

2022

# Responsible Investment Report

 ALPINVEST



# A letter to our partners

I am pleased to introduce you to this 2022 edition of our AlInvest Responsible Investment (RI) Report and to update you on the progress and achievements in our RI journey.

AlInvest, part of Carlyle's Global Investment Solutions (GIS) segment, seeks to provide investors with access to global private markets through primary, secondary and co-investment opportunities across a range of strategies.

RI is a critical component of our philosophy. Sustainability and ESG are increasingly important for the business community, and taking a proactive approach to RI gives us the power to help deliver more value to our investors that are increasingly looking for sustainable investment solutions.

AlInvest started its RI journey in 2008, and today I am proud of how it has been embraced throughout the organization over the years. For example, it was a true team effort to meet all key performance indicators (KPIs) of the ESG-linked credit facility for our Co-Investment Fund VIII that were set for 2021, its inaugural year. I am also very proud that this year 78% of our team included a diversity, equity and inclusion (DEI) objective as part of their personal performance plan.

We believe in the power of industry engagement for meaningful change. We work with our fellow investors and sponsors to help drive the industry forward. For example, last September we launched the ESG Data Convergence Initiative<sup>1</sup> together with a group of other leading limited partners (LPs) and general partners (GPs). We are very pleased to see this initiative gaining great traction in the industry. And earlier this year, we joined Initiative Climat International (iCI) to work with other investors on actions to address climate change risks in private equity portfolios. As we consider ways to impact the industry more broadly, we also strive to set an example within our own community. We are part of Carlyle, which in 2021 will reach its fifth year of carbon neutrality across its own corporate activities.

We are committed to continuously developing and evolving our RI approach and look forward to pursuing this journey with our team and alongside our partners.



Sincerely,

**Ruulke Bagijn**  
Head, Carlyle Global  
Investment Solutions

Ruulke Bagijn is Head of Carlyle's Global Investment Solutions segment and Chair of the Board of AlInvest. Ruulke is a member of the AlInvest Investment Committee, the Carlyle Diversity & Inclusion Council and Carlyle's Leadership Committee.

<sup>1</sup>: LAUNCHED AS THE ESG DATA CONVERGENCE PROJECT IN SEPTEMBER 2021

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# Our recent highlights

.....●  
This year has been a time for deepening our commitment to RI and reflecting on the results of our efforts.

850+

.....●  
Investment opportunities diligenced on RI since 2009  
AS OF MARCH 31, 2022

78%

.....●  
GIS colleagues stating a specific DEI performance objective  
AS OF MAY 1, 2022

100%

.....●  
KPIs of our ESG-linked credit facility were met

# Our longstanding commitment to responsible investment

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# 02

## Our RI standards

For over a decade, our approach to RI has been built on continuous evaluation and development of our internal processes, strong support for the adoption of RI practices in our industry and application of these standards throughout our portfolio.

AlpInvest first developed RI Standards in 2008, driven by our view that RI and ESG factors can impact the performance of our investment portfolios. We consider these factors throughout our investment decision-making and portfolio management processes. In addition, we developed specific approaches for climate change and diversity, equity and inclusion (DEI).

Our objective is to create transparency and promote a structured RI approach to facilitate the identification and consistent management of ESG risks and opportunities, as well as to allow for RI reporting to our investors.

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### AT ALPINVEST, WE:

- Integrate RI considerations into the investment process
- Engage with GPs and portfolio companies to promote improved RI performance and adoption of RI policies and reporting
- Seek to avoid funds and portfolio companies that are directly involved in the manufacturing or distribution of products that are prohibited under Dutch law or laws of other applicable jurisdictions
- Work with peers and GPs in the private equity industry to implement this policy and to promote sustainability more broadly
- Communicate actively with investors and other stakeholders

# Our RI governance

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## Company Leadership

The development and implementation of AlInvest's RI strategy and policy are overseen by AlInvest's Operating Committee. The Operating Committee consists of co-Heads of our business lines, the Head of Investor Relations and is chaired by our CFO.

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## Responsible Investment team

Our dedicated RI team is tasked with the development and implementation of RI guidelines and ensuring their integration into the investment process and investor reporting. We have been consistently revising and extending those guidelines since 2008 and have since developed both climate change and DEI frameworks. The team is led by Maaïke van der Schoot, Global Head of Responsible Investment, who has overseen RI within the AlInvest organization since 2008. Muriel Dossin joined the team as RI analyst in March 2022.

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## Investment teams

RI is also embedded within our investment teams. The teams lead RI due diligence for new investment opportunities, scan the portfolio for potential ESG issues and, together with the RI team, engage with private equity funds on relevant ESG matters. New investment professionals receive RI training, including the application of our RI approach within the relevant investment strategies.

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## The Carlyle Advantage

AlInvest is part of Carlyle's Global Investment Solutions (GIS) segment, which helps investors meet their objectives through tailored portfolio construction and rigorous investment selection.

Carlyle strives to be an industry leader in impact, with \$20 billion in ESG-linked financings completed and robust frameworks focused on DEI, sustainability and transforming the private equity landscape. Carlyle announced earlier this year a commitment to achieve net zero greenhouse gas emissions by 2050 or sooner across its direct investments. At AlInvest, we work closely with Carlyle's Global Head of Impact, Megan Starr, as well as Chief DEI officer, Kara Helander, and their respective teams to help drive progress across the platform.

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## Our Global Team

In recent years, ESG and sustainability topics have become increasingly relevant to our operations, as expectations from investors, regulatory changes and our understanding of the changing world have grown. This has led to a growing firm-wide focus on these topics — not only for our RI and investment teams, but also for our Compliance, Legal, Reporting and Investor Relations teams.

## Our RI approach: an overview

AlpInvest has advocated for RI since 2008, with a **consistent focus on seamless integration of RI practices** into our investment processes, ongoing measurement of outcomes and delivery of deeper RI insights to our investors. **Our RI approach is embedded in all our investment operations**, which we believe makes our portfolios more impactful and pushes us to make progress globally.



# Industry engagement

We believe in the power of industry engagement for meaningful change.

Critical to our RI efforts is our role as a leader and advocate within the broader PE community. We understand that we can achieve more if we work together. We are proud to lead and contribute to initiatives that drive ESG progress in the private equity sector, and our efforts extend beyond our team to engagements with PE sponsors, institutional investors and our portfolio companies.



## Institutional Limited Partners Association (ILPA)

- Member since 2002
- Founding signatory to the ILPA Diversity in Action Initiative
- Diversity and Inclusion Council (member)
- Participated in drafting ILPA principles



## Principles for Responsible Investment (PRI)

- Signatory since 2009
- Latest available score: A+/A
- Contributor to PRI's ESG monitoring, reporting and dialogue in private equity framework (2018)
- PE Steering Committee (2009–14; Chair, 2012–13)
- Private Equity Workstream LP DDQ working group (2015; 2021)



## Invest Europe

- Responsible Investment Roundtable (Chair)
- Professional Standards Committee (member)
- Responsible Investment in Private Equity (course leader)



## Hong Kong and Venture Capital Association (HKVCA)

- Board of Directors (Executive Director)
- Diversity & Inclusion Committee (member)
- ESG Committee (member)



## Initiative Climat International

- Member since 2022



## ESG Data Convergence Initiative<sup>2</sup>

- Founding member and Steering Committee member



## Level20

- Initiator and committee member of Dutch Level20 chapter

# ESG in action

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# Our ESG highlights

## ESG Data Convergence Initiative<sup>3</sup>

AlpInvest is one of the founding members of the ESG Data Convergence Initiative (EDCI) launched in September 2021. This initiative, formed by a group of leading global GPs and LPs, was created with the objective to streamline the private investment industry's historically fragmented approach to collecting and reporting ESG data in order to create a critical mass of meaningful, performance-based, comparable ESG data from private companies. This allows GPs and portfolio companies to benchmark their current positions and accelerate progress toward ESG improvements, which the group believes drives better financial outcomes. It will also enable greater transparency and provide more comparable portfolio information for LPs. The initial six categories of ESG portfolio company metrics are:

- Greenhouse gas emissions
- Renewable energy
- Board diversity
- Work-related injuries
- Net new hires
- Employee engagement

As of June 16, 2022, the initiative has grown to 195 LPs and GPs. As a Steering Committee member, AlpInvest will be closely involved in the further development of the initiative, and we are excited to see it gaining great traction throughout the industry.

## ESG-linked credit facility

In 2021, AlpInvest secured an ESG-linked syndicated subscription facility for its AlpInvest Co-Investment Fund VIII. ESG-linked financing offers the opportunity

to gain an interest margin discount if certain ESG key performance indicators (KPIs) are met. They can be effective tools to further enhance sustainability programs. Our facility's KPIs cover AlpInvest's RI practices in the investment process, engagement activity and transparency.

After the first year of the credit facility, we are proud to announce that we have successfully met all KPIs set for 2021.

## GP engagement

In 2021, we started sharing RI scorecards with GPs to whom we made new commitments during the year. The scorecards include key findings and individual scores from our RI due diligence process and provide suggestions on how RI practices can be further evolved. This engagement is a good example of how we can be a valuable partner for our GPs in their ESG journey and seek to drive progress in our portfolio.

## EU Sustainable Finance Disclosure Regulation (SFDR)

As sustainability related regulations are evolving across the globe, AlpInvest is committed to developing and maintaining internal policies and practices that align with the latest developments. We published [our disclosures](#) as required under the EU's SFDR on our website in March 2021 and set up an SFDR working group that meets regularly internally, as well as with our external counsel to discuss developments and reporting requirements relevant for our organization and products.

Continuous evolution of our RI approach and ongoing adoption of improved ESG practices are a key focus for AlpInvest. Our efforts in the last eighteen months include:

195

GPs and LPs that joined the ESG Data Convergence Initiative

AS OF JUNE 16, 2022

4

All four KPIs of our ESG-linked facility were met

30

GPs that received an RI scorecard

AS OF JUNE 30, 2022

100%

2021 investments diligenced on ESG considerations

AS OF DECEMBER 31, 2021

# GP case study: TowerBrook Capital Partners' ESG reporting



**Maaïke van der Schoot**  
Global Head of Responsible Investment at AlInvest



**Abrielle Rosenthal**  
Managing Director and Chief Sustainability Officer at TowerBrook Capital Partners

**Maaïke van der Schoot, Global Head of Responsible Investment at AlInvest, sat down with Abrielle Rosenthal, Managing Director and Chief Sustainability Officer at TowerBrook Capital Partners to discuss TowerBrook's story on ESG reporting.**

**Maaïke van der Schoot: What is the ESG Data Convergence Initiative, and how is TowerBrook involved?**

Abrielle Rosenthal: TowerBrook is proud to partner with a group of 195 global GPs and LPs in the creation of the ESG Data Convergence Initiative (EDCI). TowerBrook is a founding member of the EDCI, a member of its Steering Committee and Chair of the External Engagement Working Group. The EDCI aims to streamline the private equity industry's historically fragmented approach to ESG data by agreeing to a standardized set of metrics that will allow the collection of comparable, material data from portfolio companies. This, in turn, will drive the creation of an industry benchmark, helping GPs set targets for improvement while providing improved information to LPs.

TowerBrook will continue to survey our portfolio companies through our Responsible Ownership Survey, which collects over 80 ESG KPIs and other metrics on an annual basis. TowerBrook reports publicly each year on key results from our survey and will also report annually on the

metrics set out by the Initiative. We believe this commitment to transparency and reporting drives accountability and spurs progress toward the integration of responsible ownership practices across our portfolio.

**Maaïke: How does the EDCI contribute to TowerBrook's Responsible Ownership approach?**

Abrielle: TowerBrook has a longstanding commitment to ESG and responsible ownership, which we believe leads to enhanced long-term returns for our investors. TowerBrook describes our approach to responsible ownership in terms of Planet, People and Partnership — all of which contribute to delivering improved performance. Across our private equity and structured opportunities funds, we seek to invest in companies that can deliver profitable growth by providing valued products and services, offering inclusive access to worthwhile jobs, acting with integrity and making a positive contribution to their communities and to society. TowerBrook is a certified B Corporation, a certification that is administered by the non-profit B Lab organization and is awarded to companies that demonstrate leadership in their commitment to ESG standards and responsible business practices.

Accountability and transparency are the foundations of credibility and trust. That is why we continue to invest in every aspect of TowerBrook's commitment to responsible ownership — so that we can continue to translate our purpose into practice, support our

portfolio companies to improve their businesses and report on our actions in ways that are consistent, measurable and transparent.

Collecting the EDCI's ESG metrics from our portfolio companies will help us to benchmark their current position and identify and accelerate progress toward ESG improvements. We also believe that the metrics can provide useful insights to our investors who are increasingly seeking information on ESG developments across their portfolio. Further, our leadership in the EDCI is driven by our belief that the PE industry must come together around responsible ownership, and that by agreeing to a standard set of metrics we will further our collective goal of facilitating progress toward a socially and environmentally responsible economy.

**Maaïke: What is next for the EDCI?**

Abrielle: First, we are very excited about how the EDCI has been received. Since the launch in September 2021, the initiative has received commitments from 195 GPs and LPs<sup>4</sup> across the globe to support the partnership. The collaboration now represents more than 1800 portfolio companies representing over \$22 trillion of AuM and remains open to any private market investors that wish to join and agree to support the principles of the work.

As EDCI participants, TowerBrook has submitted data for our portfolio companies for the 2021 calendar year, and we look forward to receiving the results of the first benchmarking study. With so many participating GPs, we believe the

benchmark will be diverse and representative of the industry from the inaugural year. We hope to use the benchmark to identify further opportunities for improvements in our portfolio, as well as to report on our progress to our investors.

Further, as part of the EDCI's Steering Committee and Chair of the External Engagement Working Group, TowerBrook looks forward to contributing to the further development of the initiative and helping to position it for long-term success. As we look to Year 2, the Steering Committee is considering the addition of a small number of additional metrics and is working with other industry standard setters to promote alignment. TowerBrook is actively working to publicize the aims of the initiative within the PE community and welcomes any outreach from GPs or LPs that would like to learn more.

**TOWERBROOK**

# DEI across the organization

We foster a diverse and inclusive culture, and we are proud that our teams have embraced our DEI efforts, with more than **78% of Global Investment Solutions (GIS) colleagues stating a specific DEI goal as part of their 2022 performance objectives**. In the past year, nine professionals from GIS received DEI incentive awards for their efforts in this area.

## OUR DEI EFFORTS

DEI is a core priority for the firm globally. In an employee survey conducted in 2022, **84% of GIS employees agreed that their manager takes action to develop a diverse and inclusive team.**

In 2021, AlpInvest fully embedded DEI into our primary fund investment due diligence process, providing us with insights that allow for honest discussions with our sponsors about how they can develop more inclusive and diverse organizations. Further, the DEI data collected through our due diligence process gives us visibility into the state of

diversity across varying regions and markets, allowing us to focus our engagement and increase our impact. In everything we do, we hold ourselves accountable by seeking diverse perspectives for our deal teams and by providing advancement opportunities for our diverse team members.

76%

GPs classified as Intermediate or Advanced on DEI in 2021 new primary fund commitments

AS OF DECEMBER 31, 2021

33

Nationalities represented on GIS team

AS OF APRIL 1, 2022

42%

Of all GIS employees are women, and 29% of GIS investment professionals are women

AS OF APRIL 1, 2022

9

GIS professionals received DEI incentive awards in 2021

## DEI: A look ahead

### DEI for a better work environment

Over the years, we have strengthened our commitment to not only manage ESG within our investments, but also within our own firm. Within GIS and Carlyle broadly, we are committed to growing and cultivating an environment rich in different backgrounds by recruiting, developing and retaining women and men of all ethnicities, sexual orientations, gender identities, gender expressions, generations and life experiences.

The Global Investment Solutions (GIS) DEI taskforce leads on creating an inclusive work environment to help ensure that we attract, develop and retain top talent and promote more diversity in our portfolio. The DEI taskforce, consisting of employees from various offices and departments across the firm, works closely with Kara Helander, Carlyle's Chief Inclusion and Diversity Officer, and her team to report regularly to the GIS co-Heads.

### Employee Resource Groups (ERGs)

ERGs continue to be strong avenues for collaboration and network building. In fact, participation by our European colleagues in the **Women's ERG grew by 230%+** during 2021.

### DEI training programs

We have enhanced our training programs focused on mitigating unconscious bias, and we have introduced new programs focused on both reduced stereotype threats and increased belonging. Further, we made critical improvements to our individual development, mentoring and family leave policies during the year.



# Case study: Sumeru Equity Partners DEI initiative



**Joseph O'Connor**  
Managing Director, Primary  
Fund Investments at AlInvest



**Jialin Zhang**  
Vice President at Sumeru  
Equity Partners

**Joseph O'Connor, Managing Director in the Primary Fund Investments team at AlInvest, sat down with Jialin Zhang, Vice President at Sumeru Equity Partners, to discuss how Sumeru is practicing DEI.**

**Joseph O'Connor: What is the Fellows Program and why did Sumeru Equity Partners (Sumeru) decide to create it?**

Jialin Zhang: The Fellows Program engages rising second and third-year college students from under-represented populations in technology and business through 10-week paid internships at Sumeru and its technology portfolio companies. Sumeru started the program in 2020 and will welcome the third class of 20+ participants this summer. We believe real innovation requires systematic promotion of inclusion, a diverse set of thoughts and backgrounds and access starting at early stages of career development. Our goal with the Fellows Program is to enable entry into technology, business, and finance careers for a group of terrific and gifted students, while offering our portfolio companies access to a talent pipeline of bright students that will be the next generation of leaders.

**Joseph: What does the Fellows Program offer to those that participate?**

Jialin: Fellows work closely with senior executives across various fields (sales, marketing, engineering, finance, operations, investing, etc.) on a daily basis to build meaningful relationships and develop technical and leadership skills. The Program includes industry leader discussions and networking seminars designed to develop skills necessary for long-term career success. Participants can expect interview and recruiting workshops, discussions with senior executives from industry and finance as well as portfolio company CEOs and C-Level teams, investment and finance skill set training, and cohort case study projects judged by Sumeru partners. The program also provides direct 1:1 mentorship between individual Fellows and Sumeru professionals, providing guidance and access to the Sumeru network in technology and finance.

**Joseph: What will future success look like for the program?**

Jialin: We will continue the program for years to come, building a strong network of Fellows who will go on to lead successful careers in technology and business, and hope that years from now, they can continue to leverage the Fellows & Sumeru network as another multiplier for their success. In the past two years alone, we have had ~50 Fellows alumni who have gone on to pursue opportunities with leading technology companies (e.g., Google, Amazon, Tableau, NVIDIA, ServiceNow) and financial

institutions (e.g., Goldman Sachs, JPMorgan, Credit Suisse, Insight Partners). In several cases, students also stayed on with Sumeru through our analyst program or continued their roles with our portfolio companies. We are thrilled to see the success to-date and in order to build on it, we would love for this program to serve as a blueprint for other investing firms who are interested in developing programs of their own to open up even more career pathways for students.

[Click here to listen to Sumeru's podcast on the Fellows Program](#)



# Climate change

## OUR CLIMATE EFFORTS

Climate change is at the top of the world agenda and an increasingly relevant topic for investors worldwide.

Last year, the launch of the ESG Data Convergence Initiative was an important step in our ambition to track greenhouse gas emissions across our portfolios, and this is the second year of reporting our progress under the Taskforce on Climate-related Financial Disclosures (TCFD) guidelines, which are included in [this report](#).

These actions are part of the climate change framework that AlInvest adopted in 2020. The objective of our framework is to better monitor and manage climate risk in our portfolio and address upcoming climate disclosure expectations from our investors and regulators.

Further, as Chair of Invest Europe's Responsible Investment Roundtable, AlInvest's Global Head of Responsible Investment, Maaïke van der Schoot, initiated the Roundtable's project on developing climate change guidance for the PE industry, published in three parts in 2021 and covering all stages of investors' climate change journey. We look forward to rolling out our climate change approach further over the coming years.

## CARBON NEUTRAL SINCE 2017

AlInvest is part of Carlyle, which earlier this year announced a commitment to achieve net zero greenhouse gas emissions by 2050 or sooner across its direct investments. 2021 will become Carlyle's fifth year of carbon neutrality across its own corporate activities. Carlyle offsets its operational emissions by purchasing carbon offsets. Last year, we purchased truck stop electrification and waste-to-energy landfill projects in the US through The Carbon Fund, verified by the American Carbon Registry, as well as agroforestry projects in Laos through Varo, a Carlyle portfolio company. Please see our [Operational Impact document](#) for more information.

## JOINING ICI

In 2022, we became a member of the Initiative Climat International (iCI), an international platform of leading private equity investors that seek to better understand and manage the risks associated with climate change. We look forward to working with other iCI signatories to take action and create awareness that can help build and manage more climate-aligned and climate-resilient portfolios.

5

Climate-related metrics tracked at the portfolio company level through the ESG Data Convergence Initiative<sup>5</sup>

5

2021 will be Carlyle's 5th of year of carbon neutrality across its own corporate activities

63%

Of our European GPs<sup>6</sup> are considered Advanced with Climate Change considerations<sup>7</sup>

5: METRICS ARE GHG SCOPE 1, SCOPE 2, AND (OPTIONAL) SCOPE 3 EMISSIONS, TOTAL ENERGY CONSUMPTION AND RENEWABLE ENERGY CONSUMPTION  
6: BASED ON NEW PRIMARY FUND COMMITMENTS MADE IN 2021  
7: AS OF DECEMBER 31, 2021. DATA BASED ON NEW PRIMARY FUND COMMITMENTS MADE IN 2021



# Case study: Adamantem Capital's climate change approach



**Alex Forster**  
Principal, Primary Fund Investments at AlInvest



**Natasha Harris**  
Managing Director, Responsibility and Impact at Adamantem Capital

**Alex Forster, Principal in the Primary Fund Investments team at AlInvest, sat down with Natasha Harris, Managing Director, Responsibility and Impact at Adamantem Capital, to discuss how Adamantem integrates climate change considerations into their investment process.**

**Alex Forster: How does your climate change approach benefit both your firm and your clients?**

Natasha Harris: At Adamantem we strive to deliver outstanding financial returns for our investors and positively contribute to social and environmental impacts. We integrate climate change considerations throughout the investment lifecycle to:

- make better investment decisions through evaluating climate risk as part of our broader risk-return assessment
- help enhance investor returns through better management of the transition and physical risk exposures of our investments and identifying climate-related value creation opportunities
- contribute to environmental sustainability by reducing the impact of our portfolio companies' operations on the natural environment and support climate solutions

Through our deep and integrated approach our investment teams have developed a detailed understanding of the drivers of decarbonisation and the transition economy, which enables us to better identify and source attractive investment opportunities across our Funds.

**Alex: What practices do you have in place to integrate climate considerations across your investment cycle?**

Natasha: We have developed a TCFD-aligned framework which we use to assess both transition and physical risks in potential investments in the final stages of diligence. The framework uses scenario analysis—based on a transition risk scenario and a physical risk scenario — to enable us to analyze how climate-related risks and opportunities might impact an investment under a range of possible climate scenarios.

During our ownership period we seek to embed climate risk governance approaches within each portfolio company, using the results of our due diligence phase climate change assessments as the basis for developing a strategy for climate transition and resilience within each portfolio company.

Part of our approach to managing transition risk during our hold period includes conducting greenhouse gas emissions baselines and developing emissions reduction plans for each portfolio company. In our most recent Fund we have committed to developing emissions reduction strategies within each portfolio

company, aimed at achieving net zero in relation to Scope 1 and Scope 2 carbon emissions within 10 years of investment.

For the first time in 2021 we aggregated the TCFD-aligned scenario analysis for each Adamantem Capital Fund II (Fund II) portfolio company to identify the combined Fund II climate-related risks and opportunities. This allows us to better integrate climate risk and opportunity considerations into portfolio construction and identify strategic investment opportunities.

**Alex: At AlInvest, we observe that climate change has been quickly moving up the investor agenda and there is an increasing interest in disclosure of climate-related and other sustainability information. How do you address this at Adamantem?**

Natasha: Governance and transparency is one of Adamantem's three pillars of responsible investing. Our Annual Responsible Investing Report includes a dedicated "Climate" section which follows the TCFD disclosure recommendations to report on our climate risk and opportunity governance, strategy, risk management and target and metrics.

This year we have also developed an "ESG Outcomes Reporting Framework" which will enable portfolio companies to report on over 25 sustainability metrics on an annual basis, aligned to the Ten Principles of the UN Global Compact and designed with reference to the Global Reporting Initiative Standards.

We greatly value input from our investors in our climate journey. For example, for our most recent Fund, we established the Emissions Reductions Committee (ERC), a sub-committee of the Limited Partner Advisory Board, of which AlInvest is an active member. The ERC helps guide progress on the development of greenhouse gas emission baseline assessments and emission reduction strategies for all Fund II portfolio companies during our ownership period.



# Measuring progress over time

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# 04

# ESG integration in our portfolio

## General

A key part of portfolio monitoring is keeping track of RI developments across our GPs. For all new primary fund commitments that we make, we investigate

- a GP's RI standards
- the integration of RI into its core processes
- RI reporting standards

We ask all GPs to complete an RI Questionnaire based on the UN PRI's LP Due Diligence Questionnaire. In 2020, we added specific sections on DEI and climate change.

## What does our scoring mean?

AlpInvest developed a proprietary evaluation tool to score the information we receive from GPs. Based on the answers provided, we classify GPs as Beginner, Intermediate or Advanced in their approach. We acknowledge individual differences between GPs that can also sit between categories.

## Beginner

GPs at the "Beginner" end of the spectrum typically have not or have only recently adopted RI policies, take an unstructured approach to considering RI risks and opportunities in their investment processes and portfolio management, and they are not proactively reporting on RI or disclosing RI incidents.

## Intermediate

Intermediate GPs typically have close to fully implemented RI policies, are in the process of implementing a structured approach toward addressing RI risks and opportunities in their investment process and portfolio management, and can provide basic examples of how this works in practice. There will usually be some level of disclosure on RI developments at the GP level and on RI incidents.

## Advanced

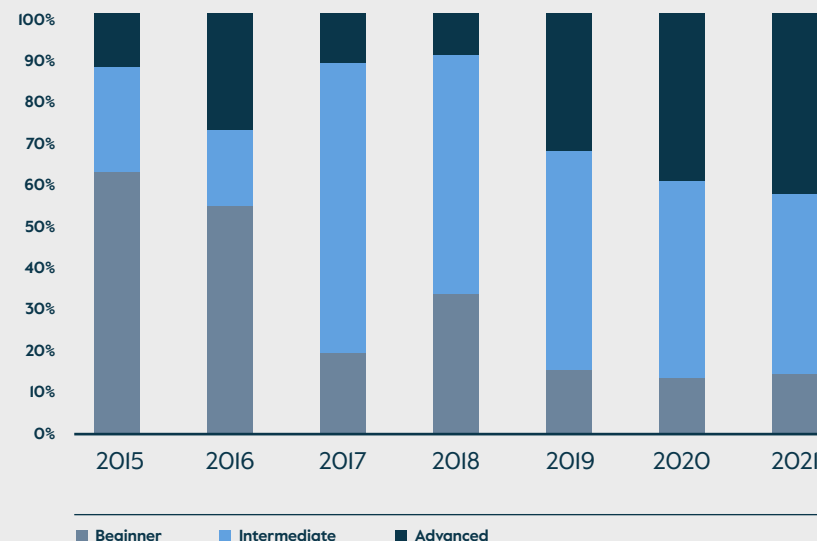
The most advanced GPs have fully adopted RI policies, take a structured approach to addressing RI risks and opportunities in their investment process and portfolio management, and can provide good examples of how they put this into practice. RI reporting is provided at least annually, addressing both relevant RI developments at the GP level as well as within applicable portfolios.

RI has been included in the due diligence process for over 400 new fund commitments since 2009, and we have seen the RI classifications in our portfolio improve over time. In 2021, 86% of the GPs we made a new commitment to were rated as Advanced or Intermediate in ESG.

The majority of the remaining 14% represent commitments made to global venture capital funds—a segment that we observe has been lagging on the adoption of structured RI practices.

## GP RI classification for new primary fund commitments by year<sup>8</sup>

FIGURE 1



Over the years, we have seen the number of GPs with an Intermediate and Advanced classification increase in our portfolio (see Figure 1). The Venture Capital subsegment currently does not follow this trend. Although we are seeing improvement and assessed the first Venture Capital GP as Intermediate in 2021, all Venture Capital GPs assessed from 2015 to 2020 were classified as Beginners in terms of ESG. In 2015 and 2016, the relative portion of commitments to Venture Capital funds was higher than in the 2017–2021 period, which partly explains the large share of Beginner classifications for this period.

We also see some improvements at the individual GP level. In the 2015–2021 period, there were 51 GPs

to whom we made more than one commitment. Of these, nearly 65% improved their ESG classification between fundraisings or remained Advanced.

## PRI Signatories

For 32% of all commitments we made from 2019 through 2021, the GP is a PRI signatory. All of these signatory GPs have an overall ESG classification of Intermediate or above, with almost 88% of these commitments having an Advanced ESG ranking. In terms of geographic spread, nearly 81% of our commitments to European GPs were with PRI signatories, while this is 38% for commitments to RoW<sup>9</sup> GPs. None of the US GPs to whom we made a commitment in the 2019 to 2021 period are PRI signatories.

8: SEE PAGE 24 FOR FURTHER DETAIL ON DATA SET. TRENDS MAY NOT CONTINUE.  
9: REST OF WORLD

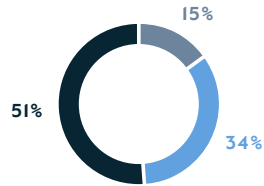
## ESG classification<sup>10</sup>

The ESG section of our RI Questionnaire has four sections that cover a broad range of RI-related activities. Our overall ESG classification is based on responses to these four subtopics: Policy & Governance, Investment Decision Making, Portfolio Management and Disclosures & Communication.

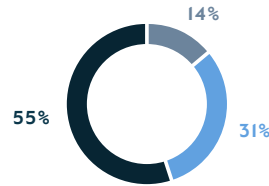
We classified the vast majority of GPs to whom we made a commitment in the 2019 to 2021 period as Intermediate (47%) or Advanced (39%) in their ESG approach (see Figure 6). This is an improvement compared to the 2018–2020 period, during which we assessed 28% as Advanced and 52% as Intermediate.

### Classification by ESG subtopic

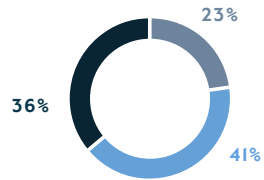
**FIGURE 2:**  
POLICIES & GOVERNANCE



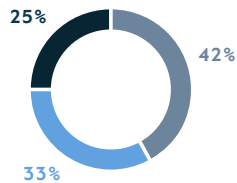
**FIGURE 3:**  
INVESTMENT DECISION MAKING



**FIGURE 4:**  
PORTFOLIO MANAGEMENT

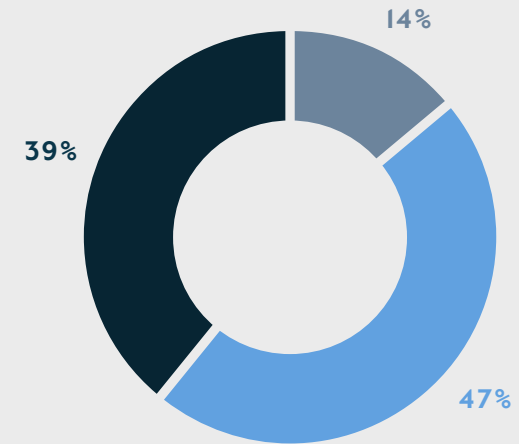


**FIGURE 5:**  
DISCLOSURES & COMMUNICATION



### ESG classification in our portfolio

**FIGURE 6:**  
OVERALL ESG CLASSIFICATION FROM 2019–2021



- Beginner
- Intermediate
- Advanced

Diving into the ESG subtopics, we see that GPs have scored particularly well in terms of Policy & Governance (85% ranked Intermediate or Advanced), Investment Decision Making (86%) and Portfolio Management (77%), respectively (see Figures 2, 3, 4) in the period of 2019 to 2021. For many, there is still room for improvement regarding Disclosures & Communication, as only 58% of the GPs are rated as Intermediate or above (see Figure 5).

## Geography<sup>11</sup>

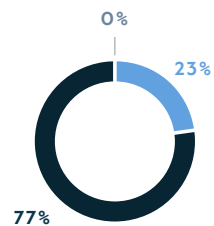
Within our portfolio, we see GPs across geographies progressing in how they approach ESG, although there are still differences (see Figures 7–9). European GPs are more often classified as Advanced or Intermediate than those based in the US and RoW<sup>12</sup> (Asia and Latin America). In the 2019–2021 period, no European GP was ranked as Beginner. This is consistent with the 2018–2020 period.

The majority of US GPs are rated Advanced (21%) or Intermediate (74%), an improvement compared to the 2018–2020 period when this was, respectively, 11% and 73%.

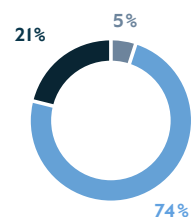
RoW GPs were rated somewhat higher than US GPs and had no Beginner-rated GPs. The share of GPs with an Advanced rating also improved to 38% for the 2019–2021 period from 19% reported for the 2018–2020 period.

## ESG classification by geography

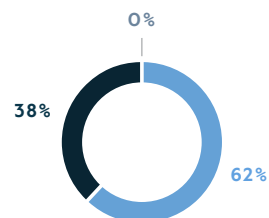
**FIGURE 7:**  
ESG EUROPE



**FIGURE 8:**  
ESG NORTH AMERICA



**FIGURE 9:**  
ESG ROW



■ Beginner ■ Intermediate ■ Advanced



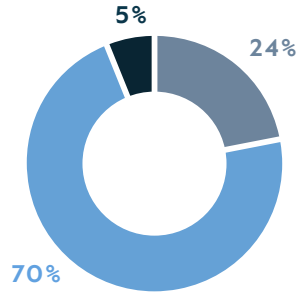
### DEI ratings<sup>15</sup>

DEI was introduced as a new section in our RI questionnaire in 2020. The DEI questions cover multiple aspects, including the GP's DEI policy, code of conduct and diversity at the GP and portfolio company level. Of the GPs that we assessed on DEI so far since 2020,<sup>14</sup> 61% were classified as Intermediate and 8% as Advanced. We see a positive increase in GPs classified as Intermediate or Advanced on DEI overall, from 59% of new primary commitments in 2020<sup>15</sup> to 76% in 2021.

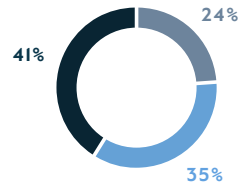
Further, 73% of the GPs<sup>16</sup> informed us that they have a code of conduct covering harassment, discrimination and workplace violence, and 67%<sup>17</sup> stated that they have a DEI policy in place.

To date, GPs seem to be performing best on the subtopic of Policies and Implementation, with nearly 41% of GPs assessed as Advanced in 2021. Regarding current levels of diversity and DEI efforts at portfolio companies, over half of GPs were still at the Beginner stage in 2021 in our assessment.

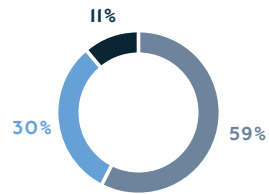
**FIGURE 10:**  
RATINGS OVERALL



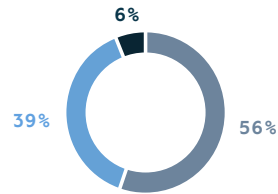
**FIGURE 11:**  
POLICIES & IMPLEMENTATION



**FIGURE 12:**  
CURRENT LEVEL OF DIVERSITY



**FIGURE 13:**  
EFFORTS AT PORTFOLIO COMPANIES



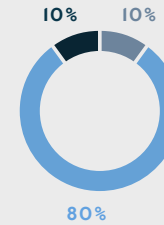
■ Beginner ■ Intermediate ■ Advanced

DEI is an important topic for AlInvest, and we are committed to working with our GPs to improve their performance in these classifications over time.

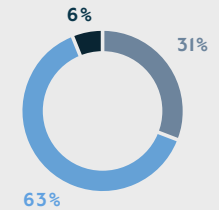
Looking across geographies, the majority of GPs fall into the Intermediate category across all regions. The GPs based in Europe seem, overall, to be somewhat further in their DEI journey than the North American and RoW GPs.

### DEI by geography

**FIGURE 14:**  
DEI EUROPE



**FIGURE 15:**  
DEI NORTH AMERICA



**FIGURE 16:**  
DEI ROW



13: SEE PAGE 24 FOR FURTHER DETAIL ON DATA SET. TRENDS MAY NOT CONTINUE.

14: BASED ON 59 GPs ASSESSED ON DEI 2020-21

15: BASED ON 22 GPs ASSESSED ON DEI IN 2020

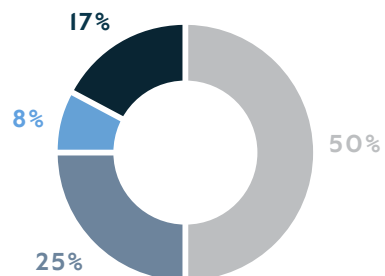
16: BASED ON 59 GPs WHO PROVIDED RELEVANT INFORMATION

17: BASED ON 60 GPs WHO PROVIDED RELEVANT INFORMATION

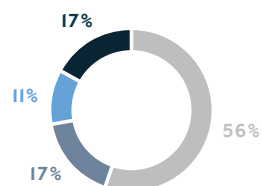
## Climate change<sup>18</sup>

In Q4 2020, we started to assess how GPs consider climate change in their investment activities and reporting. The climate change section of our RI Questionnaire is divided into three subtopics: Climate Change Strategy, Climate Risk and Opportunities Identification, and Carbon/GHG Emissions Reporting. Based on the information collected so far, many GPs seem to be at the beginning of their climate change journey. Only 25% of all GPs assessed in 2021 have an overall climate change classification of Intermediate or Advanced. The remainder is Beginner-rated or did not yet start to develop a climate change approach. All climate change subtopics present room for improvement, as most GPs assessed in 2021 are ranked below Intermediate across all three.

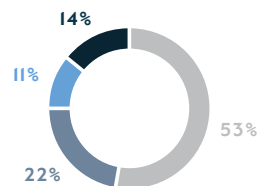
**FIGURE 17:**  
OVERALL



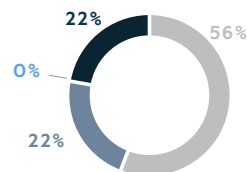
**FIGURE 18:**  
CLIMATE RISK STRATEGY



**FIGURE 19:**  
CLIMATE RISK & OPPORTUNITIES IDENTIFICATION



**FIGURE 20:**  
CARBON/GHG EMISSIONS



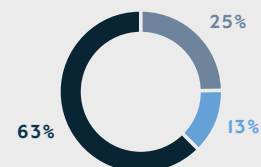
■ Beginner ■ Intermediate ■ Advanced ■ No dedicated approach

There are significant geographic disparities with regard to climate change considerations among GPs. While the majority of European GPs are considered Advanced on their overall climate change classification (63%), none of the North America or RoW GPs ranked as Advanced, and the majority is in fact still at the Beginner stage (67%).

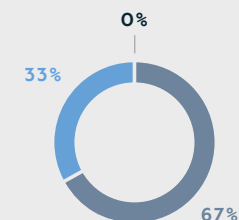
The gap between European GPs and non-European GPs is likely primarily driven by European GP compliance with applicable UK and European climate change regulations.

## Climate change by geography

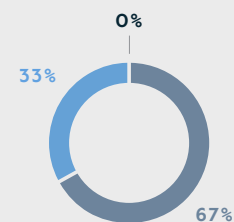
**FIGURE 21:**  
CLIMATE CHANGE EUROPE



**FIGURE 22:**  
CLIMATE CHANGE NORTH AMERICA



**FIGURE 23:**  
CLIMATE CHANGE ROW



## ESG classification deep dive<sup>19</sup>

Figures 24–27 show how GPs score on each of the subtopics of our ESG analysis, sorted by ESG rating. For example, 93% of the GPs that received an overall Beginner classification were also classified as Beginner on Policies & Governance. 31% of the GPs that are considered Advanced on ESG overall are assessed as Intermediate in terms of Disclosures & Communication. The figures show that, for three of the four subtopics, the majority of GPs receive, on average, the same classification as the overall ESG score. The exception is Disclosures & Communications, where the majority of GPs that received an overall Intermediate score are classified as Beginner.

The data in this section are based on AlInvest's internal GP RI classification analysis related to funds to which we made a commitment from our Primary Fund program. Geographic data excludes funds with a global investment focus.

Figure 1 covers Primary Fund commitments that closed between January 1, 2015 and December 31, 2021. There may be slight discrepancies with the data from last year's RI Report as we obtained information on the RI classifications of certain funds for which data was missing last year—some of the fund data is therefore restated.

Figures 2–9 and 24–27 cover primary fund commitments that closed between January 1, 2019 and December 31, 2021.

Figures 10–23 cover Primary Fund commitments that closed between January 1 and December 31, 2021. Data on one DEI subtopic (diversity efforts at portfolio companies) and on climate change is not available for 1 Primary Fund commitment we made in 2021.

## ESG classification deep dive

FIGURE 24: POLICIES & GOVERNANCE

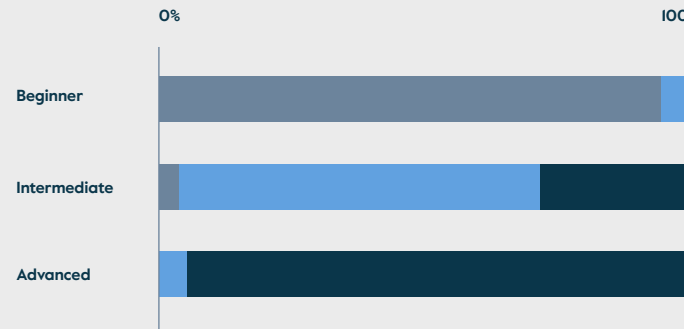


FIGURE 25: INVESTMENT DECISION MAKING

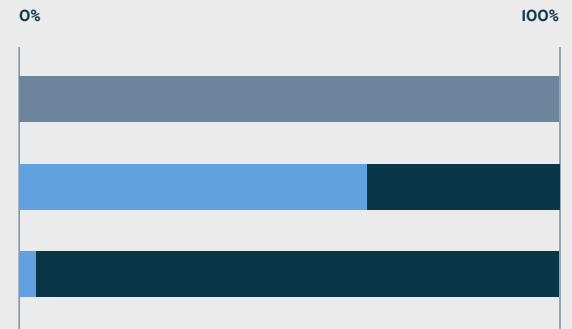


FIGURE 26: PORTFOLIO MANAGEMENT

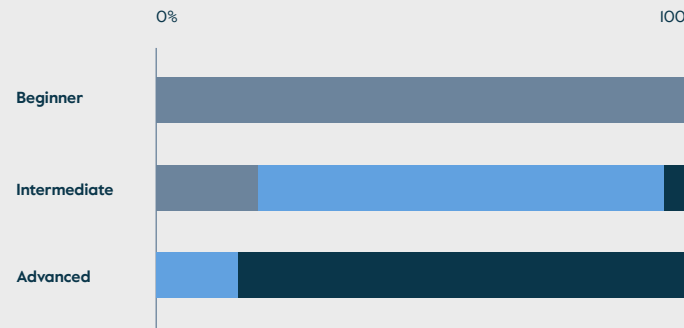
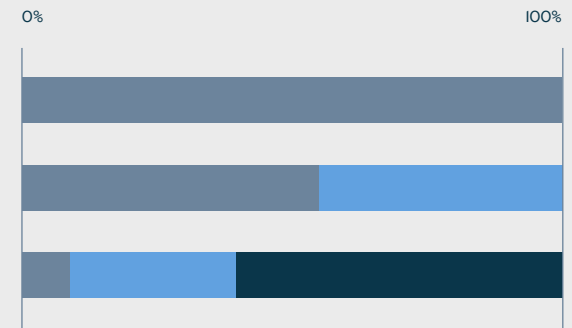


FIGURE 27: DISCLOSURES & COMMUNICATION



■ Beginner ■ Intermediate ■ Advanced



# Taskforce on Climate-Related Financial Disclosures (TCFD)

As part of the climate change framework that we adopted in 2020, we committed to TCFD reporting. Here is the progress we have made so far.

## Governance

*Objective: Disclose the firm's governance around climate-related risks and opportunities.*

In 2020, our Operating Committee adopted AlInvest's climate change approach, part of our broader RI approach. As such, it falls under the responsibility of AlInvest's Board of Directors to review progress at least once per year. The development and implementation of AlInvest's RI strategy and policy are overseen by AlInvest's Operating Committee.

We believe it is important to have both dedicated in-house RI expertise, as well as broad-based responsibility for RI matters across investment teams. AlInvest's RI team works closely with the investment teams as they diligence investments and monitor the investment portfolio.

As part of our climate change approach, we have committed to developing a TCFD report, of which this is the second version. As a PRI signatory we also report against the TCFD indicators in our annual Reporting Framework submission.

During the course of 2021, we continued to communicate our climate change commitments to AlInvest's investors and employees.

## Strategy

*Objective: Disclose the actual and potential impacts of climate-related risks and opportunities of the organization's business, strategy and financial planning where such information is material.*

AlInvest recognizes that climate-related risks and opportunities can impact its investment portfolios. The TCFD has been a helpful guiding framework for our work. We focus on the two main categories of risk identified through that process.

- **Transition Risk** from the shift to a lower-carbon economy, which include policy and legal risks, technology risks, market risks and reputational risks
- **Physical Risk** from a changing climate, which include acute risks (such as extreme weather-related events) and chronic risks (such as sea-level rise)

The timeframe, scope and potential impact of risks and opportunities differ across our investment portfolio and are important dimensions to how we consider these issues and develop our strategy over time.

As a first step in building our further understanding of the impact of climate change on our portfolio, we have started to collect data through our RI due diligence process. In 2021, we added a dedicated climate change section as part of the due diligence for new primary fund commitments and co-investments.

## Risk management

*Objective: Disclose how the organization identifies, assesses and manages climate-related risks.*

In 2020, AlInvest updated its responsible investment due diligence process for primary and co-investments with specific questions on climate change. The purpose is to collect information and metrics that help us to understand pockets of both physical and transitional climate change-related risks in our portfolio and to understand how GPs approach climate change risks.

We further seek to contribute to initiatives in the PE sector that are focused on climate change. For example, AlInvest sponsored the Invest Europe Climate Change Guide that was released in March 2021. The Guide provides practical, entry-level support to actors and stakeholders in the European market seeking to integrate climate change considerations in their investment processes. In 2022, we joined iCI, a global, practitioner-led community of private equity firms and investors that seek to better understand and manage the risks associated with climate change.

We also avoid investments in thermal coal which has among the highest greenhouse gas intensity of all fossil fuels.

As more data becomes available, we will be able to plan the further development of our risk management approach. Data collected through the ESG Data Convergence Initiative can be used to analyze the climate change exposure in our investments at the portfolio company level, but also aggregated at the fund level.

## Metrics & targets

*Objective: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.*

### Our portfolio

We believe data is an integral part of our ability to better understand and manage climate risks and opportunities. We are focused on collecting data on our investments.

In 2020, AlInvest added a climate change section to its primary fund and co-investment RI due diligence framework. As part of this, we ask GPs and companies to share available data on GHG emissions / carbon footprint. We expect to collect further data thanks to the ESG Data Convergence Initiative. Later this year, we will review what data has already been made available and where there are gaps that we want to address.

### Our own operations

AlInvest is part of Carlyle which became the first major private equity firm to make a carbon neutrality commitment in 2017. In 2021, Carlyle will have its fifth year of carbon neutrality across its corporate activities (including AlInvest).

# Looking ahead

*In this section*

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**27** Building toward tomorrow



# 05

## Building toward tomorrow

We are committed to continuously developing our RI approach to improve RI practices both in our organization and across our investments, and we are committed to delivering better RI insights to our investors.

At Alpinvest we believe that our proactive approach to RI gives us the power to help deliver more value to our investors, who are increasingly looking for more sustainable investment solutions.

Over the coming years, we seek to see further improvements in sustainability performance across our portfolios. We strive to be a valuable partner for our GPs as they seek to advance in their ESG journeys, for example, by developing actionable guidance to help progress their RI practices. We will also continue our active involvement in RI initiatives that promote RI more broadly across the PE industry.

Further, we will continue to focus on delivering better insights on the RI performance of our investors' portfolios. We seek to increase leverage of our technology platforms to support RI disclosures as more ESG data become available, including through the ESG Data Convergence Initiative. We will also be working across our teams to further align our processes with the requirements of the evolving sustainability-related regulatory environment.

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RI standards are only one of the many factors AlplInvest will consider in making an investment. Considering RI qualities when evaluating a GP or portfolio company may result in the selection or exclusion of certain investments based on AlplInvest’s view of certain RI-related and other factors, which carries the risk that AlplInvest may underperform relative to those private equity investors that do not take RI-related factors into account because the market may ultimately have a different view of a particular underlying fund’s or portfolio company’s performance than that anticipated by AlplInvest. There is no assurance that AlplInvest’s RI standards will achieve any desired results. AlplInvest’s RI standards are based in part on subjective criteria and are subject to change.

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