RI *Spotlight*
JANUARY 2022

Sustainable Investing

Triton

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Peder Prahl
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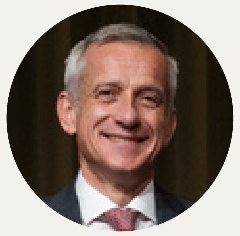

Martin Huth
Managing Partner

We believe there are significant opportunities for transformation as well as for commercial growth arising from sustainability megatrends and underlying themes.

Hello and welcome to our Sustainable Investing Spotlight.

We see sustainability as a critical value creation lever in reaching businesses' full potential, and that is why we apply an ESG (Environmental, Social, Governance) lens to every Triton investment. We seek to grow and improve PCs (portfolio companies) for long-term sustainability and for the benefit of multiple stakeholders. We recognise the importance of ESG issues in protecting and creating value for our investors, PCs, and the communities where our PCs operate.

In this Spotlight, you will read about how ESG factors are embedded in our investment framework. Our sustainable investment strategy starts during sourcing, where we use our framework of sustainability megatrends and themes, which you can read about from page 4 to 7. We think understanding thematic drivers and megatrends, such as the transition to a low carbon economy, resource scarcity, diversity, and changing demographics, are all crucial to driving better investment decision-making. We then develop bespoke action plans at each company we partner with, to help them grow sustainably and to drive positive impact.

We believe in teamwork, which is why we work in partnership with our PCs as part of a Full Potential Plan for each PC encompassing a thorough sustainability strategy from the moment we start our due diligence through to realisation. We believe this approach will attract investor capital while helping to future-proof our business.

We conclude this Spotlight by discussing how we benefit from sustainable regulatory drivers, and hear about sustainable investing from an investor perspective.

We hope you will find this an interesting read and look forward to your feedback.

You can email us at
esg@triton-partners.com

Sustainable investing:

Embedding ESG across the investment framework

At Triton, a structured application of ESG factors drives value creation. When looking to identify new portfolio companies – 'sourcing' – we target companies bringing goods and services to market which we believe are aligned with sustainability drivers. This strategic sustainability focus is coupled with operational analysis during due diligence, as we focus on whether companies face high levels of ESG risk and have the systems in place to manage these.

Once an investment is finalised, PCs are onboarded into the Triton portfolio and the Stewardship Programme.
During the initial months and the following multi-year period of ownership, we work with portfolio companies to ensure they have robust policies, programmes for delivery, and ultimately performance and reporting around ESG. We also work with PCs to ensure their goods and services are optimally aligned with relevant external drivers, exploring product adjacencies and seeking new end-markets.

When selling PCs, we find that potential buyers from across the spectrum – financial, trade and public market – are increasingly focussed on operational and strategic sustainability.

Financing arrangements may integrate sustainability performance. Triton recently announced a sustainability-linked loan for the Triton V Fund, where performance against five ESG metrics triggers preferential terms.

A link to PR

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Sustainability megatrends

Sustainable investing necessitates a forward-looking perspective. Attractive target companies offer products and services which are positively catalysed by key environmental, social and governance disruptors and risks.

The understanding and identification of key disruptors is, of course, a continuous process as the suite of global risks evolve. Andi Klein, Managing Partner and Head of Triton's Small Markets strategy:

"It is imperative that we invest in subsectors where demand growth is underpinned by positive macro factors. In identifying attractive businesses, we seek to understand regulatory, technological, cost and consumer preference drivers for change in such demand patterns."

Andi Klein

The infographic on this page captures the key ESG megatrends and underlying themes which Triton currently focuses on when considering a new investment. These enable better understanding of associated risks and opportunities, products and solutions which are exposed to these, and ultimately to sourcing of attractive target companies with sustainability tailwinds.

Climate change

- Decarbonisation and energy transition
- Climate change adaptation

Natural resources

- Water resilience
- Soil improvement
- Clean air
- Resource efficiency and circular economy

Biodiversity loss

- Forest protection
- Healthy ecosystems
- Intact marine and aquatic systems

Housing & construction

- Green buildings
- Affordability
- Rapid response building and repurposing
- Home working and design focus

Healthy people

- Medtech
- Emergent disease and risk
- Workplace safety
- Healthy working environment
- Sport & wellbeing
- Food & nutrition

Demographic change

- Urbanisation
- Rise of EM middle class
- Ageing populations
- Diversity & inclusion
- Social equality
- More education

Fairness & good governance

- Human rights
- Anti-corruption
- Data protection
- Ethics
- Fair corporate governance
- Executive pay
- Tax integrity

Transparency & accountability

- Corporate accountability
- Greater public/ stakeholder reporting
- Supply chain management

Key

- Environment
- Social
- Governance

Better businesses

Triton's aim is to build better businesses. Our strategy is to invest in companies that will play a crucial role in a sustainable world, and ESG factors are a critical element of Triton's toolkit for building them. That is why we apply a sustainability lens to every Triton investment, from sourcing to exit.

Deploying our expertise, we work in partnership with our portfolio companies to drive positive change by sharing knowledge and encouraging a free-flowing learning culture.

Flokk

Triton invested in Flokk, one of Europe's leading office furniture manufacturers, in October 2014. Thomas Hofvenstam, one of Triton's Managing Partners and Flokk Board Member:

"The company continues to minimise its environmental impact, employing five circular design criteria – low weight, few components, right choice of materials, long life span and design for disassembly. We are proud of Flokk's standing as a sustainable long-time pioneer of sustainable production, sourcing and design".

Thomas Hofvenstam

Flokk's focussed, 5-point approach to circularity provides a strong basis to target two of the company's three impact pillars – carbon footprint and resource throughput. The company has already achieved notable success on several metrics. In 2020, 94% of electricity consumed was renewable, and new products contain a majority of materials which are recycled from waste, including plastics and aluminium.

Flokk's commitment to health and wellbeing is the third pillar of its sustainability focus. Products and manufacturing are free of chemicals that are hazardous to the environment and human health. The company is also planning to achieve EU Ecolabel status for 100% of its standard fabrics by 2022, up from 78% in 2020.

Key themes

- **Resource efficiency and circular economy**
- **Home working and design focus**

Dantaxi

Triton invested in Dantaxi in December 2018. The company offers a market-leading platform for connecting mobility customers to third party transporters.

Dantaxi is a company in transition. It is executing on an ambitious plan to replace its fleet with electric vehicles, and recently announced a partnership with a leading utility company to source renewable energy for charging infrastructure.

Looking forward, a recent acquisition of a company operating c450 buses for elderly and disabled passenger services provides further scope for reducing carbon emissions and local air pollutants. It is Dantaxi's ambition to accelerate the replacement of these buses with clean alternatives, which could include battery electric and hydrogen fuel cell vehicles.

Daniel Björklund, Triton investment professional and member of the Dantaxi board: *"Offering rides in EVs means that Dantaxi is responding to changing consumer preferences in Denmark, while also aligning with growing regulatory pressure to achieve deeper decarbonisation in cities. As clean transport technology continues to advance, we believe Dantaxi is strategically well-placed to play its part in delivering a cleaner urban environment."*

Daniel Björklund

Key themes

- **Decarbonisation and energy transition**
- **Clean air**
- **Urbanisation**
- **Ageing populations**

EU regulatory drivers

New regulation, such as the introduction of sustainability disclosure obligations for the financial sector within the European Union, is increasingly impacting our business. We welcome the increased transparency this brings, and intend to use this emergent regulatory agenda to meet our stakeholders' priorities.

Sandrine Lalmant, ESG Professional at Triton:

Sandrine Lalmant

"The regulatory landscape is rapidly evolving, with increased targets for renewable energy production, introduction of a new carbon border tax and reductions of GHG emissions for certain sectors. There is a significant opportunity to take advantage of these new regulatory drivers."

Earlier this year, we adopted an industry-leading position by: (1) committing to quantify the sustainability impact of our underlying investments and (2) self-certifying our two latest Private Equity funds, Triton Fund V and Triton Smaller Mid-Cap Fund II, as funds with Environmental and Social characteristics. This was enabled by the rigorous processes we have established to measure sustainability impacts alongside financial risks.

When analysing our existing portfolio from a climate change regulation perspective, we can identify several regulatory tailwinds:

- **Renovated and energy efficient buildings**: some PCs can benefit from support for investments in energy efficiency and renovation of buildings, shift to LED lights, clean heating and cooling, and requirements to renovate a certain proportion of all public buildings.
- **Cleaner energy and technological innovation**: our portfolio is benefitting from stronger incentives for electrification and sustainable energy and the decarbonisation of heating and cooling.
- **Circular economy**: some PCs are well-positioned around sustainable packaging, furniture designed for reuse/ remanufacturing, focus on increasing the durability of built assets.

At Triton, we believe that the EU's increasing regulation of the sustainable finance landscape has the potential to raise standards and improve consistency across the industry. Our approach to sustainable investing is designed to compliment the EU agenda, improving our processes and performance in tandem.

Sustainable Finance Disclosure Regulation (SFDR) and the Corporate Sustainabiliy Reporting Directive (CSRD)

The SFDR is EU regulation that introduces sustainability disclosure obligations for the financial sector, including private markets.

Under the rules, Article 8 funds promote environmental or social characteristics. Article 9 funds go further by having sustainable investment as their objective.

The SFDR is connected to the EU Taxonomy, a framework that identifies and categorises environmentally sustainable investments.

The CSRD is a further regulatory driver increasing non-financial disclosure. It is in line for adoption in H1 2022 and will then enter into force in 2023.

An investor's perspective

Sustainable investment is integral to value-creation at Triton. For many years, Triton has been using environmental, social and governance factors in its investments. We increasingly seek to embed these factors across the entire private equity process. Our investors now see such integration as of vital importance – no longer a simple differentiator but a must-have.

Ashim Paun, Triton's Head of Sustainable Investing, spoke with Pieter van Stijn, ESG Integration Specialist, and Harrie van Rijbroek, Private Equity Director at PGGM Investments, about the importance of sustainability in meeting investor expectations.

Ashim Paun

Pieter van Stijn

Harrie van Rijbroek

Q: How does PGGM embed ESG factors into its investment framework?

PvS: Our ESG frameworks are driven by the policies of clients, informed by global frameworks like the SDGs (Sustainable Development Goals) and the Paris Agreement, and are tailored to each asset class. We want to positively influence sectors as much as possible, and for that we need to understand what external macro risks there are for the portfolio and what risks our holdings pose to society and the planet. And then take responsibility - we can apply pressure by voting and engaging, and may divest in some cases.

Q: What does PGGM look for in an asset manager in relation to embedding sustainability into investment processes?

HvR: When we start a new relationship with an asset manager, ESG comes first. Specifically for private equity, we use a robust framework to monitor our GPs to understand their impact and materiality. We look at their integration of ESG into the entire investment process. We put a lot of focus on engagement to ensure that sustainability is top of the agenda.

PvS: We know where we don't want to invest – with a bottom line for activities that violate the OECD Guidelines for Multinational Enterprises or the UN Global Compact, as well as excluded products like weapons and tobacco. On the flip side, we want to invest in companies that contribute to the SDGs - our goal is that this strategy will represent 20% of PGGM's total AUM by 2025.

Q: What are the key sustainability trends which PGGM has identified as catalytic for 2022 and beyond?

PvS: We see a continued strong focus on climate change-related areas, targeting both fossil fuel producers and energy intensive sectors. We also see continuing attention paid to biodiversity and resource scarcity. Driven by resource scarcity, circular economy business models will continue to grow. Other focus areas for PGGM are human rights and labour rights, the role of big tech and its influence on society, and we expect sustainability tailwinds for healthcare technology and food innovation.

Q: How important is the EU's nascent regulatory framework in creating a platform for sustainable investment to grow?

HvR: Our involvement in an ESG data project – with other LPs and GPs – is relevant here. We are working together to establish key ESG parameters and metrics. The EU framework will hopefully provide clear definitions and be complementary to our research.

PvS: We are positive on the new regulation. It will be helpful to ensure that we have a common language to work with. We see the new regulations as a minimiser of 'green-washing' and an important lever to ensure that you say what you do and do what you say.

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