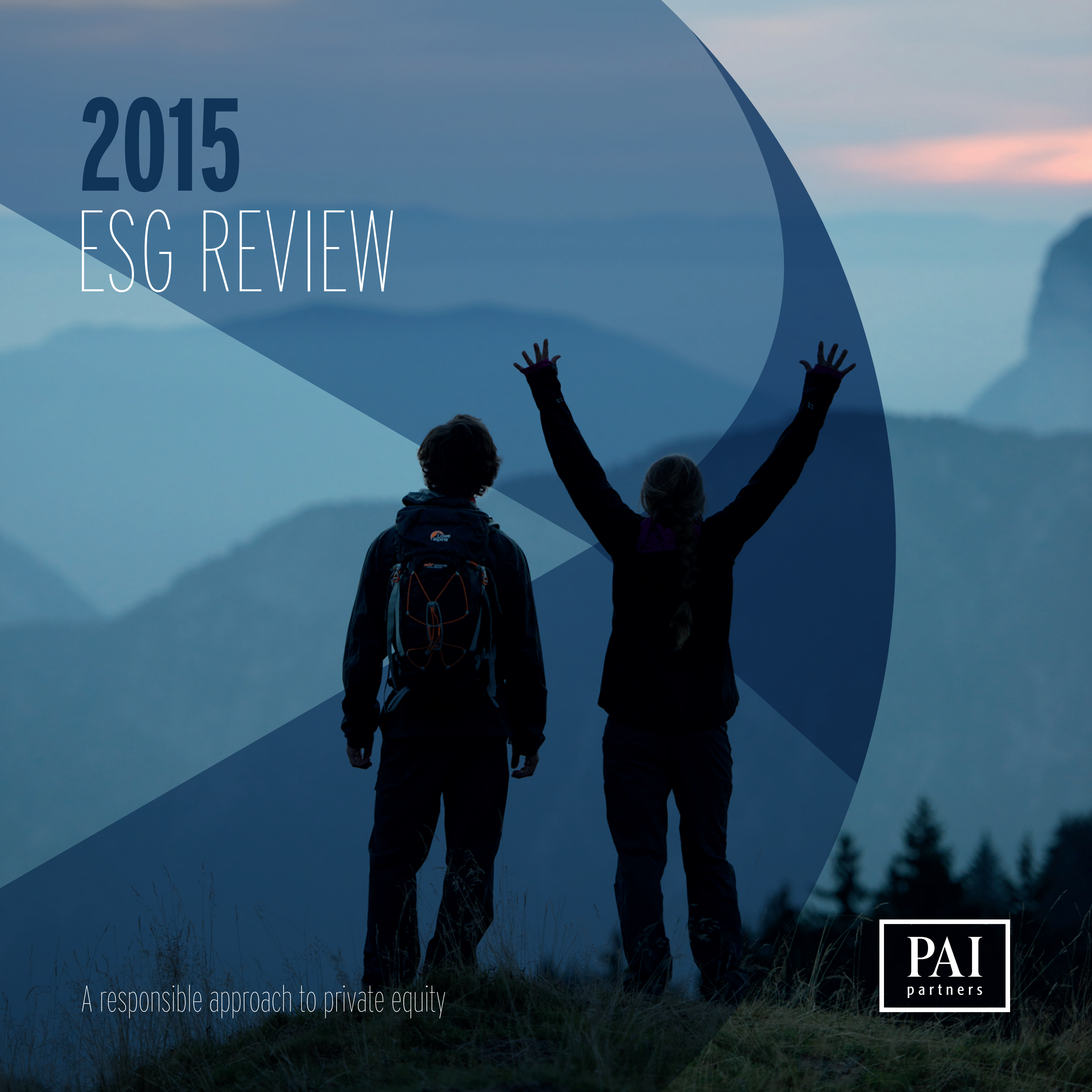
2015 ESG REVIEW



A responsible approach to private equity

PAI partners

2015
ESG REVIEW

A responsible approach to private equity

PAI
partners

CONTENTS

EMBEDDING ESG MANAGEMENT INTO PRIVATE EQUITY

WE BELIEVE THAT ATTENTION TO ESG ISSUES CAN CONTRIBUTE TO FINANCIAL OUTPERFORMANCE

PAI has, over recent years, worked to deeply integrate environmental, social and governance (ESG) management into how we invest. We believe that attention to ESG issues can contribute to financial outperformance.
And we have made great progress in putting into place the policies, processes and procedures to deliver that outperformance.

This year, and this report, is about the maturation of the work the firm has undertaken to embed ESG into how we invest, manage and realise value. As it demonstrates, ESG due diligence and post-acquisition audits take place as standard practice. Our portfolio companies regularly meet to share their experiences around sustainability issues. The firm seeks to contribute to the industry's ESG debate, too.

Perhaps most significantly, this year we have launched our new ESG reporting tool. It collects consistent ESG information across our portfolio, allowing PAI's investment managers, portfolio companies and investors to measure, monitor and understand the ESG performance of our entire portfolio. Ultimately, the demand for ESG information is only headed in one direction: transparency and accountability must be at the heart of sustainable private equity investment.

Our leading position in responsible investment is not only good for people and the planet: it is also good for business. We know that many of the investors we attracted into our latest fund would not have committed capital were we not able to demonstrate our market-leading ESG capabilities.

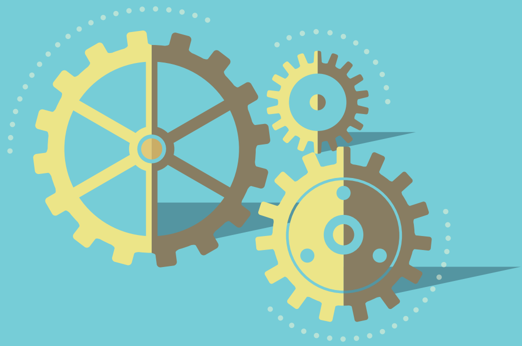
This year's ESG Review sets out how PAI approaches responsible investment and ESG management, and showcases the hard work that our specialist ESG team and portfolio companies have put in to ensure that our investments contribute to environmentally and socially sustainable economic growth.

MICHEL PARIS
Chief Executive Officer

PAI & ITS PORTFOLIO

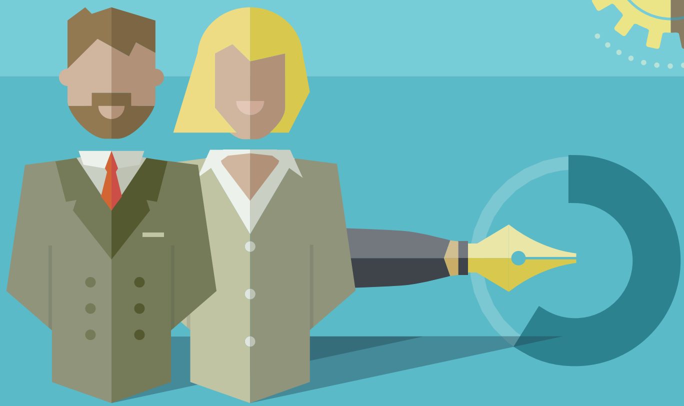
€7.7 BILLION

ASSETS UNDER MANAGEMENT



190

INVESTORS



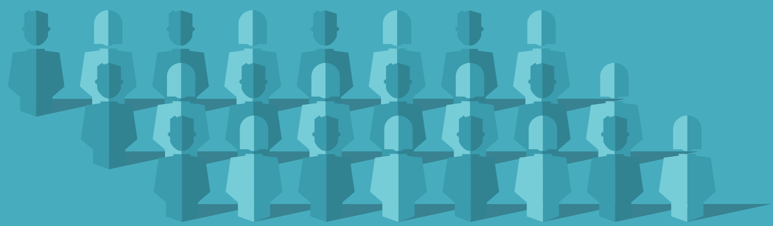
59 %

INVESTORS ARE PRI SIGNATORIES

CONTRIBUTING TO THE PENSIONS OF

11 MILLION

PENSIONERS



19 PORTFOLIO COMPANIES

€14.3 BILLION TURNOVER

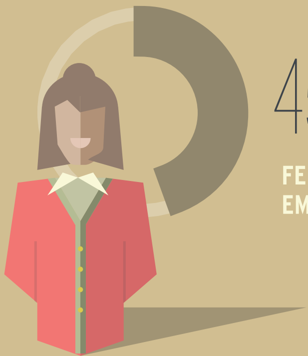
YEARS AVERAGE
HOLDING PERIOD

Active in
166
countries

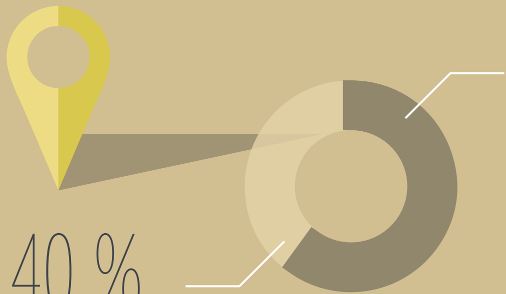
11 PORTFOLIO COMPANIES HAVE A PUBLIC ESG STRATEGY

8 PORTFOLIO COMPANIES HAVE CARRIED OUT A CARBON FOOTPRINT ANALYSIS

123,000 EMPLOYEES



45 %
FEMALE
EMPLOYEES



60 %
EUROPE

40 %
REST OF THE WORLD

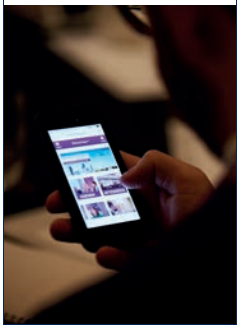
THE ESG JOURNEY

PAI has, over its entire 140-year history, sought sustainable growth for the companies in which it was invested. We have always considered the long-term needs of our investors. Since 2010, we have worked to formalise our commitment to responsible investment, and fully integrate ESG management into our policies, processes and outcomes.

2010

Signature of the United Nations Principles for Responsible Investment (PRI)

PRI Principles for Responsible Investment



2011

Creation of the PAI Sustainability Club

First ESG audit of the portfolio

Planetworkshops conference in Evian

2012

Keynote speaker at the Planetworkshops and the AFIC & PwC ESG conferences

Integration of ESG matters into PAI's Annual Review for the first time

©K. Grona

Launch of philantropic initiative: PAI Human Capital

2013

Formal integration of ESG criteria into PAI's investment process

PRI reporting framework completed for the first time

Disclosure of ESG relevant information to investors and on PAI's website

ESG Award by PE Magazine

2014

Systematic ESG due diligence for new investment opportunities

Appointment of a dedicated ESG team

Publication of first dedicated ESG Review

Contribution to the UN PRI Guide for GPs and the AFIC's ESG documentation

PRI in Person - roundtable on innovative practices

COMMIT **IMPLEMENT** **REPORT**

2015

13 ESG DUE DILIGENCES
on target investments

MAY
The new **PAI ESG reporting tool** was launched across the portfolio


© Olivier Tou

JULY
PlanetWorkshops
PAI moderated a **responsible investment roundtable**

MAY
PAI was a keynote speaker at the **ESG roundtable** of the Italian Forum for Responsible Investment, Milan

JUNE
SWEN Capital Partners awarded **ESG Honours** to PAI

2 LECTURES
on ESG at universities

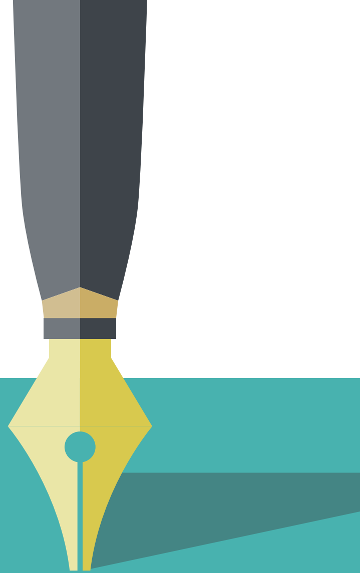
5 ESG AUDITS
performed after acquisition

JUNE
Responsible Investment Forum, London (PRI-PEI International)

JULY
8th **PAI Sustainability Club**

SEPTEMBER
PAI became chair of the **AFIC ESG Commission**

OUR INVESTORS



59 % OF PAI INVESTORS ARE PRI SIGNATORIES

SOVEREIGN WEALTH FUNDS
20 %

PENSION FUNDS
16 %

INVESTMENT MANAGERS / CONSULTANTS
11 %

INSURANCE COMPANIES
28 %

PRIVATE INVESTORS
20 %
incl. HNWI, family offices

BANKS
5 %

25 ESG-SPECIFIC QUESTIONNAIRES DURING PAI EUROPE VI FUNDRAISING

TAILORED ESG REPORTING PROVIDED TO MANY INVESTORS

RESPONSIBILITY TOWARDS THE ULTIMATE BENEFICIARIES

Our primary responsibility at PAI is to our investors. A growing number are demanding that their investments be managed to reduce ESG risks, and to take advantage of opportunities that ESG analysis can reveal.

We are seeing a growing number of investors expecting their General Partners to deliver high levels of ESG management. Fund managers who are unable to demonstrate such capability are rejected.
In the fundraising of our latest fund, PAI Europe VI, these ESG-focused investors accounted for more than €870 million, or 26%, of funds raised.

Our investors believe, as we do at PAI, that effective ESG management enhances returns. It can do so by exposing risks that conventional investment analysis can overlook, or by identifying opportunities for revenue growth presented by environmental and social trends.

We also recognise that our ultimate responsibility is to our investors' beneficiaries – the millions of individuals who, through their pension funds and insurance companies, are entrusting their savings to firms such as PAI, to ensure their financial well-being in the future. Their long-term interests – financial, social and environmental – will only be served by a global economy that is managed responsibly over the long-term.
We believe that the interests of PAI, our investors and their beneficiaries are aligned in pursuing this goal.

"PGGM BELIEVES THAT ESG FACTORS CAN HAVE A MATERIAL IMPACT ON THE FINANCIAL PERFORMANCE OF PRIVATE EQUITY INVESTMENTS"

PGGM is a Dutch pension fund service provider for industry-wide pension funds, company pension funds or occupational pension funds, affiliated employers and their employees. Currently, it manages pension assets worth in excess of €186.6 billion.

With its roots providing pensions to healthcare professionals, Dutch investment giant PGGM has long placed a high priority on responsible investment. It is one of a growing number of asset managers that are demanding increasingly high levels of ESG capability from the General Partners to which they allocate capital.

The reasons for this are made clear in PGGM's market-leading policy on responsible investment in private equity: "PGGM believes that ESG factors can have a material impact on the financial performance of private equity investments." It adds that ESG issues can enhance revenues, cut costs and reduce risks within portfolio companies.

When it comes to assessing potential allocations to a fund manager, PGGM asks a handful of questions, says Tim van der Weide, who was the firm's responsible investment advisor until September 2015: "Does the GP have a responsible investment policy? How does it implement the policy, and who is responsible? How does it monitor it, and how does the firm report back to its LPs?"

He adds that there is a wide range of ESG capabilities within the private equity sector. "Some funds have been implementing ESG management in a structured manner for a few years – others are just starting out."

PAI's experience in ESG management is a good starting point for dialogue, notes Maurice Klaver, PGGM's private equity investment manager. "It's a totally different conversation than with someone who's just started out."

The relationships between PGGM and its GPs need to be based on dialogue and cooperation: "It's important that PAI is always willing to work with us – if we highlight an issue with a portfolio company, they are prepared to work with us and take action if necessary."

Klaver also notes that PGGM increasingly expects GPs to be able to measure and report on ESG performance – an area in which PAI is leading the market, with its new reporting solution (see pages 18-21). "It's one of the things we like about PAI: they don't sit still. They are trying to stay ahead, and continually improve their ESG performance."

PAI'S ESG TEAM

All investment professionals at PAI are expected to monitor ESG issues throughout the investment cycle. In doing so, they are supported by a dedicated, in-house ESG team that has developed deep specialism in ESG management as it relates to private equity.

The team is responsible for implementing the firm's ESG strategy within PAI and portfolio companies. It performs due diligence alongside investment teams, provides ESG input into the investment decision and subsequent investment management, and oversees ESG monitoring and reporting. It also advocates for responsible investment within the private equity industry.

PAI AND THE PRIVATE EQUITY INDUSTRY

In recent years, the private equity industry has become increasingly mindful of its wider responsibilities to society and to the environment. A growing number of firms have signed the Principles for Responsible Investment (PRI), and more private equity funds are publicly disclosing their ESG policies and processes.

At PAI, we strive to be at the forefront of our industry, and our approach to responsible investment is no different. We joined the PRI five years ago, and we have adopted the European Private Equity and Venture Capital Association (Invest Europe) code of conduct. We are a signatory to the Association Française des Investisseurs pour la Croissance (AFIC) charter, and we adhere to the Walker Guidelines for Disclosure and Transparency in Private Equity.

As a leader within the industry, we also believe that we are obliged to publicly advocate for responsible investment, and share the benefits of our experience with the wider community. Indeed, Principle 4 of the PRI commits signatories to "promote acceptance and implementation of the Principles within the investment industry". In addition, Principle 5 requires signatories to "work together to enhance our effectiveness in implementing the Principles".

Over the last 12 months, executives from PAI have presented at a number of conferences, roundtables and workshops, talking about how we have approached the challenges of effectively managing ESG issues in private equity. The firm is a founding member of AFIC's ESG commission. It is represented on Invest Europe's responsible investment roundtable and is a member of the PRI's private equity working group.

We believe that, by sharing experiences in these forums and others, PAI can both promote the wider uptake of ESG practices within the industry, and also benefit from the lessons learned from our peers within private equity and the wider investment community.

RECOGNITION FROM THE MARKET

PAI is proud to have been recognised by the wider market for its ESG management. This year, the firm was awarded SWEN Capital Partners' ESG Best Practice Honours, which recognise leading integration of extra-financial criteria by private equity and infrastructure fund managers.

SWEN Capital Partners, which manages €3 billion of private equity and infrastructure assets, has since 2012 assessed how ESG issues are integrated by the fund managers it assesses for potential investment.

This year, it examined around 200 mostly European private equity and infrastructure fund managers. Those funds were filtered down to just nine PE firms and six infra funds, based on objective criteria including PRI membership, published responsible investment policies, and the extent of their portfolio ESG review processes. These were then assessed by an independent jury, consisting of experts from, among other organisations, the PRI, the OECD, and institutional investors FRR and MACIF.

"The jury wanted to recognise PAI because of the extent to which it has integrated ESG criteria into its investment process," says Jérôme Delmas, SWEN Capital Partner's General Manager. "They were also impressed with the way it promotes its ESG activities among its employees, and throughout its portfolio companies."

The honour was bestowed upon PAI, alongside one other PE fund and two infrastructure funds, at an event in Paris attended by more than 220 investment professionals. "We want to help present ESG best practice to the investment community," adds Delmas, "and increase transparency for institutional investors on the subject. We want to encourage other investment players to take ESG factors into account."

THE SIX U.N. PRINCIPLES FOR RESPONSIBLE INVESTMENT

1 We will incorporate ESG issues into investment analysis and decision-making processes

2 We will be active owners and incorporate ESG issues into our ownership policies and practices

3 We will seek appropriate disclosure on ESG issues by the entities in which we invest

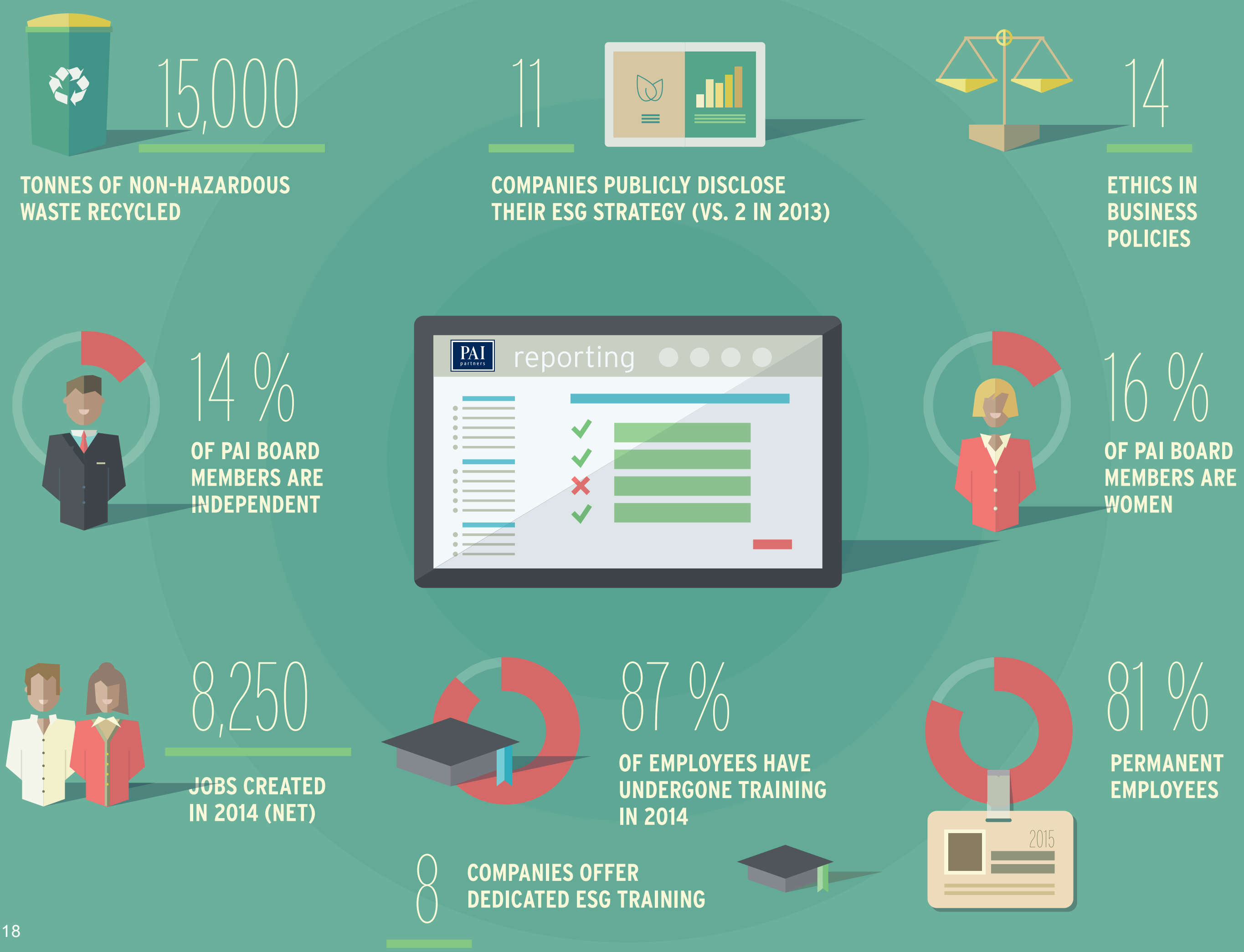
4 We will promote acceptance and implementation of the Principles within the investment industry

5 We will work together to enhance our effectiveness in implementing the Principles

6 We will each report on our activities and progress towards implementing the Principles

PRI Principles for Responsible Investment

A NEW REPORTING TOOL



THE ESG INFORMATION CHALLENGE

Management without information is impossible, and ESG management is no exception. Indeed, the collection of accurate, comprehensive data is one of the fundamental challenges in managing ESG issues. Given the rapidly evolving nature of ESG management, data collection can rapidly become time-consuming and resource inefficient.

At the same time, the need for reliable ESG data is becoming increasingly pressing for both internal needs and to meet the expectations of external stakeholders. Without accurate data, ESG performance cannot be properly monitored and improved.

Meanwhile, PAI's investors are increasingly requesting ESG information from the private equity funds in which they invest. This information must be available at both the portfolio and company level; and different investors are often interested in different ESG metrics, creating challenges for collection and dissemination.

Furthermore, PAI is committed to transparency around ESG issues, reporting annually to the Principles for Responsible Investment and through this ESG Review. We also encourage our portfolio companies to publish their own ESG information, whether in standalone ESG reports or through sections in other financial reporting.

These growing demands for ESG information were beginning to overwhelm the capacity of the legacy collection, monitoring and reporting systems and processes in place. These were often inflexible, burdensome to use, and required extensive human intervention to check and correct data.

In response, PAI embarked upon a major investment in its ESG reporting capability. In recent months, we have implemented a state-of-the-art ESG reporting software-as-service system to replace the existing, ad hoc ESG reporting process. It collects more than 1,800 datapoints, across various ESG themes, from all our portfolio companies. The system is the foundation of a highly efficient ESG monitoring process, which also provides ESG reporting to our investors and to our portfolio companies.

WITHOUT ACCURATE DATA, ESG PERFORMANCE CANNOT BE PROPERLY MONITORED AND IMPROVED

REBOOTING REPORTING

To deliver its ESG reporting solution, PAI chose a specialised ESG reporting service provider. The company, which offers non-financial reporting products to corporate and investment clients, is run by a former private equity ESG director, who is intimately familiar with the specific information challenges faced by the sector.

The solution – which was developed in collaboration with PAI – is designed to be particularly easy to use for those charged with entering the data, with an intuitive interface which can be accessed from smart-phones and tablets as well as personal computers.

Making the process as straightforward for users as possible is an important factor in ensuring the completeness of the ESG information. The expectation is that the new ESG reporting system will help improve the coverage of PAI's ESG data – ensuring that portfolio companies' satellite offices are generating as robust and reliable data as their headquarters.

The system offers full traceability of data, as well as automated comparison with previous entries to reduce errors. And it is fully flexible and scalable, allowing for additional indicators, reporting formats and companies to be added, as well as taking portfolio disposals into account.

Once the data is collected, it can be analysed at the company and portfolio level, and can be output in a number of formats to match the full range of reporting requirements. Crucially, the system captures each indicator's portfolio coverage – that is, the percentage of the portfolio for which that indicator is available. This allows PAI to understand the gaps in the data, and where margins of error exist, as well as identify the most material indicators and overall trends in the portfolio.

Now that the system is up and running, the next stage will be to extract insights – and value – from the data collected. By monitoring and analysing the ESG data provided, issues can be identified sooner, and performance improved faster. It will become possible to show evidence of the links between ESG performance and financial outcomes.

145

ESG INDICATORS

89%

QUANTITATIVE QUESTIONS

11%

QUALITATIVE QUESTIONS

AN ESTABLISHED PROCESS

ESG AND PAI'S INVESTORS

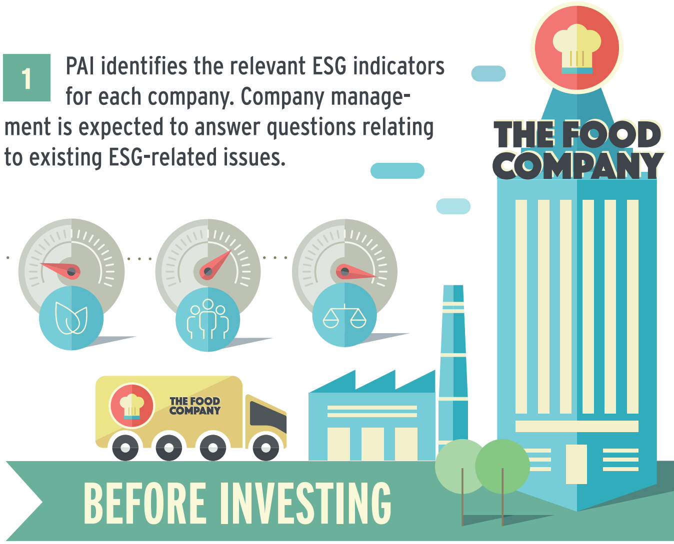
1 PAI includes extensive ESG information in datarooms, due diligence presentations and roadshows with investors.

2 Where requested by investors, specific side letters or ad hoc agreements are made to accommodate investors' ESG requirements.

DURING FUNDRAISING

ESG AND PAI'S PORTFOLIO COMPANIES

1 PAI identifies the relevant ESG indicators for each company. Company management is expected to answer questions relating to existing ESG-related issues.



2 The ESG analysis is then presented in an ESG memo that is discussed at the Investment Committee meeting.

BEFORE INVESTING

ESG management is an integral part of how we invest at PAI Partners. At each point in the investment cycle, we ensure that ESG issues are assessed, understood and, if necessary, managed. Throughout the period that we own a company, we monitor ESG inputs, and engage in dialogue with company management to seek improvements where necessary. And, at all times, we ensure that our investors understand how we are managing ESG risks and opportunities on their behalf.

3 Investors are provided with a broad range of ESG indicators, selected by PAI's specialist ESG team. They are also able to take a deeper dive into ESG data, or request more detailed reporting on indicators.

4 Investors are invited to attend PAI Sustainability Club events, where they can gain a deeper understanding of the ESG issues that PAI's portfolio companies are addressing.

DURING THE FUND LIFETIME

3 After acquisition, PAI undertakes an ESG audit, helped by external consultants, to better assess the company's ESG position.

4 The audit results in specific recommendations, drawn up and agreed by PAI's deal team and company management. An action plan is put in place, with specific time-bound objectives.

5 Progress is tracked using PAI's ESG reporting tool. This allows for historical and peer comparison, and ongoing review of the company's ESG performance.

6 The biannual PAI Sustainability Club meetings provide additional opportunity to exchange information and advice on ESG issues.

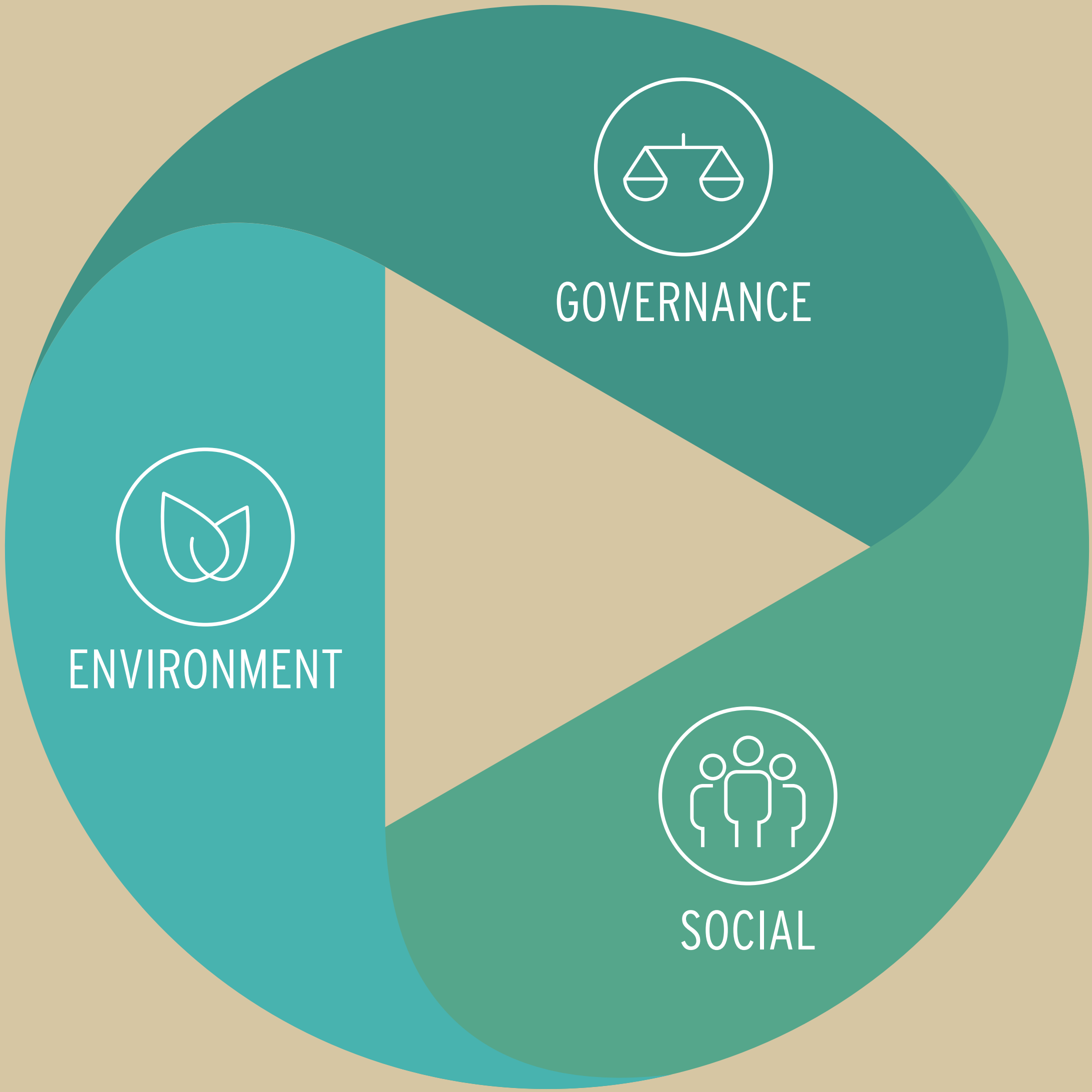
7 ESG information is provided in deal datarooms alongside conventional financial information. PAI is able to show evidence of improved ESG performance over the life of each investment.

DURING OWNERSHIP

AT EXIT

ESG THEMES IN FOCUS

Every portfolio company faces a unique set of ESG issues and challenges. Some of these challenges, especially around governance and employee relations, are universal to the companies we own. Other ESG issues recur across a number of portfolio companies, presenting opportunities to share lessons learned. PAI's ESG team has identified a number of macro themes to which particular attention is paid across the investment cycle. Doing so helps to raise the profile of material ESG issues, and ensures that risks and opportunities are monitored and managed as necessary.


GOVERNANCE
ENVIRONMENT
SOCIAL

ENVIRONMENT

A focus on environmental impacts can cut costs and reduce risks

ECO-DESIGN

Smart, sustainability conscious design can dramatically reduce products' ecological footprint

RESPONSIBLE SUPPLY CHAIN

Environmental impacts – and responsibilities – are often found beyond companies' direct operations

RENEWABLE ENERGY

Companies are turning to low-carbon energy to tackle climate change

VALUE FROM WASTE

Waste streams can provide opportunities to cut costs and extract value

THE CIRCULAR ECONOMY

The traditional model of 'make, use, dispose' is being superseded by 'cradle-to-cradle' thinking

SOCIAL

Good relations with employees and local communities are central to corporate success

JOB CREATION

Successful private equity investment is about growing businesses – and creating employment

DIVERSITY

Diverse workforces tend to be more innovative, resilient and successful than monocultural ones

HEALTH AND SAFETY

The wellbeing and safety of employees should be the highest priority for well-managed companies

TRAINING

Successful companies invest in their staff, keeping skills up to date and encouraging retention

WORKFORCE SATISFACTION

Good working conditions, work-life balance and corporate volunteering all contribute to a happy workforce

GOVERNANCE

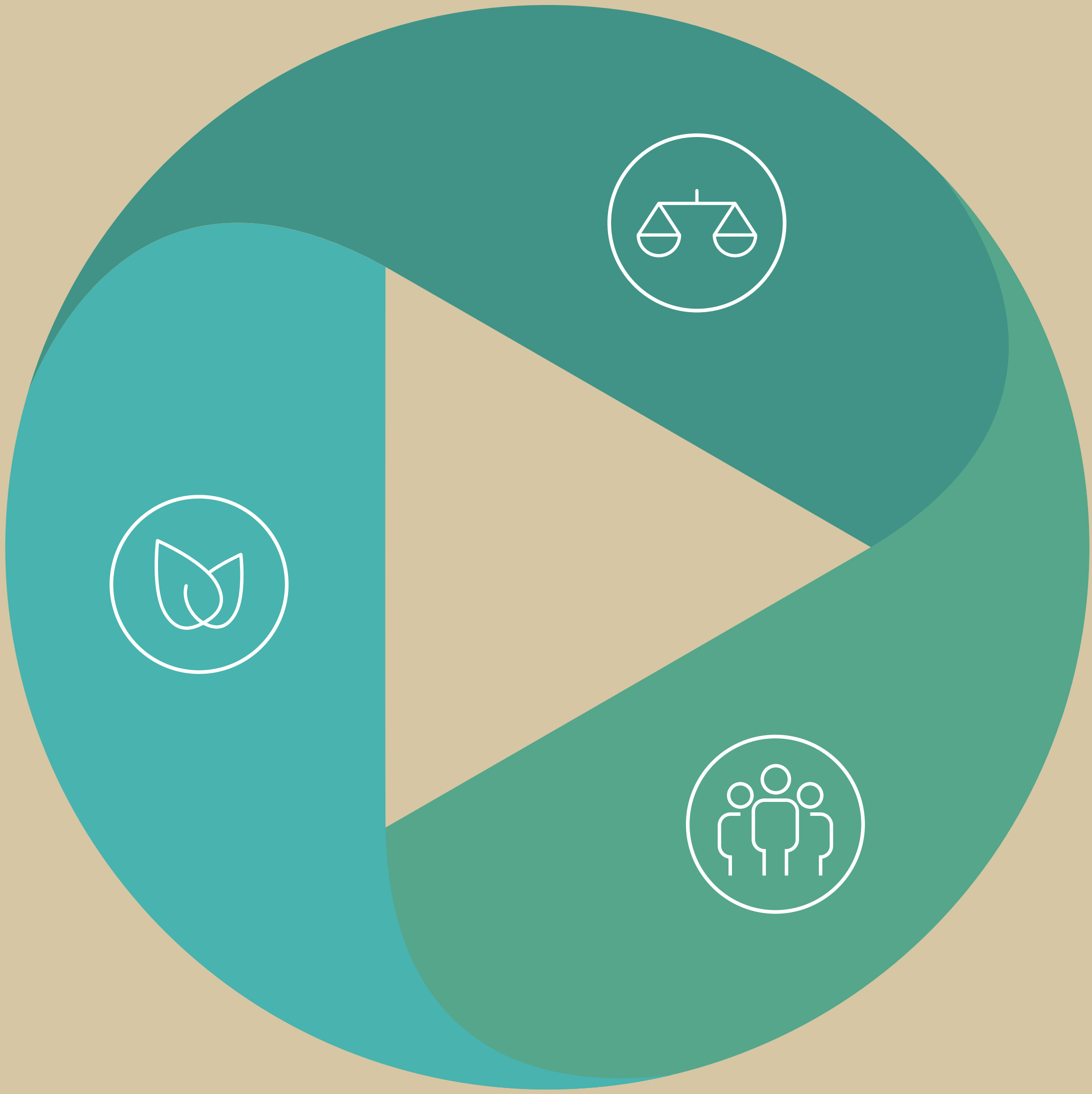
Strong corporate governance is a top priority for PAI's portfolio companies

ETHICS FIRST

PAI expects its portfolio companies to uphold the highest standards of ethical conduct

EMPLOYEE SHAREHOLDING

Offering employees a stake in their company makes them more productive and entrepreneurial



ECO-DESIGN

8

portfolio companies now employ eco-design techniques, up from four in 2013

ECO-DESIGN

involves designing products with consideration for their environmental impacts over their entire lifecycle. Its goal is to minimise the use of resources in procurement, manufacture, use and disposal, by taking a holistic approach to the product's lifecycle, including through the design of physical characteristics that reduce the impact of transport or disposal.

The adoption of eco-design principles has clear links to value creation. These products require fewer resources in their production and distribution, and are cheaper to manufacture and more cost-effective to manage during their entire lifecycle.

Successful eco-design involves taking customers' needs and sustainability priorities into account. By building these considerations into the product design process, closer relationships with customers can be forged.

Eco-design principles also promise to transform business models – with a focus on the service provided, rather than the product produced. Such business models have the potential to create long-term service relationships between customer and supplier, turning single transactions into revenue streams.

The application of eco-design principles is, for PAI, an indication of a company that is pursuing innovation, and which has an eye on market opportunity and a laser focus on the needs of its customers – both existing and potential.

GLOBAL CLOSURE SYSTEMS

Since PAI's investment in 2005, the approach to ESG at Global Closure Systems has evolved from a narrow focus on due diligence to a more holistic vision, working with customers to meet their needs for lower-impact, more sustainable packaging.

At the heart of its vision is an approach to eco-design driven by the environment, cost reductions and customer needs, using recycled materials, "right-weighting" products to reduce material use, and cutting out secondary packaging.

The success of this approach was confirmed by iconic French cosmetics company Yves Rocher's choice this year of GCS's Touareg snap hinge cap for its new tube range. The cap is 20% lighter than the previous version, reducing its carbon footprint to the equivalent of just 13.8g of carbon dioxide.

ADB Airfield Solutions

has pioneered the use of LED technology to deliver the most energy-efficient and low-maintenance lighting solutions to airports.

LABEYRIE Fine Foods

has worked with its salmon suppliers to develop reduced-weight packaging made of sustainable polypropylene, avoiding an initial 650 tonnes of waste each year, and enabling a 40% reduction in the carbon footprint of its salmon supply chain.

PERSTORP

has developed Akestra, an alternative to polycarbonate, polystyrene and glass that offers improved performance and more sustainable characteristics.

RESPONSIBLE SUPPLY CHAIN

10

PAI portfolio companies have established a responsible purchasing policy for their suppliers

RESPONSIBLE SUPPLY CHAIN

In today's globalised economy, many companies' most significant environmental and social impacts occur far beyond the factory gate – but their responsibilities, too, also extend down their supply chains.

Increasingly, consumers expect companies to be able to demonstrate the traceability of the resources they use. They hold companies accountable for the behaviour of their suppliers, even those two or three steps down the value chain.

Supply chain issues, then, often manifest themselves as risks for companies. Vulnerabilities can lead to disruptions in raw materials or components, with direct operational impacts. Even more damaging can be reputational exposures from suppliers in breach of environmental or social norms.

Yet well-managed supply chains also present opportunities. Forging close relationships with suppliers to help them to deliver the expected social and environmental standards can lead to the identification of efficiencies and possibilities for joint product development.

PAI makes consideration of ESG supply chain risks an important precondition of investment, and we work closely with portfolio companies to ensure that they keep a close eye on the entire value chain in which they operate. The Portfolio Performance Group, the PAI team responsible for identifying and monitoring operational improvements at the portfolio company level, has a particular focus on supply chain issues.

LABEYRIE Fine Foods

As a supplier to the retail market, Labeyrie Fine Foods subsidiary Lyons Seafood is highly sensitive to the concerns of its customers that it sources seafood products from local and responsible suppliers.

The company has developed a comprehensive sourcing policy, based on leading industry principles, that seeks to address the full range of environmental and social exposures that exist in its supply chain.

It insists upon full traceability of shrimp, fish and other ingredients back to approved vessels, farms or fields, and sets out precise requirements for both farmed and wild-caught species. It also addresses social issues, requiring that its suppliers adopt the Ethical Trading Initiative Base Code as a minimum.

Fundamentally, the company recognises that responsible sourcing must be based upon long-term partnerships with suppliers who share its values.

R&R Ice Cream

has made its sustainable palm oil policy part of its ambition to source 100% segregated sustainable palm oil.

MARCOLIN

has implemented a responsible supply chain management policy, involving external auditing of suppliers, with a monitoring programme for minor violations.

ENVIRONMENT

RENEWABLE ENERGY

4

portfolio companies source some of the energy they use from renewable sources

RENEWABLE ENERGY

Climate change presents the most important sustainability challenge faced by mankind. The response to that challenge is a series of regulatory, technological and reputational pressures that is making the adoption of renewable energy increasingly compelling.

PAI encourages its portfolio companies to explore opportunities to purchase third-party produced renewable energy and, where appropriate, generate their own green power. We believe that the use of renewable energy is an effective means for companies to diversify their energy sources, offering protection against potentially high and volatile fossil fuel prices. We also help them review market opportunities that renewable technologies may present.

Purchasing renewable energy or investing in renewable energy generating systems offers one of the most effective ways to reduce a company's greenhouse gas emissions, especially with renewable energy technologies fast becoming competitive with conventional sources of energy production.

Use of clean energy presents reputational advantages, with a growing number of consumers favouring companies that are making an effort to reduce their environmental impacts.

Moreover, renewable energy also offers some of our portfolio companies potential new markets, whether directly, such as through the development of renewable fuels, or by offering products or services to the growing green energy sector.

PERSTORP

Sweden, the home market of specialty chemicals company Perstorp, provides a vivid example of the potential presented by renewable energy markets. The country has the largest fleet of biofuel-enabled vehicles in Europe, and the Swedish market for biofuels increased by 60% between 2013 and 2014 alone.

Perstorp has responded with its Verdis Polaris biofuel, extracted from rapeseed and specially formulated for the Scandinavian climate, and suitable for all weathers. The fuel can be used with minimal modifications to standard diesel buses and lorries, and provides the ideal solution for brands that are seeking environmentally friendly transport and logistic solutions.

The fuel has become the leading 100% biofuel in Sweden, with around 25-30% of the local market, built on the refinement process and premium quality it offers.

ADB Airfield Solutions

derives 25% of its energy from renewables, including 100% of the power used by its corporate headquarters in Belgium.

XELLA

produces synthetic gas from waste streams at its Kaltes Tal lime plant in Germany, replacing the use of natural gas.

ENVIRONMENT

VALUE FROM WASTE

R&R Ice Cream

VALUE FROM WASTE

Waste leaving a business is money going out of the door. Well-managed companies are increasingly focused on reducing the waste they produce, and some even manage to extract value from their waste by using it as an input or selling it.

Businesses that reduce waste are businesses that use resources more efficiently. The materials that end up as waste will have entered the company as inputs, with a cost to the business. The fewer inputs required, the lower the cost.

Also, companies face increasingly significant financial incentives to reduce the size of their waste streams. In addition to the costs of removing and transporting waste, taxes on sending waste to landfill are becoming prohibitive in many developed countries.

Not only does waste have a cost, it can also carry a value. Sophisticated companies are considering the value to others of the waste materials they produce. This might be from tapping markets for recycled goods, transforming waste to energy, or simply from giving away waste for reuse.

A proactive approach to waste streams brings benefits beyond the financial. Working with customers on end-of-life recycling builds better relationships and brings reputational benefits; giving away useful materials can build bridges to local communities.

R&R Ice Cream

The stimulus for R&R Ice Cream to adopt its "zero waste to landfill" policy was the ever-rising level of the UK's Landfill Tax. To achieve its objective, the company has embarked on an education programme, teaching staff to become "waste aware".

It has also sought destinations for its waste material. One R&R plant passes used cardboard packaging on to house-moving companies. The water that is used to clean R&R plants is filtered, and the food waste contained in it is then sent to anaerobic digestion plants for conversion to renewable electricity.

One UK plant has achieved the zero-landfill target, and two others are on course.

XELLA

has constructed a gypsum recycling plant at its new facility in the Netherlands, which now provides 15% of the processed raw materials used by the facility.

GLOBAL CLOSURE SYSTEMS

has set a target to reach zero waste to landfill, either through third-party recyclers or, where regulations permit, in-house.

ENVIRONMENT

THE CIRCULAR ECONOMY

7

portfolio companies have taken the first steps towards circular economy principles, carrying out full life-cycle analyses of their products or services

THE CIRCULAR ECONOMY

The traditional, linear economic model of make, use and dispose is fundamentally in conflict with a world of finite resources. Sustainable economies must ultimately adopt "circular economy" or "cradle-to-cradle" principles, in which resources are kept in use as long as possible, before being recovered and regenerated at the end of each service life.

This innovative approach to product design, production, use and reuse involves rethinking both business models and modes of consumption. In common with eco-design, it lends itself to supplier-consumer relationships based on recurring payments for a service, rather than individual transactions for a product.

The starting point is specific analysis of the product or service lifestyle. Such analysis can generate insights into resource use and consumer behaviour that can yield near-term efficiencies and improved understanding of a company's customers.

For PAI, the principles of the circular economy offer the potential for portfolio companies to reduce resource use, build better relations with their customers, and ultimately deliver greater shareholder value. We are aware that, depending on the sector, not all our portfolio companies can embrace the circular economy. Nonetheless, we endeavor to develop lifecycle management strategies in those companies that can have an impact on the entire lifecycle of their products.

XELLA

As a guiding principle, building materials company Xella states that all of its products should – as far as possible – be capable of re-entering the raw material cycle at the end of their useful life so they can be used in the manufacture of new building materials.

To that end, the firm's Sustainability Council has decided that all of the products in its Ytong, Silka, Multipor and Fermacell ranges should be able to be recycled and used in the manufacture of other products.

The company also intends that at least one product in each brand should meet the even more rigorous "cradle-to-cradle" criteria. The company was able to achieve such certification for its Ytong Energy+ building block, in 2011, and for other Ytong and Multipor products in 2013.

LABEYRIE Fine Foods

supported by its independent scientific committee, has conducted lifecycle analysis on its salmon supply chain to reduce environmental impacts.

JOB CREATION

JOB CREATION

Responsible private equity investment is about creating value by growing businesses – and growing businesses create employment. As a responsible investor, PAI appreciates the value of the human capital in its portfolio and invests for the long term. PAI closely monitors headcount at portfolio companies; it is an important indicator of a company's health and profitability, whether it grows organically or by acquisition. Last year, PAI's portfolio companies were responsible for a net 8,250 additional jobs.

We also acknowledge that companies cannot increase their headcount at all times, and it is sometimes necessary to restructure certain business areas to regain competitiveness. Well-run companies manage such restructurings with a view to recovery, reinvesting savings into the broader expansion of the business and putting turnover plans in place to ensure they are able to rehire as performance improves.

Portfolio companies also work with governments at both the local and national levels on implementing employment creation programmes. In seeking to meet its social and economic objectives, government can be an important partner in job creation.

DOMUSVI

France-based elder-care company DomusVi is recruiting at scale to support its expansion plans. From 2012 to 2014, it hired an additional 4,000 employees, augmenting its workforce by almost 12%.

The company also emphasises the high-quality nature of the positions created. Around 80% of employees have a full-time contract, with many of the remainder comprising jobs – such as occupational therapists or co-ordinating doctors – that cannot be offered as full-time posts for contractual or structural reasons.

The company has also supported government-led efforts to boost employment. In July 2013, it signed up to the Job Futures initiative, under which it committed to hire 500 unemployed young people.

DIVERSITY

17

PAI portfolio companies now have a commitment to diversity, and have policies against discrimination of all kinds

DIVERSITY

There is a clear moral case for the companies in which PAI invests to be open, inclusive and non-discriminatory. Discrimination on grounds of gender, race, age, sexual orientation or disability is simply unacceptable in any modern organisation.

There is also a business case. Diverse, inclusive companies tend to be more innovative, resilient and successful than their less diverse peers.

There are good practical reasons why this is the case. Diverse workforces are more representative of the customers they serve. Different backgrounds, viewpoints and experiences allow for more effective problem solving. Conversely, homogenous teams can lead to "group think", stifling innovation.

There are other benefits: companies which embrace diversity can recruit from the widest possible pool of talent; diverse workforces have higher rates of staff retention; and there is evidence that they perform better on standard metrics such as sales and revenue.

Embracing diversity also extends to offering a helping hand to the socially disadvantaged. By offering unemployment to, for example, disadvantaged youth, portfolio companies can demonstrate their responsibilities to the societies in which they operate.

Finally, having diverse workforces, which reflect the societies in which they operate, helps to anchor portfolio companies in their communities.

KILOUTOU

Rental equipment company Kiloutou has launched a programme, in partnership with the Institute Nicolas Barré d'Armentières, to offer a number of young people from disadvantaged backgrounds the opportunity to become service technicians.

The future technicians – aged from 18 to 25 years old – study for a professional diploma over 13 months, graduating with a vocational licence. They are then offered a position within the company.

The programme is rooted in the values and culture of Kiloutou – its motto is "viens, vis, grandis" (come, live and grow) – and gives socially excluded people the chance of a professional future, stable jobs and career progression.

KAUFMAN & BROAD

systematically offers interviews to all employees over 45 to specifically address the 'second part' of their careers to facilitate senior employees' professional development.

GRUPO CORTEFIEL

is a signatory of the Diversity Charter, a voluntary EU-led initiative that seeks to promote diverse, integrated workforces and which demonstrates a commitment to equality of opportunity.

HEALTH & SAFETY

16

portfolio companies now have health and safety policies in place

HEALTH & SAFETY **performance is a closely watched metric, and is one that PAI assesses before investment, as well as continuously during the life of an investment. The well-being of employees as they work should be the highest priority for managers, both for reasons of social responsibility and because of the business case.**

High levels of health and safety performance are an important element in ensuring trust between management and staff. Staff who feel that their well-being is of high concern to the company for which they work will repay that concern.

There is, of course, a less altruistic case for effective health and safety management: absence due to work-related sickness and workplace accidents cost money, both in terms of lost productivity and, in extreme cases, from compensation payments. Reducing the costs associated with poor health and safety feeds directly to the bottom line.

For these reasons, PAI closely tracks health and safety performance – as an indicator in its own right, and because good health and safety outcomes often serve as a proxy for broader management quality.

VPS

For VPS, which secures, maintains and manages vacant properties, health and safety is particularly crucial, given the often dangerous nature of the properties in which its staff works.

Adequate and effective training is the fundamental underpinning of employee health and safety wellbeing. Every VPS employee receives such training, which also includes awareness of the relevant legislation covering waste handling, management and disposal. The training also covers asbestos awareness, given the presence of the hazardous material in many of the buildings in which its staff works.

SOCIAL

TRAINING

15

portfolio companies have a formal training policy

8

companies train their staff specifically on ESG issues

TRAINING

PAI expects its portfolio companies to invest in their staff, and last year no fewer than 87% of portfolio company employees undertook some kind of professional training.

Training staff costs time and money, but the benefits of staff training are such that they clearly outweigh these upfront expenses. Well-trained staff are more efficient, demonstrate higher productivity and make fewer costly mistakes.

Effective training is also an important factor in staff retention. Staff who feel that their professional development is important to their employer are likely to stay with that company – repaying the investment made in their skills.

Training is also vital in ensuring consistency. Many portfolio companies are fast growing, and it is crucial that staff have a consistent understanding of their company's basic policies and procedures, especially as they relate to health and safety and ethical standards of behaviour.

In today's knowledge economy, continuous training is essential. The speed with which technology is evolving makes it imperative to ensure that staff skills are updated at an equivalent rate.

SWISSPORT

Swissport, a ground and cargo handling business, employs more than 60,000 staff at airports around the world. Training and employee development are fundamental to maintaining and continually improving the company's operational performance, and to delivering its strategic goals.

The company has developed a respected and comprehensive training programme that extends across all staff levels, from generic training covering basics such as fire prevention and health and safety, advanced technical skills such as aircraft fuelling and de-icing, up to highly tailored management training programmes.

Its technical training programmes ensure that technical skills and training are standardised across the company's global operations, and provide the sound basic knowledge that operations staff require. Its supervisory staff have access to the Active Supervision programme, while the company has developed two programmes for management.

DOMUSVI

is developing the skills of its employees to ensure there is appropriate support for residents and a real career path for staff. Its training programme involved 8,200 employees in 2014, including more than 750 in its graduate programme, representing 435,000 hours of training.

ADB Airfield Solutions

offers training via the ADB training academy to help both employees and customers improve airside operations performance, ensuring they remain up to date with continuously evolving technology and regulatory developments.

SOCIAL

WORKFORCE SATISFACTION

CST
CUSTOM SENSORS & TECHNOLOGIES

WORKFORCE SATISFACTION

Happy employees are productive employees, and PAI portfolio companies seek to promote employee wellbeing across the range of activities. These include themes discussed elsewhere such as training and health and safety, as well as ensuring good working conditions and an appropriate work-life balance.

In addition, PAI encourages its portfolio companies to develop corporate volunteering programmes, through which employees can dedicate their time and skills to benefit local communities and charities.

These might include fund-raising for charitable causes, or employees spending time working at local projects. Typically, the companies involved allow their employees to volunteer within work hours, providing an incentive for participation.

As with other ESG initiatives, such programmes offer a combination of tangible and intangible benefits. First, they provide an alternative outlet for the skills and talents of employees that these individuals often find extremely rewarding – helping with job satisfaction and staff retention. The individuals involved often find themselves learning or adding to skills that can be used in the workplace, and working in different ways with colleagues helps to build team spirit.

Secondly, such activities also help to build community relationships, and invariably improve the reputation of the companies involved. Companies offering corporate volunteering programmes are also more attractive employers to potential staff, especially among younger jobseekers.

CST

Custom Sensors & Technologies has created a network of volunteers throughout the company to support recognised charities and help CST's local communities.

The network involves volunteers from each local CST site, supported by global volunteers who help to coordinate the programme, and who manage an annual budget of $140,000. It organised no fewer than 77 ESG events in 2014.

The most successful last year was the firm's CSR Challenge, involving nearly 600 employees, or 14% of CST's headcount, in events at 19 company locations. The challenge raised money for good causes, with donations totaling $15,500.

KILOUTOU

achieved the TOP EMPLOYERS FRANCE 2014 certification, from the Top Employers Institute, based upon its performance against a number of employment conditions and talent attraction criteria.

LABEYRIE Fine Foods

measures the level of satisfaction and well-being of its employees through its participation in the "Great Place to Work" annual survey, run by the Great Place to Work Institute.

ETHICS FIRST

ADB Airfield Solutions

ETHICS FIRST

The highest standards of ethical conduct are at the heart of PAI's culture and ethos, and we expect the highest standards of ethical behaviour from our staff. We therefore expect equivalent standards from our portfolio companies as well – 14 companies have issued policies on ethical conduct, up from eight last year.

We believe in treating customers, investors, staff and other stakeholders even-handedly and fairly. We are resolutely opposed to bribery and corrupt business practices, towards which we have a zero-tolerance policy.

Portfolio companies should follow both the letter and spirit of all appropriate laws and regulations in the jurisdictions in which they operate, and we expect that they compete fairly and ethically.

As a corollary, transparency is crucial, ensuring that not only do we act ethically, but we can be seen to be acting ethically. We expect all accounting standards to be followed such that financial reporting provides a true picture of business activities.

A culture of ethical practice must be communicated from the very top of the organisation. As in PAI, we expect the executives running our portfolio companies to demonstrate unimpeachable ethical behaviour at all times.

ADB AIRFIELD SOLUTIONS

Airport lighting company ADB places the highest priority on compliance, integrity and ethical behaviour. Clear guidelines on business conduct, gifts and hospitality, and appropriate approvals are supported by a centralised compliance structure, led by a single Group Compliance Officer, who reports to the Chief Financial Officer.

All new executives are required to attend at least one ethics training session each year, and all employees and business partners are required to sign ADB's business conduct guidelines.

The result is a company with a reputation for probity among employees, business partners and customers, and a much-reduced risk of financial and reputational damage caused by corrupt practices.

DOMUSVI

Among other things, DomusVi's policy commits the company and its staff to keep those in its care as healthy and autonomous as possible, manage and reduce pain, support end-of-life situations, and help families monitor the health and activities of their loved ones.

MARCOLIN

has drafted a comprehensive Code of Ethical Behaviour which sets out its values and principles governing internal and external relations, transparency, communications and payments.

GOVERNANCE

EMPLOYEE SHAREHOLDING

EMPLOYEE SHAREHOLDING

At PAI, we strongly believe in the importance of sharing as widely as possible the success of the companies in which we invest – including with the employees who make that success possible. Whether through profit sharing, retirement plans or stock options, we encourage portfolio companies to introduce schemes to give employees a greater stake in the financial performance of the businesses in which they work.

In 2005, PAI introduced a wide-scale shareholding plan at Saur, becoming the first private equity firm in France to do so. Since then, a number of portfolio companies, such as Spie, Kiloutou and IPH, have followed in Saur's footsteps.

The benefits of employee participation are numerous. Employee shareholders tend to be more committed to the company they work for, more productive and more entrepreneurial. Research indicates that companies under shared ownership deliver superior overall financial performance.

Employee profit sharing or shareholding programmes also provide a powerful incentive for recruitment, helping companies attract more able and more dedicated staff.

Companies with employee shareholders also tend to be run in a more open, transparent fashion, leading to higher standards of corporate governance and corporate social responsibility. There is also evidence that employee ownership leads to companies that are run with a greater focus on long-term, sustainable growth rather than on short-term profit maximisation.

IPH

In June 2015, industrial supplies distribution company IPH offered employees the opportunity to participate in a €3 million capital increase, creating specific collective saving plans for its French and international employees.

The programme – which offered shares at a discount – relied upon a clear communication plan, which set out the intentions behind the fundraising, the technicalities of the saving plans and the advantages of employee shareholding.

The programme was substantially oversubscribed. It means that 30% of employees have now personally invested in IPH, joining the 75% of managers and 52% of technicians which participated in the original buy-out alongside PAI.

KILOUTOU

launched its employee shareholding programme in 2011. 1,400 emloyees are now the owners of 20% of the company's capital.

SPIE

introduced an employee shareholding plan in 2006.
By 2011, 15,000 employees had become shareholders, representing 30% of the company's workforce.

THE PAI PORTFOLIO AT A GLANCE

ADB Airfield Solutions

Responsible for ESG
Jean Luc Devisscher
Jean-Christophe Mouchart

www.adb-air.com

Business description
Airfield ground lighting

Headquarters
Zaventem, Belgium

2014 sales
€184 million

Headcount
378

Investment date
May 2013

AS Adventure

Responsible for ESG
Didier Neyt

www.asadventure.com

Business description
Multi-brand outdoor retailer

Headquarters
Hoboken, Belgium

2014 sales
€382 million

Headcount
1,836

Investment date
April 2015

Cerba European Lab

Responsible for ESG
Gaëlle Jucht
Gérard Bourdin

www.cerba-european-lab.com

Business description
Clinical pathology labs

Headquarters
St-Ouen l'Aumône, France

2014 sales
€427 million

Headcount
1,889

Investment date
July 2010

CST

Responsible for ESG
Dean Whittaker

www.cstsensors.com

Business description
Sensor and control products

Headquarters
Moorpark, USA

2014 sales
$589 million

Headcount
4,500

Investment date
September 2014

DomusVi

Responsible for ESG
Florence Enjolras

www.domusvi.com

Business description
Elderly care

Headquarters
Suresnes, France

2014 sales
€670 million

Headcount
8,000

Investment date
September 2014

EMG

Responsible for ESG
Patrick van den Berg

www.euromediagroup.com

Business description
Audiovisual technical services

Headquarters
Boulogne-Billancourt, France

2014 sales
€319 million

Headcount
1,400

Investment date
July 2014

GCS

Responsible for ESG
Jerry O'Brien

www.gcs.com

Business description
Specialty beverage closure solutions

Headquarters
Paris, France

2014 sales
€590 million

Headcount
3,294

Investment date
October 2005

Pack the Future 2014 Award

Grupo Cortefiel

Responsible for ESG
Ana Fombella Posada

www.grupocortefiel.com

Business description
Clothing retailer

Headquarters
Madrid, Spain

2014 sales
€964 million

Headcount
7,915

Investment date
September 2005

Hunkemöller

Responsible for ESG
Floor Driessen

www.hunkemoller.com

Business description
Lingerie retail

Headquarters
Hilversum, the Netherlands

2014 sales
€272 million

Headcount
2,040

Investment date
January 2011

IPH

Responsible for ESG
Camille Rainsard

www.group-iph.com

Business description
Industrial supplies distribution

Headquarters
Lyon, France

2014 sales
€882 million

Headcount
3,019

Investment date
February 2013

Kaufman & Broad

Responsible for ESG
Lise Fievet Mailhebiau

www.ketb.com

Business description
Property developer

Headquarters
Neuilly-sur-Seine, France

2014 sales
€1,083 million

Headcount
735

Investment date
July 2007

Kiloutou

Responsible for ESG
Audrey Miclard
Lionel Wallet

www.kiloutou.com

Business description
Equipment rental services

Headquarters
Marcq-en-Barœul, France

2014 sales
€473 million

Headcount
3,379

Investment date
June 2011

Top Employer 2014 from the Top Employer Institute

Labeyrie Fine Foods

Responsible for ESG
Christine Bossire
Yves Gasnier

www.labeyrie-fine-foods.com

Business description
Gourmet food

Headquarters
Saint-Geours, France

2014 sales
€796 million

Headcount
4,500

Investment date
July 2014

Marcolin

Responsible for ESG
Alberto Da Re
Gabriele Valter Dorigo

www.marcolin.com

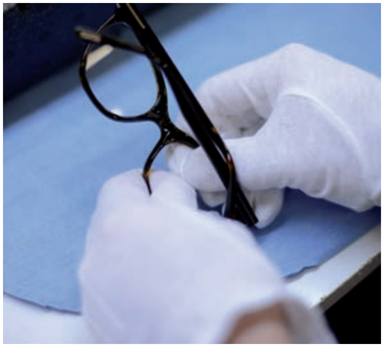
Business description
Eyewear design and manufacturing

Headquarters
Longarone, Italy

2014 sales
€362 million

Headcount
1,191

Investment date
December 2012



Perstorp

Responsible for ESG
Ad Vos

www.perstorp.com

Business description
Specialty chemicals

Headquarters
Perstorp, Sweden

2014 sales
SEK 11 billion

Headcount
1,569

Investment date
December 2005

R&R Ice Cream

Responsible for ESG
Peter Pickthall

www.rr-icecream.com

Business description
Take-home ice cream manufacturing

Headquarters
Leeming Bar, UK

2014 sales
€927 million

Headcount
2,354

Investment date
July 2011

Winner of The Grocer Own Label gold & silver 2014 award

Winner of The Grocer Frozen Food 2014 award

Swissport

Responsible for ESG
Sabine Fernandez
Natacha Schauenburg

www.swissport.com

Business description
Ground & cargo handling services

Headquarters
Zurich, Switzerland

2014 sales
CHF 2,876 million

Headcount
47,399

Investment date
February 2011

African Cargo Handler of the year 2015

Best Cargo Handler of the year 2014

VPS

Responsible for ESG
Tim O'Gorman

www.vpspecialists.co.uk

Business description
Vacant property services

Headquarters
Borehamwood, UK

2014 sales
£80,5 million

Headcount
900

Investment date
July 2014

IFSEC Security & Fire Excellence Award finalist in 2014

Xella

Responsible for ESG
Ernst Arelmann

www.xella.com

Business description
Building materials

Headquarters
Duisburg, Germany

2014 sales
€1,273 million

Headcount
6,806

Investment date
August 2008

Xella belongs to the fair company initiative started by the Handelsblatt newspaper to offer students and university graduates fair working conditions

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www.paipartners.com