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THE CARLYLE GROUP

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GLOBAL ALTERNATIVE ASSET MANAGEMENT

# Integrating Environmental, Social and Governance Issues at Carlyle

Jackie Roberts

Chief Sustainability Officer

December 2017

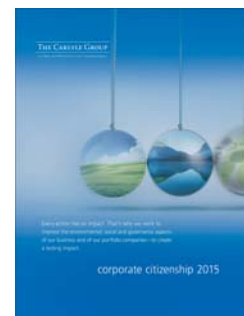
# Serving Carlyle's Firm-Wide Goals

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## Why we focus on ESG integration

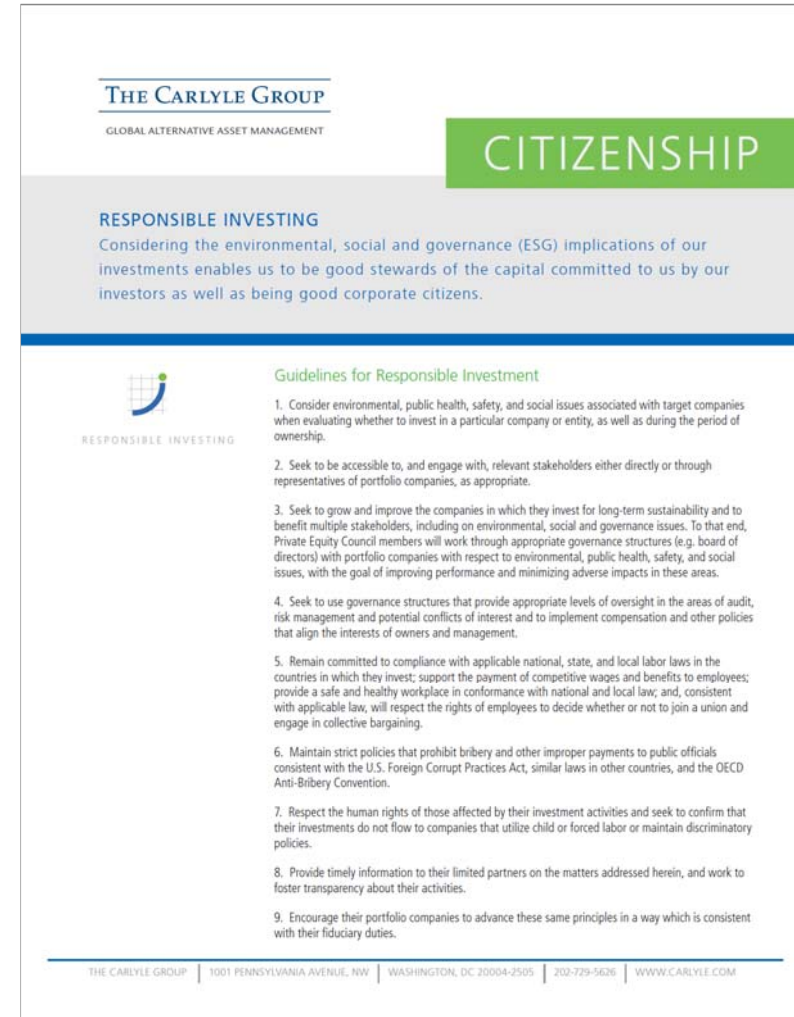
Carlyle's Mission Statement includes:

- Generate superior investment returns – “Invest Wisely, Create Value”
- Inspire the confidence and loyalty of our investors
  - Protect the reputations of Carlyle and our investors
  - Support investors in meeting the needs of their constituencies
- Attract, develop and retain highly talented professionals
- Be responsible and respected members of the global community



# Carlyle Engagement in ESG Integration

- **2008:** Carlyle developed a set of investment guidelines that formed the basis of the guidelines later adopted by the American Investment Council.
- **2010:** Published a Citizenship Report, a first for a private equity GP.
- **2011:** Hired a Talent Development Director to drive diversity and inclusion.
- **2014:** Hired first Chief Sustainability Officer.
- **2015:** Introduced four Value Creation pillars
- Long-standing expertise in anticorruption and trade sanctions.

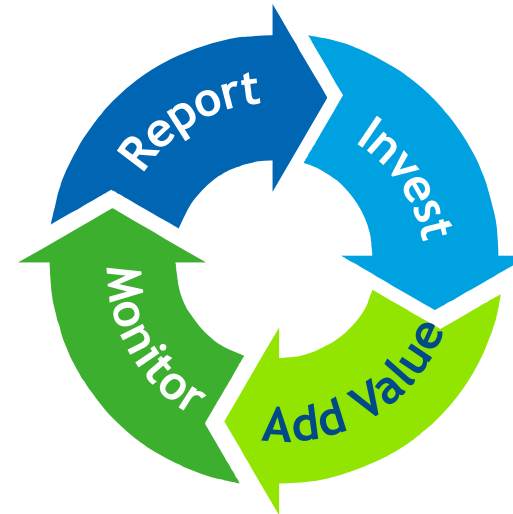
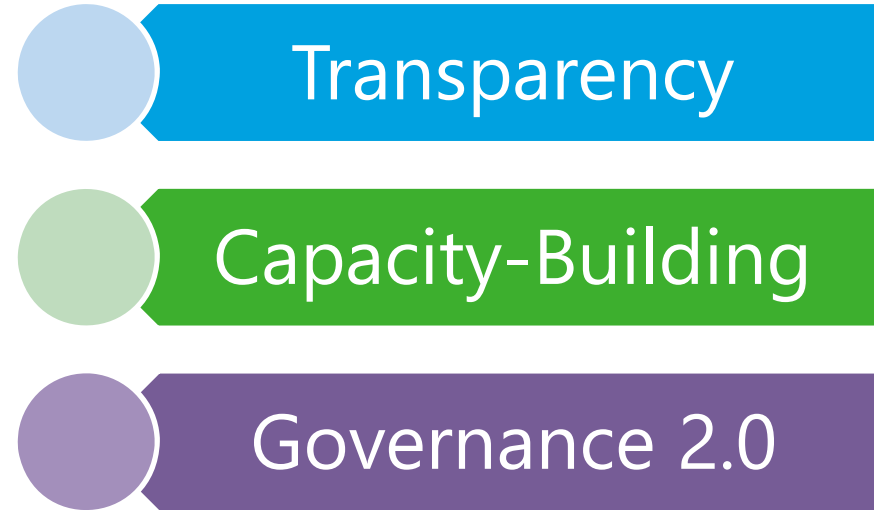


# Identifying & Monitoring ESG Risks & Opportunities

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## *Our ESG Framework*

- Policy: Adherence to our “Responsible Investment Guidelines”
- Due Diligence: Inclusion of ESG analysis in investment committee memos
- Portfolio Company Boards: Annual board level review of our “Responsible Investment Guidelines” at our controlled buyout companies
- Identifying and monitoring ESG Key Performance Indicators (KPIs) in our two largest buyout funds



# Identifying and Monitoring Material ESG issues

## Goal: Support Deal Team and Portfolio Companies



### SASB Materiality Map™

SASB's Materiality Map identifies likely material sustainability issues on an industry-by-industry basis. Click on a highlighted cell at the sector-level and then on any highlighted cell at the industry-level to see suggested accounting metrics and additional information for each issue.

#### ISSUES

##### Environment

- GHG emissions
- Air quality
- Energy management
- Fuel management
- Water and wastewater management
- Waste and hazardous materials management
- Biodiversity impacts

##### Social Capital

- Human rights and community relations
- Access and affordability
- Customer welfare
- Data security and customer privacy
- Fair disclosure and labeling
- Fair marketing and advertising

##### Human Capital

- Labor relations
- Fair labor practices
- Employee health, safety and wellbeing
- Diversity and inclusion
- Compensation and benefits

	Health Care	Financials	Technology and Communications	Non-Renewable Resources	Transportation	Services
	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand	Click to expand
Environment						
Social Capital						
Human Capital						



### ESG TOOLKIT FOR FUND MANAGERS

ABOUT THIS TOOLKIT | ESG IN THE INVESTMENT CYCLE | GOVERNANCE & BUSINESS INTEGRITY | SECTOR PROFILES | VALUING NOTES | WORKING WITH EDC

#### SECTOR PROFILES

These CDC Sector Profiles are designed to help fund managers quickly familiarize themselves with the most frequent and important environmental, social and governance (ESG) aspects of investments in a number of sectors. It aims to be a starting point for thinking about ESG risks and opportunities, and not a detailed technical guidance document.

Depending on a company's specific operations and locations, other non-sector specific issues (e.g. impacts on Indigenous Peoples and cultural heritage). Therefore, each company must be carefully considered based on its specific characteristics and circumstances including scale of operation, location, technology utilized, management capacity, commitment and track record, and supply chains. Additionally, environmental and social (EAS) impacts, risks and opportunities in a particular company or sector can change over time for a number of reasons (e.g. changes in the applicable laws, or expansion of a company's activities or assets).

**PROJECT DESIGN & CONSTRUCTION GUIDANCE**

**AGRICULTURE AND AQUACULTURE**

**EDUCATION**

**FISHERIES**

**HOSPITALITY**

**HEALTHCARE**

**INFRASTRUCTURE**

**MANUFACTURING\***

**PHARMACEUTICALS**

**POWER**

**RETAIL**

CDC, IFC, BVCA and other frameworks



### ESG Due Diligence Questionnaire for Private Equity Investors and their Portfolio Companies



## SASB & Disclosure Topics in Ownership:

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Credible, widely-used source for experts' views on material ESG issues

- SASB is chaired by Michael Bloomberg and Mary Schapiro (former SEC chair) and provides sustainability criteria for consideration in multiple sectors
- Helps deal teams complete required section of "Investment Committee Memo"
- Review existing policies & processes
- Overlap with customer "supplier assessments"
- Supports identification of sustainability value drivers
- Available via OneCarlyle intranet



### "Corporate Sustainability: First Evidence on Materiality"

Working Paper by Mozaffar Khan, George Serafeim, and Aaron Yoon

*Harvard Business School, 2015*



Customer Satisfaction



Brand Equity



Operational Efficiency



Workforce Strength

# One Carlyle Resource: ESG for Portfolio Companies

## Expertise Sharing

### Chief Sustainability Officer

- Jackie Roberts, 20-year environmental veteran
- Directly works with portfolio companies to assess risks and opportunities or build internal capacity

### ESG Sector Intelligence

- Early warning “Watch List” for materials
- Major buyer expectations (e.g. WalMart)
- Similar companies’ ESG approaches

## One Carlyle Platform

### Cross-platform sharing

- Some PortCo products directly address ESG issues
- Example: Evernex’s virtual servers are used by other PortCos to reduce energy

### References to ESG experts

- Existing relationships with consultants in all major ESG sub-fields
- Example: Gare Smith, human rights and labor lawyer

### Reporting

- SASB materiality screen
- Fund management integration

## Capital Injection

### Equipment Upgrades













- Carlyle provides the kind of capital necessary to upgrade
- Upgrading to newer equipment is important for business, but also tends to reduce environmental impact.

### Research & Development

- Changing consumer preferences in terms of ESG can require product changes
- R&D requires capital and long-term investment horizons, which Carlyle can provide.

# Summary Of ESG KPIs Identified

KPIs focus on key ESG risks and highlight value creation opportunities

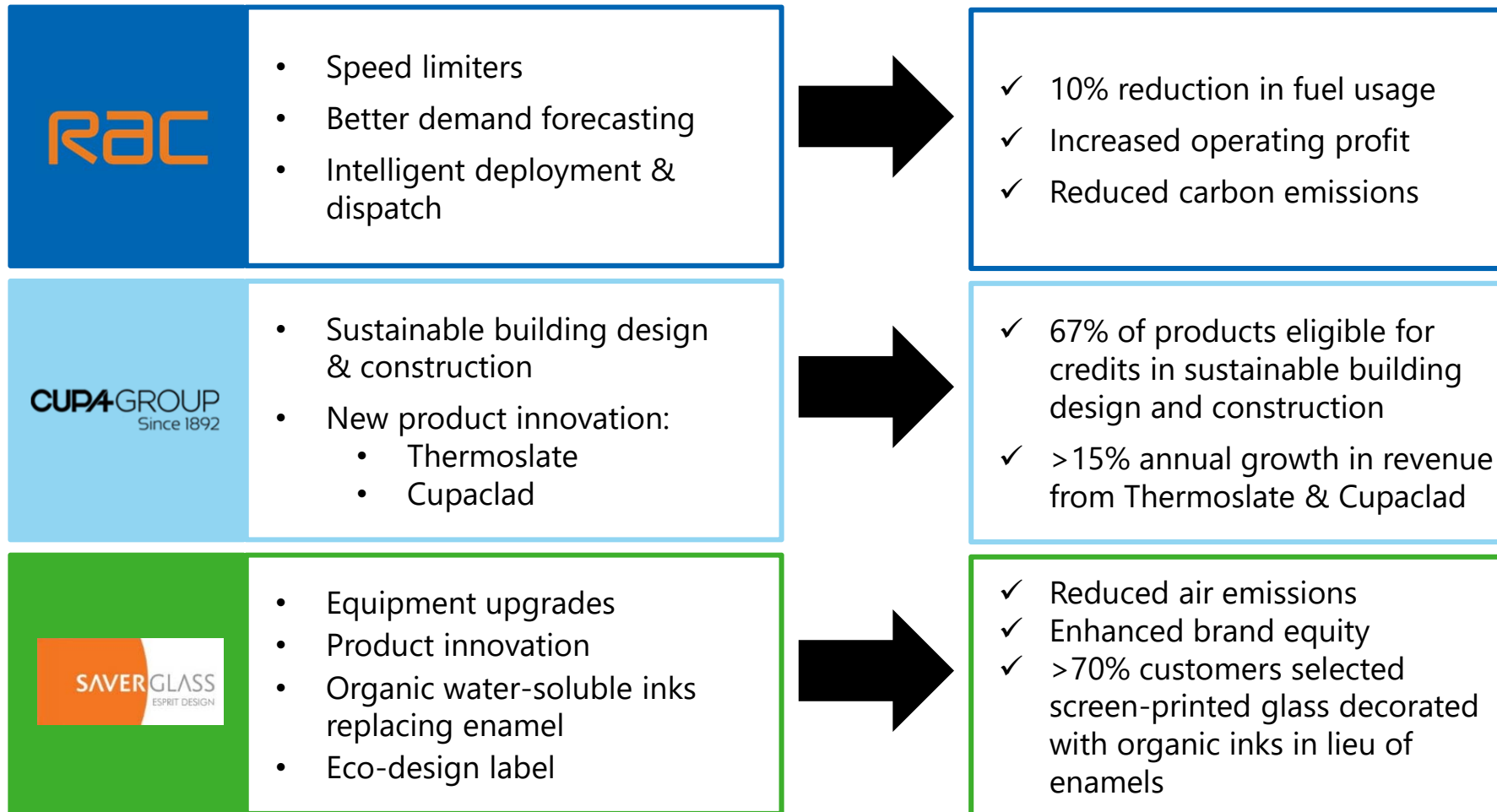
 <ul style="list-style-type: none"> <li>• Energy efficiency</li> <li>• Water management</li> <li>• Worker safety</li> <li>• Product sustainability</li> </ul>	 <ul style="list-style-type: none"> <li>• Fair labour practices</li> <li>• Workforce diversity</li> <li>• Employee engagement</li> <li>• Data security</li> </ul>	 <ul style="list-style-type: none"> <li>• Water management</li> <li>• Product innovation</li> <li>• Worker safety</li> </ul>	 <ul style="list-style-type: none"> <li>• Supply chain</li> </ul>
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 <ul style="list-style-type: none"> <li>• Fair labour practices</li> <li>• Workplace diversity</li> <li>• Data security</li> </ul>	 <ul style="list-style-type: none"> <li>• Food safety</li> <li>• Product labelling</li> <li>• Packaging</li> <li>• Recycled content</li> <li>• Fair Labour practices</li> </ul>	 <ul style="list-style-type: none"> <li>• Energy efficiency</li> <li>• Product innovation</li> <li>• Recycled content</li> <li>• Worker safety</li> </ul>	 <p>RESPONSIBLE INVESTING</p>

Highlighted companies reflect illustrative examples of investments made. References to portfolio companies are not and should not be construed as recommendations of any particular security or company.



# ESG's Direct Link to Value Creation

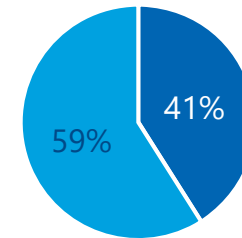
## Three Cases from CEP



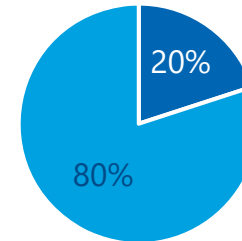
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## Leading by Example: Diversity at Carlyle

- Carlyle is committed to diversity not just because it's the right thing to do, but because diverse teams make better decisions, which serves our imperative to "invest wisely"
- The firm proactively recruits diversity through programs such as the Toigo fellowship and SEO
- In the industry, gender diversity has become a major issue:
  - InvestEurope reports that just 5% of senior professionals in PE are women
  - "Level 20" is an organization committed to raising that number to 20%, which Carlyle has achieved already
  - Carlyle therefore chose to highlight gender diversity in its 2016 sustainability report, including the statistics at the right:



All Carlyle Employees



Senior Professionals (Principal and Above)



## Leveraging ESG to Create Value at Exit



Carlyle Partners V, L.P. &  
Carlyle Europe Partners III, L.P.

Axalta, a carve out from DuPont, manufactures paints and coatings.

Customer needs drove several innovations in sustainable product lines, including:

- **Monocoat 3-Wet Paint System** that reduces drying time (and therefore energy use) for the most energy-intensive part of the car manufacturing process
- **Waterborne Coatings** that emit far fewer VOCs, enabling Axalta to corner the market for this class of products early
- **Vacuprime Technology** that virtually eliminates VOCs and reduces the weight of the finished part
- **Alesta Cool powder coatings** more effectively defuse solar reflection, reducing heat transfer to darker colors



"... As one of China's leading automobile manufacturers, FAW-VW is moving to a sustainable model for development, and the waterborne products produced at this facility will help us achieve our business objectives in the region."

-Wang Zhongcheng

Vice President of FAW-VW Chengdu

Carlyle assisted Axalta in creating its first-ever sustainability report to meet IPO best practice. The award-winning report positioned Carlyle to lead a successful IPO in 2014.

Carlyle fully exited in 2016, with Axalta stock today trading more than 50% above its offer price.

## Proactive Labor Relations Management

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Carlyle Asia Growth Partners IV, L.P.

<p><b>8</b> Production facilities in 3 countries</p>	<p><b>20,000+</b> Employees</p>
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	<p><b>ISO 26000</b> International social responsibility standard on which Yakjin's CSR diagnostic protocol is based</p>
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- Carlyle acquired Yakjin Trading Corp in 2013
- First CSR report in 2015 including sustainability indicators and a GRI Content Index
- New materiality assessment conducted using ISO 26000
- 1st Outcome = Labor-Management Dialogue Program and new worker benefits in Cambodia facility
- Hired Executive-Level CSR Manager & supply chain training support