HCapital
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HCapital Partners

Sustainability and Responsible Investment Policy

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Our vision on sustainable and responsible investment

HCapital's goal is to deliver adequate financial returns to investors while acting with integrity and taking a responsible approach to investment both in its internal operations and when dealing with its investors, portfolio companies, advisors, local communities and society as a whole.

In doing so, HCapital is committed to integrate ESG factors into its investment process, most critically in the strategy and operations of its investees, contributing to the creation of resilient companies, operating under sustainable business models and adequate governance systems.

Our understanding is that the increasing consumer awareness for ESG issues, along with the regulatory push from supervisors and other authorities or public institutions, contribute to a better alignment of investors' interests with those of society as a whole.

Compliance with EU's SFDR and Taxonomy regulations

Since coming into force, we have been adapting our organization to comply with EU regulations 2019/2088 of November 27, 2019 and 2020/852 of June 18, 2020 and related legislation (commonly referred to as EU's SFDR and Taxonomy, respectively). HCapital's conviction is that its ESG strategy is well suited to tackle the requirements arising from these regulations, namely concerning:

i. Policies on the incorporation of sustainability risk in investment decision

HCapital has implemented important ESG-compliance principles in its investment process with an emphasis on the following:

- Negative Filters: HCapital originates deals either directly, through database-driven deal origination exercises, or via specialized M&A third parties. Concerning both these deal origination routes, exclusion rules were implemented to ensure a better alignment with ESG principles, avoiding companies with proven track record of poor auditing concerning supply chain management, sectors with heavy environmental footprint and limited capacity to improve, sectors heavily exposed, either directly or indirectly, to the fossil fuels' industry, sectors producing high volumes of non-recoverable waste materials, among others.
- Positive Filters: HCapital also introduced positive filters concerning industries or companies that have sustainable growth prospects going forward and that shall benefit from the transition towards a more circular economy.
- Due Diligence: HCapital implemented a number of steps in its analysis that ensure due diligence is made concerning each target's ESG risk. As such, (i) ESG-based questions are included in HCapital's preliminary Q&A for target companies; (ii) An ESG analysis and discussion is held in the Investment Committee for the go/no-go decision; and (iii) Formal ESG DD processes are realized with specialized third parties once the deal reaches the DD stage.

Given HCapital's commitment to comply with strict ESG criteria once a transaction is closed, a poor result from the ESG DD either in terms of the risks identified or the difficulty in improving the target's ESG performance during HCapital's holding period, can ultimately lead to a no-go decision.

ii. Policies on measuring potential adverse sustainability impacts at firm- and fund-levels

HCapital has identified the applicable mandatory potential adverse impacts established under the

SFDR and seeks to have its portfolio companies reporting on these on a systematized and periodic manner.

iii. Policies on how remuneration principles relate to the integration of sustainability risks

HCapital has reviewed its remuneration practices in accordance with the requirements of the SFDR to ensure consistency with the integration of sustainability risks. Our remuneration practices are designed to promote interests' alignment between investment professionals, HCapital and its investors and, therefore, do not encourage sustainability risk-taking towards the portfolios being managed. HCapital is also committed to implementing yearly ESG objectives that form an additional criteria of its professionals' yearly performance assessment, which serves as the basis for defining the variable compensation component.

Compliance with United Nations' Principles for Responsible Investment ("UNPRI")

In 2020 HCapital became a signatory of the UNPRI. These Principles promote the integration of ESG factors into the investment process and portfolio monitoring of its signatories. Since their creation, the UNPRI have been adopted as a best-practices standard for ESG-factors integration in the private equity industry. As such, becoming a signatory was an important step for HCapital in enhancing its ESG practices and communicating such commitment to current and future investors.

In line with UNPRI's 6 principles, at HCapital:

i. We incorporate ESG issues into our investment analysis and decision-making.

As mentioned above we have implemented negative filters in deal origination excluding sectors with unsustainable business models or unreasonably high environmental footprints and limited options to improve. We have also implemented positive filters directing both our internal origination and those of our trusted advisors towards more sustainable and resilient business sectors. Finally, we conduct ESG due diligences and integrate their findings in our go-no-go decision-making process.

ii. We actively incorporate ESG issues into our ownership policies and practices.

We seek to integrate ESG issues into our portfolio companies' operations and strategy. Leveraging on UN's sustainable Development Goals ("SDGs"), we are committed to identifying the key areas where each investee may improve its ESG practices along with potential action plans to do so. We also implement social and governance models that seek to maximize transparency, accountability and fairness.

iii. We seek to implement appropriate disclosure on ESG issues from our portfolio companies.

We are committed to implementing adequate data collection and reporting routines within our portfolio companies. We are also committed to reporting on ESG performance to our investors on a periodic basis.

iv. We promote acceptance and implementation of the UN PRI within the investment industry.

Since becoming a signatory, we have been communicating to our current and potential future investors (most of whom are financial market participants themselves) our commitment to manage our investments in accordance with the UNPRI, thus playing a role in promoting the acceptance and implementation of the Principles within the industry. Additionally, we communicate our ESG expectations to third parties, namely, M&A advisors, auditing companies, legal advisors, among others.

v. We work together to enhance our effectiveness in implementing the Principles.

Since becoming a signatory HCapital has actively participated in sector-wide discussions on the integration of ESG practices.

vi. We will each year report on our activities and progress towards implementing UNPRI by completing the annual PRI signatory survey.

HCapital is also defining its investors' ESG disclosure routines and templates to better accommodate UNPRI's guidance and standards.

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Contributing to the United Nations SDGs

UN's SDGs are a set of 17 goals adopted by its member states in 2015 to serve as a shared blueprint to guide global efforts to end all forms of poverty, fight inequality and address the most pressing environmental issues worldwide. While the SDGs are not legally binding or indeed targeted at companies, the business community is expected to play a role in helping societies achieve them, as sustainability risks such as extreme weather events, food security, biodiversity loss and ecosystems collapse resulting from economic activities, can also have material impacts on a company's operational costs, reputation and profitability.

In this context, HCapital identified (i) 5 priority SDGs to help guide the implementation of its ESG objectives across its portfolio companies, and (ii) the respective areas of improvement and potential actions to help achieve progress in each of the 5 priority SDGs. These were identified according to our company's value chain and those of our portfolio companies as well as their sectors of activity.

HCapital is committed to collect periodic reports from its portfolio companies to measure and track the progress in the implementation of initiatives aiming at each of these 5 priority SDGs and those identified by portfolio companies.

SDG	Examples of Potential actions
Affordable and Clean Energy	
7 AFFORDABLE AND CLEAN ENERGY	• Deployment of renewable energy sources. • Promotion of energy efficiency. • Optimization of power infrastructure investments. • Preparation of power grids to integrate an increasingly weight of intermittent renewable energy.
Decent work and economic growth	
8 DECENT WORK AND ECONOMIC GROWTH	• Skills development programs moving down each company's supply chain. • Implementation of a firm policy against unfair hiring and recruitment practices, particularly of vulnerable groups. • Offering apprenticeship opportunities.
Industry, Innovation and infrastructure	
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	• Promotion of innovation across companies' operations and industrial processes. • Retrofit of existing infrastructure to make it more efficient and sustainable. • Assessment and monitorization of industrial processes' KPIs towards a more efficient use of resources.
Responsible Consumption and Production	
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	• Implementation of product portfolio analysis tools to assess their environmental and social footprint. • Reduction of waste and implementation of measures to ensure that non-recoverable materials are used to the fullest degree. • Reduction of manufacturing impact by reducing weight of virgin raw materials substituting these by recycled/upcycled materials.
Climate Action	
13 CLIMATE ACTION	• Promotion of renewable energy generation capacity on-site and improvement of energy efficiency. • Reduction of GHG emissions across the entire value chain. • Investment in carbon capture and storage technologies to compensate for emissions created during the production cycle.