



HQ Capital

HQ Capital Private Equity ESG Report

2021



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1 | Our ESG engagement

Commitment to sustainability since early on HQ Capital Private Equity (“HQ Capital”) began incorporating ESG criteria firm-wide and into our global investment process over a decade ago after becoming an early signatory and supporter of the United Nations Principles of Responsible Investment (PRI) in 2011. HQ Capital is committed to implementing the PRI’s 6 principles and has steadily improved over the years, earning a PRI Grade of “A” for our Strategy and Governance in 2020.

Additionally, we are committed to the United Nations Environment Programme Finance Initiative (UNEP FI), the United Nations Global Compact (UN Global Compact), the Task Force on Climate-Related Financial Disclosures (TCFD) and to Level 20, a not-for-profit organization dedicated to improving gender diversity in European private equity.

ESG Team equipped with diverse set of skills

The ESG Team is headed by Britta Lindhorst, Managing Director and Head of European Private Equity, and supported by Janine Diljohn, Chief Compliance Officer (CCO), as well as by a global in-house team including investment team, business development, products & solutions, and client service members. The ESG team is project oriented with the different members being responsible for the development, implementation and monitoring of ESG policies within the HQ Capital organization and the investment process.



At HQ Capital we follow the six PRI Principles to

- 1 incorporate ESG issues into investment analysis and decision-making processes;
- 2 are active owners and incorporate ESG issues into our ownership policies and practices;
- 3 seek appropriate disclosure on ESG issues by the entities in which we invest;
- 4 promote acceptance and implementation of the Principles within the investment industry;
- 5 work together to enhance our effectiveness in implementing the Principles and
- 6 report on our activities and progress towards implementing the Principles.

HQ Capital additional commitment and recognition



“

We are convinced that the integration of ESG criteria in our investment process removes specific risk and can enhance the risk adjusted returns long-term.

Britta Lindhorst | Managing Director, Head of European Investments and Head of the global ESG Team

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The ESG team also works with clients, limited partners (LPs), and general partners (GPs) to facilitate communication about ESG concerns and help implement reasonable standards.

The ESG team members actively participate in industry conferences, symposia, and academic post-graduate lectures in order to constantly broaden and improve their know-how on ESG and sustainability investing topics, while exchanging views with other market participants.

To that end, we proactively monitor and promote the progression of ESG policies across the industry and engage in regular dialogue with other market participants. Internally, the ESG team hosts regular workshops to ensure that all colleagues are up to date on the latest and best accepted ESG practices and industry developments.

2 | Our ESG policy

As a fund of funds manager, HQ Capital generally has limited engagement with the underlying portfolio companies and investments. Therefore, we see it as our key responsibility to collaborate with our GPs and their management companies to encourage ESG best practices. HQ Capital and the ESG team assess the ESG policy of our GPs using several tools.

These include a dealbreaker catalogue, a GP ESG pre-investment questionnaire, our in-house proprietary ESG GP ranking as well as an escalation procedure. The result for the GP ESG ranking, which is an integral part of our investment analysis, is included in the written Investment Proposals that are submitted to the HQ Capital Investment Committee for approval.

HQ Capital ESG Investment Analysis Toolkit



Dealbreaker Catalogue

Weapons • Pornography and related businesses • Exploitation of childhood labor • Violation of human rights • Support of repeated / systematic corruption • Speculation with agricultural commodities • Support of businesses in countries tied to terrorism



ESG Questionnaire

Evidence of commitment / ESG-Policy • Responsibility / ESG expertise • Handling of ESG conflicts • Level and frequency of dialogue with portfolio companies and Investors • Reporting and communication of ESG factors • Implementation and tracking of KPIs



Escalation Procedure

Determination if the potential investment is in line with our ESG policy by the investment team. If no conclusive assessment is possible: Review of the circumstances by ESG Team until consensus or Investment Committee to make final decision



GP Ranking

GP ranking from 0-5 for classification and regular monitoring of developments

Dealbreaker Catalogue

To serve as the initial screening, the ESG team constructed the dealbreaker catalogue that explicitly outlines the industries and business practices that are excluded from investing. If a General Partner is invested in a portfolio company that operates in one of the industries, countries, or participates in one of business practices listed below, HQ Capital will (i) not invest with that General Partner, or (ii) request an exclusion of such investment from the portfolio on behalf of HQ Capital and its clients.

ESG Questionnaire

The GP ESG pre-investment questionnaire was developed by the ESG team based on industry wide acknowledged ESG questionnaires, such as those created by Invest Europe, the European Private Equity Association and the PRI. The global investment team uses these questionnaires as a guide when discussing with the General Partners their overall ESG policy, evaluating a General Partner's investment process, and General Partner's depth of due diligence.

Escalation Procedure

We have created a three-step escalation procedure in order to solve any ESG issue or conflict. If the investment deal team is unable to assess whether a potential investment is in line with our ESG policy and stated responsible investing objectives, the deal team will involve the ESG team to review the circumstances and help resolve any potential ESG issues. If the ESG team is unable to come to a consensus with the deal team, the ESG team will escalate the issue to the Investment Committee for a final decision. In both cases, written documentation of the issue and rationale for the ruling will be provided.

GP Ranking

A core element of our toolkit is the ESG GP Ranking that we began implementing in 2015 and have since redefined in line with developments in the ESG investing landscape. The ranking framework focuses on the existence and implementation of an ESG Policy, the integration of ESG factors when sourcing deals and during the investment process, and the activities, monitoring and reporting of Key Performance Indicators (KPIs) post-investment. A manager is assigned an ESG ranking at the time the investment is made.

HQ Capital GP Ranking	
 Rejection	0 GP has no ESG policy in place and has no interest in or planned response for ESG considerations OR pursues a strategy on HQ Capital's ESG Deal Breakers Catalog
 In Process	1 GP has no ESG policy in place BUT is in the process of developing an ESG policy and/or their investment strategy is not violating our negative catalog
 Introduction	2 GP has defined and implemented an ESG policy either by having signed with an external agency (i.e. PRI) or by having defined a comparable internal ESG policy
 Integration	3 In addition to 2, GP implements and maintains ESG factors firm-wide and in the investment process
 Monitoring & Reporting	4 In addition to 2 and 3, GP monitors and reports its portfolio companies' ESG programs and findings
 Measuring & Tracking & Reporting	5 GP has defined specific ESG KPIs for the firm and each portfolio company, which are an integral part of the value creation and are measured, tracked and reported on a regular basis

Unless otherwise noted, information is as of March 2021.

A summary of our analysis and the final ranking is documented in our written Final Investment Proposals that are presented and approved by the HQ Capital Investment Committee. General Partners earn a new ESG Ranking per HQ Capital primary commitment. Moreover, yearly ESG Rankings are generated based on the primary commitments of the specified calendar year. The assigned ESG Ranking is inserted into our database and subject to review on a yearly basis if there are material changes or updates.

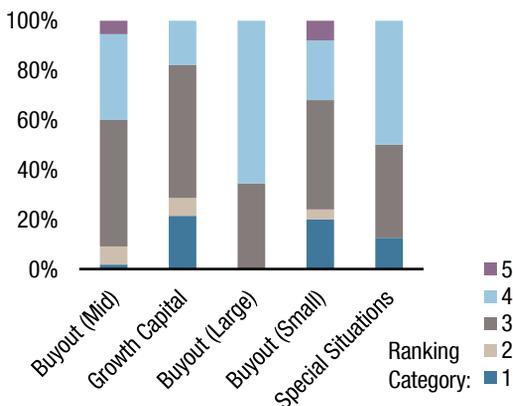
HQ Capital conducts regular portfolio reviews, which consist of detailed update calls with our General Partners, during which ESG policies are discussed and any changes or improvements in their methods are recorded. This information serves to help shape our own practices as we implement the principles, and also provides useful insight into the portfolio company ESG practices. Moreover, post-investment, HQ Capital encourages and supports our General Partners in evaluating their ESG approach and making efficient strides in their policies.

3 | Our portfolio assessment

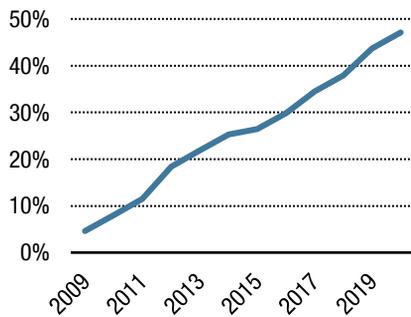
Global rise of PRI signatories and rank

HQ Capital Private Equity officially began tracking and assigning our General Partners an ESG ranking in 2015. Since then, we have assessed 98 managers across 150 funds and across our three core regions North America, Europe and Asia and have recognized a steady increase in the number of ESG supporters and in the quality and depth of ESG integration. The PRI, while not a must, have become an industry-wide common standard for the private equity industry. As of December 31, 2020, 47% of the General Partners in HQ Capital Private Equity’s global portfolios are signatories of the PRI. That equates to a 78% increase since 2015. This is meaningful as the affiliation with the PRI is correlated with a higher ESG ranking.

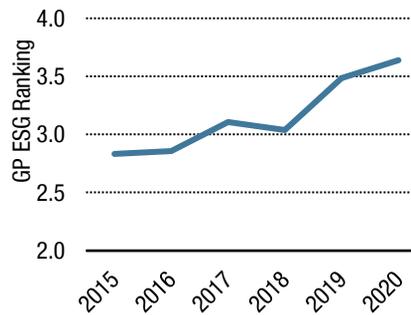
GP ESG Ranking by Fund Type



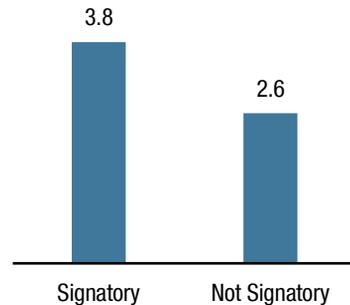
PRI Signatories as % of HQ Capital GPs



HQ Capital Global GP ESG Ranking



HQ Capital ESG Ranking by PRI Signatory Status



Unless otherwise noted, information is as of February 2021. ESG assessment is based on HQ Capital analysis as of December 31, 2020. GP ESG Rankings are assigned per new primary commitment. Yearly GP ESG Ranking are generated based on primary commitments of that calendar year. The output of yearly ESG rankings is the average ESG Ranking of the General Partners that HQ Capital invested in during the specified year. ESG Ranking by PRI Signatory Status is calculated as the average ranking of all HQ Capital primary investments into managers with PRI Signatoryship vs. those without affiliation.

This also ties into the improvement we have seen from our managers, across all regions, as ESG rankings have shown steady year-over-year improvements, even as we, and industry regulators, have continued to raise standards.

The progress shown by our managers is significant as it indicates that General Partners are transitioning from adapting ESG topics at a high level to a more structured process in which ESG criteria are ingrained into their investment activities on portfolio company levels both, pre- and post-acquisition.

Europe remains the leader in driving ESG topics

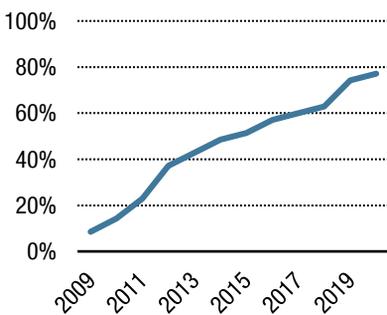
Europe initiated and remains the leader in driving the incorporation of ESG and sustainability topics into investing. It is also at the forefront of development and promoting measurement and transparency in the ESG/Impact investing space, now propelled by the newly introduced EU-Regulation. Therefore, it does not come as a surprise that Europe contains the highest percentage of PRI signatories and highest average ESG ranking within HQ Capital portfolios.

As seen in HQ Capital portfolios and in the private equity industry, larger institutional managers are better equipped to develop, implement, and allocate resources to an ESG/Impact Investing policy compared with newer or smaller investment firms.

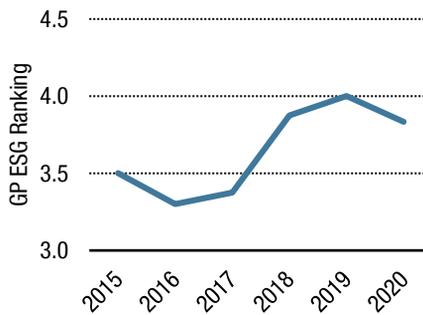
While we see good momentum and positive developments across all three regions, there are still regional differences to report.

We have assessed 35 European managers across 61 primary fund commitments. As of December 31, 2020, over 77% of our European managers are signatories of the PRI, marking a 50% increase since 2015. The quality of ESG policies amongst our European managers has also improved, notably, including more “5” ranked managers than in previous years.

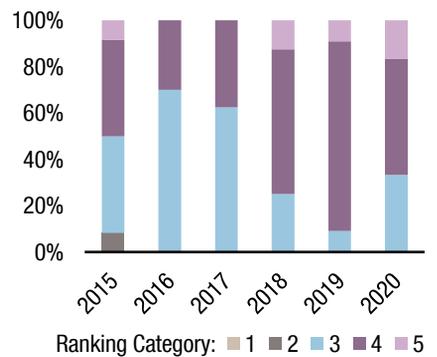
HQ Capital EU GP PRI Signatory %



HQ Capital EU GP ESG Ranking



HQ Capital EU GP ESG Ranking



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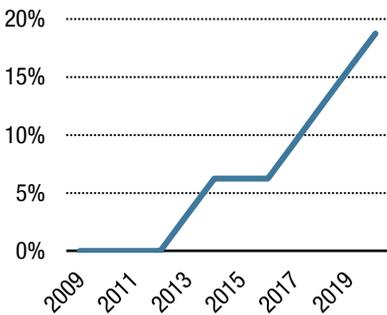
North America on upward track

North America follows behind Europe with regards to ESG and sustainable investing, however making significant progress in the last few years. We have assessed 34 North American General Partners across 54 primary fund commitments.

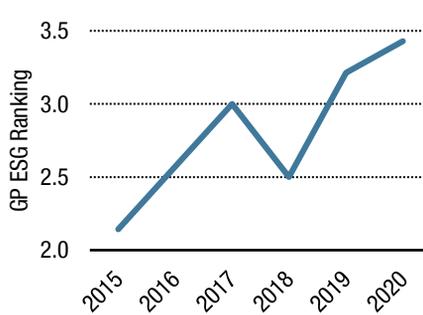
As of December 31, 2020, 19% of our North American managers are signatories of the PRI, a 200% increase since 2015.

Whereas a number of our GPs have started to consider ESG policies only in recent years, 2020 marked the first year where our North American GPs showed minimum rankings of “3” and 43% already being ranked “4”.

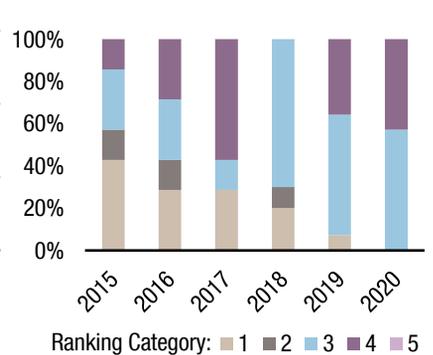
HQ Capital NA GP PRI Signatory %



HQ Capital NA GP ESG Ranking



HQ Capital NA GP ESG Ranking

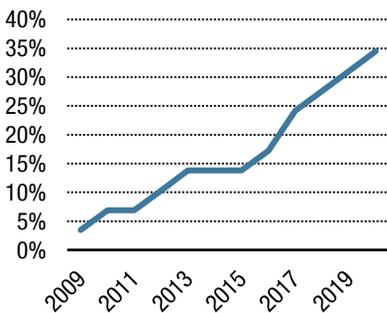


Asia shows steady progress

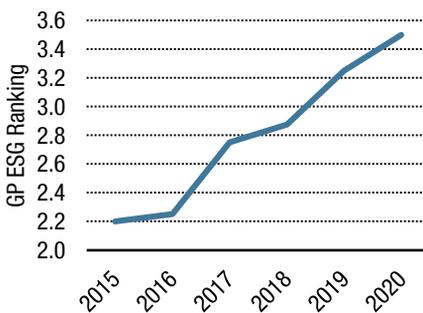
ESG investing among our Asian General Partners has shown ongoing progress over the last years. This holds true across all sub-regions including China, developed Asia and Asia Pacific. We have assessed 29 Asian General Partners across 35 primary fund commitments. As of December 31, 2020, 35% of our Asian managers are signatories of the PRI, a 150% increase since 2015.

There is also a clear and steady upward trend with regard to their ESG Rankings. In the years 2019 and 2020, similar to North America, these rankings consisted of minimum “3” and 50% already were assigned a “4”.

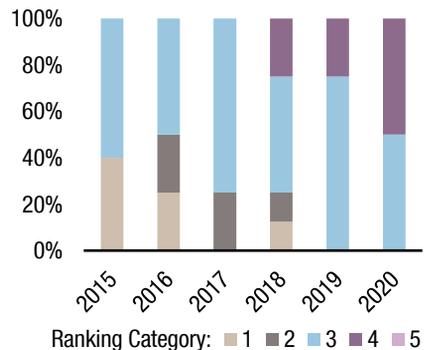
HQ Capital Asian GP PRI Signatory %



HQ Capital Asian GP ESG Ranking



HQ Capital Asian GP ESG Ranking



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4 | Our CSR engagement

Dedicated CSR activities across regions

HQ Capital strives to be the preferred partner in private markets by constantly



Being trustful partners & delivering exceptional results



Developing our people and seeking innovation



Creating a positive social impact

HQ Capital's social initiative, HQ Capital Gives Back!, was designed to create a positive impact through volunteer initiatives that support humanitarian efforts, inclusion and diversity, and the provision of aid to people, communities and our environment.

HQ Capital Gives Back! is an opportunity for employees to directly engage in service projects. Through our volunteer efforts, our team embodies the core principles of our firm: getting things done, being professionals, and succeeding by working together as a team. The company holds annual fundraisers and service days in the United States, Europe and Asia to support those in need and better the communities in which we operate.

2020 Activities

In 2020 HQ Capital Gives Back! supported global COVID-19 relief efforts. Each regional office has donated to organizations currently battling the devastating impact of COVID-19.

In Germany, we partnered with [Children for a Better World](#), a donation-financed children's aid organization based in Munich. It was founded by Gabriele Quandt in 1994 to fight childhood poverty and create opportunities for children and youth to support their own communities.



HQ Capital Gives Back!

Our cooperation partners



Malteser

children

Mit Kindern. Für Kinder!



FOOD ANGEL
by the Charity Foundation



樂施會
OXFAM
Hong Kong

CONCRETE SAFARIS



Pajama Program
Good Nights Are Good Days

In New York, we partnered with [Urban Pathways](#) and the [Food Bank for New York City](#). Urban Pathways is a New York City based organization that provides housing, social services, and support to homeless New Yorkers with the goal of helping them to ultimately become self-sufficient. Likewise, Food Bank for New York City continues to be an essential hunger-relief program.

In Hong Kong, we partnered with [Oxfam Hong Kong](#). Oxfam Hong Kong dates back to 1976 when volunteers joined together to open a shop for second-hand goods in Hong Kong and raise funds for anti-poverty projects around the world. Oxfam has reached over 21,000 people distributing masks and sanitizing materials to street cleaners, elderly, visually impaired, mentally ill, low-income families, and ethnic minorities across Hong Kong.

Unless otherwise noted, information is as of March 2021.

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