

Sustainable Value Creation

Responsible Investment Policy

REQ Capital AS



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INVESTING WITH INSIGHT

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Responsible Investment Policy

REQ Capital is a long-term investor that seeks to invest in companies that achieve profitable and sustainable growth over time. We believe that long-term growth is based on sustainable value creation.

In this document we will outline our responsible investment policy. The policy is based on high-level principles. All portfolio managers incorporate these high-level principles into their decision making and document their compliance. Our responsible investment policy reflects our commitment to our investors, employees, and all other stakeholders.

Our responsible investment policy relates to all decision-making processes in REQ Capital's investment activities.

All of REQ Capital's funds are classified as Article 8 funds according to SFDR and the EU Taxonomy, and promote environmental and social characteristics.

Responsible investments

We define responsible investments as investments that integrate ESG criteria into the investment process. Over the years we have seen that companies with poor corporate governance practices, and which do not incorporate social or environmental factors in their strategies, quickly lose reputation, customers and owners. We believe that companies that proactively engage in sustainable development gain a competitive advantage over time. Therefore, we believe ESG factors are critical for sustainable value creation, and for generating value to shareholders.

We measure and review all our investments based on all three areas within ESG but place the greatest emphasis on corporate governance. We believe that companies with good corporate governance are also best positioned to follow best practice on social and environmental factors.

Climate change is an important factor for us, as we are long-term shareholders that seek to invest in companies that can generate long-term profitable growth over time. Therefore, we also place great emphasis on risks and opportunities related to climate change in our decision-making processes. We actively seek to avoid companies that are directly or indirectly negatively exposed towards climate change, or contribute to climate change.

We believe that companies with a good corporate culture, and motivated and properly incentivized employees, outperform peers. Engaged colleagues are the foundation of any business. This goes beyond traditional and basic KPIs to measure social factors like sick leave, diversity and minimum wage. For us, responsible investments mean taking into account subjective opinions about social factors such as working conditions, trust and the overall well-being of employees.

REQ Capital and partnerships within responsible investments

REQ Capital is a signatory to the United Nations Principles for Responsible Investments (UNPRI). We are committed to incorporate environmental, social, and corporate governance considerations into our investment analysis and decision-making processes.



All investment decisions at REQ Capital include a thorough analysis of a predefined set of ESG criteria, based on the UN Principles for Responsible Investments. These ESG criteria are reviewed annually and include quantitative and qualitative indicators.

We have a close collaboration with the EAT Foundation which is a leading global organization working on food systems transformation in the intersection of food, health, environmental sustainability, and social justice. Through its expertise and access to a global ecosystem of actors in food systems, EAT provides us with valuable insights and access that we use when challenging our portfolio companies.



From time to time we also actively work with other independent consultants and NGOs to promote and integrate sustainability into all our activities. We welcome feedback on our investment activities and invite our stakeholders to engage in dialogue with us.

We aim to be a leading investment manager in terms of sustainability integration. In addition to our own sustainability assessments, we work with independent research providers and consultancies for external validation. We also review our portfolios with independent consultants to assess ESG related risks and opportunities.

REQ Contribution

REQ Contribution is our way of giving back to society. We donate 5% of our annual net profit to associations, foundations and non-profit organizations that contribute to the UN Sustainable Development Goals. It feels good to know that the better results we achieve for our clients, the more we can contribute to society.



Responsible investment strategy

Our responsible investment strategy is based on integrating ESG into all investment decisions, engaging with companies, and excluding controversial industries from our investment universe. We are committed to working towards the UN Sustainable Development Goals (SDGs). We place particular emphasis on the following SDGs:

7 Affordable and Clean Energy – We are long-term investors that invest in companies that will be around for decades to come. We believe that companies that are well positioned to take advantage of the shift towards renewable energy have a favorable market outlook the next decades. We emphasize that we are not environmental impact investors, nor do we invest in

early-stage growth companies with no earnings, but we believe that well-run and profitable companies exposed to the renewable energy sector can be attractive investment opportunities.

8 Decent Work and Economic Growth – REQ Capital will promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, across all companies we are invested in. Part of our investment philosophy is that corporate culture is a key factor for sustainable value creation in an organization. Decent work conditions and good corporate culture is therefore something we place great emphasis on.

10 Reduced Inequalities – At REQ Capital we believe that companies that promote social factors will outperform peers over time. We believe that companies that work actively to reduce inequalities and promote diversity across its organization will have access to a larger pool of talent, and gain different perspectives on strategy and business development, compared to other companies.

13 Climate action – REQ Capital does not invest in companies whose activities cause serious environmental damage or contributes to unacceptable global heating emissions. This includes owners of fossil fuel reserves, or companies that derive more than 5% of their income from thermal coal. We seek to invest in companies that sustain profitable growth over time and believe this can only be achieved through a transition to carbon neutrality in the future. We acknowledge that many industries still contribute to greenhouse gas emissions, but we will seek to invest in companies that factor in the risks and opportunities of climate change in their business models.

16 Peace, Justice and Strong Institutions – We place strong emphasis on good corporate governance, as we believe that companies with good corporate governance are also best positioned to follow best practice on social and environmental factors.

ESG integration

We incorporate a thorough ESG analysis into our investment process. Our ESG framework is based on best-practice standards within ESG reporting, such as the World Benchmarking Alliance. The ESG analysis includes a set of KPIs in the areas of governance, social factors, and environmental factors. These KPIs are standardized for all investment decisions. The ESG framework covers both quantitative and qualitative topics, and the respective portfolio manager fully covers all topics behind an investment decision. The KPIs are based on best practices in ESG reporting and are reviewed annually by the CIO. The ESG analysis of each company is reviewed at least every 12 months by the responsible portfolio manager.

The ESG analysis provides a score that determines the company's overall ESG performance. Because our investment philosophy is thematic, and the companies in which we are invested in share several of the same underlying characteristics, we believe our investment universe provides the best benchmark for assessing each company's relative ESG score. Exposure to controversial industries, as defined below, will result in exclusion from the investment universe. The portfolio manager will also consider on an ongoing basis whether the company engages in conduct that imposes a serious violation of human rights, environmental damage, or other ethical issues. Such engagement will result in the exclusion of the company from the

investment universe. Changes in the internal ESG rating may lead to a decision to sell a position.

We do not use third-party ESG ratings as part of our investment decisions. We believe that there is generally a lack of consistency across rating agencies across different industries, company sizes and geographies, and the value of such third-party ratings on an “as-is” basis is low. We argue that one of the greatest strengths of our investment philosophy is that we hold only 20-30 companies in each portfolio. This is less than the average number of holdings in comparable funds in our industry and allows each fund manager to get a comprehensive view of each company.

Company engagement

We believe engaging with companies is the best way to impact them. We actively engage with the management of companies in which we are invested or in which we wish to invest. We prefer to own shares in companies where senior management also has an ownership stake. This is one of our key KPIs in the context of corporate governance. Senior management ownership aligns incentives. As an owner we want management to invest and grow profitably and to deploy capital in the most efficient manner, i.e. at a low cost of capital. This includes incorporating social and environmental factors into the business strategy. We participate and vote on selected annual general meetings.

Exclusions

REQ Capital considers adverse impacts in all our investment decisions. It is also one of the reasons we have chosen to exclude several sectors where we believe the companies that comprise those sectors will eventually be under intense pressure from consumers, regulators, and society. These pressures will ultimately result in negative pressure on growth, margins, return on capital and cost of capital. When investing, we assess and monitor indicators that point to the presence of principal adverse impact. We address adverse impacts by close engagement with the companies and analysts covering the companies.

REQ Capital has an exclusion list of controversial industries, based on the criteria for exclusion of companies from the Norwegian Government Pension Fund Global (NBIM). In addition, our funds have no exposure to economic activities related to the production of nuclear power, the ownership of fossil fuel reserves, the production or sale of military weapons, gambling, the production or sale of alcohol, the production of palm oil, cannabis, and pornography.

We define exposure as *consolidated revenues above 5% at the parent company level* in the companies in which we are invested.

REQ Capital will not publish a list of excluded companies. Our investment universe comprises companies that we expect will deliver profitable long-term growth to shareholders. Many of the companies we are excluded from investing in will not meet our investment criteria and are not part of our investment universe. We believe it is not appropriate to publish a list of excluded companies in which we would not have invested had they not been excluded.

REQ remuneration policy

REQ Capital's remuneration policy is aligned with the integration of sustainability risks. The remuneration policy is long-term oriented and encourages long-term investment decisions. Variable compensation is a function of long-term investment performance, and a significant portion of variable compensation will be vested in the funds managed by REQ Capital over several years. We believe that the long-term remuneration policy at REQ Capital is a prerequisite for the full integration of our responsible investment policy.

ESG Questionnaire

General:

How does your ESG approach differ from that of other fund providers?

First and foremost, we do not use an index as a benchmark, which means we are completely free from exposure to a predefined group of companies in which we do not want any exposure. We invest in companies that create long term value, and our investment philosophy implies that we must conduct a thorough analysis of all ESG factors as part of our investment decision-making. We believe that companies with good governance that proactively integrate sustainable development into their strategy, will gain a competitive advantage over time.

You are committed to sustainable value creation, but how exactly do you differentiate yourself from other fund providers, and is not everyone promoting a focus on sustainability these days?

Our investment philosophy is to only invest in companies that we believe will create long-term value over time, as measured by consistent profitable earnings growth and free cash flow generation. For a company to be able to do this, the management of these companies must conduct a thorough assessment of all relevant aspects of the business model that may impact future growth. This includes, but is not limited to, avoiding controversial industries, industries that are subject to heavy regulation, and industries with limited growth.

We also donate 5% of our annual net profit to organizations that contribute to the UN Sustainable Development Goals and thus makes a direct contribution to society.

Do you do anything else in the area of ESG that goes beyond the minimum required?

We do not view ESG as a formal requirement that we must meet in order to check a box with our clients. At REQ Capital, ESG is a natural consequence of our investment philosophy, as we place great emphasis on good corporate governance, and sustainable growth in our investments.

EU taxonomy:

Have you analyzed the impact of the EU taxonomy on your portfolio holdings?

We have not yet analyzed all the full implications of EU taxonomy on our portfolio holdings. All REQ Capital funds are classified as Article 8 funds under SFDR and the EU Taxonomy, promoting social and environmental characteristics. We will report on all requirements accordingly.

Changes in cost of capital for certain industries may lead to significant changes in capital allocation between different industries, how will this impact you?

We have not yet analyzed the full impact of the EU taxonomy on our portfolio holdings. We expect the impact for our funds to be limited since our exposure to companies that are non-compliant with the taxonomy is absent.

ESG reporting:

Why do you not report on key ESG criteria like greenhouse gas emissions and water use on an aggregated level, like many other fund providers do?

We do not report on ESG metrics at an aggregate level, as it remains difficult to report such metrics meaningfully across different companies. We include such metrics in our internal ESG analysis for each company, and carefully monitor each company's performance relative to its industry.

Why do you not use third party data to assess your ESG score?

The number of data vendors selling ESG data has grown rapidly in recent years, and each vendor has its own way of scoring ESG metrics. Generally, the quality of such data at a standalone "as-is" level is low. One of the advantages of our investment philosophy is that we hold a limited number of companies in our portfolios, which means we can conduct a thorough ESG analysis of each portfolio company.

Will you publish a separate ESG report on your investments?

We will report on all relevant ESG data as required by the EU taxonomy regulations.

ESG integration in investment decisions:

Why have you chosen to exclude only certain sectors? Should not you also include other issues in your exclusion criteria, such as land use (e.g. solar panel farms), poor supply chain management (e.g. child labor, forced labor, pollution) and other similarly controversial issues?

In addition to excluding certain industries that we believe pose significant financial risk, we also exclude companies from our investment universe that have exposure to areas that may pose significant regulatory, financial, or reputational risk. This is part of our investment analysis.

If sustainability is so important to you, why do not you just promote funds that are committed to sustainable investing?

We invest in companies that we expect to create long-term sustainable value for shareholders. This means that these companies will be around for decades to come, and therefore must have sustainable business models that adapt to a more sustainable future. We do not believe that investing purely in companies to promote certain sustainability criteria will create the same value for shareholders, as such funds have significantly higher risk.

How do you ensure that all companies in your portfolio act in accordance with your sustainable investment principles?

Before we invest in a company, we conduct a thorough analysis of a predefined set of ESG criteria. This is part of our investment analysis. However, the business model of most of our portfolio companies is to acquire several smaller private companies, which in most cases do not provide separate financial reports. This introduces some risk to our ESG analysis. We have set a 5% revenue exposure for our exclusion criteria at the parent company level, and in cases where we identify an issue in an acquired company, we will address this on a case-by-case basis.

How do you integrate ESG in your investment decisions?

Before we invest in a company, we conduct a thorough analysis of a predefined set of ESG criteria. This is part of our investment analysis. The ESG analysis is the same for all companies and includes a quantitative and qualitative analysis of several indicators covering governance, social factors, and environmental factors.

How often do you review your ESG analysis?

We review our investment analysis on an ongoing basis. We review our formal ESG criteria and each company analysis, at least once a year.

REQ Contribution

What types of organizations will REQ Capital support with 5%?

The first organization we support through REQ Contribution is the Norwegian non-profit organization EAT. EAT works to transform our global food system, and connects and partners

with organizations across science, policy, business, and civil society to achieve five urgent and radical transformations by 2050.

How do you ensure that these organizations contribute to the UN Sustainable Development Goals?

On a regular basis we have meetings with management of EAT to get insight into the activities of EAT and how these activities contribute to the UN Sustainable Development Goals. EAT will challenge us on our sustainable investing policy and highlight ESG-risks in our portfolios.