

# NorthEdge Capital

## Responsible Investment Policy

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### Introduction

NorthEdge Capital (“NE”) is a private equity fund manager, focussed on lower mid-market buy-outs. We invest in like-minded businesses and management teams who have the ambition and potential to become market-leaders.

This responsible investment (RI) policy outlines how we incorporate environmental, social and corporate governance (ESG) factors across the investment cycle, alongside financial and business performance considerations, and in line with our investment strategy.

Several examples of the ESG factors that we assess, monitor and seek to improve, are included in the appendix.

### Mission

NE’s mission is to realise the potential of portfolio companies, management teams and employees to create long-term sustainable value, which in-turn will generate market-leading returns for our investors (limited partners, or LPs).

Through our ownership and investment in companies across an average 3-5 year hold period, we believe we have a responsibility to a wider stakeholder group and society at large to encourage our portfolio to adopt high ethical standards and act in a sustainable and responsible manner, thereby advancing their real economy influence (“REI”).

We recognise that effective assessment and management of ESG matters have a positive effect on the financial performance and value of our portfolio companies, ensuring RI is well aligned to our core purpose.

The motivation for this responsible investment policy is to preserve the strategic fiduciary duty to our LPs whilst simultaneously confirming our approach and commitment to this agenda to NE staff and our portfolio companies. The integration and adoption of this policy will support a consistent approach to RI implementation whilst following our investment strategy and mandate.

### Our definition of responsible investment

The incorporation of environmental, social and corporate governance (ESG) factors into our investment processes, decision-making and ownership practices.

### Commitments and principles

We aim to align our activities with relevant national and international standards and have therefore adopted the UN Global Compact to assist in our early-stage screening of potential investee companies. Whilst there have been certain instances where ESG factors have caused us to “walk-away” from an opportunity, for the

majority of cases, we instead seek to leverage the principles of “active ownership” to enable improved management of ESG risks and opportunities, arising from our involvement with the business.

This policy also exists to acknowledge and develop adherence to the six Principles of Responsible Investment (PRI) that NE endorsed in 2012.

In addition, our own principles of RI and management of ESG factors are to:

- Promote and maintain the highest standards of business integrity at all times.
- Promote compliance with relevant laws and regulations in our portfolio companies’ geographical areas of operation.
- Adhere to and promote a culture of continuous improvement and good governance.
- Encourage a relevant level of ESG disclosure with key stakeholders.
- Require portfolio companies to define annual objectives; then monitor and report against their progress on an annual basis through our ESG Analytics tool.
- Uphold a consistent approach towards the incorporation of ESG factors across the whole investment cycle.
- Respect international human and labour rights principles, health and safety standards, and not tolerate any form of discrimination.
- Screen the potential portfolio companies for positive and negative ESG factors.
- NE commits to not invest:
  - a) In companies whose primary business activities involve the following products or activities:
    - Manufacturing, distribution or sale (including financing thereof) of arms or ammunition of any kind;
    - Manufacturing, processing, distribution or sale of tobacco products;
    - Distilled alcoholic beverages;
    - Operation of casinos or other equivalent gambling facilities;
    - Research, development or technical applications relating to electronic data programs or solutions which aim specifically at supporting any activity referred to in this list, internet gambling or online casinos or pornography or are intended to enable persons to illegally enter into electronic data networks or download electronic data;
    - Products or activities involving harmful or exploitative forms of forced labour / harmful child labour
    - The trade in human body parts or organs
    - Animal testing for cosmetics or food products
    - Pornography
    - Nuclear power generation or fuels
    - Unbonded asbestos fibres
    - Drift net fishing
    - Controversial technologies such as:
      - Stem cell research;
      - Genetic modification; or
      - Recruitment for human testing.
    - Companies which operate in specific locations where its activities carry high risk of material harm to people or the environment, such as:
      - Environmentally protected areas;
      - Sites of Special Scientific Interest;
      - Habitats of rare or endangered species;
      - Fisheries of economic importance;
      - Land occupied by indigenous people or vulnerable groups;

- Primary or old growth forests of ecological significance; or
  - Culturally or archaeologically significant areas.
- b) In companies whose business majorly involves any:
- Operations that are illegal under UK law or national laws in the countries in which the company operates.
  - Products or activities that are banned as per global conventions and agreements (e.g. certain pesticides, chemicals, wastes, ozone depleting substances and endangered or protected wildlife or wildlife products) which cannot be resolved under our ownership.
  - The supply or purchase of sanctioned products, goods or services to or from countries or regions covered by UN or UK government sanctions.
- c) In companies with the sole purpose of removing or avoiding portfolio company pensions liabilities.

## Application of policy

### Scope

This policy will cover all of our assets under management and apply to existing and future investments and to both ESG risks and ESG opportunities. It will exist alongside our investment policy document which covers all operational aspects of pursuing our investment strategy and mandate. This policy will influence the consideration of ESG factors in relevant internal guidelines, private placement memoranda and annual portfolio company reviews.

This policy applies to NE **and** our portfolio companies.

### The investment cycle and consideration of ESG factors

We follow our mission by incorporating ESG factors into our investment processes, decision-making and ownership practices that directly influence portfolio companies to enhance performance in these areas. Our investment process throughout the deal cycle ensures that the values and business practices of each company are considered.

A significant range of ESG factors are always assessed, with additional qualitative and quantitative measures bespoke to each portfolio company. We consider that the following three ESG factors are common across our portfolio and we collect performance information on these from all portfolio companies:

- Job creation / talent development – “Employees”
- Business ethics, bribery, corruption, transparency and overriding ESG approach – “Governance”
- Climate change risks and opportunities, including supply chain sustainability

ESG factors are considered in every phase of the investment life cycle as outlined below:

- **Pre-investment:** Our new business team completes an ESG screening document ahead of commissioning any external due diligence, in order to understand the ESG profile of the target company and highlight any potential factors requiring further due diligence.
- **Post-investment:** We are active owners in all our portfolio companies. However, the portfolio company Boards are responsible for managing ESG factors on a day-to-day basis. We manage portfolio companies’ ESG developments through a combination of Board participation as well as ongoing monitoring of progress at a portfolio company level, which is intended to spark focus on ESG risks and opportunities which management can then pursue. NE may actively introduce independent non-executive directors and / or a chairperson into portfolio companies, to support such activities. Our ESG concept covers the three pillars above, which are analysed annually from base year statistics

at individual portfolio company level and then further at a portfolio-wide level. Our in-house developed ESG Analytics tool tracks performance across a wide-range of ESG factors and enables bespoke targeting, monitoring and improvement realisation at each portfolio company. This data-led approach is vital to qualify and support our collective ESG efforts.

- **At exit:** NE will include information on a company's ESG performance in the documentation that will be disclosed to potential buyers. This information will showcase any efforts made during the ownership period with regards to ESG management / performance improvement and highlight contributions made to the value of the investment.

### NE's ESG impact

With regards to NE's own ESG impact, we will effectively integrate consideration of ESG factors into our own operations and set ESG objectives and targets for the future. We also complete an ESG review for NorthEdge LLP, annually.

## Governance of RI policy implementation

### Organisational leadership

NE has appointed Prem Mohan Raj (CFO) to provide senior sponsorship and accountability for RI and to lead our policy development and implementation activities with the aim of further embedding RI into our culture. George Potts, who reports to Prem Mohan Raj, will also support NE's new business team in the identification and management of ESG factors and provide them with appropriate support. Over time, RI policy implementation and consideration of ESG factors throughout the investment cycle will be included in staff appraisals and individual development plans. Firm-wide ESG induction training is in-place and ongoing.

### New business team's responsibility

The new business team has responsibility for performing an ESG analysis pre-investment, through the 100-day plan implementation post-investment as well as for active ownership activities leading up to exit. The CFO will have oversight of these activities.

### Stakeholder engagement

NE will actively identify key stakeholders and develop a dialogue relating to our own and our portfolio companies' ESG performance. Any material content from these dialogues will be incorporated in our strategy and approach to continuously improve our operations.

### Reporting

We include an ESG section in our quarterly and annual reporting to LPs. This covers ESG performance at both the portfolio companies and NE. We will also report material ESG incidents to LPs in a timely manner.

### Policy governance


Prem Mohan Raj ("Partner, CFO") has executive oversight of RI policy compliance while George Potts ("Investment Manager") leads policy development and incorporation activities.

The policy has been approved by:

Prem Mohan Raj ("Partner, CFO")



Grant Berry ("Managing Partner")



Please contact George Potts if you have any questions in relation to this RI policy:

[george.potts@northedgecapital.com](mailto:george.potts@northedgecapital.com)

This RI policy is effective from: 1 February 2019

Next scheduled review due: 1 January 2020

## Appendix: Examples of ESG factors

From the Principles for Responsible Investment<sup>1</sup>

### Environmental (E)

Issues relating to the quality and functioning of the natural environment and natural systems. These include: biodiversity loss; greenhouse gas (GHG) emissions, climate change, renewable energy, energy efficiency, air, water or resource depletion or pollution; waste management; stratospheric ozone depletion; changes in land use; ocean acidification and changes to the nitrogen and phosphorus cycles.

### Social (S)

Issues relating to the rights, well-being and interests of people and communities. These include: human rights, labour standards in the supply chain, child, slave and bonded labour, workplace health and safety, freedom of association and freedom of expression, human capital management and employee relations; diversity; relations with local communities, activities in conflict zones, health and access to medicine, HIV/AIDS, consumer protection; and controversial weapons.

### Governance (G)

Issues relating to the governance of companies and other investee entities. These include: board structure, size, diversity, skills and independence; executive pay; shareholder rights; stakeholder interaction; disclosure of information; business ethics; bribery and corruption; internal controls and risk management; and issues dealing with the relationship between a company's management, its board, its shareholders and its other stakeholders. This category may also include matters of business strategy, encompassing both the implications of business strategy for environmental and social issues, and how the strategy is to be implemented.

In the unlisted asset classes governance issues also include matters of fund governance, such as the powers of Advisory Committees, valuation issues, fee structures, etc.

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<sup>1</sup> [http://www.unpri.org/viewer/?file=wp-content/uploads/2013-14 PRI RF maindefinitions.pdf](http://www.unpri.org/viewer/?file=wp-content/uploads/2013-14_PRI_RF_maindefinitions.pdf)