



Robeco Private Equity
ESG Engagement Program

CASE STUDY No.2

Pegasus Capital Advisors

Introduction

About 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 deploy it through privately-held companies. The aim is to grow and improve those companies, resulting in 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. We are long-term investors, typically investing in private equity funds for around ten to twelve years. This long-term commitment is based on the expectation that the funds will build lasting and sustainable companies before they sell them. 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 dialogue on ESG integration with the private equity fund managers back in 2004. We were 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 firms.

Pegasus is an example of a private equity firm that has quickly recognized the importance of good and formalized ESG framework for its portfolio companies. This note describes the milestones in their ESG journey since their fund V has been added to our ESG engagement program.

Pegasus Capital Advisors

Founded in 1996, Pegasus is a private, alternative asset management firm managing approximately \$1.9 billion in assets across four private equity funds, mainly focused on North America. Pegasus primarily makes control investments in middle-market companies and seeks to create value and impact through creative investment structures, while leveraging its operational expertise and deep industry knowledge. Pegasus has recognized the need for solutions for climate change and health and wellness and increasingly has focused on sustainable industries with positive environmental and social impacts. The performance of investments with robust ESG and / or positive impact features led Pegasus to the point where 100% of its most recent fund is invested with these approaches. This is demonstrated in the firm's increasing exposure to the investment themes such as:

- water,
- food,
- energy,
- waste and recycling,
- living spaces,
- microbiome,
- fitness, sleep and mind-body,
- and other sub-themes.

Robeco Private Equity started the dialogue on ESG integration with Pegasus in 2011 when its Fund V was added to the ESG engagement program. At the time, Pegasus did not have a formal ESG framework in place, but was integrating ESG best practices on a deal-by-deal basis, as the firm deemed applicable. Given the firm's positive experiences with ESG integration, as well as the emerging wealth of research and evidence making the case for more formalized integration, Pegasus expressed plans to formalize its ESG policy and start disclosing information on ESG. Over the subsequent years, Robeco Private Equity encouraged Pegasus to

- appoint an ESG manager,
- more formally incorporate ESG themes in its due diligence and ownership practices,
- engage with portfolio companies to set up ESG action plans and
- formulate KPIs to measure progress and report on achievements.

In 2014, Pegasus launched an ESG Leadership Plan, setting a foundation for more formalized ESG integration. In 2015, Pegasus also launched an impact measurement initiative to assess the ESG progress of its portfolio companies. All Fund V companies now have ESG-related assigned roles and responsibilities, and certain ESG metrics and KPIs and/or reporting systems were identified to be further developed into a quarterly and annual reporting framework to Pegasus.

Pegasus furthermore decided to develop an ESG Management System (ESG-MS) to provide a more comprehensive framework for the firm to enhance its positive environmental and social impacts, as well as to mitigate or avoid potential negative impacts of its investments. The ESG-MS provides guidance, policies and procedures at the portfolio management level, to be applied throughout the investment cycle.

As next steps, Pegasus has launched internal training on the ESG-MS and is working on publishing its first public sustainability / ESG / impact report. The report is expected to include each company's 2016 ESG and impact performance highlights, as well as notable lessons learned and a summary of more formalized metrics and KPIs identified as goals for 2017 reporting. The firm asked each of its Fund V companies to identify the top two to three SDGs with which they align, as well as ESG and impact highlights and opportunities. Each company is identifying more specific indicators to track their progress against these goals. For the 2016 report, company-specific climate change data was collected, such as:

- Lighting Science's over 10 million LED lights sold annually, which reduced energy use by over 9 million MWh.
- ReCommunity's recycling operations resulted in approximately 5.8 million metric tons of reduced GHG emissions, approximately 2.8 million cubic yards of reduced landfill space, and approximately 19 million gallons of wastewater reduction from landfill space.
- Six Senses has set goals for the year 2020 to reduce GHG emissions and energy consumption by 20%, water consumption by 30%, and to increase grey / rainwater use and reduce waste generation by 40% in resort operations.

The efforts that Pegasus has put into building its ESG program have been acknowledged and the manager was awarded an A score in our latest ESG assessment. In a relatively short period Pegasus has made a journey from an "ESG laggard" to an "ESG leader" in Robeco Private Equity's ESG engagement program.

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