

Kreos Capital

Environmental, Social and Governance (“ESG”) Policy

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Environmental, Social and Governance (“ESG”)

Introduction

Kreos Capital (“We”, “The GP” or “Kreos”) is committed to ethical investing and sustainable development where possible. We believe this is not only good for society, but also for our business and the businesses we invest in. We acknowledge that, in addition to growing social and investor demands, there is also a growing recognition that ESG factors influence investor returns.

As fiduciaries of international capital flows into our target investment regions, we believe it is in the best interests of our beneficiaries, to consider ESG issues, not only with the aim of generating returns for our providers of capital, but also to serve society by helping to improve environmental, social and governance (“ESG”) practices at our business, and the companies we invest in.

As providers of debt products, the scale and magnitude of such engagement needs to be put into context. We are not active owners of the companies we invest in and as such have no control over the issuers and limited means with which to influence them.

Nonetheless, we believe that by identifying and assessing ESG issues during our investment process, and by ensuring these considerations are properly managed over the lifetime of our investments, we can aid in the creation of more successful businesses over the long-term and generate enhanced value for our stakeholders.

This note lays out the guiding principles, procedures and processes we follow, at our business, as well as both prior to making an investment, and on an ongoing basis. We have drawn on the following sets of guidelines while formulating our ESG policy:

- United Nations sponsored Principles of Responsible Investment (“PRI”)
- Invest Europe / EVCA Guidelines

Kreos Capital is also a signatory to the United Nations sponsored Principles for Responsible Investment (“PRI”).

What is ESG?

ESG can be broadly defined as the consideration of environmental, social and governance factors that investors, fund managers and portfolio companies consider in the context of corporate behaviour.

Our ESG Priorities

Listed below are our key ESG areas of focus and which form the basis of topics that may be considered during our due diligence and investment monitoring process. These topics are also used to help define our firm-level ESG policies:

Environmental	Social	Governance
- Climate change	- Worker rights & working conditions	- Transparency
- Energy efficiency	- Occupational health & safety	- Anti-Money laundering
- Pollution / carbon footprint	- Labour & environmental standards	- Anti-bribery & corruption
- Waste management	- Local community & charity	- Conflicts of interest
- Natural resource consumption	- Inequality	- Risk management & internal controls
- Innovation and conservation	- Diversity	- Regulatory compliance
		- Data protection and privacy

These topics are not meant to be an exhaustive list, but intended to exemplify the types of issues considered under the three headings

Our Commitment to ESG

We are committed to the six principles of the UNPRI and aim to broadly adopt them as the key guidelines for its ESG assessment. The issues as described in the Global Compact and Principles for Responsible Investment (www.unpri.org) are incorporated in our investment analysis, decision-making process and investment monitoring:

UNPRI Principles for Responsible Investment:

- **Principle 1:** Incorporating ESG issues into investment analysis and decision-making
- **Principle 2:** Being active owners and incorporating ESG issues into ownership policies and practices
- **Principle 3:** Seeking appropriate disclosure on ESG issues by the entities in which investments are completed
- **Principle 4:** Promoting acceptance and implementation of the principles within the investment industry
- **Principle 5:** Working together to enhance the effectiveness in implementing the principles
- **Principle 6:** Reporting on our activities and progress towards implementing the principles

Our ESG Investment and Risk Management Approach

We analyse ESG issues at each stage of the investment process, from screening, through due diligence, closing monitoring and eventual exit. These considerations are reviewed in parallel with our conventional credit and investment considerations at each stage of the process. The table below, initially prepared by PRI, and further developed by Kreos Capital, outlines the steps taken between initial deal screening and exit and how / where ESG considerations are taken in to account:

Figure 1 – Kreos Capital investment process, including ESG and engagement considerations

	Typical considerations for private debt investment	ESG considerations	Engagement Activity
Pre-deal cycle	<ul style="list-style-type: none"> - Develop statement of investment principles - Define investment universe – geography, sector, credit strength, deal size etc. 	<ul style="list-style-type: none"> - Develop responsible investment/ESG policy - Define ESG screening criteria - Educate external agents on RI policy 	- Not applicable
Pre-transaction			
Phase I Origination & Pre-Assessment	<p>Sourcing & origination:</p> <ul style="list-style-type: none"> - Generate investment ideas - Identify investment opportunities - Engage agents to source deals <p>Pre-assessment:</p> <ul style="list-style-type: none"> - Conduct high-level due diligence - Identify any red flags for further consideration in due diligence process - Take decision to proceed to due diligence phase 	<ul style="list-style-type: none"> - Apply negative ESG screens during creation of Pre-Investment Proposal (“PIP”) - Highlight any ESG red flags for further consideration in wider due diligence process - Consider jurisdictional ESG issues such as local governance, legal systems, ESG policy and regulation 	- Engage senior management of prospective borrower for disclosure of potential ESG risks

<p>Phase II Due Diligence & Investment Approval</p>	<ul style="list-style-type: none"> - Conduct credit analysis - Conduct in-depth due diligence - Appoint technical consultants - Determine interest rate - Engage with equity sponsors and conduct thorough referencing - Write up recommendation to Debt Advisory Committee (“DAC”) - Negotiate / finalise terms - Present to DAC for approval - Transact 	<ul style="list-style-type: none"> - Conduct ESG due diligence - Conduct ESG technical assessment ahead of presentation to DAC - Engage and review equity sponsor ESG focus / policies - ESG section integrated into DAC memorandums - Educate DAC on relevant ESG considerations - Potential to include ESG reporting requirements for borrowers in terms if there are concerns - Determine ESG monitoring needs 	<ul style="list-style-type: none"> - Request management changes relating to ESG if required (e.g. board independence) - Arrange regular dialogue with borrower management and equity sponsors - Educate borrowers about ESG needs if required - Define requests for ongoing monitoring of pertinent ESG criteria if there are concerns to be mitigated
Post-transaction			
<p>Phase III Investment Holding Period</p>	<ul style="list-style-type: none"> - Ensure on-going engagement with management, reporting and monitoring of investment - Participate in Board meetings through observer rights - Address developments and incidents that pose risks/potential defaults - Provide technical assistance - Undertake rescheduling processes if required 	<ul style="list-style-type: none"> - Carry out on-going ESG monitoring - Support improvements that address ESG risks - Identify potential positive ESG impacts - Ensure manager ESG reporting to investors 	<ul style="list-style-type: none"> - Include ESG agenda items in regular borrower meetings - Manage ESG risks relating to potential defaults
<p>Phase IV Exit</p>	<ul style="list-style-type: none"> - Consider possible refinance options - Continue to engage with management to ensure positive outcome for yield enhancement positions - Close out process 	<ul style="list-style-type: none"> - Facilitate manager ESG reporting to investors if required - Consider internal close-out process including ESG lessons learned 	<ul style="list-style-type: none"> - Consider close-out process with borrower, including ESG lessons learned

We do not automatically exclude businesses from investment purely on ESG risks if the decision-making bodies within Kreos Capital feel that such risks are reflected in the overall assessment of the opportunity.

Rather, the reason for deploying this strategy is to make sure the investment teams are aware of ESG analysis tools and that informed investment decisions are taken having incorporated ESG factors in the process and reflecting it in the risk / return profile of each investment.

The level of ESG-related work depends on many aspects such as the industry the company operates in, countries and cultural influences, and how much emphasis is placed on ESG considerations by the equity sponsors we invest alongside. For example, in such situations where Kreos is partnering with sponsors that operate with a high consideration of ESG factors in their investment decision-making or focus, we may require less ESG-related work as part of our process.

Overall, our ESG integration takes place on the following levels, similar to our analysis of overall credit / investment risk:

- Company: What is our ESG credit risk at the company level and what risks could arise in the future? This analysis is undertaken during the fundamental, bottom-up analysis of all risks and opportunities of the business and utilises a variety of information sources such as quantitative data, interviews / reference calls or third-party diligence work (e.g. diligence already undertaken by equity sponsors) etc.

- Sector / Industry: What are the key ESG issues related to the respective industry? What can be done to mitigate these risks? The information is sourced and examined from thorough in-house research, including detailed top-down macro level analysis
- Headline / External View: How could the identified risks impact the overall strategy or reputation of Kreos Capital? How could the identified risks impact the reputation of our investors / stakeholders?

Our ESG Engagement

As debt providers, we are not active owners / operators of companies and as such, have more limited means to influence our investee companies. Nonetheless, we believe that we have an important role in engaging with these businesses on ESG matters.

As highlighted during our investment analysis process, our investment team meet with prospective companies' management teams and have the obligation to raise questions related to ESG.

Our engagement does not end at the point of our investment and we are in mostly continuous dialogue with our investee companies throughout the holding period. During this time, we can actively engage with them on both ESG and non-ESG matters.

ESG Negative Screening / Exclusions

In addition to ensuring we comply with all applicable laws, regulations, and economic sanctions, we apply ESG negative screening for all our funds. The screen is produced, based, and centred on excluding portfolio company involvement in a number of products and industries. The scope of these restrictions is reviewed on a regular basis.

Kreos does not intend to provide facilities to any company whose business activity consists of:

- Any production, trade, or other activity, which is illegal under the laws or regulations of the home jurisdiction for such production, trade, or activity.
- Production or activities involving harmful or exploitative forms of forced labour or child labour as defined in the ILO core labour standards.
- Production, use of or trade in pesticides/herbicides or other hazardous substances that are subject to international bans
- Trade in animals or animal products that are subject to the provisions of CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora).
- Commercial logging operations for use in primary tropical moist forests.
- Production or trade in controversial weapons or important components to produce controversial weapons (anti-personnel mines, biological and chemical weapons, cluster bombs, radioactive ammunition, nuclear weapons).
- Production or trade in tobacco.
- Any business activity involving pornography.
- Controversial forms of gambling: operation of casinos, production of devices or other equipment for casinos or betting offices or companies that generate turnover via online betting. (So-called "short odds" are defined as "controversial forms of gambling").
- Environmentally unfriendly activities

Furthermore:

- Kreos Capital is a member of Invest Europe (formerly EVCA) and seeks to follow the Invest Europe Professional Standards for the Private Equity and Venture Capital Industry (2015), as far as is consistent with our role as a debt provider.
- Kreos Capital complies with relevant laws such as Criminal Finances Act 2017, Money Laundering Regulations (including the Terrorism Act), and are supervised by the Financial Conduct Authority ("FCA"). The Kreos Capital Funds comply with Jersey regulation and are supervised by the Jersey Financial Services Commission

Promoting Internal Best Practice

It is the responsibility of all Kreos employees and partners to ensure the ESG factors are considered in all aspects of our ongoing business activities, including daily office processes and decisions.

While we have already implemented a number of internal systems to promote ESG behaviour (see below), we recognise that there is always more that we can do and our commitment to best practice ESG behaviours mean that we are striving to continuously improve our activities

Example systems already in place:

- Waste management and office recycling, including using recycled materials
- Carbon footprint consideration & reduction where possible e.g. all members taking public transport or cycling to work
- Risk assessments and health & safety measures – PAT testing, turning off equipment, fire training, and medical policy forms (identifying allergies & emergency contact information)
- Acceptable use policy for company equipment
- Use of energy efficient electronic equipment
- Supporting staff charity activities, volunteering, and donations
- Support participation in giving back to local communities of our staff
- Promoting a good, equal, and fair working environment, compliant with the UK Equality Act 2010

Staff Training

Kreos provides regular training for management and employees to further their learning and encourage adoption of ESG behaviours.

Transparency and Reporting

As part of our commitment to the PRI principles, we will provide relevant and timely reporting of our ESG efforts both internally and externally.