

# ESG Report 2014

*ESG (Environmental, Social and Corporate Governance) is an integrated part of Argentum's business activities. This applies to investment decisions, investment partners and the company's own operations.*





## ESG strategy

### Key aspects of Argentum`s ESG work

Argentum **has ethical guidelines**, which are available on the company's website, [www.argentum.no](http://www.argentum.no). Argentum has adhered to the principles of the UN Global Compact and UN PRI for several years and the ethical guidelines are also based on these principles. Argentum became a full **member of the UN Global Compact** in 2012 and submitted its first report to the UN in 2013.

The company has **ESG[1] performance indicators** – both internal targets for the organisation and investment-related targets. Separate ESG requirements have been drawn up for the **investment process**, making this an integral part of processes, decision-making and monitoring of managers in the portfolio.

Argentum works systematically with ESG and on further developing the company's processes in this area. The company collaborates on ESG work with other investors and is a member of the **Norwegian Forum for Responsible and Sustainable Investment** (Norsif). Argentum also prepares an **annual report on its ESG work**, which is approved by the Board and is available on the company's website.

### Argentum's ESG strategy

Argentum has identified seven main points that form the foundation for our ESG work:

- Thorough ethical guidelines that are actively communicated internally and externally
- Integration of the ethical principles in the company's investment processes, including primary, secondary and co-investments
- Dialogue with the funds Argentum invests in regarding implementation of ESG in operations as well as monitoring and reporting
- Engagement in the industry and contributing to increased focus on ESG, for example through our website
- Environmental awareness internally in our activities and operations
- Raising ESG awareness in our own organisation
- Annual reporting on our internal and external ESG activities.

Argentum's ethical guidelines are periodically reviewed. The guidelines include the statement:

"In its investment activity, Argentum shall integrate considerations targeted on good corporate governance, the environment and society at large"[1]. In addition, each year Argentum shall prepare a report on corporate social responsibility in respect of its own activities including the status at portfolio level[2].



In addition to the company's own ethical guidelines, the principles of the UN Global Compact and the UN PRI (Principles for Responsible Investment) form the basis of the company's investment activities. The UN Global Compact is based on ten principles related to human rights, employment standards, the environment and anti-corruption. UN PRI are related to environmental, social and corporate governance issues, including incorporation of ESG into the investment process and a focus on increased transparency and implementation of these principles in the industry.

After having followed the UN Global Compact principles for a considerable time, Argentum became a full member of the UN Global Compact in 2012. The first report was submitted in October 2013. The most recent report from October 2014 is available at: <https://www.unglobalcompact.org/COPs/active/106731>

**The ten core principles of the UN Global Compact are as follows:**

#### Human rights

- Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- Principle 2: make sure that they are not complicit in human rights abuses.

#### Labour standards

- Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right

to collective bargaining;

- Principle 4: the elimination of all forms of forced and compulsory labour;
- Principle 5: the effective abolition of child labour; and
- Principle 6: the elimination of discrimination in respect of employment and occupation.

### **Environment**

- Principle 7: Businesses should support a precautionary approach to environmental challenges;
- Principle 8: undertake initiatives to promote greater environmental responsibility; and
- Principle 9: encourage the development and diffusion of environmentally friendly technologies.

### **Anti-corruption**

- Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

Argentum supports these principles and uses them as the basis for its operations. It is important for Argentum as an investor in private equity funds that the managers are also familiar with these principles and base their activities on the UN Global Compact. Argentum works to ensure this in its monitoring of managers.

In addition to the Global Compact principles, Argentum also follows EVCA's (European Private Equity and Venture Capital Association) standard for responsible investments when monitoring the managers. This standard was established in 2012 and the EVCA standard is integrated into our monitoring process. These questions relate to the work the funds carry out prior to making new investments, and follow-up work after the investments have been made.

Argentum follows OECD guidelines in the area of taxation, as well as the Global Forum standards and only invests in jurisdictions that have taxation agreements with Norway. Argentum provides information about the jurisdictions of the funds on our website and in the annual report.

The internal ESG reporting is based on relevant indicators from the UN Global Reporting Initiative (GRI) showing, among other things, our impact on the environment and how these indicators have developed over time.

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[1] Cf. Section B1 in Argentum's ethical guidelines

[2] Cf. Section A15 and B5 in the guidelines



# Argentum's investment activities

*Argentum places high demands on the funds in which we invest. All investment processes must disclose the ESG-related assessments that have been made.*

## Investment process

A separate analysis of the manager's vision, guidelines and working methods for ESG is conducted prior to investing in a new fund. The analysis is carried out by collecting information and then discussing with the managers how they collect relevant information prior to investing in a portfolio company, as well as how these issues are followed up and reported during the ownership period. In 2014, there was an increased focus on including ESG-related issues in the reference calls in our assessment of the managers. Argentum's findings and assessments are presented separately in the investment recommendation.

Argentum has systemised ESG-related assessments in such a way that they form part of the formal legislative agreements when investing in new funds. Argentum has established a standard agreement in the form of a side letter, which all managers must endorse in one form or another, prior to committing capital to a new fund. This includes acceptance that:

- Argentum's investment activities are based on the principles of the UN Global Compact
- They have received Argentum's ethical guidelines and are urged by Argentum to develop similar guidelines

- They will evaluate the social, environmental and ethical consequences of current and planned investments

The managers also commit to report on ESG-related work to the fund's investment committee annually.

Argentum is constantly working on further developing its ESG work and in the future will work to further strengthen the processes prior to new investments.

ESG is also an inherent part of the investment process within secondary and co-investments.

When investing in the secondary market [1] Argentum does not have any influence on the existing legislative agreements of established funds, although all the companies in the underlying portfolio are screened against Argentum's ESG investment criteria before any investment decision is made. If Argentum is unfamiliar with the manager, the manager's approach to ESG is reviewed, including ethical guidelines, existing investment restrictions and existing reporting procedures. In the future, Argentum will continue to focus on presenting its guidelines to managers of the funds in which we invest and will also support the potential further development of the managers' own guidelines when required.

When making co-investments, where Argentum invests in companies alongside the funds, ESG is one of the aspects that is specifically investigated before an investment decision is made.

An overall ESG-based assessment of the investment opportunity is always conducted in connection with the first internal review. This is based on the UN Global Compact's main areas:

- Human rights
- Labour
- Environment
- Anti-corruption

Argentum has developed the ESG-processes for co-investments in 2014 and, among other things, prepared an internal status report for the existing portfolio looking at the present status and the focus areas going forward. Argentum will continue to further develop these processes going forward.

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[1] Secondary: When Argentum purchases stakes in funds on the secondary market.

## New commitments in 2014

During the course of 2014, Argentum committed to four new funds in the primary portfolio: Altor Fund IV, HitecVision VII, Inflexion Buyout Fund IV and Sovereign Capital IV.

All of these management teams have accepted our side letter, and have thereby also committed themselves to annual reporting on their ESG-related work. Two of the managers, Inflexion and Sovereign Capital, are new to Argentum's portfolio. Prior to investing with new management teams, Argentum carries out a particularly thorough process, including the assessments relating to ESG.

## General status report 2014

Argentum conducts an annual review of the status related to ESG for the funds in the portfolio.

To conduct the review, Argentum asks the managers to answer a set of ESG-related questions. In addition to providing us with an overview of the portfolio status, the review assists in raising fund managers' awareness

of ESG issues. In 2014, Argentum's portfolio consisted of 45 different management teams, managing a total of 95 funds.

Indicator	Status 2014	Status 2013
How many of the funds in our portfolio follow ESG guidelines in their investments?	83 out of 95 (87 %)	74 out of 80 (93 %)
How many of the funds in our portfolio have satisfactory ESG guidelines?	70 out of 95 (74 %)	61 out of 80 (76 %)
How many of the funds in our portfolio submit a report on their ESG activities to investors?	4 new commitments committed to this. 14 new commitments had previously committed to this. A further two managers were in the process of developing this kind of reporting.	6 new commitments committed to this. In addition, 8 new commitments had previously committed to this. 1 manager developed this during the year, and 2 others were in the process of developing this kind of reporting.
Transparency: Do fund managers report on transactions and portfolio companies on their websites?	Satisfactory: 39 out of 45 managers	Satisfactory: 30 out of 34 managers

The assessment of the managers in 2014 demonstrates that the majority of the managers have formal ESG guidelines in place[1]. The number of managers with ESG guidelines has increased, even if the percentage has fallen somewhat. The managers that have not established these can largely be divided into three groups:

- Older managers, for which the investment period has expired and the funds are already fully invested.
- Fund-in-fund managers that do not have their own guidelines for private equity.
- Managers that are in the process of developing these, but do not yet have these in place.

If we look in more detail at the point relating to satisfactory guidelines, it shows an increase of nine funds that have these. This is due both to existing managers having further developed their ESG work and to new funds in the portfolio having established good guidelines associated with ESG. As the new managers establish their own guidelines it is probable that the percentage will increase.

The managers are continually working on updating and further developing their policies, something which is reflected in the reports we have received. Eleven of our managers have implemented specific measures to develop their ESG policies in 2014, while a further four managers are in the process of developing these. Argentum has provided input to several of the managers in their work on further developing their ESG policies. As a result of Argentum's side-letter requirements, all of our new commitments in the primary portfolio have undertaken to report on their ESG-related work in 2014.

As the majority of the managers in the portfolio have developed their own ESG policies which form the basis for the managers' investments, it is natural to examine in more detail how the managers monitor this, both in the investment process and during the continued ownership period. In 2013, Argentum expanded its ESG reporting to include EVCA's newly established standard for responsible investments. These questions relate to the work the funds carry out prior to making new investments, and subsequent post-investment monitoring. In the previous year's reporting this was expanded with a specific question relating to the steps that are being taken to prevent corruption. In this year's reporting, extra focus was concentrated on two additional key areas:

**KPIs:** Argentum asked a question relating to whether the managers had developed KPIs for ESG. It is beneficial for both managers and investors that ESG is something concrete that people can relate to, which KPIs can assist in supporting. Since this is one of the major trends in the industry, it was important for Argentum to know the status of the managers' work on this.

Has ESG had a positive **financial effect** in the portfolio companies: The background for this was that there was a desire to promote Argentum's view that work relating to ESG must be considered as an opportunity to increase returns and not only something that is done as a risk-reduction measure.

## **ARGENTUM ASKED THE MANAGERS THE FOLLOWING QUESTIONS:**

### **1. ESG – Environmental, social and governance**

- To what extent are ESG factors included in the due diligence processes when evaluating new investments? Please list the ESG factors assessed
- Are responsible investment guidelines and policies evaluated on a regular basis?
- How do your portfolio companies report on ESG-related issues? Please specify if Key Performance Indicators (KPIs) have been developed.

### **2. Environmental issues**

- To what extent has the potential environmental impact of the portfolio companies' business operations been assessed?
- How has any potential risk or negative impact been mitigated or resolved?

### **3. Social factors**

- To what extent has an assessment of social factors been conducted; issues affecting the workforce, customers, suppliers and communities, which could be applicable to the portfolio companies?
- How have any negative issues been addressed and/or resolved?

### **4. Corporate governance**

- What measures have you taken to ensure good corporate governance and sound ESG practices in the portfolio companies?

### **5. Anti-corruption**

- Does any of your portfolio companies have operations in areas where corruption is widespread?
- If so, what anti-corruption measures have been taken and how are these monitored?

### **6. Value creation**

- Has ESG related work had a positive impact on earnings in any of your portfolio companies? Please specify.
- Would you like to highlight any other positive externalities of portfolio companies on the community and other stakeholders?

The responses we have received indicate that the managers are aware of ESG - both in the pre-investment evaluation phase and in the general monitoring. The majority of the managers have integrated questions relating to ESG in the due diligence process (the pre-investment evaluation phase). In general, a thorough evaluation is made of this prior to the investments. The majority of the funds that have not included this are funds that have already completed their investment period and this evaluation is therefore not relevant. There are major variations in terms of the work on developing quantifiable KPIs for ESG. Some managers have already implemented these, however the majority of managers are still in the implementation phase or have not included these.

According to the responses we have received relating to the evaluation of environmental factors, these are often included in the general evaluation. It is also common for the evaluation to be conducted on a case-by-case basis, with an *environmental due diligence* (external analysis and report of environmental aspects) conducted by external advisers when needed. Where managers do not have this on the agenda, it is often

because their funds' investment focus (software, for example) means that environmental factors are considered less relevant. Social factors are also normally included in the due diligence process and are followed up within the individual companies when needed. The managers have generally good procedures related to corporate governance.

With regard to anti-corruption activities, the reports we have received indicate that managers of portfolio companies with operations in countries where corruption is widespread are aware of this and have established good procedures and guidelines to monitor/prevent corruption.

For the questions relating to the financial effect of the work with ESG, the responses we have received indicate that there are still few concrete examples demonstrating a positive financial effect from the ESG work. The principal reason for this is that it is too early to be able to measure the effect of the ESG work and it can also be difficult to isolate the effect of this work. However, Argentum has still received examples of the ESG work having contributed to increased sales and reduced costs and several of the managers also report that they believe that this will be more clearly demonstrated in the future.

As was the case last year, Argentum requested that the managers conduct an evaluation of the portfolio with managers being asked to answer questions about the different portfolio companies, and to state whether they consider the portfolio companies to have a high, medium or low risk in respect of the main areas of the UN Global Compact. Argentum received reports on 415 underlying portfolio companies, which corresponds to 79.2% of the underlying portfolio companies. This was a strong increase compared to last year, when we received reports from 272 underlying portfolio companies (64.6%). The reports were as follows:

Indicator	Human Rights	Labour	Environment	Anti-corruption
Low risk	92.30 % (97.10 %)	93.00 % (90.80 %)	84.30 % (81.30 %)	80.70 % (82.70 %)
Medium risk	7.70 % (2.90 %)	6.70 % (9.20 %)	15.40 % (18.80 %)	18.80 % (17.30 %)
High risk	0.00 % (0.00 %)	0.20 % (0.00 %)	0.20 % (0.00 %)	0.50 % (0.00 %)

We see from the reports we have received that most of the companies in the portfolio reported a low risk associated with the Global Compact criteria. Risk related to human rights and labour standards was particularly low, while there were somewhat more companies that were assessed as having a medium risk relating to environment and anti-corruption. As the reporting here is related to risk, this is mainly due to the portfolio companies operating in an industry or area with some risk. Risk related to the environment is particularly attributable to manufacturing companies. With regards to corruption, these are companies that have operations/subcontractors in countries or areas where corruption is more widespread. Managers that operate in areas where corruption is widespread have established good procedures for monitoring portfolio companies in respect of this.

Compared to last year, the greatest difference relates to human rights in which more companies are assessed as having a medium risk. This must be viewed in connection with the fact that reporting has increased and that more managers have provided feedback. Many of the larger international managers also have strict requirements relating to ESG and are therefore more inclined to report a certain risk in the portfolio. As can be seen, reports have also been received that a small number of companies are in the high-risk zone. Argentum has followed up the managers to obtain more detailed reports about these specific companies. The risk is primarily related to general, country and industry-specific causes, rather than company-specific ones.

[1] Here we report whether external or internal guidelines are used.

## Reporting breaches

In dialogue with the funds, the managers are specifically asked whether they know of any breaches of ethical guidelines and legislative agreements. Argentum has not identified any instances of breach of the recognised principles for responsible investments in 2014.

## Actions and focus in the future

Argentum notes that the positive trend associated with the ESG work in the portfolio continued in 2014. The majority of managers have developed a separate policy for this work and have integrated the evaluation of ESG factors into the investment processes. Argentum also notes that several managers are actively working to identify and develop quantifiable KPIs for the portfolio companies in relation to ESG.

Argentum will continue its efforts to ensure that our requirements in the area of ESG are addressed in legislative agreements when committing to new funds as well as to follow up existing managers on their work on ESG in the portfolio. A particular area of focus in 2015 will be further developing the internal processes relating to ESG work in the investment activities.



## Argentum's business operations

*In accordance with Section A.15 of the Ethical Guidelines, Argentum is required to prepare an annual ESG report in respect of its own activities. This report is based on selected indicators from the UN Global Reporting Initiative (GRI). This is a set of standardised reporting indicators for corporate social responsibility that has been accepted as a global standard.*

### GRI indicators

GRI consists of over 80 indicators for economic, social and environmental performance, with certain core

indicators that must be included in the company's report, unless they are considered to be of little importance to the company.

GRI is a set of general reporting indicators used by a number of industries, with many of the indicators being of particular relevance to larger companies. For example, Argentum does not have production activities or own buildings, but operates as an asset manager. The company has therefore decided to report on a selection of GRI indicators that are relevant to the company and its activities.

Below is an overview of the parameters Argentum reports on in connection with GRI.

Indicator	Status 2014	Status 2013
Recycling (Paper and IT)	43.00 %	43.00 %
Business Travel, CO2 equivalents	53.1 tonnes	50.2 tonnes
Business Travel, CO2 equivalents per full-time equivalent	2.2 tonnes	2.4 tonnes
Sick leave	4.26 %	3.91 %
Percentage of women	41.67 %	43.48 %
Skills development (Per employee)	17 hours	17 hours

## Environmental indicators

Argentum's business operations involve travelling. In 2014 the company's travel activities resulted in 53.1 tonnes of CO2 equivalents, while the corresponding figure for 2013 was 50.2 tonnes of CO2 equivalents. This represents an increase of 5.7% compared with 2013. As the number of full-time equivalents increased during 2014, total emissions per employee fell by 0.2 tonnes compared with 2013, to 2.2 tonnes per employee. This is the lowest figure for emissions per employee since Argentum began reporting GRI factors in 2010.

We registered a slight increase in emissions in 2014, however the present emissions level has been strongly reduced since 2010 when emissions were 70.5 tonnes of CO2 equivalents. The decrease is primarily due to the company having invested in video conference equipment that is now largely used for the company's internal meetings. At the same time, the total increase has been less than what should be expected based on the number of new employees. As the company's activities increase, including outside the Nordic region, we expect that that emissions may increase in the coming years.

Argentum has an agreement with an external party regarding recycling of our discarded IT equipment, and we also require our suppliers to have environmental certification. Argentum has also implemented environmental initiatives regarding paper recycling and 43 per cent of paper waste was recycled in 2014, which is the same level as last year.

## Social indicators

Argentum had 24 employees at the end of 2014, compared with 23 employees at the start of the year. The number of full-time equivalents in 2013 was 23.7, which is used in average calculations in this report. Sick leave was 4.3 per cent of total working hours in 2014, compared with 3.9 per cent in 2013. Sick leave has increased slightly in the past few years, however is not abnormally high, and as Argentum is a small organisation, individual absence will increase the figures.

Argentum strives for gender equality and the proportion of women in 2014 was 41.7 per cent, compared with 43.5 per cent in 2013. This is the same level as last year. Skills development/training per employee averaged 17 hours in 2014, which was the same level as in 2013. Argentum will continue to focus on developing the

expertise of its employees.

## Economic indicators

The proportion of our value creation, measured by the share of the company's revenues in 2014, that is attributable to our owners is 92 per cent, compared with 95 per cent in 2013. The proportion attributable to employees has increased from one to two per cent, the government's proportion has increased from one to two per cent, while the suppliers' proportion has increased from three to four per cent. The reason for these changes is that the revenues were not as high compared to last year, and hence a lower proportion of the value creation is attributable to the company's owners through dividends and increased value of the portfolio.

## Raising awareness

In addition to the annual ESG report, a summary of the status of ESG work is presented in Argentum's annual report. A meeting is also convened each year with the Ministry of Trade, Industry and Fisheries' Ownership Department specifically focusing on ESG activities. Argentum also submits an annual ESG report to the UN Global Compact. Argentum reported for the first time in 2013 and submitted its second report in 2014. This report is available from the website of the Global Compact organisation. In addition to the annual reports, Argentum's ethical guidelines and our ESG reports are available at our website:

[www.argentum.no](http://www.argentum.no)

Argentum wishes to work closely with Norwegian and international investors on how to further develop work related to ESG in the portfolio. This work continued in 2014 when Argentum attended, among other things, EVCA's Responsible Investment Summit. Argentum is also a supporter of the Oslo Business for Peace Summit. Argentum has regular dialogue with investors and managers in connection with ESG and has also assisted managers in developing their ESG processes. ESG knowledge in the organisation has also been strengthened through courses.

Argentum became a member of the newly-established Norsif (Norwegian Forum for Responsible and Sustainable Investment) in 2013. Norsif is an independent association of asset owners and asset managers, service providers and industry associations interested in responsible and sustainable management. Argentum has been active in the association since it was established and has also been represented on the association's events committee. Argentum took the initiative for a seminar Norsif arranged in cooperation with NVCA in spring 2015, which was specifically related to ESG and private equity. Argentum will continue discussions on ESG with Norwegian and international investors in 2015.