Your bridge to the world of private assets

Principles of Responsible Investing

2018

1. Introduction

The purpose of the 'Principles of Responsible Investing' ('the Principles') is to introduce Capital Dynamics'[1] ('the Firm') commitment to responsible investing ('RI'), and associated strategies and processes.

Capital Dynamics takes ESG issues seriously. In recognition of the importance of ESG compliance to both the Firm and its clients, Capital Dynamics integrates ESG into its investment due diligence, investment decisions and post-investment monitoring[2]. Besides being an early signatory of the Principles for Responsible Investment ('PRI') in 2008, Capital Dynamics has been and continues to be actively engaged in initiatives to improve RI ("RI") standards. For example, the Firm has been engaged in several initiatives to establish broadly accepted RI standards (e.g. the ESG Disclosure Framework for Private Equity[3]) and was actively involved in creating the British Private Equity and Venture Capital Association's (BVCA) RI guidelines[4] as well as the Principles for Responsible Investment's ESG Monitoring, Reporting and Dialogue in Private Equity Report[5]

Capital Dynamics implements market-prevailing standards for RI, regardless of investment style, sector or strategy, across all of its offices globally. Compliance with the ESG principles forms an integral part of our investment process[6], and includes:

- Due diligence review and discussions on all Capital Dynamics investments
- Issuing side letters as part of our investment process stating our expectations of the managers to maintain and introduce appropriate ESG strategies in the due diligence, management and monitoring of their portfolio companies
- Discussion of ESG risks and opportunities at formal Investment Management and Investment Committee meetings
- Monitoring and evaluating managers, portfolios, processes and documents to ensure continued compliance post investment through AGMs, 1:1 meetings and press monitoring
- Training to remain up to date on the constantly evolving state of ESG investing via annual internal training as well as current consideration for external training

Capital Dynamics believes RI leads to enhanced long-term financial returns and the closer alignment of objectives between institutional investors, other stakeholders, and society at large. The Firm recognizes ESG compliance and implementation may come at an initial financial cost (e.g. arising from the re-design or development of processes for ESG implementation). However, we believe, the medium-to long-term benefits of ESG compliance may include:

- Reduction of risk – minimizing financial and reputational risks arising from corporate decisions such as those resulting in environmental pollution
- Reduction of costs – improved energy efficiency or reduced staff sickness
- Enhanced returns – Robust ESG practices may improve the operating performance of companies translating into higher valuations and therefore higher returns

Capital Dynamics will actively engage in conversations, as it relates to potential and existing investments, to promote responsible business conduct.

[1] Capital Dynamics comprises Capital Dynamics Holding AG and its affiliates.
[2] Capital Dynamics Principles of Responsible Investing – 2018
[3] ESG Disclosure Framework for Private Equity
[4] The latest BVCA RI guidelines; John Gripton was an inaugural BVCA Responsible Investment Advisory Board member in 2009
[5] https://www.unpri.org/news-and-press/pri-and-erm-launch-guidance-on-esg-monitoring-reporting-and-dialogue-in-private-equity/3296.article
[6] Specific investment processes may vary depending on investment strategy.

2. Responsible investing principles

Environmental

Investment decisions can have a long-term impact on the environment; the consequences of which may not be immediately visible. Capital Dynamics is committed to minimizing any potential negative impact on the environment by:

- Identifying and assessing the environmental impact of investments to the degree economically feasible and operationally possible. The Firm may aim to identify potential risks by conducting environmental impact analyses[7], and/or working directly with potential business partners to help minimize risks where possible. Capital Dynamics seeks to confirm compliance with applicable local environmental laws and regulations; however if more stringent international environmental standards exist, the Firm strives to implement them as best practice to the extent economically feasible and operationally possible.

- Managing remaining environmental risks. The Firm may also engage in offsetting measures to reduce the negative environmental impact of investments, e.g. the purchase of carbon-dioxide emissions certificates.

- Refraining from knowingly committing to certain investments that can have an obvious and serious negative impact on the environment, such as the severe degradation of air and water quality.

Social

Capital Dynamics is committed to improving the long-term welfare of society. For example, in collaboration with its business partners, the Firm aims to enhance societal fundamentals such as job creation, human relations practices, working conditions, and health and safety standards by:

- Identifying and assessing social risks to the degree economically feasible and operationally possible. As part of the identification process Capital Dynamics may conduct[8] a social impact analysis and collaborate with potential business partners to reduce any identified risks (e.g. health and safety risks). As above, Capital Dynamics seek to confirm compliance with applicable local laws and regulations; however if more stringent international standards exist, the Firm strives to implement them as best practice to the extent economically feasible and operationally possible.

- With respect to health and safety standards, Capital Dynamics insists on local best practice, e.g. in the construction, operation and maintenance of project investments made by Capital Dynamics' Clean Energy and Infrastructure platform.

- Capital Dynamics refrains from knowingly investing in assets that could have a serious negative impact on the general welfare of society, such as companies that take advantage of child labor.

Governance

Governance plays an important role in Capital Dynamics' investment decisions. The Firm believes that governance failures can result in material monetary and reputational losses as well as broader adverse effects on a company's workforce and other stakeholders. Therefore, the Firm's investment decisions take general governance issues, business integrity and corporate governance into account by:

- Identifying and assessing risks related to governance to the degree economically feasible and operationally possible. The Firm seeks to confirm compliance with the highest applicable governance standards. This may be in accordance with local regulations or best practice, whichever is more stringent.

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[7] The Firm may in its sole discretion commission the environmental impact study to external parties.
[8] The Firm may in its sole discretion commission the social impact study to external parties.

- Managing unresolved governance risks. Capital Dynamics is committed to solving any issues that arise on an ongoing basis.
- Refraining from knowingly making investments into companies that have a history of governance failure and are known to lack business integrity.

3. Strategy and implementation

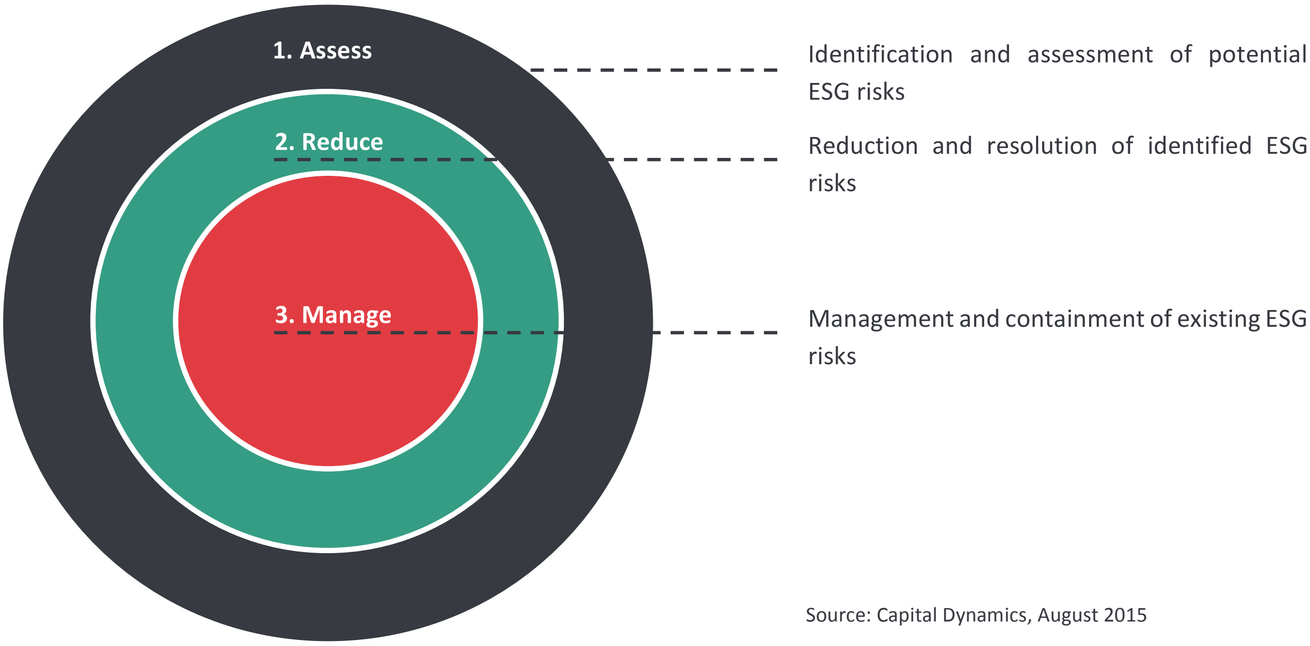
Capital Dynamics RI' strategy covers all asset classes and markets in which we invest. ESG issues are integrated into the investment analysis, decision-making and monitoring processes. Capital Dynamics' investment managers work collaboratively with applicable teams across the business in order to carry out ESG risk assessment.

Capital Dynamics also supports its clients, GPs, LPs and other market participants in implementing their own RI principles, strategies and processes. While the Firm recognizes that the circumstances and requirements for RI differ by case, Capital Dynamics encourages the implementation of a standardized set of the highest best practice RI benchmarks.

3.1 'Assess, reduce and manage ESG risks' strategy

RI is an integral part of the Firm's investment decision process. Each investment opportunity is evaluated from an ESG point of view; the satisfactory result of RI due diligence is a crucial criterion for meeting overall due diligence requirements. Potential investments are evaluated on stability, reputation and standing, team quality, consistent strategies, sound financial and risk management, clear decision processes, strong corporate governance, and social, environmental and ethical sensitivity, among others.

Assess, reduce and manage ESG risks



Source: Capital Dynamics, August 2015

Seeking and obtaining disclosure of any ESG issues connected to investments is another key element of the Firm's 'Assess, Reduce and Manage ESG risks' ('ARM') strategy and investment decision process. During each due diligence, Capital Dynamics' investment managers request reports on the ESG policies of underlying investment opportunities, any associated issues and any other ESG-relevant material from potential business partners.

Such reports should be aligned with broadly accepted ESG reporting standards like the ESG Disclosure Framework for Private Equity. Historic ESG performance is also evaluated, e.g. predecessor funds. Furthermore, prior to closing an investment, the deal team, if necessary, issues a side letter to the business partner including references to the UNPRI and/or other broadly accepted RI standards. After closing[9] an investment, the ESG risk management process begins. Investment managers and Capital Dynamics' Portfolio Servicing team request ESG performance reports[10] on a case-by-case basis.

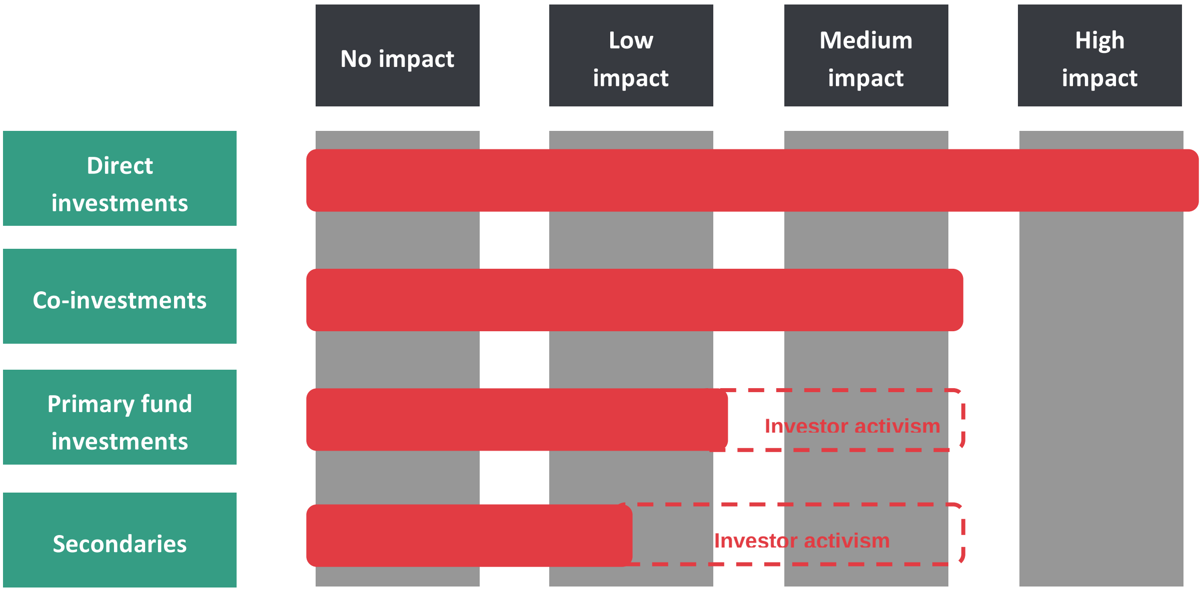
Should Capital Dynamics learn of a new ESG risk, the investment manager will seek disclosure of all relevant facts, inform the broader Investment Management team and if deemed necessary, report to the respective Investment Committee. The ESG risk management measure described above is a key element of Capital Dynamics' RI strategy, which takes place at the investment level. When evaluating investments, to the extent possible and feasible, the Firm also applies its ESG risk management process at the portfolio company level. Capital Dynamics prioritizes material ESG risks according to the potential reputational and financial impact for its clients. The spectrum ranges from low-impact items that require monitoring (e.g. heavy reliance on paper like mail order catalogues) to high-impact items that require immediate action (e.g. oil spills). Major ESG risks are discussed and addressed during the global Investment Management team's weekly conference call meetings. The meetings are used as a platform for gathering feedback, and suggestions based on best practices, from the broader Investment Management team. Furthermore, if required, the responsible Investment Management committees will vote on an issue and/or the Firm's Global Private Equity Investment Committee will provide feedback and advice.

Capital Dynamics' RI principles are applied in every geography (developed and emerging markets), sector, strategy and investment style. The RI principles will be reviewed annually by the Global Private Equity Investment Committee to ensure they remain current and consistent with broadly accepted RI standards. Our RI Policy is a continuous and long-term process that will evolve over time to reflect further enhancements. Updates to the RI policy will be facilitated by senior management as well as leaders from each investment team.

3.2 Investor impact on various investment styles

Capital Dynamics is aware that investor influence on business partners and investments varies by investment style. While direct investments may allow investors to more directly influence and shape ESG matters, fund investments (primary and secondary) add an additional layer between the LP and an asset. Therefore, the Firm has adapted its approach to ESG and RI to reflect the specific characteristics of various investment styles.

Impact analysis



Source: Capital Dynamics, August 2015.

[9] A successful closing is dependent upon a positive decision by the global investment committee at Capital Dynamics. The committee makes decisions only after it is fully briefed on all relevant ESG risks and issues.
[10] ESG performance reports should be aligned to generally accepted standards such as the ESG Disclosure Framework for Private Equity.

Direct investments[11]

The Firm's direct investment business actively engages in shaping ESG aspects of investments and aligning the ESG approach with local regulations or internationally accepted best practice, whichever is more stringent. Capital Dynamics' RI principles constitute the basis for alignment and the designated investment managers lead the effort to ensure the Firm's approach to RI is reflected in the investment. For example, in 2010, Capital Dynamics launched a Clean Energy and Infrastructure ('CEI') initiative where active involvement in ESG issues is highly relevant. The environmental aspect of the CEI business is addressed in the following paragraph.

Renewable electricity generation projects generally displace carbon-intensive power generation within a power system, and thereby provide direct abatement of greenhouse gas emissions. The Firm analyzes this in two main ways: first, in volume terms, the amount of CO2 emissions to be displaced as a result of the investment is calculated on the carbon intensity of the power system given the prevailing generation mix multiplied by the expected output of the project and based on the relevant technology and operating parameters determined for the investment case; and second, the value (in gross dollar terms) of the CO2 emissions displaced over the expected life of the project using varying assumptions of future carbon prices in that market. The latter can measure the environmental value add in bottom line terms. The analysis is also used as a proxy to demonstrate, in certain cases, the relative economic value of the carbon emissions displaced compared to the economic value of renewable energy credits expected to be produced and sold by the project. Other environmental factors considered include:

- The degree to which the project uses non-renewable natural resources in its production process (such as water) and whether alternative process methods may be feasible. This ensures the fundamental sustainability of the project over the longer term and impacts the valuation and return sensitivity of the project.
- Contamination risk is considered during the environmental risk assessment for a project investment. This forms part of investment due diligence and ongoing asset management.
- A review of the environmental and sustainability practices (and track record) of suppliers of key equipment and components for a project (to the degree such information is readily discoverable).
- For portfolio investments in development companies, a review of that entity's ESG policies and practices to ensure conformity with those applied by a given fund. In the absence of such policies, securing agreement from the investee entity where practicable, to prepare for and implement such factors into their business practices.

Co-investments

Co-investing at Capital Dynamics involves influence over an investment's ESG characteristics. The responsible investment managers engage with the lead investors as well as other co-investors to jointly establish the ESG footprint of the asset. Compared to direct investments, co-investments involve other business partners and thus require a joint and agreed approach towards ESG. Capital Dynamics advocates for the Firm's RI practices but, if required, accepts other investors' standards that comply with local regulations or international best practice, whichever is more stringent. If necessary and agreed by the business partners, the Firm may assume a leading role in establishing the investment's ESG footprint.

Primary fund investments and secondaries

Indirect investments add an additional layer between the LP and an asset by introducing GPs. Generally this additional layer reduces the potential impact an investor can have on the investment's ESG footprint. Where possible, however, Capital Dynamics engages with other LPs and the GP to ensure the ESG footprint is aligned with the Firm's RI principles. This engagement might, for instance, include participation on advisory boards or other forms of investor activism such as LP motions. Furthermore, Capital Dynamics places additional emphasis on a GP's RI strategy and ESG history during due diligence. This is especially important for secondary investments where Capital Dynamics buys into existing portfolios of assets.

[11] Direct investment business refers to the Clean Energy and Infrastructure business

4. Exclusion list

Capital Dynamics knowingly invests in only those businesses that comply with applicable local laws and regulations. The Firm maintains an official list of 'absolute exclusions' that details the nature of business activities in which it will not finance. Furthermore, Capital Dynamics keeps a separate list of assets that are evaluated on a case-by-case basis.

Absolute exclusions

Capital Dynamics will not invest in businesses that generate revenue from the following activities:

- Child labor
- Slavery and prostitution
- Environmentally damaging chemicals
- Arms dealing

Case-by-case evaluation

Prior to investing in certain assets, Capital Dynamics evaluates the compatibility of such assets with the Firm's RI principles. Such evaluations and decisions take place on a case-by-case basis and are subject to feasibility.

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