

ALTOR

Responsible Investment & Ownership Policy

March 2023

1. Introduction

1.1 Background

Altor's overall mission is to act as a world-class investor, generating superior returns for our investors by building world-class companies. Building world-class companies and being a world class investor includes ensuring high sustainability standards which includes environmental, social and governance aspects (ESG). Sustainability goes hand-in-hand with our longer-term ownership horizon. Our commitment goes beyond compliance with rules and regulations as it is our firm belief that best-in-class sustainability practices not only benefit the environment and society but also drive value creation for the Altor Funds. As a commitment to the investors and the communities in which Altor and our portfolio companies operate, we have adopted this Responsible Investment and Ownership (RIO) policy.

1.2 Sustainability vision

We commit to creating a positive delta with regards to the triple-bottom-line, i.e. creating social, environmental, and economic capital. We place emphasis on the following four sustainability topics and related Sustainable Development Goals (SDGs):

- Climate action SDG #13
- Environmental performance & Circular resource management SDG #12
- Working conditions & Living wage SDG #8
- Diversity & Inclusion SDG #5

1.3 Purpose

The purpose of this policy is to outline how we manage sustainability risks as well as sustainability opportunities in our screening, sourcing, and active ownership.

Sustainability opportunities can relate to a variety of factors such as but not limited to improved cost productivity from increasing resource and energy efficiency, tapping into new customer groups and revenue pools while strengthening brand value and positioning, driving innovation and future-proofing business models and operations, as well as improving employer branding and increasing job satisfaction and employee retention.

Sustainability risks include environmental, social and governance related risks driven by internal or external factors. Sustainability risks may exist if a company has not conducted sufficient assessment of its sustainability related exposure or renewed such assessment at a regular interval. Identified risks may also not be appropriately addressed and mitigated. Worst case individual employees might engage in criminal behaviour such as bribery. A company's sustainability risks are not limited to its own behaviour or actions but also includes those of its suppliers and third parties linked through business relationships that may act on behalf of a company. Violations of law or even non-adherence to stakeholder expectations in the sustainability area can expose companies to reputational damage, regulatory fines, penalties, financial loss, reimbursement or other compensation/compliance costs. Other external factors that can result in sustainability exposure for companies include, but are not limited to, natural disasters.

1.4 Scope

The policy shall be implemented and executed throughout the Altor structure, including portfolio companies (in accordance with applicable governance rules), and applies across the entire ownership cycle. Over time, our investors, co-investors, potential buyers, and other business partners shall also be reviewed based on Altor's sustainability vision and the investment principles outlined below. The policy shall be managed by Altor Fund Manager AB and Altor Equity Partners AB and subsidiaries shall adopt the principles set out herein as applicable.

2. Execution of the policy

2.1 Investment principles

Our ambition is to assess and evaluate each investment opportunity to ensure that sustainability risks and opportunities are identified and managed in the screening as well as the investment process. Sustainability considerations are fully integrated into investment decisions and the processes are further described in the separate internal policies for Risk Management and Investment Strategy & Investment Decisions. Screening for sustainability opportunities is an integral part of our sourcing activities. To ensure the effective integration of sustainability risks, investment professionals are supported with sustainability resources and expertise from Altor's sustainability function as well as often supported by external advisors. Sustainability is also a mandatory part of Altor's employee onboarding training as well as ongoing employee development and annual training.

The Altor Funds will not invest in companies relating to the following aspects if the direct exposure (at individual company level) exceeds the established revenue thresholds, i.e. the **exclusionary list**:

| Sectors/Themes/Countries | Threshold |
|--|---------------------------------|
| Controversial weapons | 0% |
| Other military equipment (unless strictly for defence) | 10% |
| Illicit drugs | 0% |
| Tobacco | 0% production, 10% distribution |
| Sex industry (excl. sex toys) | 0% |
| Gambling | 10% |
| Coal (thermal) | 0% extraction, 25% other |
| Oil & Gas (energy related) | 0% extraction, 25% other |
| Embargoed by the UN/EU/US | 0% |
| OFAC sanctioned | 0% |
| Tax Havens (OECD, EU list) | 0% |
| Severe/systematic breach(es) of relevant sustainability regulations and/or conventions | - |

The list will be reviewed annually. Judgment on a case-by-case basis must be applied for activities not on the list but which potentially carry similar risks, and for indirect exposure. In the above, direct exposure is defined as direct generation of revenues from products manufactured or sold as well as services sold while indirect exposure is defined as a significant share of revenues/sourcing volume of customers/business partners directly covered by the excluded aspect(s), and exposure through (co-) investors where they are deriving a significant share of proceeds from or are investing in excluded aspects. The higher thresholds for direct exposure (25%) indicated above reflect Altor's ambition to invest in the green transition.

2.2 Ownership principles

We have established the following requirements for Sustainability matters for the portfolio companies.

- If (potential) Sustainability related risks – beyond the exclusionary list – are identified in an investment process or later, the affected portfolio company shall address such risks and manage them towards compliance with Altor's Sustainability standards

- Sustainability shall be part of each portfolio company's value creation agenda, including projects and targets
- All portfolio companies shall establish a Sustainability point of contact within the organization that is also responsible for the execution of the Sustainability related policy (or equivalent policies)
- All portfolio companies shall at least annually report progress across material Sustainability metrics to Altor, and upon occurrence and at least quarterly on any potential incidents

2.3 Performance monitoring

- We have implemented a sustainability performance monitoring process based on the annual portfolio company reporting of sustainability metrics referred to in section 2.2 Ownership principles. As part of the annual process sustainability metrics are collected from the portfolio companies and thereafter analysed versus:
 - Altor's Sustainability Standards in this policy
 - Prior year performance
 - Relevant benchmarking data, where available

The outcome of this analysis is shared with the respective portfolio company to facilitate a transparent dialogue on future improvement

- We commit to full internal transparency on the portfolio companies' compliance with the sustainability standards in this policy and will update the Altor Funds' investors on sustainability matters quarterly

3. Sustainability standards

3.1 Overall

All standards stated in this policy apply to the portfolio companies of the Altor Funds as well as our own operations. The standards are presented in the below sections covering Environmental, Social and Governance. A transition period is required to be in full compliance with these amended Sustainability Standards in our Responsible Investment and Ownership Policy launched March 2021. It is our clear ambition to ensure compliance with the policy within one year of ownership unless otherwise stated in the standards below. Exceptional circumstances may lead to selective deviations even after this deadline, any such deviation shall always be addressed with a prioritized corrective action plan towards full compliance.

3.2.1 Environmental standards

- Being fully compliant with relevant local and international environmental legislation and conventions (zero incidents), in own operations and in the supply chain (material part of supply chain), and active screening and awareness of upcoming relevant regulation/standards
- As Altor has committed to the Science Based Target initiative (SBTi) 1.5-degree ambition, portfolio companies are required to have short- and long-term climate targets in line with the SBTi guidelines¹ approved no later than 2025. **This includes:**

¹The base year must be no earlier than 2015.

- Having a 1.5-degree aligned near-term science-based target to focus on rapid deep emission cuts. This typically means halving emissions by 2030, and covering a company's entire value chain emissions, including those produced by their own processes (scope 1), purchased electricity and heat (scope 2), and generated by suppliers and end-users (scope 3)
- Having a long-term science-based net zero target with a target date no later than 2050, and striving for 2045. Net zero means producing close to zero emissions and using carbon removals to neutralise any residual emissions that are not possible to eliminate. Most companies will require deep decarbonization of 90-95% to reach net zero under the Standard. A company should not make any net zero claims until it has achieved its long-term science-based net zero target
- Companies are further encouraged to invest in beyond value chain mitigation outside their science-based targets (near-term climate finance), to help mitigate climate change elsewhere. Companies should follow the mitigation hierarchy, and invest only in high-quality offsets/removal schemes incl. ensuring additionality
- Where material, measuring physical, transition and financial impact from climate change (as per TCFD recommendation), and committing to invest in mitigation measures within two years from initial Altor ownership
- If environmental management is identified as material, encouraged to attain ISO14001 certification (or equivalent)
- For all other environmental aspects determined as material for the respective company and/or industry (such as circular resource management, water, land use, biodiversity), managing towards performance in line with or above industry standard – with targets and milestone plan

3.2.2 Social standards

- Committing to zero fatalities and high consequence work-related injuries or ill health in own operations and in the supply chain (material part of supply chain). If operational health and safety is identified as a material topic: encouraged to attain ISO 45001 certification (or equivalent)
- Being fully compliant with relevant local and international legislation and conventions on human rights (zero incidents), including zero tolerance of child or forced labor in own operations and in the supply chain (material part of supply chain), and active screening and awareness of upcoming relevant regulation/standards
- Committing to employees' and contractors'/suppliers' (material part of supply chain) right to freedom of association and collective bargaining through internal and supplier code of conducts, and zero incidents of restrictions/breaches such as hindering entry, registration, organizational operation, access to funding and resources, advocacy work and reporting and accountability
- Committing to a living wage in own operations and throughout the supply chain (material part of supply chain) (minimum through supplier code of conducts), by guaranteeing wages and benefits paid for a standard working week meet, at a minimum, national legal standards, or industry benchmark standards, whichever is higher. In any event wages shall always be enough to meet basic needs and to provide some discretionary income

- Working towards providing health insurance and extended income security/social benefits (e.g. parental leave, corporate pension plan) to employees in jurisdictions where it is not legally required
- Towards all stakeholders, showing zero tolerance of discrimination or harassment of any type, incl. based on age, race, gender, religion, sexual orientation or disability
- Taking active measures for employee wellbeing (annual progress reporting)
- Actively promoting diversity by working towards fair representation (in line with or above industry standard) of underrepresented groups in employee recruitment and staffing of leadership positions, empowering minorities through training, addressing unconscious bias, creating an inclusive culture. In particular with regards to gender diversity:
 - Committing to gender diversity in filling the recruiting funnel
 - Committing to equal pay for equal work
 - Encouraging that professional service providers, such as but not limited to commercial, tax, legal, and financial advisors, have diverse service teams

See further details on Altor's commitments to diversity in section 4

- Working in the best of customers' interests, including customer health and safety, data security and customer privacy and responsible marketing practices
- If product safety and customer rights/welfare is identified as a material topic: encouraged to attain ISO 9001 certification (or equivalent)
- Encouraged to drive positive community engagement, including through dialogue, employee volunteering, donations

3.2.3 Governance

- Having a defined and documented corporate governance structure with clear responsibilities and procedures and appropriate internal control mechanisms
- Having a sound sustainability strategy and management approach: Integrating material sustainability aspects in the organization's operating model and strategy and conducting a strategic board discussion on the same at least bi-annually. Setting of appropriate sustainability standards through relevant codes/policies/guidelines. Tracking of progress based on quantitative KPIs
- Having a board approved sustainability related policy (or equivalent policies) anchored in governance systems, based on the organization's material sustainability aspects, and covering at least Altor's Sustainability Standards. Committing to promote adherence to the standards throughout the supply chain
- Ensuring full compliance with regulatory requirements relating to sustainability
- Maintaining high standards of business ethics, incl. being fully compliant with relevant local and international legislation and conventions on anti-corruption (incl. extortion and bribery), antitrust/fair competition, and tax (zero incidents), and active screening and awareness of upcoming relevant regulation/standards

- Having a third-party whistle blower function in place. In the EU Directive 2019/1937 on the protection of persons who report breaches of Union law there are references to internal and external reporting channels. In the Directive, “internal” refers to whistleblowing channels within a legal entity whereas “external” refers to whistleblowing channels to certain appointed authorities. For the avoidance of doubt, an “internal” reporting channel can still be provided through a third party service provider
- Managing suppliers actively (material part of supply chain): Screening/auditing of new/existing suppliers based on sustainability criteria
- Actively and frequently conducting compliance training of employees, including but not limited to policies, to ensure reasonable assurance that organizational sustainability objectives can be achieved, and compliance risks are minimized
- Providing financial and non-financial transparency through accurate external reporting, i.e. annual sustainability report, based on acknowledged market standards (GRI or similar for non-financial reporting)
- To ensure that sustainability data and reports can be verified and subject to external assurance/audit, portfolio companies shall properly document how all relevant metrics are calculated. This includes formulas, data sources, data quality activities, responsibilities and process descriptions or process charts. The documentation shall be incorporated in relevant governance systems

4. Altor commitments

In addition, we as Altor make the following commitments to lead by example:

- We commit to the Science-based target initiative (“SBTi”) 1.5 degree Celsius ambition and intend to have our targets approved no later than end of October 2024. As per SBTi private equity guidance this entails that a minimum 26% of our portfolio companies have science-based targets by 2026 and 100% by 2040, yet our targets will be more ambitious. We submitted our targets to SBTi March 6th 2023 and are awaiting approval
- We shall increase the share of the underrepresented gender in Board of Directors, working towards 50% gender split for independent directors by end of 2023
- We also strongly encourage the Boards in our portfolio companies to work towards at least 30% representation of the underrepresented gender in management teams
- We commit to gender diversity in Altor’s recruiting funnel which materializes in a target of 50% female intake, and the commitment to challenge head-hunters to present shortlists with diverse candidates
- We encourage Altor’s key professional service providers to have diverse service teams which materializes in a target of at least 30% of the underrepresented gender in aggregate over the course of the year

| Version of the policy | Date | Summary of revisions |
|-----------------------|-------------|--|
| 1 | 2012 | n.a. |
| 2 | 2021, March | Heightened and elevated ESG/sustainability ambitions as well as a launch of an exclusionary list |
| 3 | 2022, April | Inclusion of the commitment to setting a science-based target and the relating effects it will have on portfolio companies |
| 4 | 2023, March | Addition of this revision section. General clean-ups. Terminology update from ESG to sustainability. Clarification of sustainability risks and opportunities. Addition of explanation of sustainability resources and expertise in the investment process. Added information on annual performance monitoring. Clarification of ambition level on selected standards. Clarification of date on long-term net-zero target |

ALTOR

If you have any questions
please contact us:

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