

# Preservation Capital Partners Fund II Level 2 Website Disclosures

## Summary

This document provides an overview of the sustainability-related information about Preservation Capital Partners (“PCP” or “we”) Fund II (“PCP II”, “Fund II”, or “the Fund”).

a) Summary	
b) No sustainable investment objective	This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.
c) Environmental or social characteristics of the financial product	<p>Fund II promotes the following social characteristics through its investments:</p> <ul style="list-style-type: none"> <li>• Gender Equality</li> <li>• Pay Gap Reduction</li> </ul>
d) Investment strategy	<p>Fund II focuses strictly on market leading, management-owned, asset-light Financial and Business Services companies in the European middle-market.</p> <p>The Fund’s ability to meet the social characteristics promoted occurs during the post-investment phase. Here, the PCP investment team takes a hands-on approach and will actively work with the Fund II portfolio company management teams to help them better understand which social characteristic will be promoted, their current performance on the related sustainability indicator, whilst also supporting with recommend actions and implementation.</p> <p>PCP ensures professional and best practice governance standards within all portfolio companies. We place specific emphasis on the following governance issues in our due diligence:</p> <ul style="list-style-type: none"> <li>• Data Privacy and Security</li> <li>• Ownership Structure</li> <li>• Management interests and alignment of interests</li> <li>• Independence of Chairmen and Non-Executive Directors.</li> <li>• Financial Crime and Business Ethics</li> <li>• Whistleblower Policies</li> </ul>
e) Proportion of investments	PCP expects 80% of the Fund’s AUM to be allocated to investments that are aligned with the characteristics promoted (“#1 Aligned with E/S characteristics”). The remaining 20% (“#2 Other”) are expected to consist of instruments held by PCP for risk management purposes, such as currency, interest rate and other positions. No environmental or social safeguards will be applied to these instruments.

f) Monitoring of environmental or social characteristics	Fund II will monitor the social characteristics promoted and their underlying sustainability indicators through sending a bi-annual environmental, social and governance (“ESG”) questionnaire asking portfolio companies to disclose their current performance on the sustainability indicators. The questionnaire responses will be internally reviewed by the investment team, whilst an external control mechanism is that PCP’s third-party ESG Advisor will also review the questionnaire.
g) Methodologies	The methodology for measuring how the social characteristics promoted by Fund II are met is for the portfolio company to set a baseline measurement, which ideally, is at the time of investment, depending on whether the portfolio company is already reporting on the sustainability indicator. Once the baseline has been measured, the portfolio company will be expected to implement actions to improve on that social characteristic, whilst also reporting on its progress through completing the bi-annual ESG
h) Data sources and processing	The data sources used to measure the attainment of the social characteristics promoted by Fund II will be entirely based on information reported by the portfolio companies through the bi-annual ESG questionnaire. Measures taken to ensure data quality will include having the questionnaire responses reviewed by both the investment team and PCP’s third-party ESG Advisor.
i) Limitations to methodologies and data	<p>Limitations to the Fund’s methodology for promoting the aforementioned social characteristics is that this process predominantly occurs during the post-investment period, and the expected time would take for a portfolio company to implement improvements on the measurement of sustainability indicators used to measure the promotion of social characteristics. However, PCP does not expect this to impact the promotion of social characteristics given the Fund II’s expected control over the portfolio company and typical investment period of c.5 years.</p> <p>Limitations to the data is that Fund II portfolio companies may not be collecting or incorrectly reporting information on the relevant sustainability indicators. However, PCP does not expect this to impact the promotion of social characteristics given the sustainability indicators being collected and the detailed review of portfolio company reporting.</p>
j) Due diligence	<p>PCP has a rigorous approach to due diligence with a focus on downside protection. PCP believes that this rigorous assessment of risk and its deep sector domain expertise allows it to better navigate any issues that might occur in investments during the holding period. The Fund’s due diligence approach is designed to allow the team to assess and complete investments efficiently, and covers the following stages:</p> <ul style="list-style-type: none"> <li>• Sourcing / Screening</li> <li>• Investment Committee</li> <li>• Signing / Closing</li> </ul>

k) Engagement policies	In general, PCP will be in dialogue with Fund II portfolio company management teams on a weekly basis, whether through board meetings, on-site visits and informal telephone conversations. Alongside this there is frequent contact with management teams through monthly shareholder meetings, quarterly board meetings (PCP will typically take a board seat or sit as a board observer for all investments), as well as ad-hoc calls / meetings to ensure portfolio companies are performing to plan and strategic initiatives are being implemented.
l) Designated reference index benchmark	The Fund does not have a designated reference index benchmark for the purpose of meeting the environmental or social characteristics promoted by the Fund.

## No Sustainable Investment Objective

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

## Environmental or social characteristics of the financial product

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Fund II promotes the following social characteristics through its investments:

- Gender Equality (improving firm-wide unadjusted gender pay gap and board diversity)
- Pay Gap Reduction (improving unadjusted gender pay gap at executive level)

PCP does not make any representations that the Fund promotes both characteristics in each of the investments made.

## Investment Strategy

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Fund II focuses strictly on market leading, management-owned, asset-light Financial and Business Services companies in the European middle-market. The Fund looks to deploy equity tickets of €50m to €150m per investment in very specific sub-sectors of the market, targeting only:

- Insurance Distribution
- Wealth Management
- Payments
- Financial Services Software
- Business Process Outsourcing
- Trust & Corporate Services

The Fund aims to build a concentrated portfolio of 5-6 investments with an investment pace of 2 deals per year.

The Fund's ability to meet the social characteristics promoted occurs during the post-investment phase. Here, the PCP investment team takes a hands-on approach and will actively work with the Fund II portfolio company management teams to help them better understand which social characteristic will be promoted, their current performance on the related sustainability indicator, whilst also supporting with recommend actions and implementation. The team will send a bi-annual environmental, social and governance ("ESG") questionnaire asking portfolio companies to disclose their performance on the relevant sustainability indicators, thereby ensuring continued monitoring of their progress.

PCP ensures professional and best practice governance standards within all portfolio companies. Given the nature of our investments, and focus on the asset light financial services industry, PCP places specific emphasis on the following governance issues in its due diligence. This includes:

- Data Privacy and Security
- Ownership Structure
- Management interests and alignment of interests
- Independence of Chairmen and Non-Executive Directors.
- Financial Crime and Business Ethics
- Whistleblower Policies

## Proportion of Investments

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PCP expects 80% of the Fund's AUM to be allocated to investments that are aligned with the characteristics promoted (“#1 Aligned with E/S characteristics”). The remaining 20% (“#2 Other”) consists of instruments held by PCP for risk management purposes, such as currency, interest rate and other positions. These are not connected to the core investments made into portfolio companies. No environmental or social safeguards will be applied to these instruments.

## Monitoring of Environmental or Social Characteristics

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Fund II will monitor the social characteristics promoted and their underlying sustainability indicators through sending a bi-annual ESG questionnaire asking portfolio companies to disclose their current performance on the sustainability indicators, thereby ensuring continued monitoring of their progress. The team also has monthly meetings with all portfolio companies to discuss trading in detail and quarterly board meetings to discuss strategic initiatives, governance and compliance and other relevant matters. At the end of the year (usually in November / December) there is also a detailed budgeting meeting where a detailed monthly budget is approved for the next financial year with portfolio companies. All of these avenues, though not directly connected to the promotion of social characteristics, present opportunities for PCP to engage with the portfolio companies and raise the management of the promoted social characteristic.

The questionnaire responses will be internally reviewed by the investment team, and externally reviewed by PCP's third-party ESG Advisor. Should either party identify any discrepancies, or potential discrepancies in the data being reported, the investment team will actively communicate this with the relevant portfolio company to further understand the reason behind the discrepancy and to resolve it.

The sustainability indicators used by the Fund to measure the social characteristics promoted are listed below.

### Gender Equality

- Proportion of assets that improved upon their unadjusted gender pay gap over the Fund's holding period.
- Proportion of assets that improved upon the ratio of female to male board members over the Fund's holding period.

### Pay Gap Reduction

- Proportion of assets that improved upon their executive pay gap over the Fund's holding period.

## Methodologies

The following methodologies will be applied:

<i>Sustainability Indicator</i>	<i>Methodology</i>
Proportion of assets that improved upon their unadjusted gender pay gap over the Fund's holding period	<p>Unadjusted gender pay gap will be calculated using the following formula:</p> $\frac{(\text{Average gross hourly pay level of male employees} - \text{Average gross hourly pay level of female employees})}{\text{Average gross hourly pay level of male employees}} \times 100$
Proportion of assets that improved upon the ratio of female to male board members over the Fund's holding period	Note: Please reflect on any methodologies re. gender equality initiatives (e.g. employee surveys)
Proportion of assets that improved upon their executive pay gap over the Fund's holding period	<p>Unadjusted gender pay gap will be calculated using the following formula:</p> $\frac{(\text{Average gross hourly pay level of male executives} - \text{Average gross hourly pay level of female executives})}{\text{Average gross hourly pay level of male executives}} \times 100$

Any targets set by the portfolio company will also be verified by PCP to ensure they strike the right balance between ambition, practicality as well as being aligned with industry standards.

## Data Sources and Processing

The data sources used to measure the attainment of the social characteristics promoted by Fund II will be entirely based on information reported by the portfolio companies through the bi-annual ESG questionnaire.

Measures taken to ensure data quality will include having the questionnaire responses reviewed by both the investment team and our third-party ESG Advisor. Should either party identify any discrepancies, or potential discrepancies in the data being reported, the investment team will actively communicate with the relevant portfolio company to further understand the reason behind the reported information and, where necessary, to resolve it. Where relevant, portfolio companies will also be asked to attach any evidence to substantiate data disclosed in the ESG questionnaire, allowing both the investment team and third-party ESG Advisor to assess the methodology underpinning the reported data in further detail.

Data will be processed through the ESG questionnaire, which is being hosted on a Microsoft Excel spreadsheet. As part of the investment team and third-party ESG Advisor's review of the ESG questionnaire, the integrity of the spreadsheet itself will also be assessed to ensure that all data is being correctly captured and manipulated.

It is expected that 0% of the data will be estimated.

## Limitations to Methodologies and Data

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One limitation to the Fund's methodology for promoting the aforementioned social characteristics is that this process predominantly occurs during the post-investment period. Therefore, a challenge that may arise is the portfolio company being reluctant to take any actions to improve upon the sustainability indicators used to measure the promotion of social characteristics. However, PCP does not expect this to materially impact the ability for Fund II to meet the social characteristics it promotes.

PCP looks for investments where Fund II can take a lead or co-lead position and where the team can develop a high degree of influence over investee companies, and tends to seek investments where it is a control investor. A consequence is that for every portfolio company, members of the PCP team will either be board members or observers, thereby allowing PCP to actively engage with the portfolio company to ensure they improve upon the relevant social characteristic. Moreover, Fund II's intention of building a concentrated portfolio of 5-6 companies means that PCP does not envision any challenges related to the internal resources needed to work with the portfolio companies to promote the relevant social characteristics.

A second limitation is the expected time it takes for a portfolio company to implement improvements on the sustainability indicators used to measure the promotion of social characteristics. Indicators related to topics such as gender equality and pay gap reductions are ones which are not easy for small businesses to improve on a year-on-year basis, with improvement on these indicators likely to be non-linear. However, as a private equity investor, PCP's investment strategy rests on long-term value creation, with the typical investment period lasting c.5 years. This gives PCP sufficient time to work with Fund II portfolio companies to make improvements on the social characteristics being promoted. This is also why the sustainability indicators used to measure the promoted social characteristics are being articulated relative to the entire holding period of an investment.

One limitation to the data is that Fund II portfolio companies may not be collecting information on the relevant sustainability indicators. Again, this is not expected to impact Fund II's ability to promote social characteristics, as the sustainability indicators asked for are common datapoints used to measure these social characteristics. Collecting data on social-related indicators also generally requires less resources or technical expertise compared to environmental data, meaning that it is easier for portfolio companies to report this data. Finally, given that many of the portfolio companies in Fund II were rolled over from a previous PCP fund, the team has a strong relationship with many of the portfolio companies and has already engaged with them to ensure that they are reporting this data, and where data is not being reported, have received commitments from them on when data will become available.

A second limitation to the data is the accuracy of information reported, particularly any issues related to how the portfolio company has calculated their performance on the relevant sustainability indicators.

This is not expected to impact Fund II as the questionnaire will be reviewed by both the investment team and PCP's third-party ESG Advisor. Should either party identify any discrepancies, or potential discrepancies in the data being reported, the investment team will actively communicate this with the relevant portfolio company to further understand the reason behind the discrepancy and to resolve it. Portfolio companies will also be asked to attach any evidence to substantiate any data being reported, allowing both the investment team and ESG Advisor to go through their methodology in further detail. Furthermore, sending the ESG questionnaire bi-annual basis allows for the data to be more frequently reviewed and for discrepancies to be rectified, compared to if the ESG questionnaire was only required to be completed annually.

## Due Diligence

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PCP has a rigorous approach to due diligence with a focus on downside protection. PCP believes that this rigorous assessment of risk and its deep sector domain expertise allows it to better navigate any issues that might occur in investments during the holding period. The Fund's due diligence approach is designed to allow the team to assess and complete investments efficiently, and covers the following stages:

### Sourcing / Screening

PCP believes that one of the keys to its success is its aptitude to originate transactions either in a proprietary manner or through the team's differentiated industry network given their deep sector domain expertise and network. PCP takes a pro-active approach to sourcing that is focused on detailed research around investment themes. All investment team members take part in the development of these investment themes.

The Fund, as stated in PCP's ESG Policy, will not invest in companies involved in the following sectors, countries and corporate behaviour.

- Companies that derive income from controversial behaviour:
  - Companies that have severe breaches of the United Nations Global Compact (UNGC) principles, which consists of human rights, labour standards, the environment and anticorruption
  - Companies producing controversial products, including:
    - Weapons/arms
    - Tobacco
    - Alcohol
    - Gambling
    - Pornography
    - Wildlife products
  - Companies generating substantial income in controversial countries, e.g., countries that are subject to UN, EU or US sanctions

### Investment Committee

PCP has established an Investment Committee who advises the General Partner on the investment pipeline and portfolio construction. The Investment committee review process spans the following three phases:

- Phase 1 – Deal team presents a Phase I Preliminary Investment Review ("PIR") and a due diligence budget requirement and recommendation for third party advisors.
- Phase 2 – Deal team submit a Phase II investment memorandum to the Investment Committee with preliminary findings of due diligence.
- Phase 3 – Deal team submit a Phase III investment memorandum to the Investment Committee including final findings on due diligence and summary of transaction documentation.

All decisions and / or investment recommendations to the General Partner require a majority approval to pass, however the firm's Managing Partner & Founder has a veto over the recommendation of all new investment opportunities.

### Signing and Closing

PCP will also implement a 100-day value creation plan for Fund II portfolio companies, which is presented to the management team within the first month of completion of an investment.

## **Engagement Policies**

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In general, PCP will be in dialogue with Fund II portfolio company management teams on a weekly basis, whether through board meetings, on-site visits and informal telephone conversations. Alongside this there is frequent contact with management teams through monthly shareholder meetings, quarterly board meetings (PCP will typically take a board seat or sit as a board observer for all investments), as well as ad-hoc calls / meetings to ensure portfolio companies are performing to plan and strategic initiatives are being implemented. ESG-related matters (including ESG-related controversies) may be raised through these channels.

## **Designated Reference Index Benchmark**

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The Fund does not have a designated reference index benchmark for the purpose of meeting the environmental or social characteristics promoted by the Fund.