

Polaris

Responsible Investment Policy

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1. 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 also describes our compliance with the SFDR¹ requirements.

2. 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.

3. Polaris

At Polaris, it is our mission to generate returns for our investors by investing in mid-market companies based in the Nordic region. We target investments in both equity interests and debt instruments, and we normally invest in companies for a period between three to seven years before exit. At Polaris, we operationalize our mission by managing funds with different investment strategies. Each investment strategy is supported by a dedicated team of investment professionals and the shared functions at Polaris Management A/S. Polaris is currently managing three investment strategies:

- Polaris Private Equity funds (“PPE”)
- Polaris Flexible Capital funds (“PFC”)
- Polaris Public Equity funds (“PPU”)

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.

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

4. Sustainability in Polaris

Polaris 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. 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), Active Owners, formerly Danish Venture Capital and Private Equity Association (DVCA), and the Swedish Venture Capital Association (SVCA), 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 work to support and promote the general acceptance and implementation of the Sustainability Principles and the Principles of PRI throughout the investment community. We also work to continuously improve and develop our efforts to promote sustainability throughout Polaris.

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.

4.1 Overall Roles and Responsibilities

Polaris Management A/S 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 companies²;

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.

² Polaris Responsible Investment Policy has been applied retroactively to all portfolio companies acquired after the 1st of January 2017.

4.2 Remuneration 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.

4.2 Sustainability Focus Areas

In our work with sustainability, we give extra attention to three focus areas across Polaris:

- Climate action: Work to combat climate change by seeking to limit greenhouse gas (GHG) emissions across Polaris.
- Employer responsibility: Work to promote a healthy working environment throughout Polaris.
- Gender equality: Work to promote gender equality throughout Polaris.

4.3 Sustainability Reporting

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

- Our Sustainability Commitment
- This Responsible Investment Policy ("RIP")
- A statement of Principle Adverse Impacts on sustainability factors ("PAI statement")

4.4 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 both our investment risk assessment as well as decision-making and are integrated into the overall business case and the investment mandate recommended to Polaris investment committees.

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.

4.5 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.

4.6 Statement of Principal Adverse Impacts on sustainability factors ("PAI")

Throughout the investment process and as part of the overall evaluation of sustainability related risks and opportunities, Polaris considers the principal adverse impact on sustainability factors that our investment decisions may have.

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

In the portfolio management process, we continue to evaluate and follow-up on sustainability-related risks and opportunities for the company including principle adverse impacts.

It is our ambition that our portfolio companies shall, at a minimum, establish governance structures to meet the requirements embedded in our sustainability principles. These principles are founded on the UNGPs and the OECD's guidelines that consist of a policy commitment to having a sustainability policy, sustainability due diligence processes, and grievance mechanisms. The key objective for Polaris is to create value and build a stronger company through active ownership including a structured value creation process, combined with an effective corporate governance structure. Our governance structure also ensures responsible management of sustainability related risks and opportunities at the company level also including principle adverse impacts on sustainability factors.

Polaris will annually publish a PAI statement which discloses the status and progress of this work at Polaris level and at the level of each individual fund managed by Polaris.

5. Polaris Private Equity

The mission of Polaris Private Equity (PPE) is 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.

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)

5.1 Sustainability in Polaris Private Equity

Polaris Private Equity follows the overall policy for Polaris regarding sustainability. Investing in controlling equity stakes gives comparatively large opportunities to promote sustainability through active ownership in the Portfolio management phase. This opportunity has been integrated into PPE’s strategy with respect to sustainability.

5.1.1 Sustainability Focus Areas

The overall focus areas of Polaris is also the focus of Polaris Private Equity and they are supported by 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 3³ and GHG intensity⁴.
- 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 equality⁵ within the boards and management teams.

³ Sustainability indicator 1 in Annex I, Final Report on Draft regulatory technical standards, p 60

⁴ Sustainability indicator 2 in Annex I, Final Report on Draft regulatory technical standards, p 60

⁵ Sustainability indicator 13 in Annex I, Final Report on Draft regulatory technical standards, p 63

5.1.2 Sustainability Reporting

Given the large scope of Polaris Private Equity and the opportunity to impact, Polaris Management A/S will, for Polaris Private Equity, publicly disclose:

- 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.

5.2 Polaris Private Equity investment process

Polaris Private Equity's 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 of 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.

5.2.1 Sustainability criteria

The following Sustainability criteria need to be met for an investment to be considered within Polaris Private Equity's investment mandate and be considered an eligible investment for PPE 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 pornography⁶.
- The company does not have an unacceptable exposure to countries, persons, or entities on the UN sanctions list⁷
- 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 Principles, or we believe that we will be able to establish these in collaboration with the management team post-acquisition.

⁶ These investment criteria are agreed explicitly with our investors as part of the LPA

5.2.2 Sustainability Due Diligence

Prior to making any final positive decision to invest in a company, PPE performs 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 Impact analysis is founded on Polaris' Sustainability Principles and the internationally recognized frameworks: SASB⁷, TCFD⁸ and SDG's/GRI⁹. 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 analysis is carried out. The analysis includes a consideration of the key performance indicators related to Polaris' Sustainability Focus Areas and the Principle Adverse Impacts on sustainability factors.
- Sustainability program: first hypothesis of future actions to improve sustainability performance.

5.3 Polaris Private Equity Portfolio Management

5.3.1 Corporate governance model

The key objective for PPE is to create value and build a stronger company through active ownership including a structured value creation process combined with an effective corporate governance structure. Shortly after the closing of a transaction PPE 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 PPE. Generally, the role of the board is, amongst other, but not limited to:

- Act on behalf of the owners and represent their interests during PPE's 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.

⁷ Sustainability Accounting Standards Board (SASB)

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

⁹ UN's Sustainable Development Goals (SDG's) as operationalized for corporations by the Global Reporting Initiative (GRI)

- Ensure adherence to Polaris’ and PPE’s policies and ambitions with respect to sustainability.

5.3.2 Portfolio Management process

On average, the holding period of a PPE portfolio 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 PPE, 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.

PPE 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 PPE spends considerable effort on.

5.3.3 Sustainability in Portfolio Management

PPE’s 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 of PPE’s portfolio companies will sign up to the UN Global Compact (UNGC) and adhere to the reporting requirements thereof.

In addition, we expect that our portfolio companies will implement the 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.

5.3.4 Roles and responsibilities in Portfolio Management

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

Should any such person find or receive information that a PPE 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 PPE's 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 PPE's portfolio company management with tools, guidance, and knowledge sharing opportunities on sustainability and good corporate governance.

The boards of directors of all PPE's 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 TCFD¹⁰ analysis should be considered identifying measures to prevent or mitigate potential future risks and exploit potential future opportunities.

Polaris Management A/S oversees that all of PPE's 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.

5.3.5 Portfolio Company Reporting

PPE's portfolio companies shall report publicly on sustainability in line with legal requirements and the requirements of UN Global Compact. This means that PPE's 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.

¹⁰ Task Force on Climate-related Financial Disclosures (TCFD). Framework to disclose climate-related risks and opportunities through existing reporting processes.

- 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.

5.3.5 Good Corporate Governance Principles

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

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

In PPE's 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 PPE's 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 remuneration of the management team and employees in the portfolio company does not encourage risk taking, including sustainability risks, beyond acceptable levels.

6. Polaris Flexible Capital

The mission of Polaris Flexible Capital (PFC) is to generate returns for our investors by investing in companies in the lower mid-market segment. The geographical focus of the fund will primarily be the Nordic region, with the opportunity to selectively pursue opportunities outside of this region.

The Fund will be providing capital for growth, succession, transformations, and consolidations to attractive companies across different tranches of the capital structure. Operating within a flexible investment mandate, PFC will tailor capital solutions to best fit the needs of the companies it will be partnering with, thereby supporting companies and owners. PFC will be investing capital throughout the capital structure from i) junior loans, including uni-tranche, and second lien to ii) preferred equity and common minority equity. In addition, hereto the fund has the opportunity to invest up to 20% of the fund in listed credit bonds.

The fund will seek to partner with strong owners and co-investors and will have a contemplated holding period of two to five years.

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

- Investment process. Identification of investment opportunities, evaluation, due diligence, structuring, negotiation, signing and execution
- Portfolio management: Active ownership, monitoring and sale, redemption of the investment (the exit)

6.1 Sustainability in Polaris Flexible Capital

PFC follows the overall policy for Polaris regarding sustainability. PFC's ability to promote sustainability will reflect the governance rights that the individual investments have. As PFC does not make control investments, the ability to influence decision making at portfolio company level will be constrained compared with PPE. It is, however, PFC's ambition to use the influence it has at its disposal to impose high ambitions comparable to those of Polaris Private Equity. PFC will seek to leverage the sustainability tools, processes and platforms available in Polaris to support this ambition.

6.1.1 Sustainability Focus Areas

The overall focus areas of Polaris will be supported by PFC whenever possible:

- Climate action: Work to combat climate change by seeking to limit greenhouse gas (GHG) emissions across Polaris.
- Employer responsibility: Work to promote a healthy working environment throughout Polaris.
- Gender equality: Work to promote gender equality throughout Polaris.

6.1.2 Sustainability Reporting

Given the limited influence that PFC have on each portfolio company, PFC will not issue a separate sustainability report in addition to regular investor reporting and what is required by local legislation.

6.2 Polaris Flexible Capital investment process

PFC's investment process consists of pre-defined gates through which prospective investments are prioritized and evaluated on continuously increasing knowledge and insight.

The structured due diligence process in the final phase consists of several elements and areas which are to be investigated for the target company. The main elements hereof are:

- *Commercial*: in-depth analysis of the company's commercial position such as main markets, products, competitors, and trends.
- *Financial*: in-depth analysis of the company's financial position such as historic development, forecast verification, tax matters, IT matters etc.
- *Ownership*: in-depth analysis of the owner(s), their experience with the company and the sector, and their ability to support the company managerially and financially
- *Legal*: in-depth analysis of the company's legal position such as corporate matters, compliance, environmental matters, contractual obligations etc.
- Sustainability: analysis of the investment from a sustainability perspective.

The design and extent of the due diligence will vary depending on the actual investment situation and where in the capital structure PFC will be invested. Thus, PFC will in some investments be leading the design and planning of all due diligence tracks. In other situations, PFC may gain access to the due diligence undertakings and reports carried out by, or on behalf of, a new investor, and PFC will then typically be making a tailored "top-up" due diligence. PFC will always influence the due diligence process to the extent possible and complement it if required. If needed, PFC will also conduct an internal sustainability due diligence based on the other available due diligence material.

6.2.1 Sustainability criteria

The following Sustainability criteria need to be met for an investment to be considered within Polaris Flexible Capital's investment mandate and be considered an eligible investment for PFC 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 pornography¹¹.
- The company does not have an unacceptable exposure to countries, persons, or entities on the UN sanctions list⁷.
- 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, or will have, a governance structure that is deemed adequate to manage sustainability and the company's adverse impact, as defined in our Sustainability Principles.
- The company commits to (i) discuss sustainability at least annually in its board of directors and (ii) report annually to PFC on the status and work related to sustainability.

6.2.2 Sustainability Due Diligence

Prior to making any final positive decision to invest in a company, PFC, and/or the main investor, 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 including 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 Impact analysis is founded on Polaris' Sustainability Principles and the internationally recognized frameworks: SASB¹², TCFD¹³ and SDG's/GRI¹⁴. 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 analysis is carried out. The analysis includes a consideration of the key performance indicators related to Polaris' Sustainability Focus Areas and the Principle Adverse Impacts on sustainability factors.

6.3 Polaris Flexible Capital Portfolio Management

6.3.1 Corporate governance model

PFC wants to contribute to the value-creating process at the companies it invests in and thereby help build stronger companies. PFC will invest across a range of investment structures which have varying governance rights, and the approach to participation in the value creation process will

¹¹ These investment criteria are agreed explicitly with our investors as part of the LPA

¹² Sustainability Accounting Standards Board (SASB)

¹³ Task Force on Climate-related Financial Disclosures (TCFD). Framework to disclose climate-related risks and opportunities through existing reporting processes.

¹⁴ UN's Sustainable Development Goals (SDG's) as operationalized for corporations by the Global Reporting Initiative (GRI)

reflect this. However, the ambition is that PFC's contribution to the development of its portfolio companies should be driven by cooperation between the respective company's Board of Directors ("board"), owners, management, lenders and other key stakeholders. In its capacity as a stakeholder and investor in a portfolio company PFC will work to ensure the following:

- A suitable strategy is in place including a common understanding between management, board and owners of the company's situation, possibilities, and goals.
- Strategy implementation is followed up and there is a "sense of urgency."
- The top management team is regularly evaluated.
- There are relevant guidelines for responsibility, planning, follow-up and risk management.
- There is legal and financial compliance.
- Polaris capabilities within corporate development and governance is clearly communicated, and access to the Polaris Excellence Model is made available to the company. Hereunder tools, processes and platforms relating to sustainability.
- Fulfillment of Polaris policies and ambitions with respect to sustainability, hereunder support of Polaris' Sustainability Principles
- The board of directors discusses, at least annually, the status and work related to sustainability.

6.3.2 Portfolio Management process

Junior loans, mezzanine loans, and preferred equity

The loan- or investment agreements will typically contain rights to access detailed information regarding the performance of the company on a monthly or quarterly basis, as well as access to management on a continuous basis. A presence at the Board of Directors (as observer) can also be contractually granted.

Each investment will have a senior member of the investment team allocated to it as responsible for portfolio management. This includes presenting the development of the investment, and suggesting actions to be taken, at meetings with the entire investment team, either held on a weekly basis or ad-hoc if required by the situation.

Portfolio management includes close monitoring and analysis of the financial and operational performance of the company. Compliance with the agreed set of financial covenants and other undertakings is an integrated part of the ongoing monitoring. The monitoring will be intensified as needed including when i) if the financial or operational development of the company deviates substantially from the base case defined at the time of investment, ii) there are changes to the senior management team or iii) there are adverse market developments.

If the terms and conditions set out in the investment agreement or loan agreement are breached, PFC can have extended governance rights in the form of access to information, altered investment terms, or right of accelerated repayment. The investment team will discuss appropriate actions to be taken in the case where a situation of default arises. These may require onboarding of external advisers (legal and financial) or industry experts.

Minority investments

The investment agreement or shareholder agreement will typically contain rights to detailed information on the performance of the company on a monthly or quarterly basis. Governance will likely include presence and voting rights at the Board of Directors level. PFC may choose to appoint an external industry expert as their representative on the Board of Directors.

Although PFC will not have decisive influence over the company, active ownership is an integral part of the portfolio management approach with these types of investments. PFC will thus seek to support the company operationally and strategically by actively engaging with the management of the company. This includes implementing initiatives from the governance model which Polaris Private Equity has developed and refined over many years. This set of governance principles includes defining clear roles and tasks for the Board of Directors, including:

- Acting on behalf of the owners and representing their interests during PFC's ownership period
- Initiate a strategy process to ensure a common understanding among management, board, and the owners regarding the company's situation, possibilities, goals, and strategy.
- Closely follow up on strategy implementation and ensure a "sense of urgency."
- Recruit, remunerate, and 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 for management.

Each investment will have a senior member of the investment team allocated to it as responsible for portfolio management. This includes presenting the development of the investment, and suggesting actions to be taken, at meetings with IC, either held on a weekly basis or ad-hoc if required in the situation.

Portfolio management includes close monitoring and analysis of the financial and operational performance of the company. Adhering to the agreed set of investment objectives and other undertakings is an integrated part of the ongoing monitoring. The monitoring will be intensified as needed including when i) if the financial or operational development of the company deviates substantially from the base case defined at the time of investment, ii) there are changes to the senior management or iii) there are adverse market developments.

Listed credit bonds.

Access to information on the financial and operational performance of the company will, due to regulatory legislation, typically be limited to publicly available information.

Each investment will have a senior member of the investment team allocated to be responsible for portfolio management. This includes presenting views on the general development and forecasts for the company and the listed credit market in general. The latter will not only serve the purpose of evaluating the active listed investments in PFC's portfolio, but also be a general update to the investment team on pricing and risk perception within the liquid credit markets.

6.3.3 Sustainability in Portfolio Management

PFC's ambition is that their portfolio companies establish governance structures to meet the requirements embedded in Polaris' 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
- Membership of UN Global Compact and adherence to the related reporting requirements

PFC will use their influence, as possible in each case, to promote and support the implementation of these items. In addition, PFC will promote the implementation of 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 Private Equity portfolio company should have in place with respect to sustainability. It is our ambition that these requirements with respect to sustainability are also implemented by each PFC portfolio company.

6.3.4 Roles and responsibilities in Portfolio Management

All employees and advisors of PFC are responsible for promoting our Sustainability Principles, Responsible Investment Policy and assisting our portfolio companies in meeting our responsibilities.

Should any such person find or receive information that a PFC 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.

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

6.3.5 PFC Portfolio Company Reporting

All portfolio companies shall report publicly on sustainability in line with legal requirements.

6.3.6 Good Corporate Governance Principles

Polaris Management A/S has a strict set of requirements on the way Polaris and their portfolio companies should conduct their business. Polaris Management A/S shall provide support and guidance to portfolio company management on such sound governance practices. PFC will work to implement these requirements by using its influence on:

- Establish policies that ensure a culture of legal compliance and responsible business conduct and encourage people to report concerns.
- 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.
- 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 remuneration of the management team and employees in the portfolio company does not encourage risk taking, including sustainability risks, beyond acceptable levels.

7. Polaris Public Equity

The mission of Polaris Public Equity (PPU) is to generate returns for our investors by investing in listed companies in the small- and midcap segment. The geographical focus of the fund is primarily the Nordic region, with the opportunity to selectively pursue opportunities outside of this region.

PPU invests in the small- and midcap segment which is here defined as companies with a market value of €50mn to €2bn. PPU primarily targets well-established companies with a strong market position and profitability. The companies are normally based and listed in the Nordic region, and hold a local, regional, or global potential for value growth, which Polaris' active ownership can help materialize. PPU seeks minority equity interests with an ambition to have an influence. The investment horizon is normally three to five years.

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

- Investment process. Identification of investment opportunities, evaluation, and execution of the investment
- Portfolio management: Active ownership and divestment through the sale of shares over the market or in a negotiated transaction

7.1 Sustainability in Polaris Public Equity

Polaris Public Equity follows the overall policy for Polaris regarding sustainability. Investing in minority equity positions with an active ownership agenda gives opportunities to promote sustainability in portfolio companies. PPU leverages the sustainability tools, processes, and platforms available in Polaris to support this ambition.

7.1.1 Sustainability Focus Areas

The overall focus areas of Polaris are supported by PPU whenever possible:

- Climate action: Work to combat climate change by seeking to limit greenhouse gas (GHG) emissions across the PPU portfolio companies.
- Employer responsibility: Work to promote a healthy working environment throughout the PPU portfolio companies.
- Gender equality: Work to promote gender equality throughout the PPU portfolio companies.

7.1.2 Sustainability Reporting

Most of the targeted companies in the investment universe publish sustainability reports. PPU will often seek to improve the reporting. In the event that a company in which PPU is invested does not publish a sustainability report, it is of great importance for PPU to actively influence the company to start issuing a sustainability report.

7.2 Polaris Public Equity investment process

Polaris Public Equity's investment process consists of pre-defined gates. Each gate has a gate paper which requires a pre-defined list of analysis that is required to present a gate paper to the investment advisory committee. The Investment advisory committee then decides if to proceed to the next gate and ultimately to an investment. There are three gates in the process and there can be intermediate steps between the gates when deemed necessary.

The purpose of 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 the investment criteria. The due diligence throughout the gates process consists of several aspects that are analyzed in the target company:

- *Commercial*: in-depth analysis of the company's commercial position such as main markets, products, competitors, and trends. This is normally conducted by the investment team with the assistance of industry experts.
- *Financial*: in-depth analysis of the company's financial position such as historic development, projections of future growth and profitability, balance sheet strength etcetera
- *Governance*: analysis of the qualifications, capabilities and contribution of management and board members, as well as analysis of owner-related topics such as nomination committees and value enhancement focus of other larger owners
- *Sustainability*: analysis of the investment from a sustainability perspective. The process is supported by the internal sustainability resources at Polaris and when needed with the assistance of external experts.

The due diligence is normally conducted on an outside-in basis and PPU does not normally have access to insider information. The PPU analysis is based on its own primary analysis and the official reports from the company such as quarterly reports, annual reports and sustainability reports. This is complemented with external analysis from broker research firms and others.

7.2.1 Sustainability criteria

Polaris Public Equity generally follows the sustainability criteria of the other Polaris funds. Further, the following Sustainability criteria need to be met for an investment to be considered within Polaris Public Equity's investment mandate and be considered an eligible investment for PPU from a sustainability perspective:

- The company does not have an unacceptable exposure to countries, persons, or entities on the UN sanctions list⁷
- 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 potential adverse impact, as defined in our Sustainability Principles, or we believe that we will be able to establish these in collaboration with the management team during our ownership period.

7.2.2 Sustainability Due Diligence

Prior to making a substantial investment, PPU performs a due diligence analysis of all facts of material importance to the investment decision. This includes a sustainability analysis 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. Analysis of current and future positive and negative sustainability impacts and related risks and opportunities. The impact analysis is based on Polaris Sustainability Principles and the internationally recognized frameworks: SASB¹⁵, TCFD¹⁶ and SDG's/GRI¹⁷. The potential environmental impacts are analyzed and for companies which are deemed to experience a meaningful impact from changes related to climate change. The analysis includes a consideration of the key performance indicators related to Polaris' Sustainability Focus Areas and the Principle Adverse Impacts on sustainability factors.
- Sustainability program: first hypothesis of future actions to improve sustainability performance.

7.3 Polaris Public Equity Portfolio Management

7.3.1 Corporate governance model

PPU seeks to contribute to the value creating process at its portfolio companies of building stronger companies. PPU is a minority owner with an ambition to influence its portfolio companies. The level of influence in each portfolio company depends on the ownership level, potential board representation and other factors.

The ambition is that PPU's contribution to the development of its portfolio companies should be driven by a cooperation between the respective company's Board of Directors, owners, management, and other key stakeholders. In its capacity as a stakeholder and investor in a portfolio company, PPU will work to ensure the following:

- A suitable strategy is in place including a common understanding between management, board and owners of the company's current position, future opportunities as well as strategic and financial ambitions.
- Strategy implementation is followed up and there is a "sense of urgency."
- The top management team is regularly evaluated.
- The board members are evaluated based on their qualifications, capabilities, and contributions.
- There are relevant guidelines for responsibility, planning, follow-up, and risk management.
- There is legal and financial compliance.

¹⁵ Sustainability Accounting Standards Board (SASB)

¹⁶ Task Force on Climate-related Financial Disclosures (TCFD). Framework to disclose climate-related risks and opportunities through existing reporting processes.

¹⁷ UN's Sustainable Development Goals (SDG's) as operationalized for corporations by the Global Reporting Initiative (GRI)

- Polaris capabilities within corporate development and governance is clearly communicated, and access to the Polaris Excellence Model is made available to the company. This includes tools, processes and platforms relating to sustainability.
- The board of directors regularly discuss the status and work related to improving sustainability.

7.3.2 Portfolio Management process

A senior member of the investment team is responsible for the portfolio management of each PPU portfolio company. This includes monitoring all aspects of the performance of the company and proposals for PPU actions. The monitoring and suggested actions are presented to the entire investment team at weekly investment team meetings or ad-hoc if required by the situation. The investment is also regularly discussed with the investment advisory committee.

Portfolio management includes close monitoring and analysis of the financial, operational and sustainability performance of the company. The monitoring will be intensified as needed including when:

- the development of the company deviates substantially from the base case defined at the time of investment,
- there are changes to the senior management team, or
- there are adverse market or other developments

Although PPU will not control the company, active ownership is an integral part of the portfolio management. PPU seeks to support the company by actively engaging with the company. This includes working with the management and board to implement initiatives from the governance model which Polaris has developed and refined over many years. This set of governance principles includes defining clear roles and tasks for the Board of Directors, including:

- Acting on behalf of the owners and representing their interests
- Have a strategy process to ensure a common understanding among management, board, and owners regarding the company's situation, opportunities, objectives, and strategy.
- Closely follow up on strategy implementation and ensure a "sense of urgency."
- Recruit, remunerate, and 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.

In certain investments PPU will seek to be represented on the Board of Directors of the portfolio company. PPU will often seek to have industry experts on the Board of Directors but in certain situations a member of the Polaris team may serve on the Board of Directors.

7.3.3 Sustainability in Portfolio Management

PPU will forcefully seek to have portfolio companies 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
- Membership of UN Global Compact and adherence to the related reporting requirements

PPU will use its influence, as much as possible in each case, to promote and support the implementation of these items. In addition, PPU will promote the implementation of 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 Private Equity portfolio company should have in place with respect to sustainability. It is our ambition that these requirements with respect to sustainability are also implemented by each PPU portfolio company.

7.3.4 Good Corporate Governance Principles

Polaris Management A/S has a strict set of requirements on how Polaris and their portfolio companies should conduct their business. Polaris Management A/S shall provide support and guidance to portfolio company management on such sound governance practices. PPU will work to implement these requirements by using its influence on:

- Establish policies that ensure a culture of legal compliance and responsible business conduct and encourage people to report concerns.
- 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.
- Establish policies and systems that ensure board oversight with executive management, performance and remuneration reviews, legal compliance with respect to reporting, accounting standards and insider information, effective internal controls, and solid risk management processes. Specifically, it is important that the remuneration of the management team and employees does not go beyond acceptable levels to encourage risk taking, including sustainability risks.

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