



FORMICA

IMPACT & RESPONSIBILITY INVESTMENT POLICY

Gothenburg, February, 2023

Introduction - Formica and Investing responsibly with Impact

At Formica, we are committed to partnering with purpose-driven management teams building outstanding businesses. These businesses should accelerate impactful solutions and create long-term value while also being mindful of planetary boundaries and contributing to human wellbeing. This means we put environmental, social and governance issues (so called ESG) in the core of our operations and decision making.

Formica defines *Impact* as the way companies can positively influence ESG issues (in society) by its business model and offerings, and defines *Responsibility* as the way companies manage and limit the adverse effect on ESG factors by its operations and way of conducting business.

ESG issues that we consider include but are not limited to the following:

Environmental: Planetary boundary categories such as climate change mitigation, biodiversity, resource efficiency, freshwater use, pollution and land-systems change

Social: Contributing factors to human wellbeing across the value chain such as health and safety, labor standards & welfare, diversity & inclusion as well as climate change adaptation

Governance: Anti-corruption, ethical conduct, data security & integrity as well as transparency & trust

Formica believes there is a fundamental expectation of improvements regarding these factors among key business stakeholders across global societies. We call this global megatrend the *Sustainability Shift* and it requires both businesses to adapt to it and creates a lot of opportunities for value creation. It is expected to transform markets and all our big industrial systems. Formica continuously looks for solutions that can accelerate this change and map this in its *Formica Impactful Solutions Map*.

Desired outcome of enacting on this policy

This I&R policy should guide our behavior and way of working, supporting how we:

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- embed impact and responsibility in our decision-making in investment processes and portfolio management, both in strategic and non-strategic investments;
- adopt corporate governance structures that provide appropriate levels of oversight and accountability at portfolio companies and at Formica;
- effectively manage opportunities and seek to maximize our possible positive impact on environment, communities, employees and other stakeholders;
- effectively manage risks and seek to responsibly minimize or mitigate adverse effects on said environment, communities, employees and other stakeholders;
- create great places to work by promoting purpose-driven management, putting safety first, investing in talent management and focusing on the health and wellbeing of employees;
- interact with the rest of the community of investors and business to spur positive change and know-how of impact investment;
- deliver continuous improvements in our I&R practices;

This policy has been developed to be in accordance with the UN Principles for Responsible Investment.

Impact & Responsibility in the investment process

Formica operates as an investment company with focus on *Strategic investments* in private and listed equity but also has long and short term *management of liquidity*. This policy covers all stages of our investment and ownership processes.

Investing in strategic assets

Formica has established a broad set of investment criteria to capture long-term value that includes impact & responsibility considerations. This results in the inclusion of *Impact* into each investment thesis and *Responsibility* into operational and risk evaluation.

When evaluating a strategic investment opportunity, we:

- include *Impact* and the *Sustainability Shift* as one of four core evaluation metrics in early stage deal evaluation
- make a thorough impact analysis in investment evaluation which includes the potential impact magnitude, management purpose and I&R capabilities as well as Formicas potential for contribution as an owner
- quantify the impact potential of the asset and its specific contribution
- verify the above as impact & responsibility is included in the due diligence process together with a materiality analysis of the asset and an ESG risk assessment

The Investment professional responsible for the investment is also responsible for the above process and results, and is quality assured by the Head of Impact & Innovation. The outcome is an integrated part of the decision making within Formica's Investment Process.

Active ownership of strategic assets



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Formica holds different ownership stakes in different strategic assets and adapts the following key activities appropriately according to its ownership in each asset. When Formica is in control or has an influence on the portfolio company, Formica:

- rolls out its proprietary impact & responsibility program, *Formica Formula*, to support the company set a plan to maximize its impact potential and to responsibly manage current and future ESG issues;
- ensures the appropriate allocation of responsibilities for I&R and the appropriate governance principles of I&R from the board and throughout the company including ensuring I&R is on the Boards agenda;
- ensures proper know-how and I&R competence within its Board and management;
- ensures proper measurement, target setting and reporting of the right KPIs for the company including a base of mandatory ESG KPIs defined by Formica.
- collects KPIs at least annually through a web portal and analyzes the company's progress;
- works in partnership with portfolio company management to ensure the business has right prerequisites to deliver on its I&R opportunity and promises as well as to drive operational improvements. Formica provides hands-on support to portfolio companies to continuously improve their I&R performance;
- facilitates knowledge sharing between portfolio companies;
- encourages portfolio companies to report on their I&R activities in public disclosures as well as to conduct its business with transparency and according to the Ten Principles of UN Global Compact;
- provides regular updates on the ESG performance of Formica and its portfolio companies to its stakeholders through an annual public Formica I&R report;

Managing short and long-term liquidity

Formica manages both short and long-term liquidity by investing into public and private equities, fixed income assets (such as bonds) and indirect investments through funds (including, but not limited to, private equity funds, hedge funds & debt mutual funds). The purpose of these investments is to allocate capital to be deployed into strategic assets at a different point in time.

Formica invests in both listed companies and bonds to manage its liquidity. ESG aspects, both from an impact and responsibility perspective, are considered in the investment and ownership process as part of a holistic evaluation of suitable assets to hold in liquidity management.

Formica excludes investing in listed assets that are considered to not be responsible investments.

Formica's exclusion list is put together by combining the public black lists of three selected pension or sovereign funds. Selection of black lists is based on ensuring a wide coverage of assets (i.e. a long black list), limited overlap of listed assets and evaluation of the funds ESG ambition and policies. Exception from exclusion can be done if a rigor analysis is made that counter the conclusion of the funds, however not promoted. Exclusions are made at point of investment and through regular review and updates of the list.



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Formica seeks to be informed on a regular basis of relevant information of the assets impact & responsibility developments and outcome.

Formica regularly reviews the funds it has invested in for long-term liquidity management. Regarding private equity funds, Formica wants the funds to operate according to the principles of UN PRI and to have an appropriate governance in place to ensure its portfolio assets comply with similar principles. Review of the fund's ESG policy, practice and reporting should be done on a regular but not frequent basis and with adequate consideration to the size of the investment, type of fund and Formica's time and resources. New fund investments should normally be in funds that are signatories to the UN PRI.

Investment exit

Formica consider its investment phase to be long-term and if adverse events occur at a portfolio company or asset Formica should always first and second seek to handle them as an active and responsible owner. If Formica's ability to influence the future behavior of the asset is very limited, the nature of the adverse event is very severe on key ESG issues and the event is considered to have high risk of re-occurrence, Formica should seek to exit the investment in an orderly manner. The exit process should be adapted by the strategic art of the investment, the liquidity of the asset and the size of the investment.

In any exit process of a strategic or sizeable investment Formica should ensure transparency of relevant ESG issues facing the asset. Transparency should also include the historic performance development of said ESG issues and possible adverse effect of the company as a result of the assets performance. If possible a vendor ESG DD is done to facilitate transparency.

Transparency, reporting & promoting impact investment

We aim to communicate effectively and transparently on Impact & Responsibility matters with investors, portfolio company management, other stakeholders and the general public. As part of this, we commit to disclose events and activities concerning I&R and progress to our stakeholders on an ongoing basis through adequate media.

The aim to be transparent includes disclosing ESG information from both Formica and its strategic portfolio companies and other investments in our annual Impact & Responsibility report. The report should also include important events within Formica and share our approach to and key learnings of how to drive impact investment.

Formica should in addition strive to quantify and calculate the positive Impact its portfolio company has had and the full impact of the portfolio. Ambition should be to build comparable impact metrics over time and between companies.

Formica should throughout its activities always strive to promote the perspective of impact and responsibility including the considerations of ESG topics in professional investment. Formica should also support with knowledge and promotion externally driven ESG investment initiatives to the extent time and resources allows it.



UN PRI is a core external initiative and Formica is a signatory to the PRI. As part of this, Formica publicly report its progress on Responsible investment matters in an annual Transparency Report.

Governance of the Policy

The Head of Impact & Innovation has overall responsibility for the I&R program and all I&R processes and tools, supported by advice and recommendations from the Management Team and the Board. Investment professionals, are responsible for ensuring adherence to this policy with regards to the acquisition, ownership and realization of investments. They should ensure adequate up-skilling on relevant ESG topics on a regular basis.

