

# ARDIAN

## Sharing Values to Create Value



CORPORATE & INVESTMENT RESPONSIBILITY 2016

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\* Corporate Social Responsibility

# ARDIAN

ARDIAN IS AN INDEPENDENT PRIVATE INVESTMENT COMPANY WITH \$60BN OF ASSETS UNDER MANAGEMENT OR ADVISED IN EUROPE, AMERICA AND ASIA. WITH 12 OFFICES AROUND THE WORLD, WE OVERSEE INVESTMENTS IN FUNDS OF FUNDS, DIRECT FUNDS (COMPRISING MID CAP BUYOUT, EXPANSION, GROWTH AND CO-INVESTMENT), INFRASTRUCTURE, PRIVATE DEBT AND REAL ESTATE.

Ardian's mission is to invest responsibly in order to create lasting value, outstanding returns and shared outcomes for our investors and partners, for our portfolio companies and their employees and for our own people.

We regard responsible investment practices and ethical behavior as essential objectives to help achieve the outstanding returns that we seek, and we believe strongly in the principle that shared responsibility and shared efforts should lead to shared rewards. This is why we have pioneered the practice of sharing a portion of the capital gains on successful exits with every employee of the companies involved since 2008. We play an active role in several industry-wide organizations and initiatives dedicated to furthering the principles of responsible investment and see this as an essential part of our commitment to speak up publicly for the values we believe in.

# FOREWORD

DOMINIQUE SENEQUIER  
President of Ardian



“Our role as a long-term shareholder is to foster growth that is both sustainable and shared by all involved.”

**A**t Ardian, we have always recognized that our responsibilities extend far beyond creating financial value. This is why,

over the last decade, we started to develop and implement our approach to responsible investment based on our conviction that excellent Environmental, Social and Governance ("ESG") practices are highly effective tools, both to improve the performance of our investments, and to ensure we have a positive impact on our stakeholders and the wider communities in which we do business. Above all, Ardian takes a practical approach, identifying concrete steps that will make a measurable difference to the results we achieve and the benefits that flow from them.

**The value that sits at the heart of Ardian's approach is sharing.** We believe in shared ownership, shared responsibilities and shared rewards. All employees must contribute if a company is to create lasting value, and so it is obvious to us that they should receive a share of the value that they have helped to create. This is why we pioneered the practice of sharing up to 5% of the capital gains we achieve on exit with the staff of those companies. Since 2008, 7,800 employees from 14 companies have shared a total of €17 million in this way. We do not do this in order to conform to some external benchmark for Corporate Social Responsibility, but because we think this is the right way to do business. Shared efforts should lead to shared rewards.

For the same reason, I am proud to say that within Ardian, we have extended the "Intéressement et Participation" profit sharing scheme, which is mandatory for our French company, to all Ardian's subsidiaries around the world, giving every member of our staff the right to share in our profits every year.

**The creation of Ardian in 2013** gave us another important opportunity to put our belief in sharing into practice. We invited our staff to become co-owners of the new management company and we were delighted that 80% of them took advantage of the opportunity. Today, Ardian is majority-owned by its managers and employees. This helps to strengthen our corporate culture and gives us all a powerful shared interest in upholding the company's guiding values of Excellence, Loyalty and Entrepreneurship. Naturally, what is good for us is also good for the companies in which we invest and we have encouraged them wherever we can to allow their staff to become shareholders and co-owners.

**I am also very pleased that Ardian's dedication to achieving concrete results through our commitment to responsible investment** has enabled us to start demonstrating the impact of specific sustainability initiatives which we have pursued with our portfolio companies on their financial performance. We believe we are one of the first private investment firms to present clear evidence of this kind and we intend to continue this work and extend its scope.

**There is much still to do**, however, and public expectations of our industry will become steadily more demanding. We will continue to respond by promoting our vision of shared commitments and shared rewards within Ardian and its portfolio companies, as well as being a public advocate for responsible investment practices across the private investment industry and the financial community.

# DRIVING CORPORATE & INVESTMENT RESPONSIBILITY

ARDIAN'S CSR COMMITTEE INCLUDES SENIOR REPRESENTATIVES FROM THE INVESTMENT TEAMS AND THE MAIN SUPPORT FUNCTIONS, ALONG WITH THE HEAD OF CSR AND RESPONSIBLE INVESTMENT, CANDICE BRENET. THE COMMITTEE MEETS FOUR TIMES PER YEAR.

REPRESENTATIVES OF THE INVESTMENT TEAMS



**OLIVIER  
DECANNIÈRE**  
Member of  
the Executive  
Committee  
Funds of Funds



**PHILIPPE POLETTI**  
Member of  
the Executive  
Committee  
Mid Cap Buyout



**BENOÎT  
VERBRUGGHE**  
Member of  
the Executive  
Committee  
Funds of Funds



**PAOLO  
BERGONZINI**  
Managing  
Director  
Expansion

REPRESENTATIVES OF THE SUPPORT FUNCTIONS



**JÉRÉMIE  
DELECOURT**  
Member of the  
Executive Committee  
Corporate and  
International  
Development



**ÉDOUARD  
BOSCHER**  
Head of  
Investor  
Relations



**MICHAEL  
FERRAGAMO**  
Head of Global  
Compliance  
& Risk



**STÉPHANIE  
GRACE**  
Head of  
Communications



**CANDICE  
BRENET**  
Head of CSR  
and Responsible  
Investment



**APRIL  
TISSIER**  
CSR Analyst

CSR COMMITTEE

CSR TEAM

# INTERVIEW

CANDICE BRENET

Head of CSR and Responsible Investment



# W

**HY IS ARDIAN PUTTING SO MUCH ENERGY INTO ITS RESPONSIBLE INVESTMENT ACTIVITIES NOW?**

We have been developing and refining our approach since 2008 and all our experience so far proves that these factors can help us to achieve better financial performance and create sustainable value over the long term. Our strategy is to transform the companies that we invest in to make them more successful, and sustainability initiatives such as improved Human Resources practices, projects to improve energy efficiency and reduce waste, and the development of environmentally friendly goods and services can all contribute to that goal. One big step forward recently was that we are now able to demonstrate in concrete terms the difference that these initiatives can make to the financial performance of our investee companies, which is an important milestone. Meanwhile, at the corporate level, we can see that investors are demanding to know more about the firms that

are managing their money: rating agencies are now publishing ESG performance rankings on thousands of mutual funds. Therefore, we see strong responsible investment practices coupled with high levels of transparency as important ways for us to sustain Ardian's growth and success into the future.

**WHAT IS DISTINCTIVE ABOUT THE WAY ARDIAN PRACTICES RESPONSIBLE INVESTMENT?**

If you look at our history, you can see that our approach has always had its roots in our work as investors. It is a pretty business-oriented approach, if you like, and this is why our very first step was our commitment to share gains on our exits with staff at portfolio companies. This commitment is a very powerful lever for aligning interests with our portfolio companies and their employees but it is still very unusual. Since then we have continued to emphasize the principle of profit-sharing, both within Ardian and with our portfolio companies, but we have also gone much further and pursued a wider range of responsible investment activities. But because we take an investor's approach to this whole area, we are always concentrating on practical, concrete initiatives and aiming to measure the results as precisely as we can. Last year for the first time we shared the results of ESG evaluations of two of our Mid Cap Buyout portfolio companies at an industry event. Both these companies had achieved big financial benefits as a result of specific initiatives, demonstrating how responsible investment enables us to align our financial goals with our wider, non-financial goals. Good practice is absolutely compatible with financial success.

**“Our experience proves that responsible investment can both improve financial performance and bring big extra-financial benefits, and so help us build better and more sustainable companies.”**

**We embrace  
our responsibilities  
towards our clients,  
our people  
and society.**



1

## ARDIAN LIVES BY ITS VALUES

### EXCELLENCE

- ▶ Ardian has put in place a dedicated CSR team to develop processes and tools to ensure the successful roll-out of the company's Responsible Investment Policy. It is supported by a CSR Committee that includes four members of the Executive Committee.
- ▶ We organize CSR training for our employees to share best practices in-house.

### LOYALTY

- ▶ We provide clear and transparent information to our investors on a regular basis through high-added value reports.
- ▶ Our commitments are formalized and made public:
  - CSR charter
  - Adhesion to PRI
  - Responsible investment policy

### ENTREPRENEURSHIP

- ▶ We are active shareholders. We work with companies to design and roll out environmental and social projects that promote sustainable growth.
- ▶ Our actions are guided by pragmatism and teamwork.

2

## ARDIAN SHARES THE VALUE IT CREATES

### WITH THE COMPANIES IN OUR PORTFOLIO

- ▶ Ardian is a long-term shareholder and investor, and its role is to promote sustainable growth shared by all stakeholders.
- ▶ At the end of 2014, we had helped create 17,200 jobs during the holding period at portfolio companies in which Ardian held more than 5% of the capital.

### WITH OUR EMPLOYEES

- ▶ We extended the French shareholding and profit-sharing system to Ardian employees worldwide.
- ▶ Almost 80% of Ardian employees are shareholders of the company, with a total of 55% of its capital.

### WITH THE SOCIETY

- ▶ We support young talent from disadvantaged backgrounds through the Ardian Foundation. We currently provide individual support to 120 young people to help them pursue their careers.

3

## ARDIAN BELIEVES THAT LEADERSHIP MATTERS

### PRECURSOR

- ▶ In 2008 we implemented an internal charter to redistribute profits to the employees of the companies in our portfolio on exit.
- ▶ We signed the United Nations Principles for Responsible Investment in 2009.

### INFLUENCER

- ▶ We hold workshops in partnership with the UNPRI to share best practices in responsible investment.
- ▶ We actively work to produce tools on integrating ESG issues into private equity (case studies, white papers, etc).

### WE COLLABORATE WITH:



AFIC



IC20



Invest Europe



UNPRI



We work with  
**40**  
COMPANIES  
each year to build and review  
their tailored ESG roadmap

We keep companies  
in our portfolio  
more than  
**4**  
YEARS ON AVERAGE

We follow  
**150**  
GPs  
each year to support their  
responsible investment best  
practices



We distributed  
**€17**  
MILLION TO 7,800 EMPLOYEES  
in the 14 companies  
we exited in since 2008.

Ardian has  
**432**  
EMPLOYEES

**80%**  
of whom are  
SHAREHOLDERS  
OF THE COMPANY



**2008**  
INTERNAL  
profit-sharing charter

Ardian received an  
**A+**  
UNPRI SCORE  
for its global ESG  
policy in 2015

# 1

## ARDIAN LIVES BY ITS VALUES

### Sustainability is embedded into the entire investment process

- We began this journey **eight years ago**.
- We believe it to be **integral to our approach** to creating value.
- We published our **formal responsible investment policy in 2016**, detailing how it is incorporated into all our activities and every part of the investment process.

### We practice Active Ownership

- Where possible, the investment team seeks to **take a seat on the board of each portfolio company** in order to monitor progress, and to support and encourage management to improve sustainability policies and practices.
- **We share sustainability best practices and knowledge** across our portfolio companies and funds.
- **We engage** with portfolio companies and GPs on material topics.

## We can demonstrate concrete links between responsible investment and financial performance



## We aim to be as transparent as possible to increase our accountability to LPs



- We are continuing to **develop our reporting on sustainability**, to provide them with the highest quality information possible.
- **In 2016 we reported to LPs on the sustainability performance of 36 portfolio companies**, representing two-thirds of the financial exposure of Ardian's Direct Funds.
- We also report on sustainability to LPs in Ardian's Funds of Funds.



## We train our staff and share best practices

- In 2015 we provided **Advanced Responsible Investment training sessions** for investment teams: 42 analysts, investment managers and senior investment managers from direct teams in Paris, Milan and Frankfurt took part.
- **Our Corporate & Investment Responsibility Intranet promotes engagement and discussion.** The site contains specific information to support staff in each area of Ardian's investment activity.



## 2

# ARDIAN SHARES THE VALUE IT CREATES

We share our profits and capital gains

€17M



Since 2008, we have distributed **17 million euros** of capital gains on exits to **7,800 employees from 14 companies**.



We have extended our French “Participation and Intéressement” profit-sharing scheme to include our global workforce, giving every member of staff an equal share of our profits every year.

We create thousands of jobs



At the end of 2014, **17,200 jobs** were created during the period of detention in portfolio companies in which Ardian had more than 5% of the capital.

## We have strong Human Resources practices



We have put in place an anti-discrimination and diversity policy with staff training sessions.



We have appointed an Equal Opportunities Officer.



Under our Generational Contract Agreement, every employee under 26 receives mentoring from a senior colleague.

## We are an employee-controlled company

55%

of Ardian is owned by its staff, some 80% of whom are shareholders in the management company.



We promote employee shareholding amongst the companies in which we invest.

## We broaden our social impact through the Ardian Foundation

- The Ardian Foundation helps talented young people from underprivileged backgrounds to achieve their educational potential by providing **financial support to help with their accommodation and living costs while they study.**
- The Foundation provides **one-to-one mentoring** for each beneficiary from a dedicated member of Ardian's staff. Around 100 Ardian employees now serve as mentors.
- **We currently support around 120 young people** at universities in France, Italy and the USA, as well as younger school pupils in China.

# 3

## ARDIAN BELIEVES THAT LEADERSHIP MATTERS



We are a pioneer  
in Responsible Investment



Ardian adopted its Internal Charter on profit-sharing in 2008, committing it to **share up to 5% of the capital gains** on exits from portfolio companies with the employees of those companies.



In 2009 Ardian signed the **United Nations Principles for Responsible Investment (UNPRI)**, which sets out six pledges on sustainable investment practices.

## We continue to set the tone

A+

The UNPRI gave Ardian a score of **A+** for its global Environmental, Social and Governance (ESG) policy, versus a median score of B, in 2015. We scored A+ for our ESG performance in Direct Funds and Infrastructure, and A in Funds of Funds, compared with a median score of B.

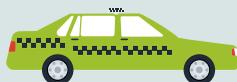
IC20

In order to contribute to COP21's ambitious targets, in November 2015, Ardian was **one of five founding French Private Investment GPs which launched Initiative Carbone 2020 (IC20)**. This commits each signatory to measure the direct and indirect carbon emissions majority-controlled portfolio companies by 2020 and to pursue efforts to control and reduce these emissions.

GP/LP

In an effort to encourage and structure dialogue between GPs and LPs regarding ESG considerations, **Ardian is leading a working group within the AFIC (French Private Equity Association)** on the future of ESG Reporting within the Private Equity Industry.

We have implemented policies on **energy efficiency**, recycling, use of video-conferencing to reduce business travel, and take environmentally-friendly taxis across all 12 of our offices around the world.



## We cooperate with our peers and support industry-wide initiatives that will benefit us all

We regularly take part in initiatives led by the UNPRI to develop and promote key guidance on applying the principles of ESG within private investments.

We contributed a case study to **Integrating ESG in Private Equity: A Guide for General Partners** (2014), and shared our insights and experience to help produce the **Limited Partners Responsible Investment Due Diligence Questionnaire** (2015).



Ardian is also a member of several other organizations that have developed their own ethical principles and rules, including Invest Europe and AFIC which regularly organizes roundtables and debates on responsible investment.

**Ardian teams aim to build better companies by embedding ESG risks and opportunities in the investment process.**



# DIRECT FUNDS

## IMPROVING THE IMPACT OF PORTFOLIO COMPANIES THROUGH ACTIVE OWNERSHIP

Ardian is committed to working with the management teams of all our portfolio companies to support improvements in their ESG policies and practices. Within our Direct Funds, we pursue a policy of active ownership based on ongoing engagement at Board level: from due diligence to exit, the investment team works hand in hand with management to ensure that sustainability risks and opportunities are properly assessed and monitored, and that every opportunity is taken to enhance each company's performance.

# INTERVIEW

**PHILIPPE POLETTI**

Member of the Executive Committee, Mid Cap Buyout

## **H**OW LONG HAVE YOU BEEN FOCUSING ON ESG ISSUES WITHIN DIRECT FUNDS?

Ardian made a big public commitment to the principles of responsible investment back in 2009 when we signed the UN Principles for Responsible Investment, and that was also the year we commissioned our first external extra-financial review of companies in the Mid Cap Buyout portfolio. Over the past seven years we have come a long way, both in the knowledge we have developed of effective ESG practices and in the experience we have built up. We now know how to implement initiatives, how to conduct monitoring and we know the results that we can achieve. So if people today ask me whether we see benefits from integrating responsible investment principles into our investment processes, I tell them that we started to answer this question seven years ago and that there is absolutely no doubt in our minds about the benefits: it is a vital part of our approach to creating value.

## **WHAT CONCRETE RESULTS HAVE YOU BEEN ABLE TO SHOW FROM YOUR WORK ON RESPONSIBLE INVESTMENT ISSUES?**

It has always been important for us to develop ways to measure and benchmark our results. Over the past few years we have done a lot of pioneering work with the management of companies in our Direct Funds portfolios that is now allowing us put hard numbers on the results we are achieving – and the numbers are strong. At times even, we have been surprised by what we have found. Companies such as Novacap and Fives have shown big benefits from specific sustainability initiatives, and we are now confident in sharing these results with external audiences because we believe they make the case for responsible investment practices very powerfully. Remember, these are both industrial companies in our Mid Cap Buyout portfolio that afford quite complex conditions in which to

apply sustainability principles, with multiple areas to monitor and address, operations in a wide range of countries with different laws and guidelines, and so on. These exercises have taught us a lot, and have also been very important in showing our management teams that sustainability initiatives produce tangible financial value.

## **WHY DO YOU WANT TO SHARE ARDIAN'S EXPERIENCE WITH A WIDER AUDIENCE?**

Our job is to support companies and enable them to grow. By doing that, we help to create sustainable jobs that our societies need, we improve the infrastructure that the whole community relies upon and we deliver value that can be shared. And at the same time, our investments help to secure the financial wellbeing of the savers whose money we invest. We believe very strongly that the private investment industry can have a positive impact on the economy and on society, but we also realize that a lot of people do not yet fully understand the contribution that companies like Ardian can make. This is why we feel that it is very important to make sure people understand the responsible approach we take to investment, and so we want to talk more about our own experience and take a leading role in encouraging the private investment industry to become more active in this area.



**“By supporting companies’ sustainable growth, we help to create jobs, we improve the infrastructure that the whole community relies upon and we deliver value that can be shared.”**

# ESG IN THE INVESTMENT PROCESS

ARDIAN'S INVESTMENT TEAMS CONSIDER ESG ISSUES AT EVERY STAGE OF THE INVESTMENT PROCESS FROM DUE DILIGENCE TO EXIT.

## DUE DILIGENCE



Investment teams systematically carry out **environmental, social and governance audits while taking into account the fund's strategy** as well as the details of each opportunity, with the support of the CSR team and ESG consultants when necessary. This leads to a dedicated section covering ESG issues in the investment memos for all funds. ESG issues are reviewed alongside other criteria by the Investment Committee.

The **Environmental aspects** of our due diligence are now being developed further following our launch of the Initiative Carbone 2020. We are developing a systematic framework to enable our investment teams to analyze carbon emissions as part of their ESG due diligence.

## OWNERSHIP



We carry out **annual ESG reviews of portfolio companies** with the help of specialist consultants. During 2016, individual ESG reviews were conducted on 36 portfolio companies:

- 14 from Mid Cap Buyout LBO Funds IV and V
- 11 from Expansion Funds II and III
- 11 from Infrastructure Funds III and IV

▶ Over time, these regular exercises help to raise awareness of ESG issues among the investment teams and company managements, to improve ESG practices by establishing concrete action plans for

improvements on material topics, allow us to implement a common ESG reporting framework and most recently to start measuring the financial impact of specific ESG initiatives at individual portfolio companies.

▶ The results from each area of activity are presented back to the investment teams and an Executive Summary is included on each company in the annual management reports.

▶ We assess the carbon footprint of portfolio companies on a systematic basis as part of our commitment to the Initiative Carbone 2020.

## EXIT



To date, we have conducted ESG vendor due diligence on two companies from the Mid Cap Buyout portfolio, Diana and Novacap. These exercises document the implementation of the companies' ESG strategies over several years and offer a valuable way of **showing the cumulative impact on waste reduction, energy use and health & safety performance.**

# 5%

On each exit, our investment teams are charged with finding a mechanism for **sharing up to 5% of the capital gain achieved** with the employees of the company.

## CASE STUDY 1

### ▶ ADA COSMETICS

ACQUIRED: August 2014

SECTOR: Toiletries and Cosmetics

EMPLOYEES: 242

## Environmentally Friendly Packaging

Ada Cosmetics is a leading supplier of guest toiletries and cosmetics to independent hotel chains and cruise ship operators. Based in Kehl, Germany, but with significant operations in the UK and Scandinavia, the company has worked for several years to reduce the environmental impact of its products and packaging, and to meet growing demand from customers for its Green Product ranges, which combine environmentally friendly ingredients with fully recyclable packaging.

The company has made big advances in moving to environmentally friendly packaging for its Green ranges, using polyethylene terephthalate (PET) for bottles and containers, and developing dispensing systems that are not only recyclable but also minimize waste from each use, ensuring its products last longer.



Environmentally friendly ingredients



Fully recyclable packaging



Longer lasting products



## CASE STUDY 2

### ▶ CLH

ACQUIRED: March 2011

SECTOR: Oil Pipelines and Storage

EMPLOYEES: 1,414



Low greenhouse gas intensity



Silver Class Sustainability award

## Minimizing Pollution Risk

CLH operates the largest network of pipelines and storage facilities in Spain for refined oil products. Given the hazardous nature of the liquids it handles and the high potential impact of spills, the company applies stringent environmental controls and policies across all areas of its operations. It has adopted a Pipeline Integrity Plan based on the American Pipeline Integrity regulation, which is one of the strictest in the world. CLH calculates environmental performance indicators every quarter and reports them to the Board.

CLH's greenhouse gas (GHG) intensity is relatively low compared with other companies in the energy sector. In 2013 its GHG intensity in the activities under its direct control (Scopes 1 and 2) was well below that of equivalent pipeline operators in North America. In terms of tonnes of CO<sub>2</sub> equivalent per € of revenue generated, CLH's GHG intensity was 19 times lower than the industry average.

CLH has earned the Silver Class Sustainability award from RobecoSAM, an international investment company focused on sustainability, coming second of 16 companies in the Oil & Gas Transportation category worldwide and receiving one of only 54 Silver Class awards among 3,300 companies.

## CASE STUDY 3

### ▶ DIANA

HOLDING PERIOD: June 2007 - April 2014

SECTOR: Specialist food ingredients

EMPLOYEES: 2,000

## Sharing our experience of ESG Vendor Due Diligence with the PRI community

Ardian carried out its first ESG Vendor Due Diligence review in 2013, in the lead-up to our exit the following year from Diana, a company acquired in 2007. Over the seven years of Ardian's ownership, we had performed four ESG reviews of Diana but we believed that a dedicated review as part of our Vendor Due Diligence would not only produce interesting results but would also add value to the exit process.

One of the main goals of our ESG program with Diana – strongly supported by its employees – was to achieve a zero work accident rate. Over successive annual ESG reviews, we showed that:

- **The accident rate fell on average** of 13% per year between 2010 and 2013 despite the doubling in staff numbers over that period.
- **In 2013 the number of accidents requiring staff leave was less than one-fifth of the sector average.**
- **The rate of serious accidents fell** by two-thirds from 2010 to 2013.
- **The rate of absenteeism at facilities in France fell** 25% a year over the same period.

The ESG exit review allowed us to assess the non-financial benefits of the initiatives we had pursued during our ownership and to measure progress against our key targets. The results of this exercise provided concrete evidence of the value of these initiatives, prompting two potential buyers to request interviews with the ESG consultant that had carried out the Vendor Due Diligence.

In light of these findings and in line with Ardian's commitment to the UN Principles for Responsible Investment, we shared our experience by contributing to a case study on the Guidance Document for the Limited Partners' Responsible Investment Due Diligence Questionnaire, published by the UNPRI in 2015.

The case study explained: **"Ardian believes that ESG integration in portfolio companies should be results-driven – and results are only truly recognized at exit.** By conducting an ESG Vendor Due Diligence, Ardian is able to communicate the value of ESG integration in practice, beyond goals and action plans."

We now carry out ESG Vendor Due Diligence reviews whenever we believe it will benefit the exit process.



## CASE STUDY 4

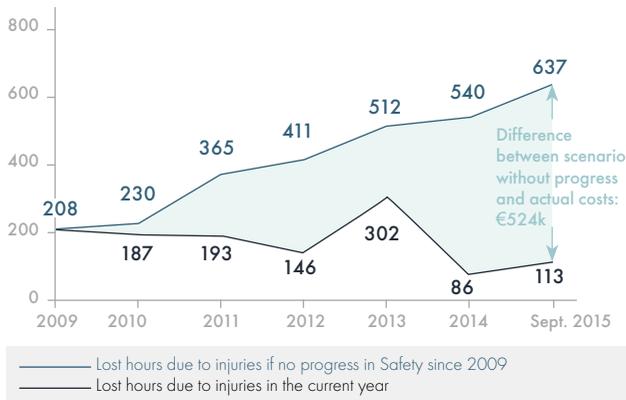
# How ESG projects generate financial returns

In 2015 Ardian ran a pioneering project to examine the impact on profitability of specific ESG programs at two companies, Novacap and Fives, which have best-in-class ESG practices. The results demonstrated that ESG initiatives at both companies led to material gains in revenues and Ebitda.

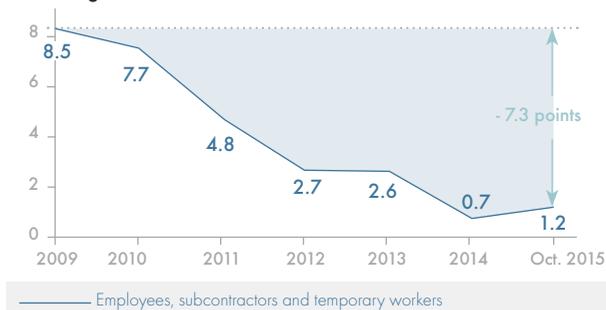
**This is the first time that such detailed links have been shown between ESG initiatives and financial performance.**

Ardian intends to extend its leadership in this area of research during 2016 and beyond with further projects to evaluate the financial benefits of specific ESG projects.

Cost of lost hours due to injuries (€k/year)



Novacap accident frequency rate (category 1) over time: 12 rolling months



ESG initiatives and financial performance linked



Further research on financial benefits of specific ESG projects to come



### ► FIVES

**ACQUIRED:** October 2012

**SECTOR:** Engineering and Industrial Equipment

**EMPLOYEES:** 8,000

For Fives, an industrial engineering group in the Mid Cap Buyout portfolio, the number of resignations was a major concern. To address the level of staff turnover, the company implemented a series of initiatives, including efforts to improve retention of people.

Ardian assessed the costs linked to voluntary departures that were avoided as a result of the company's initiatives and concluded that savings in 2014 amounted to more than €400,000, demonstrating a strong link between improvements in ESG policies and value creation.

At Fives, we also assessed the results of the company's "Eco-design" program, which consisted of six products carrying the label "Engineered Sustainability". This generated revenues of more than €48m in 2015, establishing again the link between ESG policies and value creation.

### ► NOVACAP

**HOLDING PERIOD:** January 2011 - April 2016

**SECTOR:** Chemicals Manufacturer

**EMPLOYEES:** 1,600

At Novacap, a program to reduce work accident rates across company facilities resulted in a reduction of 75% during Ardian's ownership. Over the same period, the company's headcount tripled, from 500 to 1,600. The reduction in working hours lost due to accidents represented a major improvement in employee working conditions and produced cost savings worth more than €500,000 per year.

# FUNDS OF FUNDS

## MEASURING AND ENCOURAGING ESG EXCELLENCE

Ardian monitors the responsible investment practices of the GPs in its Funds of Funds portfolios via an annual online survey. The aim of this exercise is not just to measure GPs' performance, but also to increase awareness, encourage transparency and ultimately to improve the performance of the underlying portfolio companies. In 2015 we began reporting the results of our monitoring to LPs, including an executive summary of the results in our management report.

# INTERVIEW

**BENOÎT VERBRUGGHE**

Member of the Executive Committee, Funds of Funds

## **H**OW DO YOU INTEGRATE RESPONSIBLE INVESTMENT INTO THE FUNDS OF FUNDS OPERATION?

Because Ardian has a single CSR team covering both our Direct and Funds of Funds investments, we have a very good understanding of the practical challenges that GPs in our Funds of Funds portfolios face as responsible investors because we face those same challenges ourselves in our Direct Funds portfolios. In Funds of Funds, we have developed an internal scoring system that we use as part of the decision-making process when we look at new investments, and we assess the responsible investment performance of GPs through our annual monitoring survey. We have just carried out this survey for the fourth time and I am pleased to say that a large majority of our portfolio by NAV is managed by GPs that score three or four stars out of four on our benchmark. On the other side, we are also developing the way we report on responsible investment to the LPs in our Funds of Funds. We

now include a section on how the GPs in our Funds of Funds portfolio are performing as part of the management reports we

**“GPs that score best against our responsible investment benchmarks are also the best performers in terms of financial returns.”**

send to investors. We have large LPs in our funds that ask very detailed questions about our responsible investment practices and performance; as a management company we have to satisfy their due diligence, so it is only natural that when we act as an investor in other firms' funds we should be rigorous in the same way.

## **CAN YOU POINT TO A LINK BETWEEN RESPONSIBLE INVESTMENT PERFORMANCE AND FINANCIAL RETURNS IN THE FUNDS OF FUNDS BUSINESS?**

Although we cannot quantify the link definitively, we can see strong evidence that it exists. The results of our annual surveys show that the GPs that score best against our responsible investment benchmarks are also the best performers in terms of financial returns. As I say, this is correlation rather than causation, but we believe that it is significant and that it makes sense. Achieving good performance in this area is a question of discipline and rigor, and we believe that good practice here will tend to indicate a high level of professionalism and a strong focus on improving performance in other areas as well.

## **IS IT IMPORTANT FOR ARDIAN TO REMAIN A LEADER OF THE SUSTAINABILITY MOVEMENT IN PRIVATE INVESTMENT?**

We are very clear that excellence in responsible investment is no longer optional - it is a must. We have to keep widening the scope of our activities and be as clear as possible about the steps we are taking. The whole industry is moving in this direction now and so it is becoming more and more important to be able to demonstrate that we are actively addressing the responsible investment agenda and that it is an integral part of the way we do business. We have been saying for a long time that our work is about more than just financial returns - I think that Ardian has been quite proactive in this area, which is good. But there is plenty more for us to do.



## HOW WE ENGAGE WITH GPs

Over the course of the four cycles of ESG monitoring that Ardian has carried out with its GPs, starting in 2011, we have seen steady growth in their response rate, in their awareness of these issues and in their level of activity.

Our most recent survey, comprising more than 40 questions, was completed by 148 GPs, together accounting for 90% of the Net Asset Value of Ardian's Funds of Funds portfolio – a sharp increase on the 88 GPs who took part last year.

## HOW WE USE THE RESULTS

1

The survey responses enable us to score GPs under two headings:



▶ **Their commitment to responsibility and sustainability at the corporate level**, covering areas such as their level of public activism, concrete initiatives on environmental, social and governance issues and their philanthropic activities.



▶ **Their incorporation of responsible investment principles** into their due diligence, through the investment process, during ownership and at exit, as well as how they report to their LPs on their responsible investment activities.

2

We then turn the data generated by each monitoring exercise into two sets of tools that our investment team uses for due diligence and monitoring purposes:

- **A benchmark** based on qualitative analysis, which identifies overall trends and innovative practices among the GPs.
- **A scorecard for each GP** in the portfolio, highlighting their individual performance and key initiatives. The scorecard awards points under three headings: corporate commitment to CSR; incorporation of environmental, social and governance considerations into the investment process; and key strengths and opportunities for improvements.

3

**GPs are awarded ratings** on Ardian's ESG Benchmark ranging from 1 to 4 stars.



The rating attributed to a GP as a result of our monitoring survey is **taken into account when deciding on primary investments, accounting for 10% of the GP's final score.**



Monitoring our large Funds of Funds portfolio in this way gives us an unusually **broad insight into the industry's progress in engaging with responsible investment issues.** It shows, for example, that 60% of GPs have adopted a formal policy on corporate social responsibility and another 16% are in the process of doing so.

## PORTFOLIO PROFILE

### Increase of good practices within our portfolio

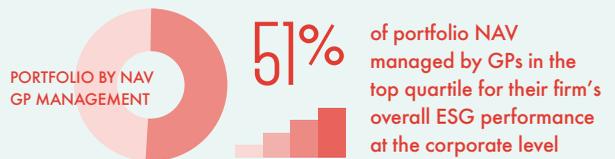
A large and growing percentage of our Funds of Funds portfolio is managed by GPs that score highly on our Responsible Investment Benchmark:



- ▶ 61% of the portfolio by NAV is managed by GPs that obtained 3 or 4 stars in our ranking. This is up from 54% in the previous survey.
- ▶ Of the 81 GPs that took part in our two most recent surveys, 59 (73%) achieved a stable score, 12 (15%) improved their ranking and 10 (12%) received a diminished score.

### GPs with good corporate commitment to ESG performances

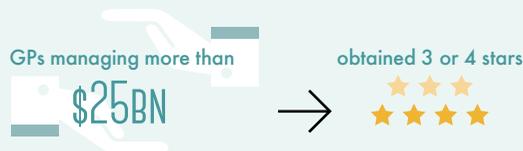
Breaking the scores down, our results showed that:



- ▶ 51% of our portfolio by NAV is managed by GPs that rank in the top quartile for their performance regarding their corporate commitment to ESG, with another 11% in the second quartile.
- ▶ 41% of our NAV is managed by GPs placed in the top quartile for their commitment to applying responsible investment practices during their own investment process, with a further 18% in the second quartile.

### Correlation between AUM and ESG maturity

We found a strong link between the volume of assets that GPs manage and the scores they obtained on our ESG Benchmark:



- ▶ 77% of GPs managing more than \$25bn scored 3 or 4 stars. No GP scored 1 star.
- ▶ Among the smallest GPs – managing \$1bn or less – there were no 4-star ratings and 18% scored 1 star.

### Correlation between responsible investment and financial performance

Our results show a correlation between high responsible investment ratings and superior financial returns\*:



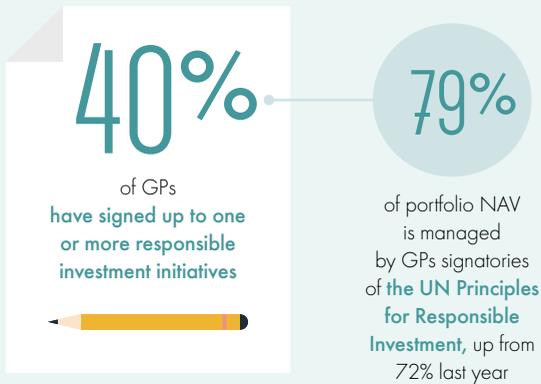
- ▶ 56% of GPs that scored 4 stars on our Responsible Investment Benchmark manage funds with Outstanding financial performance.
- ▶ Among funds that produced Poor financial performance, 31% obtained a 1-star rating. This category has the highest proportion of funds with weak responsible investment scores.

\*We place funds' financial performance in four categories: Outstanding, Good, Average and Poor.

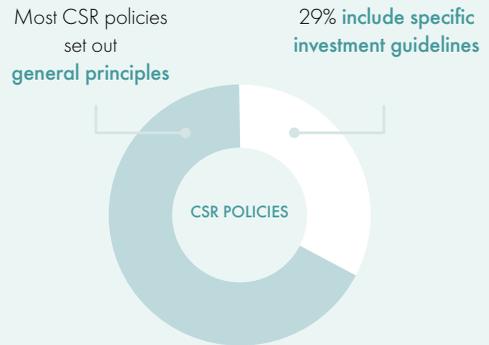
# KEY TRENDS AMONG GPs

## CORPORATE LEVEL

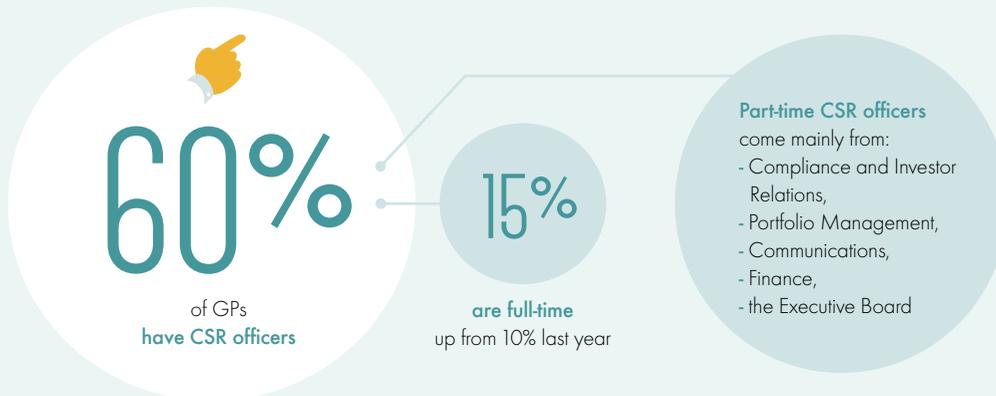
### Public activism on the rise



### Increased formalization of sustainability



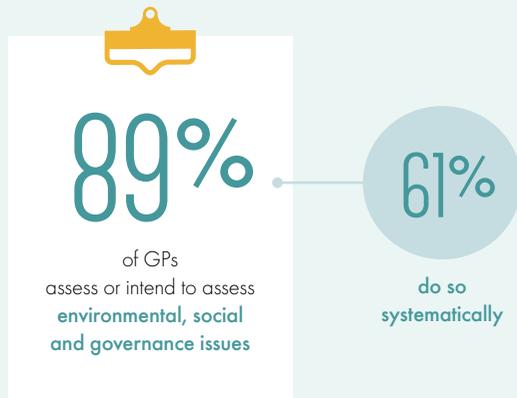
### CSR functions within management companies



# KEY TRENDS AMONG GPs

## INVESTMENT PROCESS

### Pre-investment



▶ 40% of GPs that assess environmental, social and governance issues during this phase **carry out dedicated ESG due diligence.**

### Investment decision



▶ **Sustainability issues** influenced investment decisions for more than a third of GPs.



▶ 82% said these issues had led them to identify **risks and opportunities for value creation.**



▶ 61% said they had resulted in the **deal being called off.**

### Holding period



▶ Monitoring is often informal: two-thirds of GPs rely on dialogue with portfolio companies and 24% employ specialist consultants.



▶ Almost a third of GPs invite portfolio companies to take part in joint sustainability schemes such as courses, seminars and roundtables.



▶ More than 50% of GPs are able to identify and communicate on their portfolio companies' sustainability initiatives.

### Exit



of GPs **incorporate sustainability considerations into their exit process,** either sometimes or systematically

