

2024

# MONTEFIORE INVESTMENT Stewardship Policy



*Montefiore*  
INVESTMENT

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## 01

# INTRODUCTION

Montefiore Investment ("Montefiore") is a private equity firm that primarily acts as a majority investor in French small and medium-sized enterprises ("SMEs") and mid-caps operating in the service sector, specializing in leveraged buyouts ("LBOs") and growth capital transactions. This policy covers all funds managed by Montefiore.

Montefiore is committed to responsible investment and stewardship to create long-term value for our clients and portfolio companies. We believe that Environmental, Social, and Governance ("ESG") factors are integral to investment analysis, decision-making processes, and ownership. This Stewardship Policy outlines Montefiore's approach to stewardship, incorporating guidance from the Principles for Responsible Investment ("PRI"), industry best practices, relevant elements from our Sustainability Policy and our Voting Policy ("Politique de Vote d'Engagement Actionnarial").

## 02

# DEFINITIONS

- **Stewardship (or Active Ownership):** The use of influence (engagement and voting, at company level or at capital markets level) by investors to maximize long-term value, including the value of economic, social, and environmental assets, on which returns, clients' and beneficiaries' interest depend.
- **ESG Incorporation:** ESG issues can be incorporated when building a portfolio using a combination of three approaches: integration (including ESG issues in investment analysis and decision), screening (applying filters) and thematic (seeking to combine attractive risk/return profiles with an intention to contribute to a specific environmental or social outcome).
- **Responsible Investment:** Responsible investment involves considering ESG issues when making investment decisions and influencing companies. It involves both ESG incorporation and stewardship including each feeding back into the other.
- **Engagement:** The active dialogue and interactions between investors and portfolio companies to encourage sustainable practices and improve ESG performance.
- **Voting:** Exercising voting rights on management/shareholder resolutions (and submitting resolutions), to formally express approval (or disapproval) on relevant matters.
- **Escalation:** Approaches an investor takes if initial stewardship efforts are unsuccessful at achieving its objectives over a given period.

## 03

## OUR APPROACH

Montefiore's stewardship approach is guided by responsibility, ethics, and human values. We believe that a company's commitment to sustainability is a key indicator of its long-term potential and resilience. We believe that active stewardship, through engagement and voting, enhances long-term value and mitigates risks. Our approach is characterized by the following key elements:

- **Integration of ESG objectives and criteria:** We integrate ESG objectives and criteria into our investment analysis and decision-making processes to ensure that our investments are aligned with sustainable practices. This involves assessing the ESG performance of potential and current investees and considering how these factors may impact their long-term financial health.
- **Active Ownership:** We primarily and actively engage with investees to promote sustainable practices, improve governance, and enhance long-term value. We aim to establish a collaborative relationship with portfolio companies, working together to identify and address ESG risks and opportunities. This includes regular dialogue with company management, training and capacity building, participation in shareholder meetings, and exercising our voting rights in a manner that supports our stewardship objectives.
- **Collaborative Engagement:** We also collaborate with other investors and stakeholders to amplify our influence and drive positive change in the market. By joining forces with like-minded investors, we can leverage collective resources and expertise to address systemic issues that individual investors may find challenging to tackle alone.
- **Transparency and Accountability:** We are committed to being transparent about our stewardship activities and accountable to our clients and stakeholders. This involves regular reporting on our engagement efforts, voting activities, and the outcomes of our stewardship initiatives.
- **Continuous Improvement:** We continuously review and improve our stewardship practices to ensure they remain effective and aligned with best practices. This includes staying informed about emerging trends and developments in responsible investment and incorporating new insights into our approach.

## 04

## STEWARDSHIP TOOLS

### A. Prioritisation & Stewardship Objectives

Montefiore prioritizes engagement based on the materiality of ESG issues, their potential impact on long-term value creation, our ability to influence positive change, as well as our own ESG Roadmap 2030. We consider factors such as:



- **Materiality Assessment:** We conduct materiality assessments to identify the most significant ESG issues for each portfolio company and at total portfolio level, considering industry-specific factors, regulatory requirements, stakeholder concerns.
- **Financial and Operational Impact:** We assess the potential impact of ESG issues on a company's financial performance, operational efficiency, and risk profile, when deemed material.
- **Clients and Portfolio Companies:** **We consider the ESG priorities of our clients and portfolio companies, ensuring that our stewardship activities align with their long-term interests.**
- **Montefiore's ESG Roadmap 2030:** We have set a set a series of sustainability goals to be met by 2030. Our commitments apply to both portfolio companies and Montefiore. Aligned with the UN's Sustainable Development Goals 5, 8, and 13, they encompass 4 key areas: employment, gender equality, value sharing, and climate action.
- **Sustainability Outcomes:** We consider systemic sustainability issues. We seek to align intended engagement outcomes with global sustainability goals and thresholds that are reflected in internationally recognized frameworks.

## B. Pre-Investment Phase

The pre-investment phase presents an opportunity for Montefiore to establish expectations regarding our collaboration with the future portfolio company on ESG initiatives. This can be accomplished through various avenues, such as the data requested, discussions conducted during due diligence, or more formally through the inclusion of relevant provisions in the investment agreement during negotiations.

- **Sustainability Checklist:** Montefiore assesses companies' sustainability risks but may invest in those with lower ESG performance if they are open to improvement.
- **Due Diligence and Analysis with Priority Actions:** Montefiore systematically conducts internal or external ESG due diligence to assess sustainability risks and identify improvement areas. If ESG risks are high, the necessary investments are quantified and integrated into the analysis.
- **Integration of ESG in the Investment Decision:** The results of the checklist and due diligence are incorporated into investment memos and presented to the investment committee. Montefiore may decide not to invest due to sustainability concerns, considering the materiality of the issues, the company's ESG maturity, and management's willingness to improve.
- **Shareholder Agreement:** We systematically insert ESG clauses in shareholder agreements related to the adoption of a sustainability roadmap, the assessment of carbon footprint across scopes 1, 2, and 3, and the development of a climate strategy within 12 months, as well as the obligation to report annually on ESG KPIs, and address ESG at the board.
- **Board Representation:** We systematically seek board representation in our portfolio companies to actively participate in decision-making and advocate for sustainable practices (as majority or minority investor).

## C. Holding Period

As early as possible during the holding period, Montefiore employs a range of engagement tools to influence portfolio companies and promote sustainable practices. These tools include, for all investments, notwithstanding the degree of influence exerted (share of ownership, with or without board seat, role of a lead sponsor):

- **Onboarding:** Montefiore gathers ESG data to benchmark current performance and identifies areas for improvement. An initial ESG roadmap is formalized, and we educate senior management about ESG expectations if not already covered during due diligence. We systematically ask portfolio accountable for the ESG roadmap.
- **Direct Dialogue:** We engage in regular dialogue during monthly calls with investment teams (when relevant), during boards with company management and board members (at least once a year) to discuss ESG performance, goals, and strategies, and other relevant meetings (ad-hoc meetings, site visits, conferences, strategic support, ...).
- **ESG Roadmap:** We provide feedback and recommendations to investees to develop or improve their ESG roadmap and encourage continuous improvement. When relevant, operational due diligences can be executed. We share insights and recommendations with portfolio companies to help them enhance their ESG practices and execute their ESG roadmap.
- **Annual Review of Progress:** We conduct an annual review of portfolio companies' ESG performance through a comprehensive questionnaire, collecting updated data on various metrics and assessing the progress of their ESG action plans.
- **Training and Capacity Building:** We provide training, resources, tools, practical levers, and list of suppliers to portfolio companies to enhance their ESG knowledge and capabilities.
- **Voting:** We exercise our voting rights to support resolutions that promote sustainable business practices and oppose those that pose ESG risks. Procedure for exercising voting rights is described in our Voting Policy.
- **Joint initiatives with other investors:** We collaborate with other investors to file shareholder resolutions and engage with portfolio companies on shared ESG concerns. We strive to develop positive working relationship with lead investors or co-investors/lenders. We systematically align and coordinate with the lead investor in the first instance and/or co-investors/lenders.

## D. Exit Phase

- **Dataroom & VDD:** We share sustainability progress, ESG roadmap and key performance indicators in datarooms.
- **Sharing Value:** Montefiore shares part of the economic value created with employees of the portfolio companies when possible and relevant. It is part of our 2030 ESG Roadmap.

## D. Role of Sustainability Committee and Other Teams

- **Investment Team:** The active involvement and ESG expertise of our investment team are essential to Montefiore's stewardship approach. Investment team members receive regular training and induction on ESG matters and actively engage with portfolio companies through various channels, including monthly calls (when relevant), board meetings with company management and board members (at least once a year), and other pertinent discussions. To incentivize their commitment to ESG integration, 10% of their variable compensation is linked to ESG-related performance. The investment team is supported in these efforts by the dedicated ESG team.
- **ESG Team:** Strategic and operational ESG matters are continuously managed by the ESG team, encompassing policy management, methodological development, and the implementation of all ESG activities.
- **Sustainability Committee:** ESG oversight is conducted by the Montefiore Sustainability Committee, comprising 10 members. This committee is responsible for supervising the company's ESG strategy, monitoring ESG actions, and reviewing Investment Committee ESG templates when material issues arise. The committee meets quarterly to discuss all relevant topics, with additional ad-hoc meetings as needed.
- **Service Providers:** On an ad-hoc basis, Montefiore may engage third-party experts and service providers to support or enhance the quality of its stewardship efforts.

## E. Collaboration & Stewardship with Policymakers

We collaborate with industry peers and other stakeholders to share best practices and drive collective action on ESG issues. Montefiore encourages employees to participate in various industry initiatives. For example, Montefiore is member France Invest's Sustainability Commission Steering Committee & chairs France Invest's Value Creation & ESG Working Group. France Invest is a professional organisation bringing together nearly 400 French management companies and some 180 consulting firms.

To affirm its commitment in terms of responsible investment and participate in industry initiatives on ESG matters, Montefiore adheres to:

- The Principles for Responsible Investment (PRI), since 2013
- France Invest's Responsible Investor Charter, since 2018
- France Invest's Gender Equality Charter, since 2020
- The International Climate Initiative (ICI), since 2021

We collaborate with our clients (Limited Partners) through their annual engagement process, including maturity assessment reviews, surveys, interviews, and due diligences, to ensure alignment and foster a strong partnership.

## 05 ESCALATION

Portfolio companies are asked to report to the board major sustainability issues, incidents, litigations, public stakeholder allegations, as quickly as possible when they occur. If initial engagement efforts do not yield satisfactory progress, Montefiore may escalate its approach. Escalation strategies may include:

- **Increased Engagement Intensity:** We may increase the frequency and intensity of our engagement with the company, seeking higher-level discussions and more frequent reporting.
- **Shareholder Resolutions:** We may file shareholder resolutions to formally request action on specific ESG issues.
- **Collaboration with other Investors:** We may collaborate with other investors to amplify our concerns and increase pressure on the company.

## 06 REPORTING & INTERNAL COM

Montefiore is committed to transparency and accountability in our stewardship activities. We publish Annual ESG Reports detailing our ESG strategy, our engagement activities, and our progress on ESG performance. In accordance with local regulations, we publish an Annual Report on Shareholder Engagement, a summary of the exercise of voting rights is included our Funds' Annual Report, our Article 29 Loi Energie-Climat Annual Report ('LEC 29') as well as SFDR documentation (annual PAI statement and periodic report). We provide regular updates to our clients and across our organization on our stewardship efforts (Investor Day and other updates). Finally, we publish voluntarily our annual TCFD Report and our annual UN PRI Transparency Report.

## 07 CONFLICTS OF INTEREST

Montefiore has a robust policy and framework for managing conflicts of interest. We identify and assess potential conflicts related to our stewardship activities and take appropriate measures to mitigate any risks to our clients' interests. We maintain clear guidelines for managing conflicts and ensure that our stewardship decisions are made independently and objectively.



# 08

# UPDATES

This Stewardship Policy is reviewed every three years or more frequently if required. Policy updates reflect changes in processes or guidelines, which result from regular reviews of the effectiveness of our stewardship approach. All changes to this policy are approved by the Sustainability Committee.



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