

## Scope of Policy

Ethos Private Equity's ('Ethos') purpose, as an investment manager, is to build better businesses through our active ownership model. At Ethos, RI means the integration of environmental, social, and corporate governance (ESG) considerations into the investment management process and ownership practices<sup>1</sup>, and in doing so, contribute to meaningful positive impact through investment choices. Sustainable growth and development are core to delivering the various Ethos Funds' growth objectives; underpinning Ethos' corporate philosophy and strategic plan is a deep understanding that Ethos' growth drivers cannot be achieved effectively without a committed focus on sustainable development. Ethos has chosen to use the UN Sustainable Development Goals (UN SDGs) and the IFC Performance Standards (IFC PS) as the reporting framework to monitor and evaluate its performance.

Ethos is committed to the following principles, which underpin Ethos' everyday actions<sup>2</sup>:

1. To incorporate ESG issues into investment analysis and decision-making processes;
2. To be active owners and to incorporate ESG issues into policies and practices; and
3. To undertake appropriate disclosure on ESG issues by the entities in which we invest.

This Policy applies to Ethos as a manager of Ethos' funds, as well as Ethos' portfolio company (PCs) investments across the various funds. The Policy will apply to all the funds under Ethos management, which currently comprises the Ethos Large Equity Funds (Fund VI and Fund VII); Ethos Mid Market Fund I (MMFI), Ethos Mezzanine Partners 3 (EMP3), and the Ethos Artificial Intelligence Fund I (AI Fund).

This policy has been developed in recognition of Ethos' sustainability journey and will be reviewed on an annual basis to ensure alignment with international best practice and the requirements of Ethos' various funds' investors. Updates to the Policy will be approved by the Operational Committee (OpCo), followed by the Executive Committee (ExCo). The Chief Operating Officer (COO) and Chief Executive Officer (CEO) have final oversight and accountability for implementation of the policy, the Senior ESG Manager, assisted by the Compliance and ESG Coordinator, are responsible for the regular review and update of the ESGMS, together with the Ethos staff members who have responsibility for operationalising the policy daily. This RI policy forms the backbone of the Ethos Environmental, Social and Governance Management System (ESGMS), with the ESGMS being the instrument through which the RI policy is implemented.

<sup>1</sup> UN PRI definition

<sup>2</sup> In line with the UN PRI's first three principles.

<b>Original date composed:</b> February 2020
<b>Prepared by:</b> Rachel Cochran Senior ESG Manager
<b>Date reviewed:</b> March 2020
<b>Reviewed by:</b> COO Jos van Zyl
<b>Approved by:</b> CEO Stuart Mackenzie
<b>Communicated to staff:</b> Yes (various dates as part of ESGMS training in October and November 2020)

The RI policy also links and overlaps with the following policies and frameworks:

1. Ethos Governance Structure and Business Integrity (G&BI), including the Ethos ESG Risk Matrix;
2. Whistle blower management;
3. Anti-money laundering policy and Risk Management and Compliance Programme; and
4. Various other compliance and regulatory requirements, including E&S requirements as set out by the Limited Partners (LPs) in the LP Agreement/side letters that govern the funds.

### ESG Risks and Opportunities

Ethos recognises the ESG risks and opportunities associated with the financial industry and within the portfolio of investments; we work with our PCs to identify the risks and opportunities from the outset. Working together through an agreed Environmental and Social Action Plan (ESAP), Ethos looks for opportunities to minimise the ESG risk and maximise ESG benefits, recognising that these factors can have an impact on the financial performance of our PCs. In doing so, Ethos has prioritised the following ESG factors in its risk management and value adding activities which are embedded in the ESGMS and should also be developed within a PC's own Environmental and Social Management System (ESMS):

1. Transformation: Where applicable, actively supporting black economic empowerment; gender equality and transformation of businesses and the supplier of goods and services in the PCs' supply chains.
2. Corporate Governance: Ensuring good corporate governance and business integrity is implemented and maintained to strengthen the sustainability strategy of the PCs.
3. Environment:
  - a. Being informed of climate change impacts and in doing so, investing in climate change resilient companies and not those that contribute or are unsustainable in a climate change induced environment, monitoring the PCs' contribution to climate change and actively seeking reductions in greenhouse gas emissions; appraising the effect of climate change on the business operations and developing adaptation measures where applicable.
  - b. Ensuring the sustainability of natural resources such as biodiversity and ecosystem services, access to clean water and clean air; proper management of waste and prevention of pollution.
4. Workforce: Ensuring fair labour practices are employed and respect for human rights.
5. Health and safety: Standards to be maintained and enforced; incidences to be monitored, escalated, and reported.
6. Corporate Social Responsibility (CSR): PCs must also be cognisant of the potential impacts on local communities and other stakeholders and work to minimise that impact. CSR programmes are required of all PCs with activities aligned to identified SDGs.

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In achieving these principles, Ethos is committed to complying with all applicable ESG legislation, as well as good international practice and standards such as the IFC Performance Standards on Environmental and Social Sustainability, the International Labour Organisation (ILO) Core Conventions and Code for Responsible Investing in South Africa (CRISA), in addition to the UN Guiding Principles for Business and Human Rights and the Ten Principles of the UN Global Compact.

### Investment Decision Making Process

In developing portfolios across the different funds, ESG is embedded across every stage of the decision-making process. Specifically, Ethos follows a robust and pragmatic procedure to identify and analyse ESG factors, determine their relevance to each deal and ensure they are properly addressed, as well as aligning activities with selected UN SDGs to deliver impactful investments:

1. Ethos undertakes screening activities from the concept stage and will not invest in any activities listed in the IFC and/or Harmonised European Development Finance Institution (EDFI) Exclusion List. As part of the screening stage activities, Ethos will assess the opportunity for alignment with preselected SDGs appropriate to that fund's thesis.
2. Each investment is categorised according to the potential ESG risk, including the IFC Performance Standards' risk categorisation. Depending on the categorisation, Ethos will either undertake an internal Environmental and Social Due Diligence (ESDD) for Category C, or for Category A and B (and B+) investments appoint external consultants to undertake independent ESDDs.
3. All impacts and risks will be managed in accordance with Ethos' internal ESGMS and incorporated into the operational process governing each investment.

### Active Ownership

In implementing the RI policy, Ethos will undertake the following approach with its PCs through their operational activities:

1. Incorporate an analysis of key priority ESG issues and opportunities into the investment analysis and decision-making process, including identification of opportunities for maximising positive impact in line with the UN SDGs.
2. Meet the requirements of ESG national legislation in all countries which the funds invest and/or the PCs operate.
3. Where applicable undertake activities in line with the applicable international standards and industry good practice.
4. Encourage value driven ethical behaviour informed by a respect for human rights.
5. Ensure adverse ESG impacts are avoided, reduced, or mitigated as far as practical, including within the PCs' supply chains.
6. Communicate and work closely with PCs to ensure their understanding and shared commitment to, conformance with an appropriate ESG policy for their purposes. Ethos will clearly articulate the minimum ESG standards that are expected to be adhered to (typically

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covering, but not limited to, covering climate change, water, resource scarcity, waste and biodiversity, employee relations, worker and human rights, local communities, diversity and transformation, independent oversight, management systems and remuneration etc.)

7. Implement precautions required to protect the health and safety of PC employees, including that of their contracted workers.
8. Endeavour to enhance ESG performance and maximise positive impacts associated with PCs to increase exit valuations for Funds and to attract responsible buyers for the sustainability of the company.

### Engagement Activities with Our Stakeholders

Engagement with our PCs is key to achieving successful ESG performance. Ethos will undertake the following in maintaining regular dialogue with their PCs in relation to ESG:

1. Communicate clear ESG expectations at the commencement of the investment, where applicable regulated through legal agreements and reporting templates.
2. Ensuring and promoting compliance with the required standards and adoption of adequate and effective ESG management system by portfolio companies, business partners and supply chains.
3. Appointing an ESG champion within the investment deal team to participate in the Social and Ethics Committee (SEC) meetings alongside the Senior ESG Manager and/or ESG and Compliance Coordinator.
4. Regular reporting by PCs on ESG performance and agreed sustainability performance indicators.
5. Regular review of emerging ESG risks and impact opportunities.
6. Addressing non-compliance.

Ethos believes in regular communication with investors regarding ESG performance and related developments. Ongoing communication enables a constructive and trusting relationship to be built between Ethos and its investors that can be mutually beneficial. This communication is in the form of quarterly reports, and ad hoc meetings or calls.

### Reporting Activities

As part of its commitment and contractual obligations to its investors, Ethos reports on an annual basis on its ESG performance across the funds and PCs. This is based on a direct involvement in the PCs and an annual questionnaire that Ethos disseminates across all PCs as part of a data gathering exercise on relevant key performance indicators (KPIs). The KPIs are framed against the IFC Performance Standards and are specific to each PC to address the most relevant ESG risks and opportunities. The KPIs are updated periodically in line with international best practice and legislation requirements, as well as responding to updated questions from fund investors. To drive increased transparency across the funds, Ethos will also endeavour to publish a Sustainability Report which is accessible to the public and is made available on the Ethos website. Collaboration on Responsible Investment initiatives and

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increased ESG transparency is encouraged, with Ethos being a founding member and participant in the South Africa Venture Capitalist Association's (SAVCA's) Impact Investing Interest Group.



Signed: Stuart MacKenzie

Date: 09/12/2020

Chief Executive Officer

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## Document Version Control

Date	Document Number	Prepared By	Approved By	Notes
March 2020	DOC-ESGMS-RI Policy-Mar 2020	R. Cochran	Jos van Zyl COO	Edits made
October 2020	DOC-ESGMS-RIPolicy-Oct 2020	R. Cochran	Stuart MacKenzie CEO	Final Sign Off
December 2020	DOC-ESGMS-RIPolicy-Dec 2020	R.Cochran	Stuart MacKenzie CEO	Input by R Dyer and Final Sign Off

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