



# ESG Policy

Written: 1 December 2020

Updated: 1 December 2021

Applicable as of: 1 December 2020

## 1. RESPONSIBLE INVESTMENT POLICY

Mérieux Equity Partners (MxEP) is a management company that invests in Venture Capital, Growth and Buyout Capital in the health and nutrition sectors throughout Europe. Structurally, the investment strategies of our funds under management enable us to meet Sustainable Development Goal (SDG) No. 3: Good Health and Well-being.

In addition to supporting SDG 3, we also want to ensure our investments do not negatively influence any other of the SDGs and as such, we have embedded assessment of Environmental, Social and Governance (ESG) matters in our entire investment process.

This Responsible Investment policy demonstrates MxEP's ESG commitments. It is applicable to all of our investments since AMF (French Financial Markets Authority) approval on 5<sup>th</sup> June, 2018.

MxEP is a signatory of the Principles for Responsible Investment (PRI) and this policy and its content were defined in accordance with the PRI.

MxEP is also an active member of France Invest through involvement in its commission "Talent and Diversity, ESG and Regional Commitments" and the signature of France Invest's Charter for Gender Equity.

MxEP is also strengthening its commitment to Diversity, Equity and Inclusion through active support of the not-for-profit organization "Level 20".

## INTERNAL GOVERNANCE

Overall responsibility for oversight of ESG is held by the President of Merieux Equity Partners who, together with the ESG team, is responsible for validating ESG initiatives, and for implementing, measuring, and executing the company's ESG strategies.

This includes:

- Defining the ESG strategy, policies and key engagement points,
- Promoting ESG matters,
- Monitoring ESG topics and trends,
- Allocating ESG budget,
- Ensuring proper execution of ESG policies among all team members.

ESG factors have been included in MxEP's remuneration policy to ensure that all parties involved in each deal have incorporated both ESG risks and opportunities in line with the current ESG Policy. A variable remuneration is hence linked to ESG criteria for executive committee members.

## TRANSPARENCY AND DISCLOSURE

Mérieux Equity Partners will not invest in a company for which it is aware that its direct activity :

- includes practices such as corruption and money laundering ;
- violates human rights (including child or forced labor);
- results in disrespect for the rights of indigenous and/or vulnerable groups;
- results in a negative impact on health through non-compliance with legal, regulatory or ethical standards or proven negligence on the part of the company's management;
- does not include trade in endangered species of wild fauna or flora (or products derived therefrom);
- would degrade protected areas of biodiversity.

## PROVISIONS APPLICABLE TO FUNDRAISING

ESG disclosure is well embedded into MxEP's reporting practices. As such an ESG annual report is sent to our Limited Partners and shared on our website.

Additionally, MxEP will disclose to the local authority as per the SFDR regulation, supplemented by the French regulator.

## PRINCIPLES OF ACTION

Mérieux Equity Partners integrates consideration of ESG at each stage of the investment cycle.



### DURING THE PRE-INVESTMENT PHASE

- **Initial Analysis:** consists of ensuring that the opportunity under consideration allows the exclusion policy of MxEP to be respected. If no blocking issue is identified, the opportunity analysis process continues. However, if the opportunity does not ensure compliance with the rules mentioned in the exclusion policy, then it is abandoned.
- **Due-Diligence:** consists of linking the activity of the opportunity to the United Nations' Sustainable Development Goals and establishing an analysis of the risks and opportunities for ESG risk protection and value creation. The risk/opportunity analysis is carried out on the basis of the ESG sector guides of the SASB (Sustainability Accounting Standards Board) and through our discussions with the management of the company in which we are considering an investment.

As per the SASB Healthcare sector classification, there are 6 sub-sectors:

- Biotechnology & Pharmaceuticals
- Drug Retailers
- Health Care Delivery
- Health Care Distributors
- Managed Care
- Medical Equipment & Supplies

The ESG due-diligence file is presented to the investment committee along with the other due diligence workstreams (financial, fiscal, social, strategic, commercial due-diligence, etc.). If a material ESG subject is identified, a “progress plan” must be developed to resolve the material issue during the hold period. If a progress plan cannot be created to resolve or mitigate the material ESG issue; then

the opportunity is abandoned. This decision is formalized in the minutes of the Investment Committee. In our investment sector, abandonments at this stage of the process are mainly related to governance issues.

For the Venture Capital activity, this analysis is carried out internally by the Finance Manager, under the supervision of the President of MxEP.

For the Growth and Buyout Capital activities, the documentation of this phase may be partially outsourced (particularly with regard to the analysis of risks and opportunities for value creation), to sector specialists (the major names in the market).

## DURING THE OWNERSHIP PHASE

- **Documentation:** If MxEP decides to invest in a company, the shareholders' agreement explicitly provides for an ESG clause. This clause makes it possible to indicate that ESG data can be audited and that the management company must report ESG data at the level of its funds to its investors. ESG data is hence requested annually from portfolio companies and monitored and consolidated at the fund level. Topics covered include business ethics, supply chain, human resources, environment, amongst others.
- **Progress Plan:** During the first year of the investment period and in partnership with management, a progress plan is established. This progress plan is tailor-made to each portfolio company to ensure most urgent ESG topics are addressed first. This work is based on the risk/opportunity analyses carried out during the ESG due-diligence phase.
- **Reporting:** MxEP prepares annual ESG reporting for each of the funds launched since our AMF approval obtained on 5<sup>th</sup> June, 2018. This reporting includes standard quantitative indicators as well as best practices at the level of the portfolio companies. The carbon footprint is also calculated (calculations based on the instructions of the Greenhouse Gas (GHG) protocol). The carbon footprint of our portfolios is less marked than for other management companies, as we invest exclusively in the healthcare sector.
- **Shareholder Engagement:** MxEP has a shareholder engagement policy, available on its corporate website, which specifies the terms and conditions for exercising our representation within the governing bodies of the companies in which we invest. Our logic has always been to be represented in the governance bodies of the companies in which we invest. In a risk-based framework such as ours, this is the main lever for defining the ESG progress plan, implementing it and adapting it if necessary.
- **Incident Reporting:** the asset management company has set up an internal system for reporting ESG incidents that may occur at the level of the companies in the portfolios under management and of which it may become aware thanks to its presence on the governance

bodies. Such incidents are defined, in accordance with France Invest's recommendation, as any event that could have a material impact on the investment and/or its shareholders, in particular but not exclusively in terms of public health, the environment, labor law disputes or business ethics.

## DURING THE EXIT PHASE

- **Data Room:** during the exit phase, all ESG data collected during the ownership phase (progress plan, monitoring data) is integrated into the data room available to the vendors. This data enables potential buyers to identify the progress made during the ownership period.
- **Creation of Value:** beyond the environmental and social dimension of ESG, on which we intervene with appropriate governance, the objective of our approach is to create shareholder value. This translates into ESG actions that can result in financial savings, better productivity, a safer working environment, and building partnerships with stakeholders based on respectful and stronger contractual bases. Ultimately, the ESG approach contributes to the creation of a more agile environment, in line with the structural changes in our companies, and this ability to anticipate is a lever for value creation that is bearing fruit.

## 2. SUSTAINABILITY RISKS INTEGRATION POLICY

Mérieux Equity Partners integrates sustainability risks into the investment process, as set out in Article 3 of the Sustainable Finance Disclosure Regulation (SFDR) ((EU) 2019/2088) and Article L 533-22-1 of the *Code Monétaire et Financier* (CMF) (French “*loi Energie-Climat*”).

As per the SFDR, a sustainability risk means an **environmental, social or governance** event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

Additionally, Article L 533-22-1 of the CMF requires that a specific disclosure be made on the following sustainability risks: **biodiversity** and **climate change**.

## IDENTIFICATION OF RELEVANT SUSTAINABILITY RISKS

The ESG team manages the assessment of sustainability risks.

Sustainability risks and Principal Adverse Impacts (PAI) are both considered mainly:

- during the pre-investment phase using the SASB Materiality Map as a first screening tool and then more thoroughly during the due diligence process depending on the nature of the investment company (activities, size, geographies, etc.). All findings are integrated in the investment memo sent to the investment committee.
- during the ownership phase. On the first year of ownership, a detailed ESG review is conducted, after which a set of KPIs is tracked annually (which include the monitoring of PAI as per the SFDR regulation for funds aligned with Article 8), again allowing to identify, quantify exposure to and manage sustainability risks throughout ownership. Subsequent year's information of the ESG review are updated if necessary.

Information on sustainability risks and PAI will be reported to investors through dedicated annual reports.

## CLIMATE-RELATED RISKS

The ESG team manages climate-related risks.

Climate-related risks are treated in the same way as other risks during the different phases of the investment cycle. However, MxEP has taken the following additional commitments during the ownership phase with regards to climate-related risks:

- Calculation of scope 1 and 2 greenhouse gas emissions for all portfolio companies during ownership. Scope 3 emissions are calculated on an ad-hoc basis,
- Development and implementation of an alignment strategy over the 2-degree scenarios – this alignment strategy will be divided into milestones to take into consideration MxEP's limited size and resources (such as scope 3 coverage, emissions compensations, etc.), and
- Annual inclusion of climate-change on the agenda of a Board of Directors meeting agenda.

## BIODIVERSITY RISKS

Biodiversity risks will be included in the sustainability risks screened by MxEP during due diligence once international biodiversity goals have been finalized and published by the United Nations Biodiversity Conference of the Parties (COP).

As such, Mérieux Equity Partners will strive to align with international goals as soon as they are published.