



EXPLORE

EQUITY

Sustainable Investment and Ownership Policy

May 2021



Sustainable Investment and Ownership Policy

Having a long-term, responsible and sustainable approach to investment and ownership is Explore's way of creating value for investors, in portfolio companies and to society at large.

Our commitment

This Sustainable Investment and Ownership Policy applies to all investments made by Explore Equity and describes Explore's commitment to sustainability and approach to address sustainability risks in our investment decision-making process and throughout the entire life-cycle of our investments.

We endorse the Ten Principles of the UN Global Compact, which means we are committed to the highest standards of governance in the areas of Human Rights, Labour, Environment and Anti-Corruption.

We expect that our portfolio companies adhere to and comply with the principles in the UN Global Compact, UN's Universal Declaration of Human Rights and guidelines outlined in the Organization for Economic Co-Operation and Development (OECD) for Multinational Enterprises. Explore is developing tools and frameworks, supporting Portfolio Companies in improving their ESG performance, and monitoring status and progress on ESG issues.

Explore supports the goals set out by the 2015 Paris Agreement. We are implementing processes to measure and monitor the carbon emissions of our portfolio companies as defined by the Green House Gas protocol.

Responsible investments

Megatrends are used to challenge our current perception of reality and identify both systemic risks and areas for growth. Emerging ESG megatrends, such as, inter alia, climate change and resource scarcity, are part of this assessment.

Explore conducts a comprehensive ESG due diligence to identify sustainability risks and determine the sustainability proposition of the target business including taking into consideration the entire value chain of business activities. Sustainability risks include environmental, social or governance events or conditions that could cause an actual or a potential material negative impact on the value of the investment or a direct or indirect impact on an organization's ability to create, preserve or erode environmental and social value for itself, its stakeholders and society at large.

The ESG due diligence involves assessing how the company's industry is aligned with a sustainable future, what the key material sustainability risks and ESG topics are and what the performance of the company is with regards to these topics. By assessing the material sustainability risks and opportunities that exist throughout the value chain, Explore gains a sense of how these may affect the growth prospects and financial performance of the company, and whether the risks are deemed manageable.

For funds under management, Explore will seek to avoid investing in companies that have significant political risk and operating in industries highly dependent on exogenous factors, to avoid risks related to an unfavourable shift in industry or competitive dynamics. Further, Explore will not make investments in businesses that are not providing healthy, societal and/or environmentally supportive products or services.

Explore's approach to integrating the consideration of ESG value creation opportunities and sustainability risks into investments, both pre-investment and during the investment holding period, are based on the following principles:

Pre-Investment

- **Exclusions:** Explore recognizes that a responsible and sustainable investment approach contributes to long term value creation for investors and society. The opposite also holds true, with the potential to corrupt society's values and deteriorate individual freedoms. We will therefore seek to exclude investment opportunities in any company which:
 - I. Deliberately and repeatedly violate the laws, rules and regulations laid down by the national authorities in the markets in which the company operates
 - II. Is involved in:
 - a. The production of tobacco
 - b. The manufacturing or production of weapons which would breach fundamental humanitarian principles
 - III. Contributes to or is responsible for:
 - a. Serious or systematic violations of human rights (torture, deprivation of liberty, murder, illegal child labour, forced labour)
 - b. Serious violations of the rights of individuals in situations of war or conflict
 - c. Demonstrate a pattern of non-compliance with environmental regulations
 - d. Have an unacceptable high greenhouse gas footprint and have failed to take reasonable steps to reduce these emissions
 - e. Severe or gross corruption, or
 - f. Other serious violations of fundamental and internationally recognised ethical principles
- **Screening:** Prior to initiating a full due diligence process, Explore conducts a high-level evaluation of the target company assessing the company against the sustainability indicators defined in the annex below. Passing the test of positive environmental and/or social characteristics combined with the potential for improved and sustained ESG performance, will be the criteria for moving the company down the "screening funnel".
- **Due diligence:** Explore will seek to identify actual and/or potential principal adverse impacts or sustainability risks and document the findings, as well as opportunities discovered during the due diligence phase. Identified ESG opportunities and sustainability risks are used as an integral part of the background for Explore's investment evaluation and decision made by the investment committee. The due diligence will be conducted based on OECD guidelines for Multinational Enterprises.
- **Transformation program:** Furthermore, Explore has developed a qualified process to onboard and enhance existing processes in the portfolio companies to ensure compliance with environmental, social and governance laws and regulations and improved performance on relevant ESG dimensions. The transformation program is continuously under review for improvement, and will be supplemented by an ESG framework and ESG policies to be implemented by all portfolio companies.

Investment Holding Period

Explore will seek to utilize the opportunities identified in the due diligence during the ownership period in order to further increase the value of the investment. An important part of this is Explore's support to management to promote a culture of compliance with the ESG standards by providing best practice information and tools. Explore is implementing policies and procedures to continuously monitor portfolio companies' sustainable practices and ESG performance and gather sustainability information through regular monitoring and reporting from portfolio companies. Depending on the type of data, collection will occur at least annually. In accordance with Article 4 of Regulation (EU) 2019/2088, Explore will gather information and report on principal adverse impacts of its investment decisions on sustainability factors, including reporting on the mandatory sustainability indicators in the Regulatory Technical Standards, as and when the obligation to report in accordance with the Regulatory Technical Standards enters into force.

In terms of value creation, Explore will seek to further strengthen ESG areas where the target company could benefit from such increased focus, as well as to further improve upon identified ESG efficiencies, which have the potential to create value for its portfolio companies. An ESG framework is currently being developed as part of the Transformation Program and will be applied in all portfolio companies, supporting the companies in improving their ESG performance and increasing value of the company.

Due diligence will be conducted on a regular basis to identify potential material adverse impacts or risks that require a proactive dialogue with the board and/or management of the company at stake. If the dialogue fails, divestment based on the described exclusion criteria should be considered.

Governance Structure

Furthermore, Explore is developing a comprehensive set of governance policies that all portfolio companies will be required to adhere to. These represent Explore's expectations and help guide action in critical areas such as anti-corruption and whistleblowing. All portfolio companies shall assign responsibility for ESG to a senior member of staff and make sure that relevant ESG issues are part of the agenda at board meetings. Where there is exposure to jurisdictions with a higher risk of corruption, or that are subject to sanctions, extra resources are spent assessing the associated risks.

The set of governance policies is based on OECD guidelines for Responsible Business Conduct which cover among others: UN Guiding Principles on Business and Human Rights, with specific reference to the ILO Core Labour Conventions, climate and environmental issues, anti-corruption, fair competition, management structures, employee relations, remuneration of staff, tax compliance and consumer interests.

In the pre-investment due diligence, Explore focuses on the following indicators to assess good governance practices:

- Anti-corruption policies and conduct
- Independent board members
- Board composition and with risk and opportunity oversight
- Ethical Behaviour
- Structured and sufficient reporting and disclosure mechanism regarding compliance and risks
- Stakeholder engagement

Miscellaneous

This policy has been adopted by the Board of Directors of Explore Equity and will be reviewed at least annually.

Annex - sustainability indicators

The defined sustainability indicators used to measure the attainment of the environmental and social characteristics for funds under management includes, but are not limited to:

Environmental:

- GHG emissions (Scope 1 and 2, and including scope 3 from January 2023)
- Share of non-renewable energy consumption and production
- Exposure to companies active in the fossil fuel sector
- Impact on biodiversity in sensitive areas
- Land degradation, desertification, soil sealing
- Efficient use and reuse of natural resources
- Non-recycled waste ratio
- Water usage and recycling

Social:

- Gender pay gap
- Diversity at board level
- Grievance/complaints handling mechanisms related to employee matters

Overview of the Sustainable Investment & Ownership Policy

Adopted by	Board of Directors Explore Equity
Date of adoption	
Date of previous adoption	See Appendix
To be revised/adopted	At least annually
Applies to	Explore
Document owner	
Accessibility	Explore website
Classification	Public

Appendix - Previous versions of this document

Date	Description of amendments	Version