BPEA
Baring Private Equity Asia

# Environmental, Social, and Governance ("ESG") Policy

**Background & Philosophy**

BPEA, an Asia-focused investment management group with three main investment strategies, established this ESG policy with the purpose of defining its approach to sustainable investment. This policy serves as an overview of how ESG factors are integrated into the evaluation and investment management process for underlying investments. As an investment adviser with a fiduciary duty to investors and beneficiaries of pension plans and other schemes, BPEA believes that integration of ESG factors is an integral part of a rigorous, research based approach to achieve optimal sustainable outcomes.

BPEA believes that that the implementation of an ESG policy can generate better investment portfolio returns, mitigate significant ESG risks, and reaffirm our unwavering commitment to social responsibility and sustainability. The ESG policy and process also enable identification of material factors and enhance fund risk-adjusted returns. ESG focus areas are climate change, social inequality, management/employee misconduct, governance best practices, data protection etc.

BPEA maintains an ongoing dialogue and information exchange on ESG topics with stakeholders such as investors, industry associations, regulators and others. BPEA aims to communicate and disclose important ESG related information to promote greater understanding and cooperation on efforts and initiatives in this area.

**Guiding Principles**

BPEA is a signatory of the UN-supported Principles of Responsible Investment (PRI), a global voluntary initiative focused on the investment industry. As a signatory, we are committed to integrating the six principles into our investment processes:

1. incorporating ESG issues into investment analysis and decision-making processes;
2. incorporating ESG into ownership policies and practices;
3. seeking appropriate disclosure on ESG by entities in which we invest;
4. promoting acceptance and implementation of the Principles within the investment industry;
5. working together to enhance our effectiveness in implementing the Principles; and
6. reporting on our activities and progress towards implementing the Principles.

The above philosophy extends across all BPEA business lines and applies to all BPEA personnel. BPEA conducts ESG training for its employees and has discussions about issues and best practices at the highest levels.

BPEA also supports ESG and climate change related initiatives and frameworks such as the UN Global Compact, Task Force for Climate related Financial Disclosure (TCFD), the Paris Climate agreement and promotes their adoption as applicable in portfolio companies.

**Social Contribution and Impact**

BPEA aims to systematically leverage and maximize positive social impact through the management of fund portfolio assets. BPEA encourages each team and company to volunteer and contribute to local communities via formal and informal corporate social responsibility (CSR) activities and programs. On a broader level BPEA considers how its investment programs can contribute more widely to social and economic development within the communities it invests in.

## ESG Integration

*Due Diligence*

The investment team undertakes a range of ESG due diligence checks during the due diligence process. This is an important step in understanding and identifying current and potential risks and opportunities surrounding the target company/asset. High ESG risk target companies undergo a more comprehensive review to ensure proper controls and systems are in place before qualifying for the next phase of the investment process. The firm may engage external ESG specialists to assist further in understanding the specific risks inherent in the company/investment under consideration.

The risks and opportunities identified through due diligence are an integral part of the overall assessment of any deal. Where risks are viewed as high, the investment/operations/asset management teams will assess potential mitigation actions. BPEA will not proceed with an investment if a satisfactory plan to address concerns cannot be developed.

*Post-Investment*

Through the BPEA BMS (Baring Management System) and PMC (Portfolio Management Committee) ESG factors are defined, goals are set, and processes are developed so that the portfolio company improves and furthers its ESG agenda alongside the financial and operational performance. BPEA teams keep in close contact with the portfolio companies to keep track of progress and ensure goals continue to remain aligned.

*BPEA's Business Lines*

BPEA operates three primary investment strategies: private equity, real estate and credit. Each strategy integrates ESG in accordance with the inherent degree of influence and control:

<u>Private Equity</u>

Beginning from ESG initial screening, the investment teams continue to evaluate and assess through the due diligence phase until the deal is approved and executed. Post-acquisition, the teams incorporate ESG in their monitoring and reporting functions for the investment. ESG engagement with the portfolio company continues through the investment holding period until exit.

Real Estate

The team evaluates ESG criteria prior to investment, construction and operations. The ESG priorities within any real estate transaction are efficiency, transparency, innovation, health, and engagement. The teams undertake thorough ESG due diligence while also committing both themselves and external parties they work with to sustainable building construction, labour best practices, occupants safety and wellbeing. BPEA conducts periodic reviews and audits (based on the market, tenants and regulations) of its investments and make improvements and recommendations to continuously improve ESG impact.

Credit

Extensive ESG due diligence also applies across BPEA's credit business. ESG allows making informed decisions of the creditworthiness of the issuer. Incorporating ESG issues and their potential impact gives a better understanding of the issuers ability to service their debt. All credit investment decisions go through a similar ESG screening, diligence and analysis as the other businesses. Credit teams are also involved in monitoring and recommending ESG related criteria and improvements to borrowers.

Details on the implementation of ESG into the investment processes of each of the asset classes can be found in the asset class specific ESG policies.

**Stewardship, Governance and Engagement**

As a steward of investment assets with fiduciary duties, BPEA recognizes that it must always place the interests of fund investors and beneficiaries first and implement rigorous governance structures and practices to ensure fair, sustainable and optimal outcomes.

BPEA has a range of policies to shape this principled approach, covering topics such as code of conduct and ethics, conflicts of interest, ESG integration, investment exclusions, proxy voting, best execution for trading and other areas.

Across the investment strategies BPEA has differing degrees of influence and control over investment assets and companies. As a general principle BPEA seeks to proactively engage with company management, other investors and stakeholders to produce optimal ESG outcomes for fund beneficiaries.

**Transparency and Engagement with our investors**

BPEA aims to report to investors on our ESG developments with respect to the Firm and our portfolio companies on a regular basis. As a signatory to the UNPRI, BPEA discloses its annual transparency and assessment report.

## 3. Reference

**Table 1. Examples of ESG Issues**

| **Environmental Issues** | **Social Issues** | **Governance Issues** |
|---|---|---|
| Climate change and carbon emissions | Customer satisfaction | Board composition |
| Air and water pollution | Data protection and privacy | Audit committee structure |
| Biodiversity | Gender and diversity | Bribery and corruption |
| Deforestation | Employee engagement | Executive compensation |
| Energy efficiency | Community relations | Lobbying |
| Waste management | Human rights | Political contributions |
| Water scarcity | Labor standards | Whistleblower schemes |

Environmental, Social, and Governance Issues in Investing, A Guide for Investment Professionals CFA Institute

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Principles for Responsible Investment

# Environmental, Social and Governance (ESG) – Private Equity

## 1. Purpose

The purpose of this policy is to clearly define the approach employed by Baring Private Equity Asia ("BPEA") Private Equity to sustainable investment. In particular, this policy serves as an overview of how we integrate Environmental, Social, and Governance ("ESG") factors into our evaluation process and underlying investments. BPEA believes that the implementation of an ESG policy can generate long-term investment portfolio returns, mitigate significant ESG risks, and reaffirm our unwavering commitment to social responsibility.

## 2. Scope

We incorporate the following ESG principles, which are guided by local and national laws at the fund manager level and portfolio company level; relevant internationally recognized standards and guidelines, and BPEA's Compliance Policies, in our evaluation process and underlying investments (as appropriate):

### 1. Screening Phase:

BPEA Investment Professionals ("IPs") will seek to identify target companies, properties and borrowers that accord with our investment ethos and ensure the target companies/sectors are not subject to ESG restrictions. Sectors that are excluded in principle include weapons, tobacco, gambling, recreational drugs, adult entertainment. Other sensitive sectors such mineral resource extraction, agriculture or forestry that displaces rain forests, carbon intensive fossil fuel energy generation or mining/extraction will be subject to enhanced scrutiny and consideration of ESG mitigation strategies. IPs will work with ESG Professionals – internal subject matter experts and external specialists ("EPs") as appropriate to identify the relevant ESG opportunities and risks of target companies. BPEA is committed to aligning exclusion policies and practices with the values and policies of fund investors.

### 2. Due Diligence Phase:

BPEA IPs will oversee the due diligence process, with EPs as required, on relevant ESG risks of target companies that qualify for further investment evaluation after the initial screen phase. BPEA will undertake a comprehensive risk-based review, specific to inherent sector and geographic risks, and also extending to areas such as raw material sourcing, supply chain integrity including child and forced labor. High ESG risk target companies undergo a more comprehensive review to ensure proper controls and systems are in place before qualifying for the next phase of the investment process. BPEA aims to analyze long term factors and trends including climate change, consumer value and attitude related developments etc to enhance evaluation of investments in a comprehensive and holistic way.

### 3. Investment Decision Phase:

BPEA IPs will present findings from the aforementioned phases to the Investment Committee of relevant funds ("IC") and on a case by case basis, EPs will also be asked to present to the IC. During this phase of the investment process, ESG opportunities and risks will be flagged, and recommendations to address relevant ESG risks are proposed for potential portfolio companies. BPEA IPs and Operations team will seek to engage with relevant stakeholders either directly or through representatives of potential portfolio companies, as appropriate.

### 4. Investment Agreement Phase:

ESG terms will be negotiated and integrated into the legal investment agreement(s) as feasible with potential portfolio companies. Specifically, ESG guidelines, action plans with targets, recommendations, and reporting requirements should be considered and established with potential portfolio companies and relevant representations stipulated in the legal investment agreement(s) to mitigate potential ESG exposure in the future before the investment is finalized.

### 5. Holding, Monitoring & Reporting Phase:

BPEA's standard post-acquisition/transaction ESG integration programs vary, taking into account the degree of control and influence BPEA can exercise over management. BPEA IP's and EPs will continuously monitor ESG guidelines, action plans with targets, recommendations, and reporting requirements of portfolio companies as stipulated in the relevant legal investment agreement(s). Specifically, IPs and EPs will

A. Work with portfolio companies through representation on their boards or other governance structures, with the goal of improving performance and minimizing adverse impacts in ESG areas.

B. Seek to provide appropriate levels of oversight in the areas of audit, risk management and potential conflicts of interest and to implement policies that align the interests of owners and management.

C. Comply with applicable labor laws (on wages, workplace safety and rights of employees to join unions and collective bargaining) in the countries where we invest.

D. Maintain strict policies that prohibit bribery and other improper payments in order to gain commercial advantage.

E. Respect the human rights of those affected by our investment activities and seek to confirm that our investments do not flow to companies that utilize child or forced labor or maintain discriminatory policies.

F. Seek to minimize adverse impacts on the environment through the operations of our investments. This includes a focus on climate change impact and initiatives to measure and reduce carbon emissions.

G. Work with portfolio companies to promote best practices in supply chain management, integrity, and social compliance, and to improve business resilience

H. Encourage ESG disclosures from our portfolio companies, and encourage our portfolio companies and service providers to advance ESG principles consistent with this policy when they do businesses

In addition, we will provide relevant information to our limited partners on ESG matters as requested and on a regular basis.

BPEA will regularly provide ESG training to IPs and staff to ensure that this ESG policy is followed and executed appropriately throughout the investment process.

BPEA is a signatory of the UN Principles for Responsible Investment and is committed to incorporating the requirements of the, a network of worldwide investors who are committed to incorporating ESG issues into investment practice.

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PRI Principles for Responsible Investment

# Environmental, Social, and Governance ("ESG") Policy – Real Estate

The purpose of this policy is to clearly define the approach followed by BPEA Real Estate to sustainable investment. This policy serves as an overview of how we integrate ESG factors into our evaluation process and underlying investments. We believe that the implementation of an ESG policy can generate better investment portfolio returns, mitigate significant ESG risks, and reaffirm our unwavering commitment to social responsibility. BPEA Real Estate is commitment to ethical, sustainable and responsible practices. BPEA Real Estate operates with the belief that through the incorporation of ESG factors in its decision-making process, it creates financial returns and sustainable value. BPEA is a signatory of the United Nations Principles for Responsible Investing initiative.

BPEA Real Estate follows the following ESG priorities:

- Efficiency – In order to minimize impact on the environment
- Transparency – With all stakeholders
- Innovation – Strive to improve operational efficiencies while reducing carbon footprint
- Health – Of all tenants, contractors, laborers
- Engagement – Achieve impactful change through partnerships

**Pre-Investment**

Systematic ESG due diligence is carried out from the feasibility stage of each potential project to support the investment decision. The following topics are covered:

- Environment: BPEA has a history of making decisions consistent with its belief to preserve the environment and reduce the impact on climate. BPEA strives to maintain environmental considerations when it comes to operating practices, material, products and construction methods. Environmental impact assessment and natural risks management are some of the tools used in this.
- Social: BPEA is commitment extends to the communities and constituencies impacted by its business. BPEA analyzes both opportunities and risks are evaluated for all stakeholders, when it comes to property investment, development and management
- Governance: BPEA maintains a strong culture where both internal and external stakeholders are required to conduct themselves with the highest levels of integrity, corporate responsibility, transparency, accountability, fairness and ethics. This includes dealings with authorities, third-party contractors, and locals of a community.

**Pre-Construction**

BPEA Real Estate has in place the PEP (Project Execution Plan) which includes a detailed analysis of ESG factors, with an emphasis on construction design and management regulations. BPEA also engages external consultants to conduct technical due diligence and environmental & social site assessments as necessary.

The commitment to ensuring sustainable procedures includes the following topics:

- Sustainable buildings construction ("green buildings"): In order to further the goal of having a business model in line with the PRI, BPEA keeps records and develops plans to improve compliance, energy efficiency and consumption, air quality control, water efficiency and consumption, and waste management
- Labor Management: BPEA works with its third-party contractors and its property managers to ensure all labor best practices are followed including and especially related to worker health and safety, fair labor practices, worker rights, child labor and worker-management relationships
- Occupants Safety and Wellbeing: BPEA also takes provisions to make sure all of its occupants are safe, and their wellbeing is maintained with regards to the concerned property

**Post-Investment and Construction:**

With rigorous continuous improvement, BPEA aims to focus its efforts and resources towards sustainable buildings and environment. The Real Estate team follows its buildings' ESG performance after the completion stage and commits to ensuring good maintenance, customer satisfaction, and identifying potential ESG issues and acting promptly to resolve them. BPEA conducts training for employees on ESG issues and best practices. BPEA also encourages sustainable practices by the tenants of its properties through the deployment of engagement tools.

BPEA conducts periodic reviews and audits (based on the market, tenants and regulations) of its investments and make improvements and recommendations to continuously improve its own ESG score.

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# Environmental, Social, and Governance ("ESG") Policy - Credit

The purpose of this policy is to clearly define the approach followed by BPEA India – Credit to sustainable investment. Particularly, this policy serves as an overview of how we integrate ESG factors into our evaluation process and underlying investments. This has been put together with a belief that that the implementation of an ESG policy can generate better investment portfolio returns, mitigate significant ESG risks, and reaffirm our unwavering commitment to social responsibility.

The ESG policy and process also enables us to identify material factors and enhance clients' risk-adjusted returns. Material ESG factors may include but are not limited to: climate change risks, social inequality, shifting consumer preferences, regulatory risks, talent management or misconduct at an issuer, among others. Weighing these factors in accordance with financial and non-financial information gathered is part of the analysis conducted. Through the assessment of ESG issues and long-term ESG trends during all stages of investment, from initial screening through to investing, monitoring, and exit, continuous improvement is a primary goal.

Any investment decision is based upon the outcome of the various diligences undertaken to evaluate the risks and feasibility of the transaction. One of the key diligences is ESG diligence which identifies the ESG issues associated with the target company's business and operations in order to ensure that a sound investment decision be made.

The process to be followed for ESG diligence is as follows:

**1. Screening Phase**:

The deal team identifies the potential areas of ESG risks by way of an **Initial Screening checklist**.

The checklist is to be filled in by the deal team in discussion with the target company and a conclusion be drawn based on the responses. While the conclusion in some cases may be an outright rejection of the transaction for some of the apparent critical ESG issues, in most of the cases, this process should help in identification of the focus areas during the detailed due diligence phase.

The findings at the screening stage should be used as an input to determine the scope of due diligence with a view to ensure that the key ESG aspects are well understood. In initial credit analysis also determines fundamental quality of the credit investment and point out any downside risk.

The critical issues identified at this stage should be deliberated upon during the Concept Paper discussion and specific inputs, if any, should be taken from the Firm's Finance / Legal / Compliance functions, as relevant.

**2. Due Diligence Phase**:

The process at this stage should involve evaluation of ESG risks based on the **Detailed Screening checklist**. The detailed checklist is to be filled in by the deal team basis the discussion with the target companies, review of relevant documents and the data/information received from the target companies and review of publicly available information.

At this stage, site visits should also be undertaken by the deal team of the business operations and/or collateral property which should include inspection and assessments of any identified ESG issues.

The risks and opportunities identified through due diligence should be an integral part of the overall assessment of any transaction. Where risk is viewed as high, the deal team should assess potential mitigation actions. The deal team may decide to not proceed with the next steps in cases a satisfactory plan to address these concerns cannot be developed and agreed with the target company.

**3. Investment Decision Phase**:

All the findings from the due diligence should be presented to the Investment Committee ("IC") during the FDIR discussion.

During this phase of the investment process, ESG risks should be flagged and recommendations to address relevant ESG risks should be proposed and discussed between the deal team and IC. The final recommendations to be taken note of and to be discussed and agreed with the target companies.

**4. Execution Phase:**

Identified ESG risk factors to be discussed and negotiated with the target company and addressed in legal agreements, as feasible.

Action plans with targets, recommendations, and reporting requirements to be considered and established with the target company and relevant representations to be stipulated in the legal investment agreement(s) to mitigate potential ESG exposure in the future.

**5. Monitoring & Reporting Phase:**

The deal team to evaluate compliance with the action plan on an ongoing basis including but not limited to actions vis-à-vis recommendations, submission of reporting requirements as stipulated in the relevant legal agreement(s) and cover this as a part of the discussion item in the monthly deal monitoring calls.

ESG allows us to make an informed decision of the creditworthiness of the issuer. Incorporating ESG issues and their potential impact gives us a better understanding of the issuers ability to service their debt.