

*This is a summarised version of 3i's full policy*

# Responsible Investment policy

The following is a summary of the full 3i Responsible Investment policy.

References throughout this Policy to the 'Portal' are to 3i's global internal web-based knowledge system which is accessible by all 3i staff.

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3i will use its influence as an investor to promote a commitment in our portfolio companies to:

- Comply, as a minimum, with applicable local and international laws and regulations (**Applicable Laws**) and, where appropriate, relevant international standards<sup>1</sup> (**International Standards**) where these are more stringent than Applicable Laws.
- Mitigate any adverse environmental and social impacts and enhance positive effects on the environment, workers and relevant stakeholders.
- Uphold high standards of business integrity and strong corporate governance.

## Scope

This Policy applies, subject to certain exceptions<sup>2</sup>, to all new investment opportunities considered by 3i's business lines (and the funds which they manage or advise) across all sectors and geographies from November 2011 (the date on which this Policy became effective).

## 3i's responsible investment approach

3i will:

- Promote consistent practice and adherence to this Policy across its investment business.
- Provide sufficient information, instruction, training and resources to its staff to ensure that they can effectively manage environmental, social and governance ("**ESG**") matters within their investment activities.

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<sup>1</sup> The **International Standards** include the relevant IFC Performance Standards and associated Guidelines and the International Labour Organisation (ILO) Fundamental Conventions. The IFC is the private sector arm of the World Bank and its Performance Standards are intended to provide a reference for businesses in emerging markets for environmental and social standards. The IFC's Environmental, Health and Safety (EHS) Guidelines are technical reference documents with general and industry-specific examples of good industry practice. The most basic labour rights have been codified by the ILO in the 1998 Declaration on Fundamental Principles and Rights at Work which identified 8 conventions fundamental to the rights of people at work, irrespective of the level of development of a country.

<sup>2</sup> **This Policy does not apply to** investments made (i) by funds raised, or substantially raised, by fund management platforms prior to their acquisition by 3i or (ii) by funds raised, or substantially raised, prior to November 2011 when this Policy became effective. Certain areas of the Policy (e.g. the minimum corporate governance standards) do not apply to PPP / project investments by the Infrastructure business as they are either not relevant or inappropriate to those investments.

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- Monitor and audit the implementation of this policy on an ongoing basis.
- Report progress on the implementation of this policy annually to relevant 3i stakeholders.

3i expects and requires its **portfolio companies**:

- at all times, to comply with all Applicable Laws relating to the environment, human rights, workers' rights, health & safety and sanctions and all Applicable Laws intended to prevent fraud, extortion, bribery, tax evasion, money laundering, terrorist financing and other financial crime; and
- within a reasonable timeframe following 3i's investment, to meet 3i's minimum standards (as set out in the Appendix to this Policy from time to time) and, where appropriate, relevant International Standards (where these are more stringent).

3i will implement this policy in its **new investment activities** by:

- Screening new investment opportunities against its Exclusion and Referral lists.
- At an appropriate stage in the investment process, carrying out a high level assessment of new investment proposals to identify potential material ESG risks and opportunities.
- Where potential material ESG risks are identified, evaluating management's commitment, capacity and track record in addressing ESG issues and assessing whether specialist due diligence is required.
- Supporting its portfolio companies to meet 3i's minimum standards within a reasonable timeframe by developing action plans with appropriate targets, timetables and resources.

3i will implement this policy in its **portfolio management and advisory activities** by:

- Monitoring and recording the portfolio company's performance against agreed action plans, targets and timetables as part of 3i's portfolio review process and by encouraging and supporting the portfolio company to adapt to new ESG requirements and developments in its particular business sector.
- Monitoring and recording serious incidents involving portfolio companies which result in loss of life, serious injury, material effect on the environment or material breach of law and by promoting corrective actions.
- Considering, at the time of exit, appropriate disclosure of material ESG matters, impacts and steps taken to manage them.

## Exclusion and Referral lists

Both the Exclusion and Referral lists apply to new investments as well as acquisitions made by portfolio companies which require 3i's consent and/or funding. These lists are not exhaustive; judgement must be applied for activities not on the list but which carry similar risks.

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## Exclusion List

3i will not invest in businesses which are engaged in or meet any of the following activities or criteria:

1. The production, marketing or use of, or trade in, products or activities deemed illegal under Applicable Laws, or banned through global conventions and agreements, including:
  - Slavery, human trafficking, forced labour, compulsory labour or harmful child labour;
  - Certain hazardous chemicals, pesticides and wastes;
  - Ozone depleting substances; and
  - Endangered or protected wildlife or wildlife products.
2. Where the business:
  - is, or any of its direct or indirect owners or controllers are, on a sanctions list of the UK, EU, UN, US or any other relevant body or jurisdiction;
  - supplies or purchases products, goods or services where such supply or purchase is prohibited or restricted by product / sector sanctions applicable to particular countries; or
  - is located, or has any operations, in a country subject to comprehensive / country-wide sanctions<sup>3</sup>.
3. The production, marketing or use of, or trade in, weapons of mass destruction or inhuman weapons or technologies which are subject to existing international prohibitions<sup>4</sup>.
4. The trade in human body parts or organs.
5. Animal testing for cosmetics.
6. The production, marketing or use of, or trade in, unbonded asbestos fibres.
7. Where more than 10% of their current or planned revenues are derived from:
  - The ownership, operation, marketing or management of gambling facilities and/or the development or processing of gambling products which are unregulated and/or which, in the opinion of the Chief Executive or General Counsel, are or might be exploitative of vulnerable groups in society;
  - The production, distribution, marketing or trade in tobacco or tobacco products;
  - The production, distribution, hosting or marketing of material or activities relating to pornography; or
  - The production, marketing or use of, or trade in, weapons (and associated critical components), dedicated weapon platforms, munitions, military and paramilitary services<sup>5</sup>.

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<sup>3</sup> This is intended to exclude businesses which have a physical presence in the relevant country such as a local office (e.g. a branch or subsidiary) or factory etc. Where the business does not have a physical presence in the relevant country but deals with agents, distributors, customers or suppliers etc. who are located in the relevant country, you should refer to 3i's Sanctions Policy and related screening procedures.

<sup>4</sup> This includes nuclear, chemical, biological and radiological weapons, landmines, cluster bombs, materials such as depleted uranium and dedicated delivery systems for such weapons.

<sup>5</sup> This exclusion does not apply to systems or services generally regarded as primarily defensive or non-offensive such as avionics, radar, sonar, instrumentation, fixed or mobile communications equipment, protective service clothing and equipment, fire control systems, transport components, mining ordnance, support services and technical training.

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## Referral list

3i *may* invest in businesses which are engaged in the following activities – the investment opportunity must first be discussed with the General Counsel and approved by the Chief Executive before substantial due diligence is initiated and the Chief Executive will decide, following consultation with the General Counsel, whether the opportunity should be progressed:

1. Conducts business activities involving the use of controversial technologies including (but not limited to):
  - Stem cell research;
  - Genetic modification;
  - Recruitment for human testing; or
  - Animal testing for food products, medical research and other controversial testing or production processes.
2. Generates nuclear power or produces, handles or reprocesses nuclear fuels.
3. Operates in specific locations where its activities carry high risk of material harm to people or the environment, such as:
  - Environmentally protected areas;
  - Sites of scientific interest;
  - Habitats of rare or endangered species;
  - Fisheries of economic importance;
  - Land occupied by indigenous people or vulnerable groups;
  - Primary or old growth forests of ecological significance; or
  - Culturally or archaeologically significant areas.
4. Where more than 10% of their current or planned revenues are derived from the supply of products or services to companies whose principal business is excluded under the Exclusion List.
5. Owns, operates, markets or manages gambling facilities and/or develops gambling products which are regulated and which, in the opinion of the Chief Executive or General Counsel, have not been determined as exploitative or potentially exploitative of vulnerable groups in society.
6. Operates in the sub-prime lending sector.
7. Has key suppliers<sup>6</sup> which are engaged in any of the activities included in the Exclusion list.

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<sup>6</sup> A key supplier is one which accounts for 10% or more of the business's total supplies

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## Minimum ESG standards

We seek to invest only in businesses which are committed to:

- A cautious and responsible approach to environmental management of their business operations (and those of their supply chain) by making efficient use of natural resources and mitigating environmental risks and damage.
- Respecting the human rights of their workers and of the people working in their supply chain.
- Maintaining safe and healthy working conditions for their employees and contractors and for the people working in their supply chain.
- Treating their employees fairly.
- Upholding the right to freedom of association and collective bargaining.
- Treating their customers fairly and respecting the health, safety and wellbeing of those affected by their business activities.
- Upholding high standards of business integrity, avoiding corruption in all its forms and complying with applicable sanctions and anti-bribery, anti-fraud, anti-tax evasion and anti-money laundering laws and regulations.
- Implementing a strong corporate governance and risk management culture and to complying in form and substance with established best practice in corporate governance which is appropriate to the relative size and complexity of the relevant business and the markets in which it operates.

**We do not expect that all of our portfolio companies will necessarily meet all of the minimum standards immediately following 3i's investment. However, we do expect the executive management team to be fully committed to meeting the minimum standards within a reasonable timeframe and 3i will support them to do so.**

### *Environment, labour, health & safety and business integrity*

As a minimum, each potential new portfolio company must comply with all Applicable Laws relating to the environment, labour and health & safety matters and sanctions and all Applicable Laws intended to prevent fraud, extortion, bribery, tax evasion, money laundering, terrorist financing and other financial crime.<sup>7</sup>

Where 3i's initial high level assessment identifies one or more potential risks, 3i's pre-investment due diligence will typically include a more focused investigation into relevant areas, such as:

- Severe degradation of water, soil or air quality.
- Production of substantial solid waste.
- Emission of significant quantities of greenhouse gases.

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<sup>7</sup> for non-UK companies this may include complying with the UK Bribery Act 2010 if they carry on a part of their business in the UK

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- Loss of biodiversity or habitat.
- Significant labour issues (for example, health & safety issues, poor working conditions, wages below industry / national legal minima, discrimination or absence of a freedom of association and collective bargaining).
- Involuntary resettlement.
- Impact on cultural or archaeological heritage or indigenous peoples.
- Non-local labour or other issues where the negative social impact could be significant.
- Bribery and corruption.

If our pre-investment due diligence identifies one of the above as an actual or potentially material risk, management must:

- demonstrate to us that they have the commitment, capacity and track record to effectively manage those risks and a willingness to make improvements and reach standards acceptable to 3i in this area over time; and
- commit to implementing appropriate measures to mitigate those risks, which may include committing to apply the relevant International Standards over a reasonable time frame where these are more stringent than Applicable Laws.

With particular regard to **business integrity** (which covers compliance with sanctions and the prevention of fraud, extortion, bribery & corruption, tax evasion, money laundering, terrorist financing and other financial crime), portfolio companies must meet (or must work towards meeting over a reasonable time frame) 3i's minimum business integrity standards (as updated from time-to-time). These currently include minimum standards in respect of (amongst others) the adequacy of the portfolio company's policies & procedures, the quality of board reporting and senior management's responsibility in relation to anti-bribery & corruption and other types of financial crime, customer privacy & data protection, anti-trust and sanctions.

## ***Corporate governance***

All potential portfolio companies must have in place or, as a term of 3i's investment, agree to implement:

- Board composition and meetings
  - An appropriate balance between executive and non-executive directors with a chairman who is independent from the executive management<sup>8</sup>.
  - Board meetings to be held regularly with an agreed agenda and papers circulated sufficiently in advance. An annual programme of board agenda topics to be agreed in advance with 3i, including an annual review of material ESG issues facing the business.

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<sup>8</sup> It is acknowledged that, in relation to certain particular investments or certain particular types of investments, an independent chairman may not always be appropriate or achievable – 3i will assess the suitability and relevance of this minimum standard on a case-by-case 'exceptions' basis and consider alternative protections as appropriate.

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- Management information
  - A comprehensive board pack, covering areas and KPIs agreed with 3i, to be circulated promptly within a time period agreed with 3i.
  - A robust budget and objective-setting process, with clear accountability for key deliverables, to be completed within a time period agreed with 3i and which is tracked and monitored by the board during the year.
- Systems and controls
  - Robust systems which produce reliable data without manual intervention and effective systems of internal control and risk management which are fit for purpose in the context of the current and planned size and complexity of the business.
  - Periodic independent reviews of the company's internal controls and risk management systems.
  - A group-wide business resilience strategy including detailed plans for business continuity, cyber resilience and disaster recovery which are regularly tested.
- Auditors
  - An internationally known and respected firm of auditors who are independent of the board and shareholders.
- Audit & Risk Committees
  - The board will take specific responsibility for financial reporting and internal controls as well as for monitoring and reviewing the performance of the external auditors. This responsibility will be discharged either through the full board (e.g. a supervisory board) or through a distinct audit & risk committee (or separate audit and risk committees) which include(s) a 3i board member and is chaired by an independent non-executive director specifically chosen for this role or by the 3i board member. The full board or the audit & risk committee(s) should also explicitly consider current and emerging risks facing the business and assess the business's resilience to such risks.
- Remuneration Committee

The board will take specific responsibility for setting and reviewing executive management's remuneration, which responsibility will be discharged either through the full board (e.g. a supervisory board) or a separate remuneration committee which includes a 3i board member.
- Whistle-blowing

A clear whistle-blowing policy with robust external or internal reporting arrangements.