

Sustainability-related disclosures

Summary

The Capital Dynamics Mid-Market Direct Strategy “MMD” invests in companies based in North America and Europe (including the United Kingdom) but typical portfolios also include a minority of holdings elsewhere (e.g., in the higher growth, emerging markets of Asia). Capital Dynamics’ Co-investment Team screens all opportunities against an exclusion list and prioritizes those that promote the Environmental or Social Characteristics (as defined in “Environmental or social characteristics of the financial product” below).

By complying with the Binding Elements (defined in “Investment Strategy” below), the MMD only makes investments that promote the Environmental or Social Characteristics. Along with compliance with the Binding Elements, Capital Dynamics’ co-investment team screens investment opportunities against internal ESG hurdles using the R-Eye™ scorecard, performs additional due diligence where necessary and monitors R-Eye™ criteria throughout the holding period. The co-investment team is further supported by a dedicated ESG resource that focusses on ESG monitoring and improvements throughout the investment lifecycle.

Capital Dynamics has implemented RepRisk, the world’s largest ESG due diligence database tracking over 135,000 companies with recorded exposure to ESG risk since 2007 and adding daily new companies and projects with identified ESG risks to their database. Capital Dynamics uses RepRisk primarily for monitoring purposes by creating watch lists of all portfolio company investments representing the applicable investment strategy. In addition, MMD (being a direct investment strategy) also uses RepRisk during the investment appraisal and due diligence phases of potential portfolio company review.

No sustainable investment objective¹

This financial product promotes environmental or social characteristics but does not have as its objective a sustainable investment.

Environmental or social characteristics of the financial product

MMD invests in companies based in North America and Europe (including the United Kingdom), but typical portfolios also include a minority of holdings elsewhere (e.g., in the higher growth, emerging markets of Asia). Information related to MMD and its performance with respect to the promotion of environmental or social characteristics is included in quarterly and annual investor reports. MMD promotes the following environmental or social characteristics:

- the Fund excludes investments that conflict with its exclusion policy – which excludes industries/activities based on environmental or social characteristics;
- the Fund excludes investments that are exposed to (unmanageable) sustainability risks; and
- the Fund applies an ESG framework that supports investments in improving their ESG performance,

(the “**Environmental or Social Characteristics**” and each an “**Environmental or Social Characteristic**”).

¹ Note that this is wording mandated by the regulation.

Investment strategy

Capital Dynamics' co-investment team screens all opportunities against an exclusion list and prioritizes those that promote the Environmental or Social Characteristics, compliant with the R-Eye™ criteria using a proprietary framework and appraisal process (as described further in "Methodologies" below). As a co-investment is made alongside a traditional sponsor/GP (or their fund) directly or indirectly in a target company, any such appraisal includes both the sponsor/GP's and the target company's approach to responsible investment matters.

The co-investment team invests in leading companies with sustainable competitive positions, strong growth prospects and high responsible investment standards as determined in conjunction with the Environmental or Social Characteristics. The team invests in companies based in North America and Europe (including the United Kingdom), but typical portfolios also include a minority of holdings elsewhere (*e.g.*, in the higher growth, emerging markets of Asia).

The team's intention is to leave a portfolio company in a better state from a responsible investment perspective than the one in which it was found at the start of its stewardship.

The following binding elements are used:

- ESG due diligence assessing selected sustainability indicators; and
- ESG due diligence assessing good governance practices (including sound management structures, employee relations, remuneration of staff, and tax compliance),

(the "**Binding Elements**").

The team strives to incorporate the R-Eye™ criteria in the legal documentation of transactions which proceed to completion. The investment appraisal and due diligence criteria that make up the Binding Elements typically encompass the following:

- responsible investment policies, processes, systems, innovation, economic growth and resources of the sponsor/GP and those of the underlying company;
- board composition and the importance of responsible investment matters at the board level;
- measurement and analysis of responsible investment matters during the ownership phase at the level of the sponsor/GP and that of the underlying portfolio company;
- the nature and extent of responsible investment reporting by the sponsor/GP to its investors;
- consideration of ethnicity, diversity & inclusion, gender equality, affordable & clean energy, quality education, good health, nutrition and well-being and health & safety at the sponsor/GP, portfolio company and supply chain levels; and
- consideration of energy competitiveness/efficiency/intensity, climate change, water consumption/quality, sustainable transportation/infrastructure, recycling and use of natural resources and pollution control at the sponsor/GP, portfolio company and supply chain levels.

After an investment has been made, the co-investment team continues to monitor its portfolio company holdings, as follows:

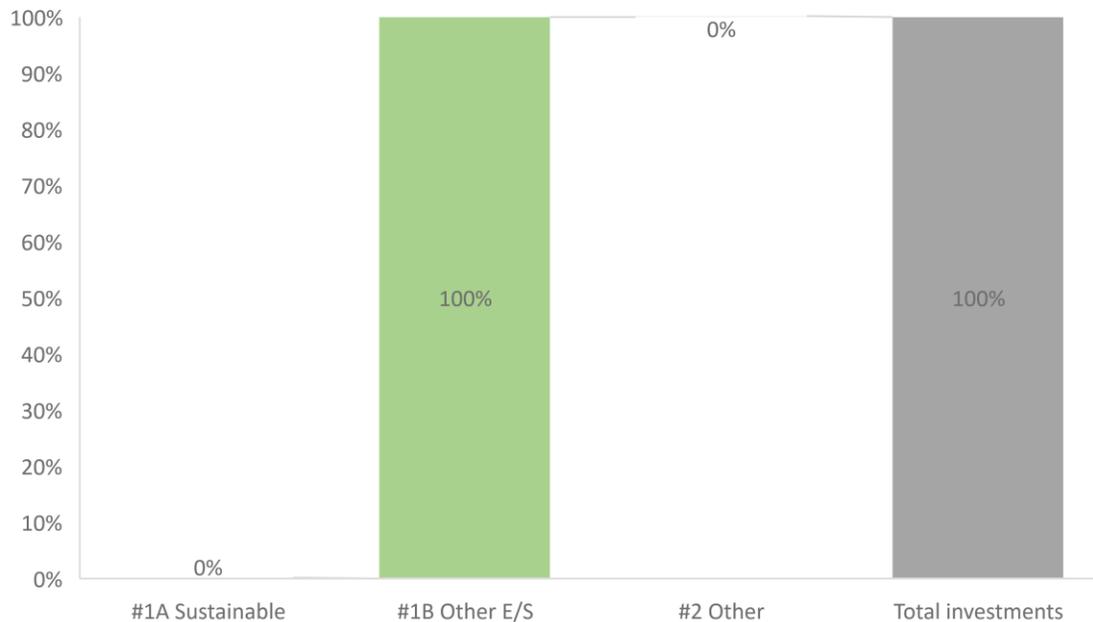
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- review of periodic reporting to ensure compliance with the underlying transaction documentation (*e.g.*, with covenants requiring the sponsor/GP and/or underlying portfolio company to introduce or maintain appropriate responsible investment strategies and/or to remedy deficiencies identified during due diligence or otherwise);
 - review of any responsible investment incidents or infractions;
 - review of relevant industry press articles and the mainstream/financial press;
 - periodic meetings with the sponsor/GP and attendance at the board meetings of underlying portfolio companies (where the team enjoys board representation by virtue of the transaction documentation);
 - active monitoring of all underlying portfolio companies during the holding period utilizing RepRisk;
 - attendance at the annual investors'/shareholders' meetings of the sponsor/GP and those of the underlying portfolio company; and
 - at least annual re-assessment of the R-Eye™ ratings for the underlying portfolio company assets.

By focussing on long-term value creation through improvement in R-Eye™ parameters, the co-investment team intends to mitigate risks, enhance returns and improve exit opportunities.

Capital Dynamics aims to identify private equity fund managers that offer a combination of stability, experience and governance with expertise in supporting portfolio companies. Fund managers will typically have incorporated responsible investment principles into their corporate culture and processes, evaluate and consider ESG factors during due diligence of potential investment opportunities, and monitor and aim to improve their companies' performance across a variety of ESG factors including governance factors. Capital Dynamics monitors their portfolio companies in relation to governance issues through manager reporting and external data sources (*e.g.*, RepRisk).

Proportion of investments

The Co-investment Team maintains an active focus on risk management to ensure that MMD attains appropriate diversification by sector, geography, vintage, Lead Investor and investment type. The co-investment team complies with the Binding Elements to ensure that investments promote the Environmental or Social Characteristics. Whilst MMD does not commit to invest a minimum percentage of its capital in investments that qualify as "sustainable investments", it may make such "sustainable investments". As a co-investment strategy, MMD has direct exposure to investments that promote the Environmental or Social Characteristics, although such investments may be structured through holding entities or investment partnerships. MMD does not and will not have indirect exposure to investments that promote the Environmental or Social Characteristics by way of securities such as derivatives.



Monitoring of environmental or social characteristics

As detailed above in “Investment Strategy”, after an investment has been made, the co-investment team continues to monitor the Environmental and Social Characteristics of its portfolio company holdings with a range of reviews, periodic meetings and active monitoring using RepRisk, culminating in an at least annual re-assessment of the R-Eye™ ratings for the underlying portfolio company assets.

Methodologies

The firm’s proprietary R-Eye™ (inspired by the shape of the human eye) Rating System (with the pupil of the R-Eye™ containing the average score) has furthered the level of transparency offered to clients.

The firm has created a proprietary R-Eye™ rating system for each business line. This rating system is designed to review a specific set of responsible investment matters, assess sustainability risk and provide transparency to clients. Capital Dynamics’ business lines are likely to reject an investment on responsible investment grounds if certain essential R-Eye™ criteria are not met at the point of initial investment appraisal.

Note that whilst all Capital Dynamics’ business lines adopt a consistent and transparent approach to responsible investment/ESG due diligence, comparison of fund-level R-Eye™ ratings for different investment strategies may not be helpful. Interrogation of individual responsible investment parameters at portfolio company level as carried out by MMD in the context of its direct investment due diligence (*e.g.*, review of a portfolio company-specific environmental due diligence report) may reveal detailed, underlying improvement areas which would not necessarily be identified when conducting due diligence at the level of a third-party fund (as would be the case in a fund-of-funds product). MMD would prefer to note an improvement area at the inception of a portfolio company investment, potentially reducing the initial fund-level R-Eye™ rating, such

that the rating should increase throughout MMD's period of stewardship of a direct investment as remedial actions are undertaken.

The R-Eye™ rating system for the Private Equity business provides a sustainability risk rating for each prospective investment (with both qualitative and quantitative assessments).

The rating system for the Fund is found in section 10.3 of the Responsible Investment Policy (which can be found at <https://www.capdyn.com/about-us/responsible-investment/>).

Data sources and processing

Capital Dynamics has implemented RepRisk, the world's largest ESG due diligence database tracking over 135,000 companies with recorded exposure to ESG risk since 2007 and adding daily new companies and projects with identified ESG risks to their database. Capital Dynamics uses RepRisk primarily for monitoring purposes by creating watch lists of all portfolio company investments representing the applicable investment strategy. If any of these companies experience a negative ESG event then the appropriate investment management professional would receive an alert. This monitoring process complements Capital Dynamics' established processes to report ESG-related incidents. RepRisk has been fully implemented for the firm's private equity strategies. In addition, MMD (being a direct investment strategy) also uses RepRisk during the investment appraisal and due diligence phases of potential portfolio company review.

Limitations to methodologies and data

The co-investment team is primarily reliant on the relevant sponsor/GP in gathering these data. Although the team will try to secure contractually binding obligations on the sponsor/GP and/or underlying portfolio company to provide such data, in practice it may not be possible to secure such obligations and, even if secured, the sponsor/GP or underlying portfolio company may not (or may not be able to) comply with them at all times. In instances where data cannot be obtained via the sponsor/GP or underlying portfolio company, the team will utilize RepRisk and other industry and sector data in an effort to remedy the deficiency.

Investment appraisal and due diligence

As noted in more detail in the "Investment Strategy" section above, Capital Dynamics' investment appraisal and due diligence processes include screening investment opportunities against internal ESG hurdles using the R-Eye™ scorecard, additional due diligence is undertaken where necessary and Capital Dynamics monitors R-Eye™ criteria throughout the holding period.

Engagement policies

ESG alerts are reported to the Responsible Investment Committee, discussed at the Responsible Investment Committee meeting and remedial actions are taken in order to influence the Lead Sponsor/GP or target company to rectify any ESG-related issues.

As Capital Dynamics aims to identify managers that will typically have incorporated responsible investment principles into their corporate culture and processes, evaluate and consider ESG factors during due diligence of potential investment opportunities, and monitor and aim to improve their companies' performance across

a variety of ESG factors including governance factors, Capital Dynamics expects that engagement with such managers on an ongoing basis will be transparent and constructive.

However, with respect to all managers with whom Capital Dynamics invests, the co-investment team will still engage with them by way of periodic meetings with the sponsor/GP and via attendance at the board meetings of underlying portfolio companies (where the team enjoys board representation by virtue of the transaction documentation) and attendance at the annual investors'/shareholders' meetings of the sponsor/GP and those of the underlying portfolio company.

Capital Dynamics also will review periodic reporting to ensure compliance with the underlying transaction documentation, review any responsible investment incidents or infractions and conduct active monitoring of all underlying portfolio companies during the holding period utilizing RepRisk.