



Responsible Investment Policy

Introduction

Linzor Capital Partners is a middle market private equity firm focused on Latin America that has sought to invest responsibly since its founding in 2006. Our experience investing in the region has convinced us of the need for businesses to work harder to meet responsible investment objectives, including mitigating the effects of climate change and promoting social and economic progress for all. Latin American countries are developing nations, with comparatively lower scores in the Human Development Index¹ and Corruption Perceptions Index² and higher Gini coefficients³ than developed markets.

From our position, making primarily control investments in multiple industries and countries in Latin America, we are well situated to implement a robust responsible investment strategy and assess its positive impact. We aim to make a tangible difference within the companies that we manage, while also setting an example that other businesses and investment firms may emulate. We believe that in the current environment, where climate change concerns and social demands have increased, it is critical for private sector companies to examine and evaluate their performance in environmental, social, and governance ("ESG") aspects and to strengthen their business strategy taking ESG risks and opportunities into account.

Our Commitment

We are committed to responsible investing as an integral part of our business model. We have the conviction that Latin America offers ample opportunities to earn attractive investment returns while making a positive impact on the environment and on society and meaningfully advancing one or more of the United Nations Sustainable Development Goals ("UN SDGs"). Our goal as investors is to allocate capital to businesses that not only have the potential to grow and become more valuable, but that can do so in a sustainable and socially responsible manner. We are convinced that by investing with responsibility and purpose, we are creating an additional value driver for our portfolios. We also recognize the increasing interest among our investor base for responsible and sustainable investment strategies, accompanied with a high level of accountability and transparency.

Based on our culture and investment strategy, we have been well aligned with the UN Principles for Responsible Investment ("UN PRI" or the "Principles") throughout our history. Namely, we are committed to:

- » Incorporating ESG issues into investment analysis and decision-making processes
- » Being active owners and incorporating ESG issues into our ownership policies and practices
- » Seeking appropriate disclosure on ESG issues by the companies in which we invest
- » Promoting acceptance and implementation of the Principles within the investment industry and advancing ESG issues within the industry sectors where we invest

¹ Index developed by the UN Development Programme based on life expectancy, education (mean years of schooling completed and expected years of schooling upon entering the education system), and per capita income indicators.

² Index published by Transparency International, which ranks countries "by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys.

³ A measure of statistical dispersion representing the income inequality or wealth inequality within a nation, with a higher coefficient signaling higher inequality.

- » Working together with other UN PRI signatories to enhance our effectiveness in implementing the Principles
- » Reporting on our activities and progress towards implementing the Principles

Our Approach

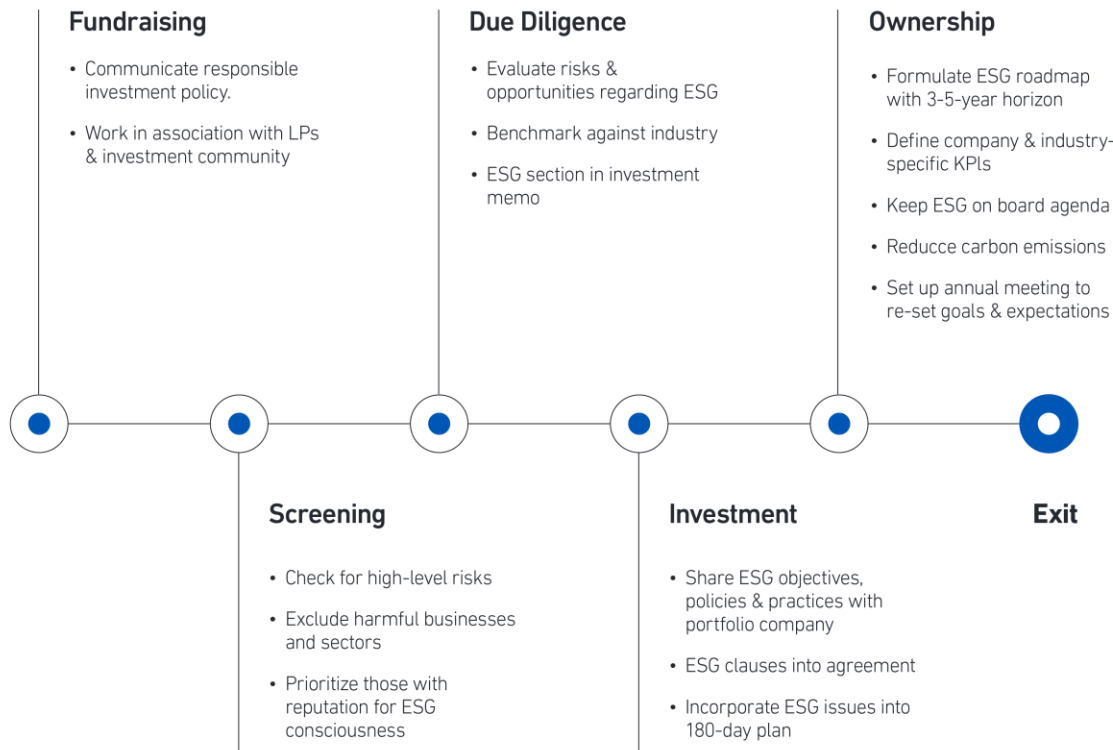
Our responsible investment policies and practices are the result of our evolution as a firm. We have always sought to instill best practices in terms of transparency, corporate responsibility, and ethics throughout our portfolio. Linzor's investment team has received periodic training on ESG matters since 2013 and ESG due diligence has been explicitly included in our investment memos since 2014, using the CDC due diligence questionnaire as a tool to identify ESG risks and opportunities. In 2017, we started tracking a set of ESG indicators across the unrealized portfolio and have been sharing them with our investors annually. Today, we are taking a more proactive and deeper approach that involves setting more ambitious ESG and impact targets using the framework of the UN SDGs.

To lead our efforts and ensure consistency in our approach, we have formed an ESG & Impact Committee, comprised of six Linzor professionals spanning different offices and seniority levels, and two external subject-matter experts. The committee members for the '20-'22 period are:

- » Jean-Bernard Ide Gerard (Lead Partner, Mexico office)
- » Tim Purcell (Managing Partner, Chile office)
- » Ricardo Yunis (Principal, Colombia office)
- » Ana Giannareas (Principal in Investor Relations & Finance, Chile office)
- » Agostina Colaizzo (Associate, Chile office)
- » Javier Halffter (Analyst, Mexico office)
- » Claudia Zeisberger (Academic Director and Founder of the INSEAD Global Private Equity Initiative and researcher on ESG and the impact of business in society)
- » Gonzalo Muñoz (High Level Climate Action Champion COP25 and Founder of Triciclos, a leading Latin American recycling and sustainability consulting company)

The committee members will rotate every 2 years except for the Managing Partner and the Investor Relations Principal, whose participation will be permanent. The ESG & Impact Committee has been tasked with setting ESG guidelines, sharing them with the investment team, and closely monitoring their application throughout the portfolio alongside each deal team. The committee conducts annual monitoring exercises with the deal team and management team of each portfolio company in Linzor Capital Partners III, L.P. and subsequent funds (more information in the Ownership section below). The committee is also responsible for generating a periodic report to share the ESG and impact objectives, key performance indicators, and concrete initiatives for Linzor's portfolio companies with our investors (first report to be published in 2021). Finally, the committee will track compliance with our responsible investment policy by submitting an annual report to the UN PRI and using the assessment issued by this organization to continue improving our responsible investment practices.

Responsible investment considerations are closely integrated in our investment process throughout six distinct steps:



1. Fundraising

When raising new funds, we communicate our responsible investment policy to all prospective investors and seek to ensure that our approach is in line with their policies and objectives, remaining open to making adjustments where needed. We welcome initiatives to work in association with our limited partners and the greater investment community to advance the agenda of responsible investment and promote climate action and greater diversity within the industry.

2. Screening

At the deal screening stage, we filter prospective investments based on their exposure to industries or geographies deemed high risk or specific business practices considered unethical. This helps us channel capital to companies that are already conducting business in a responsible manner, and that have the potential to grow and foster those good practices among their industry peers. We do not invest in companies and sectors that cause environmental or social harm and where we cannot find a way to mitigate the harm or transform the company into a more responsible and sustainable business.

On the other hand, businesses that are already generating tangible positive impact on their communities or environment and companies whose management teams have a reputation for ESG consciousness and preparedness command a high level of interest from us.

3. Due diligence

During due diligence, we evaluate the ESG practices and impact of prospective investments to identify risks and opportunities within the company. We also focus on finding where industry peers have been successful in implementing ESG strategies to identify where the industry is heading, and we refer to the UN SDG Industry Matrix to get industry-specific examples and ideas for corporate initiatives related to the SDGs. This results in a roadmap for action plans to be implemented if the investment materializes.

ESG considerations at this stage are a standard practice in Investment Committee discussions. ESG findings and potential initiatives are included in the investment memorandum.

Key questions to be addressed include:

- » Does the proposed investment uphold high standards of integrity and honesty, and operate in accordance with local laws and international good practice?
- » Does the proposed investment meet the standards set out in Linzor's ESG policies? Can all areas of non-compliance be brought to full compliance within our investment period?
- » Are there opportunities for the target company to implement a game changing ESG strategy that Linzor could develop? Can we make significant progress and measure results on this strategy within our investment period?

4. Investment decision

The investment committee discusses ESG findings in depth and weighs them when making investment decisions. If significant red flags are found, we may choose to withdraw from a transaction.

Upon deciding to move forward with an investment, we share our ESG objectives, policies, and practices with the target company. We seek a formal commitment from management and incorporate ESG initiatives into our 180-day plan. A mid and long-term ESG business plan is laid out at this stage, with specific benchmarks and a roadmap.

5. Ownership

During ownership, the Linzor deal team refines ESG and impact objectives in collaboration with management and monitors day-to-day progress on ESG initiatives. Deal teams are encouraged to set up an internal ESG taskforce within each company, maintain ESG topics and initiatives on the agenda of the Board of Directors, and link the variable compensation of top management to the achievement of ESG objectives.

The ESG & Impact Committee conducts annual monitoring exercises with the deal team and management team of each portfolio company in Linzor Capital Partners III, L.P. and subsequent funds. This annual review covers the following topics:

- » Impact thesis of the business, linked to one or more UN SDGs
- » SDG Action Manager score
- » ESG & Impact action plan, including SDG Action Manager score increase objective
- » Carbon footprint calculation and targets
- » Portfolio company implementation team, responsibilities and variable remuneration
- » Key performance indicators, including a standard set of ESG metrics measured across the portfolio and additional company-specific indicators to measure impact. Below is a summary of topics captured by the KPIs



Environmental

Energy consumption
Energy efficiency
Renewable energy use
Carbon footprint
Climate change awareness
Waste management
Supplier policy



Social

Job creation
Employee health & safety
Quality employment
Diversity
Non-discrimination
Profit-sharing
Community engagement



Governance

Board composition
Board committees
Audit and internal controls
CEO succession
Business integrity
Anti-bribery
Whistleblower channel
Risk management



Company-Specific

SME financing
Higher education payback and employability
Internet access in underserved areas
Quality of care and affordability in healthcare
Population coverage for healthcare services

The committee members serve as a sounding board for deal teams and portfolio company management to present their ESG and impact initiatives, get feedback and further ideas for improvement, share best practices, and remain accountable for their implementation over time.

Transparency and accountability vis-à-vis our investors is a key consideration in this step. The ESG & Impact Committee is therefore tasked with generating a periodic report to share the ESG and impact objectives, key performance indicators, and concrete initiatives for Linzor's portfolio companies with our investors (first report to be published in 2021).

6. Exit

When exiting a portfolio company, we discuss with prospective buyers whether they plan to continue advancing the ESG policies and practices in place at the company, including the achievement of long-term carbon neutrality goals.

Linzor GP Initiatives

At the firm level, Linzor exercises its commitment to ESG in various ways:

- » All Linzor offices employ environmentally friendly practices in terms of energy and water efficiency, recycling and waste reduction.
- » The firm aims to reduce air travel to the largest extent possible and purchases certified emission reductions (CERs) from UNFCCC-certified projects in Latin America to offset the remaining greenhouse gas emissions.
- » Linzor is a responsible employer, operating with a high standard in labor practices that goes beyond legal requirements in many areas.
- » Linzor has a Code of Conduct, which employees are required to affirm annually, and a dedicated online channel to receive anonymous whistleblower complaints.
- » Linzor team members are involved in diverse philanthropic and community outreach activities.
- » On occasion of each annual meeting, the firm makes a donation to an NGO or a social project sponsored by a portfolio company.

Conclusion

We care deeply about the impact of our investment activities on all stakeholders and take our responsibility as stewards of capital seriously. Our approach towards responsible investment involves carefully selecting our investments considering ESG criteria, setting ambitious ESG and impact targets for our portfolio, and closely monitoring their implementation. We are convinced that this will have a positive impact on our communities and environment, while enhancing the long-term value creation of the portfolio.

Last updated: June 2021