

# Policy on ESG, Impact and Responsible Investing

---

Apposite Capital LLP

*Disclaimer*

*This policy is for the internal use of Apposite Capital LLP. Apposite Capital is authorised and regulated by the Financial Conduct Authority. To the extent that this policy is shared with other parties, the information contained herein is privileged, confidential and intended for use only by the addressees. Reproduction or communication to another party of any part of this information is expressly forbidden, unless it is with the prior approval of Apposite Capital LLP.*

## TABLE OF CONTENTS

1.	Introduction .....	2
2.	Purpose and Scope of This Policy .....	2
3.	Approach to Management of ESG Issues.....	3
	3.1. Impact Management Project and Apposite’s Interpretation .....	3
4.	Objectives.....	5
	4.1. Health Impact.....	5
	4.2. Employees .....	5
	4.3. Environment.....	5
	4.4. Communities .....	6
	4.5. Governance .....	6
5.	Integration of ESG into the Investment Approach .....	7
	5.1. Initial Screening of Investments.....	7
	5.2. Due Diligence .....	7
	5.3. Investment Approval .....	8
	5.4. Engagement with Portfolio Companies .....	8
	5.5. Exits .....	8
6.	Monitoring.....	8
7.	Reporting.....	9
8.	Identification of Industry Developments and Best Practice.....	9
9.	Review of This Policy.....	9
	<i>Appendix – Health Impact Definitions .....</i>	<i>10</i>

## **1. INTRODUCTION**

Apposite's mission is to build market leaders in healthcare by promoting excellence, innovation and good business practices. We seek to invest in businesses that are committed to making a positive impact by delivering high quality, efficient and cost effective care solutions for the benefit of all – patients, service users and healthcare payers. By doing this we believe we can create competitive advantage and maximise returns to our investors.

Responsible investment therefore permeates everything we do. Alongside our commitment to deliver market-leading returns for our investors, we have a strong desire to make a positive impact and we believe that businesses that achieve this are more defensible, lower risk and higher growth. We believe our expertise and genuine focus on responsible investing allows us to deliver better returns.

Apposite has always been committed to investing responsibly but as in everything else we do we are seeking to continually improve our practices in this area and to showcase the positive impact our businesses make on healthcare and society.

## **2. PURPOSE AND SCOPE OF THIS POLICY**

The purpose of this policy is to outline Apposite's approach for the management of ESG issues and to define the active role that ESG factors should play in decision making. The policy also identifies who is responsible for its implementation.

In developing this policy, we consulted the United Nations Principles for Responsible Investment (UN PRI), to which we became a signatory in September 2019. These are voluntary principles that provide a practical framework to guide the incorporation of ESG issues into the practices of investors, including investment decision-making and ownership. We have also considered the UN Global Compact, the UN Sustainable Development Goals (especially goal 3: Good health and well-being) and the Invest Europe ESG Disclosure Framework for Private Equity.

This policy applies to the management of all prospective and current investments of funds managed by Apposite Capital, as well as operations of Apposite Capital itself.

### 3. APPROACH TO MANAGEMENT OF ESG ISSUES

Due to the importance that Apposite ascribes to responsible investment, it is expected that staff will routinely consider ESG factors as they perform their roles. However, Apposite recognises the need for focus on this area at the highest level. The Management Board therefore has ultimate responsibility for oversight of this policy. The Managing Partner has responsibility for ensuring its implementation and further development.

It has been found that a helpful framework for monitoring, planning and reporting with respect to ESG issues is that provided by the Impact Management Project (“IMP”), which has been adopted by a number of leading investors. More information on the IMP, and Apposite’s use of it, is given below:

#### 3.1. IMPACT MANAGEMENT PROJECT AND APPOSITE’S INTERPRETATION

The IMP is an international collaboration between investors, the United Nations Development Programme, the UN Principles for Responsible Investing, and the Global Reporting Initiative. It was borne out of the recognition that common definitions and standards are required to ensure that investors are working collaboratively in pursuit of positive impact. The IMP is a global not-for-profit effort to agree a common framework for analysing, measuring and reporting on impact. In summary, it is focused on identifying the impacts that matter; such that effort can be put into reducing negative impacts and increasing positive ones.

The IMP has resulted in the identification of five dimensions of impact that can be used to understand the significance of individual issues. These are:

- **‘WHAT’** the impact is;
- **‘WHO’** is affected;
- **‘HOW MUCH’** of an effect there is (in respect of depth, scale and duration);
- the **‘CONTRIBUTION’** that the business makes with respect to the given impact; and
- the **‘RISK’** associated with achieving or not the given impact area.

For Apposite’s purposes, the **‘WHAT’** and **‘WHO’** dimensions of the IMP have been combined to identify 5 key impact areas that are universal to the businesses in which Apposite invests. These are:

- Health;
- Employees;
- Communities;
- Environment; and
- Governance.

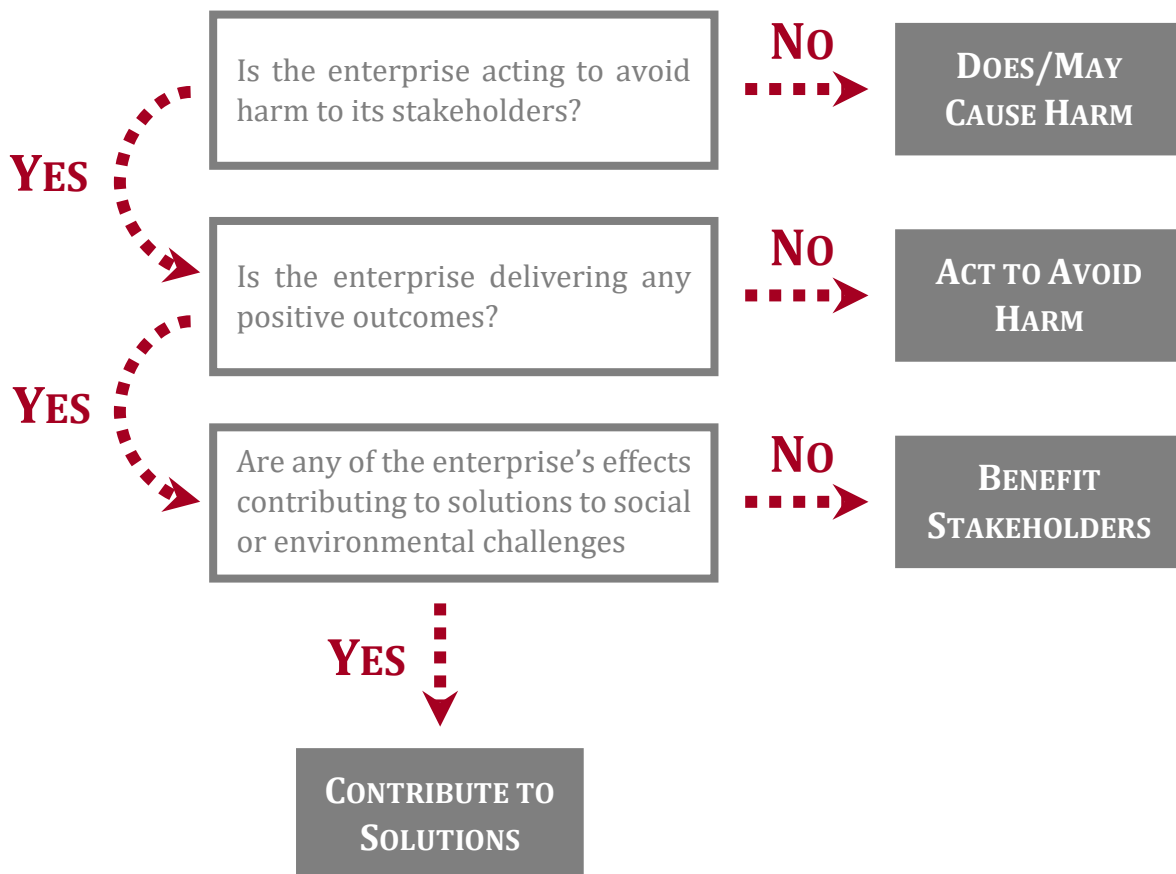
Information on these impact areas and Apposite’s objectives is given in section 4 of this policy (*Objectives*).

For each portfolio company, Apposite makes a quantitative (though necessarily subjective) assessment of the relative significance of each impact area, where significance is considered to be the range of possible risk/benefit (i.e. a combination of the **‘HOW MUCH’** and **‘RISK’** dimensions of the IMP).

Through the investment process (see section 5 – *Integration of ESG into the investment approach*) and regular monitoring of portfolio companies (see section 6 – *Monitoring*), an understanding is developed regarding the impact being achieved by portfolio companies in each area. A score will then be attributed for the **CONTRIBUTION** being made by each portfolio company, for each impact area. For this purpose, we have used the IMP’s classification of levels of impact that a company can have:

1. **DOES/MAY CAUSE HARM**
2. **ACT TO AVOID HARM**
3. **BENEFIT STAKEHOLDERS**
4. **CONTRIBUTE TO SOLUTIONS**

The IMP uses the following flow-chart to illustrate the different levels of impact:



Through grading the level of importance and performance for each impact area and company, it is intended that efforts can be focused on managing the most material risks and designing strategic initiatives to make the most positive impact. It also helps to ensure that the cost of any initiatives is proportionate to their significance. Ideally initiatives should be integrated into existing management structures and systems.

Apposite works closely with company boards and management teams in designing and implementing relevant initiatives, which will in turn feed into the monitoring and reporting cycle (see sections 6 and 7 – *Monitoring and Reporting*).

## **4. OBJECTIVES**

For each of the identified impact areas (see section 3 – *Approach to management of ESG issues*) we have identified specific objectives, as outlined below:

### **4.1. HEALTH IMPACT**

Health impact is a key impact area for Apposite, by virtue of its investment focus. Apposite intends to invest in companies that are fundamentally driven by a strong desire to provide quality services and products to their patients/customers and to have a beneficial impact on the healthcare economy.

We have identified 6 strategic health impact objectives, in line with those identified by the Global Impact Investing Network:

- Improving patient outcomes;
- Improving patient satisfaction;
- Increasing access to healthcare;
- Increasing capacity;
- Improving affordability; and
- Promoting innovation.

Full definitions of each of these areas are given as an appendix to this document.

### **4.2. EMPLOYEES**

In aggregate, Apposite's portfolio companies are responsible for the employment of a significant number of employees. As well as being vital to the success of the businesses, Apposite recognises its duties as an investor in helping to ensure appropriate treatment of these individuals. The key objectives in this area are as follows:

- Fair and appropriate compensation;
- High staff satisfaction;
- Suitably diverse workforces; and
- Compliance with relevant labour standards (including ensuring no child labour and modern day slavery).

Apposite will encourage all companies to carry out commensurate compensation benchmarking, to help ensure that employees are compensated appropriately. It is also Apposite's intention to avoid a wide disconnect in compensation between management and staff, or an unwarranted transfer of value from the company to executives.

### **4.3. ENVIRONMENT**

It is important for every business to consider its impact on the environment, especially given the issues the world is facing with respect to climate change. By their nature, the companies in Apposite's portfolio usually have a relatively small environmental footprint. However, Apposite is of the opinion that more can always be done, by every business and individual. Apposite's key objectives in this area are as follows:

- Reduction in usage of unsustainable energy and materials;
- To ensure efficient, environmentally friendly waste management;
- Reduction of net emissions (ideally achieving carbon neutrality); and

- To ensure an appropriate level of oversight and audit of environmental impact at company level.

#### **4.4. COMMUNITIES**

Our portfolio companies are often local by nature, in providing vital local health and social care services, as well as being significant employers in some communities. Apposite therefore sees it as essential that these companies are embedded in, and acting in the best interests of, their respective communities. While this is perhaps a less obvious impact area for the businesses that manufacture or develop products that are sold internationally, Apposite nevertheless expects them to aspire to being good corporate citizens and to be considerate of the communities in which they operate. Apposite's key objectives in this area are as follows:

- Promotion of the use of local suppliers where possible and appropriate; and
- Promotion of support from portfolio companies to local or national charities relevant to their overarching missions.

#### **4.5. GOVERNANCE**

Apposite typically invests in companies with small capitalisation, which are often founder owned or controlled prior to investment. Regardless of their practices prior to Apposite's investment, the overarching objective is to encourage companies to improve their practices and to professionalise and formalise governance structures.

The following represent the Apposite model for good governance:

- Diversity of senior management/board;
- Independence of board members/committees;
- Independence of Chairperson;
- Presence of audit/remuneration committees;
- A board that meets regularly (a minimum of nine meetings per annum) and in person (at least six times per annum);
- Embedded approach to risk management;
- Robust approach to the declaration and management of conflicts of interest;
- Appropriate policies and procedures for the avoidance of fraud, bribery, corruption and money laundering;
- Presence of code of ethics;
- A management team/board with a genuine desire to drive a positive impact;
- A management team/board with sufficient competence, relevant expertise, and sufficient time to discharge their duties fully and effectively; and
- Presence of an internal ESG/impact champion.

Apposite will look to ensure that all of its portfolio companies have put in place all of the governance structures listed above, generally as a part of the initial 100 day plan.

Where not already in place on acquisition, Apposite will ensure that each company nominates an ESG/impact champion. These should be members of the senior management team and should be tasked with responsibility for coordinating and implementing relevant initiatives, as well as being the focal point for reporting.

## **5. INTEGRATION OF ESG INTO THE INVESTMENT APPROACH**

Apposite defines responsible investment as the integration of environmental, social and governance (ESG) factors into all investment management practices. That is the rationale for embedding this policy in Apposite's business procedures. ESG factors therefore form an integral part of the investment process, including deal sourcing, initial screening, due diligence, investment approval, ongoing portfolio management and exit. A summary of how ESG is incorporated into each stage of the investment process is given below:

### **5.1. INITIAL SCREENING OF INVESTMENTS**

As defined in the investment policy in the Limited Partnership Agreement of Apposite Healthcare Fund II, Apposite will not invest in any company whose activities substantially consist of:

- An illegal economic activity, including human cloning for reproduction purposes;
- The production of tobacco;
- The financing of the production of and trade in weapons and ammunition;
- Casinos and equivalent enterprises; or
- Pornography.

These characteristics immediately preclude a potential investment from further consideration.

Animal testing remains a necessary stage in the development of many pharmaceuticals, in order to meet regulatory requirements. While the use of animal testing will not in itself preclude Apposite from investing in a company, it is essential that such activities should be subject to careful, ongoing scrutiny and that they should be carried out in accordance with appropriate standards of animal housing and care. For any company in which Apposite may invest that does utilise animal testing (even if outsourced), Apposite would require a regular review of animal testing practices, with a view to replacement, reduction and refinement wherever possible (the 3 R's of animal testing). Apposite will not invest in any company that performs testing on non-human primates.

At this stage, Apposite also specifically favours investments that would be expected to drive a positive health impact, in line with the objectives identified in section 4 (*Objectives*).

### **5.2. DUE DILIGENCE**

Thorough due diligence is carried out for all potential investments and this should incorporate ESG factors. Due diligence typically includes the following:

- Commercial due diligence – This is typically carried out by highly respected experts with relevant scientific/sector experience and commercial acumen. These experts may be drawn from Apposite's extensive advisory team or a consultancy firm. Apposite places a high degree of importance on customer referencing as an indicator of the quality of the product/service being offered by the company.
- Legal and regulatory due diligence – This should include confirmation of adherence to all relevant laws and regulations. Separate regulatory due diligence may also be carried out in some cases.
- Formal and informal reference checks are carried out on key management staff, to ensure that they will provide appropriate governance.

In addition, Apposite has historically utilised the B Corporation Quick Impact Assessment tool to perform initial diligence with respect to ESG practices. Since the discontinuation of that tool, Apposite intends to put together its own questionnaire, based on the Quick Impact Assessment but tailored for Apposite's specific objectives. This will be used as part of initial due diligence, as well



as being a tool for initial ESG planning for new investee companies. Once finalised, it will be added to this policy as an appendix.

### **5.3. INVESTMENT APPROVAL**

For any investment being considered, the recommendation to the Investment Committee will include a section outlining the key beneficial impacts of the company, any significant ESG issues, and planned actions to mitigate any material ESG risks. These considerations will form a part of the investment decision and an investment may be precluded on this basis.

### **5.4. ENGAGEMENT WITH PORTFOLIO COMPANIES**

Apposite always intends to be an active investor. Board representation is a pre-condition for any investment and Apposite will also seek to be part of Board sub-committees (e.g. audit, compensation and clinical governance committees).

Apposite ensures that its objectives and approach with respect to ESG issues are made clear to the management teams of portfolio companies at the outset, and Apposite's ESG policy will be shared with new investee companies. In the early stages of an investment, Apposite will look to ensure that an ESG/impact champion is nominated (see section 4.5) and that a plan is established with respect to relevant impact objectives. It is Apposite's view that such plans (and associated monitoring) should be the responsibility of portfolio companies themselves, with support being provided by Apposite as appropriate. Each company's plan should be reviewed and reported against at board level, at least annually.

Where appropriate, Apposite will look to facilitate the sharing of best practice between portfolio companies and, if required, support them in engaging external consultants.

Apposite generally invests in small cap/growth stage companies, which often have limited resources. It is therefore recognised that processes and initiatives should be proportionate, focused and not overly prescriptive.

Where appropriate, Apposite will also look to collaborate with other institutional investors in our portfolio companies.

### **5.5. EXITS**

It is the intention of Apposite that positive impact made by its investments will be meaningful and lasting. During the sale process, Apposite therefore gives consideration to whether potential acquirers will continue to exercise appropriate stewardship. It is expected that any investment will be sold on the basis of an ongoing growth plan and that this will be a key value driver for any acquirer.

## **6. MONITORING**

As outlined in section 3 (*Approach to management of ESG issues*), Apposite's interpretation of the IMP framework will be used for ongoing monitoring.

For this purpose, a detailed schedule has been compiled that includes Apposite's ongoing assessment of progress for each IMP dimension, impact area, and portfolio company. The purpose of this schedule is to facilitate detailed, quantified and verifiable reporting on the development of each portfolio company's impact over time.

For each company, this impact monitoring schedule will include:

- An assessment of the level of importance of each impact area (a rating out of 5);

- A summary of the Apposite objectives that are relevant for each impact area;
- The key indicators that can be used to assess performance against the identified objectives;
- A summary of key strengths/successes, weaknesses and risks;
- Initiatives that have been put in place; and
- An overall assessment of impact for each impact area (i.e. the contribution in the IMP framework) (a rating out of 5).

This schedule will be populated and regularly updated using information from:

- B Corporation impact assessments that have been carried out historically;
- Apposite's proprietary ESG due diligence questionnaire;
- Portfolio company board reporting; and
- Bespoke information requested by Apposite from portfolio companies.

In addition, at least once every 6 months, it is intended that the whole Apposite team will discuss the most significant ESG issues pertaining to each portfolio company, as part of one of its monthly portfolio update meetings. The intention of this is to ensure engagement of the entire team in ESG issues across the portfolio.

On an annual basis, the monitoring schedule will be closed off as part of the reporting process (see section 7 – *Reporting*).

## **7. REPORTING**

Using the impact monitoring schedule described in the previous section, Apposite will compile an impact report for its investors on an annual basis. This annual report will, at the least, include:

- A summary of the assessed importance of each extant portfolio company in each impact area;
- Detailed analysis with respect to the health impact of each portfolio company; and
- Analysis with respect to the performance of the portfolio as a whole across the other impact areas.

As required as a signatory to the UN PRI, Apposite will also report annually through the UN PRI Transparency Report. This report will be publicly available on the UN PRI website.

## **8. IDENTIFICATION OF INDUSTRY DEVELOPMENTS AND BEST PRACTICE**

Apposite will continue to look to participate in broader industry discussions about definitions, priorities, standards and best practices in responsible investing. In particular, Apposite will be attentive to the latest thoughts of the UN PRI, IMP, BVCA and Invest Europe.

## **9. REVIEW OF THIS POLICY**

Apposite appreciates that its approach to the management of ESG issues should be continually revisited, as best practices and investor expectations evolve. It is also appreciated that Apposite's progress towards best practice will be gradual, given that it is still a small firm.

This policy will be reviewed at least annually and will be revised as appropriate. This policy was last updated in May 2020.

## ***APPENDIX – HEALTH IMPACT DEFINITIONS***

Below we have provided a definition of each of the health impact areas and common indicators that may be used for each.

	<b>DEFINITIONS</b>	<b>INDICATORS</b>
<b>IMPROVING PATIENT OUTCOMES</b>	Ensuring the delivery of safe, effective, patient-centred care on a timely and efficient basis	Compliance with applicable quality and regulatory standards Revision/mortality rates Number of serious incidents Turnaround times Results of clinical studies
<b>IMPROVING PATIENT SATISFACTION</b>	Ensuring the comfort and happiness of a patient during and following the provision of care	Direct feedback from patients, through complaints, compliments and surveys Indirect metrics such as patient retention Changes in quality of life
<b>INCREASING ACCESS TO HEALTHCARE</b>	Improving the ability of individuals in a population to receive the care they require (through provision and awareness raising)	Proportion of the relevant population that can/do access the product or service
<b>INCREASING CAPACITY</b>	Improving the ability of the healthcare system to deliver the volumes of care required to maintain/improve the health of the relevant population	Number of facilities Number of patients Number of visits/appointments/procedures Utilisation rates
<b>IMPROVING AFFORDABILITY</b>	Ensuring that end payers can cover the cost of the care that is required, especially low to middle income individuals and increasingly squeezed national health services and authorities	Price benchmarking against competitors Cost savings for stakeholders
<b>PROMOTING INNOVATION</b>	Development of new technologies, products or processes to disrupt the provision of healthcare, helping to achieve improvements in the other health impact areas above	Number of patents held Innovation grants awarded Awards received for new products