BLUE OWL

Assessing ESG Factors in GP Stakes Investing

FEBRUARY 2025

GP Strategic Capital Overview

For over a decade, the GP Strategic Capital platform of Blue Owl Capital (together with its affiliates, “Blue Owl” or the “Firm”) has been at the forefront of providing innovative, long-term minority equity and financing solutions to leading private capital managers (“Partner Managers”).

Through a range of strategies, the Firm’s GP Strategic Capital team seeks to provide support and growth capital to Partner Managers to fill a significant unmet need, as firms and the industry at large continue to grow. This includes Partner Managers’ needs to (1) increase GP commitments alongside Limited Partners (“LPs”), (2) launch new products, (3) expand geographically, and/or (4) reorganize their capital structure or facilitate succession planning.

In supporting the growth of Partner Managers, the team is able to offer investors with attractive risk-adjusted returns and broad exposure to leading private markets firms. Ultimately, returns are driven by three different sources of cash flow from an underlying Partner Manager.

1 Management Fee Profits[1]

- Long dated, contracted fees
- Typically at attractive margins

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2 Balance Sheet Return

- GP’s co-investment in underlying funds
- Captures gross fund returns

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3 Carried Interest[2]

- Provides potential upside from underlying funds with good performance

The platform’s primary strategy seeks to achieve current income and capital appreciation primarily by acquiring minority, non-controlling equity positions in large, multi-product alternative asset managers. The strategy’s investment objective is to generate compelling cash yield by collecting (1) contractual and predictable cash flows from management fees[1], (2) relatively stable but less frequent cash flows derived from balance sheet investments, and (3) episodic cash flows from carried interest[2] made by underlying managers.[3] This is complemented by related strategies focused on minority equity stakes in middle-market Partner Managers and financing offerings for Partner Managers seeking non-dilutive capital.

Looking ahead, we believe that private markets are positioned to continue providing opportunities for the strategy’s success, as we believe private equity remains a dominant private capital asset class from both a fundraising and a returns perspective. We are excited to continue to watch this market grow into the future.

As a leader in GP strategic capital investing, we believe we have the ability to build standards and best practices for the market as it continues to evolve. This includes practices related to ESG integration within the investment process, where we are focused on ensuring our approach is commercially viable and additive to our investment process.

[1] Management fee income can vary based on the pace of capital deployment fundraising, and the pace of investment realization, by the Partner Managers’ underlying funds and other factors.

[2] The actual distribution of carried interest is beyond GP Strategic Capital’s control. There is no guarantee that any carried interest will be paid to any underlying manager at a specific time.

[3] Investment objectives presented herein are for illustrative purposes only and subject to change. There is no assurance that any portfolio will meet its stated objectives or that it will be profitable.

ESG Principles at Blue Owl

Blue Owl is committed to the consideration of material environmental, social, and governance ("ESG") factors within our investment activities to manage risk and identify opportunities.[4]

Our overall investment philosophy is to offer clients attractive risk-adjusted returns[5] and we see effective integration of material ESG factors into our underwriting and ongoing portfolio monitoring processes as an important tool in seeking to accomplish that goal.

The role of ESG analysis in Blue Owl's investment decision-making has evolved so it can remain commercially relevant, proportionate to the limitations of different asset classes, and sufficiently scalable.

Analysis of material ESG factors is intended to enhance our investment decision-making and to supplement our overall view on the quality of an investment opportunity. It serves as an opportunity to identify and, to the extent applicable, mitigate or monitor risks that may hinder financial performance of the underlying investment.

To support that objective, Blue Owl has developed a proprietary risk assessment framework that can be used across our strategies to help identify material risks related to a given transaction.[6] Investment teams aim to focus on identified ESG-related risks that are most relevant and material to the investment in question.

Prioritization of material risks is driven by the severity and likelihood of a potential risk. The proprietary framework is underpinned by globally accepted standards and frameworks on ESG factors. The same framework is also designed to be used for identifying and assessing ESG-related opportunities, where applicable.

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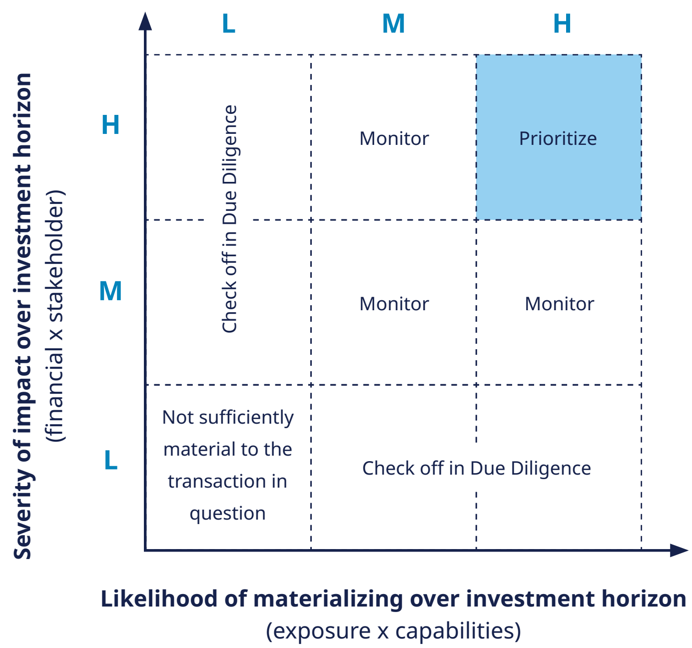

[4] Material ESG factors are factors that Blue Owl determines have, or have the potential to have, a significant effect on an organization's go-forward ability to create, preserve or erode economic value for that organization and its investors. As used herein, "material" should not be equated to or taken as a representation about the "materiality" of any ESG factors under the securities or other laws of the U.S. or any other jurisdiction, or as they are used in the context of financial statements or financial reporting.

[5] Blue Owl's objective when considering ESG factors in our investment activities is to seek to maximize risk-adjusted returns for our investors, consistent with the investment objective of any fund it advises or manages.

[6] While Blue Owl's ESG program continues to evolve, ESG-related considerations in Blue Owl's investment activities may not be uniformly applied and may vary based on the nature of the applicable strategy. As such, initiatives related to corporate activity or to the underlying investments may not be applied in every instance. Note that current ESG policies and procedures were not necessarily in place at the time that historical investments were made, so there should be no expectation that current practices as described were performed for all investments.

ESG Approach Customized for GP Stakes[7]

As a GP stakes investor, we recognize that we are not only exposed to potential ESG-related risks at the Partner Manager level, but also to potential risks that are embedded within each Partner Manager's underlying portfolio of investments. Ineffective management of ESG-related risks within a portfolio could impact the Partner Manager's overall performance and profitability, thereby potentially negatively impacting the value of our investment in the Partner Manager itself. Due to the nature of our double layered exposure, our ESG assessment process aims to evaluate risks at both the Partner Manager and within its underlying funds and portfolio companies.

Double-Layered Exposure

Layer 1: Partner Manager

Layer 2: Underlying Portfolio Companies

At the Partner Manager level, we seek to understand current capabilities, and more importantly, potential drivers of franchise value on a go-forward basis. Emphasis on initial diligence is critical given the illiquidity of the asset class, long investment time horizon, and degree of blind pool risk inherent in the asset class. To that end, our ESG diligence typically includes a tailored questionnaire for Partner Managers, reviews of available resources and policies and procedures in place at the Partner Manager, and targeted discussions with key personnel where relevant.

At the underlying portfolio level, the investment team, with support from the Responsible Investing & ESG team, identifies which industries are the most material given the size and nature of the Partner Manager's existing exposure. Our proprietary ESG risk assessment tool populates a list of material, sector-specific ESG risks for the team to prioritize for the transaction in question. The team then takes a view on the potential impact of these risks and the degree to which they are likely to occur.

1. Deal teams aim to identify the **largest industries that make up** the Partner Manager's AUM

   Industry breakdowns allow us to take a view on the extent to which we may be exposed to certain types of ESG-related risks

2. Deal teams use the **Blue Owl ESG Risk Analysis tool** and process on each identified industry

   This is an iterative assessment which involves collaboration between the deal team and the Responsible Investing & ESG team

3. The tool assesses risks against four key parameters that allow us to substantiate our view

   Once completed, the tool allows us to establish the most relevant risks to the GP Partner Manager in question

4. By the end of the process, deal teams have an understanding of what we believe are the most relevant risks, and if any require monitoring

   Risks are generally documented in IC memos and deal teams articulate action-items and next steps as needed, including whether monitoring KPIs should be established

[7] Our current ESG approach was not necessarily in place at the time that the initial investments in the strategy were made, so there should be no expectation that current practices as described were performed for all investments.

In line with the firm-wide framework, each relevant risk is assessed to allow us to substantiate to what extent the risk is material and/or needs to be monitored. We focus on ESG risks where there is: (1) high potential financial impact on the GP manager and/or underlying assets; (2) high potential stakeholder impact, including portfolio company employees or communities in which the businesses/assets operate; (3) high exposure to a specific ESG risk due to the number of portfolio companies/ assets that may experience the risk; and/or (4) low level of capabilities to manage the risk and the potential consequences.

After investment, the investment team actively monitors each investment, both through formal quarterly updates and informally through the day-to-day interaction that occurs with underlying Partner Managers. We endeavor to receive updates from Partner Managers at least quarterly and receive further disclosure of material information on an ongoing basis, including ESG-related topics where material.

> As investor demands evolve, it is important we have an integrated and rigorous process to assess, monitor, and mitigate ESG risks for portfolio companies, while ensuring the process is also commercially relevant for the business.

LINDEN CAPITAL PARTNERS

ESG Integration in Action

In 2024, Blue Owl funds acquired a passive, minority stake in Linden Capital Partners ("Linden"), a Chicago-based dedicated healthcare private equity firm with over $11B of regulatory AUM.[8] Linden primarily invests in middle market healthcare platforms and targets a broad array of healthcare sub-sectors across services, products, and distribution.

During investment diligence, the GP Strategic Capital team and Responsible Investing & ESG team assessed potential ESG-related risks and opportunities at both the Partner Manager level and the underlying portfolio. Specifically, the team reviewed policies and procedures and sampled investment diligence materials, as well as held discussions with the Linden team related to current ESG practices. At a portfolio level, the team reviewed key portfolio companies with a particular focus on topics relevant to the healthcare sector, including employee health and safety, supply chain management, and regulatory compliance. Throughout the review, the Linden team not only demonstrated awareness of these material topics, but also had mechanisms to monitor and track related metrics at select portfolio companies.

Blue Owl and Linden collaborated throughout the diligence process, and the transaction was announced in May 2024.

[8] *Represents firmwide regulatory assets under management as of January 2025.*

Partnership and Alignment

As minority investors, GP Strategic Capital is limited in its ability to influence our Partner Managers' management of ESG factors. That said, we work with our Partner Managers to develop strong practices to the best of our ability, ensuring our interests remain aligned with our Partner Managers and that we are focused on delivering relative value for our investors.

Our approach recognizes that Partner Managers are at various stages of development in their respective ESG-related capabilities. We aim to meet them where they are, align on potentially relevant risks, and gain visibility into their ability to monitor and respond. We may also collaborate with our Partner Managers post investment, when relevant, to support them in managing risks identified in underwriting.

Business Services Platform

The GP Strategic Capital platform includes a team of over 60 fully dedicated staff on our Business Services Platform ("BSP") that provides strategic advice and services to Partner Managers. Driven by demand from Partner Managers, the team engages on topics such as fundraising, business strategy, digital transformation, and strategic ESG-related projects.

Specifically, the BSP's ESG Advisory team supports our Partner Managers with strategic ESG projects and initiatives at their firms, including:

- ESG investor updates and LP sentiment;
- Leveraging ESG data to drive commercial value;
- Internal and external ESG resourcing and expertise;
- ESG policies and procedures;
- ESG regulatory updates and reporting; and
- Energy transition, decarbonization, and impact product development.

The team also regularly hosts educational and networking events for Partner Managers, including an annual in-person ESG Summit for ESG and impact professionals in the portfolio.

Authors

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Mark O'Sullivan is a Senior Managing Director at Blue Owl and member of the GP Strategic Capital Investment Team. In his role, he focuses on underwriting equity and financing transactions and managing GP Strategic Capital Investment Team's ongoing relationships with its partner managers.

Pell George, Principal, Responsible Investing & ESG

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Important information

Unless otherwise indicated, the Report Date referenced is February 2025.

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Blue Owl's objective when considering Environmental, Social and Governance ("ESG") factors is to seek to maximize risk-adjusted returns consistent with the investment objective of the relevant fund as set forth in the partnership agreement and memorandum for such fund. While Blue Owl's ESG program continues to evolve, ESG considerations in Blue Owl's investment process are not uniformly applied and initiatives related to underlying investments may not be applied in every instance.

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