ESG Engagement and Disclosure Report 2018

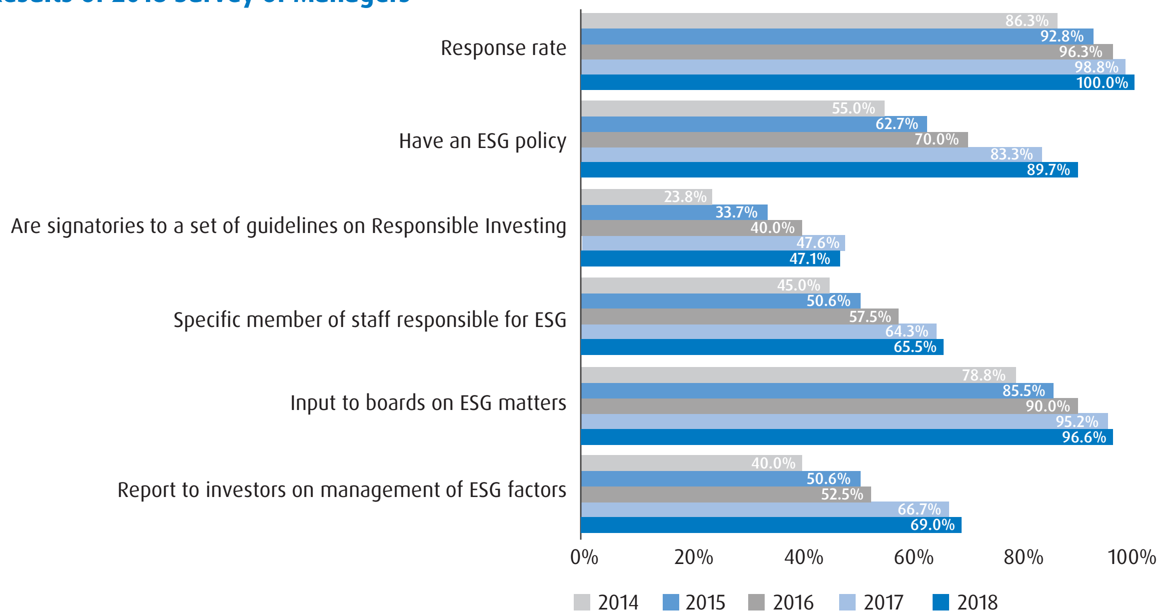
Summary of the Results

Steady progress

There have been ongoing improvements across most of the metrics that we monitor.

- With almost 90% of our managers now having a formal ESG policy, it is clear that the ongoing engagement process combined with that of our peers is working
- Many of the leading GPs keep tweaking their processes and capturing more information in an effort to find more ways to add value through ESG integration
- Responsibility for ESG is becoming less siloed as teams become better trained and more comfortable with considering the issues
- More managers than ever before, 69% in fact, are now reporting to us on ESG
- Reports are gradually becoming more granular, as data capture gets better although there are still a few token efforts which we expect to see develop over time

Results of 2018 Survey of Managers

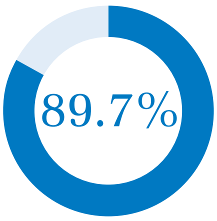


Source: BMO Global Asset Management (EMEA) Private Equity as at 24 May 2018

BMO PE = BMO Global Asset Management (EMEA) Private Equity
ESG = Environmental, Social and Governance
UNPRI = United Nations backed Principles of Responsible Investment (the PRI)

ESG Policies

Engagement works



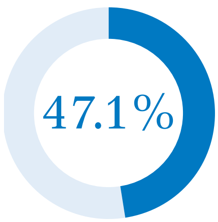
This is an area where over time engagement has achieved the desired results. In 2018, 89.7% of all our GPs have a formal ESG policy in place compared with 55.0% four years ago.

Of our existing managers, there are only four instances where not only do they not have a policy but we do not have any visibility on one being put in place in the near future; BMO has no plans for an ongoing relationship with any of these GPs. One of our ten new managers under coverage does not yet have a policy – Wavecrest, with which BMO PE has co-invested into Tier1, a cloud-based customer relationship management software provider – however as a co-investor we will have plenty of opportunities to encourage them to consider wider ESG risks during the course of the investment.

It is important to note that with BMO PE's focus on prime (also known as emerging) managers, it is unlikely we would be able to sustain a level of 100% compliance in this area. We pride ourselves on offering support and guidance to new or newly spun-out GPs and of course one of the areas where we can help, is to encourage them to integrate ESG into their investment practices. Nonetheless sometimes there is a lag as small teams work their way through the pending tasks. Through our own DD process we work to identify whether managers have the right approach from the outset whether or not these are fully documented.

Codes of Conduct

Reference to industry-wide codes of practice still important

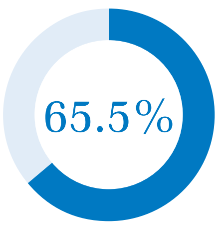


There has been almost no change here year on year, with 47.1% of our managers (compared with 47.6% in 2017), being signatories to a code of conduct. Although as PRI signatories ourselves we are committed to promoting acceptance and implementation of the Principles of Responsible Investment within our portfolios, in practice this does not necessitate all our managers signing up to the PRI, or similar codes, it only requires that managers accept the Principles. In fact 69% of our GPs consciously adhere to some kind of external code of conduct, whether they are signatories or not, which is helpful.

The small fall versus last year reflects that only two out of those GPs added to our coverage are signatories to a code of conduct. Healthcare specialist ArchiMed and Central Europe-focused ARX, are already signatories to codes and Explorer in Spain is considering it. Among our existing managers, ProA is likely to sign up to the PRI in the near future.

Specific Responsibility for ESG

Accountability becoming more broadly spread



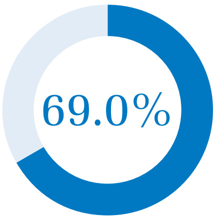
The percentage of firms having a specific member of staff responsible for ESG has increased slightly from 64.3% to 65.5%. We often find that when a GP decides to upgrade its ESG related processes, the first step is to appoint a specific person to take responsibility for this. Thereafter, accountability tends to become more spread out through the organisation as processes become better bedded in.

We are gradually starting to collate some data around ESG training within firms. We have information for 28, or just under a third of our managers, of which 22 have had some kind of ESG-related training in the last year, or has some planned for the near future (this is 78.3% of those covered). It's fair to say that training can often come in fits and starts, around the implementation of a new policy or in response to a particular issue that has arisen within the portfolio or industry. August Equity implemented a new SRI policy last year and followed this up with a familiarisation process for all deal team members. Progressio has introduced a new ESG policy and alongside this, all the members of the team are having training with its external advisors. Last year we noted that there is now a trend in place among many of the more advanced GPs for continuous improvement – we believe we are now starting to see this approach beginning to be more in evidence among the middle ranking GPs in our coverage as well. This is yet more evidence that ongoing engagement and input from across the investor base has the effect of keeping the momentum going. So for example Procuritas, which we reported introduced new ESG tools in 2016, is now in the process of taking this a step further and implementing ESG-related KPIs; as part of this roll-out it intends to closely involve and provide training for the investment team.

Continued

Reporting on ESG to LPs

GPs beginning to capture more granular data



The percentage of GPs reporting to us on ESG factors has risen to 69% from 67%, after a large jump from 2016 to 2017. For context, only 40% of our managers were providing any such reporting four years ago in 2014.

If we include managers who offer to provide a report on request, the percentage rises to 71.3%. In addition, four GPs are currently looking at how to implement some reporting in the future, and another one is aware that this will be the next stage of its development. Taking all of these into account, we have some visibility on getting to around the 77% level.

Where GPs are not yet reporting to us, but we can see that there is a plan in place to create a supporting structure, we see this as a positive step in the right direction. August, for example, is planning to pull together a set of more formalised benchmarks and KPIs over this summer that will hopefully feed into a short summary with its annual report from the end of 2018 onwards. BlueGem has also made considerable progress in setting up appropriate methodologies. The firm, which is a PRI signatory, has had external training from PWC and intends to bring it back in for a follow up. BlueGem is now receiving annual statements from its portfolio companies and is able to monitor progress. Now that this is all in place, the firm intends to begin ESG reporting to investors from the end of 2018.

Some of our more advanced GPs are measuring not just ESG risk factors but also arguably delving into the realm of Impact assessment. A very few are even exploring how their ESG issue management can tie in with the UN's Sustainable Development Goals (SDGs).

Within our portfolios, the only significant ESG issue to arise over the course of the year related to funeral planning company Avalon, BMO PE's co-investment managed by Lonsdale. It was the subject of a Sunday Mail and Mail Online expose about misselling practices in the PMF subsidiary that was acquired during 2017. The FPA (Avalon's regulator) conducted an investigation and is not taking any disciplinary action against Avalon but has suggested some process improvements which the company is incorporating into the changes it is already making in response to what it believes were the actions of only a few individuals. The Avalon Code of Practice and Sales Process has been updated, as has the Sales Presenter and these have been rolled out with training during the second quarter of 2018, along with GDPR training and enhanced Mystery Shopping to check on the quality of sales calls.

The majority of BMO PE's engagement work from now should be focused on encouraging the slower groups, who are most likely not reporting anything to us yet, to put in place better structures. We hope that our pragmatic approach will continue to encourage GPs to bring themselves more into line with industry best practices.

Conclusion

The better GPs are making ongoing year-on-year improvements in the way they incorporate ESG into their investment processes, which, as we have noted in past years, brings the whole of the private equity industry along with them; however it can also have the effect of exposing how far behind some managers have fallen. For those smaller or emerging managers, we are willing to be patient, at least in the short term, in order to allow them to catch up in their own way and at their own pace. However, we do require to see some willingness on their side to learn and adapt. Fundamentally though, the numbers are encouraging and speak to an overall desire to keep adding value to the investment process and make businesses more sustainable. It is a credit to the private equity industry as a whole that it is successfully embracing a widening of its horizons and we are proud to be able to play a part in that process.

BMO Global Asset Management (EMEA) Private Equity
June 2018

Continued

Survey Method

Seven managers have dropped off our survey since last year, due to funds and/or co-investments having been or being close to being wound up. We have included ten new manages which takes the total number of GPs covered by the report to 87. Of these, we now have responses for all 87 of the managers covered. Although it remains in the table of results, we have removed commentary on the Input to Boards on ESG Matters category as this is now almost universal in some form or another. BMO Global Asset Management believes that environmental, social and governance (ESG) factors can influence company performance, and that consideration of ESG factors in the investment process can reduce investment risk and underpin long-term returns. Moreover, as a founding signatory to the Principles of Responsible Investment (PRI), BMO Global Asset Management is committed to responsible investment practices, including integrating the analysis of ESG issues across all asset classes. As part of this ESG integration BMO Global Asset Management (EMEA) Private Equity (BMO PE) actively engages with its underlying fund managers (General Partners or GPs) to encourage them to develop responsible investment policies that address ESG risks, both during the pre-investment due diligence phase and throughout their tenure as shareholders. The cooperation of our private equity managers is essential to the compilation of this report.

Views and opinions expressed by individual authors do not necessarily represent those of BMO Global Asset Management.

BMO Global Asset Management