HEAL Partners
Approach to ESG and Responsible Investing

Introduction

As an investment manager, our primary objective is to create value for our clients. As an active investor, we have the ability to foster and encourage the adoption and implementation of better environmental, social and governance ("**ESG**") practices in the companies in which we invest. Gone are the days when ESG considerations were considered supplementary to the primary objective (rather than an important part of assessing / mitigating risk and picking winners), or as necessarily involving a trade-off against financial returns (rather than providing an opportunity to enhance value), and we are encouraged by the increased interest and focus that our clients have on responsible investing, and on ensuring that ESG considerations are fully integrated into the decisions behind the deployment and management of their capital. We believe that our main investment themes and strategies – the health and education sectors and use of the partnership model – provide natural opportunities for the development of sustainable and responsible businesses with positive societal impact, and that it is those businesses who will be better positioned to command premium valuations (enhancing returns for our investors on exit).

This Policy outlines the approach of HEAL Partners Management Pty Ltd and the funds under its management or advice (collectively, "**HEAL**", "**we**" or "**us / our**") to responsible investing and to the assessment and monitoring of ESG factors relative to our investments.

Overview of our Approach

At the heart of our approach to ESG and responsible investing, we look to ensure that our broader framework of policies and processes for making and managing our investments encapsulates UNPRI's Six Principles for Responsible Investment (to which we are a signatory). Our aim is to ensure that all environmental, social and governance factors that are material to a prospective investee company are explicitly and systematically identified, assessed and monitored as a core part of our investment processes (both at the time we consider the initial investment and throughout our period of stewardship if the investment proceeds), informing our decision points at every stage.

In terms of identification of ESG risks and opportunities, we recognise that each industry (and company within that industry) may have its own mix of key ESG challenges requiring different lenses and perspectives. We seek to understand the material risks and opportunities specific to each investment, and believe that analysing exposure to and management of ESG factors, in addition to traditional financial, legal and commercial analysis and due diligence, will enhance our understanding of a company's value (and the business risks and opportunities that may enhance or be detrimental to its prospects over the longer term).

Key Principles of Our ESG Framework

As an investor in companies from the “early growth” stage, we certainly do not anticipate that all our portfolio companies will have fully fledged ESG policies, procedures and reporting in place (or dedicated ESG specialists to manage them / large ESG consulting budgets), nor would we want to exclude otherwise promising investment opportunities, founders and management teams based purely on that fact.

Instead our ESG approach and framework are underpinned by several pragmatic guiding principles:

a. Screening and Exclusion

i. We do have a hard and fast red line for companies involved in controversial activities or in practices we consider to be unethical, unsustainable, not aligned with our values. Even within the health, education and lifestyle sectors in which we invest, there will be some companies whose products and/or business models can never be part of a sustainable, socially responsible and inclusive future, and where engagement is unlikely to lead to a positive change.

ii. We also believe there are some ESG issues that are so fundamentally important that appropriate policies, procedures and controls should either already be in place at the time of our investment, or would need to be addressed within a reasonable period thereafter. These include (for example) diversity and equal opportunities commitments as employers, and modern slavery / anti-bribery and corruption policies (in each case with robust procedures built around those commitments and policies).

b. Relevant and Proportional

i. We aim to focus on the key ESG risks and drivers for a particular industry and/or company which could be material to the value of our investment. We encourage companies to move towards ESG best practice, whilst acknowledging sector and individual company differences (including limitations due to their stage of development / maturity).

ii. Accordingly, our initial focus will be to ensure that the governance structure and management quality of the investee company is sufficient to: (x) address those material risks and drivers (eg: through the adoption of appropriate processes and disciplines over an appropriate timeframe); and (y) foster the development of a culture at company level that will lead to the organic expansion of those processes and disciplines to broader ESG risks and drivers as the investee company grows. Given our chosen sectors and stage of investment, we would anticipate the initial focus would typically centre on the “S” and the “G”.

c. Future-Focussed and Achievable

i. We want to be realistic in terms of the requirements we are going to make of our portfolio companies (both as gating criteria for investment and in terms of setting goals for them to meet as they grow).

ii. We do not necessarily want to define our engagement through 100-day or 500-day plans (though will certainly look to do so where appropriate), rather we aim to ensure we are investing in forward-looking management teams with demonstrable willingness to engage and develop best practice processes, disciplines and expertise over time.

iii. When appropriate, we will encourage our companies to adopt standardized ESG reporting (and will aim to avoid imposing HEAL-specific metrics). We recognize the current state of flux and competing standards in ESG benchmarking and reporting, so will be flexible in our requirements. Where we are taking a minority position and/or other large institutional investors are involved, we will aim to engage with those other investors to ensure (where possible) the company is not subject to a multitude of differing ESG reporting standards and obligations for individual investors.

d. Company Ownership and Responsibility

i. We want our portfolio companies to manage their own ESG risks and own their ESG policies, and to develop and implement ESG processes and best practice not out of duty or contractual obligation to us, but as a result of proper management buy-in and recognition that it mitigates genuine risk and is protective of and/or accretive to long term value.

ii. We minimized our role in fostering that buy-in and recognition (where appropriate, through contractual obligations in investment documents), but equally that beyond the broad guidance and encouragement we provide on ESG issues, it is the company that has (or needs to develop) the day-to-day operational knowledge and expertise to manage ESG issues and processes for their business. Accordingly, we do not intend to micro-manage companies, but rather provide oversight, guidance and support on ESG practices. In turn and over time, we would hope that the expertise they develop will feed back into our own understanding and capabilities.

e. Substance over Form

i. We want to see that the commitments and practices published by companies in policy documents are actually being implemented effectively, and evidence of progress on addressing ESG risk and capitalising on ESG opportunities.

ii. We understand that there may occasionally be ESG-related controversies. Where these do occur, we will seek evidence that the company has understood the cause of the issue (and any broader learnings), and has been proactive in strengthening its policies, procedures and internal controls to ensure that probability of future controversies has been minimised.

Our ESG framework in action

We look to operationalize the key principles of our ESG framework described above in each stage of our investment decision making process, and across the investment holding lifecycle.

a. Pre-Investment

i. The investment team, under the leadership of the member of the HEAL Investment Committee with designated lead responsibility for a potential transaction, will be responsible for identifying and evaluating material ESG risks and opportunities related to the investee company and sector (through a combination of screening, targeted DDQs, internal analysis and third party expertise where required).

ii. The investment paper prepared and submitted to the HEAL Investment Committee for investment decision will include a comprehensive overview of the ESG diligence findings, assessments, conclusions and course of action recommendations (whether positive or negative).

b. Investment Decision

i. The HEAL Investment Committee has ultimate responsibility for approving an investment and, as part of that, signing off on how any identified ESG issues will be addressed (for example, whether any identified issues are gating items, require action to be taken by the company as a pre-condition to completion of the investment, or require post-investment commitments from the investee company).

ii. The Investment Committee sign-off is an iterative process rather than a single point-in-time decision – several drafts of the investment paper and multiple discussions regarding the proposed transaction will have taken place amongst HEAL Investment Committee members before the final decision is taken. ESG factors will be considered throughout that iterative process in parallel with other commercial, financial, legal and other inputs to the final investment decision.

iii. Where material ESG deficiencies are identified and corrective action required, investment agreements (e.g. subscription agreement, shareholders agreement or side letters with the company) will document any corrective actions to be undertaken by the business to address identified deficiencies and / or any other commitments being made by management to improve their ESG practices.

c. Holding and Exit

i. Following the making of each investment, a formal plan will be in place for ESG engagement and monitoring in relation to that investment over the course of HEAL's holding period. This will initially be based on the outcomes of the ESG diligence and assessment process and Investment Committee decisions at the time of investment, but will of course be revised over time.

ii. HEAL will use its votes as a shareholder and influence at board level (whether through nominee directors and/or board observers) to encourage proper engagement by its investee companies on ESG initiatives, and have due consideration of ESG factors when considering the manner of exit from the investment.

iii. Given broader societal (and legislative / regulatory) trends with respect to ESG, we believe that companies with a demonstrated strong commitment to ESG will be more attractive to a wider range of potential buyers, and therefore better positioned to command premium valuations (enhancing our returns on exit). As businesses are prepared for sale, we will encourage ESG reports being prepared and made available to potential buyers to highlight current practices, ongoing / planned ESG initiatives and progression of the business over time with respect to its sustainability initiatives.

ESG Reporting

While formal ESG measurement, benchmarking and reporting can bring accountability and focus, we recognize that a summary presentation of bare metrics without context can also be a potentially misleading way of measuring a growth-stage company's ESG performance, losing important nuances related to the nature of the business or direction of travel. For each of the funds under our management or advice, we will develop reporting frameworks that are appropriate to the characteristics and make-up of the portfolio companies in that fund.

We will look to provide our investors with a narrative report on the ESG framework, initiatives and performance of companies within our fund portfolios at least annually (including a description of our engagement efforts and detailed case studies where relevant), and will look to provide KPIs that are relevant to the businesses where appropriate in the context of our ESG approach / framework described above. The nature of our reporting to investors will be assessed and considered on an ongoing basis, and in doing so we will monitor and have regard to industry trends in ESG benchmarking and reporting (including proposed ISSB sustainability disclosures).

ESG in Our Own Organisation

We strive to operate transparently and fairly in all dealings with clients and third parties. We will seek to minimise our impact on the environment.

We will embrace diversity, equity and inclusion in our policies and procedures for recruitment and retention of staff. We will encourage aspiration and personal development amongst our staff, and invest in their professional development. We will ensure that our staff benefit from flexible and accommodating HR policies.

As a financial services business, we will ensure our investment team members receive appropriate training on incorporation of ESG factors and assessment in the investment process, and that all other staff members receive regular training appropriate to our sector (including in relation to anti-bribery and corruption, money laundering and financing of terrorism).

We will ensure our selection of professional advisors and other suppliers takes into account ESG considerations, and we will encourage diversity in the teams they supply to advise or perform services for us.