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# **THCP ESG and Responsible Investment Policy**



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## 1 Our commitment to Responsible Investment and Environmental, Social, and Governance factors

Three Hills Capital Partners (“THCP”) is committed to creating long-lasting impact and sustainability for all stakeholders including employees, portfolio companies, investors and communities.

We believe it is our responsibility to ensure that the capital deployed by our Funds is invested in a manner that contributes positively to the societies and communities in which we and our portfolio companies operate, as well as to the health of our planet. In addition to our social corporate responsibility, we also believe that our embedded focus on high standards and long-term sustainability will enable us to mitigate risk, make better investment decisions and create stronger businesses, thus enhancing value for our investors.

THCP believes that responsible ownership and business success go hand in hand and, as such, THCP has, and has ensured that its subsidiary and affiliated undertaking have, embedded consideration of Environmental, Social and Governance (“ESG”) factors throughout all stages of the investment process. THCP seeks to identify businesses that are genuinely focused on doing well for all stakeholders, and is fundamentally committed to supporting the building of long-term, sustainable businesses, which will grow, provide employment and generate economic benefit in an environmentally and socially responsible manner.

Since inception THCP has committed to delivering a steady and systematic integration of ESG practices into its operations and aims to strengthen such integration to deliver positive impact through increased engagement with stakeholders, entrepreneurs and the broader business community.

In 2018, THCP formally became a signatory to the PRI, the world’s leading proponent of responsible investing. As such, THCP is committed to uphold the six Principles for Responsible Investment:

- 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.

## 2 Our ESG focus areas

The United Nations Sustainable Development Goals (“SDGs”) can serve as a powerful framework for delivering and measuring impact; establishing a common approach, defining tangible business actions and measuring progress towards the goals is key for achieving positive change and engage with potential portfolio companies to create stronger returns over time.

To support businesses for long-term growth and meaningful impact, THCP aims to focus on four thematic areas across both environmental (**Responsible Consumption and Production** and **Climate Action**) and social (**Decent Work and Economic Growth** and **Reducing Inequalities**) issues, which THCP believes present significant challenges, but at the same time offer the biggest opportunities for positive impact from its privileged position as an investor.

### Environmental

THCP is committed to working with and influencing portfolio companies in a manner consistent with improving their impact on the local communities and the environment. Specifically, areas of concern and focus include actions to address **Responsible Consumption and Production (SDG #12)** and **Climate Action (SDG #13)** such as greenhouse gas emissions, resource depletion, waste and pollution, and deforestation. Managing these factors is often a difficult balance, as companies, by their very nature, often create externalities that impact the

environment. It is our belief that portfolio companies must minimise the impact, and where possible offset this impact if the opportunity to do so is available and viable.

As a firm, THCP takes part on this responsible strategy, by committing to be fully carbon neutral, only selecting sustainable materials for its offices, recycling office waste, recycling of used textiles, among others.

### Social

As an investor, it is important that the capital deployed by our Funds is deployed in a manner that has a positive socio-economic impact.

We believe it is absolutely critical that we, and our portfolio companies, engage proactively in delivering positive changes aimed at increasing the well-being of individuals across portfolio companies and the communities which they reach, in particular by contributing to **Decent Work and Economic Growth (SDG #8)** and **Reducing Inequalities (SDG #10)**. Examples of such areas include ensuring that:

- working conditions for employees at all portfolio companies' operations are healthy and suitable, and at a minimum comply with all relevant laws, regulations, practices and health and safety standards in the relevant jurisdiction;
- under no circumstances, a portfolio company engages in modern day slavery or child labour;
- the Funds do not seek to profit from conflict or paramilitary activities, and seek to avoid any human cost whatsoever resulting from operations of portfolio companies; and
- the Funds promote strong employee relations at portfolio companies, encouraging diversity, ensuring no marginalisation of the indigenous population, and supporting personal development and lifelong learning initiatives.

In addition to ensure that the capital deployed by our Funds is deployed in a manner that has a positive socio-economic impact, we have two primary charitable initiatives that deliver significant social impact and enable people to overcome disadvantage and reduce social barriers, namely THCP4Social and NTMY Foundation.

### Governance

We believe that the leadership of an organisation, their culture and modus operandi, set an example and dictate the values to which individuals at all levels of the organisation operate. Whilst we are very selective in the partners with whom we operate, there are limits to the ability of an individual to manage governance concerns across an entire organisation. As such, we endeavour to support our portfolio companies in developing robust corporate governance practices, and encourage strong transparency and accountability. We also strive to enhance management teams and information flows as necessary throughout the life of an investment.

As such, we aim to support our portfolio companies to ensure, among others:

- a. appropriate board composition, with the posts of CEO and Chairman held by different individuals. Additionally, promotion of diversity across board members;
- b. tax strategies meet their obligations in the jurisdictions in which they operate;
- c. zero tolerance to bribery and corruption; whilst lobbying procedures (if any) to follow relevant regulations and guidelines in the jurisdictions in question;
- d. supporting the management teams in implementing strong KPI tracking and reporting procedures, which enable effective management and addressing problem areas as they arise;
- e. compliance with relevant industry regulations and quality standards, national and international legislation; and
- f. ESG-relevant policies are introduced and improved over time.

## **3 ESG framework for investments**

As THCP and its subsidiary and affiliated undertakings mature, the group will increasingly employ a structured ESG framework as part of the investment processes aimed at identifying and evaluating all the ESG aspects of an investment from due diligence through to exit. Additionally, we endeavour to ensure that portfolio companies incorporate ESG issues into policies and best practices, and are aware of their own social and

environmental footprint to manage risk and to work towards a situation where sustainability practices are implemented, measured and reported on across the portfolio.

Specifically, THCP seeks to:

- identify the key material ESG risks and opportunities as part of the due diligence, investment decision and ownership phases of the investment process;
- create targeted action plans together with portfolio companies for improving ESG performance of material ESG issues, leading to better investment outcomes;
- map the material ESG issues to the SDGs to integrate SDGs alignment and consideration in active management; and
- actively engage with portfolio companies to implement ESG best practices, report and monitor progresses, and support the building of long-term sustainable businesses in an environmentally and socially responsible manner.

### Pre-investment

An important part of THCP's commitment to responsible investment is to understand the material ESG risks and opportunity for new investments.

The investment teams consider ESG an integral part of day-to-day due diligence processes with respect to identifying whether there are any ESG related key risks or opportunities for value creation. THCP investment professionals, together with the support of the ESG dedicated team, are primarily responsible for ensuring that ESG issues are integrated into investment analysis throughout the investment process, however engagement of external service provider might be sought for specific topics.

Investments in certain sectors falling under the category "Excluded Investments" are rejected a priori. Subsequently, the next phase of the due diligence aims at assessing key ESG considerations, risks and opportunities, with focus on factors that are likely to have the highest potential impact on the target based on materiality<sup>2</sup>. This process includes a business and sector analysis and the completion of an ESG DD questionnaire from the target in order to assess or identify the main ESG risks and opportunities.

With the support from legal advisors, the investment teams also assess labour policies anti-bribery and corruption risk and seeks assurance that the company is fully compliant with the ESG laws and regulations in the relevant jurisdictions.

If material ESG issues or risks are identified during the due diligence process, the investment teams initially prioritise those which are most material, and determines on a case-by-case basis whether further assessment is required, and may seek independent analysis and expert advice from specialist external consultants, for instance environmental experts.

The deal teams consider whether the risk(s) is acceptable, and determines that any risk(s) identified need to be addressed, managed or rectified post investment.

This initial ESG assessment is an integral part of THCP's due diligence and overall risk and value information and serve the foundations of building a company's action plan.

### Investment Decision

A summary assessment and business profiling of ESG matters is made at the end of the due diligence phase and is summarised in a separate section of the Investment Papers, for review and approval by the Investment Committee.

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<sup>1</sup> See "Excluded Investments" further down in the document

<sup>2</sup> Materiality levels are determined based on the team's understanding of the business and the industry it operates in, with the help of a proprietary database developed by external consultants.

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In some instances, depending on whether material ESG issues are identified in the due diligence phase with proposed corrective action plan, further obligations or warranties from the vendor may be sought, for instance in the investment agreements or as on-going obligations and other legal documents.

#### Portfolio management

In the post-investment phase, THCP engages proactively with management teams to address ESG matters identified during the due diligence and agree on an action plan to deliver tangible impact, measure and track performance on key metrics, and evidence improvements that are valuable upon exit.

A key goal of the action plan is to define a set of targeted actionable initiatives contributing to our focus SDGs<sup>3</sup>, by narrowing down the broad universe of ESG issues into a select number of highly material issues. The materiality assessment serves as a foundation from which to develop relevant KPIs to monitor performance and improvement going forward.

To that end, we aim to work through appropriate governance structures (e.g., board of directors) with portfolio companies to ensure that the portfolio companies' boards take responsibility and accountability for all ESG-related topics and reporting, including assigning overall responsibility for ESG to a board representative.

Finally, THCP considers ESG reporting a very important part of portfolio management. Any portfolio company ESG matters of note, including improvements or impairments, are raised at THCP's quarterly portfolio monitoring meetings, comprising all investment professionals and partners. These will be reported to Investors in the following quarterly report and are summarised at the Annual General Meeting.

#### **4 THCP's dedicated ESG organization**

The dedicated ESG team is strategically positioned within THCP' organisation, as ESG matters lie at the crossroads of investor relations, investment team, portfolio companies and external communication. The ESG team is ultimately responsible to lead the ESG agenda, developing and implementing the strategy and coordinating internal and external resources. However, it is expected that ultimately all THCP professionals are engaged in integrating ESG in our daily activities.

THCP's ESG committee that comprises a mix of investment team members and support functions, meets regularly to provide input to the ESG / impact strategy and monitor progress, both at THCP level as well as portfolio companies.

Any portfolio company ESG matters of note, including improvements or impairments, are raised at ESG committee meetings. Additionally, these will be discussed regularly during portfolio monitoring meeting, comprising all investment professional and partners.

Additionally, the dedicated ESG team is responsible to ensure this Responsible Investment Policy, approved by the Managing Partner and ESG Committee, is implemented within the organisation, as well as reviewed and updated yearly.

#### **5 Excluded investments**

For the avoidance of doubt, THCP will not recommend investment in any business where a substantial proportion of that business incorporates:

- Gambling, gaming casinos or equivalent
- Tobacco or tobacco related products
- Pornography or prostitution
- Hazardous chemicals, pesticides and wastes
- Ozone depleting substances
- Forced, or harmful child labour

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<sup>3</sup> Namely Decent Work and Economic Growth (SDG #8), Reducing Inequalities (SDG #10), Responsible Consumption and Production (SDG #12) and Climate Action (SDG #13)

- Endangered or protected wildlife or wildlife products
- Arms i.e. weapons, munitions designated for military purposes
- Unbonded asbestos fibres or radioactive materials