Bregal Unternehmerkapital

Sustainability Risk Policy

EU Sustainable Finance Disclosure Regulation

The Sustainable Finance Disclosure Regulation ("SFDR" or "the Regulation") entered into force on 10 March 2021. The Regulation requires in scope firms to provide information to investors with regards to the integration of sustainability risks, the consideration of adverse sustainability impacts, the promotion of environmental or social characteristics, and sustainable investment.

Bregal Investments LLP, as a UK firm, and Bregal Unternehmerkapital GmbH are not directly subject to SFDR. However, they have elected to comply with certain provisions of the SFDR.

This document specifically addresses Article 3 of the Regulation:

"Financial market participants shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process."

This document applies in respect of Bregal Investments LLP and Bregal Unternehmerkapital GmbH (together "BU"). BU has determined that this policy applies in respect of its investment decision making and also in respect of the provision of investment advice and so references to investment decision making should be read as including the provision of investment advice.

More information related to the SFDR, and BU's approach to ESG (Environmental, Social, Governance factors) and Responsible Investment in general, can be found on BU's website https://www.bregal.de/, including:

- Remuneration policy in relation to the integration of sustainability risks
- Principal adverse impact statement
- Responsible Investment Policy

Sustainability risk

BU uses the definition of sustainability risk as described in Article 2 (22) of the Regulation: "*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 an investment*". BU believes that integration of sustainability risk considerations in the investment decision-making process is an important part of risk management.

Sustainability risks include (but are not limited to) the following:

- Operational risk such as impacts of environmental events on operations.
- Governance risk such as inadequate management oversight of sustainability risk.
- Regulatory risk such as violation of ESG-related laws and regulations.

This information shall be published on BU's website and will be periodically reviewed and revised. Records will be maintained to ensure version history is clear. As such, BU will indicate the dates of publication, and where applicable, identify which content has been updated.

Integration of sustainability risks in investment processes

BU has integrated sustainability risk assessment in the investment decision-making and portfolio management process as further described below.

Initial Screening

BU conducts a pre-due diligence screening with the aim to identify and consequently avoid any investment which is currently, or likely in the future, to generate a significant share of its revenue from industries or products involved in the following:

a) the manufacture or sale of weapons and armaments;
b) pornography or the sex industry;
c) the manufacture or sale of tobacco;
d) products or services that promote termination of life;
e) gambling activities; and
f) the production or sale of oil, gas or coal

The purpose of this initial screening is to screen out investments which present a potentially high level of sustainability risk and also to reflect BU's responsible investment approach.

In general, BU deems the sustainability risk of investments with material activity in fossil fuels, nuclear energy, intensive farming, and industries making use of animal testing too high. Through this negative screening exercise, BU aims to filter out potential investments that are likely to be exposed to significant sustainability risks.

Due diligence

BU conducts a comprehensive ESG (Environmental, Social, Governance factors) due diligence for each potential investment. Within the ESG due diligence, BU assesses whether there are any red flags (e.g., unmanageable ESG risks) that should prevent BU from proceeding with the potential transaction. Through this process BU identifies key sustainability risks (and opportunities), and defines appropriate mitigating activities.

Examples of sustainability risks assessed include, where relevant, inter alia risks related to environment, health and safety, people, suppliers and customers, community and charity, and governance.

Within the proprietary ESG due diligence framework, BU assesses the likely impacts of sustainability risks on the financial returns in a qualitative manner by allocating a grading on low, medium, high scale.

Governance

All Investment Committee memos have a mandatory ESG section covering the main ESG aspects and ensuring that ESG risks and opportunities are an integral part of the decision-making process.

Should materially negative ESG exposure to material ESG risks be found during due diligence, these will be discussed with company's management and mitigation will be sought in transaction documentation. In some cases, exposure to material ESG risks, which cannot be mitigated, may become reason to not pursue an investment further.

Business Operations

BU seeks to provide portfolio companies with the appropriate tools and guidance required to assess and manage sustainability risks. Post initial investment, BU seeks to work closely with portfolio company management to prepare a value creation plan to guide strategic direction and prioritise value creation initiatives. Throughout the ownership phase, BU conducts comprehensive ESG Roadmap reviews through which it challenges and supports portfolio companies to enhance and further develop their ESG related achievements and disclosure. Company specific action plans are created focused on key material issues with targets being set. Performance and progress are regularly monitored via KPIs, and the plans are continuously revised by the Board of Directors in the portfolio companies.

Reporting

Investors in BU funds are provided with an annual Portfolio ESG report. Portfolio companies' ESG Reports describe the relevance of ESG in the industry they are operating in, highlights the key material ESG themes, assesses their performance on those themes, and provides an action plan that aims both at reducing or mitigating risks and identifying value creation opportunities.

The report is updated annually, to monitor progress and keep the portfolio company focussed on achieving its goal of becoming a more sustainable and future proof company over time. The reports are the result of an independent review, commissioned and approved by the board and management of the portfolio companies.

The ESG framework and approach used to create the ESG Reports covers key sustainability risks. Sustainability risks are often interconnected and evolve and change over time. As such, BU monitors the landscape to ensure sustainability risks are being managed appropriately, ensuring that any emerging risks are taken into consideration.