APOLLO

Building Better Businesses: How Apollo Equity Helps Drive Value Through Portfolio Company Decarbonization

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Apollo has strategically focused its engagement with portfolio companies on financially material environmental, social, corporate governance (ESG) and regulatory compliance matters, while striving to maintain transparency around these efforts, since 2009. In the 15 years since, the landscape has evolved, with change accelerating rapidly today. The commercial imperative to focus on material climate risks and opportunities, and more specifically, decarbonization, is increasingly apparent to many companies. Businesses have bolstered efforts to ensure compliance amidst evolving sustainability laws and regulation. Companies large and small have set aggressive goals for reducing their greenhouse gas (GHG) emissions and carbon footprints, in some cases including Scope 3 GHG emissions, with the expectation that suppliers and vendors will contribute to

KEY TAKEAWAYS

- Increasingly, companies are facing pressure to decarbonize from stakeholders across the value chain, including customers, investors, regulators, and employees.
- Regulators and private litigants are increasingly focused on so-called "greenwashing," where a company is alleged to have made a sustainability-related claim that is false or misleading.
- Many companies lack the capabilities and resources to develop and execute effective decarbonization strategies and emissions tracking.
- We believe the private equity (PE) industry is in a unique position to drive long-term impact across industries, and Apollo is striving to lead the way and share best practices.
- Operational decarbonization can create bottom line value for businesses, both in terms of financial savings and commercial opportunities.
- We have identified accountability mechanisms and created capabilities that we believe can continue to support portfolio companies' sustainability journeys during Apollo funds' ownership and beyond.
- Apollo's demonstrated ability to help portfolio companies set and deliver against decarbonization goals is a testament to the strong operational talent and subject matter expertise across the Apollo's Portfolio Performance Solutions (APPS) team.

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these efforts. At the same time, commercial and regulatory pressure to decarbonize can be significant depending upon where a company sits in today's dynamic environment.

Apollo has actively monitored these trends and is helping to shift the conversation within our funds' portfolio ecosystem from compliance to value creation. Starting in early 2022, Apollo's Portfolio Performance Solutions team (APPS) made a step change to strategically drive value creation as part of our differentiated operational efforts. We assembled a team of subject matter experts with operational experience, deployed a new strategic framework, and communicated several external-facing improvement goals. One of these goals is specifically focused on driving decarbonization in private equity portfolio companies in our latest flagship fund, recognizing the opportunity to start decarbonization efforts at the beginning of the deal life cycle. Today, APPS engages with portfolio company management teams to help them develop and execute decarbonization strategies that prioritize return on investment (ROI), helping enable companies to drive long-term sustainable impact and value creation for investors, stakeholders, and customers alike. At Apollo, we recognize that driving improvement in these areas is not solely tied to compliance or 'doing good' for the environment, employees, or communities; but importantly, it can drive significant financial value that creates a win-win scenario for investors and other stakeholders.

1.0 Why is Decarbonization Important?

Climate risk can affect the livelihood of individuals and the success of businesses around the world. According to the Intergovernmental Panel on Climate Change, "Since systematic scientific assessments began in the 1970s, the influence of human activity on the warming of the climate system has evolved from theory to established fact." Companies today face new risks that need to be managed and may be presented with new opportunities to create value. For example, the United States now experiences extreme weather events in which damages and costs top $1 billion every three weeks – a dramatic increase from once every four months in the 1980s, when adjusted for inflation.[1]

According to Allianz Research, an initial "back of the envelope" calculation suggests that recent heatwaves across the United States, southern Europe and China may have cost a 0.6 percentage point of gross domestic product (GDP) in 2023. Floods, wildfires, and hurricanes disrupt business through physical damage to infrastructure. Prolonged drought and extreme heat can impact agricultural yields and productivity across the globe. Conversely, businesses are finding opportunities to improve resiliency and profits by implementing operational efficiencies, improving waste reduction and creating products and services that support the transition to a less carbon-intensive economy. The global decarbonization market is immense given the cost and opportunity associated with reducing the primary sources of carbon dioxide emissions. There is an estimated $5+ trillion per year needed to decarbonize, $150+ trillion total through 2050, and an annual investment that reflects approximately 5% of 2020 global GDP.[2]

- **For Investors:** The number of ESG-related inquiries that Apollo receives from investors has increased by more than 3x in the last two years, and many of those inquiries have included climate-related questions. We believe investors are increasingly asking how portfolio companies are managing these issues not only because they value effective risk management, but also because they understand the impact and opportunity to drive positive financial performance.

- **For Legislators and Regulators:** Law and regulation relating to climate data and disclosure is rapidly evolving in many jurisdictions around the world. In some cases, the increased sustainability and climate-specific disclosures may be required to be included in traditional financial reports. California, the Securities and Exchange Commission (SEC), and regulators in the UK and EU have all enacted or proposed increased climate disclosure and

1. https://www.wsj.com/science/environment/climate-change-us-economy-c9fbda96
2. Sources: McKinsey, Goldman Sachs, Bloomberg New Energy Finance (BNEF), World Bank. Data as of 2022

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reporting obligations. Some of these rules will apply to private and public companies alike, and accordingly, may apply to private equity fund portfolio companies during the Apollo Fund's ownership.

- **For Customers:** Many customers of Apollo funds' portfolio companies have made public-facing decarbonization commitments and are driving expectations across their supply chains. In a Q4 2022 survey of some portfolio companies, over 40% of companies indicated that strong performance in ESG areas is expected to maintain business, and that pressure is growing to improve performance and transparency. Companies increasingly face a choice to either drive continued sustainability performance, or risk falling behind and potentially lose key customers.

As companies have sought to manage material climate risks and increased stakeholder demands, many have set goals without having developed a thoughtful strategy for achieving them or invested in the expertise or capabilities required to do so. This creates financial, reputational, and legal risk.

There can be significant consequences from delayed action toward decarbonization due to the compounding impact of a compressed timeline. Simply put, if a company aspires to align its business with a 1.5-degree decarbonization pathway, then for every year it underperforms it will have to achieve greater reduction in a shorter time. For these reasons, Apollo intentionally set goals that can be achieved by portfolio companies during our Funds' holding period. In addition, we are establishing the foundation needed for continued decarbonization beyond the hold period.

2.0 What Are We Doing to Help Portfolio Companies Decarbonize, and How Is It Differentiated?

Exhibit 1: Apollo's Private Equity Responsible & Sustainable Operations Mission & Vision

Responsible & Sustainable Operations Vision for Private Equity

Apollo is committed to building better businesses that create shareholder value by driving measurable improvements in sustainability, inclusion, diversity & community and responsible stewardship resulting in a positive impact for people, the planet and the communities where we operate.

Responsible & Sustainable Operations Mission for Private Equity

We partner with portfolio companies, leveraging subject matter experience, data and education, to create value by helping them identify and execute on opportunities that minimize their resource-use footprint, maximize operational efficiencies, improve safety, and encourage diverse workforces and supply chains, among other initiatives. We strive to become the most responsible stewards of the assets with which we are entrusted.

We help portfolio companies deliver on the decarbonization goal in a differentiated way through active engagement with management teams, leveraging subject matter experts (SMEs) and strategic external partners, as necessary and appropriate. This is coupled with a relentless focus on data and education on business value creation that can come with decarbonization. Apollo has developed a strategic framework that supports portfolio companies across sectors and aligns with industry agnostic business models.

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Exhibit 2: Our Strategic Focus Areas within Private Equity

Sustainability	Inclusion, Diversity & Community	Responsible Stewardship
"We believe we have a role in protecting ecosystems and preserving natural resources for future generations. We will do this by..."	"We believe that inclusive, diverse teams who engage local communities outperform and that our funds' portfolio companies should model inclusive behaviors and create opportunity by..."	"We believe that assessing risk and protecting our employees, customers and stakeholders is key to having a strong foundation on which we will build better businesses."
Improving climate through efforts to reduce our carbon footprint, conserve nature and biodiversity	*Building diverse boards, management teams and employee populations*	*Improving employee safety and mental health awareness while ensuring human rights are upheld*
Eliminating waste with the aspiration of zero waste to landfill, increasing circular business models	*Developing diverse & local supply bases that ensure economic opportunity is accessible to all*	*Safeguarding privacy by identifying and mitigating vulnerabilities and better day-to-day monitoring*
Improving water utilization throughout our supply chains	*Creating opportunity and inclusiveness across our employee & community populations*	*Enhancing governance through stronger training, processes and reporting*

Given our fund's size and scale and Apollo's capabilities, we believe we are in a unique position among our peers to lead in driving decarbonization across a wide range of industries. We have developed an operating model and a data-driven approach that we believe enable fit-for-purpose engagements and collaboration at scale with portfolio company management teams. By prioritizing efforts according to ROI, we can show how strategic decarbonization efforts can drive cost savings and operational efficiencies.

Our climate strategy was informed by competitive analysis, regulatory trends, and an internal climate steering committee composed of Apollo's leadership team members. We worked with third-party experts to develop an approach for integrating climate considerations into the private equity fund investment process, from diligence through exit. Results are documented in a climate scorecard that can help facilitate robust assessment and investment decision-making and can also help to inform post-investment strategies. In the last 18 months, we have conducted climate diligence across manufacturing, airline, transportation and distribution, retail and service sectors. Across these sectors, we see consistent paths to positive ROI decarbonization in most cases in line with our goal of achieving 15% median carbon intensity reductions across flagship private equity investments.[3]

3. Reduce median carbon intensity by 15% over the projected hold period for new majority equity owned investments in Apollo's latest flagship fund, except when a Portfolio company's emissions are de minimis.

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Exhibit 3: Findings in diligence reinforce the expectation that there can be a Positive ROI path for most companies to achieve the goal

Below is a sample set of companies diligenced in 2022 and 2023. For purposes of confidentiality, the investment-decision, fund, industry, and geography cannot be disclosed.

	Emissions Reduction Potential (%)	Annual Run Rate OpEx Savings ($M)	One-Time Cost to Achieve ($M)
Example 1	18%	$4	$10
Example 2	18%	$4	$9
Example 3	31%	$46	$161
Example 4	18%	$3	$3
Example 5	22%	$76	$65
Example 6	35%	$24	$112
Example 7	1%	$0	$15
Totals	**20% (avg)**	**$157**	**$375**

Supporting portfolio companies in scope for our carbon intensity goal means engaging with them shortly after closing and throughout Apollo funds' ownership. We seek to build capabilities across portfolio company sustainability teams, and their processes and technology to help equip them to succeed during and beyond Apollo funds' ownership.
We support operational execution through:

- **Apollo Equity Operations Industry Expertise:** The Apollo Responsible & Sustainable Operations team is staffed with industry experts who have led, managed, and operationalized value creation across industries and have more than 80+ years of operational experience scaling across large companies or even groups of companies. This experience enables them to support the development of strategies and road maps that are actionable from day one.

- **Data Management:** We are responding to the data challenge with detailed baselining and tracking of carbon accounting and emissions calculations. We believe a lack of reliable and auditable data for baselining carbon footprints and tracking progress toward decarbonization represents one of the largest barriers companies face in seeking to deliver on climate goals.

  - We assess a portfolio company's current carbon data capture and tracking capabilities as part of our early engagement, and work with them to deploy our preferred carbon accounting solution, if one does not already exist, soon after closing.
  - Beyond carbon accounting, we may also work with portfolio companies to identify fit-for-purpose data acquisition and data analytics solutions, either with proven preferred providers or with the support of our APPS Data & Digital team.

- **Detailed Decarbonization Plans:** We are working with management teams to help them develop detailed decarbonization plans that leverage the playbooks and guides we have built in APPS. These tools help to accelerate the development of the plans required to deliver against both Apollo and portfolio company goals by driving ROI-positive solutions that deliver financial returns. Plans developed include a detailed implementation road map with resources for people, process and technology and estimated budget and ROI required for multi-year plans.

We are pleased to report that we have received overwhelmingly positive feedback from portfolio companies, who note that the resources and support Apollo provides have been invaluable in helping accelerate their progress. By engaging early, often and deeply with portfolio companies, we are enabling them to build the foundation needed for their decarbonization journeys.

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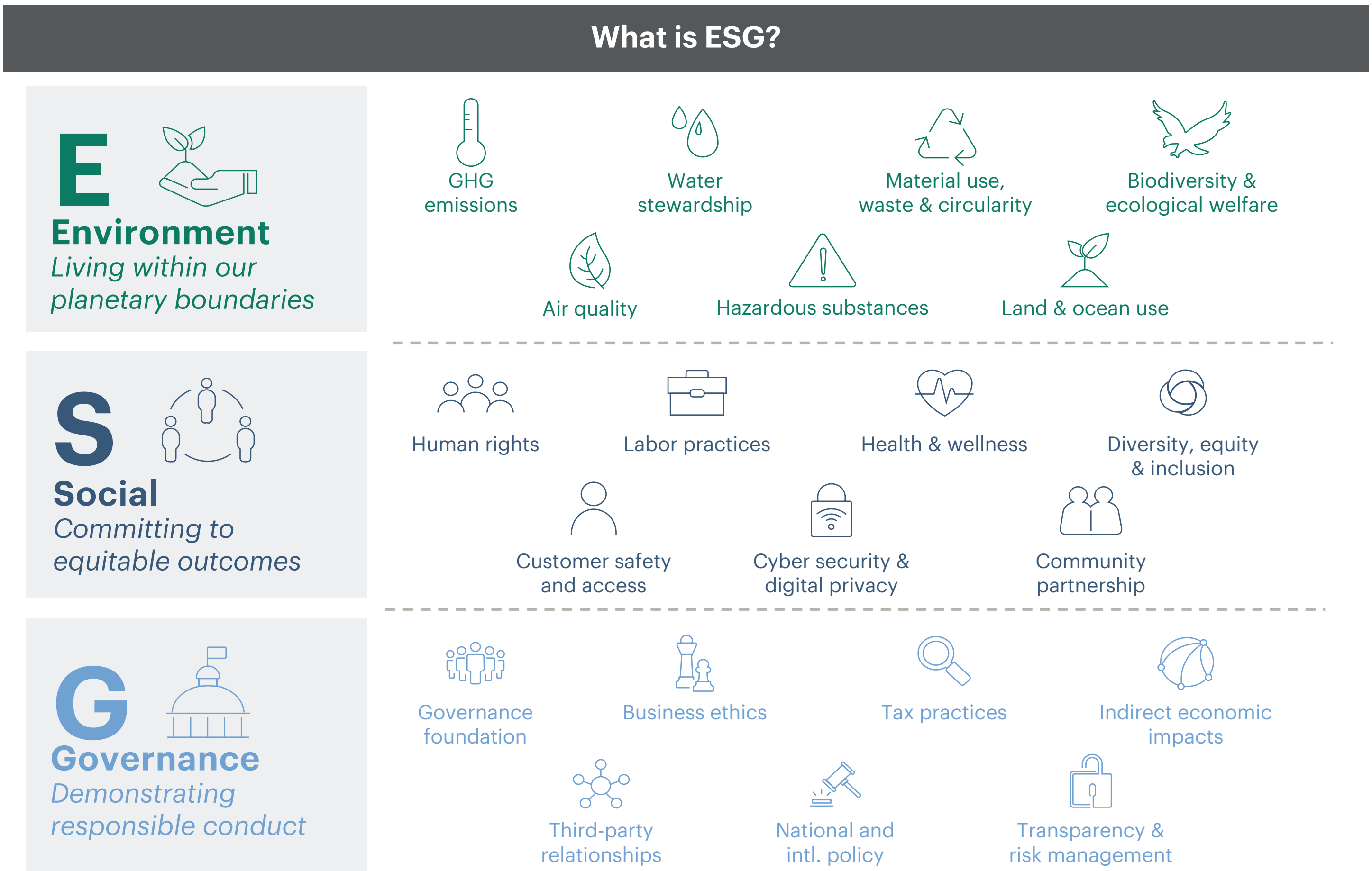
3.0 How Are We Doing It?

Apollo aims to build better businesses to help drive returns for our investors while also catalyzing positive change in the environment, our workplace, and our communities.

The APPS team **works closely with investment teams on the potential value of initiatives and integrating operational data** into our investment decision-making process, portfolio company engagement and positioning at exit.

Exhibit 4: Environmental Social Governance (ESG) - Overview and Introduction Materials with Management Teams



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Why does it matter?

EBITDA

Higher revenues lower costs

- Higher market share & stronger pricing power
- Customer commitments/ expectations
- Decreased material usage
- Innovation productivity

Reduce employee turnover

- Lower recruiting/training costs by aligning with values of the employee base
- Operating efficiencies due to lower turnover

Avoid possible regulatory risks

- Stronger risk management
- Smoother regulator relationships
- Evolving regulatory requirements

Deal Multiple

Access to buyers

- Market entry attracts new demographics
- Brand recognition
- Customer loyalty

Lower cost of capital

- Preferential interest rates
- Stable investor base
- Potential for multiple expansion attract higher-value customers

We educate our stakeholders on the **key characteristics of a successful ESG value creation program**, which include:

a) Board and executive-level oversight of material sustainability matters

b) Management pay incentives linked to performance

c) Budget for initiatives that drive financial savings and impact

d) Clear ownership across functions

e) Key performance indicators (KPIs)

f) Data-driven, technology-enabled strategy

We strive to make value creation as seamless as possible for investment teams and portfolio company management teams as they navigate multiple work streams to deliver on the investment thesis.

We are **helping to drive value-creation at scale** through playbooks and templates that include educational materials, process checklists, sample analyses and deliverables that drive repeatable successful outcomes. These playbooks can have applicability at all stages of the deal life cycle and cover elements of due diligence and efforts throughout the ownership period. Our fiduciary obligations guide our engagement with portfolio companies and to that end, we evaluate what works and what does not to improve financial outcomes, partnering with our investment teams and portfolio management to refine the companies' approaches and processes for future opportunities.

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Exhibit 5: Apollo's Latest Flagship Fund Value Creation Approach Spans the Life of a Deal

Diligence	Sign-to-Close	Early Investment	Ownership	Exit Prep
• Execute ESG diligence in parallel with broader diligence • Embed material risks and opportunities in Investment Committee considerations and model	• Set expectations on planning and execution with Management team • Align on integration of ESG in Board Oversight and Management Incentive Plans	• Identify executive leaders for ESG initiatives • Begin to develop data foundations • Develop multi-year roadmap for execution with target KPIs	• Integrate ESG across business at Board, Management, and Cross-Functional levels • Engage company to support in on-going planning and execution via subject matter expertise, playbooks, technology, and preferred partnerships	• Develop data-driven narrative for exit

Our diligence process includes traditional legal due diligence and risk assessment, a detailed climate diligence for applicable companies, assessment of material risk and opportunities, and a review of public information including sustainability reports and public regulatory filings, among other available materials. Findings from our diligence processes are documented and communicated to deal teams and management teams. We also complete climate baselining diligence that highlights risks, opportunities and gaps (if any) to company goals and the plans and capabilities required to achieve those goals. **By implementing climate alongside operational, commercial, and legal diligence, we can identify opportunities to drive decarbonization that also deliver other business value creation opportunities** including ROI from operational efficiencies or growth in more sustainable products. Any material diligence findings are included in Investment Committee memos and are evaluated with other business opportunities and risks that may be incorporated into the deal thesis.

Exhibit 6: Sample Diligence Findings

- 8% CO2 reduction and $9M in annual OpEx savings through renewable energy
- 10% CO2 reduction and $4M in annual OpEx savings through vehicle electrification
- $29M in annual energy efficiency savings
- 9% CO2 reduction through network and logistics optimization
- 3% CO2 reduction through manufacturing process optimization and raw material reduction

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Throughout the diligence process, we use standardized templates to support the tracking of assumptions, baseline information and insights that can be leveraged from sign to close and beyond to inform our priorities for engagement. This rigor allows us to accelerate discussions with management and prioritize decarbonization levers. Early in our discussions with management, we engage with the team to align on how to incorporate value creation metrics into senior leadership compensation and help construct the board oversight and accountability structure for the ESG program.

We help equip portfolio companies with access to the capabilities (e.g., SMEs, processes, tools, technology, resources, sample deliverables) to complete a current state assessment and develop a granular implementation plan (budget, milestones, resources) for a multiyear, ROI-positive decarbonization road map. By bringing implementation support, rigor, data, and accountability mechanisms to portfolio companies, we enable them to develop and deliver strong value creation plans.

Exhibit 7: Overview of Program Development Approach: Phases

Phase	Activity	Description
0. Pre-Engagement Prep		
	a. Ownership Assignment b. Initial Kickoff c. Working Group Kick-Off d. Validate Diligence and Scope	Identify the program lead, Executive Sponsor, and cross-functional working group that will be responsible for program execution
1. Current State Assessment		
	a. Issue Survey b. Complete Survey c. Finalize Current State Mapping	Baseline the company's current ESG program maturity, categorized by Strategy, Governance, Management, and Data
2. Benchmarking		
	a. Data Collection b. Assessment c. Benchmarking & Gap Analysis	Benchmark the company's ESG program scope, ambition, and overall maturity against peers and competitors, customer expectations, regulatory requirements (current and future), and investor expectations (current and future)
3. Program Scoping		
	a. Priorities Workshop b. Third-Party Engagement (if necessary) c. Scope and Finalize Strategy Development Workplan	Align on scope and priorities for strategy development. Finalize workplan for strategy development
4. Strategy Development		
	a. BAU Forecast b. Decarbonization Assessment c. Project Roadmap d. Funding Strategy e. Project Timeline & Implementation Plan f. Roles & Responsibility	Develop an emissions forecast, assess levers for decarbonization, and identify priority projects for execution. Develop a detailed plan of action, including funding strategy, timelines, roles and responsibilities
5. Establish Reporting Cadences		
	a. Monthly program reviews w/ APPS b. Quarterly Board Updates c. Annual Review and Planning	Align on reporting expectations

The entire process is expected to be completed 3-6 months post-close

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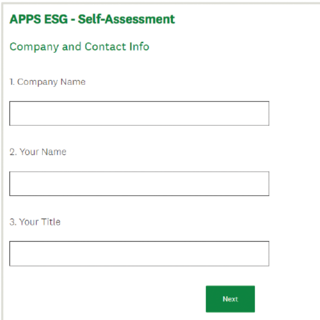
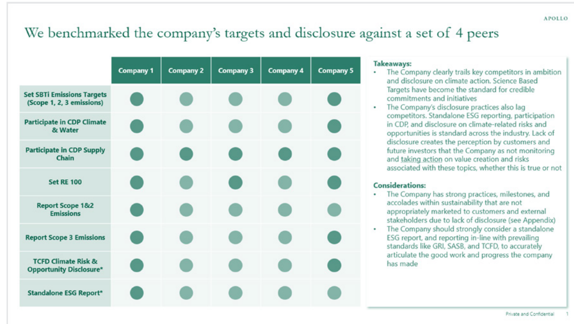
Exhibit 8: Overview of Program Development Approach: Example Key Deliverables

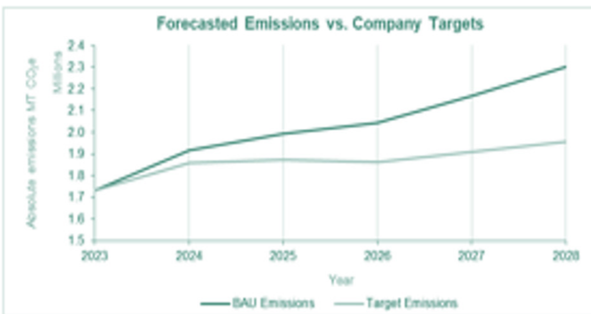
1 Current State Assessment



2 Benchmarking



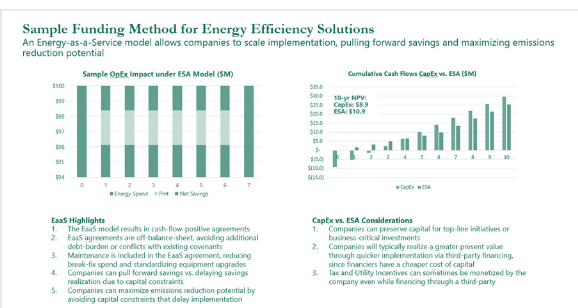
3 Baseline & BAU Forecast



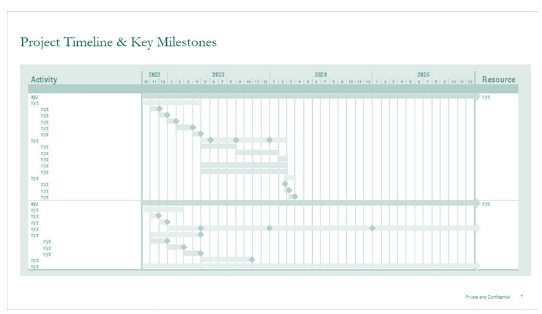
4 Project Roadmap

Category	Lever	% Emissions Reduction	OpEx Savings ($M)	CapEx	IRR	Timeline for Implementation (months)	Resources Required / Variability of Returns
Energy Efficiency[1]	Compressed Air	3%	$2.1	$1.04	200%	24-36	High / Low
	Chilled Water VFDs / Process Water	1%	$1.0	$1.60	62%		
	LED Lighting[3]	3%	$1.6	$3.98	38%		
	Motor VFDs	1%	$0.4	$0.96	38%		
	Chilled Water Replacements	5%	$3.1	$10.54	27%		
Total		**13%**	**$8.2**	**$18.11**	**44%**		
Distributed Generation	On-Site Solar + Battery	2%	$1.4	N/A	N/A	12-18	High / Medium
Total		**2%**	**$1.4**	**N/A**	**N/A**		
Large-Scale Renewable Energy	Direct PPA	9%	$0.9	N/A	N/A	12-24	Medium / High
	vPPA[2]	18%	$0.7	N/A	N/A		
	Bundled RECs	2%	$(0.1)	N/A	N/A		
Total		**28%**	**$1.5**	**N/A**	**N/A**		
RECs and Carbon Offsets	Unbundled RECs	47%	$(1.7)	N/A	N/A	<12	Low / N/A
	Scope 1 or Offsets	10%	$ (0.4)	N/A	N/A		
Total		**57%**	**$(2.1)**	**N/A**	**N/A**		

5 Funding Strategy



6 Project Timeline & Implementation Plan



7 Roles & Responsibilities

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Exhibit 9: Example of Program Development Workplan

ID	Status	Phase	Activity	Key Decision Point / Deliverable	Status	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1		0. Pre-Engagement Prep																	
2	On-Track	0. Pre-work	a. Ownership Assignment	Decision Point	Not Started														
3	On-Track	0. Pre-work	b. Initial Kickoff	0	Not Started														
4	On-Track	0. Pre-work	c. Working Group Kick-Off	0	Not Started														
5	On-Track	0. Pre-work	d. Validate Diligence and Scope	Decision Point	Not Started														
6		1. Current State Assessment																	
7	On-Track	1. Current State Assessment	a. Issue Survey	0	Not Started														
8	On-Track	1. Current State Assessment	b. Complete Survey	0	Not Started														
9	On-Track	1. Current State Assessment	c. Finalize Current State Mapping	Deliverable	Not Started														
10		2. Benchmarking																	
11	On-Track	2. Benchmarking	a. Data Collection	0	Not Started														
12	On-Track	2. Benchmarking	b. Assessment	0	Not Started														
13	On-Track	2. Benchmarking	c. Benchmarking & Gap Analysis	Deliverable	Not Started														
14		3. Program Scoping																	
15	On-Track	3. Program Scoping	a. Priorities Workshop	0	Not Started														
16	On-Track	3. Program Scoping	b. Third-Party Engagement	0	Not Started														
17	On-Track	3. Program Scoping	c. Scope and Finalize Strategy Development Workplan	0	Not Started														
18		4. Strategy Development																	
19	On-Track	4. Strategy Development	a. BAU Forecast	Deliverable	Not Started														
20	On-Track	4. Strategy Development	b. Decarbonization Assessment	0	Not Started														
21	On-Track	4. Strategy Development	c. Project Roadmap	Deliverable	Not Started														
22	On-Track	4. Strategy Development	d. Funding Strategy	Decision Point & Deliverable	Not Started														
23	On-Track	4. Strategy Development	e. Project Timeline & Implementation Plan	Decision Point & Deliverable	Not Started														
24	On-Track	4. Strategy Development	f. Roles & Responsibility	Decision Point & Deliverable	Not Started														
25		5. Establish Reporting Cadences																	
26	On-Track	5. Establish Reporting Cadences	a. Monthly program reviews w/ APPS	0	Not Started														
27	On-Track	5. Establish Reporting Cadences	b. Quarterly Board Updates	0	Not Started														
28	On-Track	5. Establish Reporting Cadences	c. Annual Review and Planning	0	Not Started														

- Timing will vary by company and activities will often overlap
- Key milestones and deadlines will be mutually agreed upon
- Finalizing the entire program development process within 3-months post-close will always be the starting target

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Exhibit 10: A rigorous implementation plan can drive accountability for actions and results

4.e.f. Strategy Development: Project Timeline, Roles & Responsibilities

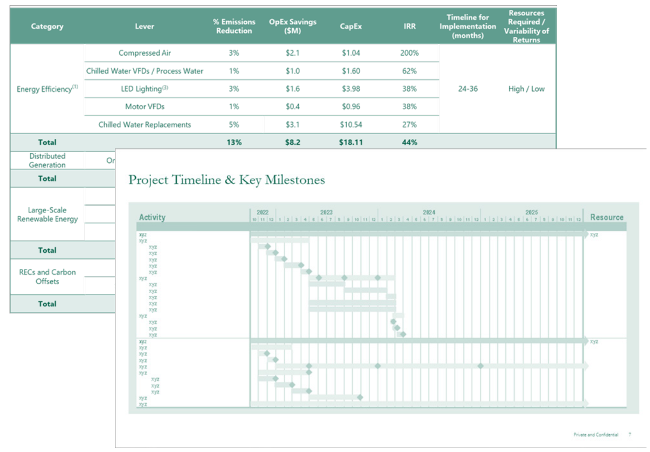
Duration: 3-4 weeks
Individual Owner: Single Threaded leader
Executor: Company or Third Party

Objective: Develop a detailed project timeline, KPIs, and key milestones for next 5 years. Plans can be updated as new information and opportunities arise. Develop program governance model across ELT, ESG team, cross-functional team members, and third-parties.

Key Activities: Company, APPS (and third parties, where applicable) collaborate to determine an executable project plan. Executive sign-off is important to enable top-down support.

Description: This project plan should be considered executable. Roles and responsibilities, key milestones, KPIs, will be established so that future reporting will be able to identify whether the company is on track, ahead, or behind plans.

Outcome: The Company and APPS finalize an executable project plan that all team members can be held accountable-to for success.



We believe a **prioritization of initiatives, KPI tracking, and carbon accounting helps drive successful decarbonization strategies.** The most common challenge we encounter is complexity around sources for Scopes 1, 2, and 3 GHG emissions data, with Scope 3 data being the least accessible across industries. In many cases, companies have not historically tracked this data and are building processes internally or sourcing capabilities to understand the existing baseline. Often, organizations are not equipped with the technology or subject matter expertise to implement carbon accounting capabilities that can meet growing commercial and regulatory expectations. Given the importance of transparency and accuracy, Apollo prioritizes helping companies build data capture and reporting capabilities that are auditable and assurable, as appropriate. As such, we have partnered with Persefoni, a leading provider in carbon accounting, to support portfolio companies that do not already have a carbon accounting solution in place.

Data visibility alone, however, is not sufficient; it must be used to help drive key decisions and actions in an organization working toward an ROI-positive decarbonization goal. When we engage with portfolio companies, we help them **establish KPIs** to track progress and ensure accountability across the different corporate functions that play a role in executing a given decarbonization lever. We encourage accountability through **board oversight of decarbonization goals and milestones, and scorecards** to track performance and drive the right conversations with leadership about resources and prioritization. Senior leadership's visibility and accountability is particularly important when competing priorities surface. To help guide these discussions, we encourage companies to identify **an executive-level leader** to deliver the decarbonization program and that executive sponsors exist across mission-critical functions. In addition to board oversight, we recommend a **review of progress against milestones be incorporated into existing business management routines so they are considered with the same rigor as other business goals** and discussed with the same leaders who are making financial decisions, further reinforcing that this work is part of the core work of cross-functional teams.

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Exhibit 11: Standard reporting cadences will ensure the program maintains progress against action items and timelines

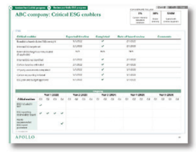
5. Establish Reporting Cadences
Duration: 1-2 weeks
Individual Owner: APPS
Executor: Single Threaded Leader

Objective: Align on reporting expectations.

Key Activities: APPS will share guidance and templates, where available, to support program reporting. APPS and the company will align on standard cadences, format, and audience. The Single Threaded Leader for the company should take the lead on scheduling recurring invites and including all appropriate members.

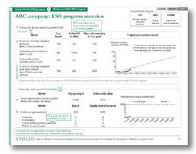
Description: See above.

Outcome: APPS and the company align on reporting expectations.



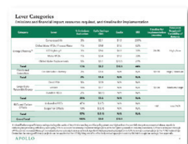
Monthly Program Reviews w/ APPS

Frequent updates to identify if key action items are on-track to produce target results



Quarterly Board Updates

Executive-level review of action items and KPIs Issue escalation for any workstreams that are behind schedule or addressing hurdles



Annual Review and Planning

Assess strategic trajectory of the program Determine whether or not new information should change priorities, funding strategy, timelines, etc.

As Apollo funds prepare to realize an investment, our capital markets team and/or our Responsible & Sustainable Operations team can help support the development of a data-driven narrative that highlights a portfolio company's value creation journey and efforts toward decarbonizing. Progress against decarbonization goals and other metrics can demonstrate a portfolio company's success in capturing value aligned with the climate transition, employee engagement and a multitude of other value drivers that may be overlooked. This story may be important to future investors who want to understand the balance of climate-related risks and opportunities that they may be acquiring but that may not be apparent in the details of a companies financial statement. To that end, Apollo helps portfolio companies create a holistic ESG value creation strategy that focuses on topics material to their business.

Exhibit 12: ESG Disclosure Increasingly Impacting Exit Pricing Outcomes

ESG matters to regulators, customers and investors — so it impacts Exit

Preparing for an IPO: How an ESG Assessment Can Make a Difference (sustainalytics.com)	ESG and the Pricing of IPOs: Does Sustainability Matter? | CLS Blue Sky Blog (columbia.edu)	How ESG disclosures impact IPO valuation | EY – Global
"The numbers speak for themselves. In 2021, US$130 trillion in total capital was aligned with net-zero emissions, pledges and **companies with robust ESG strategies in place raised more capital at a cost almost 10% lower than competitors.** Now, more than ever, investors are making a push towards ESG."	**"ESG disclosure before an IPO** – and the consequent reduction of information asymmetry – are, therefore, **significantly associated with less underpricing** and a more precise firm valuation, even when they are included within broader IPO communications." *Alessandro Fenili and Carlo Raimondo at the University of Lugano*	"a growing body of academic evidence is starting to reveal concrete links between robust ESG reporting and pre-IPO performance. White & Case, a New York-based international law firm, **found that in more than 2,000 academic studies, 70% showed a directly positive correlation between ESG scores and financial performances of businesses."**

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Exhibit 13: Take a Comprehensive Approach to ESG Exit Readiness Assessment

Where gaps exist, and to the extent these actions are material to valuation.

Gap Assessment	Future State Roadmap & Timelines	Implementation & Other Considerations
• Review **ESG disclosure guidelines** of LPs/prospective buyers • Assess applicable **ESG regulatory requirements** and reporting standards for your industry • Complete **Materiality & Climate assessment** and **Benchmarking** • Evaluate ESG performance based on **ESG ratings** frameworks, industry benchmarking, and prospective investor expectations • Ensure **KPIs** tracked **align to ESG reporting frameworks** (e.g., IFRS) • Ensure **reporting systems meet standards** for ESG auditing (e.g., reporting history of each KPI, methodology details, alignment with global frameworks and applicable regulations)	• Define **ESG vision/mission** and how it **links to the company's overall vision** • Develop **comprehensive ESG strategy and commitments/ targets** (e.g., company policies, exec accountability structures, KPIs tracked) include plans to address ESG rating gaps • Develop **climate strategy,** defining risks and opportunities in line with TCFD, reduction strategy, climate risk governance, and KPIs, if not already in place • **Link goals to Sustainable Development Goals** (SDG) where appropriate • Create **ESG report** and include ESG **narrative in marketing materials** detailing commitments, timelines, and value-add	• Establish/refine **processes/controls** • Establish **governance structures** and **board oversight** • Set **tracking & reporting** on climate and other targets • **Synthesize ESG narrative** across website, relevant marketing pages, i.e., IPO prospectus, road show slides

Start internal ESG readiness assessment at least 12 months prior to target date and ESG material compilation 6-12 months prior to target date

A **successful portfolio operations program must have senior PE leadership support and engagement.** Obtaining this support began by defining a goal that we collectively agreed was competitive and value accretive both at the portfolio company and fund levels. In advance of setting a goal, we developed an end-to-end plan that had a line of sight to how we would engage portfolio companies to deliver on the goal (e.g., life cycle of engagement, management incentives, data requirements). We also collected feedback from investors and other stakeholders in preparation for setting a goal. Once set, we have regularly shared progress and updates with investors and key shareholders at individual meetings and advisory board meetings. Internally, we meet with PE leadership quarterly to review progress, identify issues and opportunities, and address any barriers to success. Driving the change required to deliver on decarbonization goals is a significant effort for portfolio companies and Apollo alike. As such, bringing leadership along on our journey is critical to executing a program with no prior history or road map for success.

4.0 What Are the Results So Far?

Addressing climate opportunities presents challenges on many fronts. Across stakeholders, there is often a knowledge gap regarding both the risk and opportunity associated with the steps for action. In the face of commercial demands for decarbonization and new and evolving regulations, companies often lack the necessary in-house capabilities and/or have failed to properly budget for increased costs associated with these realities. Apollo recognizes these challenges, but also sees the opportunities associated with tackling this important work. We are systematically engaging to educate stakeholders about the value creation opportunity, to integrate sustainability initiatives that are value accretive, and to foster the rigor that will ensure lasting progress and impact.

Apollo has been able to deliver results because of the operating model, strategy and actions outlined herein. We have highlighted two case studies, including the challenges faced, solution delivered, and preliminary outcomes.

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Exhibit 14: Novolex Case Study

Environmental, Social, and Governance (ESG) Strategy

NOVOLEX®

Investment Overview[4]

Date of initial investment: 2022
Region: North America, Europe
Industry focus: Packaging Manufacturer
Headquarters: Hartsville, SC
Website: https://novolex.com

Challenge

Sustainability is critical to Novolex's competitive position—the company's breadth of product offering allows them to meet a wide range of customer requirements through products that meet increasing expectations for sustainable characteristics. In addition to product performance and differentiation, reducing the carbon footprint of the company's operations is also important for the business, customers, and investors alike.

Prior to Apollo Fund's ownership, Novolex had set targets to reduce emissions by 20% by 2025. The company had made significant progress through opportunistic execution of renewable energy contracts and implementation of energy efficiency projects on a site-by-site basis. **Through these measures, the company exceeded it's 2025 target three years ahead of schedule.**

Novolex extended its reduction target to 30% by 2030, and executed the largest sustainability-linked loan in North America at the time, tying cost of capital to achievement of the target. Novolex had to develop a plan to execute on the target with a high level of confidence.

Apollo worked with the Novolex team to help develop a centralized plan, that prioritized projects by ROI. This required a shift in approach to both planning and execution of decarbonization projects.

Solution

Through collaboration between the APPS Responsible & Sustainable Operations team, Novolex's Sustainability leadership, and cross-functional leaders in Capital Projects, Procurement, Finance and Accounting, a revised, holistic strategy was developed to achieve the 2030 targets.

The team identified an additional **+41% of decarbonization opportunity associated with positive ROI initiatives. Key levers include programmatic execution of energy efficiency initiatives and a market-by-market strategy for buying renewable energy.**

Critical Enablers for success include:

Data Visibility: 1) Access to accurate and flexible data which is key to assessing ROI associated with decarbonization projects; 2) Automated acquisition and reporting of Scope 1 & 2 data leveraging Engie and Persefoni; 3) Strategies to improve raw material data collection (i.e., product and supply chain data).

Centralized Planning: A central strategy with cross-functional engagement to ensure optimal capital allocation across decarbonization projects, and to leverage buying power across the business.

Funding Strategy: Prioritizing project options by ROI and assessing CapEx vs. "as-a-Service' funding models.

Program Planning: Apollo provided guidance to Novolex in sourcing a preferred partner for project development and execution, further enabling central planning, speed-to-execution, and accountability.

Outcomes

Novolex's decarbonization strategy targets $11MM in Opex savings associated with decarbonization projects that are estimated to **achieve +41% emissions reduction. Energy efficiency levers contribute 13%** of the 41% emissions reductions and have an **a simple payback better than 2.5 yrs.**

Company Overview

Novolex® is a leader in packaging innovation, choice, and sustainability. We manufacture products with paper, plastic, and renewable materials for food packaging, delivery and carry-out, food processing, and industrial markets. Our products offer superior performance, provide convenience, reduce food waste, and support food safety and hygiene for the benefit of millions of consumers who use our products every day. We meet their needs with a wide variety of products backed by a commitment to quality embraced by our more than 10,000 employees. With 56 manufacturing facilities in North America and Europe, including two world-class plastic film recycling facilities, we are close to our customers and ready to serve them through our Food & Delivery and Performance Solutions segments.

4. Data included is as of November 2023.

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Exhibit 15: Heritage Case Study

Environmental, Social, and Governance (ESG) Strategy

HERITAGE GROCERS GROUP

Investment Overview[5]

Date of initial investment: 2022
Region: US
Industry focus: Consumer Staples
Headquarters: Ontario, CA
Website: https://heritagegrocersgroup.com/

Challenge

Heritage Grocers Group ("Heritage") is a leading specialty grocery retailer with 115 total stores under the Tony's Fresh Market, Cardenas Markets, and El Rancho Supermercado banners. Carbon emissions intensity was selected as one of the investment's Impact KPIs. We worked with the company to establish a Scope 1 & 2 baseline and set go-forward targets for the investment hold period. Four key challenges were identified:

- **There was no central data repository** – energy consumption tracked at the business unit level and housed in different systems by type (electricity, natural gas, refrigerants, propane, etc.)
- **A significant amount of data needed to be harmonized** across numerous facilities and sources, tracked in different units of measurement by month
- **Numerous data gaps and outliers needed to be managed**
- **A tight deadline of four weeks** (typically a 2-3 month exercise) from kickoff to complete carbon reporting goal was required
- While there was some in-house familiarity with CA regulatory reporting requirements, there was **no dedicated GHGP carbon accounting or sustainability functional expertise**

Solution

The Heritage, Apollo and Persefoni teams collaborated to support implementation of Persefoni's technology-based carbon accounting solution to manage Heritage's end-to-end carbon accounting process including setting their baseline:

- **Persefoni (carbon accounting software) + Persefoni Footprint Data Services delivered the implementation service**
- **Agile software-based platform enabled Heritage to easily recreate an organizational hierarchy** by division, location, facility, etc. allowing the team to drill down on relevant drivers of emissions and corresponding consumption
- **Urjanet integration allowed for automated collection of utilities data** (~1,600 data points which would otherwise have to be pulled manually from corresponding invoices)
- Software that leveraged human expertise helped to manage data nuances and synthesize relevant data across various systems and sources for ingestion into Persefoni carbon accounting platform
- Transparency/auditability was provided via carbon ledger ensuring company will be ready for eventual exit with impending emissions reporting regulation
- Persefoni team provided Heritage with data governance recommendations for future process improvement including:
  - Create and manage a central data repository
  - Implement data accuracy/reasonableness checks

Outcomes

- **Heritage was able to stand up its carbon accounting with Persefoni in one of the fastest implementations to date**
- Estimate **~50% time saving** for individuals responsible for calculating carbon emissions
- Created **processes for repeatable data collection & governance** in accordance with GHGP best practices
- Delivered **a real-time, transparent and granular view into carbon footprint** to enable decarbonization planning in highest emitting areas of the business

Company Overview

Heritage Grocers Group ("Heritage") is a leading specialty grocery retailer with 113 total stores under the Tony's Fresh Market, Cardenas Markets, and El Rancho Supermercado banners. The grocers, founded in 1979, 1981 and 1988, respectively, offer a differentiated value proposition to customers with full-shops of high-quality food at affordable price points while providing Hispanic and ethnic offerings that honor diverse cultural traditions and are often unavailable locally.

5. Data included is as of April 2023.

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5.0 Conclusion & Lessons Learned

These case studies illustrate how our APPS team is developing new insights that help to drive continuous improvement. Despite capability gaps around how to develop and activate strategic decarbonization plans, we have seen that companies across industries are eager for support and expertise. There is increasing recognition across industries that decarbonization can be a complex problem to solve. Companies at varying stages of maturity, regardless of where they fall on the continuum, have engaged with Apollo and other external experts for support in accelerating their path towards decarbonization. **The more we can share best practices, the faster we will collectively deliver positive climate and value-accretive outcomes.**

While data may remain one of the biggest challenges, the technology for carbon accounting and reporting is rapidly evolving. **Implementing a carbon accounting solution at the early stages of a decarbonization journey is key** to tracking and ensuring progress, which is why Apollo established a strategic relationship with Persefoni; however, carbon accounting is only one part of the solution. Companies must consider data acquisition solutions and, in some cases, a data infrastructure to support complex custom analysis. The end-to-end acquisition and reporting on carbon footprints can be complex and requires access to multiple data sets and integration across an organization's stakeholders. As such, **it is critical that companies do not underestimate the time, effort and resources required to calculate their GHG emissions and reduction efforts accurately and transparently, regardless of industry.**

Cross-functional integration is key, not just for carbon accounting, but also for defining and delivering against a decarbonization plan. Sustainability risks and opportunities can also be business risks and opportunities. Leaders across functions will need to collaborate for a successful program, so it is important for senior leaders to be informed in connection with plan development and oversight. Put simply: we believe a decarbonization plan owned by a sole sustainability leader is bound to fail.

Lastly, the **path to decarbonization takes time.** Where decarbonization makes commercial sense, it is critical for companies to begin their journeys now. Beyond the complexity of carbon accounting, identifying and prioritizing the right ROI-positive levers for a portfolio company's business takes time. This often requires a detailed analysis of the existing operations and footprint, climate transition risk, industry-relevant regulatory requirements, customer base and expectations and growth plans to build the budget and necessary resource requirements. These collective insights will help inform a decarbonization pathway that can address material risks to a business and provide the optimal value-accretive path forward.

We are still early on the journey toward decarbonization, but Apollo is committed to creating a culture of continuous learning and improvement to deliver value creation for portfolio companies and investors.

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Lena Bryant is Managing Director of Responsible & Sustainable Operations for Equity, at Apollo, with the responsibility of advancing our ESG program and partnering with portfolio companies to drive ESG value creation. Prior to joining Apollo in 2022, Lena built, managed and transformed large functions within HR, Community Operations and Compliance. Most recently, Lena worked at Amazon where she was Director, Amazon Community Operations, and prior to that led Amazon's Worldwide Dangerous Goods Safety program and the global Compliance Operations team. Prior to Amazon, Lena worked at Coca-Cola where she served in a number of roles including Chief of Staff to their Global Chief Procurement Officer and Global Director of Organizational Capability and Integration. Lena graduated Cum Laude from University of Florida with a BS in Psychology.

Carletta Ooton,
Operating Partner, Responsible & Sustainable Operations, Equity

Carletta Ooton is the Head of Responsible and Sustainable Operations for Equity and an Operating Partner at Apollo, with responsibility of building on the Firm's long-standing commitment to responsible and sustainable investing by advancing ESG integration and performance across its equity portfolio. Prior to joining in 2022, Carletta was with Amazon, where she served as both the Vice President of Health, Safety, Sustainability, Security and Compliance and the Vice President of Product Assurance, Risk and Security starting in 2014. While at Amazon, she was instrumental in Amazon's foundational sustainability efforts, including calculating its carbon footprint for the first time and launching Amazon's Climate Pledge. Prior to Amazon, Carletta held operational, quality and sustainability-focused leadership roles at The Coca-Cola Company, Cott Beverages, Bath & Body Works, Unilever and Tate & Lyle. Carletta holds BAs in Biological Sciences/Chemistry and a MA in Microbiology.

Ben Saunders, Principal, Responsible & Sustainable Operations, Equity

Ben Saunders is a Principal for Responsible & Sustainable Operations for Equity at Apollo. He is responsible for integration of climate & sustainability strategies throughout the deal lifecycle. He works alongside the other operating functions within the Apollo Portfolio Performance Solutions ("APPS") team to develop and accelerate sustainability strategies and operational improvements for portfolio companies. Prior to joining Apollo, Ben helped build an Energy and Sustainability business at Insight Sourcing Group, focused on developing and implementing decarbonization strategies for clients across industries. Ben's experience includes work with companies in retail, grocery, telecom. manufacturing and industrials, among others.

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Novolex

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Heritage

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