

Merchant Banking Responsible Investment Policy



2019



Merchant Banking is the investment arm of Rothschild & Co

Merchant Banking deploys the firm's capital, alongside that of a select set of leading institutional and private investors. With global commitments in excess of €13 billion, Merchant Banking manages a series of funds dedicated to corporate and secondary private equity, multi-manager funds and co-investments, as well as senior and junior credits.

Our multi-national, multi-lingual team of 150 professionals is based in London, Paris, Luxembourg, New York and Los Angeles. Together they bring a wide range of expertise and a strong depth of experience across Private Equity and Private Debt.

We have built our reputation on providing the highest levels of excellence. To maintain this we have defined our guiding principles to encompass a responsible and sustainable approach to Environment, Social and Governance (ESG) standards.

Our guiding principles have been established in line with the UN Principles for Responsible Investment ("UN PRI") which Merchant Banking became a signatory in September 2012.

This policy statement sets out the principles and commitments of our approach to ESG.

The 7 Pillars of our ESG policy

Principle 1

Taking ESG criteria into account during the analysis and decision making processes for investments, including:

- Analysis of the non-financial performance of target companies: governance, social, environment
- Consideration of whether the investment is ethical

Principle 2

Disseminate the UN PRI and ensure the application of these principles, including:

- Request all entities in which we invest to communicate, promote ESG standards within their business
- Provide support to senior management in developing mid to long term strategies ensuring a sustainable and trustworthy partnership

Principle 3

Inform our investors of this ESG policy and provide them with information on our approach to ESG initiatives on a regular basis through:

- Provision of adequate, transparent and objective information in documents and during our annual Investor Day

Principle 4

Adopt a responsible and ethical approach to governance including:

- Remuneration of senior management and a policy on bonuses that is compliant with international standards
- Implementation of compliance policies and procedures and on-going monitoring of the Group's systems and controls
- Implementation of rigorous risk controls throughout the business
- Consideration of our ethical obligations in all business conduct (anti-money laundering, anti-corruption, reputational due diligence)

Principle 5

Encourage a human resources policy which values and respects all employees through:

- Objective criteria to measure performance and competencies
- Support programmes requiring senior management involvement in all employees' career progression
- Equality across all staff irrespective of role, gender, race, age, religious belief or sexual orientation

The 7 Pillars of our ESG policy

Principle 6

Reduce the environmental impact of our activities:

- In line with Rothschild & Co's approach to environmental management we look to minimise, wherever practicable, the negative environmental impact of our business including the impacts associated with energy, water and materials use, waste production and CO2 emissions
- Offset our carbon footprint through a partnership with Up2Green. In 2019, we have committed to plant 50,000 trees in the Nariño area of Colombia
- Aim to recycle and reuse as much as practicable
- Align with responsible purchasing practices and encourage our suppliers to respect sustainable development criteria
- Became a Signatory of Initiative Climate International (ICI) in 2018.

Principle 7

Promote employees' commitment to society:

- Partnership with Epic Foundation
- Rothschild & Co's community investment programme combines long term partnerships and employee volunteering with strategic charitable giving
- Encouragement for employees to become involved in one or more of the 250+ volunteering commitments that the Management Company, through the Group, is involved in.

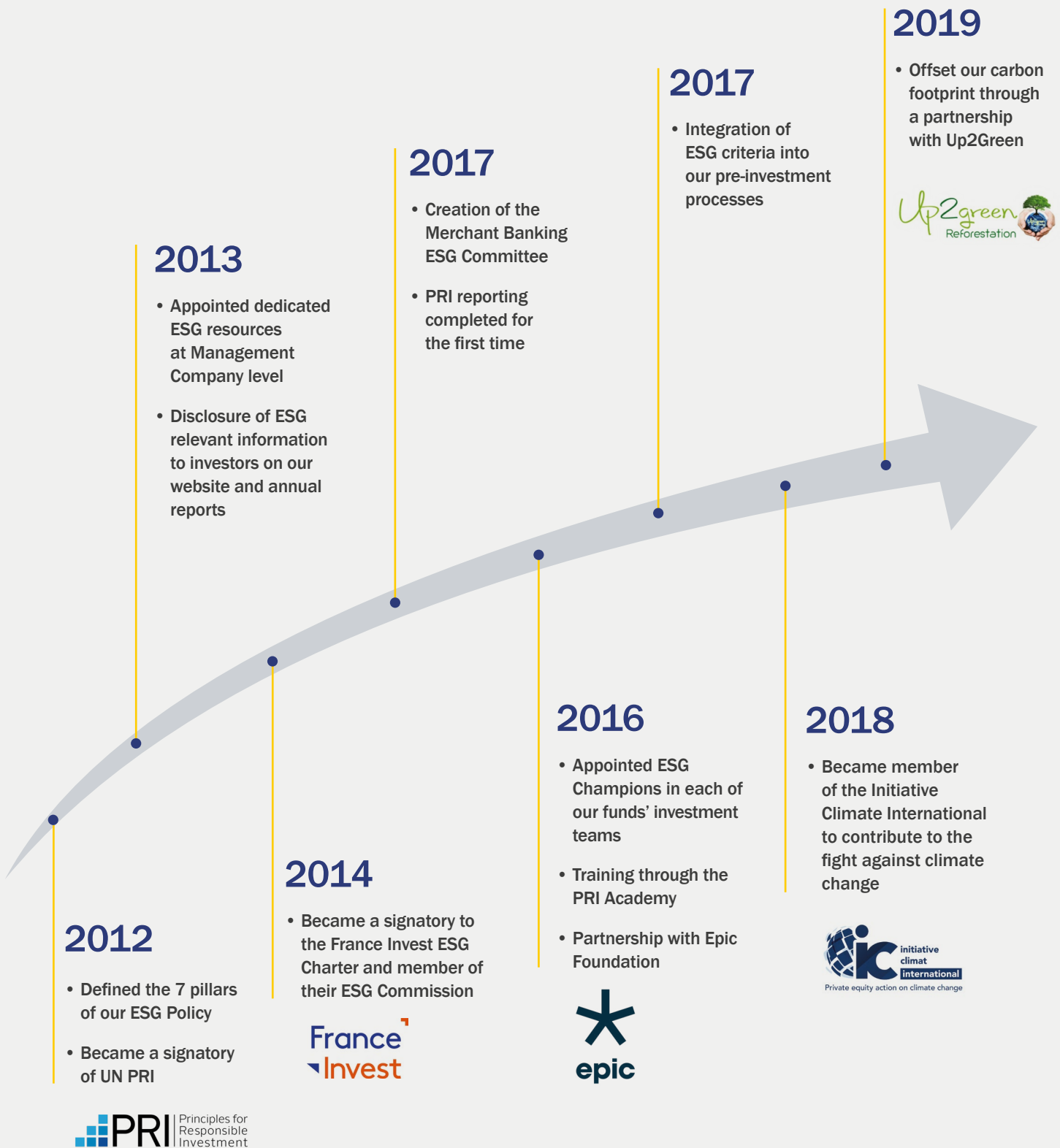
We are committed to integrating tailored ESG initiatives into all our investment activities taking into consideration the specifics of our investment strategies and our level of ownership and control.

The ESG Policy is implemented across our various investment strategies:

- Corporate Private Equity
- Multi Strategies (secondaries, fund of funds and co-investments)
- Direct Lending
- Credit Management



Our ESG Journey



ESG in our Investment Process

We strongly believe in the benefits of responsible investing for long-term value creation. Our ESG initiatives are implemented by dedicated ESG Champions within each of our Investment Teams.

We have developed proprietary ESG tools for each of our investment strategies.

We try to promote the principles of responsible investment within our investments and strongly encourage portfolio companies and fund managers to consider ESG criteria in their activities.

Pre-investment

In line with each investment strategy, the investment team invests across a set of carefully chosen sectors. We ensure that we do not invest in sectors we consider unethical and which are explicitly listed as banned by the Five Arrows Managers Investment Exclusion Policy.

We will not invest in:

- Companies (or portfolio companies) where core business is engaged in activities in severe breach with international conventions;
- Companies (or portfolio companies) that engage in material or systematic corruption evidenced by an official source such as Court, UN, OECD, government, etc.;
- Companies (or portfolio companies) that deliberately and repeatedly violate law in which they operate;
- Companies (or portfolio companies) that export certain goods and services targeted by trade embargoes imposed by the UN or EU; and
- Companies (or portfolio companies) that are involved or derive the majority of their revenue from the production, trade and/or distribution of controversial weapons and munitions, and/or the production, trade and/or distribution of tobacco, prostitution, pornography or coal based activities.

Due Diligence & Investment Decision

Our due diligence is based on a dialogue with the management team (of companies or fund managers where relevant) and onsite visits in order to identify and assess the management of key ESG issues.

The ESG review focuses on the availability of ESG related information and is used to identify whether there may be any significant issues, that require either more detailed technical assessment or need to be managed post-investment.

An ESG analysis is a necessary part of our investment process (for direct private equity funds).

Monitoring / Post-investment

Our Investment teams maintain an on-going dialogue with the portfolio company's management teams or fund managers (where relevant) and encourage them to identify and raise material ESG issues.

We also request that our portfolio companies or fund managers report on their approach and on pre-defined

key ESG indicators either through our Annual Monitoring Programme (for direct private equity funds) or our Annual ESG Questionnaire.

We use the support of external consultants to carry out an ESG review of our portfolio companies (for direct private equity funds).

Transparency for our investors

Five Arrows funds provide their investors with information on our responsible investment approach on a regular basis through the provision of transparent, objective and adequate information:

- In the funds' Annual Reports
- At our Annual Investor Days
- UN PRI Reporting, publicly available
- The Merchant Banking Responsible Investment Policy, available on our website
- Our ESG commitment, available on our website

Community Investment

In line with the Group's Community Investment programme, Merchant Banking has decided to support non-governmental organisations and social enterprises that focus on enhancing the prospects of economically disadvantaged young people globally through a partnership with the Epic Foundation.

This partnership is based on individual commitments from our employees combined with a matching scheme. Founded in 2014, Epic is a global non-profit startup which provides solutions to make "giving the norm". Epic leverages volunteering and giving solutions for individuals and corporations to support high-impact

social organisations tackling youth and child issues globally. Epic strictly partners on a pro bono basis so 100% of the money received is sent to the Epic portfolio organisations. Since 2016, Merchant Banking has supported eight non-governmental organisations and social enterprises by raising more than €150.000 per annum.

Our impact

€500k+
donated by
our teams
since 2017

100%
directly to
organisations

8 projects supported since 2016



Simplon.co (France) empowers young people from low-income communities through training in programming



The Brilliant Club (UK) expands access to highly selective universities for students



Gastrovotiva (Brazil) prepares youth for a career in the culinary industry



Prerana (India) seeks to end the cycle of intergenerational trafficking in Mumbai



Agir pour l'école (France) developed a reading programme based on scientific research combating failure at school



Duo for a Job (Belgium) matches young immigrant job seekers with experienced professionals over 50 years old



Educate (Uganda) supports education programs to develop young leaders and entrepreneurs in Africa



Sport dans la Ville (France) promotes social and professional integration of disadvantaged young people

Environment

We are committed to managing and taking action to reduce our negative environmental impact and to being actively engaged with environmental issues.

Our Environmental Pledge: Going “Carbon Neutral”

We are committing to reducing our carbon footprint

	Waste management		Individual behaviours
	Supplier reviews		Employee engagement
	Facility management		Portfolio companies

For our remaining carbon footprint, we have committed to have it fully offset

			
Fund 50,000 trees to be planted over five years in Columbia 1 tree offsets 150kg of carbon in 12 years¹	Work side by side with l'Agence Française de développement and Up2Green	Target a region where the need for trees is critical: the Nariño area of Colombia	Biodiversity as a core pillar of our action, working with local communities

¹ Based on Ecocert

Initiative Climate International (ICI)

In 2018, FAPI became a signatory of ICI to contribute to the fight against climate change.

Launched in 2015, Initiative Climate International is a collective commitment to understand and reduce carbon emissions of private equity-backed companies and secure sustainable investment performance.

Conscious of our responsibility as shareholders, we wish to make a pragmatic and operational contribution to be a driving force in building a climate-conscious world.

The ICI signatories have launched a long-term approach to reducing the greenhouse gas emissions produced

by their portfolio companies to secure sustainable performance by considering this issue in their activities and investment decisions.

This approach is in line with the Task force on Climate-related Financial Disclosure recommendations (“TCFD”) and the expectations of Article 173 of the Energy Transition for Green Growth French Act regarding climate risks and transparency.



Our Commitments

Recognise that climate change have effects on the global economy, which presents both risks and opportunities for investment

Join forces to contribute to the objective of COP21 limiting global warming to well-below two degrees Celsius

Actively engage with portfolio companies to reduce greenhouse gas emissions, contributing to an overall improvement in sustainability performance

ESG in the way Rothschild & Co operates its business

Social Criteria

Equal Opportunities Policy

- We are committed to providing equal opportunities in employment and aim to ensure we do not unlawfully discriminate in employment due to race, colour, religion or belief, gender, national or ethnic origin, disability, age, nationality, marriage or civil partnership, pregnancy or maternity, sexual orientation or gender reassignment.
- We believe we can contribute to the diffusion of our employees' welfare by applying Group standards on a global basis. This is particularly true in the following areas: parental leave, sabbatical leave and flexible working. For this reason we have devised a global Human Resources policy.

Plan of Action on Senior Employment

We are committed to guaranteeing job security and career development opportunities for senior staff members. Rothschild & Co is particularly involved in:

- The fight against discrimination towards older employees, within the company, during recruitment processes and ensuring access to training.
- Highlighting and facilitating the transmission of experience from the oldest employees.
- Implementing working conditions adapted due to age.

Ethical criteria

Anti-corruption statement

Rothschild & Co takes a zero tolerance policy approach to corruption and bribery.

Employees must at all times:

- Act honestly.
- Comply with the local law of any country in which they operate together with our group policy, or whichever has provided for the highest standard of anti-corruption behaviour,
- Avoid offering, giving or receiving an advantage (whether financial or otherwise) in return for improper conduct.

Involvement in any form of corruption has serious consequences, including dismissal or termination of employment.

Money laundering and reputational due diligence

- Rothschild & Co has a Group policy on client acceptance, which includes the requirement to complete anti-money laundering and reputational due diligence on prospective new clients. This due diligence includes the requirement to conduct enquiries on prospective new clients to determine whether they have ever been convicted of a crime relating to bribery or corruption.
- Where any such conviction is identified (current or historic), it must be fully disclosed to the relevant client acceptance committee.

Environmental Criteria

Rothschild & Co recognises its environmental responsibilities and the importance of being actively engaged with environmental issues.

54%

of the group's electricity is generated from certified renewable sources

To maintain a consistent, focused approach on the most material environmental impact areas of the Group's locations, Rothschild & Co has implemented a continuous improvement programme called the Environmental Management Action Plan (EMAP). The EMAP is aimed at reducing the negative environmental impact of the Group's operations.

In 2017 it adopted the Group Environmental Policy (applicable and adopted by all group entities) and together with its guiding vision:

“Through our operations, products and services we will aim to add value to our and our clients' businesses in a sustainable, environmentally responsible way, to conserve and protect the world's natural resources.”

The Group Environmental Policy and vision are underpinned and aligned with the six most relevant United Nations Sustainable Development Goals¹ ('SDGs') for the Group, from the 17 SDGs defined by the United Nations. Whilst the Group recognises the importance of all the SDGs, it has specifically aligned itself with those it feels most relevant to the environmental management of our business operations.

Green House Gas (GHG) emissions and climate change

Climate change is a serious risk to our environment, to society and to the global economy. We proactively manage our GHG emissions to take on our share of responsibility to combat climate change.

In recognition of the effects of climate change and its potential impact, we continuously seek to improve our operational practices to limit and reduce the direct and indirect impact of our business operations and, in particular, business travel.

Responsible consumption and engagement

- As part of our business culture we champion responsible consumption of resources and materials, such as energy, paper and water. We procure resources responsibly and from sustainable supply chains.

Resource management

- We champion reducing waste, encouragement of circular economic practices and recycling.

¹ SDG 6 - clean water and sanitation, SDG 7 - affordable and clean energy, SDG 8 - decent work and economic growth, SDG 12 - responsible consumption and production, SDG 13 - climate action, SDG 15 - life on land

