



ESG Policy

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Introduction

ARCOS (i.e. ARCOS Capital Partners AB its subsidiaries and the ARCOS funds) strongly believes responsible investment can lower risk and increase financial returns for the Funds and for portfolio companies while also benefiting society as a whole. This is why Environmental, Social and Governance (ESG) matters are key to ARCOS' activities and fully integrated into its policies and processes. Conventions, agreements and regulation that are relevant to ARCOS' investment operations are UN, EU and ILO treaties and conventions that relate to human rights, environment, climate, use of specific weapons, employees' rights, child and forced labour, racism and discrimination and freedom of association and organisation.

ARCOS' ESG policy builds on (i) the 10 principles of the United Nations Global Compact ("UNGC") covering human rights, labour, environment and anti-corruption and (ii) the OECD Guidelines for Multinational Enterprises ("OECD Guidelines for MNEs"). ARCOS is a proud signatory of the UN-backed Principles for Responsible Investment ("PRI") and considers principal adverse impacts of investment decisions on sustainability factors. As such, ARCOS has made the UNGC, OECD Guidelines for MNEs, PRI's principles and Regulation (EU) 2019/2088 an integral part of its mission, investment process and disclosures.

Purpose

The purpose of this policy is to define ARCOS' approach to integrate environmental, social and governance (ESG) risks and value creation opportunities into its investment process, from origination and due diligence, to the monitoring of portfolio investments and exit.

Scope

This policy applies to all investments made by ARCOS funds in accordance with local laws and regulations.

Roles and Responsibilities

ARCOS' investment professionals are primarily responsible for ensuring that ESG matters are integrated into investment decisions. This is done with the support and the expertise of the ESG Director.

The ESG Director is responsible for providing ESG-related expertise, for facilitating the identification and prioritisation of principal adverse sustainability impacts and for ensuring its update and relevance.

All ESG related decisions and matters are dealt by the Investment Committee.

ESG Focus Areas

The aim of ARCOS' ESG policy is to formalize its commitments to take into consideration environmental, social and governance issues in its investments: ARCOS (i) complies with PRI's principles for responsible investment and (ii) strives for all companies it invests in to comply with the UNGC principles and OECD Guidelines for MNEs. ARCOS' specific commitments towards ESG are:

Environment

Contributing to the reduction of the global environmental footprint by introducing initiatives that support:

- Reduction of greenhouse gas emissions and carbon footprints
- Reduction of energy usage and shift to renewable energy sources
- Efficient use of natural resources
- Effective waste management and reduced land / water contamination
- Circular economy
- Reduction of pollution and appropriate handling of hazardous waste
- Compliance with environmental regulations

Social

- Eliminating child labour or other forms of forced or compulsory labour
- Ensuring compliance with human rights conventions (e.g. ILO)
- Implementing a fair recruitment policy, promote diversity of people and culture as well as gender equality
- Encouraging employee development and individual career plan through tailored training and coaching programs, organizing systematic and transparent assessment of employees' performance and regular information sharing
- Improving safety and well-being at work
- Offering healthcare, retirement and disability insurance
- Taking measures to prevent work-related health and safety risks
- Offering flexible work schedules (part-time work, telecommuting etc.)

Governance

- Building-up a long-term trust with management teams based on transparency, independence and business ethics
- Providing management with strong support and guidance on the strategic development throughout the ownership period to improve the financial and non-financial performance
- Ensuring compliance with all relevant anti-corruption laws and regulations
- Prohibiting corruption in all its forms, including extortion and bribery
- Supporting positive engagement with key stakeholders
- Ensuring data protection and security

ARCOS' Approach

ARCOS promotes responsible investment principles in its investment process, in its portfolio companies to the extent possible and in its own corporate culture.

Asset Selection and Origination

ARCOS conducts an initial ESG screening and analysis of the targeted investments and their teams. This is done by using ARCOS' Investment Restriction Checklist which allows the investment team to get a better view on the different restrictions imposed by the Limited Partnership Agreements.

Pre-Investment Phase

Once the opportunity of a new investment is validated, the investment team carries out an analysis of the targeted company. During this process ARCOS undertakes an ESG due diligence in order to assess potential ESG-related risks and to identify possible opportunities. This is normally done by engaging external and internal subject matter experts. During the due diligence process, ARCOS, together with the portfolio company's management, identifies ESG aspects which are material¹ and relevant to its portfolio companies.

ESG Due Diligence

The ESG due diligence focuses on:

- Assessment of sector-specific ESG risks and opportunities of the targeted company
- In-depth survey of the company's level of maturity and progress on ESG matters through analysis of existing policies, plans, management systems, initiatives and objectives
- Ensuring that the company has adequate and competent staffing, management plans and resources to effectively manage and implement environmental and social mitigations measures
- Identification of the ESG themes that should be addressed at first and areas of improvement
- Recommendations to serve as a basis for an ESG action plan and KPIs.

The findings of the ESG due diligence are incorporated in the Final Credit Review report reviewed by the Investment Committee.

Investment Phase

ARCOS monitors ESG progress within its portfolio by engaging with the companies' management and supporting ESG initiatives and stimulating active management of ESG.

ARCOS requests portfolio companies to systematically provide a progress report on the ESG action plan and provides support and guidance to the extent possible on the strategic development of the plan.

ARCOS has established a monitoring process to annually report the relevant ESG information to PRI and meet the disclosure obligations under the Sustainable Finance Disclosure Regulation ("SFDR").

¹ In accordance with the Global Reporting Initiative, an aspect is material when:

- It reflects the organization's significant economic, environmental, and social impact or,
- Substantially influences the assessments and decisions of stakeholders.

It is also expected that the portfolio companies' management teams and Board members also actively monitor the ESG performance of their companies as the ultimate responsibility for ensuring that ESG policies are implemented resides with each portfolio company's board of directors.

Transparency and Stakeholders Engagement

Transparency is key for ARCOS and this is why ARCOS provides periodic updates to all its stakeholders about the development of its responsible investment programme.

Exclusion Policy

ARCOS believes that certain business practices are incompatible with sustainable investment strategies and detrimental to society. Therefore, ARCOS refrains from investing in sectors such as tobacco, prostitution, pornography, the production or trade of illicit drugs, the production or trade of weapons or munitions that is not compliant with UN, EU and ILO treaties and conventions.

The Investee Company Undertaking

ARCOS requires that every portfolio company undertakes that the business will be carried out in a manner that:

- complies with UNGC principles and OECD Guidelines for MNEs
- engages to determine and monitor its
 - greenhouse gas emissions and carbon footprint
 - share of non-renewable energy consumption
 - activities negatively affecting biodiversity-sensitive areas, if any (Article 7b(3) of Directive 98/70/EC)
 - emissions of priority substances (Article 2(30) of Directive 2000/60/EC)
 - hazardous waste generation (Article 3(2) of Directive 2008/98/EC)
 - gender pay gap
- encourages the efficient use of natural resources and promotes the protection of the environment
- treats all employees fairly in terms of recruitment, progression, remuneration and conditions of work, irrespective of gender, race, colour, language, disability, political opinion, age, religion, or national/social origin
- allows consultative work-place structures and associations which provide employees with an opportunity to present their views to management
- upholds high standards of business integrity and honesty, complies with local laws and international good practice and does not directly or indirectly offer, pay, solicit or accept bribes in any form
- takes account of the impact of its operations on the local community and seeks to ensure that potentially harmful occupational health and safety, environmental and social effects are properly assessed, addressed and monitored
- provides for the reporting of the Company's sustainability performance in an annual report by the Company to its Board
- implements an ESG management system which enables effective identification, management and monitoring of any risks and provides a framework for action
- implements minimum standards for cybersecurity along with appropriate information protection practices and GDPR compliance.