MIDOCEAN PARTNERS
2020
TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

MidOcean Partners supports the recommendations of the Task Force on Climate-related Financial Disclosures and is committed to producing annual disclosures that consider these recommendations. This is our first annual TCFD disclosure report, and as such, we expect our approach and reporting to evolve over time.

GOVERNANCE

Day-to-day ESG oversight is handled by our ESG Officer, Candice Richards. Additionally, Jim Scarfone, MidOcean's Chief Human Resources Officer, coordinates MidOcean Talent, HR, and culture initiatives with portfolio companies. Both Candice and Jim report to MidOcean's Chief Operations Officer, Deborah Hodges.

With the aim of improving governance, we have created dedicated ESG committees charged with defining and implementing a responsible investment strategy, including climate change. The Firm maintains an ESG Committee for each of the private equity and credit arms of the business. ESG Committee meetings, overseen by the ESG Officer, are held on a monthly basis and discuss ESG progress, risk, and targets. The ESG Officer also oversees a General ESG Committee, made up of members of senior management, which meets on a biannual basis and has an oversight and supervisory role.

General ESG Committee

Private Equity ESG Committee | Credit ESG Committee

On the private equity side, on a quarterly basis, ESG risk, progress, and targets specific to each portfolio company are discussed with the relevant boards and are reported to limited partners. On the credit side, on a quarterly basis, limited partners are provided with sustainability reports, which include an ESG rating and performance summary, benchmarking analysis, carbon emissions scoring, as well as representative ESG case studies. In addition, the Firm's Annual General Meeting contains an ESG segment to inform limited partners on ESG and climate-related progress made across the business over the course of the year.

Reports around progress in this space are also provided on an annual basis to the Firm's Management Committee, and specifically as it relates to credit arm ESG progress, on a quarterly basis to the Credit Risk Committee.

In effort to raise ESG and climate change awareness throughout the organization, extensive, firm-wide ESG training is conducted least annually, and ESG, inclusive of climate-related, materials are distributed to the teams on an ongoing basis. In addition, the ESG Officer conducts separate ESG training for the deal teams on at least a biannual basis.

To help further progressive thinking relating to ESG and climate change, our ESG Officer participated in a number panels at ESG and Impact Investing events. Sharing insights and engaging with other professionals around these important topics helped raise climate awareness within the private fund community and were a source of great support as we built out our strategy.

Some of these panels include:

- December 2020: Opal Group – CLO Summit 2020: "ESG and Impact CLOs"
- October 2020: UCITS and AIFMD for US Managers New York: "Impact of Global Crises on ESG in Europe"
- September 2020: Private Debt Investor New York Forum: "ESG in Private Debt and Responsible Lending"

We look forward to continuing to engage and collaborate with our communities. In 2021, we plan to host an ESG Summit for our portfolio companies to help bring awareness around physical risks as well as around emerging climate change-related regulatory implications.

STRATEGY

Climate change is increasingly creating material risks and opportunities across our platform. Our investments face potential impacts from the physical effects of climate change, such as extreme weather conditions, as well as potential impact from regulation designed to reduce greenhouse gas emissions. We believe that better understanding and managing of the emerging risks and opportunities that arise from climate change is a vital part of our evolution.

Physical risks resulting from climate change include:

- Acute risks: event-driven exposures, including the increased severity of extreme weather events (cyclones, hurricane, floods, etc.); and
- Chronic risks: longer term shifts in climate patterns (i.e., sustained higher temperatures) that may cause sea-level rise or chronic heat-waves, for example.

Transition risks resulting from the transition to a lower carbon economy include:

- Policy and legal risks: the evolution of regulations and potential litigation or legal risk;
- Technology risks: technological improvements or innovations that support the transition to a lower-carbon, energy-efficient economic system;
- Market risks: the effects of climate change on supply and demand; and
- Reputation risks: changing customer or community perceptions related to the climate considerations.

Climate change impacts can materialize in several ways. For example, the increasing frequency and severity of extreme weather events may leave the portfolio companies increasingly exposed to the physical impacts of climate change. Transition risks, particularly through changing market regulation and policy, are having, and will continue to have, a material impact on our investments.

Given the complexity of climate change related impacts, we have focused on improving our insights while developing strategies that we believe will make our investments more resilient to a number of potential outcomes.

RISK MANAGEMENT

We have integrated into our risk management process the identification, assessment and effective management of climate-elated risks and opportunities. We have focused on understanding and better managing climate-related risks and opportunities across our platform.

Private Equity

To better assess climate-related impacts, we introduced climate risk as a factor in pre-acquisition due diligence via an ESG Checklist and ESG Considerations Summary, which is included in all Investment Memos. These considerations and their materiality are discussed at Investment Committee meetings. The Investment Committee considers ESG risks and/or ESG related opportunities in its investment decision determinations.

Additionally, the ESG Officer engages the management teams of target companies in the discussion of ESG and climate-related risk and mitigation techniques and goals. Our ESG Officer works closely with our deal teams and external counsel as they diligence potential investments, and furthermore, specialized ESG third-parties are engaged on specific diligence items, where needed. Our diligence of individual investment opportunities has increasingly included climate-related risks and opportunities, where material.

As it relates to current holdings, we've conducted materiality analyses to identify material climate risk exposure. Our deal teams work directly with the board and management teams of our portfolio companies to drive understanding of ESG considerations and to create an action plan to strengthen climate resilience.

In addition, ESG Reviews have been integrated into the investment monitoring process to ensure our fund teams were identifying and assessing climate-related risks and opportunities on our business, strategy, and financial planning. These reviews focused on the ESG and climate-related achievements of our investments and also identified actions the business could take to mitigate negative environmental impacts. This enhancement to the investment process created awareness around the resilience of our business strategies in the context of ESG generally, including the effects of climate change across the portfolio. By defining what is critically important, our deal teams and our portfolio companies were able to direct more time and resources to the issues that matter the most to our businesses and limited partners.

Going forward, we have initiated an internal group looking at carbon risk and opportunity management, and have integrated climate workshops into our investment process. We aim to strengthen our internal understanding of the implications of climate risk on our portfolio companies via sector and scenario analysis, focusing on how to implement two degree scenario planning and stress testing in ways that are meaningful for our investment processes.

Credit

Climate risk was also introduced as a factor in the credit investment diligence process via an ESG Checklist, integrated into the Investment Memo. In addition to an analysis of credit risk, financials, and other fundamental considerations, the investment memo now considers ESG risk, and requires analysts to populate, as it relates to each issuer, the ESG rating provided by MSCI[1], internal ESG analysis/ratings[2], and climate/carbon footprint impacts. In addition to completing the Investment Memo and ESG checklist, analysts are also required to pull MSCI Issuer reports, which, together with the investment memos, are sent to Portfolio Managers in advance of Investment Committee meetings. ESG and climate risk and strengths are monitored on an ongoing basis by the investment teams, and ESG risk reports are circulated to investment teams on a monthly basis. These risk reports benchmark ESG and carbon emissions ratings stratifications against the HYG index.

In our credit investments we are predominantly focused on downside risk mitigation, and have a greater focus on better underwriting and mitigating climate-related risks as opposed to creating or capitalizing on equity upside opportunities. We have less control than in our private equity investments, and hence have less ability to influence a business model during our hold period. That being said, we have successfully utilized an engagement approach on a case by case basis where we have access and the ability to initiate dialogue with the issuer's management team. Additionally, we have conducted extensive ESG, inclusive of climate-related risk, training with our credit analysts and these considerations are discussed in the day-to-day operation of the business and management and monitoring of the portfolio,

METRICS AND TARGETS

We endeavor to focus on the reduction of emissions for our firm across Scopes 1-3: office utilities, offsite data centers, commercial and private air travel, and employee commuting. All members of our Firm recognize that climate change not only affects how we run our business and invest, but also how we live our lives.

In an effort to reduce our Firm's impact on the environment, in 2020, we focused on the reduction of GHG emissions as well as on an overall business use of plastics. Key actions taken to reduce our usage of plastics included the following:

- Elimination from our offices of plastic water bottles and other products made from unsustainable natural resources;
- Recycling of plastic toner cartridges;
- Installation of a BEVI water dispenser in the office; and
- Distribution of recyclable and re-usable water containers for all employees.

Additionally, we have encouraged the use of videoconferencing to minimize travel, and where travel is required, have encouraged rail travel as opposed to air/private cars when appropriate.

[1] MSCI's ESG Manager Platform, a tool that provides ESG ratings for issuers, as well as useful reporting around ESG risk by sector, as made available to our investment teams in 2020. This Platform provides a comprehensive report as it relates to specific issuers and ESG reports as it relates to industries in our portfolio.

[2] We have developed an independent internal rating system, a useful tool that rates issuers in consideration of sector-specific and other risk areas. Our analysts' independent research serves as a checks and balance against the shortcomings of external analysis with potential subjectivity of our own and given us a wider net with multiple data points.

In constructing our new office space, we managed our environmental impact by:

- Installing a Daylight Harvesting Lighting System/high efficiency lighting;
- Using non-oil based paints;
- Using locally sourced materials;
- Reusing the wood finishes in the pantry and the existing office fronts, drywall partitions, and wiring; and
- Using recycled wood for the millwork substrate.

Our focus on emissions reduction also extends to our investments. Through our ESG Reviews, we assessed the carbon intensity and environmental impact of the operations and products of our portfolio companies, and as a result of these discussions, our portfolio company management teams implemented a number of changes which will have a tremendous positive environmental impacts. Some of these changes include (non-exhaustive list):

- a redesign of packaging to reduce the size of product containers, thereby reducing waste;

- the removal of mirrors from eyeshadow compacts;

- the transition to printing with soy-based inks on recycled cardboard packaging;

- the purchase of wind and energy offsets, certified by the green E energy renewable energy certificate, to offset warehouse electricity usage;

- the commitment to create wooden products with the wood of managed forests;

- the implementation of environmental controls at factories, specifically around water treatment and power usage; and

- the removal of foam from packaging and the usage of recycled or biodegradable plastic.

While we have made progress in our efforts to reduce our carbon emissions across the platform, we do recognize, however, that carbon emissions are not material for all kinds of companies. As such, we plan to conduct a series of climate workshops and scenario analyses exercises to help identify portfolio-specific climate-related risk and opportunities, and to ensure that the investments that we have made are resilient to different climate-related scenarios. We will then work toward designing and implementing tailored action plans to build climate resilience. We believe that data is an integral part of our ability to better understand and manage climate risks and opportunities and we are focused on gathering better data on both our own corporate operations, as well as on our portfolio company investments so we can take a step closer to making measured change.

CONCLUSION

Reporting in line with the TCFD recommendations on how climate change impacts our business is an area that we believe will continuously evolve as we sharpen our understanding of the moving parts. We are committed to better understanding how this important issue will impact MidOcean generally as well as our clients, and toward taking the steps necessary to mitigate negative impacts. We look forward to working together to benefit the environment and society as a whole and to making the world a better place.