



SAGARD 3, ANNUAL ESG FUND REPORT

FISCAL YEAR 2021



SUMMARY

P2

SUMMARY AND KEY FIGURES OF SAGARD 3 (2021)

P3-7

1_ PRESENTATION AND OBJECTIVES

- Sagard, a responsible investor
- A regulatory ecosystem requesting more transparency
- Presentation of Sagard's commitments

P8-10

2_ GOVERNANCE AND RESOURCES

- Presentation of the ESG governance at Sagard
- Internal and external resources dedicated to ESG at Sagard

P11-15

3_ ESG APPROACH AND PERFORMANCES

- Presentation of the ESG approach and sustainability risk management
- ESG characteristics of Sagard 3
- Engagement strategy with the management of portfolio companies
- Exclusion policy

P16-17

4_ ELIGIBILITY OF THE PORTFOLIO TO THE EUROPEAN TAXONOMY

- Mapping of the Fund's portfolio companies according to the EU taxonomy

P18-20

5_ STRATEGY TO COMBAT CLIMATE CHANGE AND PRESERVE BIODIVERSITY

- Presentation of the climate strategy
- Presentation of the biodiversity strategy

P21

APPENDIX

- Cross-reference table between Art.29 LEC and this report

SUMMARY AND KEY FIGURES OF SAGARD 3 (2021)

The Fund Sagard 3, hereafter "Sagard 3", was created in 2013 and supports all types of equity investment projects, with solutions ranging from minority or majority stakes and from LBOs to business development financing.

Sagard 3 is a mid-cap investment fund with a multi-specialist focus on business services, healthcare, food & consumer, focused industrials. It makes majority or minority equity investments of €30 million to €100 million in businesses led by ambitious management teams seeking a partner to help accelerate their development.

The Sagard 3 investment team is composed of eleven people, including four partners, three directors, and four associates with complementary skill sets and experience, who have been working together for more than ten years.

NINE PORTFOLIO COMPANIES AT 31 DECEMBER 2021



Invested in 2015

Safic Alcan is a speciality chemicals distributor based in Europe and the United States.



Invested in 2016

Founded by the Prosol Group, the Grand Frais chain brings the city-centre style food market to the suburbs, offering fresh, quality products at competitive prices.



Invested in 2016

Healthy Group is a group of pharmacies that leads and federates a network of 400+ pharmacies located in major urban centres across France.



Invested in 2018

Climater is a leading French regional specialist in climate engineering (installation and maintenance of heating, ventilation and air conditioning systems).



**Invested in 2015
and in 2018**

Alvest is the global market leader in airport ground support equipment.



Invested in 2019

Sabena technics is a European leader of MRO (Maintenance, Repair & Overhaul) of civil and military aircrafts.



Invested in 2019

Vulcain Ingénierie is a leading specialized engineering company, with a focus on Energy, Oil&Gas, Pharma and Infrastructures.



Invested in 2019

Sterimed is a leading global provider of medical sterilization packaging solutions for hospitals and medical devices manufacturers.



Invested in 2020

Ceva is the world's seventh largest veterinary pharmaceuticals company, one of the leading independent producers and number two worldwide in poultry vaccines.



1_

PRESENTATION AND OBJECTIVES



1. PRESENTATION AND OBJECTIVES

1.1. Sagard, a responsible investor

1.1.1. Through our very own identity

The management company, Sagard SAS, hereafter “Sagard” has long adopted a responsible approach to investment, in line with its identity:

- A family heritage and an entrepreneurial culture
- A proactive contribution to value creation
- A flexible, responsive organisation

At the heart of Sagard’s identity, Corporate Social Responsibility is a pillar of our approach to the different investments.

1.1.2. Through our beliefs

Sagard believes that effective, responsible management of ESG factors generates value for each of its investments, limits the risks that could have a significant impact on long-term performance and helps identify the best opportunities. In addition to playing a meaningful operational role, ESG factors also serve to transform companies by contributing to their solidity and the resilience of their operations, while creating development opportunities.

Integrating ESG criteria into the investment policy is therefore a strategic avenue and a conscious commitment for the development of Sagard’s business.

1.1.3. Through our commitments

In May 2014, Sagard signed the Charter for Capital Investors created by French private equity association AFIC (since renamed France Invest), which highlights the importance of shared value creation, the long-term growth and development of companies, good governance, and transparency.

In 2017 Sagard formalised an ESG policy and adopted a reference framework and procedures ensuring that ESG factors are considered throughout the investment cycle for majority investments held by Sagard 3. At the same time, Sagard’s investment teams are made aware of ESG challenges and perform via synthetic ESG due diligences, feedback and follow-up meetings with the portfolio company’s management.

In addition, Sagard joined the International Climate Initiative in May 2017 to participate as a member of the private equity profession in addressing the issue of climate change, one of the major international challenges of the decades to come.

In July 2020, Sagard signed the United Nations Principles for Responsible Investment (UNPRI).

Sagard’s responsible investment policy adopted in 2017 (also known as the “ESG policy”) was redefined in 2021. It now covers all of Sagard’s new investments, majority and minority owned and confirms its commitment to integrating ESG and climate-related criteria into its investment approach. A Sustainability Director has also been hired to oversee the implementation of this new policy.

Since 2022, Sagard is involved in two working groups affiliated to the France Invest Sustainability Commission on training and on decarbonation.



1. PRESENTATION AND OBJECTIVES

1.2. A regulatory ecosystem requesting more transparency

1.2.1. Description of the various regulatory evolutions in the extra-financial reporting framework

Financial institutions are now requested to report on their ESG strategy, its implementation and the results achieved, in accordance with the regulations that apply to the fund:

- The European regulation Sustainable Finance Disclosure Regulation (SFDR) is a set of EU rules which aims to make the sustainability profile of funds more comparable and better understood by end-investors, came into effect in 2021.

Sagard 3 is not required to comply with the SFDR as its marketing period ended before 2021 and is therefore not classified.

- French regulation requests financial institutions to disclose ESG characteristics of their funds through the Article 29 of the Energy-Climate Act, that replaced the Article 173 of the Energy Transition Act. The main change is the inclusion of biodiversity-related and climate-related risks in the information to be published by management companies and institutional investors.

Due to the fund size, Sagard 3 is requested to disclose information under Article 29 of the French Energy-Climate Act.

1.2.2. Information on transparency and the communication strategy for ESG issues

Sagard publicly promotes ESG and communicates on the matter with all stakeholders.

Convinced it can help create added value for the portfolio companies and Sagard 3's overall performance, Sagard is committed to collecting, analysing and publishing extra-financial data on some of its funds on an annual basis.

Sagard's ESG strategy is communicated to its investors on a regular basis. ESG information is annually provided in Sagard 3's Annual Report. In 2022, a specific Sustainability Report will be published in addition to this dedicated ESG fund report.

Last, information about Sagard's responsible investment approach is available on our corporate website, in a dedicated section which includes a presentation of our sustainability policy.

On a more informal basis, ESG and climate-related questions may be asked via email to esg@sagard.com. Sagard is committed to answering any questions from stakeholders.



1. PRESENTATION AND OBJECTIVES

1.3. Presentation of Sagard's commitments

1.3.1. Summary of 2021 actions

2021 was a decisive year for Sagard on sustainability and ESG. Sagard has carried out several projects to structure its ESG policy and processes:

Strengthen Sagard's ESG strategy

Update of the ESG policy (more information in the next sub-section)

Scope for ESG due diligence process extended to minority deals in addition to the majority deals for the funds Sagard 4 and Sagard NewGen

ESG training of the investment teams both on the new ESG strategy and the ESG audit toolkit

Setting up of a Diversity and Inclusion committee

Improve Sagard's environmental impact

Carbon footprint assessment at Sagard level of 2019 & 2020

Drafting of an action plan to reduce its carbon emissions

Offsetting of CO₂ emissions with carbon credits

Support and improve ESG performances of portfolio companies

Sustainability handbook

Annual ESG questionnaire for each fund

Templates for portfolio companies:
- Code of conduct -
- Gender equity charter -

Implementation of a reporting tool for ESG data collection and monitoring

KPIs dashboard of the fund's ESG performances

1. PRESENTATION AND OBJECTIVES

1.3.2. Presentation of the new ESG policy and 2022 targets

To further deepen its commitment to social responsibility and sustainability, Sagard has defined a new sustainability strategy in 2021 which applies to all its funds, created since 2019. The policy covers both new minority and majority investments. It is based on concrete objectives to be achieved both at the level of Sagard and portfolio companies.

Sagard's ambition for sustainable development is reflected in an action plan consisting of four objectives. These objectives are linked to five UN Sustainable Development Goals Sagard considers as key.





2_

GOVERNANCE AND RESOURCES



2. GOVERNANCE AND RESOURCES

2.1. Presentation of the ESG governance at Sagard

2.1.1. Description of Sagard's governance bodies in charge of ESG

Responsibilities are clearly defined.

The Managing Director in charge of Administration and Finance ensures the effective compliance of the Fund's practices with ESG policies.

It is supported at company level by the Sustainability Director as well as an ESG Steering Committee, and at Fund level by a contact partner.

The Managing Director and the Sustainability Director oversee:

- The coordination of changes to Sagard's ESG policy.
- The monitoring of compliance with the ESG policy and track appropriate performance ratios.
- The reporting to the ESG Steering Committee, Management Committee and Incentive Committee.
- Investors' relations in the context of ESG.
- Stakeholder communications (e.g., sustainability report).

The ESG Steering Committee is responsible of:

- Validating changes in the ESG policy.
- Assessing the ESG performance.
- Validating the communication proposed by the Managing Director.
- Coordinating with the investment teams when necessary.

The ESG Team responsibilities are further detailed (see section 2.2).

For Sagard 3, the contact partner for ESG matters is Maxime Baudry. He oversees the effective implementation of ESG and sustainability processes within Sagard 3.

2.1.2. Inclusion of ESG criteria in the remuneration policy

As a regulated management company, Sagard has a remuneration policy which, in accordance with regulatory requirements, includes elements relating to risk management, and thus sustainability risks.

In 2021, a profit-sharing scheme (plan d'intéressement) was voted and implemented at Sagard for all employees. Part of the amount depends on the achievement of three ESG criteria which are:

- The management company's carbon footprint assessment and the compensation of its CO₂ emissions.
- The integration of an established ESG action plan for all portfolio companies of Sagard 4 and Sagard NewGen up to 12 months after the investment.
- The annual monitoring of such ESG action plans by the Supervisory Board.



2. GOVERNANCE AND RESOURCES

2.2. Internal and external resources dedicated to ESG

● Full time employees dedicated to ESG

The Sustainability Director coordinates and supports the work of Sagard 3's investment team on sustainability matters, such as the monitoring of the ESG performance of each investment.

He also prepares the ESG reports sent to LPs, based on the information collected by the investment teams and the ESG reporting campaign.

● Training on ESG issues

Sagard aims to involve all employees on ESG issues.

At least one training session on ESG topics per year is provided to Sagard 3's investment team.

In 2021, the training session was related to Sagard's new ESG policy and the support on ESG issues for newly invested companies.

● Budget dedicated to ESG

In 2021, Sagard's budget on ESG was significantly increased.

● Use of external service providers

To support the management team as well as the portfolio companies throughout the investment cycle, Sagard may call on external service providers:

- At Sagard level, to support the update of ESG policies, processes and conduct ESG trainings.
- At portfolio companies level, to conduct systematic ESG due diligences, sustainability vendor due diligences (whenever suitable) and to conduct cybersecurity and carbon footprint assessments.



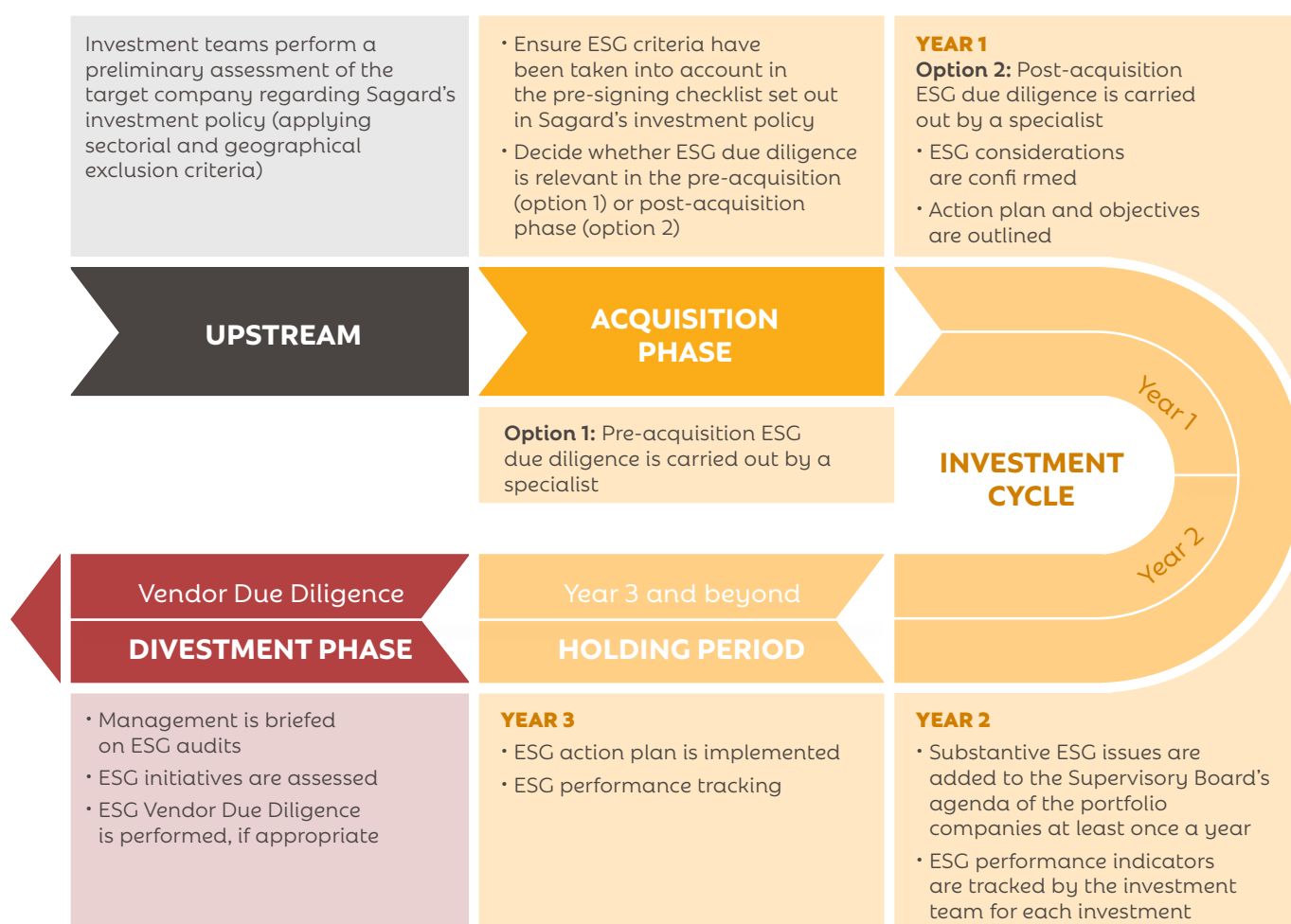
3_ ESG APPROACH AND PERFORMANCES

3. ESG APPROACH AND PERFORMANCES

3.1. Presentation of the ESG approach and sustainability risk management

3.1.1. Integration of ESG in the investment strategy

Sagard's responsible investment policy, applied to Sagard 3, provides a framework in which ESG criteria are considered throughout the investment cycle, from the acquisition phase, through portfolio management, to divestment. Sagard takes ESG considerations into account in its investment process for majority investments and in selecting investment opportunities.





3. ESG APPROACH AND PERFORMANCES

3.1.2. Description of the identification and consideration of ESG risks

ESG criteria provide a new perspective on the risks and opportunities of a company's business model and its management. These criteria are based on data that cover a wide range of aspects, ranging from human resources management, environmental criteria, to governance issues.

The analysis of ESG risks is carried out by the Sagard's ESG and investment teams on majority investments and is based on the externally conducted ESG due diligences. This analysis (i) assesses the global performance of the company, (ii) aims to identify and anticipate ESG trends and regulatory evolutions, and (iii) includes a benchmark of this portfolio company against competitors to identify the industry's ESG risks and best practices.

3. ESG APPROACH AND PERFORMANCES

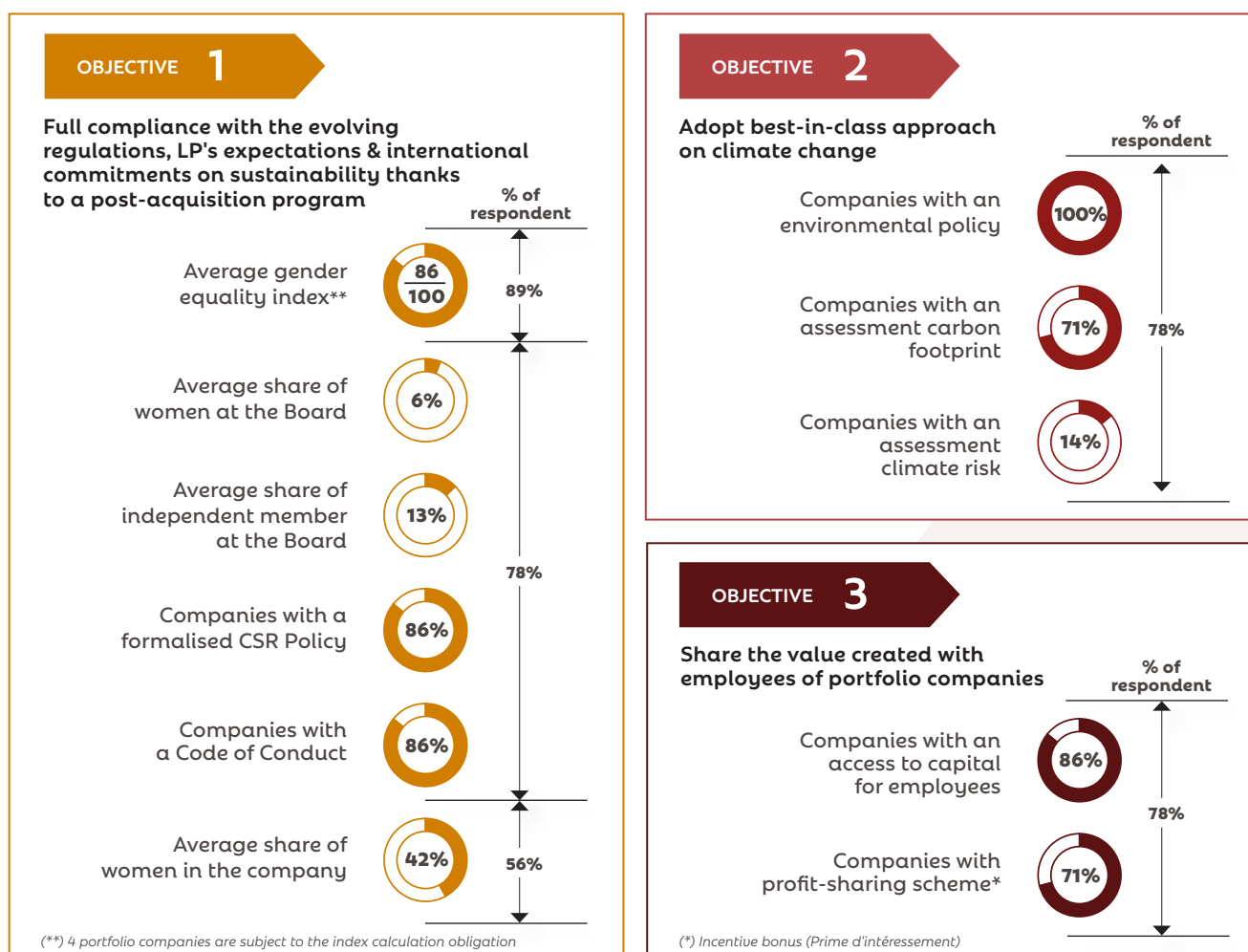
3.2. ESG characteristics of Sagard 3

In 2021 Sagard has launched an ESG performance assessment campaign through a detailed questionnaire sent to every Sagard 3 portfolio company. Sagard has worked with an ESG data collection platform (Tennaxia) to develop a questionnaire and

collect the data, which will then be used to produce a report and monitor the extra-financial performance of the portfolio companies.

This report is the first step towards analysing and evaluating the performance of the fund.

3.2.1. Presentation of the portfolio companies and their global ESG performance in 2021*



*The data and information collected are based on the companies' declaration for 2021 and have been consolidated on April 22, 2022.



3. ESG APPROACH AND PERFORMANCES

3.3. Engagement strategy with the management of portfolio companies

3.3.1. ESG Handbook and post-acquisition integration program

As part of its Responsible Investment Policy, Sagard is committed to ensuring that its portfolio companies implement best practices in sustainable development by providing practical and close support.

An ESG handbook has been designed both for the management teams and the person in charge of CSR issues within the portfolio companies.

In view of the ever-growing, ever-evolving sustainability landscape, the aim of this ESG handbook is to (i) raise awareness among the portfolio companies' management teams of the expectations and requirements they are expected to meet under Sagard's ownership and (ii) support them in implementing the related initiatives.

This ESG handbook proposes tools to support the portfolio company in the development of a comprehensive sustainability strategy:

Identify and comply with regulations

→ Summary of sustainability regulations

Draft a Code of Conduct

→ Code of Conduct template

Draft a sustainable procurement policy

→ Procurement principles

Sign a Declaration of conformity with Sagard's principles

→ Declaration of conformity

Select a provider for cybersecurity audit

→ Cybersecurity audit providers

Select a partner to measure the CO₂ footprint

→ Methods to assess Carbon Footprint

Perform a Sustainability Assessment

→ Sustainability assessment

Report on selected sustainability indicators

→ Sustainability Reporting Tool

3.4. Exclusion policy

In line with its values and investors' demands, Sagard has adopted an exclusion policy which is specific to Sagard 3. The exclusion policy lists sectors and activities and defines whether the exclusion is total (regardless of the share of such activity within the company's turnover) or partial (according to a maximum share of turnover of the listed activity).



4. ELIGIBILITY OF THE PORTFOLIO TO THE EUROPEAN TAXONOMY

4. ELIGIBILITY OF THE PORTFOLIO TO THE EUROPEAN TAXONOMY

The European Taxonomy regulation aims to establish a classification of economic activities to determine those that can be considered "environmentally sustainable" or "green". The aim is to redirect investments towards activities that are favourable to the energy and ecological transition, particularly those that contribute to the fight against global warming.

4.1. Mapping of the fund's portfolio companies according to the EU taxonomy

Sagard conducted an initial assessment of the eligibility of its portfolio companies' activities based on

the two objectives in effect defined by the European taxonomy. The mapping indicates whether the portfolio companies have a part of their business activities that could potentially make a substantial contribution to one or more of the taxonomy's objectives.

To identify the potential eligibility of a company to the European Taxonomy, Sagard has checked which economic activities for the company's sector are considered taxonomy relevant (considering the NACE code, Nomenclature of Economic Activities, and the type of activity). To go deeper, Sagard reviewed the associated objectives and technical screening criteria to ensure the company's potential substantial contribution.

Table analysing the contribution of the economic activities of portfolio companies to the environmental objectives of the European taxonomy

		Alvest	Ceva	Groupe Climater	Groupe Prosol	Healthy Group	Sabena Technics	Safic Alcan	Sterimed	Vulcain Engineering
EU taxonomy objectives	Climate adaptation			Installation, maintenance, & repair of energy efficiency equipment - Installation & operation of electric heat pumps						Engineering activities and related technical consultancy dedicated to adaptation to climate change
	Climate mitigation									
	Water & marine resources	Economic activities contributing to these objectives are not yet defined by the EU Taxonomy								
	Circular economy									
	Pollution & prevention control									
	Biodiversity prevention & control									

■ No substantial contribution to EU taxonomy objectives identified as now

■ Potential substantial contribution to EU taxonomy objectives identified

Regarding these two first objectives, businesses of two portfolio companies of Sagard 3 have a potential substantial contribution to climate adaptation objective of EU taxonomy. Once the economic activities that have been selected as contributing to the other four objectives are defined by the European Union, a new assessment will be conducted.



5_ STRATEGY TO COMBAT CLIMATE CHANGE AND PRESERVE BIODIVERSITY



5. STRATEGY TO COMBAT CLIMATE CHANGE AND PRESERVE BIODIVERSITY

5.1. Presentation of the climate strategy

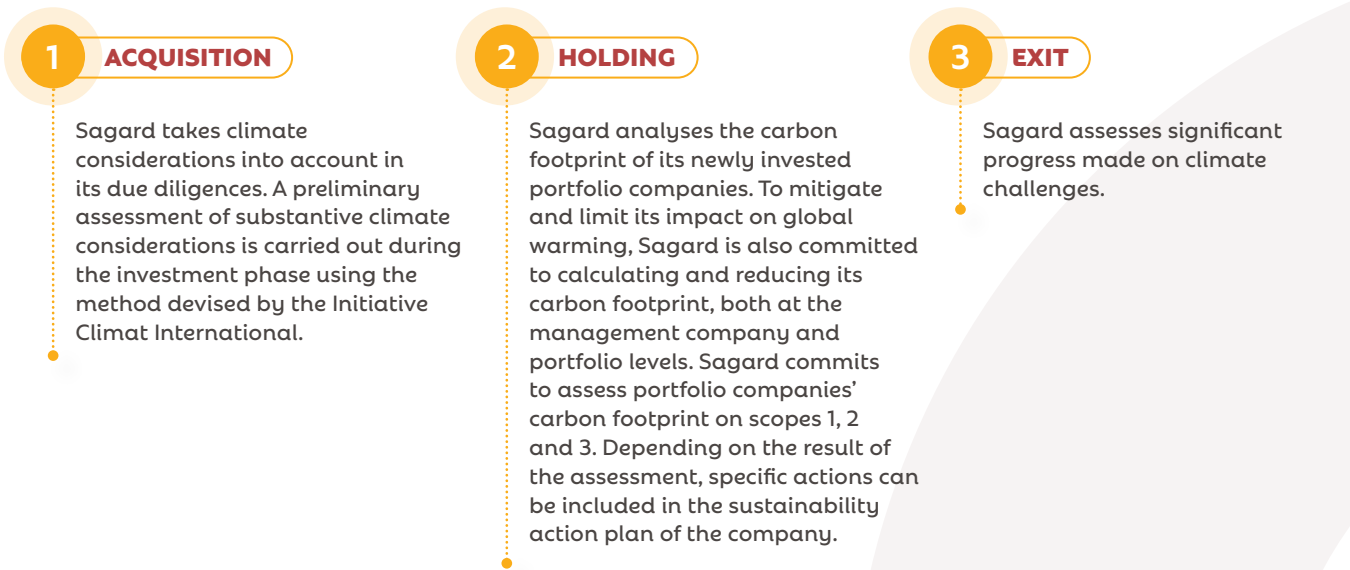
5.1.1. Description of Sagard’s objectives on climate and alignment with the Paris Agreement

Climate issues are integrated into Sagard's Sustainability policy and are systematically addressed for each investment. Sagard 3 considers both the impact of its activities and those of its portfolio companies on climate change (carbon emissions) as well as the physical and transition risks faced by its portfolio companies.

Since 2021, Sagard is committed to ensuring that all newly acquired portfolio companies have conducted a carbon footprint assessment within 12 months after acquisition. To that end, Sagard provides the portfolio companies with a list of selected preferred external consultants.

This process is aligned with the principles of the Initiative Climat International (ICI), of which Sagard became a member in 2017. ICI is the first private equity initiative that supports efforts to manage and reduce greenhouse gas emissions by companies. The ICI signatories decided to work together to support the campaign to achieve the COP21 target of limiting global warming to well below 2°C and in pursuit of 1.5°C.

To meet these challenges, Sagard’s strategy is divided into three phases:



Sagard’s Climate strategy and results are communicated to investors on a regular basis, along with general information on sustainability. Sagard aims to pursue its climate and related risks strategy in the coming months.



5. STRATEGY TO COMBAT CLIMATE CHANGE AND PRESERVE BIODIVERSITY

5.1.2. Example of portfolio company with best practices on climate

- **Sterimed** has formulated environmental commitments in its annual CSR Report, focusing on measuring, controlling, and reducing the carbon footprint of its activity, and carrying out concrete actions.
- For example, **Sterimed** has implemented several of the Best Available Techniques (BATs) related to industrial emissions in place at its Palalda site.
- The Group installed a biomass energy production plant there to replace almost all the fossil fuels previously used. This represents 16,000 tons of CO₂ emissions avoided in the production process each year since 2014.

5.2. Presentation of the biodiversity strategy

5.2.1. Description of Sagard's objectives on biodiversity

Sagard is committed to sound environmental management, pollution prevention and the preservation of biodiversity in its operations and investments.

Sagard will further define its biodiversity and related risks strategy in the coming months.

APPENDIX

Cross-reference table between Art.29 LEC and this report

Mapping of the section of this report with the mandatory article of the Art.29 of the « Loi Energie Climat » (Decree No. 2021-663 of 27 May 2021 pursuant to Article L. 533-22-1 of the Monetary and Financial Code):

SUB-SECTION OF THIS REPORT	SUB-SECTION 2 OF THIS REPORT	DECREE IMPLEMENTING ARTICLE 29 OF THE "LOI ENERGIE CLIMAT"
1.3 Presentation of Sagard commitments	1.3.2 Presentation of the new ESG policy and 2022 targets	1° General approach of the entity
2.1 Presentation of the ESG governance at Sagard	2.1.1 Description of Sagard's governance bodies in charge of ESG 2.1.2 Inclusion of ESG criteria in the remuneration policy	3° ESG governance within the financial entity
2.2 Internal and external resources dedicated to ESG		2° Internal and external resources allocated by the entity
3.1 Presentation of the ESG integration approach and sustainability risk management	3.1.1 Integration of ESG in the investment strategy 3.1.2 Description of the identification and consideration of ESG risks	8° Integration of ESG risks in risk management
3.2 ESG characteristics of Sagard 3	3.2.1 Presentation of the portfolio companies and their global ESG performance in 2021	1° General approach of the entity & continuous improvement measures
3.3 Engagement strategy with the management of portfolio companies	3.3.1 Handbook and post-acquisition integration program	4° Engagement strategy with issuers or managers 5° Sustainable investments (aligned with the Taxonomy) and investment in fossil fuels
3.4 Exclusion policy		
4.1 Mapping of the Fund's portfolio companies with the EU taxonomy		5° Sustainable investments (aligned with the Taxonomy) and investment in fossil fuels
5.1 Presentation of the climate strategy	5.1.1 Description of Sagard's objectives on climate and alignment with the Paris Agreement 5.1.2 Example of portfolio companies with best practices on climate	6° Strategy for alignment with the Paris Agreement
5.2 Presentation of the biodiversity strategy	5.2.1 Description of Sagard's objectives on biodiversity	7° Biodiversity alignment strategy