POLARIS
THE POWER OF PARTNERSHIP

Polaris Responsible Investment Policy

Introduction

Polaris Management A/S is an authorized Alternative Investment Fund Manager in accordance with the Danish Alternative Investments Funds Management Act. This Responsible Investment Policy describes Polaris Management A/S commitment to sustainability and how it is integrated in our processes. It describes our compliance with the SFDR[1] requirements.

Background

Polaris Management A/S ("Polaris") is the advisor and fund manager for the Polaris Funds. In relation to the investment activity, Polaris acts as fund manager on behalf of the investors and undertakes investment execution and continuous investor reporting concerning portfolio company and fund development etc. Together, Polaris Management A/S and the Polaris Funds constitute Polaris Private Equity.

At Polaris Private Equity, it is our mission to generate returns for our investors by acquiring companies, then developing and improving them strategically and operationally before exiting them. Polaris Private Equity ("PPE") invests in the lower mid-market segment which is defined as companies with a turnover in the range of DKK 150m to DKK 1,500m. PPE primarily targets well-established companies with a strong market position and profitability. The companies are based in the Nordic region, mainly Denmark and Sweden, and hold a local, regional, or global potential for value growth, which Polaris' capital injection and active ownership can help materialize. PPE seeks controlling equity interests, either through majority ownership or in cooperation with other investors such as the current management or through a shareholder agreement. We normally own our portfolio companies for a period between three to seven years before exit.

For its advisory and management services, Polaris Management A/S receives a management fee from the funds and thus ultimately the investors. The Limited Partnership Agreement ("LPA") with the investors makes up the contractual basis for the activities. In accordance with Directive 2011/61/EU, Polaris must, as manager of the alternative investment funds, act according to the alternative investment funds' and investors' interest. Polaris must therefore apply appropriate policies and procedures which prevent irregularities. Furthermore, Polaris must also implement procedures that ensure effective management of the alternative investment funds.

Overall, the approach to investments can be separated into two phases:

- Investment process. Identification of investment opportunities, evaluation and due diligence and the making of the investment including negotiation, signing and closing
- Portfolio management: Active ownership and sale of the company (the exit)

[1] Regulation (EU) 2019/2088 of The European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

Sustainability in Polaris Private Equity

Polaris Private Equity has a responsibility towards a broad range of stakeholders such as investors, employees, customers, suppliers, business relationships and the communities in which Polaris Management A/S and our portfolio companies operate. We take this responsibility seriously and we are committed to actively promoting sustainability throughout Polaris Private Equity[2]. Within the scope of sustainability, we include social, environmental, and economic impacts according to the internationally agreed principles for sustainable development (the "Sustainability Principles") consisting of the UN Guiding Principles (UNGPs from 2011), and as referenced by the OECD Guidelines (OECD from 2011).

Sustainability is fully integrated into our key processes to ensure competitiveness, performance, and long-term returns. It is our policy to ensure that we and our companies constantly demonstrate responsible business conduct by managing potential and actual adverse impacts relating to the Sustainability Principles. In addition, we promote that our companies contribute to the fulfilment of such principles through their core business activities.

As an investor, we comply with codes and guidelines of Invest Europe (formerly European Venture Capital and Private Equity Association) and Active Owners, formerly Danish Venture Capital and Private Equity Association (DVCA), and we have committed to the Principles for Responsible Investment (PRI). Both independently and through these memberships, we commit to and will demonstrate good practice by applying the Sustainability Principles as standard for responsible business conduct.

We will also work to support and promote the general acceptance and implementation of the Sustainability Principles and PRI throughout the investment community. We will also work to continuously improve and develop our efforts to promote sustainability throughout Polaris Private Equity.

The purpose of this Responsible Investment Policy is to outline what we expect from our company and our portfolio companies in terms of responsible business conduct and sustainability at Polaris Management A/S, in the investment process and in portfolio management.

Overall Roles and Responsibilities

Polaris Management A/S will promote sustainability and assess and promote compliance with the Sustainability Principles when addressing the impacts of Polaris Management A/S own activities and the activities in all portfolio companies[3];

Polaris Management A/S is responsible for overseeing that this policy is implemented, when acting as investment advisors, as owners and when acting as directors on portfolio company boards.

All employees, board members and executive management in Polaris Management A/S are responsible for assisting Polaris Management A/S and our companies in meeting our responsibilities.

Should any such person find or receive information that Polaris Management A/S or a company under evaluation for investment, causes, contributes, or is linked to potential or actual *severe* impacts, which comprise principal and salient adverse impacts, in relation to any of the Sustainability Principles, such person shall immediately inform the CEO or CFO of Polaris Management A/S hereof.

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[2] Please see our overall Sustainability Commitment published on our webpage, www.polarisequity.dk

[3] Polaris Responsible Investment Policy has been applied retroactively to all portfolio companies acquired after the 1st of January 2017.

Renumeration Policy in Polaris Management

The overall objective of Polaris Management's remuneration policy is to attract, retain, develop and reward the employees who contribute to the value creation of Polaris Management and thereby support a performance-oriented culture within the company.

This policy ensures that remuneration in Polaris Management is credible, effective, and fair, that the ratio of fixed vs. variable salary is adequate, proportional, and balanced and finally that the overall remuneration model is aligned with sound and efficient risk management principles. A central part of the policy is to avoid risk taking including sustainability risk as defined in the Regulation (EU) 2019/2088 that that exceeds the level of tolerated risk of Polaris Management, while at the same time facilitating a flexible remuneration.

Sustainability Focus Areas

In our work with sustainability, we have decided to give extra attention to three focus areas across Polaris Private Equity and support these areas with key performance indicators:

- Climate action: Work to combat climate change by seeking to limit greenhouse gas (GHG) emissions across Polaris Private Equity. To support this focus area we will measure and follow-up on GHG emissions on Scope 1, 2 and 3[4] and GHG intensity[5].
- Employer responsibility: Work to promote a healthy working environment throughout Polaris Private Equity. To support this focus area we will measure and follow-up on employee turnover.
- Gender equality: Work to promote gender equality throughout Polaris Private Equity. To support this focus area we will measure and follow-up on gender equality[6] of the boards and management teams.

Sustainability Reporting

In alignment with our commitment, Polaris Management A/S publicly discloses:

- Our Sustainability Commitment
- This Responsible Investment Policy
- An annual sustainability report – Polaris Sustainability report – which will be published as of 2021. The sustainability report will include our status, progress and plans for implementation of sustainability due diligence and how we acted in relation to severe impacts.

[4] Sustainability indicator 1 in Annex I, Final Report on Draft regulatory Technical standards, p 60
[5] Sustainability indicator 2 in Annex I, Final Report on Draft regulatory Technical standards, p 60
[6] Sustainability indicator 13 in Annex I, Final Report on Draft regulatory Technical standards, p 63

Polaris investment process

Polaris investment process consists of pre-defined gates where the last gate is always required before the investment can be fully approved by the appropriate decision bodies. The purpose with the first gate is to effectively classify new investment opportunities and thereby reduce the overall investment risk by only allowing targets to pass through gate 1 if they hold characteristics that match Polaris investment criteria. The due diligence in the final phase consists of several aspects that are to be investigated for the target company:

- *Commercial*: in-depth analysis of the company's commercial position such as main markets, products, competitors, and trends. The process is handled by a reputable management consultancy company that holds relevant industry experience
- *Financial:* in-depth analysis of the company's financial position such as historic development, forecast verification, tax matters, IT matters etc. The process is handled by a reputable accounting company
- *Legal:* in-depth analysis of the company's legal position such as corporate matters, compliance, environmental matters, contractual obligations etc. The process is handled by a reputable legal adviser
- *Sustainability:* analysis of the investment from a sustainability perspective. The process is supported by reputable advisors in the area.

Sustainability in the investment processes

When screening for new investment opportunities, Polaris Management A/S considers to what extent the companies that we identify as potential investment opportunities meet our requirements with respect to sustainability. Sustainability related risks and opportunities might have an important impact on a company's current and future financial position and risk profile and must be considered. Sustainability considerations and alignment with Polaris investment criteria related to sustainability are therefore integrated in the evaluation of all opportunities throughout the investment process,

All findings, whether relating to adequate management of risks or to the ability to reap benefits from strategic work with sustainability, are considered during pricing and valuation, and form part of our investment risk assessment and decision-making, and are integrated into the overall business case and the investment mandate recommended to Polaris investment committee.

Should Polaris Management A/S find or receive information that a company under evaluation for investment, causes, contributes, or is linked to potential or actual *severe* impacts in relation to any of the principles mentioned in the Sustainability policy, such person shall immediately inform the CEO or CFO of Polaris Management A/S hereof.

Sustainability criteria

The following Sustainability criteria need to be met for an investment to be considered within Polaris investment mandate and be considered an eligible investment for Polaris from a sustainability perspective:

- The company is not part of, or has an important exposure to, a "no-go" sector: gambling, weapons, tobacco, alcohol, and pornography[7].
- The company does not have an unacceptable exposure to countries, persons, or entities on the UN sanctions list[7]
- The risk of sustainability related adverse impacts of the company, as defined in our Sustainability Principles, is determined to be acceptable and manageable
- The company has processes, procedures, and policies in place to govern and manage sustainability and the company's adverse impact, as defined in our Sustainability

[7] These investment criteria are agreed explicitly with our investors as part of the LPA

Principles, or we believe that we will be able to establish these in collaboration with the management team post acquisition

Sustainability related risks and opportunities

Each investment opportunity has its own unique set of sustainability related risks and opportunities which need to be evaluated in each situation. Each case might then have one or more risks and opportunities related to one or several of the areas under our Sustainability Principles which include both environmental, social, or economic impacts. The specific risks and opportunities can in turn impact the current and future financial situation in several ways, hereunder:

- Impact on revenues: through impaired or improved competitive position or changes in customer behavior
- Impact on expenses: through increased operating costs necessary to adapt a company's products and services, costs related to improving the management of risks and adverse impacts and increased fees, taxes or other levies related to sustainability. In addition, through potentially increased one-off costs related to sustainability such as project costs, fines or similar.
- Impact on investments: potential needs for additional Investments to adapt facilities or manufacturing processes
- Impact on the assets and liabilities: impact on the valuation of the company's assets and liabilities hereunder land, property, plant, and equipment
- Impact on financing: positive or negative impact on the companies' financing costs and ability to secure financing

The risks and opportunities related to sustainability are evaluated alongside all other risks and opportunities of a potential investment. If a particular investment fulfills our investment criteria, all risks and opportunities, hereunder sustainability related risks and opportunities, are then fully included in the business plan, the financial forecast and the overall valuation of the company.

Sustainability Due Diligence

Prior to making any final positive decision to invest in a company, we perform a thorough due diligence analysis of all facts of material importance to the investment decision. This includes a sustainability due diligence which typically includes the following elements:

- Alignment with Polaris Sustainability criteria and investment mandate.
- Sustainability performance & maturity of the sector.
- Sustainability performance & maturity of the company. Analysis of the company's sustainability platform (including related governance, management systems and processes, organization, and information of performance on key parameters and any on-going initiatives. This includes whether and how any possible severe impacts are addressed. The evaluation is supported by a sustainability questionnaire.
- Impact analysis: current and future positive and negative sustainability impacts and related risks and opportunities. The potential environmental impacts are analyzed and for companies which are deemed to experience a meaningful impact from changes related to climate change, a preliminary TCFD[8] analysis is carried out.
- Sustainability program: first hypothesis of future actions to improve sustainability performance

[8] Task Force on Climate-related Financial Disclosures (TCFD). Framework to disclose climate-related risks and opportunities through existing reporting processes.

Polaris Portfolio Management

Corporate governance model

The key objective for Polaris is to create value and build a stronger company by active ownership through a structured value creation process combined with an effective corporate governance structure. Shortly after the closing of a transaction Polaris implements a new governance structure for the portfolio company in question. The general idea is that the development of the portfolio companies should be driven by the close cooperation between the respective company's Board of Directors ("board") and management as well as Polaris. Generally, the role of the board is, amongst other, but not limited to:

- Act on behalf of the owners and represent their interests during Polaris ownership period of typically three to seven years
- Initiate a strategy process to ensure a common understanding between management, board and owners of the company's situation, possibilities, goals and strategy
- Closely follow up on strategy implementation and ensure "sense of urgency"
- Recruit, remunerate and/or dismiss top management
- Ensure relevant guidelines for responsibility, planning, follow-up and risk management
- Ensure legal and financial compliance
- Contribute with specific competencies and network
- Participate in specific ad-hoc working groups and act as a discussion board to management
- Ensure adherence to Polaris policies and ambitions with respect to sustainability

Portfolio Management process

On average, the holding period of a company is between three to seven years. In general, the active ownership period can be split into three phases:

- Start-up period / 100-day plan
- Execution / development period
- Exit preparation

The start-up period is initiated just after closing of the transaction. Firstly, the start-up period is characterized by a 100-day plan that involves a number of "to-do's" following the ownership change. The typical starting point of the 100-day plan is establishing the governance structure as previously described. Once the governance structure is in place, the focus turns to the strategic review of the company based on the due diligence findings during the transaction process. Founded on this review a more detailed and substantiated business plan is developed together with management and the board. This business plan should also include a plan for the development of the company's sustainability performance. Once the business plan and management team are fully in place then the management incentive scheme is developed by Polaris, which allows for key employees and board members to become shareholders in the company. The incentive scheme helps to ensure interest alignment among management, board, and Polaris.

Following the start-up period and the successful execution of the 100-day plan, the company moves into the execution/development phase where the main focus is on execution of the business plan initiatives, including plans related to sustainability.

To facilitate and support the portfolio management process and hereunder the creation and execution of the business plan, Polaris has developed what is called the Polaris Excellence Model. This Excellence Model is a systematic value creation model, which has been designed to support the portfolio company in its value creation with workshops, toolboxes, the Polaris Expert Network and dedicated Polaris contacts for each topic.

The exit preparation stage firstly involves identification and approach of potential buyers, preparation of the company and management and lastly an actual sale.

Polaris views the exit process as highly value-adding, as prospective buyers will value a company that provides detailed material and a well-communicated business plan and strategy, including detailed information regarding sustainability performance and plans, as less risky and correspondingly more valuable. It is thus an individual value lever in the Polaris Excellence Model and area that Polaris spends considerable effort on.

Sustainability in Portfolio Management

Our portfolio companies shall, at a minimum, establish governance structures to meet the requirements embedded in our Sustainability Principles founded on the UNGPs/OECD consisting of:

- Policy Commitment through a Sustainability policy
- Sustainability due diligence processes, including responsibility in business relationships
- Grievance mechanisms

We also expect that all portfolio companies sign up to the UN Global Compact (UNGC) and adhere to the reporting requirements thereof.

In addition, we expect that our portfolio companies implement Polaris Sustainability Program, which is part of Polaris Excellence Model, adapted to fit the individual circumstances of each company. Polaris Sustainability Program is a standard structure based on our Sustainability Principles that defines the analysis, structure and plans that a Polaris portfolio company should have in place with respect to sustainability. It is our ambition that our requirements with respect to sustainability are implemented by each portfolio company within twelve months post acquisition if that is practically possible.

Roles and responsibilities in Portfolio Management

All employees, board members and executive management in our portfolio companies are responsible for assisting our companies in meeting our responsibilities.

Should any such person find or receive information that a portfolio company causes, contributes, or is linked to potential or actual *severe* impacts in relation to the Sustainability Principles, such person shall immediately inform the CEO or CFO of Polaris Management A/S hereof.

The boards of our portfolio companies are responsible for complying with this Responsible Investment Policy, and thus ensuring that adequate sustainability policies and strategies relevant to the specific company are developed, and for overseeing that executive management implement these and that the portfolio company regularly reports on progress.

Polaris Management A/S will provide portfolio company management with tools, guidance, and knowledge sharing opportunities on sustainability and good corporate governance.

The boards of directors of all portfolio companies must consider sustainability performance as part of their performance review, ensure that sustainability impact assessments form part of the regular risk management cycle, and review the progress of sustainability implementation at least annually and when approving the annual UNGC reporting (Communication on Progress). Active measures to prevent or mitigate identified risks of severe impacts should be discussed. For companies which are deemed to experience a significant impact from climate change, a TCFD[9] analysis should be

[9] Task Force on Climate-related Financial Disclosures (TCFD). Framework to disclose climate-related risks and opportunities through existing reporting processes.

considered identifying measures to prevent or mitigate potential future risks and exploit potential future opportunities.

Polaris Management A/S oversees that all portfolio companies commit to responsible business conduct, perform annual sustainability impact assessments, integrate the findings, and include the handling of severe impacts in the annual UNGC reporting of the company, as soon and to such extent as is reasonably possible/feasible under the circumstances.

Portfolio Company Reporting

All portfolio companies shall report publicly on sustainability in line with legal requirements and the requirements of UN Global Compact. This means that portfolio companies disclose:

- Their Policy Commitment through a Sustainability Policy
- Information on progress in implementation and maintenance of their sustainability due diligence system to address adverse impacts in relation to the Sustainability Principles
- The establishment of effective grievance mechanisms that enable the affected person(s) to raise concerns or the appropriate authorities to be notified
- The effectiveness of actions to address severe impacts that the portfolio companies cause, contribute to, or are linked to through their value chain, as soon and to such extent as is reasonably possible/feasible under the circumstances.

Good Corporate Governance Principles

In addition to establishing governance systems to manage adverse impacts on sustainable development, Polaris Management A/S has set strict requirements on the way we and our portfolio companies conduct our business. Polaris Management A/S provides support and guidance to portfolio company management to ensure sound governance practices.

The boards of our portfolio companies must establish policies that ensures a culture of legal compliance and responsible business conduct and encourage people to report concerns.

In our portfolio companies, systems must be in place to ensure that board members are appointed based on competence and experience, that their responsibilities are clearly defined, that the boards evaluate their own performance, and that conflicts of interests are avoided.

The boards of our portfolio companies must establish policies and systems that ensure board oversight with executive management, performance and remuneration reviews, legal compliance with respect to books, records, and accounting standards, effective internal controls, and solid risk management processes. Specifically, it is important that the renumeration of the management team and employees in the portfolio company does not encourage risk taking, including sustainability risks, beyond acceptable levels.