Exponent

Exponent Private Equity LLP

Policy on Responsible Investment ('RI')

December 2019

Exponent

Introduction

Exponent is committed to developing, enhancing and promoting Responsible Investment ("RI") principles across all aspects of its business and has had an active RI policy since 2010. This policy has been reviewed and approved by Exponent's Partners and all members of staff must be aware of its content and follow the processes and procedures contained within this document.

Richard Lenane, as Managing Partner, is ultimately responsible for all governance matters, including this policy; however, he has delegated ESG oversight to the Firm's COO, Craig Vickery, and day-to-day management of the policy to the Operations Manager, Lizzie Stazicker. It is the responsibility of Mr Vickery and, in particular, Mrs Stazicker to ensure that the Firm adheres to this policy and the PRI principles, that an appropriate record of ESG compliance is maintained on the Firm's files and, where necessary and appropriate, ESG matters are reported to Exponent's investors and other stakeholders on a frequent basis.

Definitions and Principles of Responsible Investment ("PRI")

Exponent considers Responsible Investment to be an approach to both investing in and owning businesses that incorporates Environmental, Social and Governance ("ESG") factors. It is the Partners' view that managing RI proactively and addressing ESG issues and opportunities can have a positive impact on the performance of the investments in our portfolio. This policy therefore summarises the Firm's approach to RI and details the processes and procedures that are employed by the Firm to develop, promote and manage RI across all aspects of our business.

Furthermore, the Firm is committed to be a signatory of the PRI and, as a result, must comply with the PRI's 6 principles ("the Principles"), which are listed below:

1. **Principle 1**: we will incorporate ESG issues into investment analysis and decision-making processes.

2. **Principle 2**: we will be active owners and incorporate ESG issues into our ownership policies and practices.

3. **Principle 3**: we will seek appropriate disclosure on ESG issues by the entities in which we invest.

4. **Principle 4**: we will promote acceptance and implementation of the Principles within the investment industry.

5. **Principle 5**: we will work together to enhance our effectiveness in implementing the Principles.

6. **Principle 6**: we will each report on our activities and progress towards implementing the Principles.

General Approach to Responsible Investment

Since its formation in 2004, Exponent has developed a strong and well-defined culture that promotes a clear personal responsibility on each member of staff to set the standards against which the Firm should be judged, including those related to Responsible Investment. In all aspects of business and personal dealings, members of staff should never say or do anything that they are not prepared to explain and defend to any external audience, however constituted. In terms of RI, the Firm seeks to approach this in three ways, as follows:

1. **Exclusions**: The Limited Partnership Agreements ("LPAs") and Side Letters for each Fund have the effect of restricting investments in certain sectors by providing investors excuse rights with respect to those sectors and/or requiring the relevant Funds' Advisory Committee to consent to an investment in such sectors. Examples would include the armaments industry, pornography, animal testing and businesses employing forced labour. A fuller (but not exhaustive) schedule can be found below. Most importantly, Exponent needs to bring judgement to bear on potential investments which are not in sectors that are formally prohibited, but which in Exponent's view, carry unacceptable reputational risk to the Firm and its investors.

   Exponent prohibits investments in the following sectors, where businesses are principally engaged in the following activities:

   - The development, production or sale of any biological, chemical or nuclear weapons, cluster bombs or anti-personnel mines;
   - The carrying out of illegal logging;
   - The manufacturing, sale or marketing of weapons, artillery and ammunition to be used in the act of war or military conflict;
   - Incitement of violence or racial hatred;
   - Pornography and vice;
   - Animal testing, live exports or the fur trade;
   - Activities which constitute a material violation of locally applicable environmental laws or regulations; or
   - Activities employing forced or child labour.

   Note that careful consideration also needs to be given to businesses principally engaged in:

   - Gambling;
   - Tobacco; or
   - Nuclear power generation or the production, handling or reprocessing of nuclear fuels.

2. **Themes**: The Firm's investment approach is bottom up, not top down and accordingly it is not in the investors' interests for the Firm to limit its activities to particular fields. Exponent does however bring the same investment criteria to bear on each of the investments that it considers ensuring a common standard is applied across the portfolio as a whole.

3. **Integration**: The challenge is to think broadly about how ESG factors (issues and opportunities) apply to each of the situations that Exponent considers. An aide memoire of the factors that the Firm may consider is set out below:

Environmental
- Air and water pollution
- Biodiversity
- Climate change
- Deforestation
- Ecosystem services
- Energy efficiency
- Hazardous materials
- Land degradation
- Resource depletion
- Waste management
- Water scarcity

Social
- Customer satisfaction
- Data protection and privacy
- Diversity and equal opportunities
- Employee attraction and retention
- Employee engagement
- Government and community relations
- Human capital management
- Human rights
- Labour standards
- Labour-management relations
- Marketing communications
- Product mis-selling
- Product safety and liability
- Supply chain management

Governance
- Accounting standards
- Anti-competitive behavior
- Audit committee structure
- Board composition
- Bribery and corruption
- Business ethics
- Compliance
- Executive remuneration
- Lobbying
- Political contributions
- Risk management
- Separation of Chairman and CEO
- Stakeholder dialogue
- Succession planning
- Whistleblower schemes

Responsible Investment Processes and Procedures

Exponent has developed a robust set of ESG processes and procedures that are designed to ensure the ongoing development and promotion of Responsible Investment, in compliance with the PRI Principles. These processes and procedures, which are reviewed on an annual basis, are the minimum standard required to be followed by all members of staff. An overview of Exponent's policy on Responsible Investment is given to all new members of staff upon joining the Firm.

1. **Investment Analysis and Decision-Making**:

- It is the responsibility of each deal team to ensure that ESG issues and opportunities are considered at the appropriate time during the investment analysis and decision-making phase and brought to the attention of the Investment Committee ("IC"). The point at which ESG matters are discussed with the IC will require some judgement on the part of the deal team: material issues should be raised early in the process but in other situations, where it is deemed that there are no material ESG issues, it is conceivable that such issues are raised toward the end of investment process.

- Accordingly, a section headed Responsible Investment must be included in at least one Investment Paper. For the avoidance of doubt, where ESG matters are deemed to be material it is expected that a section on RI will be included in multiple Investment Papers.

- The section on RI should be clear and contain sufficient detail to enable the IC to conclude on the relevance of the ESG issue(s) to the business under consideration and its significance to the investment case. The section should also detail any planned due diligence to be conducted and the results of any due diligence completed.

- Where material ESG risks are identified the deal team should engage external consultants to undertake more detailed and focussed due diligence before a decision to invest is taken by the IC.

2. **Ownership policies and practices**:

Exponent is committed to developing and promoting strong ESG principles across all portfolio investments. It is the Firm's ambition to make credible and tangible ESG improvements at each investment during the course of the Funds' ownership. While it is often difficult to measure progress accurately and set quantitative ESG targets, the Firm's aim is to ensure that all businesses embrace ESG and make it a core tenet of their culture that will survive the Funds' ownership period. To enable this to happen, Exponent has implemented the following post-acquisition ESG focussed processes and procedures:

- A member of the deal team must be appointed as responsible for ESG. It is their responsibility to ensure compliance with all processes and procedures set out below.

- A senior member of the executive team at the portfolio company must be appointed as responsible for ESG oversight within the business.

- Unless a consultant was engaged to consider ESG risks during the investment analysis and decision-making phase, the company must engage, as part of its "100-day" plan, an independent ESG review. This review may form the basis of and assist with the company's ESG program during the period of the Funds' ownership.

- The independent review must be repeated on a three-year basis as a means of tracking progress against the identified ESG issues and opportunities.

- ESG must be included on the board meeting agenda on at least a quarterly basis.

- Each portfolio company must track a set of ESG KPIs that must be reported to the company board on a quarterly basis. The ESG KPIs must include a set of standard KPIs that apply to all companies in the portfolio and a set of 4 to 5 bespoke KPIs that are specific to the business.

3. **Disclosure on ESG issues by portfolio companies**:

Given the nature of the investments made by Exponent (e.g. control positions), the Firm ordinarily has ongoing access to management and management information. Accordingly, the deal team are likely to be informed of any ESG issues at an early stage.

Nevertheless, the following ESG reporting procedures should be followed by each business:

- The company's ESG KPIs must be reported to Exponent on a quarterly basis.

- The company CEO/CFO must report to Exponent's Partners on ESG as part of the annual budget review process.

- An ESG issue that is considered to be material (e.g. it carries financial or reputational risk that could impact on the company, Exponent or our investors) must be reported to the deal team immediately. It is then the responsibility of the deal team to ensure that such matters are reported to the appropriate member of the Exponent team. Note that certain matters may be required to be reported to the Firm's Compliance Officer, Craig Vickery, in the first instance.

4. **<u>Disclosure on ESG issues to Investors</u>**:

Exponent's policy is to be transparent about Fund and investment matters, including those related to RI and ESG. The Firm is therefore committed to the following reporting to investors:

- ESG incidents must be reported to all investors unless, in exceptional cases, it is deemed to be commercially sensitive to do so. Depending on the severity of the incident, it may be appropriate, in some circumstances, to disclose the issue immediately by way of an exceptional communication to the relevant Advisory Committee or all investors. In other less material cases, Exponent will provide updates via the regular quarterly reporting, in accordance with the Fund LPAs.

- Exponent will provide all investors with an annual ESG report that summarises the ESG activity of the Firm and the portfolio investments over the prior 12 month period and the ESG plans, if any, for the next year.

- ESG is a standing agenda item for all Advisory Committee meetings.