

# **Principle of Responsible Investment**

## **capiton AG**

capiton seeks to act with the highest level of integrity, taking a responsible approach when interacting with our portfolio companies, our advisors, our investors, local communities and the environment.

The cornerstone of our business is to deliver superior risk adjusted net returns to our investors. They have entrusted us with funds to be managed over a considerable time horizon, and they expect that we use our influence as owners to protect and enhance the value of the companies we invest in.

We acknowledge that long-term financial sustainability is not only about financial dimensions, like avoiding excess leverage. It is also much about the quality of the management of portfolio companies and the integrity in the way they interact with their investors, employees, customers, central and local governments, other key stakeholders and the environment.

With our investment approach, capiton doesn't see a need for a responsible investment policy that is treated separately from our general investment policy. Our policy for responsible investments and our investment philosophy are intertwined and in fact two sides of the same coin; tools we apply to ensure that we over time get the best possible combination of controlling risk and enhancing value.

### **capiton's Responsible Investment Policy**

We take our obligations to all stakeholders in our portfolio companies seriously, and we believe that through operating in a responsible and transparent manner we are able to build stronger, more profitable entities. Our long-term perspective is core to our investment approach. Through partnership and transformation, we seek to create fundamentally better businesses that are competitive both locally and internationally.

At capiton, we have developed a strong set of Code of Conduct and a Policy for Responsible Investment, that is integrated with our investment processes.

The two key elements of our PRI policy are:

- a) Act at all times as a responsible owner promoting appropriate environmental, social and governance standards in its portfolio companies and
- b) When assessing potential investments to consider environment, social and governance issues, as part of its due diligence.

#### **(A) Environmental issues**

capiton respects and adheres to local environmental laws in the regions in which we operate. Before we invest in a company we analyse any environmental damage that might be relevant to such an investment. After acquiring a company, capiton focuses on the efficiency in the use of raw materials, introduces programs to reduce scrap and/or limit the company's energy consumption by increasing production efficiency.

All our portfolio companies should develop and implement their own Environmental policy in accordance with capiton's policy.

## **(B) Social issues**

capiton strongly believes that the firm and its portfolio companies will only be successful if the workforce enjoys a good working environment.

capiton aims to promote human rights practices in the portfolio companies it owns, including:

- Considering employee working conditions such as minimum wages, working hours, health and safety of work force
- Supporting the elimination of child labor including possible use of child labor by the suppliers to
- underlying portfolio companies
- Avoiding discrimination e.g., based on age, race, gender, religion, sexual orientation or disability
- Complying with international conventions on human rights

All our portfolio companies should develop and implement their own Code of Conduct, in accordance with capiton's Code of Conduct. This should include Value and Ethics guidelines as well as Whistleblower protection policy.

## **(C) Governance issues**

An essential part of capiton's value creation model is the governance and management structure that is put in place for each portfolio company. The board of directors of each portfolio company is responsible for defining strategy and policy, and capiton expects this to include the setting of sound environmental, social and governance standards.

Each company's CEO and management team are responsible for executing the strategy and running the daily operations of the company according to the policies established by the board or by shareholders resolution. capiton supports management to promote a culture of compliance.

capiton's exclusion criteria - We shall not invest in companies that:

1. Have contributed to systematic denial of basic human rights
2. Demonstrate a pattern of non-compliance with environmental regulations
3. Show a pattern of engaging in child labour or forced labour.
4. Is primarily engaged in the manufacturing, sales, or marketing of weapons, artillery, and ammunition to be used in the act of war or military conflict, (collectively, "Military Products") or components of the same, if the primary purpose of such component is to be included as a component in any Military Products.
5. Having its principal business activities in the field of:
  - a. the manufacturing, distribution or sale of hard core pornography
  - b. the manufacturing, processing, distribution or sale of tobacco products
  - c. the operation of casinos or other gambling facilities

## **capitons's ESG directive**

capiton has outlined its responsible investments policy in a separate ESG-directive (Appendix 1), stating the goals for the Due Diligence- the Monitoring- and the Exit-Phase.

## **Reporting**

capiton has developed the following reporting structure that will be implemented starting with fund capiton V:

- 1) Each Year, CEO completes his/her assessment of ESG risk. CEO then presents this to the Board for discussion.
- 2) capiton will report yearly to the investors on ESG development at the portfolio companies
- 3) capiton will cover particular ESG relevant events in its quarterly report to investors.

This policy will be reviewed and amended as appropriate from time to time.

Berlin, 9. September 2014