

Verdane Sustainability and ESG Policy

May 2021

verdane



1. Background and purpose

Verdane's primary goal is to build lasting value and generate strong returns for its investors in a responsible and sustainable way.

We believe that businesses that operate in line with global social and environmental objectives, including the UN SDGs¹, will not only be on the right side of history. They are also more likely to generate outsized returns, as governments continue to price in externalities, and investors and consumers increasingly favour sustainable businesses. It is our conviction that the most successful businesses will be guided by a purpose which is jointly defined by commercial success and a broad concept of stakeholder value. To this end, we work with our companies to improve their sustainability alignment and integrate this into their value proposition and culture. Continuously strengthening sustainability practices will benefit companies and the funds' investors both in the short and long term.

Beyond sustainability alignment, we believe that innovative use of technology will be the single most important component in reducing the resource intensity of our economies. As investors in growing tech companies, our strategy has been built around this theme in one way or another since our founding in 2003. And we continue to see the drive towards a more sustainable society as a significant investment opportunity.

In terms of impact, Verdane believes that our greatest ability to act and make a positive contribution stems from our influence on the approximately 60 core portfolio companies the funds own. This is also the area in which the funds are the most exposed to economic risks relating to sustainability and reputational factors more broadly. Therefore, Verdane's sustainability work places most emphasis on the portfolio companies. However, internal work is of course also of significant importance and this work is also described later in the policy.

2. Scope

The Verdane Sustainability and ESG Policy is applicable to Verdane Advisory Group and all Verdane funds and their respective investment processes. In this context, it is worth noting that the degree of influence varies significantly with the ownership stakes the funds hold in each underlying company, along with other factors. However, in all investments Verdane strives to ensure there is alignment on the sustainability agenda and the Verdane process.

3. Roles and responsibilities

The Managing Partner is responsible for ensuring that Verdane works in-line with its Sustainability and ESG best practices.

Verdane's investment professionals are primarily responsible for ensuring that sustainability and ESG matters are integrated into investment decisions and implemented during ownership. This is done with the support and the expertise of Verdane's Sustainability Lead and the Elevate team.

¹ United Nations Sustainable Development Goals

4. Sustainability and ESG at Verdane

Verdane’s Sustainability and ESG approach covers both the investment lifecycle and internal activities, both of which are described in the following sections.

Sustainability and ESG in the investment process

The following section describes Verdane’s approach to sustainability during the investment process from sourcing promising companies through to the funds' sale of portfolio companies.

Sourcing & Investment

Evaluating sustainability is a key and integrated part of Verdane’s sourcing and evaluation of investments. It follows a structured approach with several supporting tools.



Figure 1 Overview of Verdane's sustainability assessment process

Sourcing

When investigating a potential investment during sourcing, Verdane takes three main sustainability perspectives:

- 1) **2040 test:** Verdane wants to invest in companies with long term, future-proof business models and sustainable operations. Thus, it considers whether companies would fit in a theoretical future sustainable scenario to ensure a potential investment is viable in the long-term.
- 2) **Impact screen:** Where a company could potentially be considered an “impact investment”, Verdane uses a screening tool to simplify assessment of a company’s impact based on four main dimensions: intentionality, measurability, scalability, and risk.
- 3) **Exclusion list:** The Fund Agreement for each fund outlines types of companies, activities, and sectors to be avoided or that are prohibited for the fund². Specifically, funds shall not invest in companies whose business activity consists of:
 - a. an illegal economic activity, including without limitation, human cloning for reproduction purposes;
 - b. the production of, and trade in, tobacco and distilled alcoholic beverages;
 - c. the financing of the production of and trade in weapons and ammunition of any kind;
 - d. casinos and equivalent enterprises;
 - e. the research, development or technical applications relating to electronic data programs or solutions, which (i) aim specifically at:
 - (A) supporting any activity referred to under (a) to (d) above

² The exclusions are specific to each fund.

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- (B) internet gambling and online casinos³
 - (C) pornography
- or which (ii) are intended to enable to illegally
- (A) enter into electronic data networks; or
 - (B) download electronic data.

Due diligence

Sustainability is an important part of Verdane's due diligence process and is integrated into the standard Deal Qualification Memorandum used to facilitate Investment Committee discussions. The assessment covers three main parts:

- **Material opportunities and risks:** Verdane evaluates material opportunities and risks for the company. This is done to understand how it can better leverage sustainability as a competitive advantage (e.g. new customer) and to identify potential risks and mitigating actions to consider prior to investing.
- **SDG⁴ impact:** Verdane believes companies operating in line with the SDGs are likely to generate outsized returns. Therefore, during due diligence, Verdane also looks to understand the degree of alignment of a company to the SDGs. Where relevant more in-depth assessment is made to confirm qualification as an impact investment.
- **Sustainability and ESG maturity:** Verdane also aims to conduct a preliminary evaluation of the company's maturity when it comes to ESG operations, to identify potential improvement areas and strengthen the company's operations.

Value creation plan

Prior to making an investment, Verdane includes suggested actions to address material opportunities/risks and secure/improve SDG impact in the value creation planning for the company. To secure focus on sustainability Verdane is in 2021 developing a standardised set of cross-portfolio KPIs (e.g. eNPS, CO2 footprint), which will be implemented and tracked during the ownership of the companies Verdane invests in⁵. In addition, where relevant, company specific KPIs will also be tracked.

³ Section (e) (B) above does not apply in respect of investments in core candidates provided that best efforts are used to realize any such investment as soon as practicably possible.

⁴ UN Sustainable Development Goals

⁵ In some cases this may not be possible to secure, e.g. when Verdane takes minority positions

Ownership

Verdane will at all times act as a responsible investor, and actively works with core (see footnote⁶) portfolio companies to improve their sustainability performance and ESG practices. This work consists of several aspects:

- **Board of directors' work:** Verdane expects the board of directors to consider sustainability aspects when setting company strategy, and requires sustainability (or ESG) to be a standard item on the board agenda for each company.
- **Appointing diverse boards:** Where Verdane has the mandate to appoint board members it will always strive to ensure the makeup is diverse when it comes to gender, professional background, nationality and other relevant characteristics.
- **Sustainability strategy workshops:** Verdane aims to hold a workshop during the first 100 days of a new holding being acquired. In this workshop, Verdane will align sustainability action items and preliminary targets identified during due diligence with management, setting a plan with both prioritised quick wins, and longer-term bold moves.
- **Dissemination of best practices:** In addition, Verdane's large company portfolio and analytical capabilities mean it is possible to benchmark performance and share learnings with best practice tools for continuous competency and capacity building.
- **Ongoing support:** Where needed, Verdane Elevate provides other expert sustainability support on specific strategic and operational projects, depending on portfolio company needs.
- **Incident reporting:** If incidents do occur with portfolio companies, Verdane has established escalation routines to quickly be able take action.

Verdane continuously monitors portfolio companies' sustainability performance and annually updates targets on specific KPIs.

Exit

Verdane believes that in a well-managed portfolio company, the focus on sustainability will be rewarded during the company's exit process, both by minimizing risks for the potential new owners and by highlighting alignment with structural growth trends.

To ensure that the full potential of sustainability-related value is captured at exit, Verdane highlights both the impact as well as the sustainability and ESG work done during ownership, and ensures that sustainability information is part of any information pack or online data room pertaining to the company sale.

⁶ With the portfolio acquisition model, Verdane funds become owners of large numbers of companies with varying ownership positions. In companies with the largest value potential and where Verdane has the ability to make a significant impact, one or two professionals from Verdane typically take a board seat, and generally has a good angle from which to influence the company's Sustainable Growth approach. In others, Verdane has more limited ability to influence and create significant value, and it may be more difficult to drive the sustainability agenda.

Internal Sustainability and ESG efforts

Verdane strives to be a responsible investor and make a positive impact directly and continuously in a number of ways:

- All new employees participate in training on sustainability topics, including a standard onboarding session and conscious inclusion training. In addition, continuous capacity building on Sustainability and ESG principles in the team is achieved through regularly scheduled internal workshops and external trainings, conferences, and seminars.
- Verdane wants to be a world class employer and actively works to develop an inclusive and diverse workplace to attract talent with a wide variety of backgrounds. Verdane has a Diversity and Inclusion Policy, and examples of initiatives include conscious inclusion training, generous and equal paid parental leave, among others.
- Verdane has invested extensively in digital infrastructure to reduce travel to the extent possible, and has since 2010 offset the entirety of the firm's own Scope 1, 2 and parts of scope 3 (business travel) carbon emissions annually.
- Verdane has zero tolerance for all forms of corruption and upholds the highest standards of conduct, and we make active efforts to ensure that it does not occur in any of our business activities.
- Verdane has a whistle-blower policy in place which allows employees to flag concerns and serves to make Verdane aware of any concerns with respect to breaches of Code of Conduct or other policies, or other misconduct.
- The Verdane Foundation was established in 2016 and seeded with a 10% ownership of the Verdane Management Company, which will supply it with income and capital over time as Verdane delivers returns to investors. The Foundation invests in charitable initiatives which both support local social causes and address global challenges. The Foundation also makes minority equity investments into companies which are not candidates for investment from other Verdane funds, but which have clearly positive impact in line with the UN Sustainable Development Goals. Any proceeds will be returned to the Foundation for continued philanthropic and impact investment activity.
- Verdane is a fully authorised under the Alternative Investment Fund Managers Directive, and all Verdane funds have been on-shore vehicles; starting with a Norwegian AS for Verdane Capital IV in 2003, with Danish K/Ss for Verdane Capital V-VIII and with Swedish ABs for Verdane Capital IX and Verdane Edda.



5. Transparency and reporting

1. Disclosure to the public

Verdane aims to promote the acceptance and implementation of responsible investment and ownership principles/practices within the private equity and financial industry. For this purpose, Verdane openly publishes its Sustainability and ESG Policy, as well as other relevant sustainability information, on its website.

2. Disclosure to Verdane funds' investors

Verdane aims to be transparent to all its investors regarding the progress and status on Sustainability and ESG, in both our portfolio companies as well as for Verdane itself. Verdane is during 2021 setting up a more systematic sustainability reporting framework for both portfolio companies and the fund, including supporting tools (e.g. for CO₂ calculations). As an investor in the Verdane funds you can expect the following reporting currently being available or implemented over time⁷:

Annual basis:

- Portfolio wide KPIs (as explained above), which are also reported on fund level
- Company specific KPIs⁸
- Verdane specific data on gender diversity per seniority level and CO₂ emissions scope 1, 2, and parts of 3 (e.g. business travel)

These will be reported at our Annual Investor Day, at Advisory Committee meetings, in our sustainability report (first to be published in 2022), integrated as part of our fund reports, and in meetings.

Verdane also fulfils its regulatory requirements concerning sustainability reporting in accordance with the Article 11 of the 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 (the "SFDR"), according to which information will be provided to the investors depending on the strategy and suitability ambition of the relevant Verdane fund.

Quarterly basis:

- Portfolio wide KPIs

Reported as part of our fund reports.

Ad-hoc:

Verdane aims to swiftly inform investors would there be any urgent relevant ESG incidents among the portfolio companies or Verdane itself.

Dialogues:

We continue to develop and invest in our reporting infrastructure to collect key sustainability-related metrics from portfolio companies, in order to benchmark sustainability versus peers and over time, and to develop best practice reporting to our investors on these topics.

⁷ Reporting partly in place today, other parts will be operationalized starting in 2022.

⁸ Where relevant in addition to portfolio wide KPIs.

Verdane strives to keep an open dialogue with the investors in the Verdane funds and other private equity advisory companies, to learn from best practice and discuss new initiatives within the domain of responsible investments.

3. Pre-contractual information

Disclosures concerning the integration of Sustainability Risks in Verdane's investment decisions:

The following section describes what information Verdane is to provide to its potential investors prior to their investment decision in the relevant Verdane fund, in accordance with SFDR, either by disclosure in its information brochure, or by disclosures on its website, as indicated below.

For the purpose of this section, "Sustainability Risk" means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment of the investor.

Before an agreement with an investor is entered into, Verdane shall provide the following information set out in this section.

A description of:

- 1) the manner in which Sustainability Risks are integrated into Verdane's investment decision making process;
- 2) the results of the assessment of the likely impacts of Sustainability Risks on the returns of the financial products made available;
- 3) if applicable to the relevant Verdane fund, how environmental (e.g. impact on climate) and/or social (e.g. impact on human rights) characteristics are promoted and met when making investment decisions; and
- 4) if applicable to the relevant Verdane fund, how sustainable investments (as defined in the SFDR) are achieved.

The information shall be presented together with the information brochure provided to investors in accordance with Chapter 10, Section 1 of the Swedish act on managers of alternative investment funds (*sw. lag om förvaltare av alternativa investeringsfonder*). A summary of the actions set out in (1)-(4) above shall also be published on Verdane's website.

Disclosures concerning adverse impact of investments:

Verdane shall on its website provide clear reasons for why, including, where relevant, information as to whether and when Verdane intends to consider such adverse impacts. In relation to this, as the requirements on the content, methodology and presentation of such impacts remain to be finalised, Verdane will evaluate and update its position accordingly when the regulatory technical standards outlining the content and definition of such impacts have been finalised.

Disclosures concerning remuneration policy:

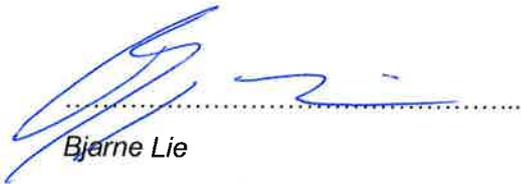
Verdane shall ensure that criteria for variable remuneration do not encourage an inadequate risk taking in relation to Sustainability Risks, which should be reflected in Verdane's remuneration system and remuneration policy. In relation to this, Verdane has adopted a remuneration policy which is consistent with Verdane's integration of sustainability risks in its investment process. Remuneration to employees is determined on the basis of an annual performance review in which both financial and non-financial criteria are taken into account. The criteria include a number of targets / KPIs which are set ahead of each year, including sustainability-related targets. The criteria also include employees' compliance with Verdane's Sustainability and ESG Policy, which outlines how Verdane manages sustainability and ESG-related risks and opportunities throughout its screening, sourcing, investment process and ownership phase.

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