Latour Capital

ESG POLICY

March 2024

LATOUR CAPITAL
OPERATIONAL EQUITY

CONTENT TABLE

ENVIRONMENTAL, SOCIAL, & GOVERNANCE (ESG) POLICY

Version 2024.03

Issue date: 15/05/2020

Update: 03/2024

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File location: P:\Société\3. Commun LCM\Secrétariat Général\Procédures

I. Context and introduction

(i) Distribution of the procedure

Distribution of procedures, both internally and externally, is the responsibility of the RCCI[1].

Operational employees write procedures classified as 'operational', assisted by Internal Control. The procedures are then validated by senior management, circulated to all employees and placed online in the internal server under P:\Société\3. Commun LCM\Secrétariat Général\Procédures

(ii) Revisions

This procedure is updated at the initiative of the managers, the secretary general and the Compliance and Internal Control Officer (RCCI).

All revisions must be approved by senior management. Revisions are referenced as such in the text of the procedure; the procedure reference number must bear the modification date and revision date. Previous versions bearing earlier reference numbers are retained electronically and archived.

(iii) Appendices

Description of the attachment	Ref.
Regulatory correspondence table	Appendix 1
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(iv) Purpose of the policy and scope of application

This 2023 updated version of Latour Capital's ESG policy aims to provide updates on Latour's ESG approach and developments in our team, within the regulatory context of SFDR's entry into force and the imminence of CSDR's application.

The table of correspondence in appendix indicates how elements presented in this policy ensure Latour Capital's compliance with the requirements of the European Union's Sustainable Finance Disclosure Regulation (SFDR) and with the "Article 29" of the French law on Energy and Climate and AMF's positions-recommendations.

This policy is applicable to the Latour Capital perimeter as a management company and to all active vehicles. This document is publicly available and communicated by Latour Capital to its stakeholders. Within the firm, this document is communicated to all employees and explained through dedicated training sessions. It is also presented during the onboarding of newcomers.

(v) Presentation of the approach

Latour Capital is an independent management company, active in the mid and large cap segment of the French private equity market. Its activity focuses on growth capital and Leveraged buy-out (LBOs) in companies from the industry, consumer services and digital sectors.

Since its inception just over ten years ago, Latour Capital has been supporting companies in their development and sustainable growth by **systematically integrating environmental, social, governance and human rights considerations in the investment process.**

This commitment to sustainability is formalized by Latour's involvement in several industry initiatives and organizations:

- Latour is a **signatory of the United Nations Principles for Responsible Investment** (UN PRI) since April 2012, stating:
    1. We take ESG issues into account in our investment analysis and decision-making processes.
    2. We are active shareholders and take ESG issues into account in our shareholder policies and practices.
    3. We require the entities in which we invest to publish appropriate information on ESG issues.
    4. We promote the acceptance and application of the principles among the asset management community.

[1]French Supervisory Authority (AMF) status for the Head of Compliance and Internal Control

5. We work together to increase our efficiency in implementing the principles.
6. We report individually on our activities and progress in implementing the principles.

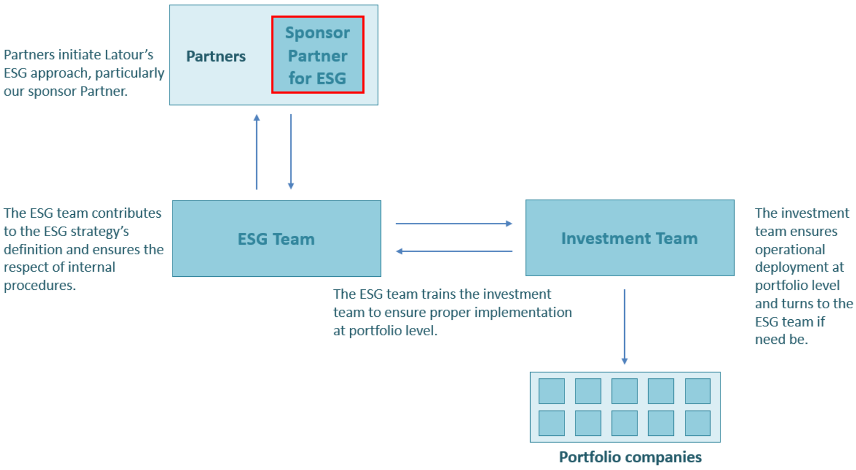
- Latour **joined the France Invest Charter of Private Equity Investors** in 2011, in which they are a signatory of the Charter of commitments for growth and parity.

II. Governance and dedicated resources

(i) CSR governance

- Latour Capital's **ESG approach is initiated and supported by the partnership globally** and is specifically **sponsored by Didier Gaudoux** (Partner). The **implementation of this approach is ensured by our ESG team** composed of the ESG Director and an ESG analyst. Additionally, our RCCI ensures compliance with internal procedures and regulations aspects. The **investment team oversees the policy's operational deployment** with portfolio companies.
- Not only does the ESG team **contribute to the definition and deployment of Latour Capital's ESG strategy** and internal procedures but also **trains and supports the investment team to ensure proper implementation at the portfolio company level**. Indeed, the investment team discusses ESG performance for each portfolio company quarterly at the Supervisory Board/Board of Directors. Meanwhile, the ESG teams provides a thorough ESG analysis of target companies and the establishment of strategic ESG policies and reporting tools within the portfolio companies.

Organigram of CSR Governance:



(iii) Internal training

- Latour is committed to providing its employees with **continuous training opportunities**. A sustainability training is provided every semester to the entire team, either internally led by the ESG team or with the help of external experts.
- Latour's ESG policy is presented to the whole team to ensure all processes are properly understood. Indeed, the **responsibility for compliance with ESG procedures is shared** by the investment team seeing they must ensure the topic of ESG is followed in the portfolio management and is discussed at least once every quarter at the Supervisory Board/Board of Director.

(iii) Remuneration policy

- Latour Capital has a compensation policy designed to **incentivize the team to achieve the company's sustainability objectives and ensure sustainability risks are considered** at every stage of our operations. The compensation mechanism is based on a dozen of quantitative and qualitative indicators across all portfolio companies to evaluate:

  - The investment team's compliance with all the management company's ESG processes, both during the investment phase and the holding phase.
  - The ESG performance of the management company.

- In addition to this compensation mechanism, all employees (except Partners) may collectively receive a **bonus to reward compliance with at least 50% of the company's defined ESG targets**. The amount of the bonus is defined on a yearly basis by the Partners, and the compliance assessment is completed jointly by the ESG and Finance Directors, they evaluate the ESG achievements through an ESG objectives analysis. Their assessment is then transmitted to the partners for validation and controlled independently by the RCCI.[2]

III. Engagement strategy

We pay particular attention to keeping our commitments, particularly on ESG matters, consistent with the economic profitability of our investments, by favoring sustainable approaches and strategies.

(i) Monitoring of the strategy, performance, risks and corporate governance

Latour's shareholder engagement strategy with its portfolio companies manifests itself in various ways:

- Investment **strategy decisions of engagement and disengagement in investment** processes must respect the sectoral exclusion policy[3].
- The **monitoring and analysis of extra-financial performance and risks** throughout the investment process.
- **Systematic external ESG due diligences** and preliminary analysis are carried out in the pre-investment phase.
- Concrete action plans are established in holding phase. Latour's ESG team plays an **active support function and monitoring role** by following strategic key performance indicators relevant to sustainable development and assisting in the deployment of an ESG strategy.
- The **creation of a portfolio wide 'ESG community'**, bringing managers together for an annual forum of discussions and trainings.
- Latour IV's extra-financial engagements are subject to yearly external controls at a minimum.

(ii) Dialogue with portfolio companies

- We maintain an **active and regular dialogue with the management teams** of each holding and communicate on economic and operational matters.
- We also promote better ESG practices within companies. Our involvement in terms of ESG practices means that, when investing, we **systematically conduct ESG due diligence**, after which we **draw up an ESG action plan** for the investment period.
- This action plan is **discussed and validated in agreement with the investee company's management**, and a **progress review** is carried out at least once a year by the Supervisory Board.
- Our **goal is to be able to measure**, at the time of sale, the progress made during the holding phase, and to have the future buyer see the value of such progress.

(iii) Exercise of Voting rights

- The **exercise of voting rights** is done by mail or on site for managed funds.
- The management company alone is authorized to represent the funds it manages. It acts in, all circumstances, on behalf of the unitholders and only exercises the voting rights attached to the securities (investments) included in the managed funds[4]. Latour Capital receives, by email or by post, the information and notices of meetings of companies. Where it does not have sufficient information Latour Capital shall request it from the company. The company systematically votes at the general meetings of unlisted companies. There is, therefore, no limit or specific shareholding threshold to trigger the exercise of voting rights.

[2] More details on Latour's remuneration policies can be found in the 2022 ESG report.
[3] Details of the policy can be found in the annex.
[4] Latour Capital only manages Alternative Investment Funds (According to Directive 2011/61/UE classification).

(iv) Cooperation with other stakeholders

- Since 2012, we have been a **signatory of the Principles for Responsible Investment (PRI)** and participate in collective initiatives to increase our effectiveness as a shareholder and responsible investor.
- We are also committed to being transparent about our practices and to participating in market actions to promote responsible investment.
- We are a **signatory of the France Invest's Charter of Investor Commitments for Growth**, which promotes the implementation of good practices in economic, labour, environmental and governance matters. We are also members of various France Invest working groups, including on decarbonization.

(v) Communication with relevant stakeholders

- Latour Capital Management may communicate with third parties, advisers and/or stakeholders to better assess where we stand among our peers and gain complementary perspectives.
- Through SFDR requirements, Latour ensures the **effective communication and reporting to shareholders and relevant stakeholders**. More generally since 2020, Latour Capital has ensured portfolio companies' ESG achievements are discussed at least every quarter during the Board of Directors and Supervisory Board, which ensures a regular reporting on extra-financial performance.
- Latour Capital regularly arranges conversations with independent experts to discuss certain subjects, topics or the operation of certain companies in greater depth.
- All the foregoing is done in full transparency and without disclosing confidential information.

IV. Sustainability risks and PAI indicators at the center of the investment cycle through SFDR

(i) General approach

ESG considerations are systematically integrated at every stage of the investment process from the identification of investment opportunities, the pre-investment phase, the ownership phase and the exit phase.

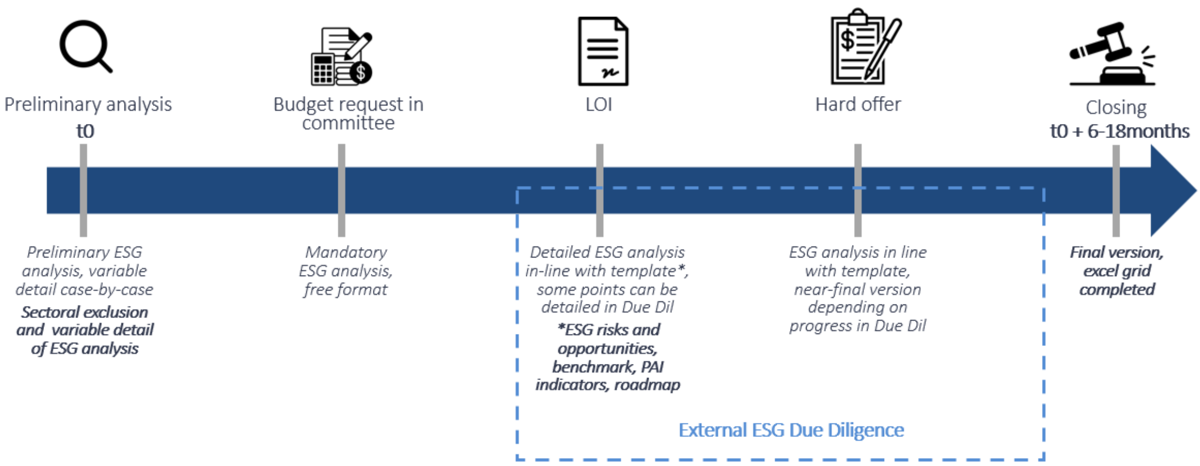
In the pre investment phase	During the holding phase	At the exit phase
Negative screening with the systematic application of **sectoral exclusion criteria**	Appointment of a **sustainability referent**	Systematic **external vendor ESG due diligence**
Pre-investment **preliminary analysis** (content detail can vary)	Creation of a **sustainability action plan** and corresponding **KPIs** to monitor (plan reviewed quarterly)	Summary of **sustainability performance** and progress on action plan included in exit memorandum
Systematic **external ESG due diligence**	Systematic **carbon footprint assessment** and establishment of **decarbonization trajectories** using SBTi targets	
Complete ESG analysis: including risk and opportunity analysis, benchmark, PAI reporting capacity, reporting on 3 specific Article 8 KPIs, roadmap	Creation of **sustainability-linked remuneration plans** for top management and **value sharing policies**[5]	
Final ESG analysis (including DD) included in investment memorandum	Systematic reporting on **PAI indicators**[6] and Sustainability Risks[7] , creation of **CSR reports**	

[5] Mandatory for LTC IV investments
[6] Principal Adverse Impacts are defined by the European regulation on Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) as "an environmental, social or governance event or situation that, if it occurs, could have a significant negative impact on the value of an investment.
[7] Sustainability Risks are defined by the European regulation on Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) as "risk of a significant negative impacts of investment decisions on sustainability factors (environmental, social and labour issues, human rights and anti-corruption)".

(ii) Pre-investment phase

- Prior to investment, Latour Capital examines and monitors the main negative impacts and sustainability risks of its investments. In line with its philosophy, Latour Capital ensures that the **target company is not subject to the sectoral exclusion list** and does not operate in any country subject to international sanctions or on the list of noncooperative countries and territories.
- Beyond the exclusion policy, a **preliminary ESG analysis** is systematically conducted in the pre-investment phase. This primary ESG analysis is included in the investment note and contains:
  - an assessment of the target company's **ESG risks and mitigating actions** (material and residual).
  - an assessment of the target company's **ESG opportunities** (including eligibility and alignment with the Taxonomy when relevant).
  - an assessment of the target company's **capacity to report on Principal Adverse Impact (PAI) indicators**.
  - an assessment of the target company's **performance on 3 KPIs** chosen as **priority areas for Latour IV**: **carbon footprint** assessment and reduction measures, **health and safety** in the workplace, **capital sharing mechanisms** with employees.
  - a **benchmark of ESG performance** to comparable competitors in their industry on the key ESG issues identified.
  - A summary including a **five-year roadmap** with key next steps.
- An **external ESG due diligence is systematically carried out** to strengthen Latour's understanding of ESG issues and cover any remaining grey areas and uncertainties.

Timeline of ESG analysis integration in pre-investment phase:



(iii) Holding phase

- Once an investment has been made, an **annual ESG action plan is developed** by the company's management team with our ESG team' guidance. Latour's operational support function can be summarized by its **four-pillar approach**:
  - Co-head the **mapping of sustainability risk** matrices.
  - Provide support for the **identification and selection of suppliers**.
  - Help in the establishment of **SBTi targets**.
  - Assist in the **search for subsidies**.
- Key measures also include:
  - the **appointment of an official sustainability referent** in portfolio companies, to become the point of contact.
  - the creation of **sustainability-linked remuneration plans** for top management and **value sharing policies**[8].

[8] Mandatory for LTV IV investments

- On the climate front, Latour also ensures that portfolio companies:
  - systematically undertake a **carbon footprint assessment**.
  - establish an **SBTi decarbonization plan with quantifiable target measures**[9]. It is worth noting this plan is reviewed quarterly and an assessment of progress is conducted annually considering the year's achievements.
- On the reporting front, Latour Capital sends out a **yearly questionnaire to all its portfolio companies** asking them to report on key sustainability performance indicators (including the 14 + 2 Principal Adverse Impact indicators). These indicators **inform Latour of the sustainability performance** of its investments, in particular on the **three KPIs it has chosen for its Article 8** (Latour IV) fund:
  - **Carbon footprint** assessment and reduction measures.
  - **Health & safety** in the workplace.
  - **Capital sharing** mechanisms with employees.

(iv) Exit phase

- At exit, a **systematic external due diligence** is carried out to gather all the relevant ESG information available at the time and **evaluate the progress of ESG performance** made during holding period.
- We focus on three key aspects:
  - Portfolio companies' **performance** versus comparable pairs.
  - Portfolio companies' **readiness to voluntary and regulatory developments**.
  - Portfolio companies' **eligibility/alignment with Taxonomy and Article 9 potential** (when relevant).

(v) Commitment by funds

- Latour's latest fund (Latour IV) classifies as an Article 8 according to SFDR, meaning it **aims to promote social and environmental characteristics** in its portfolio companies. The following priority areas were chosen to align with Latour Capital's desire to act as a responsible actor, meaning portfolio companies are expected to report systematically on these three KPIs:
  - **health and safety** in the workplace.
  - **value sharing** with employees.
  - **assessing and reducing carbon footprint**.
- Although Latour II and III funds are classified Article 6 under the SFDR, Latour has decided to implement the same procedures and due diligence as those required for a fund classified under Article 8 on a voluntary basis.

Our funds SFDR classifications

[9] A detailed explanation can be found in the carbon and biodiversity impact section.

V. Climate and biodiversity

(i) Incorporating sustainability risks and principal adverse impacts related to climate change and biodiversity in the investment cycle

Climate and biodiversity receive particular attention amidst other ESG considerations. In a similar fashion to our general ESG analysis, the **impact of investments on climate are systematically monitored and assessed** at every stage of the investment process. Meanwhile, the **analysis of impact on biodiversity follows more of a case-by-case approach**. At a minimum portfolio companies report on the risk front through biodiversity PAI indicators, however when the issue is more material for the industry, the analysis is pushed deeper in due diligence processes and during holding phase.

(ii) Specific approach to combating climate change

- In pre-investment phase:
    - **Activities directly contributing to global warming are excluded** in line with the sectoral exclusion policy (ie. companies operating in the fossil fuel sector).
    - A **climate risk analysis is systematically included in the pre-investment risk mapping** analysis, where physical risks, mitigating actions from portfolio company and residual risk are analyzed.
- In the holding phase:
    - **Systematic carbon assessments** are undertaken by portfolio companies for all three scopes.
    - Latour works alongside its portfolio companies (particularly industrial investments) to establish **decarbonization strategies** based on the recommendations and tools developed by the Science Based Target initiative (SBTi).
    - A **gap analysis** is then carried to identify supplementary measures to achieve these decarbonization targets.
- In line with Latour's reporting requirements as an article 8 fund, **carbon footprint reduction targets** constitute one of the key performance indicators portfolio companies **must report on quarterly**. These disclosures provide **discussion material for board meetings**, where the topic of climate risk is regularly addressed.
- At exit, a **systematic external due diligence** is carried out to shed light on the reductions of carbon footprint enabled by the measures Latour established with its portfolio companies.

(iii) Specific approach to biodiversity conservation

Taking into consideration the sparse nature of indicators for biodiversity, our **approach is conditional to the materiality of biodiversity issues**, as such our **biodiversity analysis follows a case-by-case rule**. When the issue is material, we analyze both the direct impact of an activity on biodiversity, as well as the value chain looking at the sourcing of raw materials. To date, we use this approach with one portfolio company for whom the issue is material. We continue to monitor global frameworks annually in the view to gradually extend our policy to other portfolio companies and down the line develop an approach as robust on biodiversity as for carbon.

- In pre-investment phase, the impact on biodiversity is addressed:
    - In our **ESG preliminary analysis, assessing the risks to biodiversity** using the Key Biodiversity Areas and World Heritage Outlook tools[10]
    - In **external due diligences when the issue is material** (mainly industrial companies with sites in risky environments). This analysis is carried out both in terms of risk associated with the potential investment: proximity to protected natural areas, soil pollution/contamination, risks associated to sourcing of raw materials, but also in terms of opportunity, identifying products and services that promote biodiversity protection.
- In the holding phase, conditional to the issue being material, Latour monitors and encourages the inclusion of **biodiversity-related indicators** through their annual ESG questionnaire:
    - key **biodiversity areas of exposure**
    - formalization of **biodiversity preservation policies**
    - **negative impacts and pressures** in the area
    - **measures** to prevent and mitigate them.
- On the reporting front, impact on biodiversity is **included in the PAI indicator list**, as such all portfolio companies are required to report on the risks associated with their activities for biodiversity.

[10] http://www.keybiodiversityareas.org/sites/search and https://worldheritageoutlook.iucn.org/

VI. Taxonomy

The EU Taxonomy recognizes as "environmentally sustainable" an economic activity that makes a substantial contribution to at least one the six environmental objectives while not significantly harming any of the remaining ones and complying with minimum social safeguards. The six environmental objectives are as follows:

- Climate change mitigation
- Climate change adaptation
- Sustainable and protection of water and marine resources
- Transition to a circular economy
- Pollution prevention and control
- Protection and restoration of biodiversity and ecosystems.

(i) Our approach

In the context of Regulation (EU)2020/852 of the European Parliament and Council of 18 June 2020 on the establishment of a framework for sustainable investment ('Taxonomy Regulation') and corresponding Regulatory Technical Standard: RTS_CELEX_32022R1288_FR_TXT, Latour has developed a case-by-case approach, integrating this analysis in buyer and vendor due diligences, as well as the analysis of ESG opportunities when applicable.

(ii) Tools and results

- A pre-analysis on **Taxonomy eligibility and alignment** is carried out in a **non-systematic** manner**.**
- We are looking to develop a deeper and systematic analysis on this front, which will assess **alignment through the lens of three KPIS**:
    - Share of **revenue**
    - Share of operating costs (**OPEX**)
    - Share of capital expenditure costs (**CAPEX**)
- According to the **Taxonomy regulation** Article 8 reporting obligations, we will have to report on Taxonomy alignment for our **latest Latour IV** fund **starting in 2024**.

Appendix

1. Regulatory correspondence table

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Art. 5: Transparency of remuneration policies in relation to the integration of sustainability risks	II – iii – P.5-6
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1. La position-recommandation AMF DOC – 2020-03	P. 5-9
2. Les instructions 2011-19, 2011-20, 2011-21, 2011-22 et 2011-23	P. 6-9

2. CSR Exclusion Table

Activities	Definition	Tolerance threshold
Arms industry	Companies involved in the production or distribution of weapons or products linked to weaponry equipment. Specifically biological weapons, chemical weapons, cluster munitions, depleted uranium, white phosphorus and nuclear weapons, and/or in the production of such weapons and/or weapons systems.	
Termination of human life	Companies involved in the production or trade of any product, or any service, promoting the termination of human life (meaning euthanasia through lethal injections, or through other similar services/products).	Under 50% revenue
Tobacco	Companies which derive their income from the manufacture and/or production of tobacco or tobacco products.	
Pornography	Companies involved in the production, distribution, rental, franchising or sale of pornography, prostitution, or similar activities	
Gambling	Companies which derive their revenues from the operation of gambling or gambling-related businesses, or from the production of or trade in gambling-related products.	Under 5% revenue
Drugs	Companies involved in the illegal production and/or sale of drugs.	
Alcoholic products	Companies principally involved in the production or sale of alcoholic beverages; manufacture alcoholic beverages with an alcohol content of more than fifteen percent (15%).	
Speculation on food	Companies which, at the time of the Investment, derive their revenues mainly from speculation in food commodities.	
Trade of illegal products	Companies involved in the production or trade of any product or activity that is deemed illegal in the jurisdiction in which the relevant Portfolio Company is located pursuant to applicable laws or regulations or which contravenes any applicable international conventions, agreements or bans (to the extent legally binding on such Portfolio Company);	
Financing of anti-social force	Involved in the financing of anti-social force; individuals, entities or organizations involved with terrorism;	
Coal industries	Companies deriving ten percent (10%) or more of their revenues from mining coal activities, including, coal mining and/or power generation, mining of coal, production of energy and/or electricity from coal, except where the investments concerned relate to an activity linked to reducing the impact of carbon on climate change. Companies which derive more than twenty percent (20%) of their revenues from the construction (incl. expansion and modernization) of coal-fired power plants; public utilities operating in the power generation sector that own or operate coal-fired power plants and whose coal-fired power generation represents at least thirty percent (30%) of their total installed power generation capacity.	Under 10% of revenue from coal activities Under 20% turnover construction coal fired plants Coal-fired power generation under 30% total installed power generation power capacity
Conventional and unconventional fossil fuels (shale gas, shale oil and oil sands)	Companies which derive share of their revenues from the exploration and/or shale oil and gas; are involved in oil and gas exploration projects; are involved in pipelines transporting a significant volume of sands and/or shale oil and gas, as well as LNG export terminals fueled by a significant volume of shale gas.	Under 50% revenue

Nuclear	Companies which directly operate nuclear power plants.	
Hydrocarbons	Companies whose principal business is the distribution or extraction of hydrocarbons from oil sands, shale rock, or within the Arctic Circle	
Palm oil and wood pulp	Directly involved upstream or downstream in the extraction, distribution or production of palm oil and wood pulp.	50% revenue
GMOs	Companies whose principal business is the production, sale or development of genetically modified organisms for use in agriculture and which are intended for human consumption.	
Wetlands, endangered species, and labor abuses	Companies with a business activity which negatively impacts wetlands, violates conventions on endangered species, and involves the use of child labor or modern slavery	
Cloning	Companies directly involved in human cloning	
Cryptocurrencies	Companies whose principal business is trading or mining cryptocurrencies	