

European regulations and the IBS FA Private Equity Fund FGR



The IBS Five Arrows Private Equity Fund is

This fund is classified as an article 8 fund according to European Sustainability regulations. This means that the fund promotes environmental and social characteristics. In this document, we explain how this fund complies.

22th of February

SFDR Article 8 (Sub-)Funds – based on Articles 23 to 36 SFDR Delegated Regulation (EU) 2022/1288
The present working document may be subject to further regulatory changes.



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Summary

IBS Fund Management B.V. (hereinafter referred to as “IBS”, IBS FM” and / or “we”) seeks to invest in funds that are part of the solution to climate change. As we have many funds with different strategies in various sectors, we do not have *specific* social or environmental objectives. Instead, in order to achieve this overall goal, we aim to invest in funds that are led by fund managers that act as responsible investors. We only include funds and their underlying investments in the Private Markets platform that have been assessed and comply with minimum social and environmental safeguards, including those concerning labour rights, human rights, anti-corruption and environmental protection. Furthermore, we aim to invest in funds that are aligned with the United Nations Sustainable Development Goals (“UN SDGs”). Fund managers that are involved in significant controversies or have violated any of the UN Global Compact principles are excluded from the fund. “Controversial activities” are defined as any business activity over which the morality is heavily debated among international governing bodies. Such activities include indiscriminate weapons, such as biological and chemical weapons, or tobacco and gambling.

Our current sustainability policy is based on eight points. These are a combination of specific preferences and requirements that IBS requests their underlying managers to meet. The preferences and requirements apply to funds from 2019 to date. These eight points are as follows:

1. The selected fund manager has a specific sustainability fund policy.
2. The fund manager has signed the UNPRI or equivalent.
3. The underlying fund has a specific sustainability exclusion list which are best in class and follow UNPRI.
4. Sustainability is included in the consideration of the business case in the underlying deals.
5. The manager motivates to operate and invest as sustainable as possible. They can make improvements as a major shareholder where possible.
6. The fund manager will report on relevant ESG indicators. The fund manager will also issue an annual ESG report.
7. IBS has a preference to invest in funds classified as Article 8 or 9. IBS will not invest Article 6 funds, only if IBS believes the ESG policy is adequate enough that an Article 6 fund classification is sufficient.
8. IBS monitors the manager on their sustainability policy and will also proactively engage them on this where necessary.

A variety of data sources are used to assess the ESG performance of the Private Markets platform. These include self-disclosures from fund managers (including one-on-one meetings, annual reports, company presentations, website disclosures and proxy statements) and Clarity AI (CO₂, comparisons with benchmarks and/or additional indicators).

No sustainable investment objective

This financial product promotes environmental or social characteristics but does not have sustainable investments as its objective.

Environmental or social characteristics of the financial product

We seek to invest in funds that are part of the solution to climate change. As we have many funds with different strategies in various sectors, we do not have *specific* social or environmental objectives. Instead, in order to achieve this overall goal, we aim to invest in funds that are led by fund managers that act as responsible investors. We only include funds and their underlying investments in the Private Markets platform that have been assessed comply with minimum social and environmental safeguards, including those concerning labour rights, human rights, anti-corruption and environmental protection such as protection of biodiversity. Furthermore, we aim to invest in funds that are aligned with the United Nations Sustainable Development Goals (“UN SDGs”). Fund managers that are involved in significant controversies or have violated any of the UN Global Compact principles are excluded from the fund. “Controversial activities” are defined as any business activity over which the morality is heavily debated among international governing bodies. Such activities include indiscriminate weapons, such as biological and chemical weapons, or tobacco and gambling.

Investment strategy

As we are a fund of funds, we will briefly describe the strategy of IBS and then briefly describe the strategy of the underlying funds.

IBS

We aim to raise two funds annually, of which 50% are private equity, 25% infrastructure and 25% private debt. Through this strategy, we offer our clients the opportunity to build a diversified portfolio. Within these asset classes, we choose different sub-strategies that we consider appropriate for the macro environment at the time. The investment process focuses on identifying what we consider high-quality funds that enables fund managers to outperform. Our in-depth investment approach focuses on seven key investment characteristics:

1. An addressable market large enough to allocate capital properly
2. Clear and articulate investment strategy
3. A large sourcing network resulting in unique deal flow
4. Strong pipeline for initial fund investments
5. Successful business cases that reflect the fund manager skills
6. Success with strategy in previous fund(s)
7. Sustainability included in investment policy

Furthermore, the current sustainability policy is based on eight points. These are a combination of specific preferences and requirements that IBS requests their underlying managers to meet. The preferences and requirements apply to funds from 2019 to date. These eight points are as follows:

1. The selected fund manager has a specific sustainability fund policy.
2. The fund manager has signed the UNPRI or equivalent.
3. The underlying fund has a specific sustainability exclusion list which are best in class and follow UNPRI.
4. Sustainability is included in the consideration of the business case in the underlying deals.

5. The manager motivates to operate and invest as sustainable as possible. They can make improvements as a major shareholder where possible.
6. The fund manager will report on relevant ESG indicators. The fund manager will also issue an annual ESG report.
7. IBS has a preference to invest in funds classified as Article 8 or 9. IBS will not invest Article 6 funds, only if IBS believes the ESG policy is adequate enough that an Article 6 fund classification is sufficient.
8. IBS monitors the manager on their sustainability policy and will also proactively engage them on this where necessary.

We believe that environmental, social and governance (ESG) factors can influence a company's intrinsic value. A key factor in determining a company's intrinsic value is its long-term growth potential, which is driven by its sustainable competitive advantage. We believe a company can increase its competitive advantage if it considers its long-term impact on the environment and society. It allows a company to better attract and retain key stakeholders, whilst reducing monetary, regulatory and reputational risks. Good governance practices and a strong awareness of ESG factors demonstrates the desire of management teams to mitigate these risks. We assess 'good governance practices' of investee companies as part of our ESG analysis. Companies are assessed against a variety of factors including board composition; board, executive and employee remuneration relative to peers; IT governance; voting right structure and governance policies.

Rothschild

During the pre-investment stage, the key objective from an ESG perspective is to identify, assess and address the responsible investment performance of a GP and the ESG risks of a potential transaction. This process consists out of five steps and are mentioned below:

1. Assessing the Responsible Investment performance of the GP: An ESG score will be assigned ahead of Preliminary Investment Committee to each GP based on a proprietary scoring methodology that will reflect our expectations in terms of responsible investment practices. Thresholds will be set to limit the maximum amount of AUM within the lowest range of scores. The scoring tool will be completed by our investment teams based on the ESG information and documentation provided by the GP. Each GP will also be associated to a specific profile based on criteria, including the existence of an ESG dedicated team, our position and level of influence at the pre- and post-investment phase and the AUM of the GP.

2. Excluding very-high risk countries and sectors: the investment teams will begin by comparing the exclusion policies of the GP and their existing portfolio with the FASO VI exclusion policies:

- Exclusion of investments in companies that design and produce **controversial weapons** such as cluster munitions and/or land mines in accordance with the Oslo Treaty (2008) and the Ottawa Convention (1997).
- Exclusion of investments in companies which, to the group's knowledge and as evidenced by official credible third-party sources, may breach **fundamental principles** due to gross corporate misconduct such as severe infringements of human rights, substantial environmental damage or those linked with corruption and bribery activities.
- Exclusion of investments in companies involved directly in **thermal coal production** as well as exploration, mining & processing and power generation using thermal coal (above defined thresholds).
- Exclusion of investments in companies that derive a material part of their revenue from the production, trade and/or distribution of:
 - o Tobacco
 - o Prostitution
 - o pornographic content (including rental or licensing)

- Exclusion of investments in companies that derive a material part of their revenue from the production of:
 - o Oil
- Exclusion of investments in very-high risk countries as defined by the Rothschild & Co group policies

3. Screening for red-flags in the portfolio: A reputational risks screening of the GP's portfolio will be conducted (using an external database and ESG documents available). If a red flag is raised, an external due diligence may be performed to further assess the financial and extra-financial risk related to the investment.

4. The conclusions of the previous assessments will be systematically included in a dedicated section of the **Investment Committee memorandums** and will be part of the Investment Committee discussion.

5. If the Investment Committee goes forward with the deal, a best effort will be made to include a **sustainability clause within the side letter** specifying our exclusion list and the requirements for the GP to complete our ESG questionnaire every year.

Proportion of investments

The SFDR requires financial market participants to distinguish between direct exposures in investee entities and all other types of exposure to those entities. The IBS Private equity Growth Fund only includes proportionate indirect investments in investee companies as well as direct investments through co-investments. The Fund does not include any other indirect investments, such as derivatives.

Monitoring of environmental or social characteristics

The fund managers will capture the ESG information on a quarterly basis and will report on a yearly basis. Subsequently, the managers that meet our selection criteria are assessed against environmental and social indicators at least annually under our ESG due diligence process. The ESG analysis (see section "investment strategy") is carried out in-house by the IBS Private Markets team. This analysis involves checking the PE managers' ESG data against a relevant benchmark. While we do utilise external data providers to support our analysis, we do not depend on any third-party. This is supplemented by periodic monitoring including one-on-one meetings with management, press releases and news alerts. We also carry out a yearly ESG survey including the mandatory KPI's for an article 8 classification. If we believe significant ESG risks are apparent, we flag these concerns with management, provide guidance and encourage them to improve performance. If a co-investment opportunity is offered and an ESG risk is present, it may be a reason for us not to co-invest.

Methodologies for environmental or social characteristics

We analyse a variety of sustainability indicators in our ESG template. These indicators are based on the KPI's that fund managers are required to obtain when classifying their funds as an Article 8 fund, also known as the Principal Adverse Impact ("PAI") indicators. The PAI indicators consist out of fourteen mandatory indicators split between three themes: environmental, social and governance. Examples of these KPI's are GHG emissions, emissions to water, board gender diversity and energy consumption. Once we receive the required information on these indicators from the underlying manager, we cross check these indicators with indices suitable to the KPI's. If we

believe significant ESG risks are apparent, we flag these concerns with management, provide guidance and encourage them to improve performance.

Data sources and processing

A key limitation of Private Markets centres around the lack of available ESG data among our chosen asset class. Gathering data on non-listed companies can be challenging as smaller/ non-listed companies often disclose limited ESG data. Third-party data providers also frequently lack adequate levels of ESG coverage on non-listed companies, which means we are unable to rely solely on such providers. Resulting in a lack of data availability, insufficient sustainability data from public sources of specific companies and lack consistency of information from managers.

We use the following data sources to assess the ESG performance of our fund:

- Direct information from investee sources including one-on-one meetings, annual reports, company presentations, website disclosures, proxy statements
- Clarity AI

We cross reference data sources to ensure data quality. This entails checking the supplied data from PE managers for any outliers by cross checking the data with suitable indices. These indices will be extracted from Clarity AI.

Clarity AI is a sustainability technology platform designed to deliver environmental and social insights to investors, companies, governments and consumers. The platform uses machine learning and big data with the aim of contributing toward a socially efficient capital allocation providing decision-makers with the tools to understand and optimize social and environmental impacts, enabling investors to assess the sustainability of all societal stakeholders.

The main topics on which IBS gathers information includes Greenhouse Gas Emissions, Biodiversity, Water, Waste, Social and Employee matters. These six indicators have a combined total of fourteen subcategories. These topics will also be checked against a relevant benchmark. If we believe significant ESG risks are apparent, we flag these concerns with management, provide guidance and encourage them to improve performance.

Limitations to methodologies and data

A key limitation of Private Markets centres around the lack of available ESG data among our chosen asset class. Gathering data on non-listed companies can be challenging as smaller/ non-listed companies often disclose little ESG data. Third-party data providers also frequently lack adequate levels of ESG coverage on non-listed companies, which means we are unable to rely solely on such providers. Furthermore, due to variety of sectors investee companies are active in, some companies in different sectors may have different interpretations of metrics. Subsequently, aligning on the industry accepted metric for specific KPIs limits confusion. This underlines the importance of our engagement process. Engaging with our fund managers is vital as it allows us to gather information and increase the importance of ESG in our funds. Our ESG process enables us to promote continuous improvement by providing guidance and encouraging more openness and transparency.

Due diligence

Sustainability risks are considered under our ESG due diligence process. ESG due diligence is an integral part of our business operations and is fully integrated into the IBS Private Markets company selection process. Before we make an investment decision, the private market teams conducts ESG research on the prospective investment. This research is based on the eight points described in the investment strategy section. The fund managers and

investee companies (through co-investments) that are included in the fund are reassessed annually. The due diligence process includes the following stages: screening, proprietary ESG analysis and engagement.

During the screening phase, we verify that the co-investment does not operate in a controversial sector (e.g. midstream oil and gas), that the co-investment is consistent with the RI principle, and check what the fund manager's track record is. Moreover, during the screening phase for the selection of our fund managers, we check whether the fund managers' timelines match with our envisaged fundraising. Next, we check whether the fund manager has the preferred Article 8 SFDR rating or has a good ESG policy. Finally, we check in which sectors the fund managers operate and what their track record is.

The ESG analysis for a co-investment business centres partly around the data supplied by the fund manager and partly around the publicly available data. With that information we check for industry averages and see whether those metrics are acceptable. For fund managers we use the eight points described in the investment strategy.

The engagement for co-investment business will mostly revolve around the fund manager whom we invest with. As we do a small investment via the fund manager, we have limited influence on the business. We can engage the fund manager to implement improvements when ESG risks are apparent. For fund managers, we have periodic meetings onsite and online with the managers. If we believe significant ESG risks are apparent, we flag these concerns with the management, provide guidance and encourage them to improve performance.

Engagement policies

As long-term investors, we believe in active ownership. Our focus is on building long-term relationships with our chosen fund managers by engaging on material issues with the relevant personnel. We regularly engage with the management teams of our funds on their operations, including ESG factors. Engagement topics are determined by our bottom-up analysis and are prioritised in terms of sustainability risk and impact. Engagement is conducted through one-on-one meetings and supplemented with conference calls, emails and, where possible, site visits. Our engagement process can be broken down into three key stages: initial due diligence and engagement, in-depth engagement and continued monitoring and reporting.

If we believe significant ESG risks are uncovered, we raise these concerns with management, provide advice and encourage them to improve performance. If there is no positive outcome, divestment may be considered in the worst case.

Engagement timelines can vary, but typically we meet with fund managers semi-annually. If ESG risks come to light, we monitor developments closely and meet more frequently to discuss them.

Designated reference benchmark

The MSCI World Small Cap Index is used as a benchmark to compare ESG data, which is subtracted from Clarity AI. The MSCI World Small Cap Index consists of 4,434 participants in 23 developed markets (DM). This broad coverage provides sector averages, which we can use to compare against the ESG data provided.