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Nexus Point

ESG Policy and Procedures

Updated September 2023

1. Background

Environmental, social and governance ("ESG") refers to the three central factors in measuring the sustainability and ethical impact of an investment in a company or business. Nexus Point believes ESG developments play a significant role in the long-term performance of investments. Historically, an integral part of the general partner's role has been to manage ESG risks through the mitigation of operational risks and the consideration of liability costs. In recent years, the sector has become more active in identifying and managing ESG opportunities, sometimes by turning risk into opportunity.

Environmental and social risks related to an investee's business can translate into direct monetary losses for a private equity fund. Private equity funds not only have an ethical responsibility but also an economic incentive to fully understand their investees' ESG performance. Environmental and social risks related to a private equity fund can include the following:

- Direct operational risks leading to potential financial losses;
- Reduced profitability due to higher costs;
- Substantial clean-up costs;
- Delayed construction and completion of projects;
- Penalties/sanctions levied by local authorities, or suspension of operations by local authorities;
- Market loss due to boycott of investee companies;
- Financing risks (lower willingness of financiers to borrow/fund);
- Reputational risks for both the investee company and potentially the investing Private Equity Fund; and
- Limited appreciation by potential buyers when exiting from the investment.

2. Purpose and Goals

The purpose of this policy is to define Nexus Point's approach to integrating the consideration of ESG risks and value creation opportunities into investments made through its private equity fund(s). Nexus Point commits to considering material ESG issues during its due diligence and in the monitoring of portfolio investments to the extent reasonably practical. Regular training is provided to the deal teams to ensure that they understand and adhere to the firm's ESG policy and latest ESG performance standards.

Nexus Point seeks to update the policy continually, as appropriate.

Our goal is to:

a) Consider environmental, public health, safety, and social issues associated with target companies when evaluating whether to invest in a particular company or entity, as well as during the period of ownership.

b) Achieve carbon neutrality[1] in all our offices by 2025.

c) Assess and consider the potential impact and associated risks and opportunities of climate change of our investments.

[1] In accordance with Scope 1 and 2 of Greenhouse Gas Protocol (GHP). As defined by The GHG Protocol Corporate Standard, Scope 1 emissions are direct emissions from owned or controlled sources and Scope 2 emissions are indirect emissions from the generation of purchased energy (electricity usage in kWh converted to tCO2 equivalent).

d) Promote and safeguard the principles of Diversity and Inclusion in talent hiring, training and retention in the operations of both our Firm and our portfolio companies.

e) Be accessible to, and engage with, relevant stakeholders either directly or through representatives of portfolio companies, as appropriate.

f) Grow and improve the companies in which Nexus Point invests for long-term sustainability and to benefit multiple stakeholders, including on environmental, social, and governance issues.

g) Use governance structures that provide appropriate levels of oversight in the areas of internal control, audit, risk management, and potential conflicts of interest, and to implement compensation and other policies that align the interests of owners and management.

h) Remain committed to compliance with applicable national, state, and local labor laws in the countries in which Nexus Point invests; support the payment of competitive wages and benefits to employees; provide a safe and healthy workplace in conformity with national and local law.

i) Encourage strict policies that prohibit bribery and other improper payments to public officials consistent with the U.S. Foreign Corrupt Practices Act, similar laws in other countries, and the OECD Anti-Bribery Convention.

j) Respect the human rights of those affected by Nexus Point's investment activities and seek to confirm that Nexus Point does not invest in companies that utilize child or forced labor or maintain discriminatory policies. Please refer to Section 6 for details of the exclusion list.

k) Provide timely information to Nexus Point's limited partners on the matters addressed herein, and work to foster transparency about Nexus Point's activities.

l) Encourage Nexus Point's portfolio companies to advance these same principles in a way that is consistent with their fiduciary duties.

m) Closely monitor latest global and regional developments in ESG standards, protocols and best practices, dynamically assess its ESG policy and update it as appropriate.

3. Responsible Investment Approach

Nexus Point views responsible investment as an important aspect of its investment approach. We believe that responsible corporate behavior with respect to ESG factors can generally have a positive influence on long-term financial performance. Our investment team integrates ESG analysis into our investment process by carrying out specific due diligence before making an investment decision and continues to carry out ESG assessment throughout the investment period.

Nexus Point is a signatory of **UN PRI** since May 2017. The firm follows guidelines recommended by the Organization in integrating ESG in our Private Equity investments.

When making an investment decision, Nexus Point also refers to the **International Finance Corporation (IFC) 2012 Performance Standards** on Environmental and Social Sustainability (Performance Standards). As mentioned in Section 6, Nexus Point refers to the exclusion list recommended by the IFC for initial target screening.

As part of our effort to addressing climate-related risks and driving ESG integration, we have developed a range of strategies and processes to measure and manage the exposure of our portfolios to climate change. In addition to our commitment in meeting the requirements of the Fund Manager Code of Conduct ("FMCC") published by the Hong Kong Securities and Futures Commission ("SFC") in relation to climate-related risks and opportunities, we became a public supporter of Task Force on Climate-Related Financial Disclosures ("TCFD") in 2022 and have decided to start aligning our reporting with TCFD starting in 2023. By adopting the TCFD framework, we intend to provide transparency and clarity on how we assess and address climate-related risks and opportunities.

4. Governance

At Nexus Point, we are committed to establishing a robust governance structure to effectively implement the firm's sustainability commitments and goals. The governance structure and management's roles & responsibilities of Nexus Point are included in Appendix B.

4.1. Leadership Oversight

Nexus Point's Investment Committee holds ultimate responsibilities for ESG-related oversight of the Firm. Apart from the appointment and evaluation of ESG Committee members, the Investment Committee is accountable for the review and approval of the firm's ESG policy, and oversight of progress against ESG-related goals set by our ESG Committee.

4.2. Role of the ESG Committee

The ESG Committee ("the Committee") comprises three Partners and two Managing Directors of the firm, and is responsible for providing strategic direction and delivering the firm's response to ESG-related risks and opportunities. The Committee holds regular meetings every quarter on ESG-related topics.

To ensure effective integration of ESG risks and opportunities into the firm's planning and decision-making activities, the Committee conducts regular monitoring of the latest developments in ESG-related regulations and best practices by engaging key ESG stakeholders such as regulators, ESG advisors/ subject matter experts, portfolio companies' management and customers, and Limited Partners. Due to the evolving regulatory approach to ESG topics, the Committee oversees the development of the relevant action plans and makes the necessary changes to the firm's ESG policy through these engagements to ensure compliance with regulatory requirements and adherence to our commitments on ESG.

Nexus Point aims to support and increase engagement with our portfolio companies in managing ESG-related risks and opportunities. In this regard, the Committee sets long-term ESG goals and conducts regular meetings with the relevant ESG-responsible parties of the portfolio companies to monitor and advise on relevant strategies on ESG-related issues.

5. Integrating ESG Considerations into the Investment Process

Nexus Point seeks to integrate the consideration and thoughtful management of ESG issues throughout the investment cycle.

5.1. Company Screening

NEXUS POINT

Nexus Point uses the International Finance Corporation (IFC) 2012 Performance Standards on Environmental and Social Sustainability's investment exclusion list for its initial ESG screen of potential deals, and the GP declines any investment opportunity with business activities that are on the list. The exclusion list is as follows:

- Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB's, wildlife or products regulated under the Convention on International Trade in Endangered Species ("CITES").
- Production or trade in weapons and munitions.
- Production or trade in alcoholic beverages (excluding beer, wine), subject to certain materiality threshold.
- Production or trade in tobacco, subject to certain materiality threshold.
- Gambling, casinos and equivalent enterprises.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.
- Drift net fishing in the marine environment using nets in excess of 2.5 kilometers in length.
- Production or activities involving harmful or exploitative forms of forced labor/harmful child labor.
- Commercial logging operations for use in primary tropical moist forest.
- Production or trade in wood or other forestry products other than from sustainably managed forests.
- (Applicable only to microfinance activities in) Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.
  Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples (aboriginal or native peoples who are the original inhabitants of a given region), without full documented consent of such peoples.

5.2. Risk Rating for Target Companies

If a deal makes it past the initial screening, the deal team categorizes prospective investments according to their level of environmental or social risk, based on readily available information and the target company's industry, sector and location. Target companies are categorized as High, Medium or Low on ESG, with High indicating a significant potential risk and Low indicating minimal risk. Nexus Point makes the preliminary assessment (by referring to the examples of ESG factors listed on Appendix A) and categorizes the prospective investment at the Introductory IC meeting.

High Category: business activities with potential significant adverse environment or social risks and/or impacts that are diverse, irreversible, and unprecedented.

Medium Category: business activities with potential limited adverse environmental or social risks and/or impacts that are fewer in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.

Low Category: business activities with minimal or no adverse environmental or social risks and/or impacts.

5.3. Environment and Social Due Diligence Process

Nexus Point engages external consultants to conduct ESG due diligence. The level of due diligence depends on the categorization of target companies, with more comprehensive due diligence performed on target companies in the risk categorization of High or Medium. It consists of an extensive review of relevant documentation and information from target companies and other sources. The process also includes site visits (to the extent permissible under travel restrictions), as well as meetings and interviews with employees, government officials and affected communities. The findings of the due diligence, along with recommendations for improvement, are included in a standalone environmental and social due diligence report, which is presented to the investment committee. The findings and recommendations of the report are also discussed with the management of the prospective portfolio company.

Several recommended ESG consultants as below:

- Greenment Environmental Technologies Co: www.greenment.cn
- Pacific Risk Advisors: www.pacificriskadvisors.com
- ERM: www.erm.com
- Mott MacDonald: www.mottmac.com
- PwC: www.pwc.com
- UL Environment & Sustainability www.ul.com

Our thorough examination of the target investees' information and documentation, along with site visits and interviews, helps us identify ESG-related factors that could affect investment performance. At all stages of the evaluation process, we work closely with the target company's management to discuss and suggest applicable improvements on the identified ESG risks and opportunities.

5.4. Investment Agreement

During investment documentation negotiations with the portfolio company, clear articulation and agreement about the Nexus Point's ESG policies and guidelines can ensure that the portfolio company is aware of its ESG expectations. The following are key items are recommended to build into our investment agreement:

- Share ESG objectives, policies and practices with the portfolio company.
- Use templates from existing industry toolkits to integrate ESG clauses into investment agreement.
- Seek formal commitment from the portfolio company by incorporating ESG issues into the deal documents and/or the 100-day plan.
- Collaborate with the portfolio company to draft 100-day plan.
- Formulate a roadmap with a 3-5 year horizon with clear process benchmarks.

5.5. 100-day Plan

We openly communicate our ESG policy and guidelines to transaction counterparts during the investment documentation and post-investment value creation planning stages to set appropriate expectations. With the support of external consultants where appropriate, we focus on devising improvement plans and implementation roadmaps to address ESG risks and opportunities identified during the due diligence process. After investment, ESG action plans or improvement programs would be integrated into the 100-day plan and the 3-5 year road map.

5.6. Post-Investment Monitoring and Engagement

We mandate senior management team within the portfolio companies to actively review proper implementation of the ESG organizational requirements as part of their auditing duties. Nexus Point and its appointed consultants work closely with the company management to support the development of an action plan.

Nexus Point regularly tracks and monitors all the relevant ESG KPIs across all portfolio companies with the aim of identifying and implementing improvements to our initiatives. We gather ESG-related data at the corporate and portfolio company levels with reference to the ILPA ESG Data Convergence Project framework which are then analyzed and used to develop action plans to enhance ESG-related matters at portfolio companies. In addition, to reinforce our assessment of climate transition risks, we are committed to aligning with the goals of the Paris Agreement to limit the increase in global temperature to 1.5 degrees Celsius and China's related policies on climate change.

To implement an effective ESG program, Nexus Point

- Define company specific or portfolio wide ESG indicators.
- Prioritize material ESG issues and focus on the most important issues in the short/medium term.
- Ensure ESG considerations are consistently on the portfolio company's board agenda.
- Provide portfolio company with tools to monitor and measure ESG practices.
- Collect information on ESG developments from portfolio company and include in annual review.
- Monitor ESG developments in internal review meetings.

In reference to SFC's Principles of Responsible Ownership, we have developed a structured approach to stewardship, which aims to fulfil our fiduciary duty by managing ESG risks and enhancing the value of our investee companies where possible. Active engagement with our portfolio companies enables us to gain clarity of the companies' fundamentals and their approach to ESG, which are essential to instill positive changes and enhance ESG integration into their business activities. Material ESG-related topics and ESG-related action plans identified for each portfolio company through our proprietary ESG rating and due diligence processes are taken closely into account in determining the objectives and priorities of our engagement practices.

For direct engagement initiatives, Nexus Point's ESG Committee maintains ongoing dialogue with our portfolio companies and regularly monitors developments in their ESG-related practices. We communicate with the board or management of our portfolio companies on a quarterly basis on developments in their ESG initiatives and current progress on company-specific ESG action plans. Accordingly, we provide the relevant support and updates to the ESG action plans based on the engagement findings with the support of our external advisors. Insights drawn from these interactions are also shared amongst our portfolio companies to encourage knowledge sharing and to drive further ESG integration across their businesses.

Acknowledging the importance of utilizing different forms of engagement, we also believe that it is essential to engage with our industry peers and other key stakeholders to drive positive changes and encourage greater ESG integration. In support of this objective, we collaborate with other investors and regularly participate in collaborative platforms and industry associations to actively contribute towards more effective ESG-related market practices, methodologies, and regulations. Nexus Point is committed to engage in collaborative engagement initiatives and continuously explores opportunities to advance responsible investment practices.

Nexus Point believes that direct engagement with portfolio companies remains key to drive positive changes in addressing their ESG-related issues. If serious ESG incidents are identified and investees show a lack of responsiveness to our direct engagement initiatives, we may adopt escalation measures. For such cases, we would carefully review the matter to develop a corrective action plan on a case-by-case basis. Based on the severity of the matter and the receptiveness of investees, we may raise the issue to the board and/or management of the portfolio company in question through writing and/or formal meetings. Additionally, we would consider seeking collective engagement approach with other relevant stakeholders to provide greater influence in addressing the matter.

Conflicts of interest may arise when exercising our stewardship responsibilities in fulfilment of fiduciary duty. This may include engaging with companies that are related to our (prospective) clients and when clients have differing preferences in conducting engagement. In these instances, Nexus Point remains committed to safeguard the best interests of our clients and preserve the integrity of the financial markets. We are dedicated to upholding ethical business conduct and manage conflicts of interests responsibly.

The implementation and development of Nexus Point's engagement initiatives are conducted by the ESG Committee and overseen by the Investment Committee. The ESG Committee ensures the coordination of engagement activities and conduct regular review on the current progress of and the relevant next steps in achieving our engagement targets. Consequently, the ESG Committee regularly communicates these relevant findings of each portfolio company to the Investment Committee, at least on a quarterly basis, to better inform future investment decision-making process.

6. Guideline on Climate Change and Human Rights

6.1. Climate Change

Nexus Point recognizes the significant risks that climate change poses to the economy, businesses, and society as a whole. As a leading private equity firm, it has been imperative for us to consider the potential impacts of climate change by our portfolio companies as we commit to continue integrating ESG factors into our decision-making processes across the investment lifecycle.

The systematic risks and impacts of climate change on the economics of various industries across our portfolio affect the fundamentals of our investments and the increasing focus towards climate change and a low-carbon economy leads to evolving demand, resource supply, and compliance needs. Accordingly, we acknowledge the imperative to understand the type of changes occurring across our investment portfolios.

To identify and form a preliminary assessment of the materiality of climate-related matters within its investment portfolio, Nexus Point has developed a proprietary toolkit in the form of a heatmap for physical and transition climate risks. The heatmap derives materiality scores to provide insights on the significance of physical and transition risks for each portfolio company, enabling us to follow-up with the relevant actions in climate risk management of our current and potential investees. We aim to review and continuously enhance the toolkit based on latest developments in climate physical and transition risk identification methodology at least annually. Below are the approaches behind our heatmap which analyses both physical and transition climate risks:

- **Physical risks**

Nexus Point leverages the dataset and methodology from ThinkHazard! an open-source tool to determine the impacts of environmental hazards on companies or projects developed by the Global Facility for Disaster Reduction and Recovery (GFDRR), to assess physical risk materiality for each investee. The tool examines the intensity and severity of 11 hazards (e.g., coastal flood, water scarcity, and wildfire) and categorizes each hazard into High, Medium, Low or Very Low categories based on input locations.

- **Transition risks**

We utilize SASB Materiality Map and UNEP FI Heatmap to analyze the associated transition climate risk of a portfolio company. In particular, the Sustainability Accounting Standards Board (SASB) Materiality Map helps us determine sectors for which GHG Emissions and Energy Management are deemed material and thus, categorized to have high transition climate risks. Additionally, the UNEP FI Heatmap combines the perspectives of forty financial institutions on transition risk materiality for different sectors. Accordingly, we consider the transition risk score from both sources to derive a final transition risk score for each portfolio company.

Regarding stewardship on climate-related matters, Nexus Point remains committed to support its portfolio companies in managing climate-related risks and opportunities in their transition towards a low-carbon economy through our active engagement initiatives. We adopt the GHG Protocol and Partnership for Carbon Accounting Financials (PCAF) guidance to measure emissions by portfolio companies as well as carbon metrics of our investment portfolio. Such information is communicated to our investors on demand.

6.2. Human Rights

A statement has been prepared pursuant to section 54(1) of the Modern Slavery Act 2015 (the "Modern Slavery Act"). It sets out the steps that we have taken to ensure that all forms of human trafficking and modern slavery, including forced, compulsory, or coerced labor, deprivation of personal freedom and the exploitative movement of people, are not taking place in our business and supply chains, and that all business activities are in accordance with the Modern Slavery Act during the most recently ended financial year.

Relevant standards and guidelines have been developed as part of the firm's Employee Handbook and Compliance Manual to set forth the standards by which all Nexus Point personnel are expected to conduct business. Meanwhile, the firm has established a Modern Slavery risk assessment framework for managing any new vendors engaged in our business activities. Through regular training, engagement and continuous monitoring with our internal and external stakeholders, we ensure human rights considerations are addressed adequately.

7. Disclosure and Reporting

Nexus Point seeks to be transparent in its approach to incorporating ESG considerations in its private equity investments by reporting at least annually on its progress and outcomes at the Firm level. The format of this reporting may take the form of public reports (annual reporting to UN PRI), confidential fund reports to LPs and briefing/discussion at LP advisory committee meetings.

Nexus Point agrees with LPs in advance upon the form and frequency of reporting as well as disclosures outside of the regular reporting cycle, for example if there is a material incident at a portfolio company.
Nexus Point ESG Committee is working regularly to progressively implement various reporting criteria across our investment portfolio in alignment with internationally recognized framework such as the TCFD recommendations. Relevant updates to ESG-related developments are provided in monthly reports and discussed annually with Nexus Point's senior management team for review purposes.

Appendix A – Examples of ESG Factors

Source: Responsible Investment in Private Equity – a guide for limited partners (2nd edition), PRI

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Air and water pollution	Customer satisfaction	Accounting standards
Biodiversity	Data protection and privacy	Anti-competitive behavior
Carbon emissions	Diversity and equal opportunities	Audit committee structure
Climate change	Employee attraction and retention	Board composition
Deforestation	Employee engagement	Bribery and corruption
Ecosystems services	Government and community relations	Business ethics
Energy efficiency	Human capital management	Compliance
Hazardous materials	Human rights	Executive remuneration
Land degradation	Indigenous rights	Lobbying
Resource depletion	Labor standards	Political contributions
Waste management	Labor-management relations	Risk management
Water scarcity	Marketing communications	Separation of chairman and CEO
	Product mis-selling	Stakeholder dialogue
	Product safety and liability	Succession planning
	Supply chain management	Whistleblower schemes

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Appendix B – Governance Structure and Management's Roles & Responsibilities

Kuo Chuan Kung
(Managing Partner)

- The sole director of Nexus Point Advisors (HK) Limited, SFC License Holder (Type 9)
- Oversees firmwide ESG issues
- Holds quarterly Board meeting

Min Li
(Partner & Chairman of Risk Management Committee)

- Ensures appropriate steps have been taken to identify, assess, manage and monitor the relevant material climate-related risks for the portfolios

Raman Yiu
(Managing Director & CFO)

- Maintains the quarterly Board minutes
- Handles regular SFC reporting requirements
- Organizes regular trainings to the staff

Joseph Li
(Managing Director & Chairman of ESG Committee)

- Responsible for overseeing ESG issues of the portfolio companies and NP offices
- Supervises and monitors climate-related issues of the portfolios

Calvin Chen
(Managing Director)

- Ensures ESG is integrated in the investment process
- Regular meetings with the investee companies

ESG Committee

- Provide strategic direction and delivery on ESG-related topics
- Holds quarterly Committee meetings
- Conducts regular monitoring on ESG-related regulations through key stakeholder engagement
- Sets ESG goals and action plans for portfolio companies and perform regular monitoring on current progress of the companies