

ESG report 2018



Winner, BVCA Responsible Investment Award 2018

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Foreword

Dear Limited Partner

Environmental, social and governance (ESG) considerations have always played an important informal role in Collier Capital's investment management processes. However, it has become clear in recent years that a *formal* ESG framework can play a vital role in protecting and creating value for our investors; in reducing risk; and in enhancing our funds' long-term returns.

Private equity is uniquely positioned to derive value from ESG because of its hands-on investment

"A formal ESG policy can play a vital role in protecting and creating value for our investors"

model. As a leading player in private equity's secondary market, we ourselves are able to exert influence in two ways: with the General Partners managing the fund positions in which our funds are invested, and (in the case of our

direct secondary investments) with managers of individual portfolio companies.

Since 2011, when we developed our original ESG Policy and established our ESG Committee, we have made steady progress in implementing an ESG framework. We are pleased to supplement this framework with our third published report on the ESG policies and practices of the GPs managing assets owned by our funds.

In August 2014, Collier Capital became a signatory to the Principles for Responsible Investment (PRI). We are also active members of the BVCA's Responsible Investment Advisory Committee, Invest Europe's Responsible Investment Roundtable, and the Hong Kong Venture Capital Association's ESG Committee.

Our ESG programme continues to become more

embedded in our investment process. Our dedicated in-house Head of ESG & Sustainability, Adam Black, continues to lead and enhance our efforts in the ESG arena – with the full support of our ESG Committee.

The rewards from our ESG efforts will be felt in the returns our funds make for our investors and the most benign impacts our investment has on the world in which we live. Having said that, it is nonetheless pleasing when our ESG efforts are recognised in their own right. We have just learned that Collier Capital has won BVCA's 2018 Responsible Investment Award (for the category 'Firms with over £1bn AUM').

With warm regards,

Jeremy Collier
Chief Investment Officer

October 2018



Insights

For our third annual ESG report, we solicited responses from the GPs managing our three active funds (CIP V, CIP VI and CIP VII).

Two issues stand out as we review the findings: to be effective, ESG must be integrated into the day-to-day operations of a business, and the overriding importance of organisational culture for ESG.

From gender diversity to climate risk, animal welfare to modern slavery, personal data protection to plastic pollution, ESG encompasses some of the most important issues in the modern world. We believe that poor ESG performance is indicative of a poorly run business. Positive change is certainly possible, but to be really effective it must be driven

"Private equity's ability to create better and more profitable businesses is enhanced by a strong focus on ESG."

by changes to organisational culture.

For some of our portfolio GPs the process of embedding an ESG culture within their management

companies and their funds remains a work in progress, but many more are now advocates for responsible investment.

We know that private equity's ability to create better and more profitable businesses is enhanced by a strong focus on ESG, so we are encouraged by the findings of this year's report, which seem to indicate a change in culture and a developing ESG maturity in many private equity managers.

We recognise the positive steps that have already been taken and we commend our fund managers' commitment to building still further on these solid foundations.

We will continue to contribute whenever we can. Helping our portfolio GPs on their own ESG journeys goes to the heart of what responsible investment at Collier Capital is all about.

We also recognise that Collier Capital itself can do more as a firm. We will continue embedding ESG considerations more deeply, both into our investment management processes and our practices and behaviours as a business.

We have no doubt that our efforts have already added value for our investors, and we remain committed to putting further flesh on the bones of our ESG Policy.

Kind regards,

Adam Black
Head of ESG & Sustainability



ESG adoption

ESG policies are the norm among General Partners

A large majority of GPs responding to our survey have a formal ESG policy.

Among respondents who do not have an ESG policy, 70% manage less than \$5bn of assets.

Adoption of ESG policies is a relatively recent development

ESG policy adoption really took off in 2009. Nine out of 10 responding GPs have put a policy in place within the last eight years.

Just over half (54%) of the GPs put an ESG policy in place within the last five years.

Adoption of the PRI is highest among the European GPs

Almost half of responding GPs are signatories to the PRI.

Adoption by region differs widely, with three quarters of the European GPs having signed up to the Principles, compared with two in five of the Asian GPs and one in five of the North American GPs. Since 2016, the proportion of GP signatories has increased across all geographies.

Do the GPs have an ESG policy?

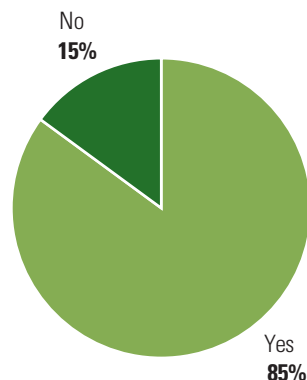


Figure 1

GPs with an ESG policy – by year of adoption

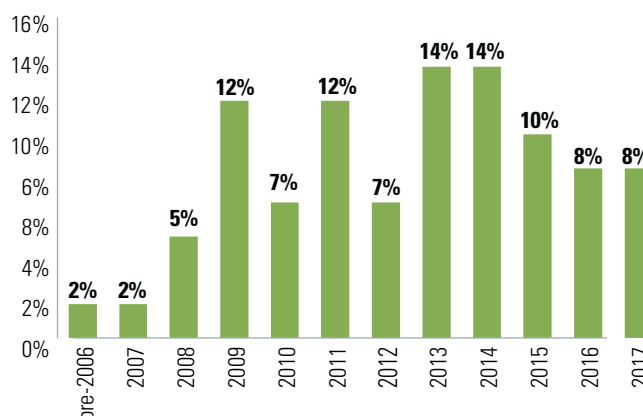


Figure 2

Proportion of GPs by region that are PRI signatories

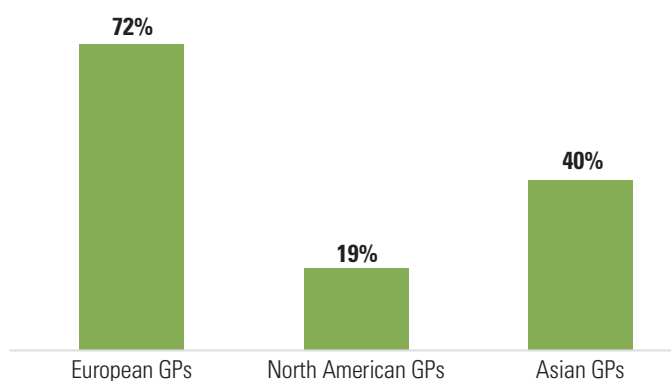


Figure 3

ESG adoption

Two fifths of the GPs adhere to additional/alternative ESG principles

42% of responding GPs are signatories to ESG principles sponsored by organisations other than the PRI (eg, the Private Equity Growth Capital Council). This proportion has slightly increased from the 37% reported in our 2017 report.

Of the GPs who are not signatories to the PRI, a third are signatories to an alternative set of ESG principles. This brings the proportion of GPs who are signatories to a set of ESG principles, to 59%.

Proportion of GPs that are signatories to a set of ESG principles other than the PRI

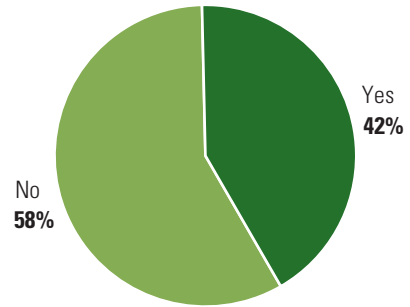


Figure 4

Farm animal welfare (FAW) principles are on the ESG agenda

One in five of responding GPs report that their ESG policies include farm animal welfare criteria, and that some of their portfolio companies have a policy to address FAW-related issues.

Integration of farm animal welfare principles into ESG policies

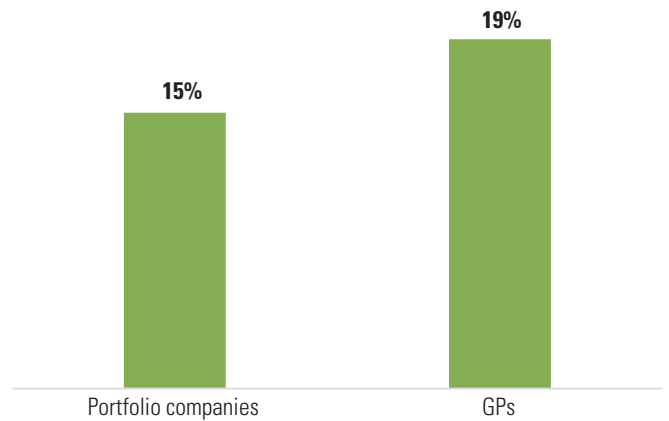


Figure 5



Implementation and monitoring

An increasing proportion of the GPs recognise that ESG monitoring demands specialist skills

Two thirds of responding GPs employ dedicated ESG professionals, an increase from the 55% of GPs last year. While most of the GPs with dedicated ESG professionals have only one or two employees working in this area, 30% of the GPs employ three or more dedicated ESG professionals.

ESG responsibility is often embedded in the investment process

For over half of responding GPs, ESG oversight is the responsibility of the investment team or the risk/compliance function.

However, for almost a quarter of the GPs, the senior management team takes responsibility directly for ESG oversight.

An increasing proportion of the GPs provide training for their investment teams on ESG

The proportion of responding GPs providing their investment teams with ESG training has risen from 51% to 71% in the last year.

An increasing proportion of the European (78%) and American (68%) GPs are providing ESG training.

Proportion of GPs with dedicated ESG staff

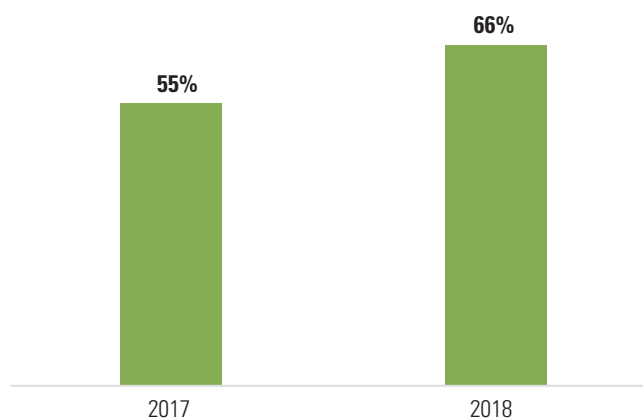


Figure 6

Department responsible for ESG oversight

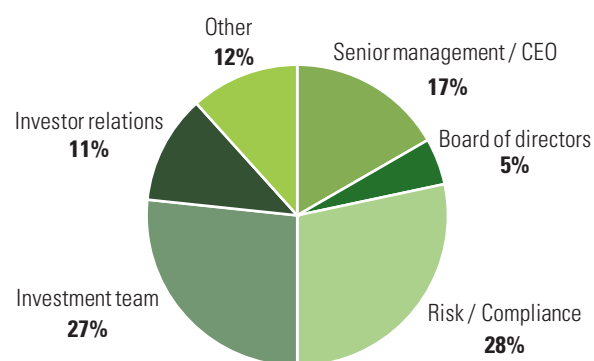


Figure 7

GPs providing ESG training in the last 12 months

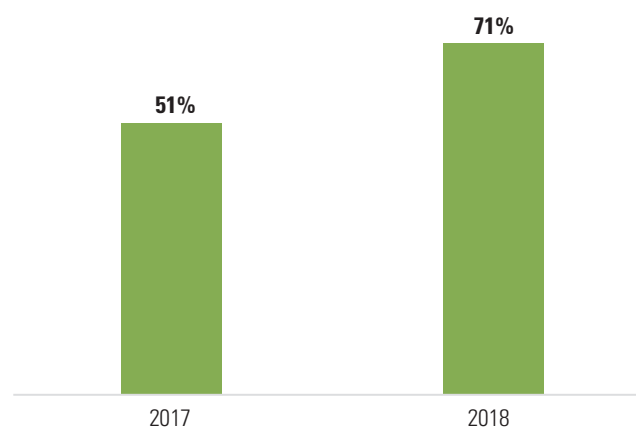


Figure 8

Implementation and monitoring

A majority of the GPs integrate ESG into their investment criteria

88% of responding GPs have integrated ESG principles into their investment processes.

Over four in five of the GPs include an ESG section in their investment and/or exit memos.

A majority of the GPs monitor ESG progress in their portfolio companies

Fully three quarters of responding GPs monitor ESG at the portfolio company level.

GPs are actively initiating ESG best practices in their portfolios

Three quarters of responding GPs suggested or initiated measures to improve ESG performance within their portfolio companies in the last year.

GPs including ESG criteria in their investment processes

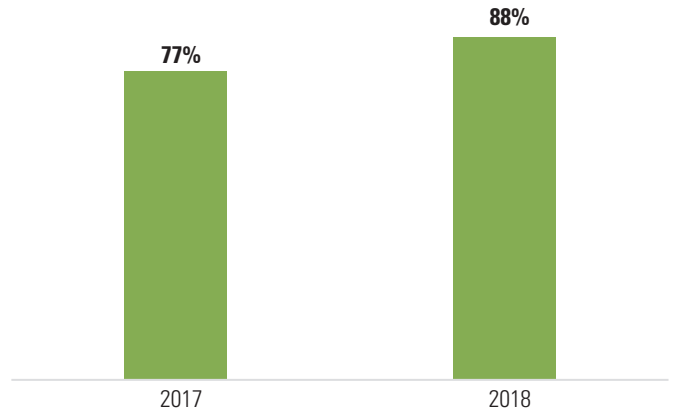


Figure 9

ESG monitoring processes at portfolio company level

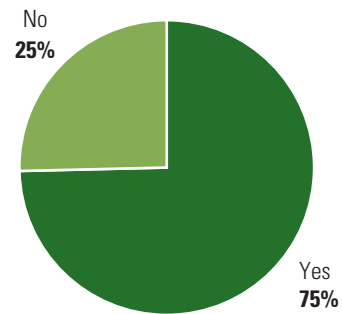


Figure 10

GPs suggesting or initiating measures to improve ESG within portfolio companies in the last 12 months

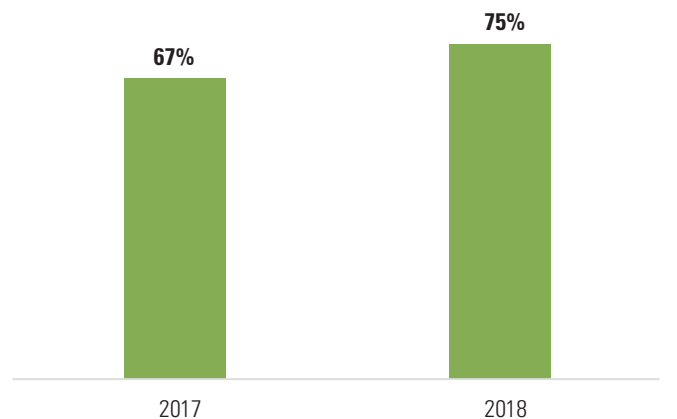


Figure 11

Implementation and monitoring

GPs' ESG efforts are attracting increased recognition

Over a third of responding GPs reported that at least one of their portfolio companies won some kind of award for ESG practices in 2018 – an increase from 27% of GPs last year.

GPs with portfolio companies that have won an ESG award in the last 12 months

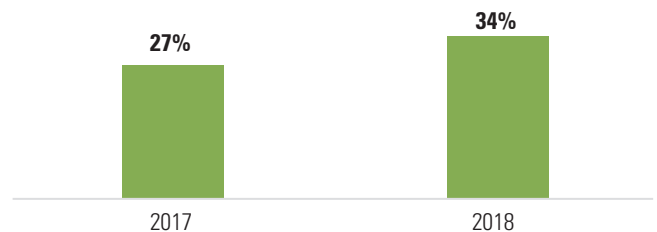


Figure 12

Around half of the GPs have implemented ESG best practices related to resource efficiency

Policies related to reducing consumption of water/energy and recycling are the most commonly adopted among responding GPs.

GPs have made significant progress over the last year in reviewing the UN Sustainable Development Goals within their portfolios: 24% of them report that they have done so this year compared with 16% of the GPs last year.

Implementation of ESG best practices

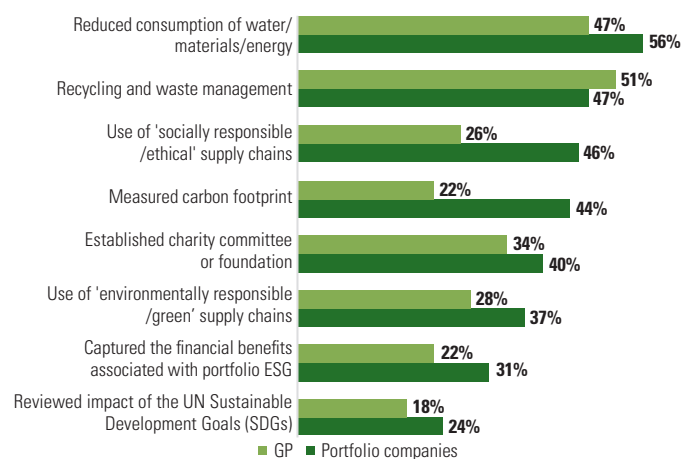


Figure 13

Almost half of the GPs have policies in place to address climate change issues

38% of responding GPs have policies to address climate change risks within their portfolio companies, and 44% within their own management companies.

Where climate change policies are in place

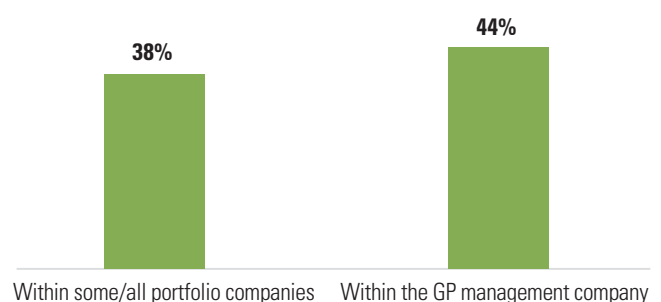


Figure 14

Reporting

Half of the GPs report to their investors on ESG

Some 51% of responding GPs reported to their investors on ESG in 2018. The majority of these GPs are head-quartered in Europe and are PRI signatories.

A quarter do not have a dedicated ESG report but include an ESG section in their fund reporting.

GP demands for portfolio company reporting are growing

Two thirds of responding GPs now require companies to report on ESG on a regular basis.

Almost all the GPs report material issues to their LPs at both portfolio and management company levels

88% of responding GPs would report any material events or incidents to their LPs.

GPs reporting to their investors on ESG

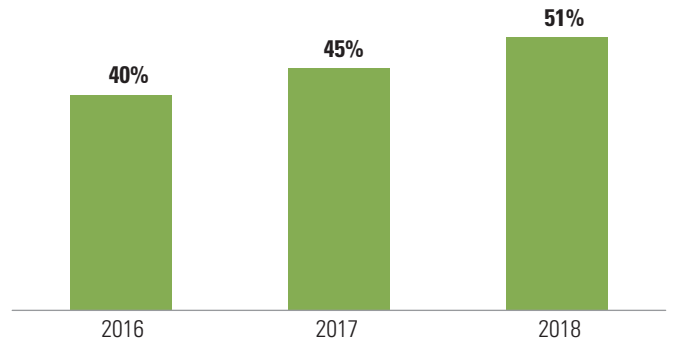


Figure 15

GPs requiring regular ESG reporting from their portfolio companies

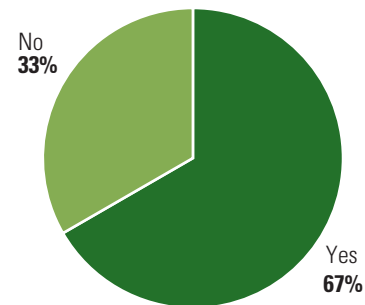


Figure 16

GPs reporting material incidents/events at the management company/or portfolio level to their LPs

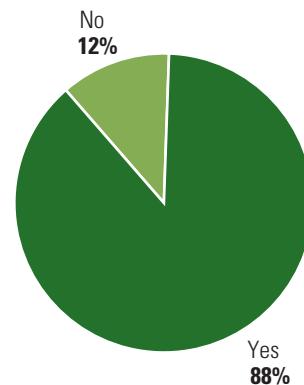


Figure 17

Governance

GPs' ownership structures remain stable

13% of responding GPs have changed their ownership structures in the last year. Of these, one fifth promoted staff members to equity partnerships.

GPs seeing changes to the ownership structure of their firm in the last twelve months

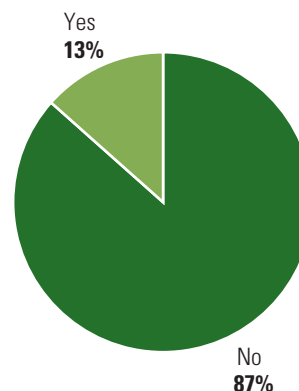


Figure 18

A majority of the GPs have non-executive directors

In line with last year's findings, over half of responding GPs have independent/outside members on their firm's board of directors.

GPs with independent oversight at board level

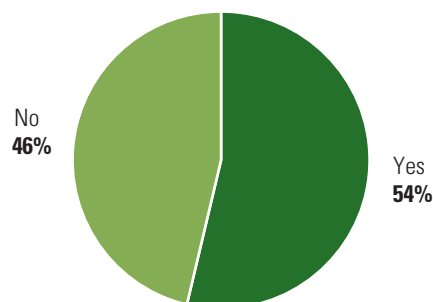


Figure 19

Non-executive directors have a strong voice at many of the GPs

At over half of responding GPs, independent directors are equal in number, or outnumber, executive directors on the management company's board.

Non-executive directors at board level

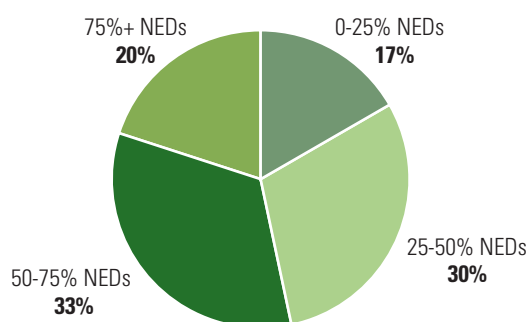


Figure 20

Governance

Female representation at partner level is by no means universal

Only three in five of responding GPs have female partners.

GP partnerships with female partners

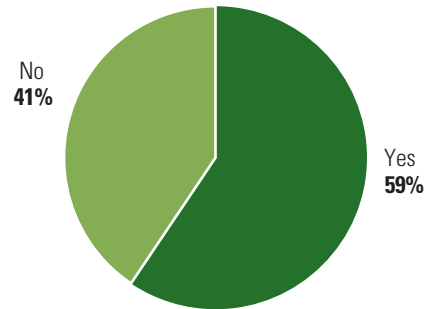


Figure 21

Only two in five of the GPs have women on their Investment Committees

39% of responding GPs have women on their Investment Committees. This year's finding is unchanged from the proportion reported last year.

GPs with women on their Investment Committees

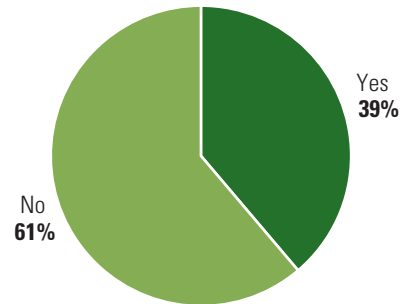


Figure 22

An increasing proportion of the GPs are focusing on cybersecurity

Over half of responding GPs have implemented cybersecurity policies within their own management companies, and 81% of them have portfolio companies where cybersecurity policies are in place.

GPs with policies addressing cyber risk and IT security

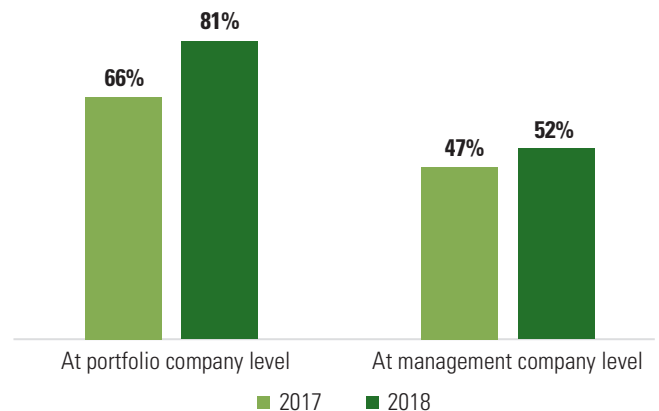


Figure 23

Governance

A majority of the GPs are implementing policies to address modern slavery/human trafficking

Three fifths of responding GPs are implementing policies to tackle modern slavery and human trafficking risks within their portfolios. Over half of them are implementing these policies at the management company level.

GPs addressing modern slavery/human trafficking risks

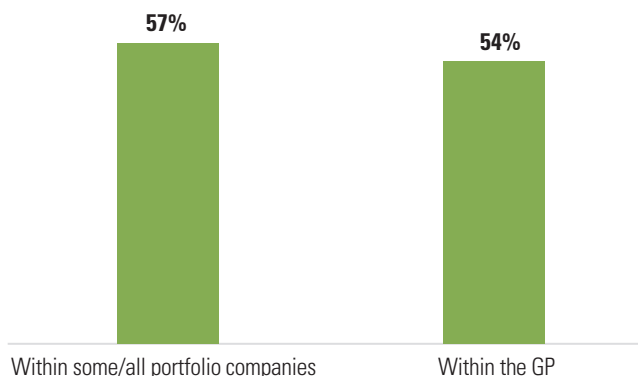


Figure 24

Litigation/regulatory investigations relating to ESG are relatively rare

Only one fifth of responding GPs reported any sort of ESG-related litigation or regulatory investigation at their own firms or at any of their portfolio companies in the last twelve months.

Incidence of ESG-related litigation/regulatory investigations

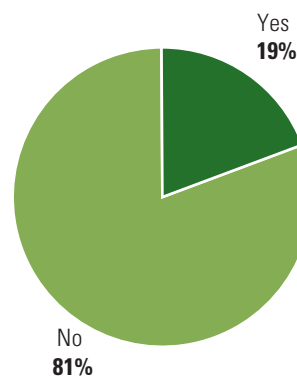


Figure 25



Respondent breakdown

- We sent our survey to all 121 GPs in CIP V, CIP VI and CIP VII, our active funds in 2017.
- The 71 GPs who responded represent 278 private equity funds, and those funds represent 58% of Collier funds' FMV at 31 December 2017.
- Half of the respondents are experienced private equity investors, having been investing for over 20 years, and the majority are independent GPs.
- Respondents are mainly headquartered in North America and Europe, although 9% are based in Asia, Africa, and Latin America.
- The comments and charts in this report refer only to the 71 GPs that responded.

GPs first started investing in private equity by year

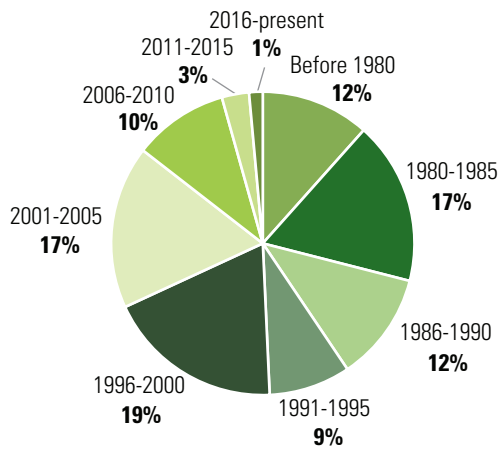


Figure 26

GP's total AUM

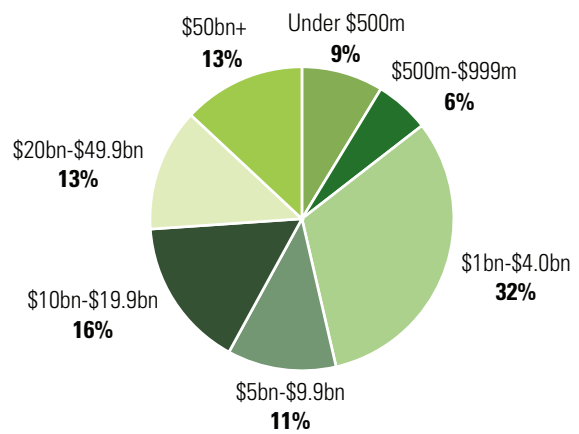


Figure 27

Location of GP's headquarters

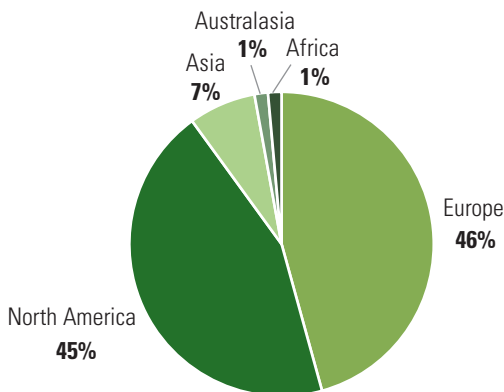


Figure 28

Type of firm

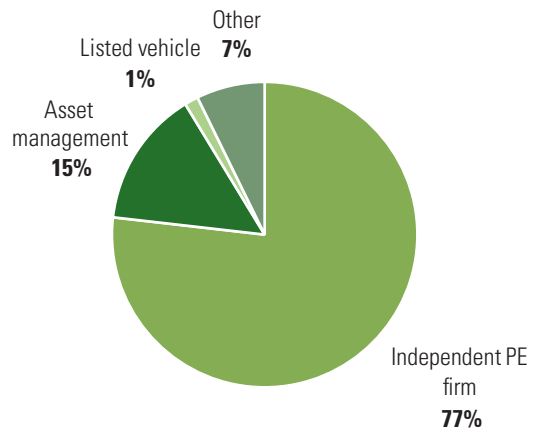


Figure 29

ESG at Collier Capital



Collier Capital supports the UN Sustainable Development Goals (SDGs)

Refreshed ESG Policy

We have refreshed our ESG Policy and aligned it with our approach to managing ESG at the firm and fund level – especially in how we engage with underlying GPs and their portfolio companies throughout the lifecycle of an investment. Our latest review included how to better take into consideration the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD) and the UN Sustainable Development Goals (SDGs).

An enhanced understanding of ESG risks and opportunities

Investment management process

For each new investment opportunity the Investment Team and ESG function consider

"Where we cannot mitigate ESG concerns we will not proceed with an investment"

ESG due diligence checklists and undertake bespoke analysis. A tailored ESG comment is provided in all recommendations to our Investment Committee. Since

2016, our Investment Committee has considered ESG analysis and commentary for over 450 investment opportunities.

Where we cannot mitigate ESG concerns we may decide not to proceed with an investment. Since 2016, there have been 16 opportunities declined on ESG grounds (where ESG was either the main concern or a contributing factor).

Fund level perspective

During 2016 and 2017, we began to assess which underlying GPs' portfolio companies were most likely to be exposed to climate-related and animal welfare risk. Although this is still work in progress, our analysis to date has shown that:

- Businesses in higher carbon sectors account for c.8% of all underlying portfolio companies in CIP V, VI and VII.
- Businesses exposed to the intensive farming sector account for c.6% of all underlying portfolio companies in CIP V, VI and VII.

The United Nation's Sustainable Development Goals (SDGs)

We are working on gaining a better understanding of what the United Nation's Sustainable Development Goals mean for our business, and we are therefore undertaking a top-down analysis of underlying portfolio company exposures against the SDGs.

Engagement with GPs

During the past year we have continued to work with the GPs of our funds' direct portfolios to better understand their approach to ESG. A key focus of our own ESG programme is helping to enhance our portfolio managers' ESG capabilities and/or to develop new ESG policies.

We do this by undertaking ESG site visits, calls, and written observations with portfolio companies, alongside GPs themselves.

ESG at Collier Capital

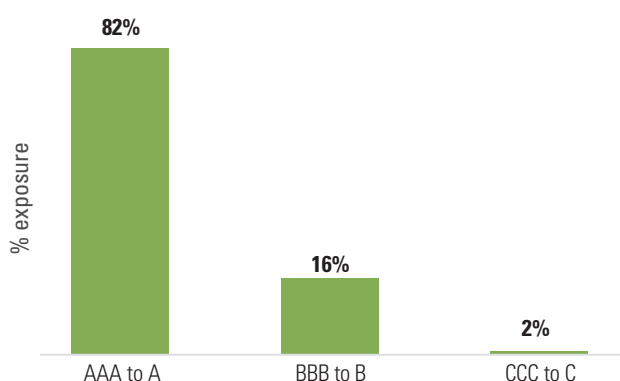
Since 2016, we have worked with 15 GPs to help develop or enhance ESG policies and practices.

We have additionally provided views to over 100 GPs and other stakeholders on ESG issues, including climate-related risk, ESG crisis management, cyber security, and ESG value creation.

Monitoring

We undertake an annual screening of our funds' underlying portfolio companies using the RepRisk database. Our review last year of c.2,000+ companies suggested that we have a well-diversified and relatively low-risk portfolio across CIP V, CIP VI and CIP VII (at least according to the RepRisk model).

RepRisk ESG Ratings (RRR) – portfolio companies



We believe this validates our risk-adjusted approach to ESG management.

Working with investors to promote responsible investment

As signatories of the UN-supported Principles for Responsible Investment (PRI), we were delighted to receive A+ for both the rated sections of our 2018 PRI Report. In the global firms category (AUM US\$10-30bn) Collier Capital was one of only two

firms (out of 16 in total) that received an A+ rating for the indirect private equity module. We were also one of the 38 (of 131 in total) firms reporting on the strategy and governance module to receive an A+.

We worked with the PRI on a number of initiatives during the past year, including work-streams relating to ESG and cybersecurity, human rights due diligence, ESG and the supply chain, ESG crisis management, and ESG reporting and measurement.

Collier Capital

We have established a Collier Capital Sustainability Team, comprising employee representatives from across the organisation. The Sustainability Team is represented on Collier's ESG Committee, and provides the Committee with visibility on how our ESG Policy is being implemented at an operational level across the firm. The Sustainability Team is responsible for our ESG footprint across our three offices in London, New York and Hong Kong, as well as for our relationships with suppliers. Much of this work relates to the consideration of sustainability and ESG factors in respect of the procurement of goods and services, and general building/facilities management. Examples include assisting compliance with ESOS (the UK's Energy Saving Opportunities Scheme), working to reduce Collier's carbon footprint, and compliance with the UK's Modern Slavery Act.

Diversity and inclusion

Our new Diversity & Inclusion group, which reports to our Executive Committee, is investigating a range of steps to enhance diversity and inclusivity at Collier.

We are close to organisations such as Level 20 (one of our Partners has volunteered as a mentor); host 'women in private equity' dinners; speak on diversity at conferences; and work with a number of business schools to promote private equity as a career choice.

ESG at Coller Capital

Like most firms in our asset class, we are not yet where we want to be, and this is work in progress for us.

Coller Capital gender split at July 2018	% female
Total employees	34%
Investment team	16%
Non-investment team	43%
Senior* roles in the investment team	8%
Senior* roles within the firm	6%

*Senior means Partner, Function Head and Principal.

Procurement and suppliers

We have adopted a formal procurement framework focusing on sound corporate governance. It considers a wide range of ESG factors, including pay and conditions, and risk of modern slavery. We are proud to confirm that our cleaning contractors in the UK, for example, are paid the London Living Wage. As part of our modern slavery obligations in British law we engaged with over 30 higher-risk suppliers globally in 2017, and received a 100% response.

We have a number of sustainability procurement policies, in such areas as sustainable food and animal welfare; cleaning chemicals; building energy efficiency; energy/carbon; and single-use plastic.





More information on ESG at Collier Capital can be found at:
www.colliercapital.com/investments/responsible-investment

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