Rothschild & Co

October 2023

Five Arrows Sustainability Risks Management Policy

Contents

1. Contact and Document History

1.1 Policy Contacts and Document History

Primary contact for this policy rests with the Five Arrows sustainability team.

1.2 Associated Documents

The following documents should be referenced in conjunction with this policy:

- R&Co Controversial weapons policy
- R&Co Fundamental principles policy
- R&Co Thermal coal policy
- Five Arrows Remuneration Policy
- Five Arrows Principles of Adverse Impact Statement

2. Introduction

2.1 Scope and Objectives

This document sets out the Five Arrows approach to integrating the consideration of sustainability risks into its investment decision-making processes and portfolio management (the "activities"). This policy applies to the Five Arrows activities of Rothschild & Co Investment Managers and each of Five Arrows Managers LLP, Five Arrows Managers SAS, Five Arrows Managers North America LLC, and Five Arrows Managers USA LLC (collectively "Five Arrows", "we", or "us").

The purpose of this policy is to set out the principles established by Five Arrows regarding sustainability risks management, which covers how it assesses, considers, monitors and reports on the sustainability risks it identifies in the pursuit of its activities.

2.2 Policy Review and Approval

This policy is to be reviewed annually (or as otherwise warranted) by the Five Arrows sustainability team. This policy will be presented to the Five Arrows Executive Committee on an annual basis, will be reported for information internally in accordance with the Rothschild & Co Group governance requirements and shall be made available on the Five Arrows website.

Changes that are minor / administrative in nature can be approved by the Five Arrows Head of Sustainability.

3. Identifying Sustainability Risks

3.1 Definition and Approach

Despite the different geographies and product types in which Five Arrows operates and the complex and varied regulatory environment surrounding sustainability topics, we believe it is important for Five Arrows to have a common interpretation of these requirements and to align our different activities and funds through a common approach. To ensure this consistency, Five Arrows has established a common set of sustainability policies for application throughout its various lines of business. These policies help to ensure appropriate management of the various sustainability risks Five Arrows faces.

According to Five Arrows, and in line with the definition provided under the Sustainable Finance Disclosure Regulation ("SFDR"), "sustainability risk" is defined as an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of our investments.

In addition, our definition of "sustainability risk" also covers the risks that events related to sustainability (environmental, social or governance) may cause to balance sheet and reputation. For example, reputational risks linked to the potential harm that our investments could cause to the environment, or to potential greenwashing allegations are also considered by Five Arrows to be sustainability risks that could impact us.

3.2 Key Sustainability Risks

Sustainability risks can be identified across investment products, sectors and geographies. In general, our approach is based on a variety of factors, including but not limited to:

- the time horizon for our investments which varies depending on the investment strategy;
- the type of instruments invested in;
- the sectors / geographies in which we invest; and
- the size of the invested assets and the capacity to mitigate the identified risks.

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[1] 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. Our focus on this risk also encompasses our actions towards greenhouse gas emissions reduction and promotion of efficiency and transition towards renewable energy sources, as mandated under

1 Environmental, Social and Governance

the French Energy Climate Law. Our analyses in connection with this sustainability risk include (i) physical risks, defined as the exposure of real assets and raw materials to physical consequences directly caused by climate change (i.e droughts, extreme temperatures, floods, fires, rising sea levels, etc.), (ii) transition risks (regulatory changes, technological changes, customer preferences, reputation, etc.) and (iii) bio-diversity-related risks.

4. Sustainability Risks Assessment

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 (see Section 5 below).

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.

Screening tools

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. As of 2023, these ESG proprietary due diligence tools have been implemented for some of our funds where ESG investing is a material part of the strategy, such as Five Arrows Sustainable Investments, and Five Arrows is actively working to develop these further going forward.

Finally, in situations where there is limited or inadequate available information, Five Arrows uses sophisticated, third party monitoring software to help monitor and further assess specific ESG risks.

External complementary due diligence

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.

5. Implications for Investment Decision-Making

5.1 Investment Committee Reporting

If some ESG risks are assessed as being material, or if the level of available data is considered as low, this information is integrated in our Investment Committee papers. For some of our funds, ESG conclusions are discussed with the Investment Committee irrespective of their level of materiality.

If identified ESG characteristics of an investment opportunity are not compliant with the ESG rules established in the contractual documentation of the investing fund, or are otherwise problematic in light of the investment strategy of the relevant fund(s), the investment opportunity will be declined.

5.2 Investment Restrictions

Five Arrows considers some sectors, assets, and geographies as inappropriate for investment by some, or all, of the funds and vehicles it manages.

Under the Five Arrows investment exclusion framework, which aligns with the Rothschild & Co Group's Responsible Investment policies, no investment will be made in companies that:

- derive all or part of their revenue from the use, development, production, acquisition, stockpiling, retention, transfer, trade and/or distribution of controversial weapons and components dedicated to such weapons. Controversial weapons include cluster munitions, anti-personnel landmines, chemical weapons and biological weapons, as such terms are defined under international conventions or standards;
- may breach fundamental principles due to gross corporate misconduct such as severe infringements of human rights, substantial environmental damage or those linked with corruption and bribery, to the Group's knowledge and as evidenced by official credible third-party sources;
- are involved directly in thermal coal production as well as exploration, mining & processing and power generation using thermal coal above defined thresholds;
- derive a material part of their revenue from the production, trade and/or distribution of:
  - tobacco
  - prostitution
  - pornographic content (including rental or licensing);
- operate in countries identified as "very high-risk", as provided by the periodic analysis conducted by the Rothschild & Co Group Financial Crime Compliance team using internal and external sources and including factors such as level of corruption, money laundering controls, offshore tax haven status, level of drug trafficking, addition to any sanctions lists and political stability.

Whilst the above represents the Five Arrows baseline, there may be additional sectors in which Five Arrows would refuse to invest. Fund documentation and agreements established with our investors often include significantly broader exclusions or restrictions which may, as an example, include restrictions relating to:

- the operation of casinos and equivalent enterprises;
- the operation of online gambling or gaming businesses;
- the development or operation of computer programmes designed to illegally enter electronic data networks or download electronic data;
- the development or operation of human cloning technologies; and/or
- the production, distribution and extraction of non-conventional fossil fuels (oil sand, shale oil and gas, oil and gas from the Arctic zone).

6. Ongoing Monitoring

The ways Five Arrows monitors and/or mitigates sustainability risks through an investment's holding period are naturally different depending on the investment strategy, the materiality and type of any identified risk, and the level of exposure of the relevant fund(s) to a particular company or risk factor.

Across many of our strategies, the investment teams will liaise with investee companies on ESG related issues and practices, and will request investee companies to complete an annual ESG questionnaire. An ESG audit of an investee company may also be undertaken by a third-party specialist firm where deemed desirable. For the Credit Management strategy, a review of ESG factors is embedded into the ongoing monitoring of all investments on the Credit Management Approved Purchase List.

6.1 Information Collection

With the exception of Credit Management, Five Arrows Minority Investments (FAMI) and Five Arrows Private Equity Platform's (FAPEP) strategies (where the ability to access extra-financial information is limited given the type of investments), we request our investee companies in our corporate private equity and direct lending strategies, and the fund managers in our multi-strategies funds, to complete formal sustainability reporting annually. We collect specific data to monitor ESG performance in our investments through a specialised reporting tool.

The scope of our data requests is tailored for each investment strategy, comprising a defined set of indicators that we monitor, including SFDR requirements, as well as best ESG practices for small/medium-sized companies. For certain funds where ESG impact is a material part of the investment strategy, Five Arrows uses proprietary ESG questionnaires to assist with the calculation of an ESG score for a particular investment for specific reporting applicable to the relevant fund.

Additionally, Five Arrows also monitors its portfolio through external databases providing controversy monitoring across all of our investment strategies. This is implemented via monitoring platforms in which tailored watchlists are set up which would automatically inform our teams on an ongoing basis should any new ESG controversy be deemed relevant.

6.2 Proactive Monitoring

Five Arrows takes an active role in its relationships with investee companies and fund managers. We see it as an integral part of our role to follow up on strategies, financial and non-financial performance, risks, as well as Environmental, Social, and Governance impact of our investee companies. Regarding sustainability risks and ESG considerations, we proactively support and encourage investee companies and GPs to achieve greater sustainability performance, improve their sustainability practices and mitigate their sustainability risks throughout our investments' holding period, implemented within our different lines of business as follows:

Corporate Private Equity

In situations where extensive ESG due diligence was not deemed necessary at the pre-investment phase (i.e. where no significant sustainability risks were identified at this stage), an ESG review will typically be completed during the first years of the investment to design the sustainability roadmap for the relevant investee company. Our Portfolio Operations Group will work with the relevant management teams to identify relevant indicators to monitor the advancement of the ESG characteristics deemed relevant within each investee company.

As Five Arrows prepares to exit an investment, we will, where appropriate, appoint an external expert to provide a vendor sustainability due diligence report which is disclosed to potential bidders.

Direct Lending

As a debt provider, whilst we do not hold the same ability to impose policies and objectives on investee companies as a majority owner would, we nevertheless promote sustainability performance via financing documentation terms. This may take the form of specific ESG-related undertakings and/or sustainability ratchets, as well as identifying indicators to monitor the achievement of these targets within the investee company.

A “sustainability-linked” or “ESG-linked” ratchet is a provision within a financing agreement under which the interest rate increases or decreases depending on the borrowing group achieving a defined set of ESG targets. This kind of instrument is used by our direct lending team as a way to incentivise the borrowing group to develop good sustainability practices and mitigate sustainability risks.

Secondaries

For our secondaries investments, we are deploying further initiatives including proactive monitoring practices tailored to the profile of each underlying portfolio fund manager. Depending on the size of the fund manager (in AUM) and the existence of an ESG team within the portfolio fund manager team, and the role and level of influence of the relevant Five Arrows fund on the relevant secondary transaction, each portfolio fund manager is given a specific profile. By way of example, a small fund manager with no internal ESG team might be encouraged to benefit from a more active role by the Five Arrows Secondary Opportunities team. We intend, for example, to organise training sessions or dedicated working sessions aiming at improving best ESG practices.

Credit Management

Due to its investment strategy, Credit Management’s ability to collect data and engage with companies is more limited when compared to our other investment strategies. Our Credit Management team typically sends out ESG questionnaires in line with the European Leveraged Finance Association (“ELFA”) templates to all prospective new investments to obtain ESG information and metrics. Whilst this is practice under development, as of today and as is the case for most of its peers, the response rate remains limited. However, we will continue to work to improve our ability to collect data from these potential investee companies.

7. Sustainability Risks Reporting

As a result of managing various investment vehicles with differing ESG-related objectives and having investors with varying sensibilities regarding these matters, Five Arrows reports to its investors on ESG matters both at an:

- overall Five Arrows and strategy level, by way of the annual Five Arrows Sustainability Report made available online; and
- individual fund level in the annual report for each investment fund.

Separately, recognising that investee companies are themselves material stakeholders in managing sustainability risks and achieving ESG targets, individual follow-up reports, called “Factsheets”, are produced to cover the key indicators in each sustainability questionnaire per strategy, and are sent to each investee company having engaged in the ESG questionnaires exercise to help them benchmark themselves with other relevant investments within the Five Arrows portfolio and with external industry-wide benchmarks.

8. Other Sustainability Risk Management Considerations

8.1 Empowering our Teams

Five Arrows recognises that our investment professionals are key players to identify and manage sustainability risks at every stage of the investment process. It is therefore crucial for us to ensure our teams are knowledgeable about the underlying issues and master the use of the ESG tools available to help them identify and mitigate sustainability risks.

With this objective in mind, the Five Arrows sustainability team deploys different tools and training at regular intervals to empower our investment teams and provide them with the resources and guidance to identify, monitor and mitigate sustainability risks related to our investments.

Additionally, all our other functions, such as investor relations, compliance, and risk teams, are also concerned by reputational risks. Hence, tailor-made training programmes are created to ensure the content and frequency of sustainability-linked training is relevant and appropriate.

8.2 Involving our Support Functions

The Five Arrows risk management team is responsible for ensuring that the underlying investments, and the Five Arrows funds themselves, are in line with their relevant investment policies at the time of investment through pre-investment checks, and at valuation frequency through post-investment checks and monitoring. The risk management team is independent from the investment teams, and acts as a "second line of defence".

The Five Arrows compliance function also assists in the sustainability risks framework and monitors the alignment of Five Arrows with regulatory requirements, including a review of policies and procedures, including the documents made available to investors such as marketing materials and regulatory pre-contractual disclosures. It also provides an oversight to the investment management process and provides all the required information to the regulatory authorities.

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