

Aurelius Policy

“Responsible Investment and Management”

Introduction

The focus on responsible and sustainable investment has grown substantially since the financial crisis and is now one of the leading issues on the corporate agenda. Many institutional investors, as signatories to the United Nations-backed Principles for Responsible Investment, now expect companies to strongly commit to ESG issues by having a coherent and structured framework in place – both to achieve environmental and social change and to safeguard long-term performance of their investments.

As investor, owner and operator, AURELIUS recognises the vital importance of sustainability to combine business success with ecological, social, and governance (ESG) factors. We believe that focussing on sustainability is an important part of building lasting value. Therefore, AURELIUS incorporates ESG issues in its business activities on an ongoing basis and embeds sustainability aspects into its core business and its key processes.

1. General Principles

With this proven investment and management approach, AURELIUS has grown over the last ten years from a local turnaround investor to an international multi-asset manager investing in a wide range of sectors and across the capital structure. By incorporating environmental, social, and governance (ESG) issues in both our investment and operational decisions, we reduce costs, minimise risks and explore new opportunities to serve our stakeholders' interests and society at large. This framework wants to further formalise AURELIUS's approach to sustainability, recognising that risk mitigation and value creation go hand in hand. Accordingly, Aurelius has adopted a set of comprehensive responsible investment guidelines.

Guidelines

These guidelines were developed by a group of the world's major institutional investors in a dialogue which took place under the umbrella of the UN-backed Principles for Responsible Investment (PRI).¹ The guidelines call investors to:

- Consider environmental, public health, safety, and social issues associated with target companies when evaluating whether to invest in a particular company or entity, as well as during the period of ownership;
- Seek to be accessible to, and engage with, relevant stakeholders either directly or through representatives of portfolio companies, as appropriate;
- Seek to grow and improve the companies in which they invest for long-term sustainability and to benefit multiple stakeholders, including on environmental, social and governance issues. To that end, investors work through appropriate governance structures (e.g. board of directors) with portfolio companies with respect to environmental, public health, safety, and social issues, with the goal of improving performance and minimizing adverse impacts in these areas;
- Seek to use governance structures that provide appropriate levels of oversight in the areas of audit, risk management and potential conflicts of interest and to implement compensation and other policies that align the interests of owners and management;
- Remain committed to compliance with applicable national, state, and local labour laws in the countries in which they invest; support the payment of competitive wages and benefits to employees; provide a safe and healthy workplace in conformance with national and local law; and, consistent with applicable law, will respect the rights of employees to decide whether or not to join a union and engage in collective bargaining;
- Maintain strict policies that prohibit bribery and other improper payments to public officials according to EU and US law, similar laws in other countries, and the OECD Anti-Bribery Convention;
- Respect the human rights of those affected by their investment activities and seek to confirm that their investments do not flow to companies that utilize child or forced labour or maintain discriminatory policies;
- Provide timely information to their partners on the matters addressed herein, and work to foster transparency about their activities;
- Encourage their portfolio companies to advance these same principles in a way that is consistent with their fiduciary duties.

AURELIUS is committed to these core tenets, making them guiding principles for each business AURELIUS is involved in – for both daily work and going forward. To specify these guidelines and give further clarification, AURELIUS wants to expand on the following aspects:

Environment

AURELIUS expects all responsible managers to continuously identify environmental risk and opportunity factors in all portfolio companies, processes, products and supply chains, so as to reduce risk and/or create value, with a view to long-term sustainable change. Such risks could concern a range of factors including resource use/depletion, water scarcity, waste production and disposal; emissions to air, land and water; energy use, cost of carbon and climate change; biodiversity and habitat conservation. Conversely, environmental opportunities may include energy

(or other resource) efficiencies, waste reduction or the development of new products with positive environmental attributes.

Since efficiency has always been at the core of its business, AURELIUS has a constant focus on doing more with less to reduce operating and capital expenses while minimising our impact on the environment. AURELIUS strives to reduce energy and water consumption, decrease waste production through better technology and sustainable operating procedures and thus minimise the carbon footprint of our portfolio.

Equal Employment Opportunity / Non-Discrimination

Equal Employment Opportunity has always been, and will continue to be, a fundamental principle of AURELIUS, where employment is based only on personal capabilities and qualifications without discrimination related to race, colour, age, gender, sexual orientation, marital status, military or veteran status, national origin, disability, religion, or any other characteristic protected by law. This commitment against any form of bias, prejudice, harassment or discrimination is related to recruitment, hiring, compensation, benefits, training, promotion, transfer, discipline, termination, and all other terms and conditions of employment.

AURELIUS is committed to a work environment in which all individuals are treated with respect and dignity. Everyone has the right to work in a professional atmosphere that promotes equal opportunities and prohibits discriminatory practices, including harassment. AURELIUS expects all portfolio companies to enact an explicit policy to observe human rights for their own operations as well as for their supply chains.

Anti-Corruption / Anti-Money Laundering

AURELIUS condemns corruption in all its forms and will not tolerate any form of bribery. Wherever AURELIUS operates, effective countermeasures will be implemented and enforced by:

- Establishing a system of internal controls requiring pre-clearance or reporting when business hospitality and other things of value are given to government officials, or received from vendors, potential vendors, and other service providers;
- Necessary vetting of intermediaries and business partners;
- Preventing money laundering, terrorist financing, or any violations of sanctions-related rules and damage;
- Training all relevant employees, especially in explaining the process for escalating and reporting issues like the mentioned; and
- Consequently prosecuting all statutory violations in all jurisdictions AURELIUS operates in.

Conflicts of Interest / Whistleblowing

Business dealings creating a conflict between the interests of AURELIUS and an employee are unacceptable. AURELIUS establishes internal procedures that seek to

- Ensure that actual and potential conflicts of interest are identified;
- Reduce the instances when conflicts of interest arise and address conflicts that do arise in a way that protects and deals fairly with the interests of those involved;
- Disclose all possible conflicts as soon as possible so that potential damage can be assessed and prevented from the very beginning.

AURELIUS expects all staff to maintain the highest possible standards and integrity. Any suspected wrongdoing and fraud must be reported. This includes bribery, fraud or other criminal activity, miscarriages of justice, health and safety risks, damage to the environment and any breach of legal norms or professional obligations. AURELIUS aims to encourage openness and will support and protect whistle-blowers who raise genuine concerns under this policy.

2. ESG integration in the private equity investment cycle

Private equity is foremost an ownership model for investments in privately held companies of all sizes and at all stages of development. The nature of the long-term partnerships formed through negotiations and ongoing interactions between the private equity investor and its portfolio companies is fundamental to how the industry operates and sets it apart from other asset classes. Given this hands-on active stewardship of businesses and long-term ownership timeframe, AURELIUS integrates ESG issues into its investment cycle, i.e. throughout the duration of the partnership with the portfolio companies, from selection, due diligence, asset management through to exit.

Selection

AURELIUS refrains from investing in companies involved in activities with negative externalities for human beings and adverse social outputs and is therefore not investing in companies that contravene international standards or conventions – like, for example, human rights violations, child labour, corruption, environmental degradation – or in countries that systematically violate human rights or are under arms embargo of the United Nations or the European Union.

Due diligence

During the due diligence process, AURELIUS integrates ESG into its analysis of potential investments to understand the relevant risks and opportunities. In this pre-investment stage, AURELIUS starts considering ESG right from the initial screening through to the investment, searching especially for “red flag issues”, i.e. key concerns from an environmental, social, and governance perspective. When material ESG issues are identified – resulting especially from

regulatory compliance, liabilities, cost savings, new revenue streams or potential reputational issues –, they must be included in the acquisition discussions to fully assess the ESG risks or opportunities, to cover all relevant points, to understand the levels of risk and to address potential mitigation measures.

Asset management during investment ("active stewardship")

To manage ESG risks and value creation opportunities during the investment stage, AURELIUS fully commits to its responsible investment approach, partnering with the portfolio management teams

- to identify and raise all material ESG issues to the relevant decision-makers;
- to build up own ESG management systems;
- to consequently mitigate all material ESG risks assisting the portfolio companies in the development of corrective action plans;
- to focus on the main opportunities in ESG value creating for the benefit of environment, workforce or society;
- to monitor the ongoing progress on ESG issues, as applicable, by standard or specific non-financial data; and
- to share ESG knowledge between the portfolio companies and the investment professionals.

Exit

The presentation of material ESG factors must be a consistent feature of any exit process. Therefore, ESG impacts the formal exit planning and exit management process. Adopting a proactive approach helps to ensure that portfolio companies are better prepared, allows sufficient time to complete any ESG initiatives and facilitates a smooth exit process. AURELIUS is convinced that properly implemented and maintained ESG strategies during the investment and ownership period will have a positive impact upon exit with improved ESG performance contributing to higher exit prices. Information on value creation as well as risk reduction by ESG countermeasures is made available in the exit process.

3. Monitoring and implementation

AURELIUS strives for transparency in its approach of incorporating ESG issues in its investments by reporting regularly on its progress and outcomes. Therefore, it will develop and build up financial and operational data from the portfolio companies to monitor and address all material ESG matters, especially action plans and compliance with all applicable laws and standards, as well as opportunities for improvement.

AURELIUS takes its responsibility as investor and operator seriously. All teams are responsible for monitoring their companies once we have initiated an investment, which includes identifying potential tail-risks to the issuer (by country, sector and company) and assessing the quality of the

management team. AURELIUS has investment professionals dedicated exclusively to helping improve the operations of companies and can mobilize an extensive network of outside resources if needed. Should ongoing monitoring raise a concern with respect to ESG for a portfolio company, AURELIUS will consider flagging the issue to determine the appropriate course of action.

Therefore, AURELIUS fosters “active ownership” for ESG and strategic issues, both financial and non-financial, and commits to provide ESG training to all relevant employees. Additionally, AURELIUS establishes appropriate collaboration models and expertise sharing between and across the holding and the portfolio companies. An appointed representative for sustainability coordinates all ESG efforts and ensures the effective implementation of this policy.

AURELIUS will seek to update this policy continually.

References

¹ cf. American Investment Council (formerly Private Equity Growth Capital Council):
“Guidelines for Responsible Investing”