TCFD Entity-Level Report

Five Arrows Managers LLP

2023

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Introduction

Firm structure and business model

Five Arrows Managers LLP ("FAM LLP") is a UK MiFID firm which is authorised and regulated by the United Kingdom Financial Conduct Authority ("**FCA**") (FRN 216145) and is also a Registered Investment Adviser with the United States Securities and Exchange Commission. FAM LLP is part of the Rothschild and Co Five Arrows ("Five Arrows") division which invests the Rothschild & Co Group's capital and third-party money in private investments around the globe.

In the UK, FAM LLP has permission to provide a number of investment management services to Professional Clients and FAM LLP manages, primarily via a delegation agreement, a series of funds dedicated to corporate private equity ("CPE"), primary and secondary fund investing, co-investments programmes, direct lending ("DL") as well as senior secured, subordinated and structured credit. Typically, although not exclusively, the funds will be structured as Luxembourg AIFs (Alternative Investment Funds) with Rothschild and Co Investment Managers as the AIFM (Alternative Investment Fund Manager) and FAM LLP acting as Delegated Portfolio Manager.

FAML LLP primary business activities include:

- Delegated discretionary investment management.
- Direct discretionary investment management.
- Segregated bespoke investment vehicles ("managed accounts") including acting as collateral manager to Rothschild & Co Credit Management ("Credit Management") collateralised loan obligation ("CLO") vehicles.
- Distribution and marketing, on behalf of funds and management companies that make up the Five Arrows division; and
- Proprietary investment activities limited to the regulatory 5% risk retention holding required to act as sponsor to CLOs managed by FAM LLP.

FAM LLP also act as a delegated Portfolio Manager for funds managed by Five Arrows Managers SAS ("FAM SAS"), a French portfolio management company authorised and regulated by the Autorité des Marchés Financiers ('AMF'), having the status of alternative investment fund manager under the AIFMD.

FASI is a pan-European growth and buyout fund within FAM SAS dedicated to sustainability. The purpose of FASI is to provide capital to high growth and profitable companies who have developed a proven innovative solution focused on solving environmental issues.

Other ESG related regulations Five Arrows is subject to

Five Arrows, as an investment firm, has been subject to the Sustainable Finance Disclosure Regulation (SFDR) since this EU regulation came into force. SFDR requires financial market participants to disclose information about how they integrate sustainability risks into their investment decision-making processes. This regulation aims to increase transparency and promote sustainable investing by mandating detailed reporting on ESG factors.

Our Five Arrows Managers SAS report, responding to the Article 29 of the French Law on Climate and Energy, outlines the general approach, the internal resources, the consideration of ESG criteria and the alignment strategies of Five Arrows Managers SAS, management company regulated by the French Market Authority (AMF), in terms of responsible investment.

Voluntary and collaborative engagement

In 2012, we made the commitment to uphold the United Nations Principles for Responsible Investment. As of 2023, we are proud to announce that we have attained a 4-star rating for both the UN PRI Policy, Governance & Strategy and Private Equity modules.

In 2014, we pledged our support to the Charter of the French Private Equity Association (France Invest), centred on fostering the growth and sustained development of enterprises. This commitment advocates for the adoption of exemplary standards in human capital management, environmental stewardship, and governance practices.

Subsequently, in 2018, we deepened our commitment by becoming a signatory to the International Climate Initiative (ICi). This initiative underscores our determination to combat climate change by actively striving to diminish greenhouse gas emissions within our portfolio companies, thereby ensuring the enduring sustainability of their performance.

In 2020, Five Arrows became a member of the Global Impact Investing Network, concurrently joining the ESG Committee of the European Leveraged Finance Association.

In 2022, we embraced the ESG Data Convergence Initiative (EDCI), affording us access to benchmarks tailored specifically for ESG metrics within the realm of private equity.

Additionally, during the same year, our Direct Lending team collaborated with other market leaders and France Invest to pioneer the standardisation of Sustainability-linked loans and we are signatories of the "Best Practice Guide for Private Debt Sustainability-Linked Financing."

Purpose of the entity report

FAM LLP has assets under management of more than £5bn and are therefore subject to the Task Force on Climate-related Financial Disclosures (“TCFD”) requirements within Chapter 2 of the FCA’s Environmental, Social and Governance (ESG) handbook.

While the majority of the FAM LLP assets are held via its delegated portfolio management services that it provides to other entities within the Five Arrows division, it is noted that Portfolio Management activities are within scope of assets under management calculations for TCFD purposes.

This TCFD report sets out how the FAM LLP manages climate related risks and opportunities and is consistent with the TCFD Recommendations and Recommended Disclosures and covers governance arrangements, strategy, risk management and metrics and targets.

Basis of Preparation

This TCFD report is prepared on a solo basis but is cross referenced to group reports where applicable. FAM LLP is required to prepare this report no later than the 30th June each year and is prepared for a 12-month period ending 31 December 2023.

FAM LLP intends to rely upon the following reports that have been prepared either by other Five Arrows entities or by the wider Rothschild & Co group: for more information click here.

Compliance Statement

FAM LLP have prepared this TCFD report and in doing so, the firm is confirming compliance with the FCA's ESG 2 rules and consistency with TCFD disclosures.

Governance

Overall governance

FAM LLP's Management body consists of experienced professionals including Javed Khan (CEO), Michael Clancy (Head of Rothschild and Co Credit Management), Aldo Di Rienzo (CFO) and more recently David Devlin (Compliance Office and MLRO), collectively the 'Management Board'.

The Management Board are responsible for all decisions made on behalf of FAM LLP. A structure exists whereby the Management Committee and Operating Committees of Five Arrows may make decisions on behalf of all Five Arrows entities, which if deemed appropriate are then implemented on behalf of FAM LLP by the Management Board.

Furthermore, decisions are made at Rothschild & Co group committee level, for example regarding remuneration, which again are implemented by the Management Board.

Each board member is responsible for their respective function as detailed within their individual Statement of Responsibility as required under the FCA Senior Managers and Certification regime.

Governance around climate-related risks and opportunities

Sustainability at Five Arrows originates from the highest echelons of the Rothschild & Co Group. Rothschild & Co Gestion, as the Group's Statutory Partner, delineates the Group's aspirations for embedding sustainability, including climate-related issues, within its strategy and determines its key focal points. The Group governance evolved in 2023 to clarify roles and responsibilities and ensure that this new structure aligns with the Rothschild & Co's goals.

The decision-making process of the Statutory Partner relies on its Management Board, which Alexandre de Rothschild chairs and who's other members include Javed Khan, Managing Partner and CEO of Five Arrows. At R&Co level, the Sustainability Committee reports directly to the Management Board.

The Group Partners Committee (GPC) acts as a forum to discuss and advise the Management Board about the performance and the strategy of each business as well as synergies and other areas of shared interests across the businesses.

Within Five Arrows, our governance framework is designed to promote transparency and accountability, while facilitating the seamless integration of sustainability principles across all functions within Five Arrows (investment teams, HR, legal, investor relations, compliance, risk, finance, IT, operations, etc.).

The execution of our sustainability strategy, including climate-related issues, is steered by the Five Arrows Sustainability Board which comprises managing partners from each of our investment verticals:

- Mireille Klitting, chair of the Board and Managing Partner of FAMS
- Edouard Veber, Co-Managing Partner of Direct Lending
- Emmanuel Roth, Global Head of Corporate Private Equity & Co-Managing Partner FAPI
- Michael Clancy, Global Head of Credit Management

A comprehensive outline of the Group's sustainability governance framework is illustrated in Figure 1.

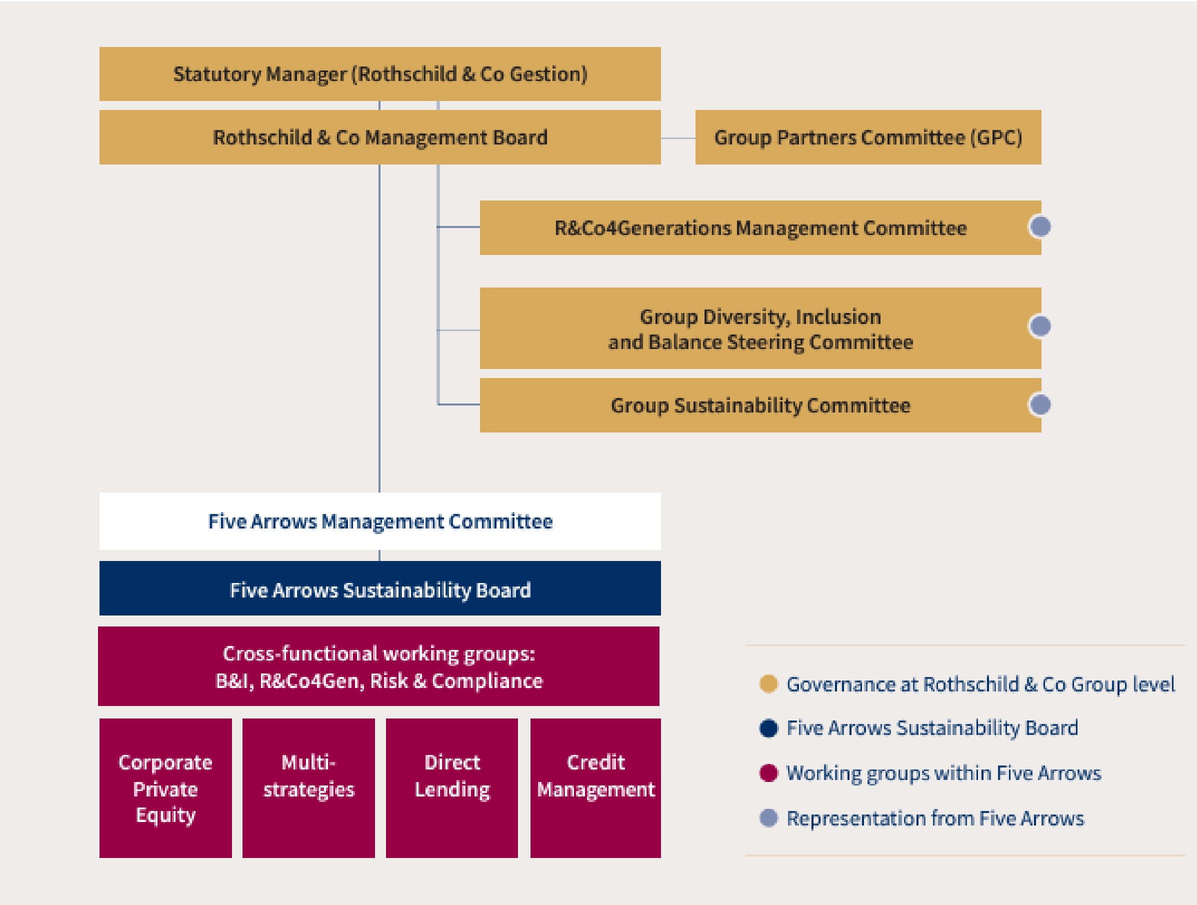

Figure 1. Five Arrows sustainability governance

In 2021, Five Arrows established a dedicated sustainability team comprising a Head of sustainability, a sustainability Manager, and a sustainability Associate. The team plays a crucial role in promoting responsible investment practices. They develop and implement frameworks, tools, and training sessions to facilitate the integration of sustainability into everyday working practices across teams. Furthermore, the sustainability team proactively interacts with stakeholders at Five Arrows and participates in broader industry initiatives aimed at collective progress.

Strategy

Overview of Firm's strategy

Five Arrows, including FAM LLP, is the alternative assets arm of the Rothschild & Co Group.

As of 31 December 2023, our assets under management totalled over €25 billion, comprising:

Five Arrows manages a wide range of investments: from buyouts to collateralised loan obligations (CLOs), from majority to minority investments, and from equity to debt. Each investment strategy has its own set of sustainability levers, ranging from negative screening to deeper integration and management of ESG risks.

Launched in 2009, the Five Arrows team currently consists of over 260 professionals based in London, Paris, Luxembourg, New York, Los Angeles and San Francisco.

The Five Arrows investment philosophy is deeply-rooted in the notion of long-term thinking, resulting in a sustainability strategy that is:

- **Ambitious** because of the range of subjects we tackle, the objectives that we are setting ourselves, and the speed in which we are moving to meet these goals. Especially when considering the diversity of the investment strategies that are within the Five Arrows platform.
- **Inclusive** because everyone has a role to play, from back-office to front-office, and from junior to senior positions. The governance and training program we have set up are proof of this.
- **Innovative,** because this strategy is reinventing the way we work internally and with our partners. Collective intelligence and creativity is key to onboard our stakeholders, seize business opportunities, and accelerating the agenda.

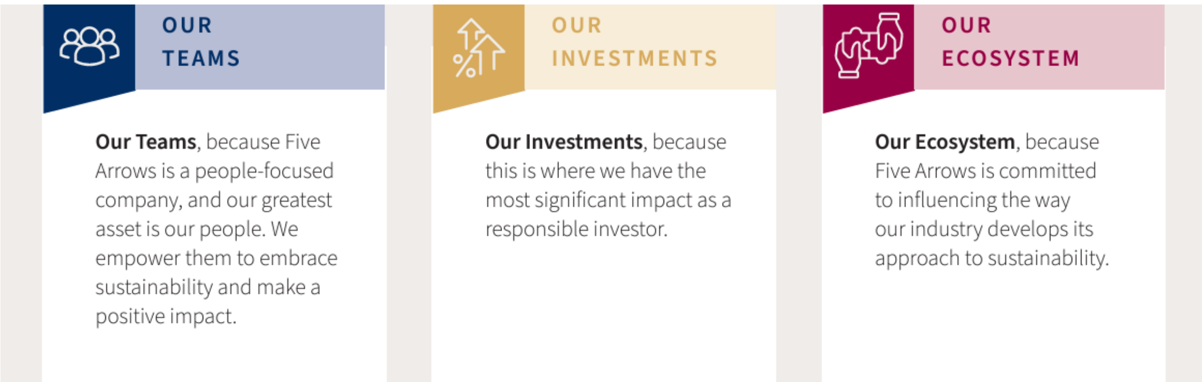

Figure 2. The three pillars of the Five Arrows sustainability strategy

Our Strategy is built on three pillars that interact as pieces of the same puzzle. Each piece is declined into a set of commitments that we take within Our Teams, Our Investments and Our Ecosystem. These puzzle pieces, once assembled, form the approach chosen by Five Arrows to reach its purpose: Maximise long term value creation for all stakeholders by being a responsible investor and promoting sustainability across our business.

Actual and potential impacts of climate-related risks and opportunities

As part of our risk management approach, Five Arrows has conducted an analysis of its existing portfolios through the lens of the Sustainability Accounting Standards Board ("SASB") Materiality resources of the International Financial Reporting Standards Foundation, a common reference tool used to identify the main financially material ESG issues within a given sector.

Through this approach, three sustainability risk topics were identified as material to the Five Arrows activities, namely (and in no particular order):

- *"Data protection and security" (defined under SASB as including "customer privacy" and "data security"), which is particularly material from a business perspective given its systemic dimension and the broad exposure of our portfolio to this topic in light of the Five Arrows key sectors of activity;*
- *"Diversity, Inclusion & employee protection" (defined under SASB as including "employee health and safety" and "employee engagement, diversity and inclusion"), which is deemed material given that employees are key contributors to value creation in the sectors we invest in, and greater workforce diversity drives innovation; and*
- *"Climate & Energy" (defined under SASB as including "GHG emissions" and "energy management"), given the systematic and critical impacts climate change can have on nearly every industry.*

Transitional risks: arising during the transition to a lower carbon economy.

Given that Climate & Energy is one of the three material topics for Five Arrows, a deeper analysis was made using the TCFD framework in 2021 between the internal sustainability experts within Five Arrows. The objective of this analysis was to identify the main gross transition risks and opportunities that Five Arrows is exposed to (prior to any mitigation actions). Risks related to the physical impacts of climate change where not covered during this analysis.

The 3 main transitional risks identified were:

1. *Market - Being under ambitious in the definition of a climate strategy could lead to market losses and difficulties in fundraising.*
2. *Technology - Absence of data can make it difficult to demonstrate the positive impact of a climate strategy, while poor-quality data can pose challenges in its implementation.*
3. *Reputational - Being exposed for "greenwashing" practices would have a significant impact on Five Arrows reputation over a long period of time.*

Climate-related Opportunities

Five Arrows aims to seize the following climate-related opportunities, although most of these remain difficult to quantify:

- ***Products and services:** When it comes to equity investment, we encourage our portfolio owned companies to explore opportunities for value creation through the development of products and services that address sustainability challenges in the markets where we invest. This approach not only positively impacts financial KPIs but also enhances competitive positioning.*
- ***Market opportunities:** We pro-actively seek business opportunities that better position ourselves for the transition to a lower-carbon economy. These opportunities are mainly related to:*
    - *Investing in future economic leaders and partnering with committed CEOs to capitalize on new investment opportunities.*
    - *Increasing our capacity to attract investments by partnering with committed Limited Partners.*

Impact of climate-related risks and opportunities on the business

Climate-related risks have impacted our business in various ways. By recognizing and addressing these diverse challenges, we strive to enhance our resilience and sustainability, ensuring our long-term success in an ever-changing environmental landscape. Here are some specific examples illustrating how climate-related risks have impacted our business:

Litigation Risk:

- *The need for clarification and negotiation on wording within legal documentation related to ESG commitments has become critical to ensure compliance and avoid potential legal disputes.*

- *Increased internal controls on climate and ESG-related policies and procedures are necessary to ensure the appropriate implementation of these policies and mitigate litigation risks.*

Market Risk:
- *Our capacity to raise funds is threatened if we do not demonstrate a clear and ambitious climate strategy.*
- *We have had to adjust our due diligence processes to integrate climate and other ESG criteria within our investment decision-making process, ensuring that we account for these factors in our evaluations.*
- *There is a growing need to track our portfolio's exposure to the fossil fuel industry to assess and mitigate potential financial risks associated with climate change.*

Technology Risks:
- *We require new tools and databases to monitor risks and collect comprehensive ESG and climate-related information, enabling better analysis and decision-making.*

Policy Risks:
- *More resources, including dedicated team members, are needed to respond to the increasing number of ESG and climate-related regulations and ensure our compliance.*

Reputational Risks:
- *Enhanced control and centralization of climate-related communication are necessary to maintain consistency and avoid exposure to greenwashing risks.*
- *There is a need for a centralized climate strategy and risk assessment framework to ensure consistent levels of ambition within Five Arrows and to prevent different strategies from diverging in their direction and objectives.*

Factoring climate-related risks and opportunities into products or investment strategies

Moreover, since FAM LLP is active across corporate private equity, direct lending and credit management strategies, our ability to impact outcomes varies according to the nature of the relationship, size of shareholding and access to non-financial information.

The SFDR requirements created an important opportunity for us to mainstream our product sustainability strategy, whilst reinforcing our efforts for transparency and disclosure. In this regard, we are progressively deploying Article 8 and Article 9 products (as defined under the SFDR).

The key issues addressed by our SFDR Article 8 strategy are climate change management, gender diversity and implementing sustainable practices.

All Article 8 funds within Five Arrows promote the adoption of a climate strategy or action plan by portfolio companies to reduce carbon emissions related to their operations. The methods of promotion are tailored to each type of product. For example:

- Within direct lending, this is mainly achieved through the integration of climate-related ratchets. This is a provision within a loan agreement that either increases or decreases the interest rate of the issuer depending on the company’s achievement of a defined set of ESG targets.
- Within Corporate Private Equity, we actively participate on the portfolio companies' Boards of Directors, encouraging them to prioritize climate change in their sustainability roadmaps and set decarbonization targets aligned with Science Based Targets initiative (SBTi) guidelines. As equity holders, we encourage our portfolio companies to explore opportunities for value creation through the development of products and services that address sustainability challenges in the markets where we invest. This approach not only positively impacts financial KPIs but also enhances competitive positioning.

Risk Management: how we identify, assess, and manage climate-related risks

Processes for identifying and assessing climate-related risks.

As mentioned previously, Climate & Energy is one of the three material topics identified for Five Arrows. For this reason, a deeper analysis was made using the TCFD framework in 2021 between the internal sustainability experts within Five Arrows. The objective of this analysis was to identify the main gross transition risks and opportunities that Five Arrows is exposed to (prior to any mitigation actions). Risks related to the physical impacts of climate change where not covered during this analysis.

In 2021, twenty-one different climate transition risks related to the transition to a lower-carbon economy *were identified by our sustainability experts. As suggested by the TCFD recommendations, these* risks were classified into*: Market risks, Policy risks, Technological risks, Litigation risks and Reputational risks. Each risk was characterized by the level of materiality and the horizon:*

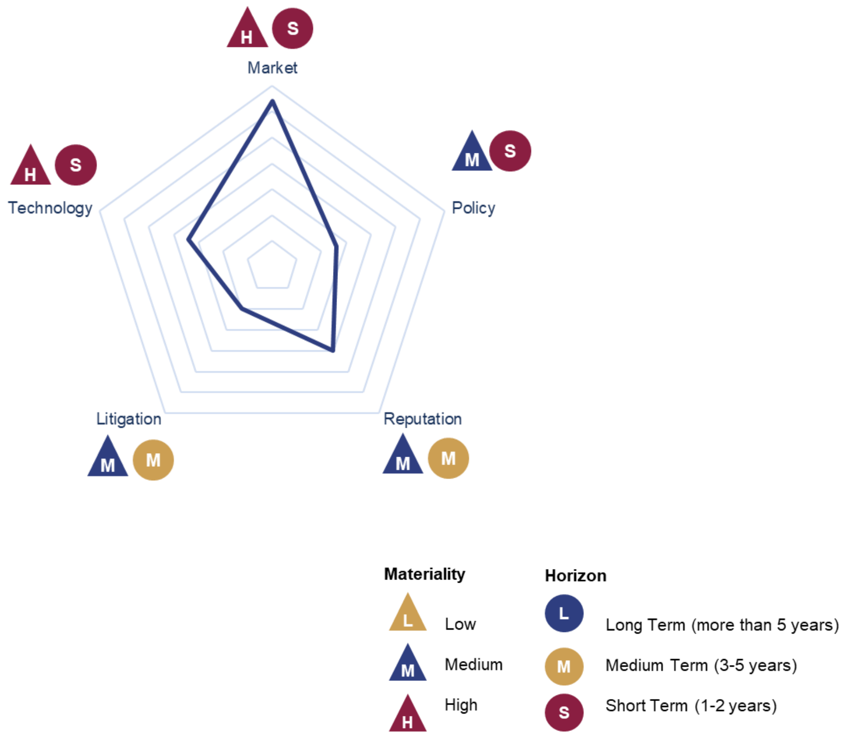

Figure 3. Assessment of transition risk for each of the TCFD categories depending on Risk Materiality and Time Horizon (2021).

As mentioned above, the 3 main transitional risks identified were:

1. *Market - Being under ambitious in the definition of a climate strategy could lead to market losses and difficulties in fundraising*
2. *Technology - Absence of data can make it difficult to demonstrate the positive impact of a climate strategy, while poor-quality data can pose challenges in its implementation.*
3. *Reputational - Being exposed for "greenwashing" practices would have a significant impact on Five Arrows reputation over a long period of time.*

Managing climate-related risks

Following this assessment, several workstreams were launched between 2021 and 2024 to mitigate the main risks (as can be seen in Figure 4*). These workstreams are described below.*

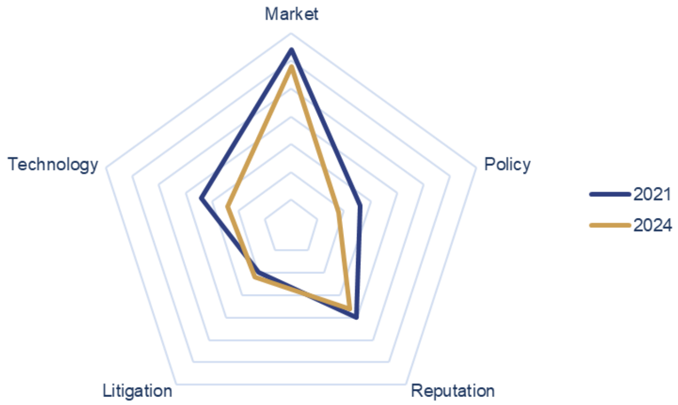

Figure 4. Assessment of transition risk for each of the TCFD categories before and after mitigation (2021 and 2024 respectfully).

Mitigating the risk of being under ambitious in the definition of a climate strategy

In 2023, Five Arrows committed to reducing emissions in line with climate science through the SBTi and will soon submit targets at operational and portfolio level. Details of our climate strategy, including goals and methods for cutting operational and portfolio emissions, will be shared once SBTi validates the targets.

Mitigating the lack of quality data

During the holding phase, we consider access to data essential for mitigating risks and capitalising on opportunities within our portfolio. We require our investee companies in our corporate private equity and direct lending strategies, as well as the fund managers in our multi-strategy funds, to complete our annual sustainability reporting.

We utilise a specialised reporting and monitoring tool to collect specific data for monitoring ESG performance in our Corporate Private Equity and Direct Lending investments. The scope of our data requests is customised for each investment strategy, encompassing a defined set of indicators that we monitor, including climate-related KPIs. As part of our 2023 sustainability reporting, we request all our portfolio companies in our Corporate Private Equity and Direct Lending strategies, to answer the following questions:

- Has the company performed a yearly carbon footprint assessment? If yes, on which scopes?
- Was the carbon footprint assessment based on SBTi methodology?
- Has emissions data been reviewed by an external 3rd party?
- Please indicate the company's GHG emissions on the different scopes.
- Have you set carbon emissions reduction targets associated with your business activities?
- Please select the emissions in scope of the target
- Please specify if such target has been calculated as part of a market initiative?
- Does the company have a long-term net zero goal?
- Has the company assessed its vulnerability to climate change (including extreme climate events, global warming, sea level rise, etc.)?
- Is the company active in any of the following sectors (sectors with a high climate impact)?
- Are the company activities related to the production, distribution and trading of fossil fuels?

ESG data management is a pressing challenge in our industry. Often difficult to access, incomplete or unreliable, it complicates benchmarking due to lack of reporting standardization. To overcome this hurdle, our internal extra-financial auditing experts rigorously vet and compare data, flagging inconsistencies and reducing the degree of data uncertainty. By prioritising data accuracy, we aim to leverage ESG insights effectively in our decision-making processes.

Moreover, Five Arrows employs third-party software solutions and databases to complement our internal portfolio monitoring. For example, we utilise a database of industry-level carbon emission factors to estimate the potential impact of new investment opportunities on the carbon performance of our portfolios. Additionally, we utilise a software solution that combines AI and machine learning with human intelligence to analyse public information and identify any material ESG risks prior to and during our investment holding period.

Leveraging the data collected, Five Arrows takes an active role in its relationships with investee companies and fund managers.

Mitigating the exposure to "greenwashing" practices

There are two main levers that help us mitigate this risk:

- **Equipping our teams with relevant skills and knowledge:**

  ESG trainings are crucial for all our employees. It enables them to understand key sustainability factors and make informed decisions, leading to better risk management and compliance with regulations. Additionally, it fosters a culture of long-term value creation, encouraging responsible business practices. Training sessions are regularly held for the relevant staff, covering key topics in line with Five Arrows' goals and continuous advancements.

  Within Five Arrows, the sustainability team offers customised training sessions tailored to each target group's needs. For example, training sessions are held for investment team to introduce the new proprietary ESG due diligence tool and demonstrate how it will support their investment decisions by ensuring reliability, traceability, and transparency in tracking progress towards pre-investment commitments.

  In addition, Five Arrows also provides shared, cross-functional training across the whole platform and all teams to ensure a common and consistent framework of knowledge.

  In 2023, we provided two climate training modules through the internal Sustainability Academy digital platform which were focused on the key aspects of the IPCC reports and the characteristics of the Low-Carbon Transition.

- **Reinforcing controls and compliance:**

  The collaboration between sustainability, compliance, and risk teams is crucial to prevent greenwashing. This collaboration ensures that sustainability claims are accurate, transparent, and ethical, thereby mitigating legal and reputational risks, promoting corporate integrity, enhancing operational efficiency, aligning with strategic goals, and meeting stakeholder expectations. By working together, these teams can safeguard the company against the pitfalls of greenwashing and contribute to genuine climate and sustainability strategy.

  Within Five Arrows, regular meetings, in mostly bi-monthly meetings are held between the sustainability, compliance and risk teams.

  In 2024, the internal Rothschild & Co compliance team will conduct a review within Five Arrows to provide feedback on sustainability practices, allowing us to further mitigate greenwashing risks.

How processes for identifying, assessing, and managing climate-related risks are integrated into our overall risk management.

Integrating Sustainability and climate-related risks within Five Arrows policies:

Five Arrows has established a common framework regarding the management of Sustainability Risk within our investments. In 2023, we updated our Sustainability Risks Management policy with a much clearer and structured approach.

This policy outlines the assessment of these risks, including the timing and tools involved, the consideration of these risks within the investment decision process, the monitoring procedures, varying in frequency and method based on the investment strategy, and finally, the reporting process for identified sustainability risks.

The policy emphasises the importance of ESG factors to mitigate potential risks and identify opportunities that can lead to long-term value creation. Five Arrows integrates sustainability risks into its investment decisions and portfolio management by assessing ESG factors. This involves evaluating the sustainability practices of potential investments, continuous monitoring of portfolio companies and fund managers, and engaging with them to promote sustainable practices. The approach aims to align investments with broader sustainability initiatives and regulatory requirements, ensuring financial returns while achieving a positive societal impact.

Integrating climate-related risks and opportunities within the ESG due-diligence process:

An initial assessment of sustainability risks is an integral part of any pre-investment due diligence work undertaken by any of our lines of business. This critical stage enables us to highlight any potential issues as regards these risks, so that these can be correctly understood and can be taken into consideration as part of our investment-making decision processes. Recognising that our ability to gather data, access non-financial information and appraise impact outcomes varies according to the nature of the relationship and size of our investments, Five Arrows makes use of various processes developed to address the specificities of our investment strategies.

We have designed a series of due diligence checklists to help our investment teams pursue information deemed relevant to their assessment of sustainability risks. These checklists aim to ensure compliance with investment restrictions, identify material sources of risks and assess whether there are sustainability-related product or service opportunities to be pursued. These ESG checklists are used throughout our lines of business, including our funds categorised as Article 6 according to SFDR.

In parallel with existing checklists, Five Arrows is actively developing proprietary ESG due-diligence tools able to better integrate and contextualise the information we can collect on investment opportunities during the pre-investment phase. These tools are tailored to each investment strategy's objectives and integrate more granular metrics such as carbon footprint estimation, alignment with the UN Sustainable Development Goals or a scoring system focused on the ESG maturity of the investment opportunity.

Should an investment opportunity be pursued in a situation where the initial assessment leads to material sustainability risks having been identified, Five Arrows policy is to conduct complementary due diligence supported by external advisors to assess the relevant risks in more detail.

While the means used during the holding period may differ greatly among Five Arrows funds, they all share a pre-investment phase where ESG integration is imperative. To address this, the sustainability team, in collaboration with investment teams, has devised in-house due diligence tools to:

- Ensure that no material topics are overlooked by assessing the sustainability maturity of a target and identifying any red flags in the potential transaction.
- Simplify the due-diligence process for deal teams by consolidating all ESG metrics within a single tool. While developed in-house, these metrics adhere to common standards and references where available.
- Evaluate the impact of transactions on the performance of our funds.

- Standardise the ESG assessment process across different geographies and investment strategies by developing common modules, reducing subjectivity of the questions and facilitating comparison of due-diligence results.
- Ensure reliability, traceability, and transparency in the progress towards our funds' commitments at the pre-investment stage.

These due diligence tools are designed with a modular architecture, allowing for quick creation or adjustment as required. Each module has a different purpose such as ensuring compliance with United Nations Global Compact (UNGC) standards, estimating carbon footprints or evaluating the impact of sustainability risks on the target company's EBITDA and Cashflow.

1. The maturity assessment module addresses the challenge of comparing investment opportunities' sustainability practices, monitoring invested company progress, and ensuring key material topics for Five Arrows are considered. It scores opportunities using a stable in-house grid with easy-to-use features, emphasising good sustainability practices such as climate change and diversity, potentially serving as a baseline for engagement post-deal completion.

2. The module dedicated to UNGC compliance assessment addresses the challenge of analysing broad questions regarding human rights and the precautionary approach, and determining which principles are material for each company. It facilitates a pertinent and comprehensive evaluation of UNGC principles by focusing on pragmatic questions related to the characteristics of the investment opportunity, such as the complexity of the supply chain or the existence of supplier codes. This approach automatically identifies principles that require particular scrutiny, aiming to streamline the assessment process.

3. The carbon footprint module addresses the challenge of assessing the carbon footprint of a target despite limited climate data in the private market. It automatically calculates the target's carbon footprint using readily available information, such as revenue and sector, and employs carbon emission factors from reputable sources to estimate the potential impact on Five Arrows' performance.

4. The financial impact of sustainability risks module addresses the challenge of integrating sustainability risks into financial assessments, offering tailored evaluations for investment decisions. It features an in-house database detailing the potential impact of SASB key material issues on various financial aspects, resulting in a qualitative assessment of the risk's effect on EBITDA and FCF.

5. The sustainability risk assessment module ensures a comprehensive evaluation of sustainability risks, tailored to the target business sector, by using data from the SASB materiality matrix. This matrix identifies key sustainability issues for each sector, based on input from industry experts, and prompts the investment team to address relevant questions on risk prevalence and mitigation.

6. The controversy monitoring module is based on the RepRisk ESG platform to assess and monitor ESG risks associated with potential investment. The platform aggregates vast amounts of data from publicly available sources worldwide, such as news articles, regulatory filings, and NGO reports, to provide comprehensive risk assessments. It utilises machine learning algorithms and human intelligence to analyse this data and identify potential ESG risks that could impact a company's reputation, financial performance, or sustainability practices.

7. The SDG assessment module helps investment analysts determine how a company’s business model aligns with the UN Sustainable Development Goals (SDGs) and ensures its contributions are substantial. It guides analysts in applying the SDGs to Five Arrows' investment activities, with the aim of collecting solid evidence of a company's impact on these global goals. The findings are then subjected to an internal review process that prevents greenwashing and ensures the results are credible.

8. The impact assessment module addresses how to define and standardise the impact generated by a company's activities, ensuring alignment with global frameworks. It uses the Impact Management Project's grid to evaluate the company's positive and negative impacts, examining their depth, scope, and the affected end users. This assessment ties into the SDG alignment module, providing a comprehensive view of the impact from both the invested company and Five Arrows as the investor. This module only concerns a fund that is outside of the FAM LLP scope.

Metrics and Targets

Five Arrows operational carbon emissions (tCO2e)

Absolute scopes 1 and 2 emissions = 133 tCO2 → *Equivalent to 2 long-haul flights of 100 passengers*

Five Arrows financed emissions[1]

Intensity Scope 3 – Financed emissions[2] = 36.2 tCO2/€1m invested → *Close to the S&P500 Carbon Efficient Index*[3]

Methodology

As part of our sustainability reporting, Five Arrows request all our portfolio companies in our Corporate Private Equity and Direct Lending strategies, and the fund managers in our Multi-Strategies funds to report on their operational carbon emissions – scopes 1, 2 and 3 (along with financed emissions for fund managers).

Since only a few companies have already conducted a carbon footprint assessment, we estimate the carbon emissions of our portfolio using proxies. In parallel, to progressively replace the estimated emissions with more reliable bottom-up data, we work with our investee companies to help them conduct their own carbon footprint assessment according to the Global GHG Accounting and Reporting Standard.

These proxies are based on sector-specific emissions factors provided by the CDP (formerly the Carbon Disclosure Project), that holds one of the world's largest corporate environmental databases. As of 2021, CDP's database included approximately 9,000 companies, with their combined Scope 1 emissions accounting for over 25% of global GHG emissions. This rich data source allows us to generate estimated emissions for sectors where individual companies have not reported.

After we estimate the carbon footprint for each invested company, we calculate the total carbon footprint of the fund using the PCAF (Partnership for Carbon Accounting Financials) methodology, a globally recognised approach for assessing financed emissions. This calculation incorporates the investor's share of ownership in each company. As further proof of our commitment to transparency, we share these estimates at the fund level with our investors, upon request.

[1] *Coverage rate: 94% of the total Five Arrows portfolio based on Net Asset Value.*
[2] *Estimate based on CDP proxies*
[3] *tCO2e/$1m invested: 32,56 tCO2*

Metrics and targets used to manage climate-related risks and opportunities and performance against targets

The table below outlines a preliminary set of KPIs identified by Five Arrows to manage key climate-related IRO that are likely to impact our financial activities. This is part of an ongoing initiative to refine and implement the Five Arrows transition and decarbonization strategy.

Typology	IRO item	KPI	Scope	Target	Performance	Summary of our Transition and Decarbonisation plan
Within our investments						
Risk	*Exposure to Fossil Fuel sector*	*Invested amount (EUR) within Fossil Fuel sector (Coal + O&G)*	*Five Arrows*	*Thermal Coal: 0% of investments in Coal* *O&G: Metric only. No target set*	*The value of financing of fossil fuel-related investments totaled $123m, or 0.5% of Five Arrows' total AuM as of 31 December 2023.*	1. *Integrating Coal to the exclusion list of all new funds (done)* 2. *Tracking the portfolio together with risk teams (ongoing)* 3. *Monitoring invested amounts in O&G (ongoing)*
Impact, Risk and Opportunity	*Due diligence*	*% of due diligences including assessment of climate risks and/or opportunities*	*Five Arrows*	*100% of due diligences including assessment of climate risks and/or opportunities*	*No data available yet*	1. *Including questions regarding climate risk and opportunities within due-diligence tools (done)* 2. *Making sure that deal teams are trained on the use of the ESG DD tools and processes (ongoing)* 3. *Ensuring the main conclusions are presented to the IC before investment (ongoing)* 4. *Reinforce monitoring of KPI (ongoing)*
Impact	*Impact of financed emissions*	*Absolute invested carbon emissions (tCO2e)*	*Five Arrows*	*Metric only. No target set*	*648,595 tCO2*	1. *Calculate carbon emissions (based on sector proxies and, when possible, in data collected from the portfolio)*
		Invested carbon intensity (tCO2e/EUR)	*Five Arrows*	*Metric only. No target set*	*36.2 tCO2/€1m invested*	1. *Calculate carbon emissions (based on sector proxies and, when possible, in data collected from the portfolio)*
Impact, Risk and Opportunity	*Coverage rate of SBT*	*% of investments with SBT or other carbon reduction objectives aligned with a 1.5° trajectory*	*CPE and FASI*	*(CPE targets to be validated by SBTi before disclosure)*	*6,6% of investments covered by a validated SBT*	1. *Identifying when a company already has a SBT before investment (ongoing)* 2. *Engaging with portfolio companies, when possible, regarding their climate ambition and promoting the SBT during holding phase (ongoing)* 3. *Monitoring progress (once targets are validated by the SBTi)*
		% portfolio companies with SBT or other carbon reduction objectives aligned with a 1.5° trajectory	*Five Arrows*	*Metric only. No target set*	*No data available yet*	1. *Monitoring SBT within GP and PC (ongoing)*
Opportunity	*Value creation*	*% of overall revenues within portfolio companies linked to the*	*CPE, FASI and DL*	*Metric only. No target set*	*No data available yet*	1. *Encourage our portfolio owned companies to explore opportunities for value creation through the development of*

		product/service that positively contribute to society and/or the environment				*products and services that address sustainability challenges in the markets where we invest. This approach not only positively impacts financial KPIs but also enhances competitive positioning (ongoing)* 2. *Reinforce monitoring of KPI (ongoing)*

Figure 5. Summary of transition and decarbonisation plan within our investments

Typology	IRO item	KPI	Scope	Target	Performance	Summary of our Transition and Decarbonisation plan
Within our operations						
Impact	*Impact of operational climate emissions*	*Absolute annual scope 1&2 emissions (tCO_2e)*	*Five Arrows*	*(Targets to be validated by SBTi before disclosure)*	*133 tCO_2*	1. *Tracking operational emissions within Five Arrows (ongoing)* 2. *Reducing energy consumption and/or purchasing renewable energy certificates (RECs) when offices are not owned by Five Arrows (once targets are validated by the SBTi)* 3. *Reducing the use of fossil-fuel based company cars (ongoing)*
		Travel carbon intensity (tCO_2e/employee)	*Five Arrows*	*Metric only. No target set*	*5,6tCO_2/employee*	1. *Tracking operational emissions within Five Arrows (ongoing)*
		Absolute annual travel emissions (tCO_2e)	*Five Arrows*	*Metric only. No target set*	*1440 tCO_2e*	1. *Tracking operational emissions within Five Arrows (ongoing)*
Risk	*Absence of good-quality data*	*% of Net Asset Value that responded to our yearly ESG questionnaire (response rate)*	*CPE, FAMS and DL (Net Asset value covered by the reporting)*	*100% of Net Asset Value*	*87%*	2. *Collect ESG data through a dedicated tool on a yearly basis (ongoing)* 3. *Perform consistency and control checks on the data reported (ongoing)*
Risk	*Being exposed for "greenwashing" practices*	*% of employees trained in sustainability topics (including climate)*	*Five Arrows*	*100% of employees trained*	*More than 95% of employees trained in 2023*	2. *Link 10% of bonus to ESG criteria (done)* 3. *Provide internal training and capacity-building initiatives for our team members to ensure they are well-equipped to manage and mitigate climate-related risks effectively (ongoing)* 4. *Establish ESG processes for each fund/strategy together with Compliance & Risk teams (ongoing)* 5. *Internal audit on responsible investment practices (ongoing)*

Figure 6. Summary of transition and decarbonisation plan within our operations

Conclusions of the report

As part of our commitment to sustainability and in alignment with the TCFD guidelines, we have undertaken significant efforts to integrate climate-related risks into our risk management framework. Our comprehensive approach over the past few years has focused on identifying, mitigating, and managing these risks to ensure the long-term resilience and sustainability of our business operations. Below are the key initiatives and actions we have taken:

1. **A climate risk and opportunity assessment was conducted in 2021:** In 2021, we undertook our first risk assessment based on the TCFD guidelines, which led to the identification of three primary climate-related risks. This assessment provided a clear understanding of the most pressing threats to our business related to climate change. The main risks identified were:
    a. Market risk - Being under ambitious in the definition of a climate strategy could lead to market losses and difficulties in fundraising.
    b. Technology risk - Absence of data can make it difficult to demonstrate the positive impact of a climate strategy, while poor-quality data can pose challenges in its implementation.
    c. Reputational risk - Being exposed for “greenwashing” practices would have a significant impact on Five Arrows reputation over a long period of time.

2. **Mitigation workstreams launched:** Following the risk assessment, we initiated several targeted workstreams between 2021 and 2024 to address and mitigate these key risks. These workstreams involved cross-functional teams and aimed to implement strategic actions that reduce our exposure to the identified IRO.

3. **Formalization and improvement of our Sustainability Risk Policy:** We have formalized a sustainability risk policy designed to integrate climate and other ESG risks into our overall risk management processes. This policy will be continuously refined and enhanced to ensure seamless integration and effective management of these risks within our business operations.

4. **Integration of climate risks and opportunities in ESG Due-Diligence Tools:** Climate risks and opportunities have been incorporated into bespoke ESG due-diligence tools tailored to each of our funds. This integration ensures that climate considerations are evaluated during the investment decision-making process, enhancing the sustainability and resilience of our portfolio.

Although we have made significant strides in integrating climate-related risks into the overall risk management framework at Five Arrows, we recognize that there is still room for improvement. We intend to work in the following areas:

- **Validating Our Science-Based Targets:** We are in the process validating our science-based targets to ensure they align with the latest climate science and industry best practices. This validation is crucial for maintaining the credibility and effectiveness of our sustainability efforts.

__Continue working on our Transition and Decarbonization Plan:__ We will continue to improve and deploy the transition and decarbonization plan as summarized in

- Figure 5. This plan outlines our strategic approach to reducing carbon emissions and transitioning to more sustainable business practices.

- **Improve the integration of key sustainability and climate-related risks into our existing business strategic risk assessment:** This includes the integration of physical climate risks into the risk assessment in order to have a holistic understanding of how these risks could impact our business operations and long-term strategy.

- **Quantifying potential financial impacts:** We intent do work on the quantification of potential financial impacts of climate-related risks and opportunities. Although there is no standard methodology to do so, we believe an internal assessment would help in better decision-making.

- **Actively monitor and evaluate emerging tools and methodologies that could further enhance our risk management capabilities**: In particular concerning the evaluation of the resilience of our strategy under different climate-related scenarios, including a 2°C or lower scenario.

We endeavour to leverage our stewardship power by implementing engagement practices with the portfolio companies and fund managers in which we invest.

In staying attuned to the latest advancements within the industry, Five Arrows remains poised to adapt its approach as necessary, while also capitalising on identified best practices.

Embracing its professional ethos, Five Arrows approaches its sustainability framework with humility and collaborates with peers to drive ESG initiatives forward in the private equity industry.