Lexington Partners

# *Environmental, Social, and Governance 2021 Annual Report*

New York | Boston | Menlo Park | London | Hong Kong | Santiago | São Paulo | Luxembourg

## A MESSAGE FROM LEXINGTON'S PRESIDENT

I am pleased to present you with Lexington's 2021 Annual Environmental, Social, and Governance ("ESG") Report. We at Lexington believe that consideration of ESG principles in our firm's operations and investment activities is essential in anticipating and mitigating risk. This can create lasting value for our limited partners, enhance long-term investment performance, and support alignment while promoting a positive impact on our industry, society, and the environment. ESG principles have been embedded in our firm's culture and investment ethos for over a decade and we believe that Lexington, as a global investor with over 800 sponsor relationships across the private equity landscape, is favorably positioned to encourage ESG adoption among general partners and meaningfully contribute to the conversation on ESG in our industry.

We have seen a marked increase in ESG-focused regulation, policy, reporting frameworks, and guidelines in response to global events in recent years and we believe that ESG will continue to play an important role in private equity. At Lexington, we understand that ESG adoption is an ongoing effort and we strive to continuously strengthen our core ESG values by engaging with our limited partners, underlying sponsors, and industry peers. During 2021, we took additional steps to formally integrate ESG factors into the firm's policies and procedures for evaluating both secondary and co-investment opportunities. We also reinforced our commitment to diversity, equity, and inclusion ("DEI") by becoming a signatory to the ILPA *Diversity in Action* initiative and formally rolled out internal DEI initiatives including *Women Who Lead* and a firmwide mentorship program, which are described in the pages ahead.

We recently announced a strategic transaction through which Lexington will be acquired by Franklin Templeton, one of the industry's largest investment management organizations. Franklin has demonstrated a strong commitment to ESG and to building sustainable value across its platform. While Lexington will retain operational control and independence, we look forward to leveraging our strategic relationship with Franklin to continue to elevate our ESG capabilities.

In this report, we highlight the meaningful progress that Lexington made on ESG and DEI initiatives in 2021, key findings from our annual survey of underlying sponsors, and our priorities for 2022. We welcome the opportunity to engage with our partners on ESG issues and encourage you to reach out to our team to discuss our ESG philosophy and approach.

Wilson Warren

*Partner & President, Lexington Partners*

# Lexington is committed to operating at the highest standard of corporate governance, contributing to the sustainability of our communities, advancing initiatives to promote DEI, and increasing awareness of ESG issues among a diversified group of sponsors.

## LEXINGTON'S COMMITMENT TO ESG

Lexington's 2021 Annual ESG Report highlights our progress embedding ESG principles into our investment activities, day-to-day operations, and firm culture. Lexington firmly believes that a commitment to strong ESG policies and practices can create lasting value for our limited partners, enhance long-term investment performance, and create alignment with our investors, employees, and underlying sponsors. It has become increasingly clear that ESG issues have an impact on investment outcomes and Lexington believes that investors who actively weigh ESG considerations in their investment processes can, in many cases, effectively mitigate associated risks. In 2021, key ESG topics such as public health, climate change, social justice, inequality, shareholder rights, and cybersecurity remained top of mind. As ESG issues facing our industry become more salient and complex, Lexington remains focused on driving positive change in our firm, our industry, and our communities.

# Lexington helped pioneer the development of the institutional secondary market over 30 years ago and created one of the first independent, discretionary co-investment programs 24 years ago.

***Our global platform enables Lexington to be knowledgeable of ESG risks, opportunities, and trends in various regions of the world and, at the same time, encourage sponsors in our network to adopt ESG best practices.***

Lexington's 18 partners are among the most experienced and highly regarded in the secondary and co-investment markets, averaging 23 years of private equity experience and 18 years together at Lexington. The firm has had low senior turnover since its inception, which we believe is a result of a team-oriented, supportive corporate culture and broad alignment of interest. Since inception, Lexington has analyzed thousands of investment opportunities, completing more than 600 secondary transactions and 450 co-investments and acquiring over 4,000 interests managed by over 800 sponsors. This investment experience allows Lexington to compare transactions with those seen in the past and provides Lexington with a value perspective when assessing new opportunities. ESG considerations are not distinct from our due diligence process, but rather are embedded into all aspects of our investment and portfolio construction principles.

Lexington is a global firm with offices strategically located in major centers for private equity and alternative investing – New York, Boston, Menlo Park, London, Hong Kong, Santiago, São Paulo, and Luxembourg. In addition, Lexington has senior advisors covering Asia, Brazil, and the United States. Our global platform enables Lexington to be knowledgeable of ESG risks, opportunities, and trends in various regions of the world and, at the same time, encourage sponsors in our network to adopt ESG best practices. Transparency and communication with both LPs and GPs are central to how we conduct our business. Lexington's global presence and over 30-year history as a leading global secondary and co-investment manager position us to engage frequently and effectively with our partners worldwide and leverage our ESG insights across the Lexington team.

**$55bn**
in Total Capitalization

**20**
Secondary Funds

**10**
Co-investment Pools

**1,000**
investors in 40 countries

18 PARTNERS AVERAGING 18 YEARS TOGETHER AT LEXINGTON


140 EMPLOYEES ACROSS 8 GLOBAL OFFICES

**600+**
secondary transactions

**4,000+**
secondary interests

**450+**
co-investments

**500+**
primary investments completed

**800+**
sponsor relationships

# Lexington formalized its commitment to ESG in 2011 through the adoption of a responsible investment ("RI") policy, which is aligned with the Principles for Responsible Investment's ("PRI") six aspirational principles.

## RESPONSIBLE INVESTMENT AT LEXINGTON

The PRI is a UN-supported international network of investors working to promote sustainable investment through the incorporation of ESG considerations into investment practice. Lexington has been a PRI signatory since 2014.

### PRI PRINCIPLES

We will incorporate ESG issues into investment analysis and decision-making processes.

We will be active owners and incorporate ESG issues into our ownership policies and practices.

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

We will promote acceptance and implementation of the Principles within the investment industry.

We will work together to enhance our effectiveness in implementing the Principles.

We will each report on our activities and progress towards implementing the Principles.

In April 2021, the PRI announced revised guidance for the next three years, highlighting two key areas of focus for signatories: mitigating the impact of climate change and advocating for human rights by protecting individuals from harm and discrimination. Lexington will work to continue to align our investing practices with the PRI's focus areas.

In order to support our existing goals, elevate our RI policies and procedures, and embrace new initiatives in ESG, Lexington has engaged ACA's ESG Advisory Group to assess and advise on our ESG program and help us implement best practices.

PRI Principles for Responsible Investment | PRI Signatory since 2014

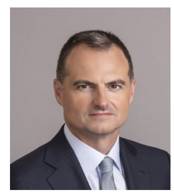
## LEADERSHIP AND OVERSIGHT

Strong governance and accountability are central to Lexington's ESG philosophy. Lexington has a cross-functional ESG steering committee in order to provide diverse perspectives: secondary, co-investment, investor relations, legal and compliance, and fund administration. We believe that overlap between the ESG steering committee, secondary and co-investment committees, and the firm's management committee is important in ensuring firmwide attention to and senior-level support of ESG efforts.

## ESG STEERING COMMITTEE

Pål Ristvedt
Partner, Secondaries
IC Co-Chair

John Rudge
Partner, Secondaries



John Loverro
Partner, CIP

Tom Giannetti
Partner & CFO

Taylor Robinson
Principal, Secondaries

Lutz Fuhrmann
Principal, CIP

Erica Castle
Senior Vice President
Investor Relations

Deepa Thimmapaya
Vice President
Legal & Compliance

The ESG steering committee oversees the firm's ESG initiatives, including:

- Upholding, revising, and ensuring adherence to the RI policy
- Implementing ESG strategy and reviewing and tracking progress
- Disclosing material ESG concerns to internal committees
- Educating the firm's professionals on ESG issues and priorities
- Ensuring transparency and timely reporting on ESG

***Lexington's strong sponsor relationships developed over the past 30 years have allowed us to be part of the dialogue on the evolution of ESG in private equity. Our broad reach has given us differentiated insight into best practices across the industry.***

Lexington's primary objective is to generate strong, risk-adjusted returns in our funds and ensure the firm's interests are strongly aligned with those of our investors. We have integrated ESG factors into the firm's secondary and co-investment policies and procedures and believe that consideration of ESG principles during due diligence for every deal is essential in anticipating and mitigating risk. As part of our rigorous investment analysis, Lexington's secondary and co-investment professionals evaluate all aspects of a transaction, including short-term and long-term ESG risks and opportunities, that may materially impact the future financial performance of the transaction. This process combines detailed "bottoms-up" analysis with a qualitative assessment of the sponsor's strategy and reputation. As an investor in interests managed by over 800 sponsors, Lexington is well-positioned to evaluate a sponsor's ESG record and ability to mitigate ESG risk.

One advantage of Lexington's secondary strategy is that private equity partnerships are, on average, five-to-six years old when Lexington funds acquire interests in them. This provides us with more visibility into the operations, governance, and internal controls of underlying funds prior to acquisition and reduces Lexington's exposure to potential material ESG risk. As secondary investors, the Lexington funds do not directly hold the securities of underlying portfolio investments and therefore Lexington has limited ability to engage portfolio companies directly on ESG risks and opportunities. However, Lexington believes the broad diversification achieved in its secondary funds mitigates risk in achieving attractive returns. Lexington Co-Investment Partners' ("CIP") due diligence process includes both a rigorous evaluation of company-specific information and an in-depth analysis of the lead transaction sponsor and deal team.

Our secondary and CIP investment committees ensure new commitments meet each respective fund's investment criteria. In addition, Lexington has established an operational sub-committee representing the firm's ESG, legal & compliance, finance & accounting, and tax interests. During the due diligence process for a new secondary or co-investment transaction, the deal team is required to submit a completed questionnaire to the operational sub-committee describing any known material ESG risks identified during due diligence.

The operational sub-committee must formally sign off before a deal can advance to investment committee. Material ESG issues would be deliberated by the investment committee during the decision-making process.

Providing our professionals with the education and tools to understand the impact of ESG risks and opportunities on our business is important to our firm's success. In 2021, Lexington engaged ACA's ESG Advisory Group to provide professionals across functional groups with tailored training on the responsible investment landscape, elements of ESG incorporation, key industry frameworks and guidelines, and Lexington's ESG objectives. We plan to continue to conduct regular comprehensive ESG training for professionals. Lexington employees are encouraged to attend ESG conferences, webinars, and events and to share key insights and best practices to help all professionals understand and identify the relevance and impact of ESG factors on our investment and portfolio monitoring activities. Lexington makes its extensive database of ESG information available to all Lexington professionals to increase our internal awareness of ESG issues and keep us informed of evolving trends, risks, and opportunities.

## LEXINGTON'S APPROACH TO ESG

**TRAINING**
ESG training for deal professionals to enable identification of material ESG risks and opportunities

**DUE DILIGENCE**
Consideration of ESG issues in "bottoms-up" transaction due diligence and analysis of underlying GPs

**DECISION-MAKING**
Operational sub-committee and investment committees ensure material ESG risks are appropriately identified and mitigated

**MONITORING**
Annual survey and scoring of underlying sponsors regarding ESG & DEI policies and approach

**REPORTING**
Annual ESG Report with survey results provided to all LPs and participating sponsors; Annual PRI reporting

# Our RI survey gathers a broad range of perspectives on responsible investment from a group of sponsors highly diversified by size, geography, and sector focus.

## RESPONSIBLE INVESTMENT SURVEY

Lexington acts as a diligent steward of our investors' capital by communicating with a diverse portfolio of sponsors regarding ESG best practices and encouraging them to consider ESG issues within their own investment processes. Lexington's investment professionals collect information regarding ESG factors from the sponsors with whom we invest and we consider their ESG approaches as part of our due diligence process. Post-investment, we conduct an annual survey of underlying sponsors in our secondary and co-investment funds inquiring about their ESG policies and approach. We believe our commitment to regularly surveying and reporting aggregate findings to both participating sponsors and our LPs demonstrates our commitment to creating awareness among a highly diversified portfolio of sponsors regarding ESG best practices and to providing assurances to our limited partners of ESG adoption within the Lexington funds.

## SURVEY METHODOLOGY

Lexington's annual RI Survey is intended to capture the underlying sponsors' views on responsible investment and to obtain insights into any ESG initiatives these sponsors may have implemented.

The survey currently consists of the following six questions, modeled on the PRI's six principles.

## SURVEY RESULTS & OBSERVATIONS

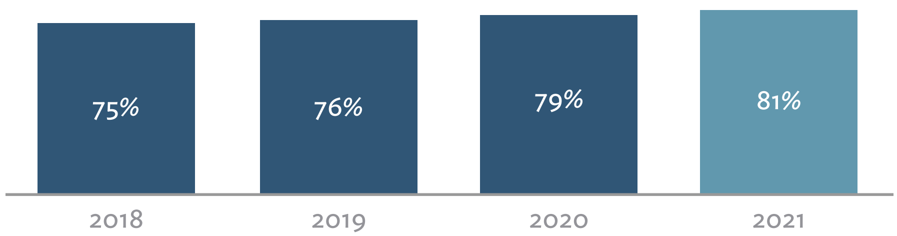
Lexington surveyed the underlying sponsors of our actively investing secondary and co-investment funds, comprised of LCP IX, LMMI IV, CIP IV, and CIP V, and received survey responses representing 56% of the partnerships' aggregate RV as of June 30, 2021 from 162 sponsors with over $2 trillion of assets under management.

### Do you have a responsible investment policy?

**81% of survey respondents, representing 51% of the partnerships' aggregate RV, reported having an RI policy.**

This represents a modest increase from the prior three years. A further 3% of survey respondents indicated that they are currently considering or are in the process of implementing an RI policy.

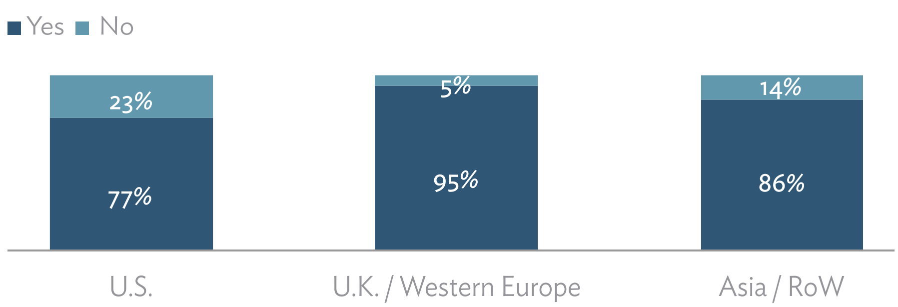
Percentage of Sponsors with an RI Policy




An additional 5% of survey respondents indicated that they have guidelines for responsible investing despite not having a standalone RI policy. Several survey respondents noted that their policies are updated periodically in order to reflect evolving standards. One sponsor stated that it believes investing responsibly creates businesses that are more resilient, better governed, more innovative, and better able to deliver societal benefits, making them ultimately more valuable. This sentiment – that there is a clear benefit to ESG management – was echoed in other sponsors' responses as well.

At least 75% of survey respondents in each of the U.S. (77%), U.K. / Western Europe (95%), and Asia / RoW (86%) have RI policies.

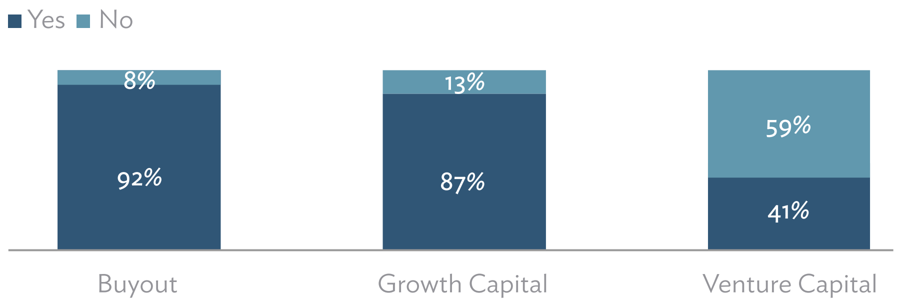
Percentage of Sponsors with an RI Policy By Geography



***Many sponsors view ESG issues as an integral part of their portfolio value creation frameworks or strategic plans and typically work with portfolio company management immediately following investment on ESG key performance indicators.***

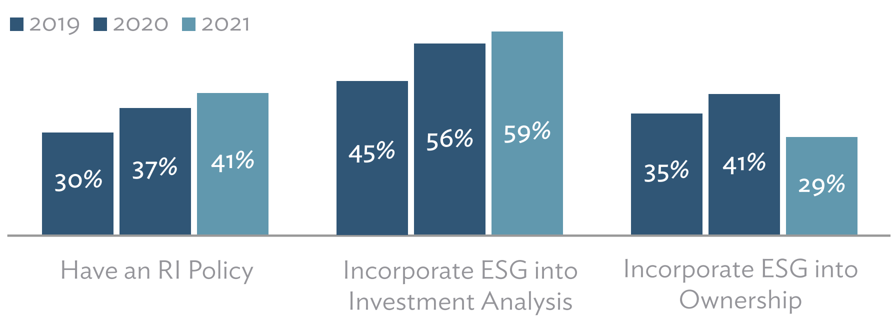
By sector, buyout (92%) and growth capital (87%) survey respondents tend to have RI policies in place, a substantially higher percentage than venture capital sponsors (41%). Of the venture capital GPs that do not have formal RI policies, 11% incorporate ESG issues in their investment process and/or day-to-day operations and 3% plan to develop a policy within the next year.

Percentage of Sponsors with an RI Policy By Sector




Compared to our 2020 survey, 2021 saw meaningful improvement among venture capital sponsors adopting formal RI policies and incorporating ESG issues into their investment analysis, despite a decrease in venture capital sponsors incorporating ESG issues in ownership policies and practices.

Percentage of Venture Capital Sponsors That:



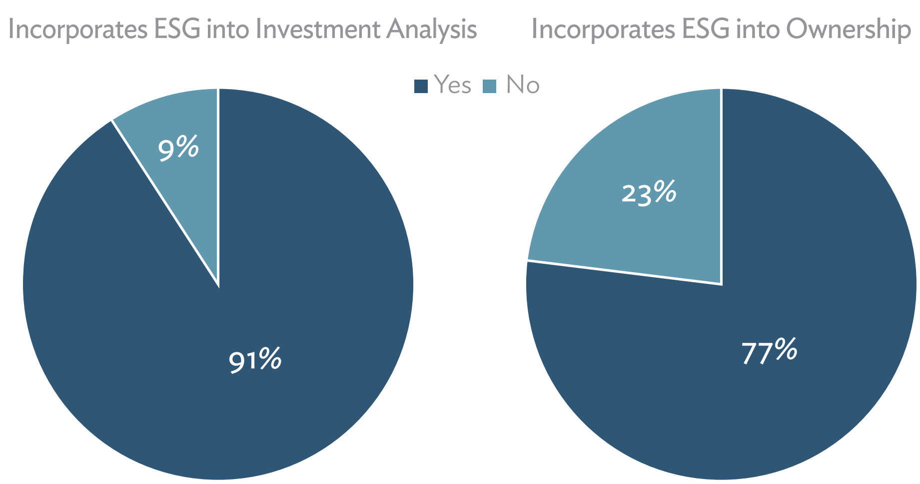

Do you incorporate ESG issues into investment analysis and decision-making processes?

**91% of respondents incorporate ESG issues into their investment analysis and decision-making processes.**

While the vast majority (91%) of survey respondents incorporate ESG issues into investment analysis and decision making, up from 85% in 2020, the areas of focus for these sponsors can vary depending on the geographies, sectors, and industries in which they invest. Some sponsors evaluate specific ESG metrics as a mandatory part of the investment analysis and decision-making processes for each investment opportunity, while others seek to make investments which are aligned with ESG principles or frameworks (e.g., the UN's Sustainable Development Goals ("SDGs")) without formal integration into the investment process. Additionally, while some sponsors define materiality of ESG issues on a case-by-case basis or by using internal metrics, *Beyond risk mitigation, sponsors are taking steps to capitalize on ESG opportunities.*

others apply a standardized framework, such as the Sustainability Accounting Standards Board ("SASB"), Task Force on Climate-related Financial Disclosures ("TCFD"), or the Global Reporting Initiative ("GRI") or employ third-party experts to define the materiality of identified ESG issues. Sponsors typically consider both general and industry-specific ESG-related issues. For example, one sponsor noted examples of ESG factors most material to its investment decisions, including consumer data privacy, employment practices, and ethics/governance.

**ESG in Investment Analysis:** Respondents mentioned maintaining industry exclusion lists to systematically avoid ESG risks. Side letters were referenced as a supplementary mechanism, with certain sub-sectors such as weapons, tobacco, alcoholic beverages, human cloning, gambling, and illegal activities such as child labor noted as the most common areas of focus. Respondents further described more fulsome ESG risk screening processes incorporated into pre-investment ESG due diligence. Of note, one sponsor described requiring Environment, Health, and Safety due diligence for all manufacturing companies as key to supporting identification of ESG risks such as air quality and site contamination concerns. The sponsor further noted that screening information was not only factored into the investment decision, but also leveraged to create opportunities to engage with the target company and develop mitigative action plans to manage the identified risks. Beyond risk mitigation, sponsors are also taking steps to capitalize on ESG opportunities, as demonstrated by a respondent who noted that a portion of its investments are directed towards new equipment to reduce emissions and recycle the captured emissions for re-use in a business that makes components for electric vehicles.



## Do you incorporate ESG issues into your ownership policies and practices?

**77% of respondents incorporate ESG issues into their ownership policies and practices.**

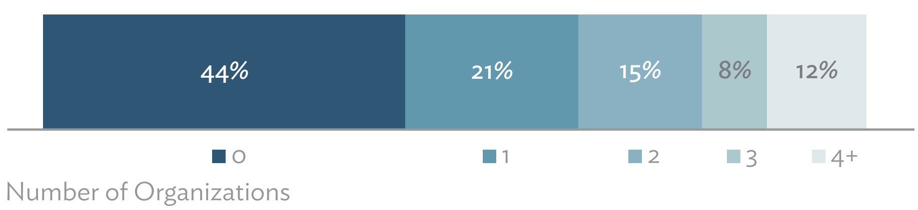
Many sponsors view ESG issues as an integral part of their portfolio value creation frameworks or strategic plans. Many respondents noted that they have mandated minimum ESG requirements for portfolio companies, with some noting that action plans are monitored utilizing ESG key performance indicators ("KPIs") to track progress. Sponsors highlighted how they will utilize influence within portfolio company boards to implement and monitor company-specific ESG initiatives, requiring that ESG issues be regularly discussed and monitored at the board level. One sponsor described leveraging board oversight to collaborate with portfolio companies to refine their manufacturing processes in the interest of increasing energy efficiency and decreasing waste production across manufacturing sites. Another respondent described working with a portfolio company to reconfigure the company's product mix and value proposition, which allowed the company to realize an opportunity to move into more environmentally-friendly industries.

## Are you a signatory of any Collaborative Organization (i.e., Principles for Responsible Investment)?

**Of the respondents with an RI policy, 56% are signatories or committed to one or more of the following Collaborative Organizations, a substantial increase from 2020 (47%): PRI (48%), Invest Europe (18%), International Climate Initiative ("iCI") (11%), ILPA's *Diversity in Action,* (8%), British Venture Capital Association (6%), and over 35 other organizations (37%).**

Many sponsors adhere to the guidelines of multiple organizations, as 35% of the respondents that are signatories or committed to Collaborative Organizations are signatories or committed to more than one organization.

Percent of Sponsors with an RI Policy By Number of Collaborative Organizations




Collaborative Organizations to which more than one survey respondent are signatories include American Investment Guidelines, Level 20, SASB, France Invest, TCFD, Business for Social Responsibility, CEO Action for Diversity and Inclusion, ESG Data Convergence Project, Net Zero Asset Managers Initiative, OUT Investors, and Swiss Venture Capital Association, among others.

## Do you provide appropriate disclosure on ESG issues?

**Approximately 86% of survey respondents indicated that they provide appropriate disclosure on ESG issues, up from 73% in 2020.**

Of those respondents, 32% reported that they provide disclosure at least annually, either by incorporating responsible investment into their annual reporting to investors or providing updates during annual meetings. Some of these sponsors have made their annual ESG reporting publicly available on their websites. In addition, some respondents include their environmental and social responsibility policies in their quarterly reports or report on a semi-annual basis.

## Do you have a formal DEI or similar policy or initiative?

**Over half of respondents (64%) have dedicated DEI policies or initiatives, a substantial increase from our 2020 findings (53%). An additional 16% of survey respondents reported that they are currently implementing DEI policies or initiatives, up from 5% in 2020.**

**DEI in the Workplace:** A number of sponsors communicated their belief that a more diverse workforce will deliver better returns to their respective investors. Many of these respondents have appointed DEI committees, often with oversight and support of senior management, to implement and provide strategic direction to their DEI initiatives. A common area of focus for respondents is addressing gender and ethnic inequities in the workplace, including the gender pay gap, and establishing welcoming cultures for female and diverse employees and candidates. Appreciation for diversity of perspective was also noted, with respondents describing the diverse professional backgrounds and personal attributes within their senior leadership team as a key contributor to their firms' success.

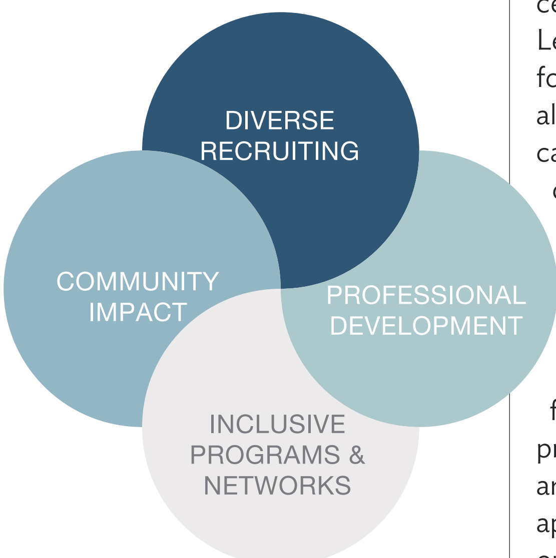
***Several sponsors communicated their belief that a more diverse workforce will deliver better returns to their respective investors.***

**DEI in Recruiting:** Sponsors' diverse recruiting efforts reflect the wide range of maturity levels within DEI practices, with respondent practices ranging from seeking to source more diverse applicant pools without quantifying specific outcomes to incorporating established diversity targets. Sponsors noted a wide array of DEI-related partnerships, including organizations such as Streetwise, NAIC Paradigm Changers, Level 20, TEAK Fellowship, Rise Up, InternX, Women's Association of Venture and Equity ("WAVE"), Sponsors for Educational Opportunity ("SEO"), Girls Who Invest, Private Equity Women Investor Network ("PEWIN"), 10,000 Black Interns, the Robert Toigo Foundation, and ILPA's *Diversity in Action*. Notably, one respondent described requiring all companies in which it takes a majority ownership position to adopt and communicate a DEI initiative of a standard similar to that of the sponsor, accounting for each company's individual characteristics.

# Diversity, Equity, and Inclusion

Lexington believes a talented workforce possessing a wealth of diverse experiences, skills, and perspectives promotes superior results – enhanced decision making, continued strong performance for our limited partners, and a rich firm culture. To spearhead these efforts, Lexington has established a DEI Committee led by three of the firm's partners. The mission of the DEI Committee is to strengthen Lexington's core values by attracting, retaining, and advancing diverse talent and engaging with the communities in which we live and work.

## DEI PILLARS




## DIVERSITY SNAPSHOT

40% of global professionals are diverse (26% of investment professionals)

50% of 2021 professional hires are diverse (29% of investment professionals)

## RECENT PROMOTIONS

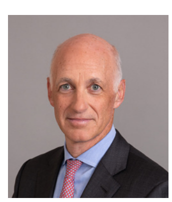
2022: 43% Diverse
2021: 40% Diverse
2020: 47% Diverse
2019: 40% Diverse

We are committed to fostering an inclusive work environment that celebrates differences and encourages input from all perspectives. Lexington is an equal opportunity employer that has zero tolerance for any form of discrimination. We strive to create a safe work environment where all individuals are treated with dignity and respect and are accorded equitable career development opportunities. We strongly encourage open and honest dialogue to ensure that Lexington remains at the forefront of contributing to positive, enduring social change.

Cultivating an inclusive work environment begins with our ability to identify and attract strong, diverse talent. We engage with our recruiting partners to source diverse applicant pools and increase accountability for diverse candidate considerations. We believe our strong record of promotion and retention is a direct result of Lexington's rich culture, inclusive and collaborative work environment, and alignment of interests. Since 2010, apart from professionals that retired or became advisors to Lexington, only one partner has departed. During that period, Lexington has added 13 partners, all of whom were promoted from within. We provide our employees with training and experiences that develop their skills to maximize performance and realize their full potential. Lexington has implemented regular training for all employees focused on identifying and mitigating unconscious bias and building a positive and supportive workplace culture. Unconscious bias training is also incorporated into the onboarding process for all new employees.

## DEI COMMITTEE

Jennifer Kheng
Partner, Secondaries



Bart Osman
Partner, CIP

Victor Wu
Partner, Secondaries

*Diversity data reflects Lexington professionals as of December 31, 2021. Diverse professionals include women globally and professionals in the U.S. that are classified as ethnic minorities based on v1.2 of ILPA's Diversity Template. Please note that in 2022, Lexington plans to conform to ILPA's revised diversity definitions released in Q4 2021.

## MENTORSHIP

Following a successful pilot, Lexington commenced a formal rollout of our internal mentorship program in 2021. The program's mission is aligned with our DEI objectives – to encourage the development of relationships across geographies and functional groups and to provide access to senior professionals. We believe the mutual learning from these mentorship relationships builds broader networks within the firm and further strengthens our commitment to retention and promotion from within.

## WOMEN WHO LEAD

***"I'm proud of the work Women Who Lead has done in its first year. In a challenging and largely virtual time, WWL has enabled women and global employees to connect with one another, our workplace, and our local communities."***

Sarah Cherian
Vice President, Secondaries

In 2021, Lexington formally rolled out *Women Who Lead*, an employee resource group formed to cultivate a supportive culture for women and provide opportunities for all Lexington employees to participate in educational, philanthropic, and community building events and discussions to foster a sense of inclusivity. In its debut year, *Women Who Lead* successfully held multiple virtual events with participation from women across Lexington's eight global offices, including a virtual panel and monthly Zoom calls which enabled women to connect on topics such as confidence, communication, and stress management. During the holiday season, *Women Who Lead* held a virtual fundraiser for Toys For Tots and Lexington matched 100% of those donations to support Restore, a nonprofit focused on supporting survivors of sex trafficking.

## COMMUNITY OUTREACH

Lexington has consistently devoted time and resources to engage with and give back to our local communities, sponsoring and making charitable contributions to 25+ non-profit organizations globally since 2017. In addition, many of our employees are committed to causes with personal significance. We proudly support the individuals who commit time and resources to the benefit of causes aligned with the firm's DEI mission. The non-profit organizations that Lexington supported this year include the One Love Foundation, City Harvest, CitySquash, Different & Able Foundation, and the Cornelia Connelly Center, among others. In lieu of an annual meeting gift this year, we made an additional donation to City Harvest, New York City's largest food rescue organization which delivers surplus food to hundreds of food pantries, soup kitchens, and other community partners across the city.

## PARTNERSHIPS

In 2021, Lexington became a signatory to ILPA's *Diversity in Action* initiative, a group of limited partners and general partners with the aim of making the private equity industry more diverse and inclusive by adopting specific actions to advance DEI practices within our organizations over time. As a signatory, among other activities, Lexington has committed to: (i) maintain a publicly-communicated DEI strategy that addresses recruitment and retention, (ii) track internal hiring and promotion statistics, (iii) identify organizational goals that result in more inclusive recruitment and retention practices, and (iv) provide the ILPA Metrics Template to prospective investors during new fundraises.

Over the course of several years, Lexington has established partnerships with leading organizations focused on DEI objectives. Lexington has helped foster career advancement and leadership of underrepresented talent through its support of The Robert Toigo Foundation ("Toigo"), which through its MBA program has developed a network of more than 1,300 high-performing graduates from top MBA programs. Lexington has made a multi-year commitment to partner with Toigo to sponsor a scholarship and summer internship for first-year Toigo fellows.

*"My internship at Lexington was a key opportunity in forging my career and network in finance. From day one, I was able to get hands-on secondary and co-investment experience from leaders in the industry. I look forward to building upon the knowledge I acquired and meaningful connections I made."*

Matthew Archuleta
MBA Candidate, Yale
Toigo Fellow

### TOIGO SPOTLIGHT

Lexington welcomed our first Toigo fellow, Matthew Archuleta, for a summer 2021 internship. Matthew is an MBA candidate at the Yale School of Management. After graduating from the United States Military Academy, he began a military career with the U.S. Army as part of the 82nd Airborne Division, later serving as a Special Forces Green Beret. While at Lexington, Matthew had the opportunity to work with various groups, including our secondary and co-investment teams.

In 2020, Lexington built upon its existing relationship with Sponsors for Educational Opportunity ("SEO") to become a sponsor of the Alternative Investments Fellowship Program to help educate, develop, and provide access to career opportunities to first through third-year investment banking analysts and management consultants of color with strong interests in pursuing careers in private equity and alternative investments. Lexington has also partnered with the Waterside School, an independent school serving children regardless of limitations in income or circumstance, and hosted college-age alumni for a summer internship to learn about private equity. We believe our partnerships with leading organizations will further strengthen our efforts to attract the best talent.

## LOOKING FORWARD TO 2022

Lexington made considerable progress towards our ESG objectives in 2021, and we recognize that our commitment to ESG is an ongoing process that requires continuous attention and refinement. In 2022, Lexington will continue to pursue initiatives to advance our ESG efforts, focusing on key areas that support our signatory commitments, further the ESG interests of our stakeholders, and strengthen our core values. We will strive to be exemplary corporate citizens and leverage our position as a global investor to broadly share information and increase awareness of ESG issues and best practices across a broad group of private investment sponsors. We appreciate the strong support of our limited partners and look forward to continuing our commitment to transparency, alignment, and partnership as we begin a new year.

## 2022 PRIORITIES

- Expand our ESG data collection capabilities and tools
- Review and enhance ESG guidelines in due diligence
- Explore climate-focused disclosures in line with key industry frameworks
- Further develop DEI metrics in accordance with ILPA's guidance
- Partner with leading DEI organizations such as *Girls Who Invest*; Lexington will host its first GWI summer intern in 2022
- Continue to provide customized ESG & DEI training
- Recognize Juneteenth as a day of company reflection
- Pursue initiatives that promote sustainability, charity and social responsibility across global platform

Lexington Partners

HIGHLY CONFIDENTIAL

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Lexington Partners L.P. and Lexington Partners Luxembourg S.à r.l. have separately published information required to be given in relation to their integration of sustainability risks into their investment decisions, and consideration of adverse sustainability impacts, under the EU Sustainable Finance Disclosure Regulation. This information can be accessed with this link: *https://www.lexingtonpartners.com/wp-content/uploads/2021/03/EU-Sustainable-Finance-Disclosure-Regulation_031021.pdf*

As mentioned herein, Lexington announced on November 1, 2021 that it had entered into an agreement under which Franklin Resources, Inc., a global asset investment organization with subsidiaries operating as Franklin Templeton ("Franklin", would acquire 100% of the firm from the current owners. The transaction closed April 1, 2022. In connection with the transaction, Lexington's active team is being granted a 25% ownership stake in Lexington, subject to vesting terms. Franklin Templeton has agreed to irrevocably delegate the authority to manage the day-to-day business and affairs of Lexington to the Lexington Operating Committee until the fifth anniversary of the closing, subject to limited exceptions.

The survey findings herein contain strictly confidential information regarding Lexington's actively investing partnerships as of the reporting period, Lexington Capital Partners IX, L.P. ("LCP IX", Lexington Middle Market Investors IV, L.P. ("LMMI IV", Lexington Co-Investment Partners IV, L.P. ("CIP IV", and Lexington Co-Investment Partners V, L.P. ("CIP V" (collectively the "Partnerships" and their respective Portfolio Entities. The survey findings herein are based on the number of sponsors that responded to Lexington's survey. This report and the findings herein are being provided to existing and prospective Lexington fund investors and certain other parties, in each case at Lexington's discretion, on a confidential basis and for informational and discussion purposes only. By accepting this report, each recipient agrees to treat the information in a confidential manner, not to reproduce it for, or disclose it to, any persons without the express written consent of Lexington, and not to use it in whole or in part for any reason other than those described in the preceding sentence. If you have any questions regarding treatment of confidential information received in connection with your subscription to or investment in any Lexington fund, please contact Investor Relations at InvestorRelations@lexpartners.com.

Certain information contained herein constitutes "forward-looking statements" regarding future events, targets or expectations. Due to various risks and uncertainties, actual events or results or actual performance may differ materially from those reflected or contemplated in such forward-looking statements. As a result, a prospective investor should not rely on such forward-looking statements in making their investment decisions. No representation or warranty is made as to future performance or such forward-looking statements. In addition, with respect to the market information, outlook and trends set forth in this report, there can be no assurance that such information, outlooks and trends will continue or that such information will remain accurate based on current and future market conditions. Unless otherwise noted, the information provided herein is based on matters as they exist as of the date of the preparation of this report and not of any future date.

Certain information contained in this report (including certain forward-looking statements and information) has been obtained from sources other than Lexington, including sponsors and funds in which investments have been made by Lexington. Although such sources are believed to be reliable, Lexington does not assume any responsibility for the accuracy or completeness of such information and is under no obligation to update or keep current such information.



While Lexington may consider ESG factors when making an investment decision, unless otherwise specified in a fund's investment strategy, the Lexington funds do not pursue an ESG-based investment strategy or limit its investments to those that meet specific ESG criteria or standards. Any reference herein to environmental or social considerations is not intended to qualify our duty to maximize risk-adjusted returns.

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