

**naxicap**  
PARTNERS

ENTREPRENEURS EN CAPITAL

## ESG POLICY

Signatory of:

 **PRI** Principles for  
Responsible  
Investment

 **ic** initiative  
climat  
international  
Private equity action on climate change

**ESG Policy**  
**Naxicap Partners**  
Last updated: 10 December, 2019

## A. Purpose

The purpose of this policy is to define Naxicap Partners' approach to integrating the consideration of environmental, social, and governance (ESG) risks and opportunities into its investment process. Naxicap Partners commits to consider material<sup>1</sup> ESG issues in the course of its due diligence process and in the monitoring of its portfolio investments seeking to maximize the economic and social returns on investments.

The signature of the PRI (Principles for Responsible Investment), in January 2016, more deeply marks Naxicap Partners' commitment to monitor and encourage responsible actions of the companies in which it invests. In order to contribute to the COP21 objective of limiting global warming to two degrees Celsius, Naxicap Partners signed the IC20 (2020 Climate Initiative, subsequently renamed the International Climate Initiative) in October 2016. As a signatory to International Climate Initiative, Naxicap aims to reduce the greenhouse gas emissions of its most carbon intensive portfolio companies and secure sustainable investment performance by recognizing and incorporating the materiality of climate risk.

As presented in its ESG Charter, Naxicap Partners' commitments for a responsible investment are as following:

- i. We undertake to make investments compliant with our values
- ii. We undertake to examine ESG criteria before investing in a company
- iii. We undertake to support and monitor our portfolio's ESG initiatives from investment to exit
- iv. We undertake to report our ESG actions transparently to our LPs
- v. We undertake to offer our associates the best possible work environment
- vi. We undertake to be law compliant, internally well controlled and to limit our risks
- vii. We undertake to promote responsible behavior within our profession
- viii. We undertake to support initiatives related to economic progress, our expertise or our values

Naxicap Partners will seek to update the ESG policy regularly, as appropriate.

## B. Scope

This policy applies to portfolio companies in which the total amount invested by investment vehicles under management of Naxicap Partners is superior to or equals €5m. However, for companies not covered in the scope as described above, and in instances where Naxicap Partners considers it appropriate, reasonable efforts are made to encourage its portfolio companies to consider relevant ESG-related factors.

## C. Implementation and oversight responsibilities

- **A dedicated ESG team**

The ESG team is responsible for facilitating the implementation of the policy and for maintaining and updating the policy to ensure its continued relevance in addition to responding to any inquiries from Naxicap Partners' investors.

Angèle Faugier, Board member and Managing Director at Naxicap Partners, supported the development of Naxicap Partners' ESG approach and constituted a dedicated ESG team in 2015. The team is today composed of three other members:

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<sup>1</sup>For the purpose of this policy, Naxicap Partners defines "material" ESG issues as those issues determined to substantially affect, or have the potential to substantially affect, the financial condition or operating performance of an organization, as well as their ability, or the potential ability, to create environmental and social value for itself and its stakeholders.

- one member fully dedicated to ESG, holding a master degree in Sustainable Development from HEC Paris,
- one Investor Relations Director with 13 years of experience within investment management,
- one Investor Relations Officer who has had extensive training in the field of ESG.

- **Investment Managers**

Naxicap Partners' investment managers are responsible for ensuring that the consideration of ESG issues is integrated into the investment process and throughout the investment cycle by monitoring the ESG roadmap of the portfolio company.

- **Middle Office**

The Middle Office is responsible for controlling the accuracy of the implementation of the measures described in this policy throughout the investment cycle.

- **External ESG resources**

The ESG due diligences are carried out by leading third party ESG due diligence providers such as PwC and INDEFI. Naxicap will typically engage these providers as part of its due diligence process for investments, but may also engage them on other ESG initiatives.

Naxicap has implemented a reporting tool - *Reporting21* - with the purpose of collecting annual ESG data from its portfolio companies. *Reporting21* is a software developed by the company Sirsa, a specialist in extra-financial reporting with a focus on CSR.

#### **D. Naxicap Partners' approach to consideration and management of ESG issues in its investment process**

Naxicap Partners has adopted a set of procedures aiming to integrate the consideration of ESG issues throughout the investment cycle as well as developing best ESG practices within the management company.

- **Pre-investment:**

In order to ensure the integration of ESG considerations in the pre-investment stage, Naxicap Partners commits to:

- **Exclude certain industries and activities from its investment range:**

As Naxicap Partners' contribution to a more responsible investment industry, its first commitment is to invest in activities in line with its values and to encourage, beyond the regulatory framework, ethical behavior. Naxicap Partners has decided not to invest in:

- ✓ illegal economic activities: any production, trade or other activity not permitted by law or regulations
- ✓ production of or trade in tobacco
- ✓ manufacture of or trade in weapons and ammunition of any kind
- ✓ pornographic activities and prostitution
- ✓ casinos, betting enterprises and equivalent

The most recent funds of Naxicap Partners include these criteria in their By-laws.

Certain funds also exclude any activities allowing illegal access to electronic data networks or the downloading of electronic data.

- **Take ESG issues into consideration during the Investment Committee:**

All investment memorandums include a pre-investment ESG analysis. The pre-analysis highlights the main ESG risks, opportunities and recommendations and is considered when making an investment decision. The ESG analyses are conducted based on both financial and extra-financial data. Our investment teams have access to specific sector reports, annual

reports, studies from industry experts as well as a general guide created by Naxicap Partners' ESG team covering the main material issues of each sector.

- **Undertake ESG due diligences:**

ESG due diligences are mandatory pre-investment. The due diligences, carried out by external auditors, deliver a more thorough understanding of the main ESG challenges and areas of improvement aiming to define the roadmap for the coming years. The auditors conduct interviews with the management teams and have, in addition to their own internal sources, access to relevant documents provided directly by the target company.

The ESG due diligence as well as the ESG analysis presented in the investment memorandums both cover central ESG issues considered material to the specific target company, as evaluated by the auditor. The main areas of analysis are:

- ✓ *Corporate Governance and Risk Management*
- ✓ *Business ethics*
- ✓ *HR strategy & Career management*
- ✓ *Health & Safety*
- ✓ *Environmental management system & GHG emissions*
- ✓ *Responsible procurement*
- ✓ *Service quality & Customer satisfaction*
- ✓ *Community involvement*

The due diligences cover an in-depth analysis of each ESG theme, including their level of materiality for the company, their strategic importance in relation to the sector, a summary of the company's performance, relevant KPI's and other key performance elements as considered material by the auditor. The methodology used is a wide-spread service offered to several management companies in the PE-industry when assessing a target company on ESG issues in the pre-investment stage.

- **Integrate an ESG clause in the Shareholders Agreement:**

An ESG clause is systematically included in the Shareholders Agreement. When signing the Shareholders Agreement, companies commit to implement a detailed action plan, to inform Naxicap Partners regularly on their actions and to annually report on ESG data.

- **During investment:**

In order to properly manage and monitor the potential ESG risks and opportunities of its investments, Naxicap Partners commits to:

- **Monitor the progress of its portfolio companies:**

Naxicap Partners requires its portfolio companies to answer annually a set of c.120 indicators related to their ESG actions and engagements with stakeholders (clients, suppliers, and local communities). To collect this data, Naxicap Partners has implemented an online reporting tool - *Reporting21* - available to every portfolio company. As a General Investor, the 120 indicators cover a wide area of central ESG issues applicable to all sectors and activities. These indicators derive from consolidated recommendations and studies by industry experts such as the PRI, the ESG Commission of France Invest, external consultants as well as industry peers.

Naxicap Partners has developed its own detailed in-house ESG scoring methodology, based on the companies' answers to the annual questionnaire. The ESG scoring enables an accurate and detailed monitoring of the portfolio companies' performance on material environmental, social and governance issues including their interaction and impact on stakeholders. The materiality weights Naxicap Partners applies to the different sectors, are based on Naxicap Partners' interpretation of the publicly available materiality framework of the Sustainability Accounting

Standards Board (SASB). The SASB materiality tool is considered as an accurate framework within the industry. Naxicap Partners has also developed its own in-house benchmark database to certain key indicators based on publicly available information.

Naxicap Partners encourages collaboration with the companies' management to identify the material ESG issues and to support the development of their ESG roadmap. The roadmap is approved at least once a year by the Supervisory Board, as defined in the Shareholders Agreement. The companies have to present their progress and realized actions, especially on how they act on factors regarded as being of high importance as evaluated by the auditor.

- **Undertake transparency and accountability in its reporting to investors:**

The online reporting tool serves to answer the inquiries of Naxicap Partners' investors and to provide them with detailed ESG reports and reviews throughout the investment cycle. Naxicap Partners provides its investors with detailed ESG reports by funds in addition to an annual ESG report, publicly available on Naxicap Partners' web site: <http://www.Naxicap Partners.fr>. In case of particular ESG incidents, reporting meetings with LP's are arranged to disclose the incidents and the appropriate ESG roadmap. The incidents, as the case may be, are described in the annual report of the funds or when necessary.

- **Exit:**

The divestment process of Naxicap Partners includes:

- **Undertaking ESG Vendor Due Diligence:**

ESG vendor due diligences are conducted for all investments where a financial vendor due diligence has been undertaken. The ESG vendor due diligence highlights the key ESG issues identified and managed throughout the period of ownership in order to limit risks and to create value.

- **Acting transparently towards potential new buyers:**

Where appropriate, Naxicap Partners undertakes to inform buyers on relevant ESG issues enabling them to make informed decisions before acquiring or engaging in the target company.

## E. Incorporation of climate criteria into the investment process

As a signatory of the iC International, Naxicap Partners systematically factors climate risks into its investment process, as defined by the scope of its ESG policy. More specifically, Naxicap Partners is committed to:

- Recognize that climate change will have effects on the economy which represent both risks and opportunities for businesses,
- Join forces to contribute to the objective of COP21 of limiting global warming to two degrees Celsius,
- Contribute to reduce the greenhouse gas emissions of its portfolio companies and ensure sustainability of economic performance.

As a result of the commitment, Naxicap Partners seeks to disclose the Scope 1, 2 and 3 greenhouse gases emissions of its portfolio companies with a high carbon materiality.

A detailed climate analysis is integrated into the investment memorandums and follows a methodology elaborated by PWC. The methodology, shared between all iC International signatories, provides a snapshot of the target company's current position with regards to significant climate issues facing its sector and activity, and is used to evaluate the materiality of the company with regards to climate change. It aims to determine the company's climate materiality by answering the following questions:

- ✓ Is the company affected by carbon regulations?
- ✓ Have any of its clients (public sector, large groups, etc.) already formulated expectations in terms of carbon strategy?
- ✓ Is any part of the value chain located in countries or zones with a high climate risk ? Are any of its commercial partners (suppliers, subcontractors, distributors, etc.) affected by carbon regulations?
- ✓ Has the company or its industrial sector recently been involved in a carbon-related controversy?
- ✓ Are the company's market conditions sensitive to climate change and energy issues (dependence, competition, technological challenges, etc.)?
- ✓ Has the company conducted a voluntary carbon footprint assessment (Scopes 1, 2 and 3)?
- ✓ Is the company planning an IPO?

The analysis also identifies areas of improvements and concrete actions to be implemented by the company, whether it is to capitalize on opportunities related to the transition towards a low carbon economy or to limit exposure to significant climate risks. The analysis is verified by an external auditor.

Depending on the results of the pre-investment climate analysis and the company's exposure to physical and transitional climate risks and opportunities, actions to be implemented are identified. This work is integrated into the company's ESG roadmap and may include different priorities, depending on the materiality: carbon footprint assessment, carbon reduction measures, implementation of KPIs, capitalization on potential opportunities, etc. Naxicap Partners seeks to see actions taken for reduced GHG emissions and approves the roadmap in the Supervisory Board, as defined in the Shareholders Agreement.

Naxicap Partners monitors the portfolio companies' exposure and adaptation strategies to the physical and transitional climate risks identified in the pre-investment climate analysis through relevant indicators via its online ESG reporting tool. These indicators are presented annually in Naxicap Partners' ESG report.

## F. Responsibilities within the management company

In addition to the consideration of ESG issues in the investment process as described in Section D and E, Naxicap Partners also undertakes to act as a responsible management company internally and seeks to:

- **Maintain its operational excellence & risk reduction:**  
Naxicap Partners focuses on having an efficient internal control, a strong compliance and a good risk management department. The Risk & Compliance and the Middle Office departments are added-value in-house expertise functions of Naxicap Partners in which it has invested heavily. Beyond complying with legal provisions and mitigating operational risks, Naxicap Partners' processes have the intention to provide a safe and high level of transparency to investors for all transactions.
- **Offer its employees the best possible work environment:**  
Naxicap Partners acknowledges that investing in its employees is essential. Providing them with the best working conditions and a positive and dynamic working environment is one of the key priorities of the management company. Naxicap Partners offers equal working conditions and provides its employees with training and tutoring programs to support them in their career development.
- **Limit its environmental footprint:**  
The management company undertakes to adopt more environment-friendly solutions internally to limit its impact on the environment. Naxicap Partners will continue to implement necessary actions to reduce its environmental impact as a management company.
- **Execute its duties as a responsible investor:**  
Naxicap Partners undertakes to respect and adopt its responsibilities as a signatory of the PRI (Principles for Responsible Investment) in addition to other formal commitments signed by the

management company. Naxicap Partners will seek to participate in workshops and conferences to increase public awareness concerning responsible investment and to demonstrate the benefits of good practices for companies and for the investment industry.