



Robeco Private Equity
ESG Engagement Program

CASE STUDY No. 4 | APRIL 2019

Apax Partners

Robeco and Robeco Private Equity

Robeco is an international asset manager offering an extensive range of active investments, from equities to bonds and alternatives. Research lies at the heart of everything Robeco does, with a pioneering but cautious approach that has been in its DNA since the foundation in Rotterdam in 1929. Robeco believes strongly in sustainability investing, quantitative techniques and constant innovation.

Robeco Private Equity is the private equity arm of Robeco that raises capital from professional investors and selects private equity funds that invest in privately-held companies. The aim is to grow and improve those companies and achieve a higher valuation and attractive return when the investment is realized. Robeco Private Equity benefits from the broader Robeco organization, RobecoSAM as a sustainability investment specialist as well as ORIX (Robeco's parent company) with extensive resources and industry expertise.

Robeco Private Equity's investment philosophy is based on three objectives: maximizing long-term value investing with a disciplined and research-driven process and providing transparency and control. Private equity funds typically remain in the portfolios that Robeco Private Equity manages for ten to twelve years. Throughout this period they are expected to build lasting and sustainable companies before they exit them.

ESG Engagement Program

To be able to create value private equity funds have to manage environmental, social and governance (ESG) risks in their portfolio companies and take advantage of ESG opportunities. That is why Robeco Private Equity started a structured dialogue on ESG integration with the private equity managers back in 2004, being one of the first asset managers in the industry to launch a private equity strategy with an ESG Engagement Program. The program currently includes over 70 private equity managers.

Apax Partners is a good example of a global private equity firm that very early on recognized the relevance of a formalized ESG framework for its investment process, the portfolio companies and its investors. This case study describes the milestones in the firm's ESG journey since the inclusion in Robeco Private Equity's ESG Engagement Program and outlines its Sustainability Program as it is today.

Apax Partners

Apax Partners (Apax, the Firm) is a global private equity advisory firm. Over its more than 40-year history, Apax Partners has raised and advised private equity funds (Funds) that invest in companies across four global sectors of Tech & Telco, Services, Healthcare and Consumer. These Funds provide long-term equity financing to build and strengthen world-class companies.

Apax entered the Robeco Private Equity's ESG program in 2007. Over the last decade Apax has built a very rigorous ESG approach, based on a well-defined Responsible Investment Policy. The Firm believes a focus on responsible investing can lower risk and enhance financial returns for its Funds and underlying portfolio companies, whilst also creating a net benefit for society.

Apax's ESG journey through the lens of our ESG program is illustrated in Figure 1 and explained in more detail on the next page.

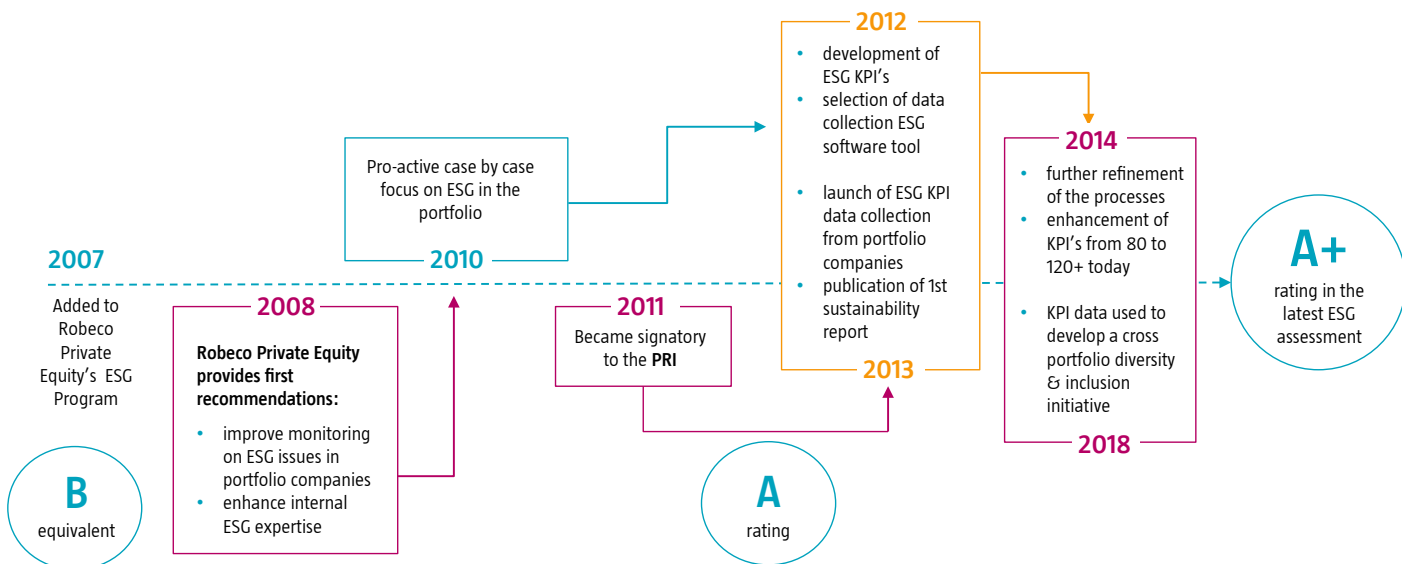
Early mover

In 2008 in its first ESG assessment, Robeco Private Equity established that Apax had a proactive approach towards responsible investing. At the time, the Firm had its own Responsible Investment Guidelines in place and was moving towards a more systematic appraisal of ESG issues both pre- and post-investment. In its first feedback, Robeco Private Equity recommended that Apax enhance its internal expertise on social and governance issues by offering education and training to investment team.

In 2010 Apax decided to formalize its ESG approach and establish a Sustainability Committee which, in turn, appointed a lead executive responsible for the day-to-day implementation of the Apax Sustainability Programme. It also introduced a pre-investment ESG due diligence questionnaire and monitoring procedures for portfolio companies. The aim was to systematically assess each new portfolio company and quantify its ESG risks and opportunities. In each case, Apax reviewed the entire value chain of the business and looked for efficiencies in areas such as the reduction of transportation, waste and pollution costs and the optimization of human resources and their knowledge. After this assessment was completed, areas for improvement were identified and management was given targets on which they were to be monitored over the life of the investment.

After endorsing the UN PRI (the Principles) in 2011 Apax implemented processes to adhere to the Principles and made responsible investing an integral part of its investment approach. In the adjusted and detailed annual ESG survey sent out in 2011 Robeco Private Equity introduced questions related to ESG KPIs. This turned out to be the catalyst for Apax's thinking on ESG KPIs for portfolio companies. In 2012 the firm found that tangible results were not easily identifiable because there was no

Figure 1: ESG integration at Apax Partners over time



Source: Apax, Robeco Private Equity

baseline information available. So instead it defined a set of ESG KPIs for the portfolio companies and started gathering data from them using a software platform. In the following year Apax published its first annual sustainability report which included the ESG performance across its portfolio.

All these efforts by Apax are reflected in the high ESG performance of this manager. In Robeco Private Equity's 2018 assessment Apax was awarded an A+, the highest possible score for its ESG work. We describe its current approach to ESG integration in the rest of this document.

Apax's ESG approach

Apax's Sustainability Program is fully embedded in its investment process: from identifying ESG risks pre-acquisition, through working with portfolio companies post-acquisition to monitoring their ESG indicators. Its overall goal is to achieve a better understanding of the operations of each portfolio company, to assess their ability to manage ESG considerations, and to put in place risk mitigation and value creation initiatives.

Due diligence process

Apax's investment professionals undertake pre-investment ESG due diligence for each new investment made by the Apax Funds. The focus of the due diligence is on the ESG areas that Apax believes are key to understanding the ESG profile of the particular company in which its Funds are considering an investment. The Operational Excellence Practice's (OEP) extensive knowledge and expertise regarding business operations is leveraged by Apax investment professionals during the due diligence process. Their insights into how a portfolio company's existing

operations might be optimized, ESG risks addressed and mitigated, and value unlocked during ownership are highly valuable.

Key ESG issues, which might represent either a risk to the portfolio company's business or an opportunity for value creation, are highlighted as part of the due diligence process. Where necessary, investment professionals will work with the relevant company's management team to develop an improvement plan to address findings in the post-investment stage. This can either be included in the 100-day planning process or shortly thereafter, depending on the severity and materiality of the identified risks.

Prior to the closing of a new investment by the Apax Funds, the findings of the ESG due diligence process are reviewed by the Apax Sustainability Committee and incorporated into the final Investment Committee documentation. The Apax Sustainability Committee consists of 7 members drawn from different areas within the firm and oversees all activities related to responsible investment - ensuring policies and processes are implemented and adhered to. In addition, one staff member is responsible and accountable for the oversight and implementation of responsible investment.

Monitoring via ESG KPIs

A core element of the Apax Sustainability Program is the annual collection of over 100 ESG-related KPIs from the underlying portfolio companies. These KPIs cover environmental data, including natural resources usage and efficiency programs, social data including employees and health & safety, and governance data, including regulatory compliance. Apax's ESG KPI data collection process was introduced in 2012 and it is

based on the Global Reporting Initiative (GRI), specific LP questionnaires and other resources focused on the reporting of non-financial metrics. The KPIs consist of qualitative and quantitative data and binary yes/no inputs. The software system deployed by Apax enables the portfolio companies to log and track and compare their year-on-year performance on non-financial metrics. Over the years, the portfolio companies have become more comprehensive in their data capture and the information is becoming more consistent. This enables a more granular analysis of the impact of ESG performance on the investments in Apax's Funds.

Due to the annual ESG KPI data collection, Apax measures the progress

of both the portfolio as a whole as well as how well individual portfolio companies are managing material ESG factors within their business. Through the ESG data Apax collects from all majority-owned portfolio companies on an annual basis, it is also able to identify ESG incidents which have been discussed at Board level. This detailed source of ESG data is used to inform stakeholders and to drive value creation projects executed by the OEP team members and Apax investment professionals assigned to a particular portfolio company. The OEP team uses the annual ESG KPI information from the portfolio companies to analyze the materiality of certain ESG factors to value creation in the portfolio company such as electricity usage and carbon footprint.

Figure 2: Apax's Reporting of ESG performance at the Fund level – 2017

	Total CO ₂ emissions (tons)	Electricity (Kwh)	Business travel by air (Miles)	Water used (m ³)	Waste treated (Tons)	Environmental Incidents	Employees (FTEs)	Women (FTEs)	Men (FTEs)	Diversity policy	Anti-harassment policy	Sick days	Voluntary Turnover	Workers council	Code of Conduct	Anti-Corruption Policy	Cyber security function
Consumer																	
Company A	1,112	7,210,200	500,000	13,076	295	No	359	168	191	No	Yes	21	79	No	No	No	No
Company B	5,447	8,860,431	-	1,620	40	No	2,108	1,233	875	Yes	Yes	50	1,341	Yes	Yes	Yes	Yes
Company C	1,683	16,399,157	3,420,875	33,896	992	No	1,704	1,155	549	Yes	Yes	6,480	601	Yes	Yes	Yes	Yes
Company D	338	2,391,562	2,036,028	3,566	35	No	562	383	179	No	Yes	679	179	No	Yes	Yes	Yes
Healthcare																	
Company A	231	390,000	-	450	-	No	2,792	2,030	762	Yes	Yes	82	414	No	Yes	Yes	Yes
Company B	-	5,945,950	-	5,958,321	163	No	4,347	2,946	1,401	Yes	Yes	45	1,513	No	Yes	Yes	Yes
Company C	521	1,264,006	-	1,659,387	191	No	819	332	487	Yes	Yes	489	145	Yes	Yes	Yes	No
Company D	1,234	7,326,313	662,283	37,075	935	No	649	351	298	No	Yes	2,577	40	Yes	Yes	Yes	Yes
Services																	
Company A	751,124	4,678,321	6,702,904	244,423	1,126	No	1,671	864	807	Yes	Yes	10,596	156	Yes	Yes	Yes	No
Company B	601	230,000	3,295,000	15,000	5	No	132	28	104	No	No	756	20	No	Yes	Yes	No
Company C	239	999,865	1,978,864	-	-	No	1,057	349	708	No	Yes	1,633	156	No	Yes	Yes	Yes
Company D	2,183	1,200,000	110,000	5,100	11	No	836	380	456	Yes	Yes	8,547	218	Yes	Yes	Yes	Yes
Tech & Telecom																	
Company A	6,059	26,488,864	-	1,160,000	12	No	10,273	3,140	7,133	No	Yes	1,702	625	Yes	Yes	Yes	Yes
Company B	5,386	2,320,907	8,276,804	0	0	No	1,382	469	913	No	Yes	9,386	194	Yes	Yes	Yes	Yes
Company C	423	274	3,510,617	-	0	No	1,347	398	918	No	Yes	0	174	Yes	Yes	Yes	Yes
Company D	200	0	1,609,344	0	0	No	852	397	555	Yes	Yes	0	92	No	No	Yes	Yes

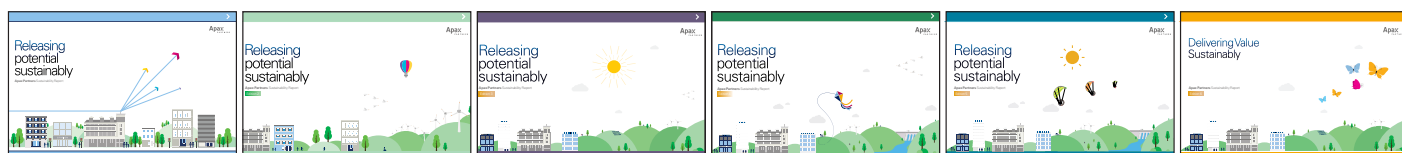
Source: Apax Partners Sustainability Report – 6th Edition

Reporting

Apax Partners publishes an annual sustainability report which provides insights into the ESG footprint of the Funds' portfolio companies. The report is publicly available on the responsibility section of Apax's website. This high level ESG transparency makes Apax an industry leader as there are not many other private equity fund managers with the framework and

processes in place which can illustrate this type of ESG reporting at the Fund level. The Firm strives to make continuous improvements in its ESG reporting to its investors and the broader public, adding topics such as diversity and Sustainable Development Goals in its annual sustainability report.

Figure 3: Apax has published six annual sustainability reports so far



Source: Apax

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