

EMK Capital

Enterprise • Management • Knowledge

Responsible Investing Policy

Sustainability in Private Equity Using the
Environmental, Social & Governance Framework

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EMK's RI Policy is Based on the UN Global Compact and the UN Principles for Responsible Investing

1 The United Nations Global Compact

- The United Nations Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption
- The definitions in the EMK Responsible Investing Policy are aligned with the definitions stated by the United Nations Global Compact



2 The Principles of Responsible Investment

- EMK is a full signatory and adherent to the UN Principles of Responsible Investment (UN PRI)
- The UN PRI is an independent proponent of responsible investment, and has set out six core principles that signatories aspire to adhere to and report on annually



The UN Global Compact's Ten Principles

The UN Global Compact's ten principles in the areas of human rights, labour, the environment and anti-corruption enjoy universal consensus and are derived from:

- ✔ The Universal Declaration of Human Rights.
- ✔ The International Labour Organization's Declaration on Fundamental Principles and Rights at Work.
- ✔ The Rio Declaration on Environment and Development.
- ✔ The United Nations Convention Against Corruption.

The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption:

Human Rights

Principle 1: businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: businesses should work against corruption in all its forms, including extortion and bribery.

The UN Global Compact's 17 Goals

On 1 January 2016, the 17 Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development — adopted by world leaders in September 2015 at an historic UN Summit — officially came into force.

Over the next fifteen years, with these new Goals that universally apply to all, countries will mobilize efforts to end all forms of poverty, fight inequalities and tackle climate change, while ensuring that no one is left behind.

At EMK we map each existing investment to each goal and monitor the progress over our ownership period towards achieving the 2030 goals.



The UN PRI's Six Principles of Responsible Investment

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The following represents the signatory's commitment:

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

Principle 1

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

Principle 2

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

Principle 3

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

Principle 4

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

Principle 5

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

Principle 6

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

Introduction to EMK's Responsible Investing Policy

Background

EMK's mission is to generate superior returns for its investors by investing in and building highly regarded companies. This includes ensuring high environmental, social and governance (ESG) standards, which can help capture opportunity and avoid risks that occur at the intersection of sustainability and commerciality. As a commitment to the investors and the communities in which EMK and its portfolio companies operate, EMK has adopted this Responsible Investing policy.

Purpose

The purpose of the policy is to outline EMK's approach to responsible investing, including how EMK works to understand and manage ESG issues in its investment process and ownership role.

This commitment goes beyond compliance with rules and regulations and is intended to ensure that EMK contributes to the creation of companies that promote a sustainable future for business, society and the environment.

Scope

The policy applies both to the screening and investment process as well as the ownership phase. The policy shall be managed by the EMK investment teams as investment managers, including through board representation in EMK's portfolio companies. The approach also goes beyond the portfolio companies; potential buyers and other business partners should, to the extent possible, be considered from an ESG perspective.

Implementation of the Policy

Investment Process

EMK's ambition is to have each investment opportunity assessed and evaluated to ensure that ESG risks and opportunities are identified and managed in the screening as well as the investment process. This work will be done by the EMK deal teams with outside assistance as needed.

Ownership Practices

The EMK team's governance role is an essential component in the portfolio companies' value creation. The board of directors of each portfolio company is responsible for defining and implementing strategies and policies, also in respect of ESG matters. Its role thus includes establishing sound environmental and social standards that correspond with the minimum ESG requirements set by EMK in line with its fiduciary obligations. The EMK team supports the board of directors by providing guidance and tools. While there may be a conflict between short term profitability and compliance with this policy, EMK believes there is a strong correlation between long-term profitability and socially and environmentally responsible business practices.

EMK has established the following guidance, recommendations and restrictions related to ESG matters for portfolio companies:

- ✔ ESG should be part of each company's value creation agenda, including projects and targets;
- ✔ Each company should have/develop an ESG related policy, serving the company's specific needs and fulfilling at least EMK's minimum requirements. EMK encourages the portfolio companies to promote adherence to the UN Global Compact throughout their supply chain;
- ✔ EMK encourages each portfolio company to strive for long-term continuous improvement, aiming beyond compliance, with a vision to reach industry best practice;
- ✔ EMK requires the board of every portfolio company to discuss the company's compliance with its ESG related policy. This should be done at least annually, at one of the company's board meetings. EMK and portfolio company teams will work together to insure that EMK's investors are updated on these matters at least annually;
- ✔ If (potential) ESG related risks are identified in the investment process or later, the portfolio company will address such risks and thereafter strive for continuous improvement;
- ✔ EMK's portfolio companies shall comply with applicable local and international laws and regulations, and, where appropriate, give consideration to relevant international principles; and
- ✔ EMK promotes transparency on ESG matters and as ESG management within the portfolio company evolves, EMK encourages external reporting on progress.

EMK's Minimum Requirements

EMK's minimum ESG requirements for portfolio companies include the following elements:

Basic Measures

Each portfolio company will address the following issues:

- ✔ Company wide waste reduction and recycling programs that work to minimise waste going to landfill and promote reuse;
- ✔ Use green energy sources where possible and develop an energy conservation agenda with clear targets;
- ✔ Sound labour practices and business ethics in regards to employees;
- ✔ Encouragement of charitable giving by employees and other stakeholders as appropriate;
- ✔ Adding a section on the company website that mentions the company's ESG policies and initiatives; and
- ✔ Create and implement a full set of ESG policies in line with the UN Global Compact and the PRI.

Analysis and Planning

As part of the acquisition due diligence process the EMK team shall consider and evaluate ESG risks/opportunities and shortly after acquisition each portfolio company shall:

- ✔ Carry out a scan and rank all ESG issues to try and understand all ESG related risks and opportunities:
 - First those that in some way impact the licence to operate of the firm;
 - Secondly those that impact the reputation of the firm or EMK; and
 - Thirdly the remainder then sorted in terms of lowest cost for the highest return.
- ✔ Create an action plan with at least two core initiatives and associated KPIs to measure progress.
- ✔ Create a reporting framework with regular reports to the board, which will (at least annually) be reported to EMK's investors (and potentially externally if appropriate).

Reporting

EMK will report on its ESG performance to its investors at least once per year through an annual review and on an ad-hoc basis (as needed) through its quarterly investor reporting. Performance will be tracked through qualitative targets and/or measureable KPIs, with a focus on measuring the KPIs that are most important and relevant to each portfolio company.

The ESG reports/updates are to be structured as outlined below:

1. Annual Review

EMK will provide a comprehensive annual summary of the ESG performance by portfolio company with a focus on the following aspects:

- ✔ Compliance status vis-à-vis minimum requirements;
- ✔ Review of progress in prior period against each ESG priority/target; and
- ✔ Key priorities and targets going forward.

2. Quarterly Investor Reporting

EMK will provide updates on specific ESG developments as needed through its quarterly investor reporting.

Content

Introduction and scope of the project

- Introduction
- Policy Implementation
- EMK's Minimum Requirements
- Reporting

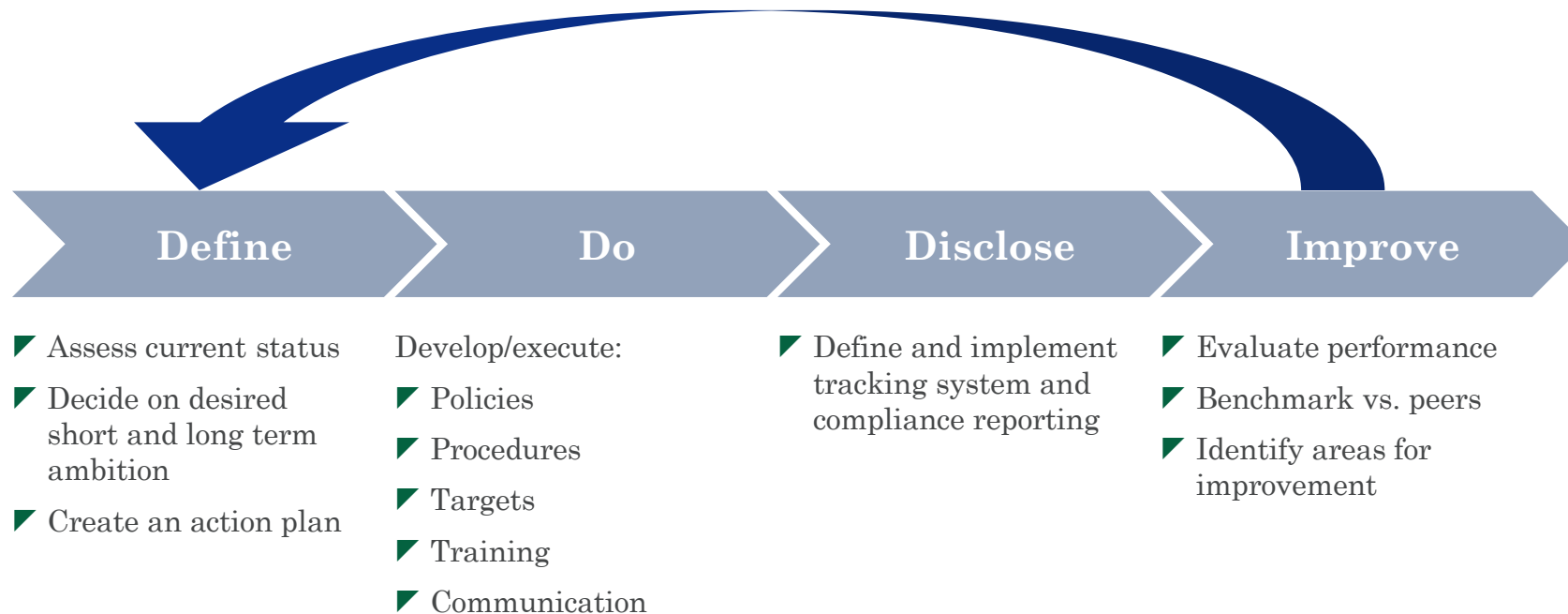
Guidance and inspiration for EMK portfolio companies

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Portfolio Company – Project and Implementation Guidance

The following slides are proposed tools to be used in the discussion with (potential) portfolio companies. They represent suggestions for how to break ESG into manageable workstreams that can be actioned. For the avoidance of doubt, they do not represent the definitive method to introduce/address this topic – rather they represent a tool with which to start the discussion with a management team.

ESG – Project Overview and Continuous Improvement



ESG – Key Activities in the Project I (II)

High level actions:

Define



- Appoint ESG project leader (and team), decide if you need external support.
- Assess if there is a gap vs. EMK's minimum requirements:
 - Outside in assessment available from EMK; and
 - Review corporate documents, policies, processes and activities.
- Assess company's current definition and scope of ESG/CSR, and decide on desired short and long term ambition.
- Develop an action plan including, actions/milestones, objectives, timeline.

Do



- Engage key stakeholders in the action plan. Delegate actions to ensure that right competences are involved and to achieve alignment and commitment.
- **Policies:** Develop missing policies and/or upgrade current version(s).
- **Procedures:** Develop working procedures and instructions to ensure that the policies will be practically implemented. Establish mechanisms for addressing problematic behavior.
- **Targets:** Set measurable targets/milestones and identify performance measures.
- **Training:** Design and conduct training.
- **Communication:** Create an internal (and external) communication plan. Ensure that the policies and procedures are available to the company's staff.

ESG – Key Activities in the Project II (II)

High level actions:

Disclose



- Define and implement tracking system and compliance reporting throughout the organisation.
- Include tracking of major initiatives (if any) in reporting.
- Review progress and status annually in a board meeting.
- Report major compliance issues to the board immediately or in the monthly report.

Improve



12-24 months after implementation:

- Evaluate performance;
- Benchmark vs. peers; and
- Identify opportunities for improvement.

ESG Policy – Policy Template

This template is designed to facilitate the development of an ESG, CSR, Sustainability Policy or similar. It includes EMK's minimum requirements for portfolio companies and gives you examples of general statements and structure.

No ESG related policies in place (or they are outdated)?

A good start is to use this template and adjust it to the company's specific situation, based on industry, legal requirements, company status, internal capacity, exit roadmap, etc. – see input and inspiration on the following pages in this presentation.

ESG related policies in place?

Please use this document for inspiration to see if you would like to complement and improve your current policies and procedures.

[COMPANY] ENVIRONMENTAL, SOCIAL, GOVERNANCE (ESG) POLICY

Introduction

Corporate Social Responsibility commitments

[COMPANY] regards sustainable development as a fundamental aspect of sound business management. Environmental, Social, Governance (ESG) considerations form an integral component of our business activities and we recognise that by focusing on sustainability we can capture opportunity and avoid risks that occur at the intersection of sustainability and commerciality.

Applicability

This policy covers all operations of [COMPANY] [and its subsidiaries].

Strategies and objectives

Include comment on what you plan to do to help support your ESG vision and achieve your commitments. These should be qualitative statements or objectives and should focus on specific impacts relative to your business sector and key operational locations.

Environment

- []

Social

- []

Governance

- []

ESG management and reporting

This policy is sponsored by [insert sponsor's name] and is consistent with the [COMPANY] commitment to sustainable development. Policy implementation will be overseen by [insert name and job title].

ESG related issues are managed and reported XXX

Environmental Requirements

Targeting sound environmental practices, the following issues shall be promoted:

- Compliance with relevant local and international environmental conventions and legislation;
- Energy efficiency and sound resource management and pollution prevention;
- Reducing greenhouse gas emissions; and
- Monitoring of other material environmental issues.

PLEASE ADD ADDITIONAL ISSUES / STATEMENTS AS APPROPRIATE
(INSPIRATION IS AVAILABLE ON THE NEXT 2 PAGES)

Customise the Environmental Issues to your Company I (II)

Targeting sound environmental practices, the following issues shall be promoted:

Innovation & Design	<ul style="list-style-type: none">Integration of environmental aspects into the R&D and design process.Life Cycle Assessment (LCA).
Manufacturing/ Sourcing	<ul style="list-style-type: none">Reduction and mitigation of emissions to air, water and ground.Responsible sourcing of raw material.Water resources management (water footprint).Mitigation of water related risks.Clean internal combustion and lean disposal options.Reduction of paper use.Reduction/elimination of hazardous chemicals/substances.
Logistics	<ul style="list-style-type: none">Sustainable packaging management.Reduction of greenhouse gas emissions related to transportation.Reduction of CO2 from logistics.Pollution prevention and abatement.
Waste & Waste Management	<ul style="list-style-type: none">Waste management.E-waste management.Management of hazardous waste and compounds.

Customise the Environmental Issues to your Company II (II)

Targeting sound environmental practices, the following issues shall be promoted:

Food & Drugs, Biochemical & Chemicals	<ul style="list-style-type: none">✔ Policy for Genetically Modified Organisms (GMOs).✔ Certifications (Ecolabel, USDA Organic certification, KRAV, etc.).
Energy, Utilities, Oil, Gas, Mining, Pharmaceuticals	<ul style="list-style-type: none">✔ Mitigation of carbon risks.✔ Low-carbon technologies.✔ Refining/cleaner fuels development.✔ Biodiversity/Ecosystem management.✔ Exploration of land use.✔ Management of hazardous waste and compounds.✔ Mineral waste management.✔ Pollution prevention and abatement.
Forest, Pulp, Paper related companies	<ul style="list-style-type: none">✔ Eco efficiency.✔ Certification (FSC, SFI, PEFC, Svanen, etc.).✔ Sustainable forest management.✔ Sustainable paper & pulp sourcing.

Social & Human Rights Requirements

With reference to sound labour and human rights practices and business ethics, the following measures shall be encouraged:

- Safe and healthy working conditions;
- Awareness and compliance with international conventions on human rights;
- Avoidance of discrimination or harassment;
- Respecting the employee's right to freedom of association and collective bargaining in accordance with local labour laws;
- EMK does not accept child labour or possible use of child labour. All measures to prevent child labour shall be implemented taking into account the best interest of the child; and
- Positive community relations and involvement.

PLEASE ADD ADDITIONAL ISSUES / STATEMENTS AS APPROPRIATE
(INSPIRATION IS AVAILABLE ON THE NEXT PAGE)

Customise Social & Human Rights Issues to your Company

Basic rights

- Forced, bonded and/or prison labour not accepted.
- Fair and equal treatment of migrant workers.
- Respect rights and traditional practices of indigenous people .
- Equal pay for equal work.
- Special compulsory health test are not allowed, such as genetic mapping, HIV and pregnancy unless the work can pose serious health risks for an employee who is pregnant or HIV positive (dismissal is not allowed as a result of voluntary tests).
- Employees' right to carry out demonstration without risking punishment.
- Entitlement to a written labour contract in accordance with the law.

Reasonable wages

- Wages at or above the legal minimum level or prevailing industry standard (whichever is greater) and should be sufficient to cover basic needs for the employee and their family and provide some additional income. The statutory minimum wage is the lowest acceptable but not the recommended wage level.
- Wages paid regularly, directly to the employee at the agreed time and in full.
- Overtime compensation according to law.
- Entitlement to detailed pay slip.
- Making unfair or illegal deduction from wage as disciplinary measure not permitted.

Reasonable working hours

- Ordinary working hours exceeding legal limits not accepted.
- Overtime exceeding legal restriction not accepted.
- Employees' rights to having one whole day off a week.
- Employees' rights to statutory holiday and legally stipulated leaves, including sick leave and maternity leave.

Health and safety

- Regular and documented health and safety training.
- Fire safety.
- Protection from exposure to chemical, biological and physical hazards (special consideration for pregnant women).
- Employees provided with free access to clean drinking water and hygienic toilets.
- Work premises well lit, adequately ventilated, tolerable temperature.
- Relationship with stakeholders and society.
- Transparency within the bounds of commercial confidentiality.
- Constructive dialogue with all stakeholders.

Governance Requirements

From an ESG perspective, the following aspects of corporate governance shall be promoted:

- High standards of business ethics;
- Avoidance of corruption and compliance with applicable anti-bribery, anti-fraud and anti-money laundering, tax evasion laws and regulations; and
- Compliance with applicable anti-trust and competition laws.

PLEASE ADD ADDITIONAL ISSUES / STATEMENTS AS APPROPRIATE
(INSPIRATION IS AVAILABLE ON THE NEXT PAGE)

Customise Governance Issues to your Company

General

- ✔ Focus on stakeholder engagement.
- ✔ Focus on transparency.

Financial Services industry

- ✔ Regular training measures and education for staff on the applicable anti-money laundering, anti-fraud, anti-bribery and tax evasion laws and regulations.
- ✔ Monitoring of anti-money laundering, anti-fraud, anti-bribery and tax evasion initiatives.
- ✔ Insider trading prevention.
- ✔ Financing of terrorism reported to law enforcement authorities as required by law.
- ✔ Incorporation of ESG issues into investment analysis and decision-making processes.
- ✔ Incorporation of ESG issues into ownership policies and practices.
- ✔ Providing means for employees and others to report legitimate concerns and grievances in a manner that ensures proper review and action without retaliation.

Biotechnology

- ✔ Bioethics standards.