

# Responsible Investment Policy

## **1. Background**

The Sustainable Finance Disclosure Regulation (“SFDR” or “the Regulation”) entered into force on 10 March 2021. The Regulation requires fund managers like Integral Capital Group (“Integral”) 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.

## **2. Introduction**

Integral is an authorized Alternative Investment Fund Manager in accordance with the laws of the Grand Duchy of Luxembourg. This Responsible Investment Policy describes Integral commitment to sustainability and how ESG factors are integrated in our processes. It also describes compliance with the SFDR<sup>1</sup> requirements.

Integral Capital Group is an independently owned private equity and growth capital investment firm with Pan-CEE coverage focusing on consumer, healthcare, niche industrials, (business) services and TMT sectors. We create value through contribution to growth and operations initiatives, M&A, governance and exits. We launched our first fund, Evolving Europe Principal Investment Fund I („EEPI I”) in 2019 in frame of which we executed 12 investments with control equity positions or minority equity with strong control-like shareholder rights. Our second fund, Evolving Europe Principal Investments (“EEPI II”), that will have similar geographical focus (Central and South-Eastern Europe) and investment strategy as our first fund.

## **3. View on responsible investment**

Integral acknowledges the impact we all have on the environment and society. Beyond financial performance we seek to be responsible investors in our portfolio companies. We believe that understanding the operational aspects of a business, in addition to its financial profile, allows us to manage risks effectively and generate value. We take an active role in our companies, going

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<sup>1</sup> 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

beyond board participation and working in partnership with management to grow and develop the business and solve problems together.

Environmental, Social and Governance (ESG) considerations impact the way in which we manage our company, our investment decisions, and our management of portfolio companies. The Integral team and the group of our portfolio companies are committed to making positive and valuable contributions to clients, employees, the societies we operate in, as well as investors in Integral's funds. This policy outlines how Integral lives up to this commitment and applies to the funds managed.

Responsible investing has always been important to Integral but changing times and regulatory requirements have made it necessary to formalize our ESG processes and initiatives. More information related to Integral's approach to ESG and SFDR disclosure can be found at: <https://integralvp.com/esp/>

#### ***4. Integral's responsibility***

We seek to implement rigorous processes for ESG engagement and monitoring. Working together with the portfolio companies' management teams and board of directors to maximize long-term value creation while reducing any negative impact a company has on its surroundings and stakeholders. A cornerstone of the Integral approach is to build ESG capabilities in the portfolio company and ensure accountability of sustainability outcomes.

We also consider that portfolio companies have different levels of maturity when it comes to ESG and therefore be prepared to help the portfolio company understand these ESG requirements – which may be quite new to them. It helps to take the time to walk the company through why ESG is a priority and how it can help to create value.

Integral's approach to responsible investing set out in this policy is embedded in the way we do business. We have an ESG manager and a responsible partner to ensure the implementation and accountability of ESG prioritizations and actions. In addition, our investment team is trained on ESG-related matters to consider during the entire portfolio management lifecycle. We are constantly looking for industry best practices when it comes to new ESG initiatives.

Our first fund is classified as Article 6 fund under SFDR though most of the portfolio companies have already been implementing significant ESG related initiatives. EEPI I portfolio consists mainly of low and medium ESG risk rated companies – Luminochem is the only high risk rated company due to being active in chemical industry. However, the Hungarian security pigment manufacturer serves as role model in our portfolio thanks to its continuous sustainability efforts. In case of our second fund, we will move a step forward by complying with SFDR Article 8 requirements, meaning that our investments will promote ESG characteristics.

## Environmental

Integral is aware of the substantial, interconnected global threats posed by issues such as climate change and biodiversity loss and is committed to working to continually reduce the portfolio companies' negative environmental footprint while contributing to positive activities. Climate change necessarily features in a wide range of business decisions, including risk management, product development, procurement, and company strategy. All portfolio companies provide detailed information annually on their environmental footprint, covering risks and opportunities related to waste management, energy use and carbon emissions.

## Social

At Integral, we are committed to upholding human rights and fostering a culture of respect, equality, and safety in every aspect of our operation and investments. Social factors are considered throughout the investment process, as we believe that businesses cannot operate and grow successfully without attention social responsibilities. Key themes include employee well-being, health and safety, talent management as well as labour conditions for employees at suppliers, and the impact on local communities in which the portfolio company and suppliers operate. We have also recognized that gender-based violence ("GBV") is a significant social and human rights issue that impacts individuals, families, and communities. We are dedicated to preventing and addressing GBV within our organization as well as our portfolio companies. For more information please see our GBV prevention policy on our website (<https://integralvp.com/sustainability/>). With regards to social KPIs, we measure among others gender diversity, employee turnover and absenteeism.

## Governance

The structure of the rules, practices, and processes of how a company operates and aligns the interests of its stakeholders has a tremendous impact on the potential risks and sustainable growth of the company. We support portfolio companies in adhering to the standard of good governance and compliance in critical areas, such as anti-corruption, anti-money laundering, anti-trust, sanctions, export control and whistleblowing.

### **5. Sustainability risk**

Integral establishes procedures to identify, assess, mitigate, and manage ESG risks not only to eliminate or reduce risks to the investments, but to further good practices. Integral works with and guide investee companies to improve ESG measurement and performance over the life of the investment.

Integral 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"*. Integral 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

## **6. ESG throughout the investment process**

All our investments are and will be in compliance with the performance standards on sustainability of our cornerstone investors - the Developing Financial Institutions (“DFIs”) - the European Bank for Reconstruction and Development (“EBRD”), the European Investment Fund (“EIF”) and the International Financial Corporation (“IFC”). In order to ensure this, Integral has fully integrated sustainability risk assessment in its investment decision-making processes, as further described below.

### **6.1. Initial Screening**

At the initial write-up on the Company the Deal Team screens

- (i) against the combined EBRD/IFC exclusion list and
- (ii) against the EBRD Category A List, additionally,
- (iii) per IFC requirements, the Fund will not invest in any coal-related activities, or higher risk business.

In the next stage of investment process ESG risk rating of the opportunity is being defined based on EBRD’s ESG Risk Categorization List.

### **6.2. Due diligence**

The level of ESG due diligence (“DD”) shall be based on the project’s ESG risk profile and potential impacts. Where potential risks are medium or high rated, an external consultant will be assigned to carry out the ESG DD. Upon completion of the analysis, the findings, conclusions, and recommendations shall be presented in the Final Investment Memorandum including necessary actions which must be implemented for the proposed investment to proceed to financial closure.

### **6.3. Business Operations**

Integral provides portfolio companies with the appropriate tools and guidance required to assess and manage sustainability risks. Throughout the ownership phase Integral supports portfolio companies to enhance and further develop their ESG related initiatives.

## **7. Sustainability reporting**

Collecting quality, comparable ESG data across an investment portfolio is posing real challenges. Investors must navigate numerous methodologies, frameworks, and approaches to translate ESG policies into concrete, data-driven processes and actions. Besides general ESG KPIs, Integral together with the portfolio companies identifies KPIs that are most materially relevant for the given sector and reflect sustainability performance. In case of companies where business operation is associated with significant sustainability risk Integral ESG manager continues regular discussion with the key stakeholder at the company.

Investors in Integral funds will be provided with an annual ESG Report highlighting the ESG strategy of the Funds, key material ESG themes, development of KPIs, as well as envisaged initiatives. The report will be updated annually, to monitor progress and keep the portfolio company focused on achieving its goal of becoming a more sustainable and future proof company over time.

In addition to reporting towards Investors, Integral complies with **SFDR Article 8 reporting requirements** and (will) publicly disclose the following documents:

- a) Statement of **Principle Adverse Impact** on sustainability factors (“PAI statement”) – will be published following the closing of the first full calendar year of the investments
- b) **SFDR disclosure**