies.
- Use of indicators: monitoring the implementation of practices and their development over time. Form of indicators: figures (with space for comments) and text.

Indicator field

- For the "management company" indicators: overall philosophy, responses relating to all the portfolio companies i.e. for all the funds managed, even if the ESG policy is different from one vehicle to another because the GPs have evolved/progressed in their approach over time;
- For the "portfolio company" indicators: responses covering only the portfolio companies of the fund(s) in which the LP has invested.

Base of 11 ESG "management company" indicators

- Behaviour as a company:
  - Percentage of independent members in the decision-making body (board of directors, supervisory board or equivalent);
  - Percentage of women in the investment team;
  - Percentage of employees who received at least one training related to their professional prerogatives during the year;
  - Has the management company been actively involved in "marketplace" committees or working groups in its professional sphere during the year?
  - Has the management company been faced with a dispute (i.e. a dispute between several parties giving rise to legal proceedings, mediation, conciliation or arbitration) with one or more of its stakeholders (investors, employees, subsidiaries, portfolio companies, shareholders of the management company, etc.) or has it been the subject of a controversy likely to have an adverse impact on its image (press article, NGO campaign, etc.) during the year? If yes, specify;
  - What environmental initiatives have you launched or continued in the year?
  - Is there another major initiative or project that you want to highlight?
- Behaviour as an investor:
  - Percentage of specific internal or external ESG due diligence reviews carried out on the investments made during the year;
  - Number and percentage of portfolio companies (all funds combined) in which annual ESG reporting has been established;
  - Number and percentage of portfolio companies (all funds combined) in which ESG issues were placed on the supervisory board (or equivalent body) agenda at least once a year?
  - Number of ESG incidents (an ESG incident refers to any event that could have a significant impact on the portfolio company and/or its shareholders in particular, but not exclusively, in terms of public health, the environment, social conflict or, more generally, business ethics) and percentage that has been the subject of specific communication (email, telephone conference, press release) with investors?

Portfolio companies

Approach

For each indicator, a definition is proposed in Appendix I, particularly for companies that have not implemented their own or would like to change it; in other cases, maintaining the existing definition, particularly for companies located abroad that may have a different legal framework.

Base of 11 ESG "fund companies" indicators

- Environment
  - Monitoring of the carbon footprint over the last four years: number of participating portfolio companies concerned and percentage of participating portfolio companies;
  - Existence of a formal environmental approach: number and percentage of portfolio companies.
- Social
  - Job creation: number of jobs created excluding build-ups;
  - Monitoring the accident frequency rate: number of portfolio companies concerned and percentage of portfolio companies;
  - Monitoring absenteeism: number of portfolio companies concerned and percentage of portfolio companies;
  - Monitoring turnover: number of portfolio companies concerned and percentage of portfolio companies;
  - Value sharing: existence of a system for value sharing beyond legal obligations: number of portfolio companies concerned and percentage of portfolio companies.
- Governance
  - Board gender balance: number of portfolio companies concerned and percentage of women;
  - Management committee gender balance: number of portfolio companies concerned and percentage of women;
  - Board member independence: number of portfolio companies concerned and percentage of independent members;
  - Formalised procurement approach adapted to ESG risks identified in the value chain: number of portfolio companies concerned and percentage of portfolio companies.

A detail of the definitions specific to each of these indicators can be found in the official text of France Invest's recommendation, which is available on France Invest's website.

5. International overview: LP DDQ

As indicated in the first part (see section C-2 of Part I), the PRI have formalised the "responsible investment" Due Diligence Questionnaire for use by LPs in order to encourage ESG due diligence and a standardisation of the consideration of these issues in the private equity sector. The "responsible investment" DDQ offers a list of adaptable questions that LPs can ask GPs to understand and assess the integration of material ESG challenges by GPs in their investment practices.

It is based on the ESG Disclosure Framework for Private Equity: where the Disclosure Framework provides global guidelines and explains the rationale of the questions relating to ESG issues" the "responsible investment" DDQ for use by LPs offers a detailed list of "typical" questions that LPs may ask GPs in the pre-investment phase.

The "responsible investment" DDQ for use by LPs reaffirms the basic principle of the Disclosure Framework: "Due to both the diverse nature of the private equity asset class and differing LP and GP approaches to ESG management and disclosure, what constitutes effective and relevant disclosure can be defined only through discussions between a GP and its LPs".

The PRI encourage all LPs to use the "responsible investment" DDQ for use by LPs as a starting point for this discussion, in order to develop a common approach for LPs in terms of ESG due diligence and to optimise GP reporting.

6. Trends

According to PwC's 2016 study on GPs taking ESG issues into account, the materialisation of value creation via ESG, climate issues and cybersecurity should in particular be discussed in depth between LPs and GPs over the coming years.

Value creation: the question of measuring the financial benefits of ESG approaches is clearly being discussed and we can see certain studies specific to a few GPs. Although it is clear to many managers that the contribution to risk management and regulatory compliance in itself justifies an ESG approach, the issue of valuation will probably be one of the changes to be expected in the coming years. Lastly, for some investors who are at the forefront on ESG issues, these approaches are also a good way of estimating managers' maturity and their forward-looking vision. In addition to merely valuation, there are therefore already many reasons and benefits for taking action on ESG issues. Some managers who have put ESG at the heart of their strategy refuse to value the issues as such in a global and systematic manner, most often for two main reasons: the intangible value created is obvious so that an overall financial assessment does not make sense, and such an assessment, when it occurs, is carried out at the level of a specific action, like any other operational component of the company.

According to a Harvard Business Review study published in February 2017[5], it is now demonstrated that companies have better results when their managers plan for the long term, rather than when they are focused on their company's quarterly results. This study, based on an analysis of the results of 615 companies between 2001 and 2015, notably highlighted that companies managed with a long-term perspective generated a 47% higher income over the period.

Climate challenge: according to the Coller Capital barometer published in 2016[6], climate change is becoming an increasingly important factor in LPs' investment decisions. Two thirds of European and Asia-Pacific investors already declare that they will take climate change into account in their decision-making or will do so within two to three years.

In France, Article 173 of the law on energy transition prompts LPs to give even more attention to the measures taken by management companies to take climate risks into account in their investments. The 2020 Climate Initiative (IC20, see section E-1 of Part I) is the concrete expression of French progress on this issue.

In addition to these topics, the increasing importance of business ethics and anti-corruption regulations in many parts of the world only reinforces the level of consideration of these issues in ESG due diligence. National SMEs, which will very often have to generate international growth in their markets and via build-ups, are the first to be affected.

[5] *Finally, evidence that managing for the long term pays off, Harvard Business Review, 7 February 2017.*
[6] *Coller Capital Private Equity Barometer – Winter 2016-17.*

B. Investment: anticipating risks and integrating ESG into value creation from the outset

1. Current situation and challenges

One of the most visible trackers of the increasing importance of ESG issues is the increase in the number of specific due diligence reviews.

The fourth France Invest Annual ESG Report[7] illustrates this trend. In 2016, out of a panel of responses from 61 French private equity companies in the France Invest questionnaire, nearly 90% incorporate ESG analysis into the investment decision and formalise an ESG paragraph in their investment notes; nearly 80% incorporate ESG clauses in the legal documentation at the closing of the transactions. The number of acquisition due diligence assignments reached 299 in 2016, up on 2015.

The vast majority of acquisition due diligence assignments are carried out by majority or mixed strategy private equity structures as ESG criteria are generally taken into account in this type of structure. However, the latest developments in France show that some players in venture capital, such as mezzanine or debt, carry out this type of work or have it carried out. It is more than likely that the trend will be confirmed across all investment segments. The difference is mainly in the execution and the resources used.

Before the arrival of ESG due diligence assignments, management companies already incorporated certain environmental and social criteria when acquiring a stake, but more from the point of view of assessing legal risks (social or environmental due diligence, for example). However, this approach is no longer sufficient and covers only part of ESG risks.

Consideration of ESG issues from the time of investment, either via external due diligence or via an internal and sometimes combined analysis, has now been developed to become a market practice. The key question will be how the results of this work are used in the investment decision and subsequently in the portfolio company transformation plan.

This increasing importance reflects the increasing maturity of the management companies, which are aware of the operational risks that a company could face if it does not take ESG issues into account. Not addressing these issues during the acquisition phase would actually mean neglecting a whole series of risks that could impact the company's income, or even the existence of the company in the more or less long term. This may also lead to a failure to seize potential opportunities.

In addition to raising awareness, several questions can be asked in the execution of this analysis work:

- What ESG challenges should be addressed as a priority in the acquisition phase?
- What level of in-depth review of the issues is required prior to the acquisition?
- Is due diligence still required and when?

The responses proposed in the rest of this document invite us to act according to the size of the company, its business sector, its international presence and also according to the level of information available before the transaction.

2. Key points and best practices

Identification of investment opportunities

The integration of the GP's ESG approach must be at the heart of its business and strategy, both as an investor and as a partner to its portfolio companies.

Taking into account ESG issues in the investment analysis and decision-making process meets the first of the six principles of the PRI ("Taking ESG issues into account in their investment decision-making processes").

In the investment selection phase, the GP will not necessarily look exclusively for mature companies in terms of ESG, but those where management is not hostile to these issues and where concrete progress is possible throughout the holding phase. An ESG investment policy is therefore not an exclusion approach (except for LPs' "traditional" demands such as arms, tobacco, pornography, etc.). The potential for progress and the contribution of ESG issues to the transformation plan must be at the heart of GPs' concerns in the investment phase.

[7] *2016 ESG Report, France Invest.*

Moreover, for many GPs involved in an ESG approach, the inclusion of these criteria in the investment analysis contributes to enriching the knowledge of companies, the perception of the risks and opportunities that their activities entail, and management' intrinsic qualities.

The ESG theme must as far as possible be included in the preliminary discussions with the managers, letters of intent, investment notes and shareholders' agreements.

Example of taking ESG into account in the investment process:

Meeting with managers	Preliminary investment note	Letter of intent	Written questions on ESG issues	Preliminary note	Shareholders' agreement
• Presentation of the fund's ESG approach • Explanation of the economic justification of the ESG approach • Understanding of the managers' perception of ESG issues	• Integration of information obtained on ESG issues • Information on the managers' position on ESG • Information on the critical level of ESG challenges	• With a paragraph dedicated to analysing ESG challenges • With a paragraph mentioning the plan to support the company on ESG issues	• Obtaining the managers' position • Conducting a review of ESG criteria based on a questionnaire • Evolution of the potential for CSR support and opportunities for improvement	• Dedicated ESG section with findings and areas for improvement	• With clause relating to ESG issues

Source: Azulis

ESG integration in the investment process

The ESG due diligence is only the visible part of the ESG integration in the investment process.

This integration must be based on the formalisation of a written procedure, which may remain simple, the purpose of which is to detail the different stages of the process in which ESG issues must be addressed:

- Screening of the company in question;
- Due diligence;
- Role of the investment committee;
- Impact of ESG issues in the investment decision;
- Formalisation of ESG conclusions and analyses.

This formalisation is also one of the points expected by Article 173 of the Energy Transition Act, and also makes it possible to clearly answer the questions raised by LPs regarding the inclusion of ESG themes in the investment policy.

ESG due diligence

The effective integration of ESG into the investment process increasingly requires an ESG due diligence approach. This due diligence may be carried out internally if dedicated teams have the expertise, or by using external experts or mixed teams. Its relevance and level of depth vary depending on the context (size of the target, type of process, investment method, etc.).

Objectives

ESG due diligence on the acquisition involves a general overview of the risk areas on ESG issues and, less systematically (depending on the management company's approach and the context of the work), opportunities. It meets four main objectives:

- Assessing the ESG context specific to the business sector of the assessed company (competition, inherent sector risks, regulatory issues, etc.);
- Identifying the priority ESG challenges specific to the company and which present risks and/or opportunities;
- Assessing the company's level of ESG maturity on each of the priority issues;
- Building, where appropriate, the bases of an action plan to be implemented post-acquisition in order to limit risks and/or seize opportunities.

Depending on the results and the importance given to the ESG dimension in the investment policy, due diligence may be a barrier to investment.

In addition to the formal questions and analyses, it is also a good way to assess management's level of preparation for current issues and forward-looking questions and to know the values that motivate them.

Forms of due diligence and issues to be covered

Depending on the context of the target (particularly the risk level) and the impact (type of investment, competition, access to management, deadlines, etc.), due diligence may take different forms and cover a greater or lesser number of issues.

The PRI guide "Integrating ESG in Private Equity - a guide for General Partners" (2014) differentiates the following forms:

- Interviews using simplified or in-depth analysis grids handled by the investment teams;
- ESG audits internalised at the GP with cross-referencing of work resulting from social and possibly environmental due diligence;
- ESG due diligence assignments entrusted to external service providers.

The level of depth of analysis and the coverage of the issues also vary. There are three main levels of analysis:

- ESG screening: it makes it possible to draw up an initial assessment of the main sector risks and to ascertain whether these risks are relevant and addressed by the target company. The list of the main risks reviewed will depend on the GP's strategy, the LP's requirements and sectoral and geographical characteristics. A screening at the start of an investment process may be a prerequisite before the launch of a more complete due diligence process. It can also make it possible to verify the absence of controversial activities and the follow-up of the UN and EU exclusion guidelines (activities and countries). It is generally carried out internally with limited support from external consultants;
- "Limited" ESG due diligence of "red flag report" type: this covers only the three or four most material risks, i.e. issues with the greatest potential impact on the company's activity and/or on its ecosystem (e.g. supply chain for the textile industry, environmental protection for the oil industry or talent retention for a consulting company);
- "In-depth" ESG due diligence: it is, by definition, broader than the previous approach. Due diligence covers relevant issues on all major ESG-related topics (risks and opportunities): governance, human resources management, environmental issues, partner and supplier management and relations with civil society. As far as possible, it includes exchanges between the investment team, ESG experts (internal or external) and the company in question. Qualitative interviews with the company's various key people are therefore ideally organised as well as, if possible, a site visit.

In some cases, the major importance, in terms of risks, of one of the dimensions of the ESG scope may require the entire analysis to be focused on this theme, such as human rights management in the supply chain. In this case, due

diligence becomes an analysis focused on a single theme, but in depth.

The depth of due diligence

The level of coverage and depth of due diligence will depend on the nature of the transaction and the number and materiality of the issues.

Transaction type and context

The depth of analysis will vary depending on the level of access to information and management. During the due diligence phase, investors do not systematically benefit from privileged contact with the company's management. In a highly competitive phase, interactions with the company will be more limited and the ESG due diligence analysis will therefore be less deep. In the event of exclusivity, on the other hand, access to management will be easier and the due diligence process may be more comprehensive.

Similarly, in the case of a minority investment, access to management is rarely guaranteed at this stage. Conversely, it is easier to obtain meetings with management in the case of a majority investment.

If access to management is obtained, only an interview with a general management representative will often be granted at the due diligence stage.

Deadlines, often short, are also an obstacle to carrying out "in-depth" due diligence. The GP can then proceed in two stages: "Limited" due diligence before the investment, followed by more exhaustive due diligence after the closing, with the formalisation of an action plan.

Recommended steps by type of approach:

	Relevance of ESG due diligence	Comments
Majority + exclusivity	Very high in all cases	Importance of covering risks/opportunities and of drawing up an action plan. In principle good and extensive relationship with management
Majority + competition (phase 1)	To be considered based on potential risks	Relevance of limited due diligence based on a questionnaire or interviews with management (if access)
Majority + competition (phase 2)	High	Importance of covering risks and drawing up an action plan. In principle good relationship with management, some access possible
Minority + Exclusivity	High	Discussion to be undertaken with the sponsor beforehand, possibility of transmitting the questionnaire to the sponsor. Shareholders' agreement to be considered beforehand
Minority + competition	To be considered based on potential risks	Discussion to be undertaken with the sponsor beforehand, possibility of transmitting the questionnaire to the sponsor. Shareholders' agreement to be considered beforehand
Mezzanine debt	Specific app oach	Dedicated and lightweight approach to be implemented

The number of issues and their materiality

The number and materiality of the issues will depend on the following main factors:

- Business sector;
- Business model and complexity of the value chain (subsidiaries, subcontractors, suppliers);
- Size of the company;
- Products and markets addressed;
- Geographical locations;
- History of governance (family company, significant rotation of executives, etc.).

All business sectors face ESG challenges. The important thing will be to identify the issues to be analysed in particular.

This materiality-based approach is essential for obtaining the best possible information and interacting with management in the best way possible. Materiality makes it possible to go beyond the "generic" ESG concept to address concrete and operational issues.

Similarly, the business model is decisive, for example: is labour or production internalised? Does the company have subsidiaries, subcontractors or suppliers located in countries at risk in terms of corruption, respect for human rights or weather hazards? Do the products present risks to consumer health, the environment or even ethical risks?

The purpose of ESG due diligence is not to ensure that incidents do not occur, but to assess management's vision and knowledge of the issue and the nature of the measures taken to control them in the event of occurrence. Management tools and indicators will all be relevant to the analysis and will show the level of the company's control over the issue in question.

Lastly, the size of the company is not always synonymous with a reduction in the risk level, but requires the work to be adapted and the analysis to take a step back in terms of formalisation expectations: on an iso-risk basis, one will naturally not expect the same level of detail from a company with 50 employees and one with 800.

Due diligence steps

Practices are analysed and assessed using the following factors:

- Information gathered by the investor and access to a data room;
- Available public documents;
- Meeting with management if possible;
- Public information relating to the sector and other similar companies;
- Any internal documents provided by management.

ESG due diligence generally takes several steps:

- Understanding the context of the company;
- Identification of ESG challenges specific to the sector of activity and the company in question, analysis of competitors;
- Assessment of the materiality of the issues raised specifically for the company;
- Analysis of policies and practices on each issue;
- Assessment of the company's maturity on each issue;
- Possible proposal of a first action plan to be implemented post-acquisition.

If this is possible, the meeting with management is particularly comprehensive. It makes it possible to capture all unwritten practices, corporate culture, management style, informal uses and the sensitivity of the executives. In the same way, an on-site visit is often highly instructive and the exchanges surrounding the visit often contribute to enriching the analysis work.

The analysis criteria are specific to each issue and must be adapted to the realities of the company (size, markets, etc.). If necessary, a common set of key indicators may nevertheless be systematically collected: for example, the composition of the board of directors, the level of turnover or the absenteeism rate.

In all cases, due diligence cannot be a standard tool in its execution that can be replicated under any circumstances, but a suitable, flexible and intelligent tool. The key elements of due diligence that will create value for investors and management are based on the materiality of the factors analysed and the understanding of the specific context of the transaction and the company.

Decision-making

ESG must be included on the investment committee agenda, based on information gathered during the due diligence or internal work carried out upstream by the investment teams. The decision-making process can thus formally incorporate an ESG summary note indicating the company's ESG strengths and weaknesses, risks and potential.

This note is generally included in the investment memorandum. In addition to the company's degree of maturity at the time of investment, it is important to highlight its ability to improve its ESG position on projects to be defined.

Formalisation at this stage is important in terms of compliance with regulatory expectations (Article 173) and those of the committed LPs. It is also the best way to formally incorporate ESG issues into the plan for the future transformation of the portfolio company.

The investment approval

The formalisation of the investment approval is the right time to ensure that ESG issues are integrated into all relevant documents, such as

ESG clauses in the sales contract and in the shareholders' agreement. In this respect, the "CDC toolkit" offers models of ESG clauses to be incorporated into investment agreements.

The shareholders' agreement may be one of the right tools to explain the GP's ESG approach and to set out the "recurring" steps on this issue for the entire holding period. These steps can be:

- Carrying out a post-acquisition diagnosis or reviewing the diagnosis carried out during the pre-acquisition phase at the board meeting;
- A proposal to the supervisory board for an ESG action plan of 100 days and one, two or three years;
- Implementation of annual ESG reporting and collection of KPIs.

3. Examples of actions

Bpifrance

In the direct investment activity, *the CSR assessment of the company must be carried out in the pre-investment phase and is one of the decision-making factors.*

A support tool was developed in 2014, in cooperation with investors and external partners, to facilitate this non-financial valuation approach and make it tangible for both investors and companies. This tool proposes to examine and provide greater understanding about environmental, social/social and governance issues, prioritised according to the size and mega-sector of the company concerned.

At this stage, investors may, depending on the information they are aware of, remove some of the proposed issues and/or add others that they see as relevant.

It can then make an initial assessment, without asking the company about its practices and procedures. The second phase proposed by the tool is more interesting and makes it possible to assess the company on a scale of 1 to 100, by identifying its strengths and the issues that constitute avenues for improvement and performance gains.

This assessment is based on the responses provided by the company, on the issues that the investor consider relevant, with three to five questions per issue. Two to three areas of so-called "progress" can then be decided by mutual agreement between the investee company and Bpifrance, which are contractually determined, and monitored during the holding period or be modified according to changes in the company.

The ESG assessment of the company is a factor in the investment committee's decision-making and may lead to the investment presented being abandoned, mainly if this assessment results in a high-risk situation, with no specific corrective commitments.

In the fund of funds activity, *in the pre-investment phase, the Bpifrance due diligence pack includes a questionnaire on the ESG policy of the fund/the management company, in terms of both its own operation and its approach as an investor, its implementation and its monitoring. When making the investment, the side letters include a commitment by the Fund/MC to send Bpifrance its annual ESG report and, on the one hand, to respond to the annual ESG survey as a company and as an investor, and, on the other hand, to ask its invested companies to respond to the survey.*

Naxicap ESG policy in the investment process

Naxicap has adopted a set of procedures to take ESG issues into account throughout the investment cycle.

To ensure that ESG issues are taken into account in the pre-investment phase, Naxicap undertakes to:

- *Exclude certain industries and activities from its investments. Naxicap's first commitment is to invest in activities consistent with its values and to encourage ethical behaviour beyond the framework of regulations.*
- *Take ESG issues into account at investment committee meetings. All investment notes include a pre-investment ESG analysis. This preliminary analysis, drafted by the account managers in cooperation with external auditors, highlights the main ESG risks, opportunities and recommendations and is taken into account in investment decisions.*
- *Conduct ESG audits. Pre-investment ESG audits are mandatory. These audits, carried out by external auditors, provide an in-depth analysis of the main ESG challenges and are aimed at drawing up the action plan to be refined by the company for the coming years.*
- *Include an ESG clause in the shareholders' agreements. An ESG clause is systematically incorporated into the shareholders' agreements. It provides for the implementation of a detailed action plan, the production of periodic information during supervisory board meeting and responses to ESG questionnaires that enable us to monitor the portfolio.*

4. France Invest's proposals

In its "First Approaches to ESG reporting and due diligence" guide published in September 2014, France Invest issued initial recommendations on integrating ESG issues into the investment process.

These recommendations coincide with those of the PRI on the same issue and the industry now considers that ESG due diligence is a market practice in the same way as other analyses. However, it must remain based on materiality principles in terms of the selected issues and be adapted to both the size of the target and the investment method.

France Invest's Annual ESG Report confirms the growing importance of these analyses each year.

In its public statements, France Invest regularly emphasises the importance of the forward-looking dimension in ESG analyses in the investment phase, whether on potential risks or sources of value creation.

More than ever in a complex, connected and digital world, ESG confirms its relevance in the analysis of the values and long-term vision borne by managers and constitutes a form of "resistance test" of a company and its management team to meet the challenges of the next 20 years.

Lastly, the integration of the ESG issue in the private equity world cannot be limited to the completion of due diligence. An essential part of the value for the portfolio companies - and therefore ultimately for the investors - will be found in the integration of ESG at the heart of the business transformation plan: reduction of risks, improvement of efficiency, innovation, attractiveness of the brand, involvement in the energy transition, etc. It is therefore essential that due diligence be a major contributor to the integration of ESG from the start of the holding period and that it can serve as a platform for exchange with management in the first days after the closing.

5. International overview

The PRI guide for GPs[8] lists best practices for taking ESG into account in the investment process. These approaches are:

- Pragmatic and can be adapted to different investment strategies and portfolio companies;
- Aligned with existing standards and tools. The GPs have every interest in basing their system on already existing tools such as that of the CDC Group (Commonwealth Development Corporation), the CDP (Carbon Disclosure Project), the GRI (Global Reporting Initiative) and the IFC (International Finance Corporation);
- Enable GPs to compare risks and opportunities in a diversified portfolio;
- Make it possible to prioritise the most important issues for each company and for the portfolio.

[8] *Integrating ESG in Private Equity, a Guide for General Partners, PRI, 2014.*

The PRI also emphasise the interest of GPs in undertaking a "pilot" phase when implementing an ESG integration system. This test phase is ideally performed on companies already in the portfolio. It is an excellent means of strengthening the cooperation with the portfolio companies, identifying the necessary adaptations and improvements to the system as well as demonstrating the usefulness of the approach internally.

This test phase thereby paves the way for a ramp-up of ESG analysis at the level of the investments, which is sometimes more"tense" than in the portfolio for reasons of deadlines and availability of information. It is therefore a good approach to start "testing" on the existing system to validate the processes.

France remains the most mature country in terms of integrating ESG into private equity. Nevertheless, many countries are making significant progress on this issue. PwC's latest survey on ESG in private equity, conducted in 2016[9], illustrates this strong trend, particularly in the pre-investment phase. The survey of 111 GPs (almost 90% of which in private equity) in 22 countries (two thirds of which in Europe) shows a marked improvement since the previous survey in 2013 and offers an encouraging picture. In particular, nearly three quarters of the management companies surveyed provide formal ESG training to investment team members and nearly half to the entire investment team. Similarly, more than three quarters of GPs include ESG issues in the documentation presented to the final Investment committee meeting (87% in France).

All these figures are expected to continue to rise in the coming years, with some countries having strong potential for growth.

6. Trends

Societal, regulatory, political, generational and also physical changes lead to a permanent adaptation of the analysis methods in order to maintain the forward-looking and strategic dimension with regard to ESG.

In recent years, certain issues have been highlighted and become essential to investigate already from the pre-deal phase. Logically, the topics of concern of the LPs mentioned in Part I have an impact on the issues raised by the GPs with the portfolio companies. Among those whose importance is likely to increase in the coming years, we can include:

- Governance and business ethics;
- Defining meaning through shared values;
- The integration of ESG criteria into executive remuneration;
- Taking climate issues into account;
- Human rights, including the entire value chain;
- The link in terms of both risks and opportunities between digital and ESG;
- The company's contribution to global challenges;
- The evolution of economic models towards innovative models and in line with the challenges of climate change (circular, green, shared economy, etc.).

[9] *"Are we nearly there yet? Private equity and the responsible investment journey", PwC, November 2016.*

Interview

Activa Capital - Interview with Christophe Parier– Managing Partner

"At Activa Capital, we believe the level of risks weighing on companies is inevitably increasing, for two reasons.

First of all, evolving in a globalised economy increases the extent of risks that previously were confined locally (viral aspect of cyber-attacks, complexity of international supply and distribution chains, tightening of regional regulations on ethical and governance issues).

Furthermore, our companies are on strong growth paths that are driving them to change scale and which therefore increase the extent of the risks they were already managing.

Two main topics reappear in all our companies: the supply chain and cybersecurity.

Our objective is therefore to best support them in these risk management projects, bearing in mind that the task may seem titanic and costly in time, for a benefit that is difficult to measure. This actually involves a great deal of effort to "make things work properly".

Our support is structured as follows for the time being:

- *We start from the existing situation to understand what the company is already doing.*
- *Our proposal to the company is to make the exhaustive risk mapping an ESG project per se, the success indicator of which is simply: done or not.*
- *We closely monitor initiatives that can help our companies: business and legal news, innovative digital solutions, conferences, federations to share best practices and tools.*
- *Lastly, we refer to partners that are relevant for the SMEs in the portfolio to carry out cybersecurity and supply chain audits or training and awareness raising.*

Other long-term issues must also be closely monitored to anticipate structural changes. These are systemic and not direct operational risks, but we must always keep them in mind in our pre-investment company analysis and in our support for the portfolio companies. One of these risks concerns the acquisition of new skills in a context of growing automation. Continuing education and the emergence of new professions are two key topics on which we want to raise awareness among our portfolio companies. Another systemic risk concerns the scarcity of certain resources and raw materials. This is why we raise awareness among the team internally and among entrepreneurs about this situation as well as the solutions offered by the circular economy.

Behind each risk is an opportunity, and our greatest challenge regarding ESG issues is to change our mindset and identify all the opportunities for innovation and impacts that these risks represent."

LBO France

LBO France regularly revises its ESG practices based on its observations of new trends. In this respect, we believe that:

- *the world is facing mainly five megatrends: demographic and social changes, urbanisation, climate change accompanied by major pollution and the exhaustion of natural resources, geo-economic and political shifts and technological risks;*
- *these tension-creating groundswells combine with other phenomena: the emergence of companies that are more powerful than COUNTRIES and that have unrivalled information power, the reduction in COUNTRIES' capacity for economic intervention, the increasing importance of extra-territorial regulations, the growing concentration of wealth, the evolution of family structures, new aspirations, particularly in the younger generations, increased financial, moral and social demands on companies.*

We believe companies are at the heart of these challenges because they are the driving force or the major player in certain transformations that facilitate or accelerate the disruptions in our time: digitalisation, internationalisation in risky markets, regulations, global competition, etc.

Accordingly, we spend a lot of time on the managers' values, governance and forward-looking capacity, and we ask them about their views and their actions in the face of these challenges.

All our work is carried out by the person in charge of ESG with the support of external consultants and the regular presence of the investment teams:

- *monitoring of key aspects together with consultants;*
- *regular interactions with the management teams;*
- *in-depth review of processes with formalised and monitored action plans;*
- *intervention by experts;*
- *exchange of best practices;*
- *innovation sessions/meetings*
- *participation in conferences;*
- *reflection on changes in some companies' mission, etc.*

C. Supporting portfolio companies

1. Current situation and challenges

Although due diligence concentrates a large number of discussions and methodological considerations and is one of the indicators used to monitor the proper execution of an ESG approach, most of the value creation is produced in the support of the portfolio companies.
Immediate post-closing capitalisation is still an issue where management companies can make progress, even though the most advanced have understood and anticipated this point and are implementing it. According to PwC's 2016 study, consideration of ESG is mainly driven by improved risk management for 44% of GPs, and operational performance for 14% of them. In 2013, the same study highlighted the predominance of regulatory pressures and that of LPs as justification for the deployment of ESG approaches.

The cornerstone of this implementation is the strong joint involvement of the team in charge of monitoring portfolio companies and management, with the support of the people responsible for ESG issues within the management company, or even external advice.

In order to implement this approach, 90% of management companies in France have resources dedicated to integrating ESG issues in the investment process, and more than 40% of them have entrusted this role to at least one member of their team, either full-time or part-time10.

At the same time, more and more LPs are asking management companies to implement a structured ESG approach during the holding period, and to report regularly on the ESG performance of their portfolio companies. Indeed, according to PwC's 2015 survey of LPs, 39% of them require their GPs to provide them with an annual ESG report. Furthermore, some LPs are also under increasing pressure from their own stakeholders, who expect them to be more transparent about how they integrate ESG considerations into their investment processes. Some LPs, which are branches of major players, in particular insurers, have to assume the strong commitments of their parent company in terms of CSR: climate policies, commitments on human rights, exclusion policies, etc.

Part of the management companies' ability to manage ESG issues in their portfolios depends on their investment strategy and governance model. For example, majority shareholders with active positions on the supervisory board will be better placed to influence the management of a portfolio company than minority shareholders, for whom most of the influence will pass through the shareholders' agreement.

In addition, management companies may encounter different levels of acceptance from their portfolio companies with regard to ESG initiatives, depending on the culture of the company or the region in which it operates. The main challenge in this case is to strike the right balance between promoting active management of ESG issues and imposing unrealistic expectations on the portfolio companies. Here again, the crucial subject of the materiality of the issues is essential.

Lastly, practices in the venture capital investment segment are changing. Given the relative fragility of the supported companies, as well as for companies at a more mature stage, ESG issues must be properly taken into account, especially on the governance and social dimensions. ESG review practices in this sector are booming today'

2. Key points and best practices

During the holding phase, GPs encourage and support their portfolio companies in their CSR deployment projects, in order to fulfil their role as responsible shareholder, but also to meet the requirements of the LPs and the new regulations (see Article 173-VI of the Energy Transition Act).

As the context has changed, the approach adopted in the holding period is different from that adopted in the acquisition phase. In fact, it has become simpler to obtain access to the management of the company that is now a portfolio company and, in this way, it has become much easier to obtain access to information. Likewise, while the risk analysis dimension is still important, it is now joined by everything that can make the company more efficient and encourage opportunities.

Depending on the scope of the work carried out during the acquisition phase and the clauses included in the shareholders' agreement, an ESG assessment or review may be carried out in the first weeks post-closing. Several situations can be distinguished:

- Detailed ESG due diligence covering risks and opportunities with wide access to the company, including an action plan: a post-closing meeting involving management, the portfolio company monitoring team and experts (internal or external) who participated in the due diligence will be sufficient to move to the operational stage of an

[10] *2016 ESG Annual Report, France Invest.*

action plan to be followed up over the entire holding period.

- Due diligence focused solely on risks: additional post-closing work will confirm the risk analysis and identify opportunities and define an action plan as in the previous case;
- Very limited work or no work in the investment phase: a complete ESG review will be relevant for the purpose of covering risks and opportunities and, above all, to complete the ESG action plan.

The type of investment strategy will make it possible to calibrate the work. It is understandable that a majority investor applies a precise and structured approach. A minority investor will act on the basis of its actual involvement (significant minority shareholder and place on the board, minority shareholder with no place on the board, debt, mezzanine, etc.). In general, minority shareholders are involved at least on an analysis of ESG risks in the investment phase (either with their own experts, or using the experts of the main sponsor) and use the shareholders' agreement to request formal monitoring (at least yearly) on the ESG issues as consulting.

As part of an ESG review, an action plan is drawn up (or specified), and the procedures for following up the plan are defined. The governance of the ESG policy for the portfolio company is also established, and an annual report is drawn up. This reporting focuses on two dimensions: monitoring topics relevant to the portfolio company and reporting of data requested by the LPs. Work combining these two dimensions is part of the existing initiatives at the management company level.

In addition, intra-portfolio ESG initiatives can be put in place, such as training working groups on specific ESG topics, or organising CSR seminars. These initiatives have a very strong benefit in exchanging best practices and often make it able to "on-board" less advanced portfolio companies on these issues.

In summary, in terms of ESG the holding period is marked by the following factors:

- ESG review;
- ESG action plan and its monitoring;
- ESG policy governance;
- Reporting.

ESG review

In addition to the more exhaustive scope than due diligence on ESG issues, attention is much more focused on the opportunities offered on these issues and no longer solely on risks. As for risks, the logic is to support the company in dealing with them.

The objectives of the ESG review are to:

- Make the managers aware of CSR issues;
- Assess in depth the risks inherent in the business sector and the risks and opportunities specific to the company's context;
- Identify the importance of ESG issues in the company's economic context (suppliers, partners, customers, public authorities, etc.);
- Identify all ESG issues and provide an in-depth review of the company's corresponding strengths and weaknesses;
- Assess the company's ESG performance and maturity on all relevant ESG issues;
- Identify the main areas for improvement and define an action plan with management while setting objectives and ensuring that this plan is shared within the company;
- Embed the approach in corporate culture, innovation and organisation, in order to develop agility and flexibility and involve the teams in concrete and meaningful projects;
- Introduce indicators to measure CSR performance and report progress.

The ESG review thus includes many elements of ESG due diligence - if this has been carried out - by extending both the scope and the analysis. It also makes it possible to formalise the approach in terms of corporate culture, innovation and organisation in order to develop agility and flexibility and to involve the teams in concrete and meaningful projects.

The issues reviewed and the depth of analysis depend, as indicated above, on the company's business model, size, products and markets, and geographical locations.

It is important to approach the ESG issue in SMEs or mid-caps pragmatically and in a non-ideological manner. The best way to engage in dialogue with the managers is to prioritise the material issues applied to the sector and the company. While the overall ESG concept may sometimes seem abstract, the specification of the company's specific challenges will make the issue concrete for the executives. In many cases, the company is not inactive on these issues and, without going as far as strong formalisation, may have initiated many relevant actions.

The stages of the review (i.e. obtaining an understanding of the context, identifying ESG issues, assessing their materiality, analysing policies and practices, assessing maturity, etc.) are the same as those of due diligence, but with much richer sources of information, in particular through access to more internal documents, site visits, possible interviews with third parties and, above all, in-depth exchanges with the managers and other key management personnel.

The functions encountered generally include general management, the human resources department, the finance department, the procurement department, the HSE department, quality, general services, etc.

The ESG review can be renewed every year or every two years, more lightly (externally or internally), focusing on developments since the last review. To actively and concretely contribute to the transformation of the company, the ESG review must be followed by the formalisation of an action plan.

ESG action plan and its monitoring

The foundations of the action plan may have been laid already at the time of the acquisition ESG due diligence. The shareholders' agreement signed at the time of acquisition may also include an ESG clause including ESG issues in the 100-day action plan.

The action plan logically follows the ESG review and the identification of areas for improvement. For it to be effective, it should ideally:

- Focus on a limited number of issues, the most material or those on which there is significant room for improvement;
- Be achievable and not discourage management (by integrating quick wins, for example)
- Set objectives at different deadlines (100 days, one year, two years);
- Designate a person in charge for each objective;
- Be accompanied by performance indicators.

The formalisation of an action plan based on the model presented here is one of the keys to its success. The second key is the concrete involvement of the shareholder-management tandem in its deployment and monitoring.

ESG policy governance

To really enable the company to make progress in terms of content (culture, values, strategy, current practices, etc.), clear governance of the ESG policy is required at the highest level.

It is therefore highly recommended that the progress of the action plan be monitored by the board of directors or supervisory board. At least one session per year must include the topic on the agenda and, if possible, as the first point on the agenda for the topic to be treated with the required care.

Raising the managers' awareness, according to their mindset on this issue, is one of the concrete derivatives of the ESG review. This often demystifies the topic and shows the benefits for the company. This involvement of the managers must be faced with equally strong involvement on the part of the management company. Success depends on the quality of the dialogue between the company and its shareholders. However, the dialogue depends on the investment strategy and the governance model. Depending on the country, the level of involvement in ESG issues is more or less accepted and will have to be worked upstream so that the analysis carried out does indeed factor in local cultural dimensions.

An ongoing dialogue should ideally be established through the CSR plans monitored by the board and the analysis of changes in performance indicators collected annually by the GP. A good balance between active management of the issues and unrealistic expectations will need to be found as emphasised by the PRI in the guide "Integrating ESG in Private Equity" (2014).

The intra-portfolio seminars on ESG, organised by a GP and mentioned above, are a powerful means of involving the management teams and make it possible to make progress in terms of ownership of the topic.

Reporting

Reporting is a complex issue as it is at the crossroads of multiple requirements:

- Regulatory: European Directive for companies and article 173 of the Energy Transition Act for GPs;
- Managing ESG performance for GPs and their portfolio companies;
- Specific LP expectations on ESG issues;
- Need for external visibility for the GP and/or the company.

These multiple requirements often require a streamlining of the indicators, and this is the purpose of France Invest's work (see section D-2 of Part II).

The reporting must at least be based on an analysis of priority issues and must allow for the implementation of the action plans decided at the end of the ESG review.

3. Examples of actions

Activa Capital

In the companies acquired by Activa Capital since 2015, an ESG review is conducted a posteriori to identify the various ESG risks and opportunities specific to each company. The review then gives rise to a second meeting to prioritise certain recommendations from the audit. It is then that the action plan is launched, which sets out deadlines, persons in charge and indicators for each project.

So the impulse initially comes from the GP. The investment note contains an ESG analysis and a commitment by the companies to provide annual reports on ESG issues and to conduct a post-investment ESG review.

Two ESG project monitoring documents are fundamental to managing this approach. They are genuine communication tools between the GP and the portfolio company and their objective is to make the company's progress in terms of ESG transparent and to adapt the support of the investment in its specific projects to the best of its ability.

The first document is used to monitor ESG projects and, above all, their gradual implementation.

This document is updated regularly and included in the monthly report in a quick update. A further review of this document is planned for each supervisory committee meeting.

The second document is an annual report that enables indicators to be monitored. Implemented in 2013 in all the portfolio companies, this document allows us to see the trends in key ESG indicators, which some LPs also request at the start of the year.

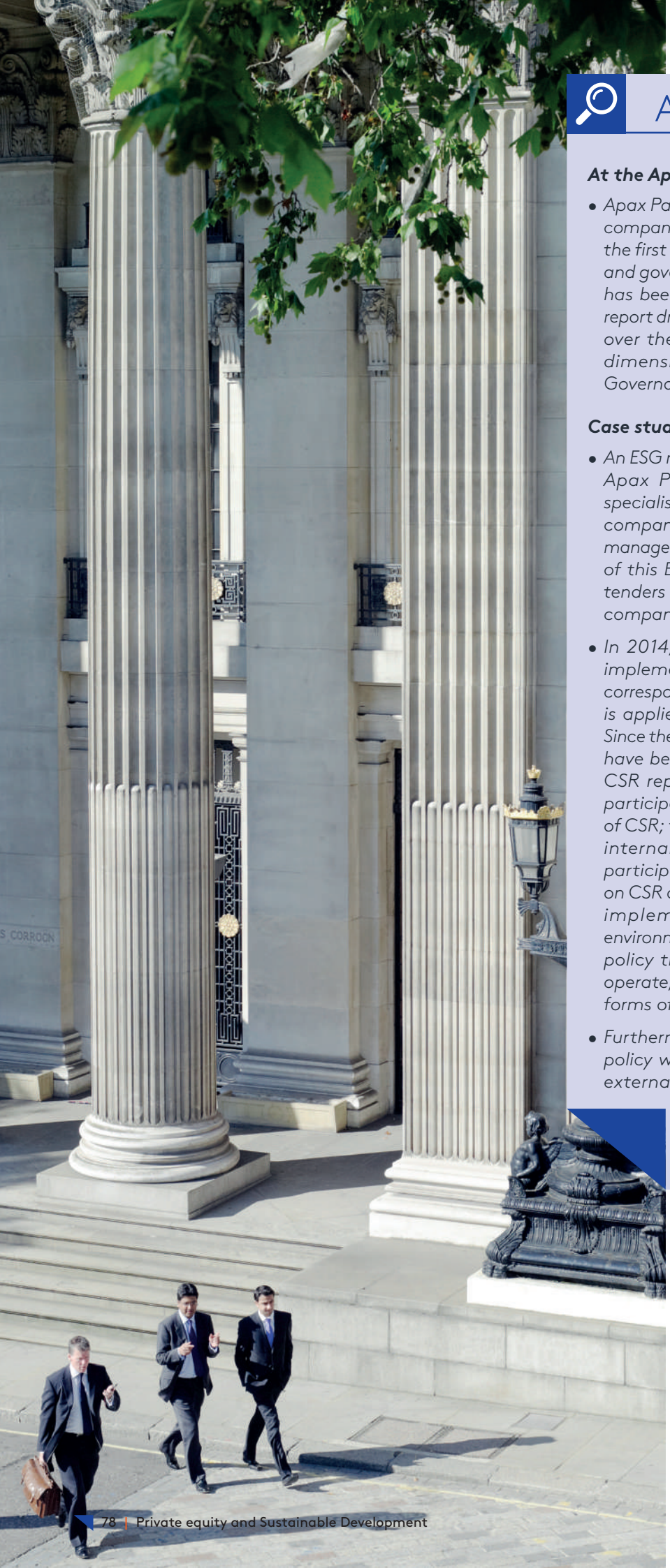
These two documents enable Activa to reconcile several ESG monitoring realities:

- *First, the implementation of monitoring an indicator is either a project for a portfolio company, a project on which the GP can provide assistance.*
- *Second, the selected indicators should enable us to monitor the ESG progress for the portfolio as a whole (with regard to the LPs), but also to monitor ESG progress in a personalised manner according to the priorities of each portfolio company (with regard to the companies).*
- *Also, the value created by ESG projects is achieved over time, through rigorous and well-sized monitoring, depending on the company.*

Lastly, the last link in the GP's work with the portfolio companies on ESG issues is continuous operational support for the various projects. The aim is to support their efforts through monitoring and benchmarking: examples of HR policies in one sector, ethical codes, contact with providers for risk management in the supply chain, carbon impact measurement, cybersecurity audits, etc.

These working meetings also demonstrate Activa's involvement with the management teams on new and long-term operational issues. This helps provide reassurance on the investor's role, on the one hand, and helps show the managers and investors internally, on the other hand, that the operational teams are highly sensitive and quickly engaged on ESG issues.

A final initiative is along these lines: setting up an inter-company working group on HR issues. The social aspect of ESG is a common point between all the recently acquired portfolio companies that are currently formalising their HR policy, monitoring social indicators and implementing dedicated HR projects. Allowing the managers of these issues to exchange and share their best practices and methods creates a lot of value for everyone from the outset. An initial working group has made it possible to take stock of each person's topics and identify the right person for each project (training, HR policy, diversity, annual interviews, health and safety, etc.). A second working group is planned for the autumn to strengthen the sharing dynamic and cooperation on ESG issues, which are essentially cross-cutting.



Apax

At the Apax level:

- *Apax Partners was the first unlisted management company to publish an annual report in 2008. Since the first annual report, an assessment of the social and governance aspects of its portfolio companies has been present. This assessment is based on a report drawn up each year, which has been enriched over the years and now incorporates the three dimensions of ESG: Environment, Social and Governance.*

Case studies - Portfolio companies

- *An ESG road map was drawn up very early on when Apax Partners invested in Texa, a company specialised in expertise and diagnosis for insurance companies. An ESG policy was defined with Texa's management to apply this roadmap. The application of this ESG policy enabled Texa to win a call for tenders from one of the largest French insurance companies;*
- *In 2014, the private education group, INSEEC, implemented a CSR policy based on five areas, corresponding to five commitments. The CSR policy is applied and monitored by a CSR committee. Since their implementation, these five commitments have been described and monitored in a specific CSR report. They are as follows: implementing participatory and exemplary governance in terms of CSR; training and raising awareness among our internal and external stakeholders on CSR; participating in the advancement of knowledge on CSR and the promotion of responsible research; implementing effective and coordinated environmental management; developing a societal policy that is positive for the regions where we operate, recognising diversity and combating all forms of discrimination;*
- *Furthermore, a financial assessment of the CSR policy was prepared in 2016 with the help of an external consultant, which demonstrated the financial added value of implementing a CSR policy.*

Ardian

Since 2008, Ardian has promoted ESG to all its employees, companies and funds in the portfolio and the financial industry. Ardian, a shareholder and long-term investor, has committed to creating value responsibly. The company applies best practices, formalised in its Responsible Investment policy, throughout all investment phases.

Supporting companies and funds in the portfolio is a fundamental element of Ardian's policy, for the proper integration of non-financial factors into the investment process of the various teams and, ultimately, to support the companies' progress. Ardian has developed processes adapted to each of its activities in order to ensure the consistency of its actions, including the following key elements:

- ***Dialogue***

Dialogue with its stakeholders is essential for Ardian, whether with the private equity and infrastructure investment management teams, the lead sponsor and the private debt portfolio companies, or the fund of funds managers. It is essential to monitor ESG practices and their evolution while allowing active and appropriate monitoring. For direct investments, this makes it possible to have a direct link with the portfolio companies, to drive a dynamic and to make positive changes to ESG performances. In addition, the direct investment teams systematically attempt to sit on the supervisory board of the portfolio companies in order to promote consideration of non-financial issues and disseminate best practices. The approach is the same in private debt when Ardian has a seat on the supervisory board.

- ***Appropriate monitoring***

Ardian conducts regular ESG reviews in private equity and infrastructure with the support of external consultants. The results of these are used as a basis for drawing up recommendations and objectives with concrete action plans. The results seen in the portfolio companies show an overall improvement in ESG performance. For example, ADA, a German cosmetics company, has put in place an ecodesign programme that works directly on its environmental impact. This programme has reduced the use of PVC in the manufacture of its packaging. The share of PVC in the total composition thus decreased significantly, from 9.8% in 2013, to only 3% in 2016. As part of its commitment to climate, Ardian has also conducted a climate risk analysis on some of its direct investment portfolios, including a carbon footprint assessment on its mid-cap portfolio.

In private debt, an ESG indicator grid has been defined to help Ardian's investment teams monitor throughout the holding period.

Lastly, for the fund of funds activity, a monitoring questionnaire was designed to raise the GPs' awareness of the importance of ESG issues and to assess their progress in this area. This information also makes it possible to establish an ESG benchmark for managers. The ultimate objective of this monitoring is to encourage these managers to integrate ESG considerations at the level of the companies in their portfolio, in order to improve their impact on the environment and society.

Bpifrance

Since 2013, Bpifrance has been combining the activities of CDC Entreprises, FSI and FSI Régions in its investment division.

Bpifrance is thus involved in three main ways:

- *By taking direct stakes, alongside private or public investors, via general-purpose or private funds, in companies of all sectors, mainly SMEs,*
- *By taking indirect stakes in companies, by subscribing to partner funds (funds of funds),*
- *Lastly, by taking direct stakes in mid-caps or large strategic companies, with its own resources.*

Its approach as a Responsible Investor concerns these three activities, in a different way depending on whether it is an investment in funds of funds or a direct stake in a company; the objective is not to exclude funds and companies that have not committed to anything, but to encourage them to do so or to make progress.

This approach is based on a formal policy, which is based on the four social responsibility priorities on which Bpifrance is committed to focusing its efforts:

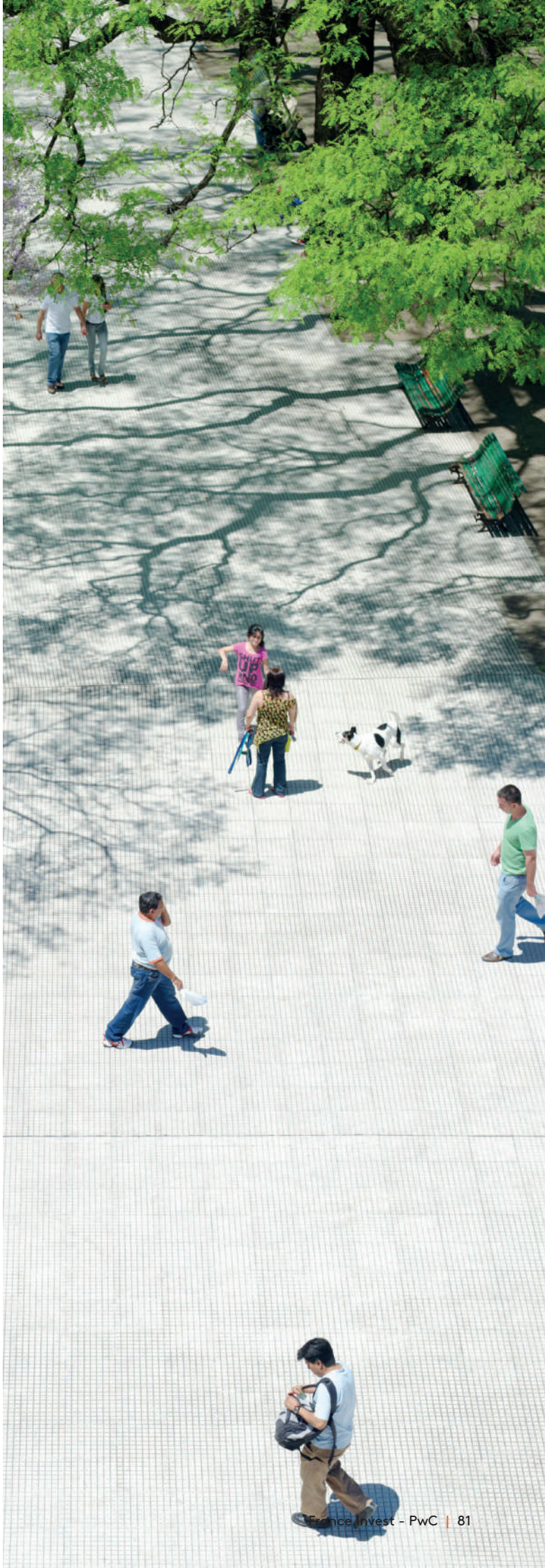
- *Development of employment, and especially of young people,*
- *Ecological and energy transition, and more particularly the optimisation of the use of energy resources,*
- *Quality of governance and management, in particular by promoting the integration of women,*
- *Promoting female entrepreneurship is in all cases based, first, on a balanced consideration of the environmental, social/societal and governance pillars and, second, on encouraging and supporting progress in the CSR approaches and practices of the fund and companies, invested directly or indirectly.*

These four priorities are systematically taken into account in the ESG analyses of the companies invested; the ESG analysis support tool, developed with and for the direct investment teams, was built using the ISO 26000 standard.

This tool makes it possible to specify and prioritise the company's E, S and G issues in the pre-investment phase, to assess the approach and actions already implemented, to rate the company's social responsibility, strengths and weaknesses, and to identify the areas of progress that will be contractualised in the shareholders' agreement, and monitored throughout the holding period.

Demeter Partners - The management company's key indicators

- *The basis of our questionnaires is the France Invest questionnaire, we have included in it 1) the questions from other subscribers 2) as well as the criteria that can be consolidated and that are relevant for Demeter;*
- *In this respect, Demeter had to quantify and highlight relevant indicators on the "environment" aspect of start-ups, whose level of activity generally renders scope 1, 2 and 3 analysis redundant, or of more mature companies.*
  - *For innovative start-ups, we have chosen to highlight the number of patents indicator; we will then extend this analysis by studying the theoretical impact of the company on the environment if its business plan is implemented (a work that is being considered with certain partners).*
  - *For more mature companies, we decided to focus on the renewable energy and recycling aspect with a distribution of energy production (or saving) by type of energy (in MW installed and GWh produced or saved), all translated into tonnes of CO2 saved.*
- *For the other criteria, S and G, we consolidate the topics "number of boards", "presence of women", etc.*



Eurazeo and Eurazeo PME

Eurazeo, a long-term shareholder, in 2015 for the first time wanted to highlight the impacts of social and environmental initiatives and demonstrate that implementing CSR policies is a driver of performance and value creation for companies. Eurazeo has therefore established a methodology for assessing the impacts avoided and their financial impacts in cooperation with a specialised firm.

Four indicators have been measured, three on environmental aspects (water, energy, fuel) and one on social aspects (absenteeism).

The impacts avoided are calculated on the scope of the company (direct impacts) as well as beyond it by valuing the environmental and economic benefits of specific initiatives with an impact outside the scope of the company (indirect impacts).

Over the last seven years, the CSR programmes put in place by the companies have made it possible to avoid spending nearly €214 million, including more than €78 million in direct savings. In addition, the companies avoided the equivalent of more than 880,000 tonnes CO2 equivalent, nearly 7 million cubic metres of water, 2,200 GWh of energy and 436,000 hours of absence. The overall results are presented in the infographic below.

For LBO France, shared learning and long-term co-operation

LBO France's approach to the ESG issue with regard to its portfolio companies is based on a conviction: ESG is a transformation driver in that it contributes to strengthening the robustness and resilience of its activities and provides development opportunities.

ESG consists of a set of immediate operational initiatives (assessment of internal control, risk mapping, etc.) and forward-looking reflections (new business models, changes to the business plan, etc.), which makes it one of the most comprehensive and cross-cutting topics that can be discussed with the management teams.

We talk about a management team because we regularly interact with general management, the finance department, the HR department, the sales department, the legal department, the purchasing department, the operations department where it exists, the R&D department, the industrial department, the IT department, the logistics department, etc.

These interactions take place during working meetings within the company where we openly share knowledge and experience with the idea that everyone (management team, consultants accompanying us, our person in charge of ESG and investment teams) will learn from the others.

They start rapidly following the pre-acquisition ESG due diligence in order to establish, as soon as possible, a dialogue that will continue over time.

These interactions are also supplemented by sharing of experience and the involvement of various experts outside the company's framework, within the LBO France ESG operational club or at conferences, etc.

The fact that various managers of LBO France's portfolio companies have put this dimension at the heart of their strategy, now include sustainability in their founding values, spontaneously demand ESG vendor due diligence or publicly demonstrate their commitment as well as the company's developments thanks to it is the best recognition of the value of the approach.

Measurement of avoided CSR impacts

DIRECT IMPACTS

		Value of avoided expenses
436,000 hours of absence avoided	Reduction in absenteeism and work-related accidents	€14,206k
7 million cubic metres of water avoided	Reduction in water consumption	€14,383k
845 GWh of energy avoided	Reduction in energy consumption	€49,285k
523,500 litres of fuel avoided	Reduction in fuel consumption	€505k
I.e. **203,000 tons** of CO_2 eq. avoided	TOTAL DIRECT IMPACTS	€78,379k

INDIRECT IMPACTS

		Value of avoided expenses
450,000 tons [1] of CO_2 eq. captured*	Guest towel reuse programme	€25,099k [1]
1,341 GWh [2] of energy avoided	Improvement in the energy performance of buildings for clients	€110,468k [2]
I.e. **228,000 tons** [2] of CO_2 eq. avoided	TOTAL INDIRECT IMPACTS	€135,567k

TOTAL DIRECT + INDIRECT IMPACTS

436,000 hours of absence avoided

7 million cubic metres of water avoided

2,186 GWh of energy avoided

523,500 litres of fuel avoided

I.e. **881,000 tons** of CO_2 eq. avoided

TOTAL DIRECT + INDIRECT IMPACT

€213,946k

[1] *Programmes specific to AccorHotels sold in 2018*
[2] *Programmes specific to Foncia sold in 2016*

** Measured in 2014, over a reference period of 100 years*

METHODOLOGY: The scope covered by the measurement of avoided impacts includes AccorHotels (sold in 2018), Asmodee, Colisée Group (sold in 2017), Dessange International, Elis, Fintrax, Groupe Flash, Foncia (sold in 2016), Léon de Bruxelles, Novacap, Péters Surgical and Vignal Lighting Group. The calculations were carried out over a period extending from the year of investment until 2017 inclusive (except for the sold companies). **The detailed methodology is available on page 100 of the Eurazeo Reference Document and on the Eurazeo website under the heading Responsibility**

How has PAI defined its ESG indicators?

Since the signing of the PRI in 2010, PAI has consistently aspired to develop its responsible investment strategy.

Convinced that ESG is a driver of value creation, we have sought to build an integration methodology that takes into account the indicators that have the greatest impact on our activity.

To this end, in 2013 we worked with a non-financial rating agency to implement the ISO 26000 (Organisation Social Responsibility) standard within the group, thereby validating our ESG approach and the materiality of the indicators chosen for our management.

In 2015, we took another step in this direction by implementing our own ESG reporting tool for each of our portfolio companies. This initiative has made it possible to better collect indicators and manage them effectively within each company in the portfolio. It is also through this tool that we annually collect the data necessary to assess our carbon footprint, calculated by our external consultant, according to a methodology certified by the ADEME.

In 2017, after three collection campaigns, we are able to deliver our initial conclusions on the actual progress of ESG in our portfolio companies. These will be communicated to all our partners through our annual ESG report. As a result, our investors will now have the opportunity to have a clearer and more transparent view of the non-financial risks and opportunities present in our investments.

SWEN Capital Partners

Example 1

SWEN Capital Partners' responsible investment policy aims to encourage and support the various players in the industry to further integrate ESG criteria into their management process. In order to observe the efforts made by the management companies for which SWEN CP subscribes to a fund and to always adopt a constructive and encouraging approach, SWEN CP asks them to respond each year to annual ESG monitoring questionnaires (concerning the management company and the portfolio companies of the subscribed funds). These questionnaires are completed online, via an ESG data collection and management tool developed by eFront, which is based on SWEN CP's business expertise. Thus, each year more than 1,500 companies/infrastructure assets are questioned on their CSR approach and more than 200 management companies are questioned on their ESG integration practices throughout their investment process. Furthermore, SWEN Capital Partners wanted to promote and honour the European private equity and infrastructure management companies with the most remarkable ESG practices by organising the "ESG Best Practices Honours since 2014".

Example 2

Further to COP 21, SWEN CP wanted to better understand the climate risk of its private equity and infrastructure portfolios, and selected two specialised service providers by means of a call for tenders in order to carry out a diagnosis of its portfolio in 2016 and 2017 in terms of resulting and avoided carbon emissions and to identify the risk areas of its portfolios, particularly in terms of carbon intensity. This exercise to measure and analyse the carbon footprint was carried out on its direct co-investments. In line with the Climate 2020 initiative (IC20), to which SWEN is a signatory, and committed to raising awareness and promoting good practices, SWEN CP shared the results of these climate analyses as well as the recommendations for actions of the specialised boards with the management teams of the companies concerned as well as with the investment teams of the sponsor funds alongside which SWEN had co-invested.

Example 3

At the end of 2016, SWEN CP implemented a system for monitoring ESG incidents affecting its co-investments as well as the main underlyings invested in transparency. This monitoring system is provided internally by the ESG team of SWEN CP, but also benefits from the expertise of the SRI analyst team of OFI AM (majority shareholder of SWEN CP). The defined process makes it possible to monitor incidents over time and to provide appropriate responses according to their severity level (recording of the incident, drafting an incident sheet, contact with the management company, reporting of the incident to SWEN customers, etc.). The process involves, to varying degrees and depending on the nature of the incidents, the ESG team, the Compliance and Internal Control Officer, the entire investment team and management. The main results of this monitoring are communicated quarterly to SWEN CP's customers by producing and sending reports. This exercise also makes it possible to present this approach to the different GPs contacted in order to obtain additional information and thus strengthens the dialogue and the quality of the partnership relationship.

Managers' views on relations between shareholders and companies around ESG issues

Marie-Zoé Beaugrand
Deputy CEO, General Secretary TRESCAL

- ***What was your reaction when your shareholder addressed ESG issues?***

We saw Ardian's signal on non-financial issues very positively as we immediately had the collective feeling that this attention to environmental, social and governance issues, in particular through annual ESG reviews, was a significant and innovative factor for our own CSR approach.

We had already set up an ethics committee, but in a fairly embryonic way. The importance given by our shareholder to ESG issues has increased the attention paid to this subject, which has resulted in the formalisation of a code of conduct shared with all our employees, training and internal initiatives linked to the area of ethics.

- ***What were the key points they prompted you to work on?***

All CSR issues were considered, and given our service business, particular attention was paid to value sharing issues– with the creation of a compensation committee, the extension of the employee shareholding plan in the UK -, HR issues such as absenteeism and individual skills development - and quality issues with internal surveys on the quality of certificates.

In addition to specific ESG issues, Ardian encouraged us to strengthen the exchange of best practices within the group (in particular on social dialogue and waste reduction) and to improve the cross-functionality of certain processes with the creation of a group quality expert position, with in particular the harmonisation of HR indicators between the different entities and the establishment of annual HR committee meetings that allow us to conduct a common reflection on important issues, such as the employer brand and the Trescal Institute.

- ***Were there any concrete benefits for your company?***

In a group that has experienced very strong organic growth combined with the integration of many new entities, the pooling of management tools and the mutualisation of sites has proved successful, both in terms of operational efficiency and corporate culture.

Surveys on certificates made it possible to engage employees on ethical issues. And they can now see the positive impact of the ethics committee, which studies and resolves local cases through a structured, transparent and confidential approach.

- ***Did your shareholder's involvement in these matters accelerate the launch of the process?***

Without any doubt. The shareholder has played an accelerator role in decision-making on quality issues in particular.

Didier Boudy, President, Mademoiselle Desserts

Since 2007, the Mademoiselle Desserts group has been committed to a sustainable development policy and communicates its results regularly and transparently through its annual CSR report.

ESG indicators are discussed with our shareholders. The dialogue is open and the strategic lines of our CSR commitment are presented, for example, at annual general meetings.

Linking the company's financial performance to its environmental and social impact is essential for responsible and sustainable decision-making. A responsible and visionary investment strategy incorporates CSR and stakeholder expectations.

It is very important that our shareholders follow us and encourage us to be ever more accountable in our day-to-day actions. Recognising, together, that the way in which the result is delivered is now as important as the result itself, is a guarantee of success.

Our discussions on ESG indicators make us progress: forward-looking management of careers, fight against discrimination, monitoring of workplace accidents, responsible procurement procedures and measurement of the impact of our activities on the environment contribute to an ever better result for the company. For several years, we have shared our best practices in terms of CSR, initiatives, indicators, etc. ... with some of our shareholders' other portfolio companies.

We also actively monitor regulations and alerts, so our shareholders can help us obtain information.

Together we must seek to anticipate risks, integrate our responsibilities and be proactive to ensure sustainable economic growth.

Ignacio Marín Villamayor President & CEO HMY

HMY (revenues of €575 million) offers store development solutions and serves the most important retail players in more than 70 countries: in food (51% of 2016 revenues) and non-food/POP (49%). The company designs, produces and installs shelves across ten production sites and three logistics platforms. HMY has significant market share in three key markets: France, Spain and China.

We therefore have multiple ESG issues and the management team intends to place these issues at the centre of our strategy. The formalisation of our approach began in 2013 with the definition of four values (Customer Satisfaction, People Care, Orientation towards Results, International Reach) that underpin our action and various initiatives.

In 2017, the fact that LBO France took a stake in our company contributed significantly to accelerating this movement. Based on ESG due diligence on acquisition, we work together on two themes: first, the current strength of the organisation (values, management, governance, processes, protection and control, ethics, human capital, environment) internally, in its value chain (customers, suppliers, partners, competitors), and in relation to other stakeholders. Second, the company's ability to look ahead in the face of the major societal challenges identified and thus develop sustainably, beyond the development of its core business itself.

In recent weeks, the management team has decided to put sustainability as the group's fifth value and to structure a committee that I chair. We will work with LBO France to deploy our strategy.

Nick Barton, CEO London Luton Airport

To have your shareholders come and question you about ESG is not a surprise, it is a relief. ESG has become a requirement of operating a business. In our business, we refer to having a license to operate: not a paper license, but an emotional license. An airport has an awful lot of negative externalities, with controversies, but also significant benefits, making this license to operate critical. We naturally try to maintain our business with this social license to operate.

The long-term future of an airport which does not have the support of key stakeholders is doomed. This is why if a shareholder comes to challenge you, then you are in a much better position than if your shareholder looks simply at financial metrics. Because looking at financial metrics only is inconsistent with being a profitable airport.

The responsibility to run this airport comes down to me and has been given to me. This means that shareholders trust you, and they don't interfere in your world and make it harder. Regarding ESG, we like to think we are up-to-date, but not perfect. It's always interesting to benefit from regular ESG reviews, which give additional assurance, and tell us "You're not as great as you think, you need to explore these areas". It also makes my life easier, because being a CEO can sometimes be a lonely place: the consequences are yours, and yours to carry. We recognise that we apply good moral principles, but we are not experts. To have external validation that we are doing alright, with room for improvement, is helpful and refreshing.

Employees are not closed enough to Ardian to understand the importance of these ESG reviews. However, this approach is valuable in that it articulates areas for improvement, and gives them necessary validation. It is helpful in a supportive way, to gain a sense of the effort we are putting in. Deserves and likes recognition. Recognition drives positive things for the staff of our business.

Catherine Lespine, CEO INSEEC U

INSEEC U. has since its inception been part of an ethical and proactive approach to Social and Environmental Responsibility. It has a "double responsibility": as an organisation, with its economic, environmental, societal impact and as a major player in higher education and research, whose mission is to train future engineers and managers to meet the challenges of their time. Our strong values - general culture, balance, openness, diversity - have been and remain the drivers of ethical, ecological, inventive and agile behaviour and have made it easier to structure the CSR approach.

At the end of 2013, the arrival of our shareholder Apax Partners, which is itself heavily invested in CSR, made a significant contribution to strengthening our commitments. Participatory and exemplary governance was established in 2014 with all stakeholders: students, teachers, staff and shareholders, which enabled us to accelerate our INSEEC U. CSR plan, around five unifying and ambitious commitments, regularly assessed.

In 2016, a consulting firm was also consulted to measure the performance of the CSR policy of INSEEC U. According to its analysis, the average SROI for investments in CSR is in the order of 3.35, contributing 12 to 20% to our overall economic performance. This is above the average figure for French companies, which is 13%, as established at the end of 2015 by France Stratégie's study of 8,500 companies.

The dynamism of INSEEC U. was again confirmed in the latest international UI GreenMetric ranking of the most successful universities in terms of CSR 75th on the global ranking and 1st in France out of 619 institutions from 76 countries.

4. France Invest's proposals

In September 2014, France Invest published an initial guide on ESG reporting with recommendations by level of ambition on ESG issues. This guide is available on the France Invest website and still contains relevant work streams. The recent publication (see section C-1 of Part I) of a marketplace position on communication between LPs and GPs by the association makes it possible to go further and offers a set of basic indicators (as well as their precise definition) that can be used by any portfolio company.

This recommendation is now shared with the PRI and other international professional organisations.

5. International overview

According to the international study conducted by PwC in 2016, nearly 30% of European investors have formed a dedicated ESG team, composed of at least one full-time employee on this topic. This percentage is 14% in the United States and 13% in Asia.

In addition, there is a higher level of maturity in terms of ESG reporting in Europe and Asia, where nearly 90% of the management companies surveyed affirm that they regularly monitor the ESG performance of their portfolio companies using KPIs. About 60% of these companies report this performance to their institutional investors at least once a year. These percentages were 86% and 43% respectively in the United States.

According to this study, cybersecurity, human rights and climate change are the three main ESG issues that will concern management companies over the next five years. Cybersecurity is therefore of interest to 85% of the investors surveyed, but only 27% have taken action in this area at present. For human rights, the corresponding figures are 79% and 48%. And 79% and 32% for climate change.

6. Trends

According to France Invest's 2016 annual report, nearly 90% of French entities have allocated resources dedicated to integrating ESG issues into the investment process and more than 40% have entrusted this role to at least one full-time member of their team. Raising employee awareness and training in the management of ESG issues, as well as the time and budget allocated are key factors for these practices to become widespread.

Furthermore, several French private equity players have started to integrate ESG criteria in the variable component of the remuneration of their investment teams and the management of their portfolio companies. This approach makes it possible to further anchor CSR in the tasks and decision-making of each person concerned. Thus, it is both a means of linking ESG challenges to the overall strategy for the portfolio company and a support tool for the deployment of the firm's CSR strategy.

Several management companies also publish a dedicated ESG report. Some companies leading the field, such as Eurazeo PME, even publish an integrated report with a comprehensive overview of the financial and non-financial performance of their own activity and that of their portfolio companies.

In the portfolio management phase, the financial valuation of CSR actions is also relevant, in particular to manage the performance of the portfolio companies. This exercise was carried out by Eurazeo, which carried out a quantified study of the CSR programmes conducted in six companies. This work demonstrated that the companies had made savings of more than €180 million between 2011 and 2016, in particular by working on water and fuel consumption and employee absenteeism. This exercise is of interest to both the management company and the portfolio companies, which are made aware of highly operational aspects, directly impacting their performance.

Consideration of the Sustainable Development Goals (see section E-4 of Part I) will certainly be a guideline given to the portfolio companies' ESG approaches. Likewise, the increasing importance of climate regulations is leading investors to integrate this dimension in the management of their portfolio companies: not only on the measurement of the carbon footprint, but above all on the real risks associated with the adaptation and transition to climate change.

D. Keys to a successful exit

1. Current situation and challenges

While at the beginning of the 2010s, dealing with ESG issues at the time of exit was still a very limited practice, in recent years, and in line with the increasing use of acquisition due diligence, the number of these analyses have multiplied, particularly in the form of ESG VDD.

These VDDs are relevant only if a concrete and solid existing one is present in the company, either implemented under the influence of the GP during the holding or pre-existing. In all cases, the assessment and valuation of the increase in a portfolio company during the holding period is the key element of an ESG VDD.

Many analyses demonstrate the attractiveness of the contribution of an ESG approach to the attractiveness and value of a company. In particular:

- Improvement in strategic vision and risk management;
- Selective access to new markets;
- Contribution to operational efficiency;
- Source of opportunities as well as of innovations and brand image.

According to a study carried out by the Sustainable Finance and Responsible Investment Chair of the École Polytechnique[11], a good environmental or social policy statistically significantly increases the value of a company by around +5%. Poor management of environmental and social issues reduces the value of companies by around 10%, while poor governance reduces it by 15%.

A growing number of investors now associate companies' ESG challenges with value creation. According to a 2016 PwC survey of 111 management companies in 22 countries[12], 41% of investors say they are prepared to pay a premium when acquiring a company with a good ESG performance. In addition, 14% of respondents stated that they had already obtained a goodwill on the exit from a company thanks to the implementation of ESG programmes and initiatives.

Furthermore, some French funds have developed innovative methodologies to estimate avoided financial costs thanks to good social and environmental performance. However, this approach remains rare, as the majority of management companies do not go beyond the qualitative valuation of CSR actions.

Things have changed significantly in terms of CSR over the last few years. Tracers of this change can be seen in three areas:

- Political: international multiplication of political action and regulations on non-financial transparency, ethics, corruption, diversity and broadening of accountability to the entire value chain.
- Financial: since COP 21, the financial world has been extremely active in taking ESG issues into account in its investment actions and is increasingly vigilant in terms of risks.
- Generational: younger generations are increasingly "ESG inside".

All these changes should gradually lead GPs to prepare, from the time of investment, the ESG elements that could potentially be valued at the time of exit.

2. Key points and best practices

An exit must be prepared. In the same way as the company's strategy, business model, financial performance and tax and legal aspects, the company's CSR policy and achievements must be presented to future shareholders, backed up by several internal documents such as:

- Description of ESG governance;
- CSR charters and policies;
- Specific reporting and monitoring of KPIs;
- Any specific reports, etc.

Shareholders can also assess a company's ESG performance in order to expose and value the progress made during the holding period. This assessment can take several forms:

ESG Vendor Due Diligence (VDD)

An ESG VDD can be carried out, if it does not overlap with the CSR analyses carried out by the company, or with the CSR topics addressed in the legal, social and environmental VDDs.

The ESG VDD makes it possible in particular to update the ESG due diligence report prepared on the acquisition and to value the actions implemented by the company during the holding period. The state of progress of the actions being implemented at the time of exit is also presented during this exercise, in order to illustrate the commitment of the company's management to the CSR approach and the continuous improvement process.

In the absence of due diligence at the time of acquisition, the company's existing CSR is valued at best during the ESG VDD process: the main ESG risks are identified and a corresponding operational action plan is established. This approach makes it possible, *inter alia*, to reassure investors about the CSR commitment of the company's

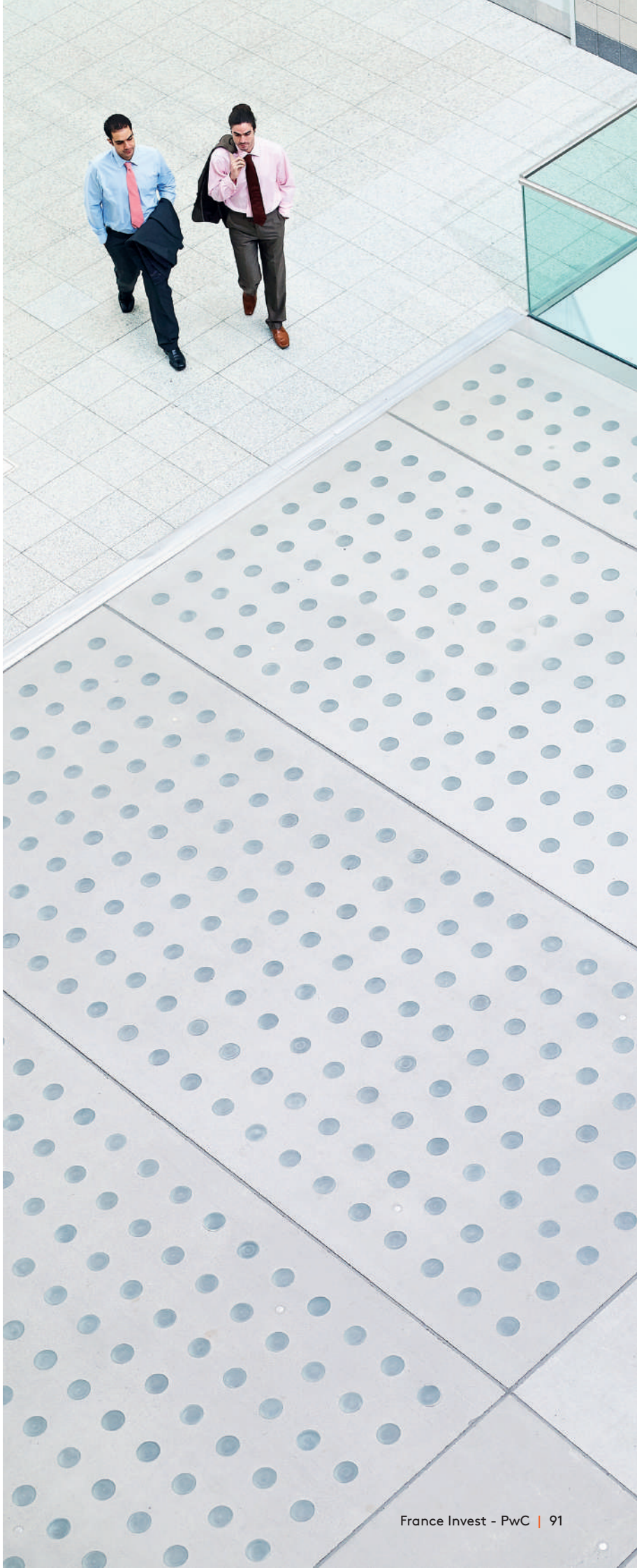
[11] *Study on the valuation of non-financial performance of companies by equity investors, Chair of Sustainable Finance and Responsible Investment 2012.*
[12] *Are we nearly there yet? Private equity and the responsible investment journey, PwC, November 2016.*

management, and to demonstrate that part of the value creation in the short and medium term has been ""secured".

CSR Information Letter

If the context of the transaction does not allow an ESG VDD to be carried out, a simple CSR Information Letter can be written and included in the information memorandum produced by the investment bank. This letter can summarise the company's CSR initiatives and commitments and demonstrate to investors that management takes this issue properly into account.

Moreover, it is not always necessary to prepare a full ESG VDD for the company, or to write a CSR newsletter. A simple coaching of the company's management on sensitive ESG issues may be sufficient. This exercise makes it possible, in particular, to prepare management to value the actions implemented to manage these issues and to respond convincingly and reassuringly to the ESG questions raised by investors during the exit period.



3. Examples of actions

LBO France

At LBO France, we believe that we are successful in an exit if we exit a company under the best possible conditions:

- *a company whose activities are robust and resilient with prospects for investment, innovation and growth in both revenues and income over the next five years, with no major associated risks;*
- *a cohesive, efficient and happy transition management;*
- *a high HR performance with employees confident in the future and satisfied with their situation;*
- *quality partners, peace of mind regarding the continuation of business relations, all other things being equal;*
- *and of course the shareholders who sell are satisfied with the capital gain realised and confident in the quality of the purchaser.*

To achieve these objectives, which go beyond the mere quality of results, LBO France works in-depth and on a regular basis with the management of the various portfolio companies in a global approach. This includes all the components of value creation: those that are part of operational optimisation thanks to the involvement of its operating team and those that participate in an operational ESG approach.

Vendor Due Diligence

Except in the specific context of the transaction (pre-emptive offer for example), an ESG VDD has been carried out by external consultants for all exits since 2015. The idea is to cover, through the ESG prism, factors not taken into account by traditional approaches, including certain intangible elements:

- *the managers' awareness of the importance of ESG in creating value,*
- *the organisation of risk management,*
- *improving operational efficiency,*
- *opportunities for innovation or market development,*
- *internal and external image benefits.*

And, for less advanced issues, to present objectively the actions underway or that the managers have planned.

These VDDs include a part of the benchmark with the competition and sometimes interviews with market players where the company operates, designed to better assess the value of the actions and the ESG positioning.

Lastly, they include the quantified aspects of these actions as much as possible. The conclusions of these VDDs are included in the sales memorandum and management presentations.

The managers of two recently sold portfolio companies spontaneously requested LBO France, prior to the process, to organise an ESG vendor due diligence, aware of the competitive advantage they had in taking ESG into account at the heart of their strategy. From their viewpoint, this operating choice was key to the success of these two exits (pre-emptive offer for the former and price improvement for the latter thanks in particular to this differentiating factor in future value creation).

Alignment of interests

At the time of exit, LBO France ensures the satisfaction of the various stakeholders and the quality of the purchaser.

Since 2016, PAI has systematically carried out an ESG vendor due diligence

The objective that PAI seeks by integrating ESG criteria in its management process is to provide additional capital gains for its investments.

To measure and report on it, we systematically conduct an ESG audit after each acquisition, followed by an ESG vendor due diligence before each exit. This audit, carried out by an external and independent auditor, makes it possible to draw up an ESG assessment of the company when PAI acquires the stake and when it exits it.

Thanks to the first audit, we confirm the results of the due diligence process and define with the company's management an ESG action plan that will serve as a focus for the entire investment period. Subsequently, the ESG vendor due diligence will show the progress made with regard to the defined action plan and the possible correlations between ESG indicators and the financial performance obtained.

This entire approach is part of PAI's desire to involve independent experts in its ESG support for the portfolio companies, as well as to transpose the work carried out in a fully transparent manner,

so much so that this roadmap is also an excellent communication tool for the management of the portfolio companies in order to highlight all their ESG integration processes.

4. France Invest statistics

According to France Invest's latest Annual ESG Report (2016), only eight ESG analyses out of the 582 ESG analyses carried out by French asset management companies are ESG VDD. The vast majority of ESG analyses are therefore carried out on acquisition and during the holding period.

5. International overview

According to the international study conducted by PwC in 2016, almost one out of two investors (44%) in Europe and South America carries out an ESG VDD or makes CSR documents available to the acquirers at the time of exit. This percentage is 29% in the United States and only 20% in Asia.

Furthermore, 43% of the European investors surveyed said they were ready to pay a premium when acquiring a company with a good ESG performance. This percentage is 40% in Asia, 33% in South America and 0% in the United States.

In Europe this percentage is 65% in the United Kingdom and 33% in France. Further on, 20% of UK investors say they have already received an ESG performance premium at the time of the exit, compared to only 6% of French investors.

However, France stands out by the dynamism and innovation capacity of its management companies on ESG issues. In 2016, 20% of the French participants in the study sought to estimate the financial value of their ESG policy.

6. Trends

Exits in the form of IPOs have tended to multiply and are becoming increasingly considered options. The existence of CSR regulations specific to listed companies only reinforces the need to take ESG issues into account before the exit. The following topics are among the most common texts applicable to the universe of listed companies (see section D of Part I):

- Transparency and non-financial reporting (often with an external audit obligation);
- Ethics and corruption;
- Diversity;
- Human rights management in the supply chain.

As part of an IPO in Paris, the company must also adapt its governance model to the legal and regulatory framework applicable to listed companies and to the AMF's requirements. This adaptation requires in particular:

- Adherence to the MiddleNext or AFEP-MEDEF corporate governance code, depending on the size of the company;
- Setting up governance bodies, such as a board of directors or supervisory board;
- Appointment of independent directors and compliance with gender-balanced representation rules within these bodies;
- Formalisation of variable remuneration criteria.

More generally, a listed company will be subject to the expectations and questions of more CSR stakeholders (e.g. investors, subscribers, etc.), to which it will have to respond directly, or indirectly through non-financial rating agencies (e.g.: Vigeo, MSCI ESG Research, Sustainalytics, etc.).

Non-financial rating agencies, which are remunerated by investors, assess companies' ESG performance on the basis of public data. At the end of this analysis, they assign a rating that makes it possible to compare the ESG practices of the various issuers of listed or unlisted securities. This rating is notably used by management companies to create socially responsible investment (SRI) funds.

The CSR report is an important support for responding to questions from investors and rating agencies. The company can also organise CSR road shows for investors to present its CSR programmes and demonstrate how they contribute to increasing its market value.

The financial valuation of ESG criteria in the exit phase is an increasingly used approach in the private equity sector. In France, some management companies have developed innovative methodologies to estimate avoided financial costs thanks to good social and environmental performance. Other companies quantify the financial gains associated with ESG progress, such as lower absenteeism or turnover, ecodesign and the creation of new so-called "sustainable" products.

Lastly, while the valuation of the ESG progress made during the holding period by a shareholder is important, the scope of a CSR approach must go beyond that and is fundamentally part of the transformation of the company and the desire of its shareholders to prepare it for the future in a clear and responsible manner, well beyond the traditional holding period.

Conclusion

To conclude, an expert overview by Emilie Bobin and Sylvain Lambert, PwC

On the road to performance, sustainable development is at the heart of French private equity performance.

Eight years have passed between 2010, when "Private Equity and Sustainable Development" was published, and the publication of this guide. The very title of this guide summarises the progress made: "Private equity, a key player for Sustainable Development". Who could have imagined writing this in 2009 when the idea of producing the first document arose? So how can we imagine the very significant acceleration that the industry was going to experience on ESG issues?

Like no other sector, private equity moved the lines in a short time on sustainable development, and in France compared with other countries, when the AFIC became "France Invest", it is at the forefront on these issues. At the same time, the industry recorded record-high fundraising performances year after year, also illustrating the strong momentum of French private equity. The 2018 figures confirm the doubling of resources between 2013 and 2018 for the sector.

Can we see a link between these two performances: ESG leader and among the leaders in fundraising? Although it cannot be seen in the initial analysis, it is nevertheless very real. In an atmosphere of very strong mistrust, or even a crisis of confidence, between civil society and politics on the one hand, and the financial world, private equity has been able to establish itself as a fourth capital path. A path that invests real money in the real economy, one that contributes to a country's growth: the fabric of French SMEs and mid-caps. It has been able to explain to political actors its role, importance and vision of responsible and sustainable finance. And in doing so, it has started to change the perceptions of it among the public. Transparency, which it lacked, and the responsible and sustainable vision of its social, societal and environmental footprint are all elements that will enable it to continue to attract more and more French and foreign capital and to contribute significantly to the development of French companies.

French private equity is therefore a major and sustainable player in the economy. A player with the ability to transform French SMEs into high-performing international mid-caps for the benefit of France. And beyond a vision of compliance and risk analysis, ESG provides these companies with a framework that structures them on their values and protects them from the complexities of international competition.

However, the general maturity of the industry players is not uniform. Within France Invest, there are leaders, in all investment segments, followers and adherents to minimum compliance, and some do not see or understand the strategic interest of sustainable development issues.

The extremely significant, continuous and often innovative action taken by France Invest's ESG Commission has enabled this growth, which now transcends the boundaries of the industry and the country. French private equity is cited as an example by its foreign peers on ESG issues and is closely observed by the corporate world and other categories of investors. The issues at stake there are more direct than in asset management, since the stakes held often make management companies a significant player in the company's strategies. The holding period also gives a much longer-term horizon than in other investment categories. This time aspect naturally leads us to ask ourselves real questions about corporate strategy and positioning. And it is against this time scale that the real profound transformations of the company are measured.

We are convinced that it will be a turning point and that the company of the future will be the company that naturally" embeds" ESG dimensions and, above all, that will be able to reconcile its direct interest with that of the society and states. Without these common interests, the challenges we face cannot be resolved and, ultimately, economic performance will only be a prehistoric memory. Even major US managers have grasped this turnaround, judging by the letter sent in January 2018 by the BlackRock Chairman to the CEOs of US companies in which it is a shareholder, which highlights the "positive contribution to society" and the benefit to "all stakeholders".

French private equity is in the process of building these companies of the future: efficient, French at heart, but international in economic terms and driven by values and missions that go beyond the simple purpose of their business.

One wonders whether, faced with the increasing search for mission and purpose for companies, should not investors as well be driven by a mission that goes beyond mere financial performance and fiduciary responsibility?

The next guide, in 2025, will probably be able to answer this question and shed some light on these changes, the first steps of which we can see today.

2018 Edition

The purpose of this document is to provide a summary and operational overview of applicable regulations and ESG and sustainable development practices for private equity players.

It is intended for use by France Invest members . It is by no means a legal opinion and should not be regarded as such.

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