

Montagu’s Policy on Responsible Investment - July 2018 (updated)

Introduction

In 2018, Montagu celebrated its 50th anniversary. One of the reasons it has survived and grown has been a set of core enduring values. These are honesty, humility and excellence. As well as applying them to Montagu itself, they underpin our approach to investing and portfolio management.

- *Honesty*: We share the truth quickly and transparently with each other, our management teams and investors. By doing this we build trust and make better decisions. We are honest about our shortcomings and seek ways of addressing them.
- *Humility*: We know that we can learn from others and will adopt best practice wherever it can be identified. We understand that new and better ways of managing businesses responsibly emerge and we seek to implement these for the benefit of the businesses we invest in, their stakeholders and our investors.
- *Excellence*: We aspire to be best in class at everything we do and to deliver consistently attractive risk adjusted returns for investors. We believe that the goals of maximising value for our investors and developing strong, well-managed businesses are self-reinforcing.

When taken together, these values inform what Montagu calls “Responsible Investment”.

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1. Responsible Investment

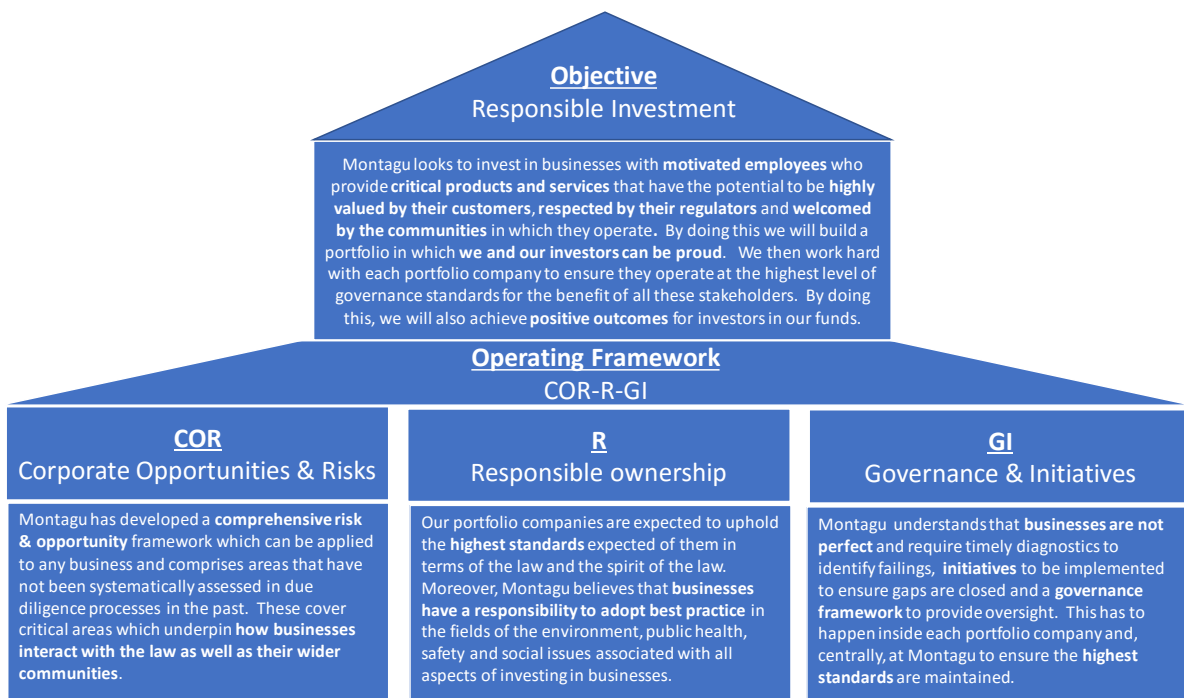
1.1 Responsible Investment Statement

Responsible Investment is Montagu’s approach to deal selection (from origination to execution) and portfolio management. In this, it is our experience that good investing and good governance must be intrinsically linked.

*“Montagu looks to invest in businesses with **motivated employees** who provide **critical products and services** that have the potential to be **highly valued by their customers, respected by their regulators and welcomed by the communities** in which they operate. By doing this we will build a portfolio in which **we and our investors can be proud**. We then work hard with each portfolio company to ensure they operate at the highest level of governance standards for the benefit of all these stakeholders. By doing this, we will also achieve **positive outcomes** for investors in our funds.”*

1.2 Montagu’s Responsible Investment Framework

To operationalise this objective we have developed CORGI, our own framework to guide our responsible investment processes and portfolio company management.



2. COR-R-GI

2.1 Corporate Opportunities & Risks (“COR”)

2.1.1 Objective

*“Montagu has developed a **comprehensive risk & opportunity** framework which can be applied to any business and comprises areas that have not been systematically assessed in due diligence processes in the past. These cover critical areas which underpin **how businesses interact with the law as well as their wider communities.**”*

2.1.2 Parameters

CORRGI breaks down into five core areas which need due diligence. These, in turn, break down into further key categories as shown below.

1. Regulation	1.1 Regulation
	1.2 Sanctions / export control
	1.3 Anti-trust
	1.4 Bribery & corruption
	1.5 Tax compliance
	1.6 General legal compliance (incl. fraud)
2. People related issues	2.1 Health & Safety
	2.2 Employee related
3. Social responsibility	3.1 Human rights
	3.2 Environmental
4. Business practices	4.1 Tone from the Top
	4.2 Quality of management processes and information
	4.3 Governance infrastructure (incl. whistleblowing procedures)
5. IT related issues	5.1 Cyber security
	5.2 Data protection

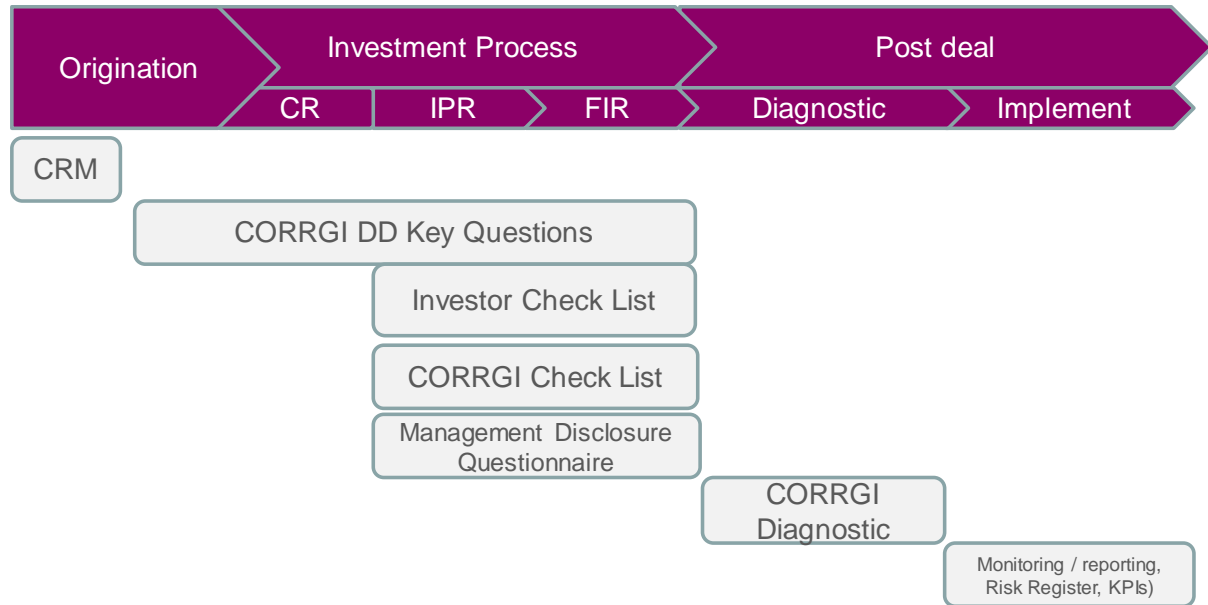
These chapters are explained in a standard Montagu document (“CORRGI: Due Diligence Key Questions”) which is an explicit guide to all executives on what is expected of them. Each chapter has a set of guidance notes as to why the issues are important and includes a set of questions which the deal team refer to as part of their CORRGI diligence. These questions are subdivided to understand three things:

- the potential level of opportunity or exposure arising;
- the level of compliance by the business; and
- the quality of processes and procedures operated by the business.

The questions are updated, as required, to ensure best practice.

2.1.3 Application to the deal lifecycle

Montagu has three distinct phases in its investment process and CORRGI runs through each.



Origination

The origination process will include a basic risk assessment considering risks inherent to the markets in which the potential portfolio company operates, both geographic and sector.

An assessment of the investment in respect of compliance with the expectations of investors as expressed in the Limited Partnership Agreement (and side letters) will also be performed.

The principle source of information will be from the public domain and, potentially, initial interactions with management.

If any CORRGI concerns arise at this stage, the opportunity will be flagged within the CRM system.

Investment Process

CORRGI forms an integral part of due diligence on all potential investments with a dedicated CORRGI section included as part of Investment Committee documents. The work which is required at each stage of the IC process is shown below:

<p>Commitment report (CR) stage</p>	<p>Specific due diligence will be conducted to identify key exposures and risks, and to ensure the disclosure of actual known issues and risks</p> <p>The CORRGI Due Diligence Key Question guide should be used as a reference source for initial enquiries and discussions with the vendor / management</p> <p>Specialist advisors should be engaged where appropriate where specific areas of risk or opportunity are identified. The selection of advisors should be made with reference to Montagu’s CRM and consider experience in, amongst other things, the sector in which the potential investment operates, business practices risks, and reputational concerns</p>
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	<p>Higher risk situations requiring consideration in all cases include:</p> <ul style="list-style-type: none"> - Market and industry structures characterised by a few family-run competitors in national markets, markets controlled by a few large competitors, and unusually high margins - Companies with links to competitors e.g. joint ventures or cooperation which may be seen as collusion - Companies operating in countries with poor governance records, especially where it is selling (either directly or via distributors) - Participating in or selling to heavily regulated industries / companies - Companies engaged in large contracts and / or government projects - Companies that appear poorly controlled with loose governance structures, or a history of CORRGI risks - Supply chains that involve countries and industries with a history of human rights and environmental issues
<p>In principle report (IPR) stage</p>	<p>In addition to the work done at the CR stage, the IPR report will cover:</p> <ul style="list-style-type: none"> - CORRGI due diligence carried out - High risk areas and exposures identified and potential mitigants - Opportunities identified - Compliance processes and procedures - CORRGI checklist, duly completed <p>External advisers should be engaged where appropriate where the potential for material risk is identified</p>
<p>Final investment report (FIR) stage</p>	<p>Progress on the finalisation of due diligence and any new issues arising should be reported to the Investment Committee.</p> <p>CORRGI Management Questionnaire should be completed and any issues arising reported to the Investment Committee.</p>

Post Deal

Liability and exposure materially shift at completion and continued non-compliance exposes Montagu and Investors to risk. Therefore, further work is required to ensure these risks are known and, wherever present, mitigated.

A mandatory CORRGI diagnostic will commence as soon as possible after completion. Specialist advisors should be engaged where appropriate. The CORRGI diagnostic will:

- Build on due diligence findings identified pre-deal;
- Adopt a risk-based approach; and
- Include a systematic review of compliance based on Montagu’s Diagnostic CORRGI Toolkit.

As part of the wider FPP programme, the portfolio company will agree a plan to remedy any identified issues and support any opportunities. The initiatives which arise and the method of governance are dealt with later in this document, under Governance & Initiatives.

2.2 Responsible ownership (“R”)

2.2.1 Objective

*“Our portfolio companies are expected to uphold the **highest standards** expected of them in terms of the law and the spirit of the law. Moreover, Montagu believes that **businesses have a responsibility to adopt best practice** in the fields of the environment, public health, safety and social issues associated with all aspects of investing in businesses.”*

2.2.2 Background

“Responsible ownership” is Montagu’s approach towards environmental, social and governance factors (ESG). These are evaluated for each portfolio company both when making the investment decision and throughout the ongoing investment management and monitoring phases. Our approach aspires not only to ensure that any ESG risks within our portfolio companies are minimised and managed, but also that opportunities are identified and developed to enhance investor value.

As part of our commitment to ethical and responsible investing, Montagu supports, and is a signatory of, the UN Principles of Responsible Investment (UN PRI). This initiative is driven by a global momentum in respect of a number of factors:

- recognition in the financial community that ESG factors play a material role in determining risk and return;
- understanding that incorporating ESG factors is part of investors’ fiduciary duty to their clients and beneficiaries;
- concern about the impact of short-termism on company performance, investment returns and market behaviour;
- legal requirements protecting the long-term interests of beneficiaries and the wider financial system;
- pressure from competitors seeking to differentiate themselves by offering responsible investment services as a competitive advantage;
- beneficiaries becoming increasingly active and demanding transparency about where and how their money is being invested; and
- value-destroying reputational risk from issues such as climate change, pollution, working conditions, employee diversity, corruption and aggressive tax strategies in a world of globalisation and social media.

2.2.3 Guiding documentation & bodies

Montagu monitors international and domestic developments in responsible ownership and will review this policy in accordance with such developments. Where appropriate and practicable, Montagu will incorporate acknowledged best practice into its investment processes.

As noted above, Montagu is a signatory to the UN Principles of Responsible Investment (UN PRI). In addition, the following publications and bodies have been referred to in developing this Policy:

- The ILO Conventions
- The Private Equity Council’s Guidelines for Responsible Investments
- The Ten Principles of the United Nations’ Global Compact
- The list of countries maintained by the U.S. Secretary of the Treasury (pursuant to s.999(a)(3) of the Internal Revenue Code) which actively force companies to adopt international boycotts or adopt discriminatory trade or employment practices.

- The publications issued by the Financial Action Task Force (FATF), which deal with anti-money laundering and the financing of terrorism organisations.
- The Rio Conventions, which address biodiversity and climate change.
- The UN Convention Against Corruption

2.2.4 ESG topics

Examples of some of the factors which are considered in an investment, if relevant, are shown below. In addition, it is noted in which of the CORRGI chapters (see earlier) these issues are covered:

Environmental	<ul style="list-style-type: none"> • climate change • greenhouse gas (GHG) emissions • resource depletion, including water • waste and pollution • deforestation 	<p>These factors are covered in:</p> <ul style="list-style-type: none"> - 3.2 Environmental
Social	<ul style="list-style-type: none"> • working conditions • local communities • conflict • health and safety • employee relations and diversity 	<p>These factors are covered in the relevant sections:</p> <ul style="list-style-type: none"> - 2.1 Health & Safety - 2.2 Employee Related - 3.1 Human Rights
Governance	<ul style="list-style-type: none"> • executive pay • bribery and corruption • political lobbying and donations • board diversity and structure • tax strategy 	<p>These factors are covered in:</p> <ul style="list-style-type: none"> - 1.4 Bribery & Corruption - 1.5 Tax compliance - 1.6 General legal Compliance - 4.3 Governance Infrastructure

2.2.5 Specific focus areas

Where wider risks are identified, Montagu adopt a firm-wide process to ensure compliance. Recent examples include:

Modern Slavery	<p>The Modern Slavery Act 2015 (“MSA”) came into force on 31 July 2015. The principal purpose of the MSA is to consolidate existing criminal offences relating to slavery and human trafficking and to introduce enhanced tools for law enforcement agencies to address the issue of modern slavery. Section 54 of the MSA came into force on 29 October 2015 and introduced a requirement for certain commercial organisations to produce a slavery and human trafficking statement each financial year. This discloses the steps they have taken to ensure their business and supply chains are free from slavery and human trafficking. Montagu has published a slavery and human trafficking statement on its website which details this.</p>
GDPR	<p>The EU General Data Protection Regulation (“GDPR”) is an important new piece of legislation which came into force in May 2018. This significantly enhances the rights of individuals (data subjects) regarding data which companies hold relating to them. This will be particularly relevant to healthcare, financial services and</p>

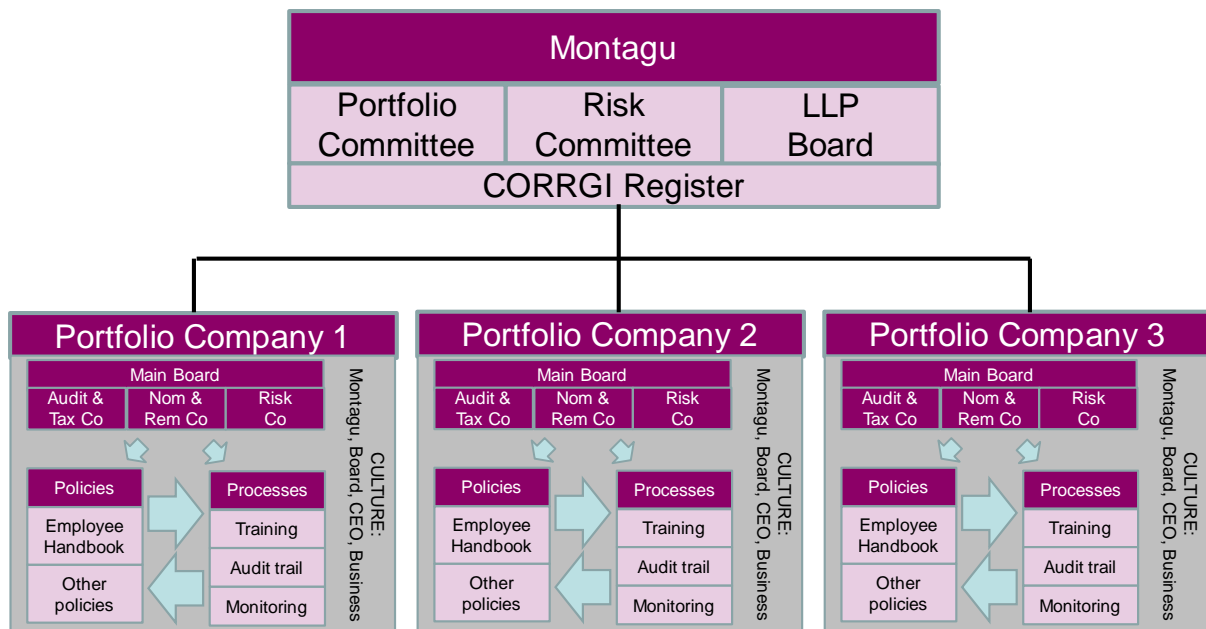
	consumer-facing business, although all sectors are covered. Failure to comply with this new legislation could be costly – through fines and potential reputational damage. Specific initiatives to ensure compliance have been put in place at Montagu and each of its portfolio companies are expected to comply with this new legislation.
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2.3 Governance & Initiatives (“GI”)

2.3.1 Objective

*“Montagu understands that **businesses are not perfect** and require timely diagnostics to identify failings, **initiatives** to be implemented to ensure gaps are closed and a **governance framework** to provide oversight. This has to happen inside each portfolio company and, centrally, at Montagu to ensure the **highest standards** are maintained.”*

2.3.2 Ensuring compliance (Governance)



At the **portfolio company** level, there are four key components to governance:

Main Board	Ensures that the right governance structures are in place to ensure that any issues are promptly discovered & resolved and future issues are prevented. Overall responsibility resides with the Main Board, with delegated authority to subsidiary boards focussed on specific issues. These are likely to include an Audit & Tax Committee, a Nominations & Remuneration Committee and a Risk Committee. Each of these are expected to comprise four components: a clear remit, an established frequency, an appropriate configuration of members and supporting documentation.
Policies	Ensure that the expected standards of every business are documented in a set of policies. Certain elements of these policies will be common to every company (e.g. bribery), but areas of specific risk to a company should be covered in more depth (e.g. supplier diligence).

	Best practice policies will have: an overall senior owner / sponsor; a comprehensive set of underlying documents which are readily available and that are updated as needed; and be audited from time to time by a third party.
Processes	<p>These are the systems in place to ensure that the company understands, engages and complies with its key policies.</p> <p>In this it is expected that the business has a regular training programme, maintains an audit trail to demonstrate that the processes work and will have a compliance officer in place.</p>
Culture	<p>Montagu expects the companies in which its invests to adopt positive and compliant cultures.</p> <p>It is expected that senior management will set the right “tone from the top”, be aware of all relevant risks and behave appropriately at all times.</p>

At the **Montagu level**, any CORRGI issues that arise are logged on a register and progress to resolve them noted. This register is monitored at each of three governance bodies:

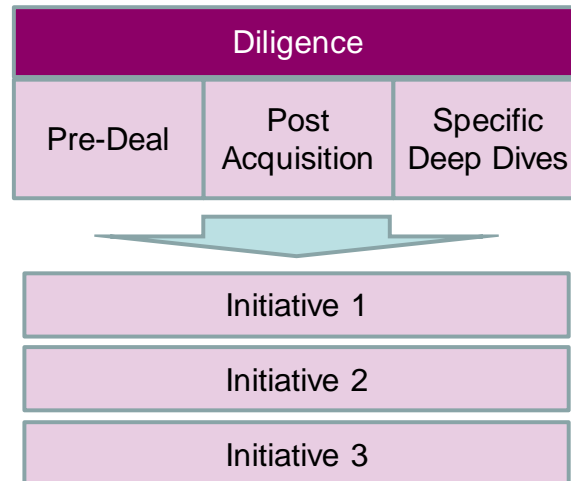
- Portfolio Committee: Every portfolio company is discussed at least three times a year at the portfolio committee. A discussion of CORRGI issues forms part of a standard agenda;
- Risk Committee: Any significant issues for Montagu or the portfolio companies in which its funds invest are noted by the risk committee, which meets at least twice a year; and
- LLP Board: Any material CORRGI issues are discussed at a meeting of the LLP Board.

In addition, Montagu expects each of its executives that represent Montagu on company Boards to maintain the highest standards. These expectations are explained as part of regular training delivered through Montagu Academy. Montagu recognises that directors of portfolio companies may have certain duties imposed by law which reflect broad CORRGI issues. They also have a duty to act in the way they consider in good faith to be most likely to promote the success of the company for the benefit of its shareholders as a whole and in so doing (to the extent reasonably practicable), they are required to have regard to (amongst other things):

- the likely consequences of any decision in the long term;
- the interests of the company’s employees;
- the need to maintain the company’s business relationships with its suppliers, customers and others;
- the desirability of the company to maintain a reputation for high standards of business conduct; and
- the impact of the company’s operations on the community and the environment.

It should be noted that, although Montagu will seek to invest in accordance with the principles set out in this policy note, both Montagu and its portfolio company boards has an obligation to act in the best interests of investors. However, it has been our experience that these two goals are entirely congruent and reinforcing.

2.3.3 Managing implementation (Initiatives)



Montagu’s diligence process (discussed earlier) should identify any potential CORRGI issues that arise in portfolio companies.

Within six months of completing a set of initiatives should have been identified to rectify any issues. These initiatives form part of the wider FPP programme. Each initiative should be scoped and documented in terms of:

- the nature of the issue;
- an understanding of its implications;
- the plan to resolve it;
- the resource required for this; and
- the timetable for completion.

The progress of these initiatives will then be tracked as part of the FPP programme within each business.

This updated policy was adopted by Montagu’s Operations Committee formally on 2 July 2018.