

# Montagu's Policy on Responsible Investment

December 2023 (Updated)

## 1. Purpose and Values

Montagu Private Equity LLP<sup>1</sup> ("Montagu" or "we") acts as investment manager / investment advisor to a range of investment funds (the "Funds") that invest in underlying portfolio of companies (companies) and aims to manage those Funds to deliver superior risk-adjusted returns to investors.

Investing Responsibly is at the core of Montagu's investment philosophy, purpose, and values. We recognise the role that Environmental, Social and Governance ('ESG') issues can have on the success of our investments, both positive and negative. We also recognise that private equity firms such as Montagu are in a unique position to support lasting change in the world. We believe that this is a privilege, an obligation, and an important part of aiming to deliver superior risk-adjusted returns to investors.

Montagu's culture has developed over 50 years of history and over 400 transactions underpinned by a set of enduring values:

Honesty	Humility	Excellence	Courage
How we behave should stand the test of changing times.	Assume we may be wrong rather than always right.	Preserve and build on our combined experiences.	Have conviction and confidence in our actions.
<p>It takes courage to share what is relevant, however difficult.</p> <p>Clear, bold and understandable decision making.</p>	<p>The firm is bigger than any of us; we are a collective endeavour, we change together for the better.</p> <p>Everything can always be improved.</p>	<p>Be prepared to do what matters to meet the challenges of our time.</p> <p>We are meritocracy attracting developing and retaining talent.</p>	<p>There will always be imperfect information and perceived risk.</p> <p>We can be bold, backed by our shared learnings and shared responsibility.</p>
A responsible owner.	A learning organisation.	A dynamic meritocracy.	A decisive partnership.

This has led Montagu to an investment approach driven by **Investing in Businesses that make the world work and driving their growth.**

Montagu's focus in healthcare, financial sector services, critical data, digital infrastructure and education has led us to invest in companies that require rigorous good governance and compliance practices, can manage

<sup>1</sup> MPE Manager Lux S.à r.l. is the appointed Alternative Investment Fund Manager of the Montagu initiated Alternative Investment Funds (the 'AIFs') based in Luxembourg. MPE Manager Lux S.à r.l. is CSSF regulated (Reg. No. A00002640) and has delegated the portfolio management of the AIFs to Montagu Private Equity LLP.

environmental and social risk, and that present many opportunities for driving better fund returns from paying close attention to ESG characteristics and external commitments, risk and opportunities.

Our Responsible Investment Policy as set out in this document applies to all the funds managed by Montagu. The commitments are completed for all control companies. We have developed this policy as guidance on how we deliver better returns for our investors and in some cases better outcomes for the environment and other stakeholders (such as employees and customers) through our approach to managing environmental, social and governance topics.

## 2. Our Responsible Investing Principles

Montagu is a signatory to and supports the UN Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)). In addition, we are committed to five principles that underpin our own approach at Montagu:

- **Accountability for ESG alongside traditional financial risk and returns**
- **Active ownership driving tangible change**
- **Focus on the material issues for our investments**
- **Transparency and reporting to stakeholders**
- **Working together and pride in doing good**

**Accountability for ESG alongside traditional financial risk and returns** – ESG has been integrated into our investment approach for many years, but we continue to make improvements. Responsibility and accountability for ESG at Montagu sit with the same people as other aspects of financial returns, so it is not side-lined. We generally expect portfolio CEOs and the company board to take ultimate accountability for ESG in our portfolio companies, with specific members of the senior leadership team accountable for material issues, as we would expect for any other strategic concern. We look to support decision-making with data, training, and specialist advice just as we do with material financial issues.

**Active ownership driving tangible change** – We seek to engage with all our portfolio companies on ESG topics at the board level as well as within our value creation plan (we call this the ‘Full Potential Plan’). This engagement generally takes four forms:

1. Expecting and upholding a tone of responsible stewardship amongst members of the board and in how the businesses we invest in are run.
2. Expecting a set of ‘Foundational Principles’ for good governance and responsible business to be put in place at all companies we invest in (including, for example, a Code of Conduct and a Sustainability Policy).
3. Engaging companies to identify and manage their material ESG risks and opportunities.
4. Asking company boards to adopt and drive concrete action plans for change as part of the Full Potential Plan, backed by measurable targets, where appropriate.

**Focus on the material issues for our investments** – During due diligence on new investments and in engaging with the portfolio, we aim to focus on the most material risks, opportunities and external stakeholder issues for each asset. Our goal is to drive real value creation, not empty gestures and marketing.

**Transparency and reporting to stakeholders** – We seek appropriate disclosure on ESG risks and opportunities from the companies we invest in, both before and during investment. We report on our own activities and progress towards better management of ESG issues, both in our reporting to investors and publicly on our website.

**Working together and pride in doing good** – We create and nurture a culture of responsibility within all of Montagu and our portfolio. We promote acceptance and implementation of best practice amongst our portfolio, other investors, and the wider business community. Amongst our portfolio, we promote best practice through celebrating and sharing examples of good best practice and relevant expertise between our portfolio companies.

In promoting best practice amongst the broader business community, Montagu is proud to be a signatory to the **UN Principles of Responsible Investment** and the **UN Global Compact**.

We are also members of several initiatives dedicated to specific ESG topics:

- **ESG Data Convergence Initiative** – An initiative to standardise reporting of ESG benchmarks for private markets.
- **Initiative Climat International** – A global collective commitment to understand and reduce carbon emissions of private equity-backed companies.
- Supporter of the **Taskforce for Climate Related Financial Disclosures** – An initiative to improve reporting of climate-related financial information.
- **ILPA Diversity in Action** – An initiative to bring together LPs and GPs committing to advancing diversity, equity and inclusion in the private equity industry.
- **Level 20** – Promoting representation of women amongst leadership teams in private equity.
- **Out Investors** – A network for LGBT+ investment professionals.
- **Investing in Ethnicity** – A network of employers who want to progress the ethnicity agenda within their organisation and beyond.

### 3. Montagu's Responsible Investing Framework and Topic Areas

We continue to evolve a proprietary set of policies and procedures for the management of ESG in the context of Montagu's investment strategy. Across all our investments and throughout the investment lifecycle, we categorise risks and opportunities that we consider most material to Montagu's investments using the following framework:

#### Montagu's ESG Topic Framework

	Topic Areas	Key Topics
Environment Social	Environmental Matters	<ul style="list-style-type: none"> <li>▪ GHG emissions</li> <li>▪ Physical and transitional climate risks</li> <li>▪ Energy management</li> <li>▪ Waste management</li> <li>▪ Water management</li> <li>▪ Ecological impact</li> </ul>
	People-related Matters	<ul style="list-style-type: none"> <li>▪ Occupational health &amp; safety</li> <li>▪ Diversity and inclusion</li> </ul>

Governance		<ul style="list-style-type: none"> <li>▪ Employment practices (including employee relations, engagement, learning and development, and wellbeing)</li> </ul>
	Value Chain	<ul style="list-style-type: none"> <li>▪ Human rights</li> <li>▪ Animal welfare</li> <li>▪ Supply chain management</li> <li>▪ Responsible sales and marketing</li> <li>▪ Product &amp; service quality, safety and access</li> <li>▪ Product design and lifecycle</li> <li>▪ Raw material sourcing and efficiency</li> </ul>
	Governance & Business Practices	<ul style="list-style-type: none"> <li>▪ Corporate culture and leadership</li> <li>▪ Risk management</li> <li>▪ Business ethics</li> <li>▪ Research practices</li> <li>▪ Cybersecurity and data protection</li> <li>▪ Business continuity &amp; disaster recovery</li> <li>▪ Community relations and social licence to operate</li> </ul>
	Law and Regulation	<ul style="list-style-type: none"> <li>▪ Regulation, tax and legal compliance</li> <li>▪ Anti-Bribery and -corruption</li> <li>▪ Anti-competitive behaviour</li> <li>▪ Sanctions and export control</li> <li>▪ Intellectual property rights</li> </ul>

## 4. Climate Action Policy

Acknowledging the importance and urgency of addressing the global climate crisis, Montagu has developed this [Climate Action Policy](#) outlining our commitment to reducing emissions and supporting meaningful action amongst the companies we are invested in.

Montagu believes that climate action is not only a responsibility for any business, but that failure to address the exposure to climate change can add significant risk to any investment. There can also be opportunities for positive returns from reduction in carbon emissions and from investment in activities that will benefit from the transition to a carbon neutral economy.

As part of making our investment and portfolio management decisions we consider:

- the physical risks of climate change, such as from sea level rise
- transitional climate risks and opportunities in multiple scenarios, such as those from policy response or transition to electric from fossil fuels

- impact on climate from the greenhouse gas emissions, both direct and indirect, of the companies we invest in.

In line with the Paris Agreement, Montagu is committed to a plan for carbon emissions reductions consistent with limiting global warming to well-below two degrees Celsius. In 2022, Montagu's emissions reduction targets for its operations and investments received validation by the Science Based Targets initiative.

We engage with all our portfolio companies to assess their climate risk and engage on material matters relating to climate and emissions. Each portfolio company is asked annually to report metrics supporting their greenhouse gas emissions and, where available, reduction plans. We publish the results annually in our Responsibility Report.

We work to mature our climate response and where reasonably practicable will continue to develop metrics to inform decisions and drive progress in this area.

## **5. Diversity and Inclusion Policy**

Montagu respects and values the different perspectives and backgrounds of our people and customers and employees at the companies we invest in.

Montagu's **Diversity and Inclusion Policy** sets out our ambition to maintain an inclusive culture for people from all backgrounds, underpinning Montagu's recruitment practices, the development and retention of employees and the way we engage with companies on board appointments.

We monitor and report diversity and inclusion metrics across the portfolio through our annual ESG survey and provide portfolio companies with support and access to resources to continuously improve their internal diversity and inclusion programmes.

## **6. Integration of Responsibility into Montagu's Investment Activities**

Investing Responsibly is deeply embedded in the Montagu culture and role of the investment team at every stage of the investment lifecycle, from origination of new investment opportunities through to eventual exit from an investment. We therefore train Montagu board and investment teams in ESG (including climate) regulation and management to ensure that they are aware of their responsibilities and understand how to deliver against them. Montagu's ESG team provides

support and insights where necessary.

### **Pre-Investment Screening and Exclusion List**

Montagu screens potential investment opportunities against the firm's exclusion list and for other topics that give rise to unacceptable risk.

### **Due diligence and the investment decision**

Investment teams are required to identify material ESG risks and opportunities by filling out the 'Montagu ESG Grid' early on for every deal, setting out how the relevant risks will be addressed during due diligence. We also identify areas for supporting positive outcomes and mitigating potential negative risks on broader stakeholders during due diligence, where in line with financial objectives.

### **Post-Investment: Ownership Phase**

After an investment decision is made, Montagu's process for engaging with the company invested in consists of an onboarding period, an ESG Diagnostic, agreeing an ESG Strategy and Action Plan with company management. We then monitor progress against this plan through to exit from the investment, usually several years later.

### **Onboarding and ESG Diagnostic**

As soon as possible following the investment, we conduct an ESG Diagnostic on the company. Specialist advisors should be engaged where appropriate. The ESG Diagnostic will:

- Build on due diligence findings identified pre-deal.
- Identify areas the company falls short of Montagu's ['Foundations for Good Governance'](#).
- Focus on the material topics specific to the business; and
- Review ESG performance against best practice and peers.

Results of the diagnostic are shared and discussed with company management.

### **Strategy and ESG Action Plan**

Working with management, a strategy is developed to address the material risks and opportunities identified through our investment due diligence and the ESG Diagnostic. The strategy also aims to maximise positive outcomes and minimise negative risks on the environment and society.

As part of the wider value creation programme ('Full Potential Plan'), we agree a company-specific 'ESG Action Plan' with company management, backed with specific targets and metrics where possible.

### Risk Management

Companies are required to create and maintain a risk register, which must be reviewed at least annually at Board level. The Montagu ESG team review company registers against the ESG Topic Framework at least annually and provide feedback and support to both the company and the investment team.

In addition, any material ESG risks and issues must be reported to the ESG team and integrated into Montagu risk management processes. This ensures appropriate governance and oversight of ESG matters and enables consideration of material sustainability factors within valuation procedures.

### Monitoring

Each portfolio company completes an annual questionnaire including questions and performance indicators across five areas: Environment (including climate), Social, Governance, Cyber, and Policies Implementation, including Foundation for Good Governance status. We also collect specific updates on the action plans adopted by the companies, and any ESG reports produced. We provide feedback and seek to address any issues that come to our attention.

Results of these surveys and progress on ESG characteristics status, risks and issues are reported to investors through regular investor reporting on an annual basis.

### Exit

In preparation for realisation of an investment, usually by sale of our stake in a company to one or more buyers, Montagu will evaluate and satisfy market and investor expectations of the company, as well as articulate the value of the ESG changes implemented during ownership as part of sale materials.

## 7. Governance

At the **portfolio company** level, there are four key components to governance, which are part of the '[Foundations for Good Governance](#)' we look for in companies we invest in:

- **Governance:** Responsibility for ESG issues as well as the performance of the company sits with company boards. Boards should ensure governance structures are in place to ensure that the risks of the business and interests of



stakeholders are addressed. Overall responsibility resides with the company board, with delegated authority to subsidiary committees focused on specific issues. Each of these are expected to have a clear remit, an established frequency, an appropriate configuration of members and supporting documentation.

- **Policies:** Expected standards should be documented in a set of policies. We recommend that companies have in place a code of conduct and a hierarchy of more specific policies underneath this, covering various topic areas.
- **Processes:** Processes must be in place to ensure that the company understands, engages, and complies with its key policies. It is expected that the companies in which we invest have clear communication of policies, training, audit trails, investigation of root causes of any non-compliance and continuous learning from these. Boards and CEO should have processes in place for the identification of any issue which may be material to the reputation or value of the business or Montagu. They must put in place an escalation plan to bring such material items to the attention of appropriate senior team members. On receiving knowledge of a material issue, the CEO is expected to contact Montagu and the board as soon as possible, regardless of whether a plan to manage the issue is in place.
- **Culture:** Montagu expects the companies in which it invests to adopt positive and compliant cultures. Portfolio companies will be encouraged to be purpose-driven and values-led. It is expected that senior management will set the right “tone from the top”, be aware of material risks, proactively find opportunities to improve the interests of stakeholders and behave appropriately at all times.

At the **Montagu level**, Montagu’s board has ultimate responsibility for delivering against our ESG strategy. Sub-committees of the board consider the application of ESG factors to the various aspects of Montagu’s investment decision making and operations, with support and advice from the ESG team.

Any material portfolio ESG risks and incidents that arise are logged on a register and progress to resolve them noted. ESG risks and incidents and the contents of this register is monitored at each of five governance bodies with different roles:

- **LLP Board:** A summary of ESG characteristics and external commitments, risks and incidents material to Montagu or the funds are discussed at every

meeting of the LLP Board. Remuneration for Montagu's staff is based on an annual appraisal process considering a variety of factors, including ESG where appropriate. A significant proportion of overall remuneration for investment team members is linked to long-term fund performance. We consider this appropriate, as it aligns the interest of investment teams with our investors and incentivises consideration of longer-term risk reduction and value-creation ESG factors alongside financial performance.

- **Investment Committee:** Before making any investment, the ESG considerations relevant to that investment and the results of due diligence, as set out in the Montagu ESG Grid, are considered by the Investment Committee as part of their overall deliberations as to whether an investment is made. The committee also reviews the investment's ability to enable Montagu to meet company-wide and Fund-level commitments.
- **Portfolio Committee:** Every portfolio company is discussed individually at least two times a year at the portfolio committee. A discussion of ESG issues such as any incidents, risks, opportunities, and progress against the ESG Action Plan forms part of the standard agenda.
- **ESG Committee:** Responsible for ESG policy and governance as well as material portfolio-wide ESG risks and opportunities. The ESG Committee meets at least quarterly.
- **Legal, Risk and Compliance committee:** Oversight of material risks and incidents, including ESG risks, for Montagu or the portfolio companies in which its funds invest, meeting at least twice a year.

## 8. Approval

This policy has been approved by the Montagu ESG Committee and is to be reviewed and updated as required.