

Montagu’s Policy on Sustainable Investment

January 2021 (Updated)

1. Purpose and Values

Montagu Private Equity LLP (‘Montagu’) has as its primary business the provision of investment advice to the funds we manage to deliver superior risk-adjusted returns.

Investing Sustainably is at the core of Montagu’s investment philosophy, purpose, and values. We recognise the role that Environmental, Social and Governance (‘ESG’) issues 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 bring lasting change in the world. We believe that this is a privilege, an obligation, and an important part of delivering superior financial returns to our investors.

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

Honesty

How we behave should stand the test of changing times.

It takes courage to share what is relevant, however difficult.

Clear, bold and understandable decision making.

A responsible owner.

Humility

Assume we may be wrong rather than always right.

The firm is bigger than any of us; we are a collective endeavour, we change together for the better.

Everything can always be improved

A learning organisation.

Excellence

Preserve and build on our combined experiences.

Be prepared to do what matters to meet the challenges of our time.

We are meritocracy attracting developing and retaining talent.

A dynamic meritocracy.

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

Montagu’s focus in healthcare and tech-enablement of essential services has led us to invest in companies that require rigorous good governance and compliance practices, have low environmental and social risk, and that present many opportunities for driving better fund returns from paying close attention to environmental and social issues.

Our Sustainable Investment Policy as set out in this document applies to all the funds managed by Montagu. We have developed this policy as guidance on how we deliver better returns for our investors and better impacts for the environment and other stakeholders (such as employees and customers) through our approach to managing environmental, social and governance issues.

2. Our Sustainable Investing Principles

Montagu is a signatory to and supports the UN Principles for Responsible Investment (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 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 every material issue, as we would expect for any other strategic concern. In all cases, 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 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 takes four forms:

1. Expecting and upholding a tone of responsible stewardship and sustainability 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, sustainability 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

Focus on the material issues for our investments – During due diligence on new investments and in engaging with the portfolio, we focus on the most material risks, opportunities and external stakeholder impacts for each asset. Our goal is to drive real value creation and impact, 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 to our 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. We align our efforts to supporting the UN Sustainable Development Goals. 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**, the **UN Global Compact**, and is a supporter of the **UN Sustainable Development Goals**.

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

- **Initiative Climat International** – A global collective commitment to understand and reduce carbon emissions of private equity-backed companies
- **Level 20** – Promoting representation of women amongst leadership teams in private equity
- **Out Investors** – A network for LGBT+ investment professionals

3. Montagu's Sustainable Investing Framework and Topic Areas

We have developed a proprietary set of policies and procedures for the management of ESG, sustainability and impact in the context of Montagu's investment strategy. Across all our investments, we categorise risks and

opportunities most material to Montagu’s investments using the following framework:

Montagu’s Topic Framework

	Topic Areas	Key Topics
Environment	Environmental Matters	<ul style="list-style-type: none"> ▪ Greenhouse gas impact and climate risk (both transition and physical risks) ▪ Energy management ▪ Waste management ▪ Water management ▪ Environmental & ecological impact
	Social Responsibility	<ul style="list-style-type: none"> ▪ Human rights (including modern slavery) and animal welfare ▪ Community relations
	People-related Issues	<ul style="list-style-type: none"> ▪ Health & safety ▪ Diversity, equity, and inclusion ▪ Employee relations ▪ Employment practices
Social	Business Practices	<ul style="list-style-type: none"> ▪ Tone from the top ▪ Quality of management processes and information ▪ Governance & compliance infrastructure and systems (including whistleblowing procedures) ▪ Supply chain management ▪ Product & service quality, safety & access ▪ Responsible sales and marketing ▪ Insurance
	Regulation and Law	<ul style="list-style-type: none"> ▪ Regulation ▪ Sanctions / export control ▪ Competitive behaviour ▪ Bribery & corruption ▪ Tax ▪ General legal compliance (incl. fraud) ▪ Litigation
Governance	Data and Security	<ul style="list-style-type: none"> ▪ Security – cyber & physical ▪ Data protection ▪ Business continuity & disaster recovery

4. Climate Action Policy

Acknowledging the importance and urgency of addressing the global climate crisis, Montagu has developed a [Climate Action Policy](#) outlining our commitment to reducing negative climate impacts and taking meaningful action to create positive impacts 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 adds significant risk to any investment. There are also 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
- indirect and transitional climate risks and opportunities, such as those from policy response or transition to electric from fossil fuels
- direct 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.

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 reduction plans. We publish the results annually in our Sustainable Investing Report.

5. Diversity, Equity, 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.

We have developed a [Diversity, Equity and Inclusion Policy](#) to set out our ambition to maintain a culture of equity 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.

6. Integration of Sustainability into Montagu's Investment Activities

Investing Sustainably is deeply embedded in the Montagu culture at every stage of the investment lifecycle from origination of new investment opportunities through to eventual exit from an investment.

Pre-Investment Screening and Excluded Investments Policy

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

We do not invest in entities deriving revenue from the following activities:

- the manufacture or sale of controversial weapons (antipersonnel mines, cluster bombs, nuclear, chemical, or biological weapons)
- the manufacture or sale of tobacco products
- the manufacture or sale of illicit drugs
- coal mining
- oil or gas exploration or production
- other activities that are illegal in the jurisdiction in which they are located, pursuant to applicable laws.

Further to this, we screen potential investments against criteria that include a broader consideration of activities in sectors that present especially elevated ESG risks. Investment in these activities requires special consideration as to whether associated societal harms are being mitigated prior to investment and the Investment Committee should be consulted before any opportunity to invest is pursued:

- manufacture or sale of weapons
- generation of nuclear power
- manufacture or sale of alcoholic beverages or legal recreational drugs
- provision of gambling services
- adult entertainment
- privately operated correctional facilities

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 positive impact and potential negative impacts on broader stakeholders during due diligence. There is an explicit requirement to include an assessment of Environmental & Climate Risk for every investment.

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.

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

Risks identified from screening and pre-investment due diligence are discussed with company management immediately following investment.

As soon as possible, we conduct a complete a full 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 'Foundational Requirements' for good governance.
- Focus on the material topics specific to the business; and
- Benchmark 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 impact and minimise

negative impact on the environment and society, aligning with the applicable UN Sustainable Development Goals.

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.

Monitoring

Each portfolio company completes an annual questionnaire including questions and performance indicators on a variety of ESG topics. 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 issues is 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.

While stakeholders will reap benefits before, during and after ownership by a Montagu fund, it is at exit that we will seek to maximise the financial value of the ESG programme for investors through a higher exit price and, as far as possible, ensure that established good practice will continue under the future owner.

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:

- **Main Board:** 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 Main Board, with delegated authority to subsidiary committees focussed on specific issues. These are likely to include an Audit & Tax Committee, a Nominations & Remuneration Committee and a Risk, Compliance & Sustainability Committee. 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 immediately to contact Montagu and the board, 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**, any ESG issues that arise are logged on a register and progress to resolve them noted. ESG issues and the contents of this register is monitored at each of four governance bodies with different roles:

- **ESG Committee:** Responsible for ESG policy and governance as well as material portfolio wide ESG risks and opportunities. The ESG Committee meets at least twice a year.
- **Portfolio Committee:** Every portfolio company is discussed individually at least three 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.

- **Risk Committee:** Oversight of material risks, including ESG risks, for Montagu or the portfolio companies in which its funds invest, meeting at least twice a year.
- **LLP Board:** A summary of ESG issues material to Montagu or the funds is 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.

8. Approval

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