

**Private Equity ESG Policy – Last Updated: July 25, 2016****1. Purpose**

The purpose of this policy is to define KKR's approach to integrating the consideration of environmental, social, and governance (ESG) risks and value creation opportunities into investments made through its private equity funds. KKR commits to consider material ESG issues in the course of its due diligence and in the monitoring of portfolio investments to the extent reasonably practical under the circumstances, subject, in any event, to the provisions of the Partnership Agreements and the Confidential Private Placement Memorandums of the funds concerned, and to the duty of KKR to seek to maximize the returns on investment for all of the partners of its private equity funds. For the purposes of this policy, "material" ESG issues are defined as those issues that KKR in its sole discretion determines have or have the potential to have a direct substantial impact on an organization's ability to create, preserve, or erode economic value, as well as environmental and social value for itself and its stakeholders.

KKR will seek to update the policy continually, as appropriate.

**2. Scope**

This policy will apply to all private equity investments considered by the relevant Investment Committee or made by KKR following the date hereof, and will be interpreted in accordance with local laws and regulations. In cases where KKR determines it has limited ability to conduct diligence or to influence and control the integration of ESG considerations in the investment—for example, in cases where KKR is a minority shareholder, or where other circumstances affect KKR's ability to assess, set, or monitor ESG-related performance goals—it will not necessarily be feasible to implement ESG-related principles. In such instances where KKR believes it to be appropriate, reasonable efforts will be made to encourage these private equity portfolio companies to consider relevant ESG-related principles.

**3. Roles and responsibilities**

KKR's private equity investment professionals, with assistance from KKR Capstone<sup>i</sup> professionals, are primarily responsible for ensuring that the consideration of ESG issues is integrated into private equity investment decisions in collaboration with the Global Public Affairs and Legal & Compliance teams. Where additional subject matter expertise is needed, the teams utilize external resources as relevant and necessary. KKR Capstone collaborates with KKR teams in the management of KKR's proactive ESG-focused value-creation programs, as described at [www.kkresg.com](http://www.kkresg.com).

The Global Public Affairs team is responsible for facilitating the implementation of this policy in private equity investments globally and for maintaining and updating the policy to ensure its continued relevance. KKR has appointed an individual to be primarily responsible for implementation in each of the key investment regions: Americas; Asia-Pacific; and Europe, Middle East, and Africa. This policy was reviewed and approved by the appropriate decision-makers.

#### **4. Goals**

In connection with its private equity funds and subject to the scope described in Section 2, KKR seeks to<sup>ii</sup>:

1. Consider environmental, public health, safety, and social issues associated with target companies when evaluating whether to invest in a particular company or entity, as well as during the period of ownership.
2. Be accessible to, and engage with, relevant stakeholders either directly or through representatives of portfolio companies, as appropriate.
3. Grow and improve the companies in which KKR invests for long-term sustainability and to benefit multiple stakeholders, including on environmental, social, and governance issues. To that end, KKR will work through appropriate governance structures (e.g., board of directors) with portfolio companies with respect to environmental, public health, safety, and social issues, with the goal of improving performance and minimizing adverse impacts in these areas.
4. Use governance structures that provide appropriate levels of oversight in the areas of audit, risk management, and potential conflicts of interest, and to implement compensation and other policies that align the interests of owners and management.
5. Remain committed to compliance with applicable national, state, and local labor laws in the countries in which KKR invests; support the payment of competitive wages and benefits to employees; provide a safe and healthy workplace in conformance with national and local law; and, consistent with applicable law, will respect the rights of employees to decide whether or not to join a union and engage in collective bargaining.
6. Encourage strict policies that prohibit bribery and other improper payments to public officials consistent with the U.S. Foreign Corrupt Practices Act, similar laws in other countries, and the OECD Anti-Bribery Convention.
7. Respect the human rights of those affected by KKR's investment activities and seek to confirm that KKR does not invest in companies that utilize child or forced labor or maintain discriminatory policies.
8. Provide timely information to KKR's limited partners on the matters addressed herein, and work to foster transparency about KKR's activities.
9. Encourage KKR portfolio companies to advance these same principles in a way that is consistent with their fiduciary duties.

#### **5. KKR's approach to ESG integration in private equity investments**

KKR will seek to integrate the consideration and thoughtful management of ESG issues throughout the investment cycle.

##### *5.1 Pre-investment:*

To ensure the integration of ESG considerations in the pre-investment phase of private equity investments, and subject to KKR's determination of what is reasonable and appropriate for each investment as described in Section 2, KKR will:

**Undertake ESG due diligence:** Involve internal subject matter experts with ESG-related competence to conduct an assessment of ESG value creation opportunities or risks for potential private equity investments considered through the Investment Committee process. When material ESG issues are identified, they may be included in discussions with the applicable Investment Committee, and external advisors may be engaged to carry out additional ESG-related due diligence as needed. Where management of, or performance on, a material issue is considered

by KKR to need improvement (see Section 6 on performance standards), KKR will work with company management to support the development of a corrective action plan.

**Documentation:** In cases where ESG-related issues are considered during the due diligence process, KKR will seek to document, for internal use, the issues considered, findings, and next steps, if any.

## *5.2 During investment:*

To manage ESG risks and value creation opportunities in its private equity investments post-investment, and subject to KKR's determination of what is reasonable and appropriate for each investment as described in Section 2, KKR will:

**Monitor progress:** Where there are material issues identified during the diligence process, include the management of these issues in a 100-day plan post-close, or otherwise monitor ongoing progress on ESG issues, as applicable. Where management of, or performance on, a material issue is considered by KKR to need improvement (see Section 6 for performance standards), KKR will work with company management to support the development of a corrective action plan.

**Documentation:** In cases where material ESG-related risks and opportunities are being monitored or managed by KKR, KKR will document, for internal use, the issue, progress, and next steps, if any.

## **Engage during investment:**

- KKR will encourage the management teams of portfolio companies to identify and raise material ESG issues to the relevant decision-makers, including, where appropriate, board-level individuals.
- Where appropriate and subject to the scope described in Section 2, KKR will assist portfolio companies in the development of action plans to adequately address the identified ESG-related risks and opportunities. Where applicable, this may be part of the 100-day plan. In addition, where relevant, KKR will invite portfolio companies to participate in its proactive ESG programs. The focus of these programs will be managing ESG risks and opportunities that span across sectors.
- Where appropriate and reasonable, KKR will also support its portfolio companies' efforts to report externally and internally on their ESG approach and performance as related to material ESG issues. KKR will communicate to portfolio companies its commitment to responsible investment, as well as information on KKR's programs for partnering on ESG issues.

## *5.3 Transparency and stakeholder engagement*

KKR will seek to be transparent in its approach to incorporating ESG considerations in its private equity investments by reporting at least annually on its progress and outcomes at the Firm level. The format of this reporting may vary among written public reports, or verbal informal reports, or confidential fund or asset-level reports to KKR investors.

Where appropriate, throughout the investment cycle KKR will seek to actively engage relevant stakeholders in an effort to make informed decisions that may affect these stakeholders.

## 6. Performance standards

Where applicable, and subject to the scope as defined in Section 2, where local laws and regulations are considered to be insufficient, KKR will apply its judgment and expertise in assessing risks and opportunities related to material ESG issues. To support this effort, KKR will consider the applicability of existing voluntary performance standards<sup>iii</sup> as frameworks to help achieve the goals set out in Section 4 during the evaluation and ongoing management of its private equity portfolio companies.

### 6.1 Review and categorization

To prioritize and focus its ESG assessment and management efforts during diligence and the life of the investment, KKR will consider the magnitude of ESG-related risks and impacts associated with each individual company as follows:

**Magnitude of impact:** When a company is being evaluated for investment, KKR will, as part of its internal due diligence, assess a company based on what KKR considers to be the magnitude of its potential ESG risks and impacts.

**Area of operation:** In addition, KKR will consider the country of operations to further prioritize its efforts for those regions where existing standards are considered to be less robust.

### 6.2 Applicable standards

When making an investment decision regarding a company that KKR determines to be a high-priority company through the review and categorization process described in Section 6.1, the assessment may consider as a guide the International Finance Corporation (IFC) 2012 Performance Standards on Environmental and Social Sustainability (Performance Standards) as they apply to the KKR investment model, as well as any additional ESG guidance that KKR considers to be applicable. KKR's Private Equity ESG Policy does not, however, strictly adopt any external policy or set of standards beyond what is defined in Section 4.

When making an investment decision regarding a company that KKR determines to be lower-priority through the review and categorization process described in Section 6.1, the assessment process will include the consideration of ESG issues that KKR considers to be material.

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<sup>i</sup> References to "KKR Capstone" or "Capstone" are to all or any of KKR Capstone Americas LLC, KKR Capstone EMEA LLP, KKR Capstone EMEA (International) LLP, KKR Capstone Asia Limited, and their affiliates, which are owned and controlled by their senior management. KKR Capstone is not a subsidiary or affiliate of KKR. KKR Capstone operates under several consulting agreements with KKR and uses the "KKR" name under license from KKR. References to operating executives, operating experts, or operating consultants are to employees of KKR Capstone and not to employees of KKR. In this policy, the impact of initiatives in which KKR Capstone has been involved is based on KKR Capstone's internal analysis and information provided by the applicable portfolio company. Impacts of such initiatives are estimates that have not been verified by a third party and are not based on any established standards or protocols. They may also reflect the influence of external factors, such as macroeconomic or industry trends, that are unrelated to the initiative presented.

<sup>ii</sup> Referenced goals are taken from the American Investment Council (formerly the Private Equity Growth Capital Council) Guidelines for Responsible Investing, which KKR endorsed in 2009 <http://www.investmentcouncil.org/private-equity-at-work/education/guidelines-for-responsible-investing/>.

<sup>iii</sup> Although originally designed for project-level investments, the basic approaches of the voluntary international investment standards, Equator Principles III (<http://equator-principles.com/index.php/ep3/ep3>) and International Finance Corporation (IFC) 2012 Performance Standards ([http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/06/07/000442464\\_20130607115446/Rendered/PDF/719620WP0Box370inability00Framework.pdf](http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/06/07/000442464_20130607115446/Rendered/PDF/719620WP0Box370inability00Framework.pdf)), also can be used as reference documents for conducting reviews of ESG performance for companies.