

Verdane Sustainability and ESG Policy

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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 team and the rest of 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:

- 2040 test:** Verdane seeks to invest only in companies with long term, future-proof business models and sustainable operations. Thus, it considers whether companies are positioned to be successful in a more sustainable economy, taking into account factors such as increased pricing of externalities, changing regulations and evolving consumer preferences. If Verdane deems an investment to not pass the 2040 test, Verdane will not invest.
- 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.
- Exclusion list:** The fund agreement for each fund outlines types of companies, activities, and sectors to be avoided or that are prohibited for the fund.² Fund agreements will regularly include investment restrictions with regard to e.g. illegal activity, tobacco, weapons and ammunition, casinos and gambling, pornography and thermal coal.³

² The exclusions are specific to each fund.

³ Exemplifying, non-exclusive, list.

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 decision 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.
- **SDG⁵ 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 has developed a standardised set of cross-portfolio KPIs (e.g. eNPS, CO₂ footprint), which is tracked during the ownership of the companies Verdane invests in.⁶ In addition, where relevant, company specific KPIs will also be tracked.

Ownership

Verdane will at all times act as a responsible investor, and actively works with core (see footnote⁷) 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, ethnicity, nationality and other relevant characteristics.
- **Sustainability onboarding 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.

⁵ UN Sustainable Development Goals

⁶ In some cases this may not be possible to secure, e.g. when Verdane takes minority positions

⁷ 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.

- **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.

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. In 2022 Verdane expanded this ambition by becoming the first private equity company globally to commit to neutralizing all future emissions using permanent, engineered carbon removals, effectively creating an internal carbon tax of over 300€/tCO₂.
- In addition, Verdane announced its 2030 sustainability targets in 2022, covering three prioritised areas and including targets both for its own operations and its portfolio. An overview of these targets can be seen below.

Vision	The preferred growth partner to tech-enabled businesses positioned to thrive in a more sustainable economy		
Must win battles	Respecting the planet 	Best companies to work for everyone 	Secure and responsible companies 
Portfolio targets	-60% GHG Scope 1-3 Intensity reduction by 2030 vs 2021 baseline!	40% Underrepresented groups in BoD & Mgmt	>30 Minimum eNPS score
Verdane targets	0 Net zero Scope 1 & 2 by 2022	-65% Scope 3 Intensity by 2030	Majority External partner recruitment shortlists from underrepresented backgrounds
		50% Other recruits from underrepresented backgrounds	>50 Minimum eNPS score
			Cyber-related initiatives not publicly communicated given sensitivities

- 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 fully authorised under the Swedish enactment of 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 all subsequent funds.

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 has set 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 time.

Annual basis:

- Portfolio wide KPIs (as explained above), which are also reported on fund level;
- Company specific KPIs⁹, and;
- Verdane specific data on gender diversity per seniority level and CO₂ emissions scope 1, 2, and 3

These will be reported at our Annual Investor Day, at Advisory Committee meetings, in our sustainability report (first report 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 as part of Verdane Idun's 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.

⁹ Where relevant in addition to portfolio wide KPIs.

Dialogues:

Verdane continues to develop and invest in its reporting infrastructure to collect key sustainability-related metrics from portfolio companies. This also helps Verdane to benchmark sustainability versus peers and over time, to develop best practice reporting to our investors on these topics.

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 and website disclosures

Verdane provides sustainability-related information to potential investors in accordance with the SFDR and the Taxonomy Regulation prior to their investment decision. In addition, Verdane also provides information in accordance with the SFDR and the Taxonomy Regulation on its website.

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To be reviewed: Annually



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