



# Report pursuant to Article 29 of the Energy and Climate Law

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Mérieux Equity Partners

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## Table of contents

<b>GENERAL APPROACH</b>	<b>3</b>
<b>MEANS AND RESOURCES</b>	<b>7</b>
<b>GOVERNANCE</b>	<b>8</b>
<b>SHAREHOLDER COMMITMENT</b>	<b>9</b>
<b>ALIGNMENT WITH PARIS AGREEMENT</b>	<b>12</b>
<b>BIODIVERSITY</b>	<b>22</b>
<b>SUSTAINABILITY RISK MANAGEMENT</b>	<b>24</b>

# I General approach

Merieux Equity Partners ("MxEP") is an AMF-accredited management company dedicated to equity investments in the health and nutrition sector, across Europe and North America.

ESG is part of the DNA of the company and several policies have been prepared and are available on MxEP website.

## UN Sustainable Development goals

Structurally, the investment strategies of our funds under management enable us to meet **Sustainable Development Goal (SDG) No. 3: Good Health and Well-being and No.12: Sustainable consumption and production.**

In addition to supporting SDG 3 and 12, we also want to ensure our investments do not negatively influence any other of the SDGs and as such, we have embedded assessment of Environmental, Social and Governance (ESG) matters in our entire investment process.

Our Responsible Investment policy demonstrates MxEP's ESG commitments. It is applicable to all of our investments since AMF (French Financial Markets Authority) approval on 5<sup>th</sup> June, 2018.

## Signatory of many initiatives

MxEP is a signatory of the **Principles for Responsible Investment (PRI)** and this Responsible Investment policy and its content were defined in accordance with the PRI.

MxEP is also an active member of **France Invest through involvement in its commissions (ESG, Regional Commitments, Talent and diversity)** and the signature of France Invest's Charter for growth and charter for Gender Equity.

MxEP is also strengthening its commitment to Diversity, Equity and Inclusion through active **support of the not-for-profit organization "Level 20"** and via a dedicated ad-hoc committee dedicated to this topic.

MxEP has joined the **International Climate Initiative early 2022.**

**Transparency and disclosure** MxEP will not invest in a company for which it is aware that its direct activity : includes practices such as corruption and money laundering, violates human rights (including child or forced labor), results in disrespect for the rights of indigenous and/or vulnerable groups, results in a negative impact on health through

non-compliance with legal, regulatory or ethical standards or proven negligence on the part of the company's management, does not include trade in endangered species of wild fauna or flora (or products derived therefrom) and would degrade protected areas of biodiversity. An exclusion policy is available on our website.

## Assessment of Environmental, Social and Governance (ESG) in the investment process

Mérieux Equity Partners integrates consideration of ESG at each stage of the investment cycle.



### During the pre-investment phase:

- Screening:** consists of ensuring that the opportunity under consideration allows the exclusion policy of MxEP to be respected. If no blocking issue is identified, the opportunity analysis process continues. However, if the opportunity does NOT ensure compliance with the rules mentioned in the exclusion policy, then it is abandoned.
- Due-Diligence:** consists of linking the activity of the opportunity to the United Nations' Sustainable Development Goals and establishing an analysis of the risks and opportunities for ESG risk protection and value creation. The risk/opportunity analysis is carried out on the basis of the ESG sector guides of the SASB (Sustainability Accounting Standards Board) and through our discussions with the management of the company in which we are considering an investment.

As per the SASB Healthcare sector classification, there are 6 sub-sectors: Biotechnology & Pharmaceuticals, Drug Retailers, Health Care Delivery, Health Care Distributors, Managed Care and Medical Equipment & Supplies.

The ESG due-diligence file is presented to the investment committee along with the other due diligence workstreams (financial, fiscal, social, strategic, commercial due-diligence, etc.). If a material ESG subject is identified, a “progress plan” must be developed to resolve the material issue during the hold period. If a progress plan cannot be created to resolve or mitigate the material ESG issue; then the opportunity is abandoned. This decision is formalized in the minutes of the Investment Committee. In our investment sector, abandonments at this stage of the process are mainly related to governance issues.

For the Venture Capital activity, this analysis is carried out internally by the Finance Manager, under the supervision of the President of MxEP.

For the Growth and Buyout Capital activities, the documentation of this phase may be partially outsourced (particularly about the analysis of risks and opportunities for value creation), to sector specialists (the major names in the market).

## During the ownership phase

- **Documentation:** If MxEP decides to invest in a company, the shareholders' agreement explicitly provides for an ESG clause. This clause makes it possible to indicate that ESG data can be audited and that the management company must report ESG data at the level of its funds to its investors. ESG data is hence requested annually from portfolio companies and monitored and consolidated at the fund level. Topics covered include business ethics, supply chain, human resources, environment, amongst others.
- **Progress Plan:** During the first year of the investment period and in partnership with management, a progress plan is established. This progress plan is tailor-made to each portfolio company to ensure most urgent ESG topics are addressed first. This work is based on the risk/opportunity analyses carried out during the ESG due-diligence phase.
- **Reporting:** MxEP prepares annual ESG reporting for each of the funds launched since our AMF approval obtained on 5<sup>th</sup> June, 2018. This reporting includes standard quantitative indicators as well as best practices at the level of the portfolio companies. The carbon footprint is also calculated (calculations based on the instructions of the Greenhouse Gas (GHG) protocol). The carbon footprint of our portfolios is less marked than for other management companies, as we invest exclusively in the healthcare sector.
- **Shareholder Engagement:** MxEP has a shareholder engagement policy,

available on its corporate website, which specifies the terms and conditions for exercising our representation within the governing bodies of the companies in which we invest. Our logic has always been to be represented in the governance bodies of the companies in which we invest. In a risk-based framework such as ours, this is the main lever for defining the ESG progress plan, implementing it and adapting it if necessary.

- **Incident Reporting:** the asset management company has set up an internal system for reporting ESG incidents that may occur at the level of the companies in the portfolios under management and of which it may become aware thanks to its presence on the governance bodies. Such incidents are defined, in accordance with France Invest's recommendation, as any event that could have a material impact on the investment and/or its shareholders, in particular but not exclusively in terms of public health, the environment, labor law disputes or business ethics.

### **During the exit phase:**

- **Data Room:** during the exit phase, all ESG data collected during the ownership phase (progress plan, monitoring data) is integrated into the data room available to the vendors. This data enables potential buyers to identify the progress made during the ownership period.
- **Creation of Value:** beyond the environmental and social dimension of ESG, on which we intervene with appropriate governance, the objective of our approach is to create shareholder value. This translates into ESG actions that can result in financial savings, better productivity, a safer working environment, and building partnerships with stakeholders based on respectful and stronger contractual bases. Ultimately, the ESG approach contributes to the creation of a more agile environment, in line with the structural changes in our companies, and this ability to anticipate is a lever for value creation that is bearing fruit.

### **Asset under management by SFDR category**

As of December 31, 2021, the management company manages several funds, whose commitments represent more than €1.1 billion, of which 30% is classified under Article 8 of the SFDR regulations. This share corresponds to Mérieux Participations 4 SLP (fund launched in 2021). The other funds are classified under article 6. Nevertheless, all funds launched since our approval by the French Financial Market

Authority are subject to annual ESG reporting with quantitative indicators, as well as qualitative assessment elements, and monitoring of material ESG incidents.

## II Means and resources

In 2021 and 2022, MxEP has dedicated an amount of €100 000 to ESG consulting in its annual budget. In 2022 this budget is allocated to the launch of an ERP dedicated to ESG KPI & material incident reportings and improvement plans (Tennaxia), to the set-up of personalized ESG roadmaps for Growth Buy Out (“GBO”) portfolio companies, and to the assistance in the preparation of all ESG reportings. MxEP basically work with two ESG consulting firms: ERM for the GBO activity and CSR Alliance for the venture capital. ERM is a renowned international ESG consulting firm and CSR Alliance is an independent advisor with a strong area of ESG expertise in Biotech in North America and Europe.

In addition to this annual amount, budgets dedicated to ESG due diligence are also available for each investment opportunity, which are usually paid by the target companies and which amount from €15,000 to €25,000 per portfolio company.

We are also working with other management companies on setting up a system to support portfolio companies in calculating their carbon footprint (scopes 1, 2 and 3) to have an "operating" position on these strategically critical subjects.

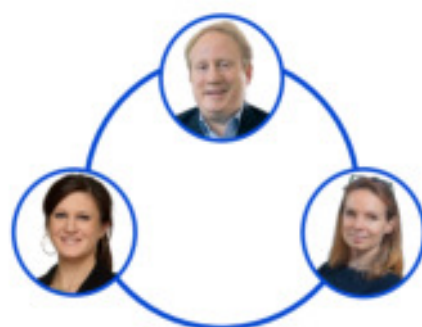
As mentioned in the General approach section, ESG team is involved in **France Invest association through involvement in its commissions (ESG, Regional Commitments, Talent and diversity)**.

The team has conducted the following training sessions at France Invest: integrating ESG in your transactions, integrating ESG issues in the monitoring of portfolio companies, transparency and ESG reporting obligations, and carbon neutrality: towards the necessary decarbonization of your portfolios.

Besides, managing partners are requested to attend at minimum one ESG training per year. The ESG team also conduct internal presentations to the whole MxEP team on ESG specific topics three times a year (examples: gender index, details of the calculation of a carbon footprint & associated reduction plan,...).

MxEP devotes 50% of a full-time professional equivalent to ESG-related matters at the level of the management company, and at the level of the funds and portfolio companies (setting up tools and methods like ESG scoring, procedures, monitoring due diligence, progress plans & follow-up, training plan for ESG team & rest of MxEP team, decarbonation plan, material incident reports, annual ESG reports, strategy of alignment to Paris agreement, biodiversity strategy, regulatory watch...).

There are three main owners of ESG topics at MxEP level :



### ESG Team

- **Jacques Baudoin** – Finance Manager & France Invest Member of ESG Commission
- **Christine Demode** – President & France Invest Member of Regional Commitments Commission
- **Caroline Folléas** - Partner & France Invest Member of Talent and Diversity Commission & Chairwoman Level 20 France

## III Governance

### Internal governance

As disclosed just above, there are three main owners of ESG topics at MxEP level.

Overall responsibility for oversight of ESG is held by the President of Merieux Equity Partners who, together with the ESG team (Caroline Folléas as Partner and Jacques Baudoin as Finance Manager), is responsible for validating ESG strategy, initiatives, and for implementing, measuring, and executing the company's ESG strategies.

ESG factors have been included in MxEP's remuneration policy to ensure that all parties involved in each deal have incorporated both ESG risks and opportunities in line with the current ESG Policy. A variable remuneration is hence linked to ESG criteria for executive committee members.

MxEP Board is composed of five members, of which one woman and one independent member. Attendance is systematically 100% to all MxEP boards.



## IV Shareholder Commitment

### Voting Perimeter

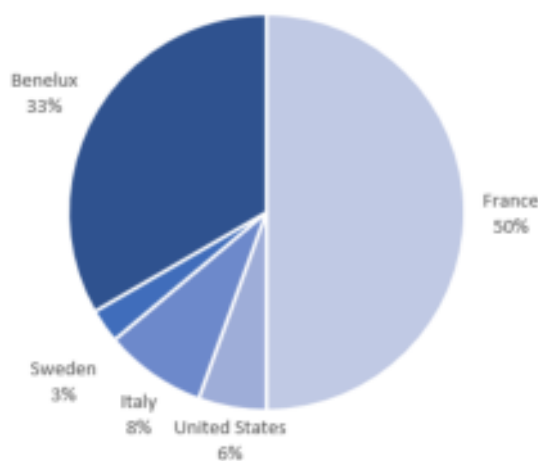
MxEP exercises all the voting rights attached to the securities held in the FIAs it manages and for which the management company is responsible for exercising voting rights. A Shareholder Commitment Policy is available on MxEP website.

In 2021, the management company voted at 36 Shareholders' Meetings, corresponding to 100% of the shareholders' meetings for which we held voting rights. During fiscal year 2021, we did not experience any technical or administrative blockages or malfunctions that prevented us from exercising our voting rights.

All voting rights are exercised in our name. The management company does not manage a mandate or a dedicated or delegated fund.

It should be noted that Shareholders' Meetings are not compulsory in certain geographical areas, depending on the type of company, the representation of shareholders on the board of directors and the nature of the decisions to be taken. Governance is therefore expressed in various ways, either through a system of written consent or through our representation at meetings (in person, by mail, or via a dedicated proxy). We integrate these elements into the monitoring of Shareholders' Meetings to have the most accurate vision possible of the expression of the rights and duties attached to the shares held.

### Breakdown of Shareholders Meetings by country



## **Methods of Exercising Voting Rights**

Each managing partner is responsible for collecting the Shareholders' Meeting file of the companies he/she follows, and this file includes at least: the date, the voting procedures, and the text of the resolutions. A power of attorney may be given to him to represent the Management Company.

The managing partner examines and analyzes the resolutions submitted to the meeting in accordance with the provisions detailed in the "Voting Principles" section of the Shareholder Commitment Policy available on the website and in the interest of the unitholders. In case of difficulty in analyzing a resolution, he/she refers to the Compliance and Internal Control Officer. The managing partner is responsible for deciding how to vote.

The managing partner's voting choices are retained by him/her. The managing partner must be able to report at any time on the exercise of his/her voting rights. MxEP usually exercises its voting rights by mail. However, the managing partner may decide to attend the Shareholders' Meeting in person.

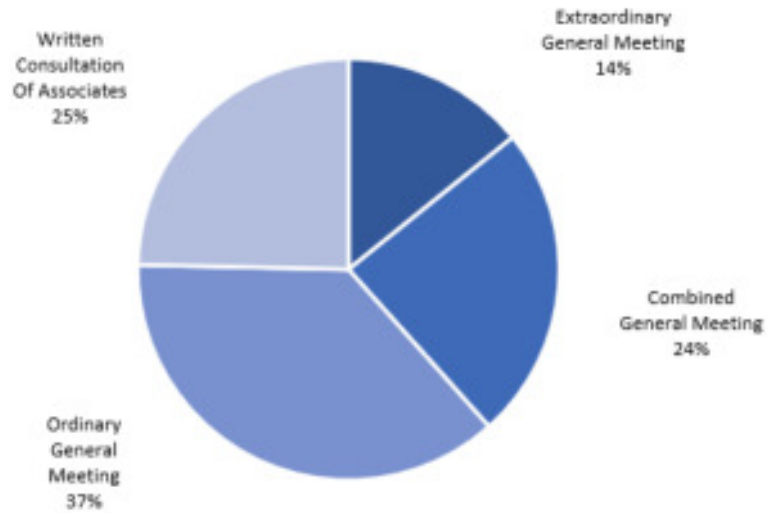
The management company does not use the services of voting consultants. MxEP does not make use of temporary share transfers.

## **Voting records 2021**

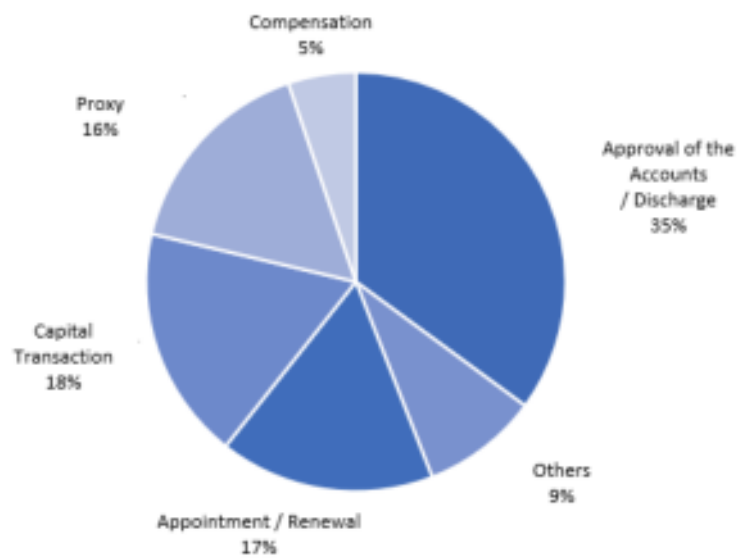
During these 36 Shareholders' Meetings, of which 18 were held outside France, 210 resolutions were submitted to the vote of the shareholders, i.e. an average of 5.8 resolutions per Shareholders' Meeting.

The attendance rate at the Shareholders' Meetings was 100%. Mérieux Equity Partners voted "for" 98% of the resolutions and "against" 2% of the resolutions. The managing partners voted in all cases in accordance with the principles of the Voting Policy.

### Breakdown of votes by instance



### Breakdown of votes by resolution



### Conflict of interest management

The voting rights exercised were done so in complete independence and with a view to safeguarding the interests of the unitholders of the funds concerned. No member of the

governance of the portfolio companies has any connection with the management company. No conflicts of interest were identified during the 2021 financial year.

## V Alignment with Paris agreement

### Policy

Despite being small emitters themselves, financial institutions have an important role to play in the journey to net zero through their portfolios and investments. MxEP recognizes that the health and nutrition sectors, like any human activity, currently generate the emission of greenhouse gases (GHG) and therefore contribute to climate change. In a recent publication (November 2021), the think tank The Shift Project estimates that the health sector is responsible for approximately 8% of territorial GHG emissions in France.

The summary for policymakers of the latest report from IPCC group II (on climate change impacts and adaptation) concludes, as follows:

“The cumulative scientific evidence is unequivocal: climate change is a threat to human well-being and planetary health. Any further delay in concerted anticipatory global action on adaptation and mitigation will miss a brief and rapidly closing window of opportunity to secure a liveable and sustainable future for all.”

On this basis, MxEP is willing to fairly contribute to aligning the Health sector with the objectives defined in the Paris-Agreement.

### Strategy

As an integral part of its new climate strategy, MxEP became a member of the Initiative Climat International (iCI) in April 2022. “iCI signatories commit to effectively analyze, manage, and mitigate climate-related financial risk and emissions in their portfolios, in line with the recommendations of the FSB’s Taskforce for Climate-related Financial Disclosure (TCFD). Additionally, members are encouraged to share knowledge, tools, experience, and best practice among peers”. Through this membership, Merieux seeks support and feedback on low-carbon investment policy implementation.

MxEP’s strategy includes the following three pillars in the context of its contribution to aligning the Health sector with the objectives defined in the Paris-Agreement:

1. Measure emissions related to all portfolio companies
2. Reduce emissions related to all of portfolio companies
3. Offset residual emissions which cannot be reduced

## 1. Measure emissions related to all portfolio companies

Scope: MxEP aims to assess the GHG footprint of all portfolio companies (PCs) within all its funds .

### 1.a. Top-down approach for GHG footprinting

The Initial assessment of MxEP portfolio companies' ("PC") GHG emissions was based on a top-down approach. PC GHG emissions were estimated for 2021 with a calculation methodology based on sectoral monetary emission factors.

#### Methodology

This approach provides an **order of magnitude** of the emissions for the main activity sectors represented in MxEP's portfolio and identifies where the main GHG emissions sources are located, facilitating decision-making and future resource allocation for more detailed assessments.

Emission factors (EFs) used to assess GHG emissions were drawn from the Exiobase database (version 3). This database provides monetary emission factors for a wide range of activity sectors and geographic locations. Exiobase EFs account for Scope 1 and Scope 2 emissions as well as Scope 3 upstream emissions. Downstream emissions (e.g., product distribution, end of life etc.) are not accounted for in the GHG emission figures stemming from the assessment. Also, since EFs were published in 2011, the values used were adjusted to take into account the average monetary inflation over the period 2011-2021 (14.5%).

Exiobase emission factors allow the assessment of GHG emissions resulting from a given activity sector, by multiplying the revenue of a specific activity in a specific geography with the corresponding EF. MxEP PC revenues have been allocated across all geographies where sales were realized to better account for geographic variability of GHG emissions for each activity sector.

Furthermore, to account for the variability of emission factors across the Exiobase activity sectors, and since all PCs might not strictly fall into the Exiobase activity sector categories, each PC has been assigned with two different Exiobase activity sectors in the assessment. Therefore, GHG emissions have been calculated for the best fitting industrial process (Option A) and for the second most relevant choice (Option B).

Both total PC emissions and emissions related to MxEP PCs equity stake were assessed for Scope 1, 2 and 3.

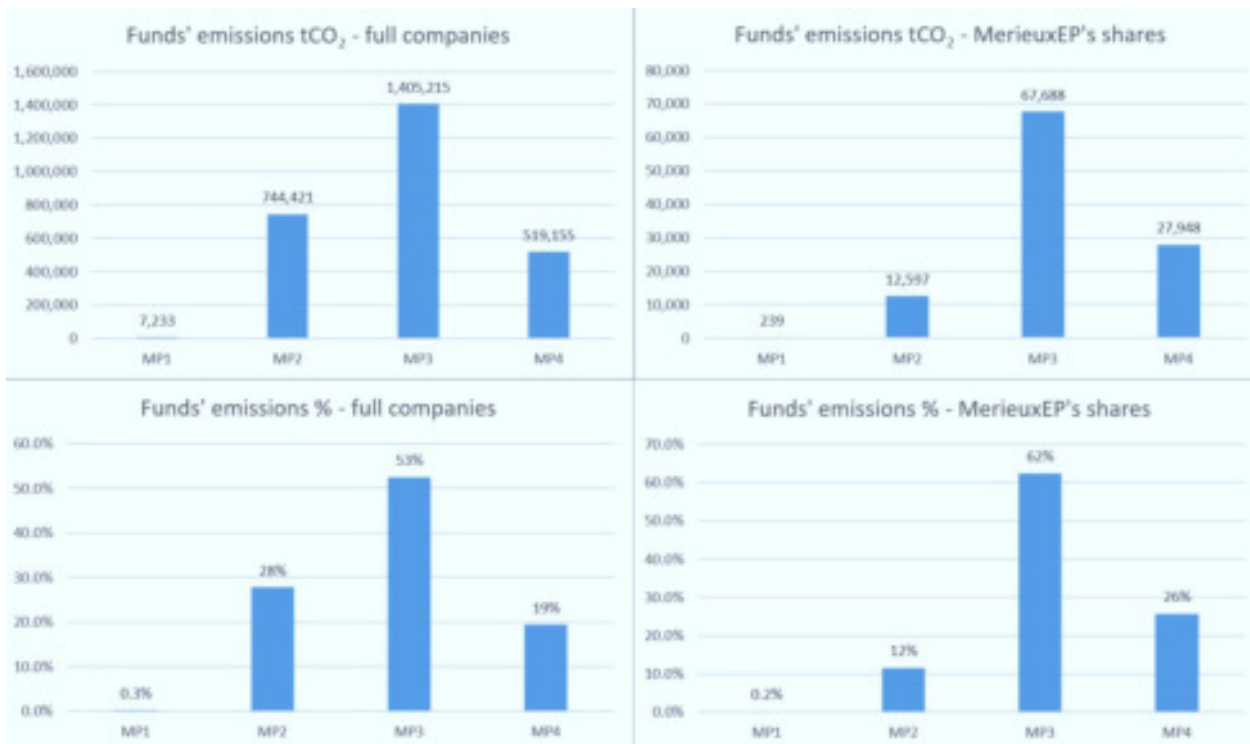
## Results

Based on the methodology described above, it is estimated that PCs in MxEP's portfolio emitted approximately 2.7MtCO<sub>2</sub>e in 2021 (order of magnitude). Based on MxEP shares detention percentage in the PCs, it is estimated that approximately 110ktCO<sub>2</sub>e can be indirectly allocated to MxEP in 2021. This represents a first estimate of MxEP category 15 (Finances) Scope 3 emissions.

Order of magnitude proof-checking:

- The revenues of the 40 PCs assessed represent approximately 10G€ equivalent to 0.43% of France GDP (2300G€ in 2021)
- The estimated GHG footprint of the 40 PCs assessed represents approximately 2.7MtCO<sub>2</sub>e equivalent to 0.42% of France carbon footprint (633 MtCO<sub>2</sub>e in 2017, including import/export)
- Therefore the assessed order of magnitude of portfolio GHG footprint appears to be correct

Details per fund and per PC are presented in the graphs and table below:



*Estimated emissions at fund level based on a top-down approach (orders of magnitude)*

## Companies GHG footprint preliminary profiling

To date, most companies in MxEP’s portfolio have not assessed their Scope 3 emissions through a detailed bottom-up approach (cf. the following section detailing MxEP’s plan to develop these assessments). Therefore, since the top-down approach described above does not allow for the identification of emission reduction levers and action plans, an initial qualitative assessment of MxEP’s PCs emissions profiles was developed.

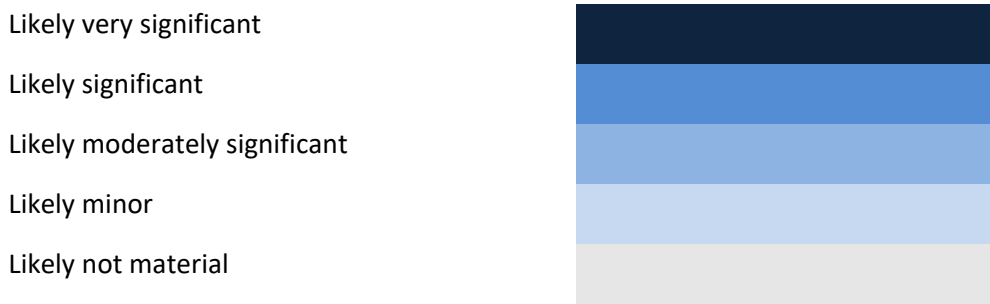
For this purpose, MxEP’s PCs were classified in the five following business categories depending on activity and business model:

- Production of medicines
- Production of medical tools and equipment
- Product distribution (retail)
- Health care services and facilities (building-based)
- Other types of health-related services and solutions, including R&D

Some companies are included in more than one category. For each type of PC, the proportion of expected GHG emissions per emission category was qualitatively assessed by ERM based on a literature review and professional judgment. The resulting overview is presented below:

Main emission categories	Type of company				
	Production of medicines	Production of medical tools/ equipment	Distribution (retail)	Services (health care-related facilities)	Other services (R&D)
Raw materials - chemicals/ pharmaceuticals	Dark Blue	Light Blue	Blue	Blue	Light Blue
Raw materials - others (metals/plastics etc.)	Light Blue	Dark Blue	Blue	Blue	Light Blue
Other purchased goods and services	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue
Capital goods (IT, buildings, purchased equipment)	Blue	Blue	Blue	Blue	Blue
Building-related energy consumption	Blue	Blue	Blue	Blue	Light Blue
Food	Light Blue	Light Blue	Light Blue	Blue	Light Blue
Employee commuting	Light Blue	Light Blue	Light Blue	Blue	Blue
Visitors transport	Light Blue	Light Blue	Light Blue	Blue	Light Blue
Products transportation	Blue	Blue	Dark Blue	Light Blue	Light Blue
Waste	Light Blue	Light Blue	Light Blue	Light Blue	Light Blue

**Significance in the footprint (proportion for a given company type)**



For each GHG emissions category relevant to MxEP’s PCs, a non-exhaustive list of potential emission reduction levers was developed, with a classification of action levers depending on the possibility for the company to have a more or less direct ability of implementation.

Legend:

- 1 – Direct implementation
- 2 – Indirect implementation
- 3 – Sectoral lobbying

<b>Raw materials - chemicals/pharmaceuticals</b>	
Develop products LCA	1
Eco-design of products	1
Implement low-carbon procurement policy	2
Chemical process optimization	1
Energy audit and optimization	1
Relocate production of essential molecules	3
Work with healthcare RA (FDA/EMA) for more stringent ENV. Regulations	3
Promote preventive health care	3
Sectoral initiatives (PSCI)	2&3
<b>Raw materials - others (metals/plastics etc.)</b>	
Develop products LCA	1
Eco-design of products	1
Implement low-carbon procurement policy	2
Energy audit and optimization	1



Promote preventive health care	3
Encourage reuse of medical devices	3
Metal instrument reprocessing	1
Reduced use of single-use plastics and paper	1
<b>Other purchased goods and services</b>	
Implement low-carbon procurement policy	2
Product ban: anesthetic gas with high GWP	1
Anaesthetic gas capture and reuse	1
Shift to low-carbon inhalers (DPIs)	1
Encourage reuse of medical devices	1
<b>Capital goods (IT, buildings, purchased equipment)</b>	
Implement low-carbon procurement policy	2
longer lifetime for capital goods (PC etc)	1
<b>Building-related energy consumption</b>	
Energy audit and optimization	1
Thermal insulation	1
Decarbonize heating systems (district heating, heating pump, biomass etc.)	1&2
Promote energy sobriety / optimizing building usage	1
Sustainable construction (materials and design) and renovation	1&2&3
Staff capacity building and recruitment	1
On site generation of RE & heat	1
<b>Food</b>	
Reduce the proportion of meat (in particular beef) in meals served	1
Assess GHG and financial footprint related to food loss	1
Partner with local association to avoid food waste	2
Product ban: disposable tableware	1
<b>Employee commuting</b>	
Promote active mobility (walk/bike)	1
Promote public transportation	1
Partnership with operators to shape relevant transport services	3

Internal car pooling system	1
EV charging stations	1
Home working policy	1
Switch vehicle fleet to EV	1
Develop e-learning	1
Develop telemedicine	1&3
Help & support employees to move closer to work location	1
Agile and flexible working hours arrangements	1
<b>Visitors transport</b>	
Clear and accessible access plan on website	1
Partnership with operators to shape relevant transport services	3
Preventive medicine	3
Digital care pathways	1
Electrification of vehicles	3
<b>Products transportation</b>	
Local sourcing	1
Source reusable instead of disposable (medical device)	1
Load factor optimization	2
Sustainable logistics (transport mode, optimized routes)	2
<b>Waste</b>	
Source reusable instead of disposable (medical device)	1
Develop capacity building for repair & reuse & sterilization of medical devices	1
Develop sectoral recycling initiative for disposable medicine device	3
Reduce the share of hazardous pharmaceutical waste (DASRI)	1&3
Improve sorting practices for infectious and non-infectious pharmaceutical wastes	1
Systematic implementation of composting valorisation for organic wastes	1

The relevance and priority level of the potential emissions reduction actions listed above for each company will need to be refined on the basis of a detailed bottom-up GHG assessment for each PC.

## 1.b. Bottom-up approach for GHG footprinting

In order to refine the relevance of GHG emissions reduction plans for our PCs, MxEP's plan is to develop a bottom-up approach to assess GHG footprints (more precise than top down approach) for an increasing proportion of PCs over time, according to the following envisaged calendar:

- By the end of 2022: perform a detailed bottom-up GHG footprint assessment for year 2021 of two PCs to be used as case-studies for the rest of the PCs
- In 2023, assess GHG footprints with a bottom up approach for:
  - 80% of PCs in MP4 fund
  - A selection of PCs in funds MP1, MP2 and MP3 allowing to cover more than 50% of the amounts invested by MxEP (defined based on maturity, MxEP influence on management, results from top down assessment etc.)
  - 80% of new PCs
- In 2024, assess GHG footprints with a bottom up approach for 80% of all funds.

## 2. Reduce emissions related to all portfolio companies

### Target setting

MxEP will therefore define emissions reduction targets based on the guidance developed for financial institutions by the Science Based Targets initiative (SBTi).

MxEP will use 2022 as baseline year to define emissions reduction targets.

There is currently no sectoral decarbonization targets defined by the STBi for the health sector. Therefore, MxEP envisages to adopt the SBT Portfolio Coverage Approach which also presents the advantage of requiring PCs' to be reviewed through SBTi's rigorous, best-practice validation process.

This is an engagement-based approach best described as a 'target of targets', whereby the PE firm is required to set a five year target, using a selected metric (GHG or financial), to sufficiently cover PCs setting their own SBTs, in line with a linear trajectory to 100% of PCs setting SBTs by 2040. Since 0% of MxEP PC has set SBT in 2022, it would mean that SBT coverage objective would be approximately 44% in 2030 (at least 44% of MxEP PC's should have set SBTs by 2030, this percentage being estimated based on GHG induced emissions or investment amount).



*SBT portfolio coverage approach overview*

MxEP invests on a regular basis in small and medium-sized enterprises (SMEs) for some of its funds under management. Recognizing the significant role SMEs must play in global climate action - while considering the limited resources available to companies of this size - the SBTi has established a separate expedited route for SMEs. SBTi's SME route is relevant to PE firms interested in engaging PCs with fewer than 500 employees to set approved scope 1 and 2 emissions targets.

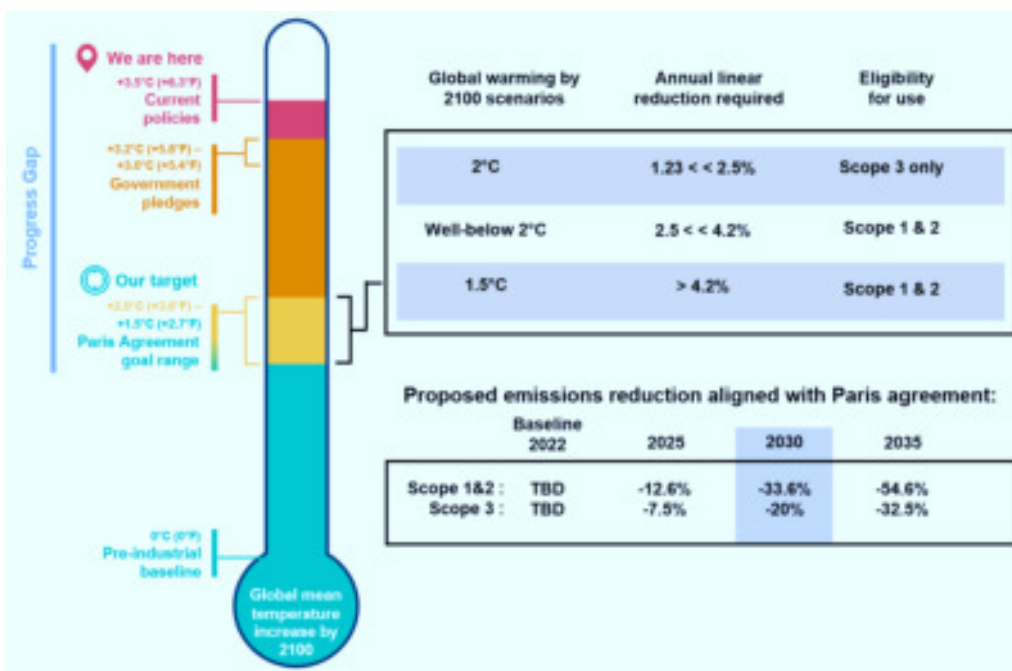
SBTi defines SMEs as a non-subsiary, independent company which employs fewer than 500 employees. In order to set a target and to get it validated by the SBTi, the first step for a company is to submit a commitment letter to the SBTi establishing its intent to set a science-based target. By signing the SME Target Setting Letter, SMEs commit to working towards achieving a scope 1 and 2 targets, measuring scope 3 emissions, and publicly reporting their scope 1 and 2 emissions and target progress on an annual basis.

However, MxEP will direct PCs with more than 500 employees to the regular SBTi validation route.

In case of difficulties to engage every firm to set approved SBTs (especially where MxEP holds a small percentage of shares in PCs), a complementary temperature rating approach could be considered at a later stage.

**Illustration of possible SBT targets at a company level:**

In line with SBTi requirements, PCs with more than 500 employees would set targets in line with a 1.5°C scenario for Scope 1 & 2 emissions and in line with a well-below 2°C scenario for Scope 3 emissions (if Scope 3 represents more than 40% of the PC GHG footprint). The minimum requirements to align with these scenarios are a 4.2% annual linear reduction for Scope 1 & 2 (33.6% reduction in 2030 compared with 2022) and a 2.5% annual linear reduction for Scope 3 (20% reduction in 2030 compared with 2022).



In the longer term, MxEP aims to reach Net Zero by 2050.

### Emissions reduction strategy

Overall, considering the sectoral specialization of MxEP investments in the Health sector, MxEP priority will not be divestiture from high-carbon sectors/companies. Rather, MxEP will engage its PCs to develop and improve their climate plans including through a transition to low-carbon business models.

MxEP emissions reduction strategy will involve the following pillars:

- Training:
  - MxEP plans to train 100% of its investment teams about Climate change and climate-related risks.
  - MxEP plans to engage its PCs to train management and employees on Climate change and climate-related risks.
  
- Exclusions: MxEP is strategically and structurally focused on financing the health and nutrition sectors. MxEP commits to remain 100% focused in these sectors and as a result we will not finance activities primarily related to the production (extraction, refinery, etc.) of coal, non-conventional fossil fuel or even conventional fossil fuel (including petrol and fossil gas (so-called “natural gas”)).
  
- Development of SBT coverage at PC level (cf. previous section)

- Definition of high-level emissions reduction road maps at PC level (cf. previous section)
- Progress tracking will be included in annual ESG reporting
- The opportunity of obtaining a climate label was also assessed. It appears that currently the most robust labeling systems (such as greenfin) are not suited to MxEP's investments.

### **3. Offset residual emissions which cannot be reduced**

MxEP will likely consider offsetting its residual emissions at a later stage through the development of nature-based projects. In line with best practice, MxEP wants to focus its initial efforts on measuring and reducing our emissions. Offset options will therefore be assessed at a later stage.

## **VI Biodiversity**

### **Our commitment**

In light of the IPBES Global assessment report on biodiversity and ecosystem services, MxEP recognizes the need to take into account biodiversity in its decision-making process.

As stated by 2021 Global Assessment report on Biodiversity and Ecosystem Services,

“Nature is essential for human existence and good quality of life. Most of nature’s contributions to people are not fully replaceable, and some are irreplaceable.”

“Goals for conserving and sustainably using nature and achieving sustainability cannot be met by current trajectories, and goals for 2030 and beyond may only be achieved through transformative changes across economic, social, political and technological factors.”

### **Our strategy**

MxEP is willing to contribute to lessen the adverse impacts of the Health sector on biodiversity and ecosystem services through an investment strategy aligned with the principles of 1992 Convention on Biological Diversity (CBD).

MxEP strategy revolves around the three following axes and will start from Q1 2023 :

1. Assess PC's impacts on and dependencies to biodiversity and ecosystem services
2. Accordingly, evaluate MxEP and PC alignment and contribution to the long-term objectives of the CBD
3. Set action plans to reduce impact and dependency

## **1. Impact and dependency to biodiversity assessment**

- a. PC's impacts on Biodiversity (inside-out = transition risks)

MxEP will use existing databases (such as <https://encore.naturalcapital.finance/en>) to assess PC's impact on Biodiversity. ENCORE database provides an impact materiality level (high to non-material) for a set of 11 biodiversity indicators for each activity sector.

MxEP will request PCs to report material KPIs (taking into account potential impacts as well as PC's resources) and compare PC's performance to benchmark indicators in order to set impact reduction/improvement objectives.

Impacts will be consolidated at a portfolio level through indicators such as MSA (mean species abundance, Globio) Index or PDF (potentially disappeared fraction of species).

- b. Dependency matrix (outside-in = physical risks)

MxEP will also assess its PC's activities against their dependency to the ecosystem services (e.g. using ENCORE screening approach). The resulting heatmap will highlight the main portfolio dependencies and the potential need for targeted additional in-depth assessments and action plans.

## **2. Contribution to long-term CDB objectives**

As per the 1992 Convention on Biological Diversity, there are 4 long-term objectives guiding biodiversity conversation:

- The conservation of biological diversity (stock)
- The sustainable use of ecosystem services
- The fair and equitable sharing of the benefits arising from the utilization of resources (e.g., access to genetic resources and transfer of technology)
- Appropriate funding to achieve these objectives

MxEP is willing to support these goals and to align its investments accordingly. MxEP detailed alignment strategy will be developed once international biodiversity goals have been finalized and published by the United Nations Biodiversity Conference of the Parties (COP).

### **3. Identifying the main levers to be implemented**

Action plans to reduce impacts and dependency on biodiversity at PC level will be developed at a later stage depending on the results from the previous phases to prioritize actions. An initial preliminary high-level assessment suggests that the main levers could be related to water preservation (surface water and groundwater).

## **VII Sustainability risk management**

### **Identification of relevant sustainability risks**

The ESG team manages the assessment of sustainability risks.

Sustainability risks and Principal Adverse Impacts (PAI) are both considered mainly:

- during the pre-investment phase: using the SASB Materiality Map as a first screening tool and then more thoroughly during the due diligence process depending on the nature of the investment company (activities, size, geographies, etc.). All findings are integrated in the investment memo sent to the investment committee.
- during the ownership phase: On the first year of ownership, a detailed ESG review is conducted, after which a set of KPIs is tracked annually (which include the monitoring of PAI as per the SFDR regulation for funds aligned with Article 8), again allowing to identify, quantify exposure to and manage sustainability risks



throughout ownership. Subsequent year's information of the ESG review is updated if necessary.

Information on sustainability risks and PAI will be reported to investors through dedicated annual reports.

## **Climate-related risks**

Climate-related risks are treated in the same way as other risks during the different phases of the investment cycle. However, MxEP has taken the following additional commitments during the ownership phase with regards to climate-related risks:

- Calculation of scope 1 and 2 greenhouse gas emissions for all portfolio companies during ownership. Scope 3 emissions are calculated on a top-down approach for now and MxEP is developing a bottom-up approach for the years to come
- Development and implementation of an alignment strategy over the 2-degree scenarios – this alignment strategy will be divided into milestones to take into consideration MxEP's limited size and resources (such as scope 3 coverage, emissions compensations, etc.), and
- Annual inclusion of climate-change on the agenda of a Board of Directors meeting agenda.

## **Identification of biodiversity risks**

Biodiversity risks will be included in the sustainability risks screened by MxEP during due diligence once international biodiversity goals have been finalized and published by the United Nations Biodiversity Conference of the Parties (COP).

As such, MxEP will strive to align with international goals as soon as they are published.