ESG AND CSR POLICIES

Sofinnova recognises that properly thought out and implemented Environmental, Social and Governance policies may enhance the reputation of portfolio companies and might make them more attractive exit opportunities.

We do not see good governance, social responsibility and environmental responsibility as incompatible with maximising returns for our investors. Set out below is our policy approach to this issue.

Sofinnova has formalized a responsible investment policy internally and has appointed a point person (Sarah Lafaye) who is in charge of the promotion and implementation of its ESG policies within the firm. The intention is to develop and focus Sofinnova's understanding, approach and communication of ESG issues.

1. DUE DILIGENCE AND INVESTMENT AGREEMENTS

The due diligence needed for each investment will vary from case to case. Environmental due diligence may assume a higher profile when a manufacturing investment is being considered than when the business plan under review is in relation to a services company.

Partners should ensure that environmental, governance and socially responsible investment issues are appropriately addressed when planning the due diligence investigation of a target. Issues likely to have a material impact upon the investment decision making process because of their financial or reputational impact must be flagged to Investment Committee at an early stage. Where such issues are identified then an environmental or due diligence specialist may be engaged to assess them and to make observations on the future costs of remediating any issue.

When considering investments careful consideration should be given as to the way in which the target sources raw and finished materials – eg timber, cotton or clothing and from where those materials come. Investment papers should discuss any instances where the target sources a significant part of its raw materials from a non sustainable resource or where products are bought in from countries with a poor record of labour rights.

The internal Term Sheet template that we use as a basis for our negotiation with potential investee companies provides for the portfolio company to report to us annually on (i) how relevant ESG issues have been managed during the year, (ii) what (if any) further actions need to be taken, (iii) the ESG improvements achieved and (iv) the plans for future actions to improve the company's ESG performance.

UNPRI – Sofinnova has not endorsed the UNPRI or any of the other such international protocols. Whilst it understands and will seek to follow the spirit of these documents it feels that they are too broadly drafted.

Partners should consider whether warranties and indemnities should be incorporated into the Sale and Purchase agreement to help manage liabilities arising out of ESG issues.

2. PORTFOLIO MONITORING

Once an investment is made the partner responsible for monitoring and managing it should, in as far as relevant, use his best endeavours to ensure that a board member of the portfolio company is appointed with responsibility for overseeing and monitoring the management of environmental and social issues in the investees' day to day work.

Reporting on material ESG issues should be included on the investee board's agenda and portfolio companies should be encouraged to develop and publish their own ESG strategy.

Clear governance structures should be established in investee companies. As a minimum these should include a Board led by an independent Chairman, a Remuneration Committee and an Audit Committee. Consideration will need to be given to other specialist committees depending upon the nature of the investment made – eg a Health & Safety Committee or a body charged with relations with the wider stakeholder community.

Partners will use their best efforts to ensure that these requirements are built into the Investment/ Shareholders Agreement.

Every year, we ask our portfolio companies to report on those issues through an ESG questionnaire.

3. EXCLUSION POLICY

Sofinnova will not make investments in certain sectors – e.g. pornography, alcohol, firearms or tobacco and will not invest in companies whose products or services are associated with human rights abuses or child labour or who are likely to adversely impact on the reputation of itself or its investors.

4. COMMUNICATING ESG ISSUES TO INVESTORS

Sofinnova considers that it is important that investors know of any environmental, governance or social investment risks that impact upon an investment from it rather than read about them in newspapers and magazines.

If a partner becomes aware of poor employment practices (such as child labour), damaging environmental actions, significant redundancies at a portfolio company or other ESG issue that is likely to have a material impact upon the value of an investment then an analysis of these should be included in the next portfolio report.
It is important to be open with investors when communicating such matters, if any.

5. EXIT PLANNING

When making and monitoring investments we must always be conscious that poor environmental practices can damage the reputation and therefore the value of an investment and that good practices can enhance it.