

Alchemy

ESG Policy

2022

Investing in special situations

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1. Founding principles and objectives

Alchemy was established to achieve superior risk-adjusted returns by investing in corporate special situations. We target opportunities across Europe, arising from dislocated markets, structural change, unsustainable capital structures and underperformance.

It is both a fiduciary duty and societal responsibility for Alchemy to be a responsible steward of investors' capital and behave as a responsible economic actor within the wider stakeholder universe. Furthermore, we increasingly recognise the significance of environmental, social, and governance (ESG) considerations to achieving superior risk-adjusted returns across Alchemy's investments.

We believe that appropriate ESG policies and processes will support Alchemy in mitigating business and investment risk, making better investment decisions and building sustainable businesses of strategic value. As such, we are committed to achieving our ESG ambition for Alchemy to be a responsible investor by supporting the Alchemy portfolio companies to grow in a responsible manner, and to lead by example from the General Partner ("GP") level, prioritising climate change, diversity and inclusion, and good governance. This ambition will be reviewed by our Investment Committee annually to evolve in line with our progress on ESG and ensure that it is aligned with evolving industry trends, stakeholder expectations, legislation and regulation.

2. Alchemy's ESG Framework

Our ESG ambition is supplemented by our ESG Framework, outlined in this Policy. The aim of the Framework is to distil our ESG ambition into practical and consistent processes to integrate ESG across our business and investment activities. We have aligned our ESG Framework with the six principles of the United Nations Principles for Responsible Investment (UN PRI) to support us in meeting our commitments as a signatory.

Alchemy's ESG Framework is formed of five key pillars:

2.1. ESG in our policies and processes

As well as being a responsible investor, Alchemy strives to be a responsible organisation by embedding effective ESG practices in its own operations. We therefore commit to:

- **Ensuring ethical behaviours in our activities.** All of our employees are subject to, and receive training on, policies, including our Code of Ethics and this ESG Policy. Our investment team are responsible for ensuring adherence to this Policy with regards to the acquisition, ownership and realisation of investments. They receive training on the Policy, relevant ESG topics and accompanying ESG tools on an ongoing basis.
- **Promoting Diversity, Equity and Inclusion in the workplace.** We recognise that a diverse workforce has a positive impact on business, employees and society, and are committed to attracting, developing, and retaining a diverse and talented workforce. We are committed to tracking our progress towards this objective with a number of house level diversity KPIs, which we plan to develop and roll out among Alchemy portfolio companies.

- **Considering our own impact on the environment.** With the support of external advisors, we are working towards formalising our approach to reducing our environmental footprint. We are committed to becoming carbon neutral and working to incorporate Science Based Targets across the Alchemy portfolio in order to reach our target of net zero. We are committed to tracking our progress towards this target with a number of house level environmental KPIs, which will involve the collection of data on Scope 1, 2 & 3 emissions and working on a comprehensive carbon reduction strategy in 2022.
- **Facilitating ESG-related knowledge sharing.** Through the creation of a cross-function ESG Committee, Alchemy is committed to sharing best practice, promoting awareness of ESG and supporting implementation of ESG initiatives. The ESG Committee is responsible for communicating ESG trends and ESG-related progress at house and portfolio level to internal and external stakeholders.
- **Continuing our strong governance work.** Key to our strategy, good governance has been at the core of Alchemy undertakings, and we will continue to ensure this remains a priority for the businesses we work with. The Investment Committee is ultimately responsible for promoting strong governance, both at the portfolio and general partner level.

2.2. ESG in our pre-investment process

Alchemy is committed to embedding ESG throughout its investment process. To support this, we have developed a set of tools and processes to help our investment team consider ESG risks and value creation opportunities in a consistent and repeatable manner when assessing potential targets for investment:

2.2.1. Initial Screening

We maintain an exclusion list (the Black List) of sectors that Alchemy will not invest in. All companies are screened against the Black List before progressing to the Early Assessment stage.

We also maintain a Red List (made up of two sections, Tier 1 and Tier 2), which identifies sectors that require enhanced ESG due diligence to assess and understand relevant risks. Companies that fall under Tier 1 of the Red List will be given a red flag rating which will be unchanged throughout the investment process. Companies that fall under Tier 2 of the Red List will initially be given a red flag rating; however, the rating can be changed later in the due diligence process if the investment team determines that there are sufficient mitigants in place.

We are committed to working with companies to develop their ESG potential and enhance value creation. Therefore, a sub-par ESG track record will not automatically exclude a company from further consideration, especially if we believe that there is opportunity for substantial improvement under Alchemy ownership.

2.2.2. Due Diligence

Once a potential investment has passed the Initial Screening, the deal will progress to the Due Diligence phase. At this point, the investment team and the Alchemy ESG Committee will jointly assess the potential ESG risks in more detail, utilising the SASB Materiality Finder as the framework for this assessment. Once the specific areas of risk have been identified, a tailored list of questions will be curated that must be addressed during diligence, with the answers incorporated in the Final Investment Recommendation ("FIR").

Throughout the Due Diligence phase, the investment team will continue to consider whether there are sufficient mitigants or remediation plans in place to address areas of ESG risk and justify progressing the deal.

2.2.3. Final Investment Recommendation

The due diligence undertaken during the previous stage will act as the framework for the ESG section in the FIR document, highlighting the ESG risks previously flagged and how we plan to mitigate these risks.

Findings are then presented as a requirement at Investment Committee meetings, for consideration of the ESG issues which could have a material impact on the financial and operational performance of the company. At this stage, the Investment Committee will consider whether they believe there are sufficient mitigants in place to address areas of ESG risk in order to progress with the deal and recommending it for investment.

Once the FIR has been approved by the Investment Committee, an investment team member is required to complete an enhanced due diligence checklist with the company in question. This questionnaire provides an all-encompassing ESG assessment to review the processes the company already has in place. As well as the aforementioned ESG risks highlighted in the FIR, this will be used as a basis for the post investment ESG strategy.

2.3. ESG under Alchemy ownership

Good governance is at the heart of Alchemy's corporate strategy. We consistently seek to achieve the highest standards of governance across the portfolio, with a focus on promoting board accountability at the portfolio company level.

Whilst serving as a Director of a portfolio company, members or employees of Alchemy are expected to promote a responsible approach to value creation and encourage the Board as a whole to maintain ethical business standards.

We split the consideration of ESG under Alchemy ownership across three components:

2.3.1. Onboarding

During the onboarding stage, dialogue with portfolio company management is used to further refine and prioritise the list of material ESG risks and value creation opportunities. The outcomes of these discussions are incorporated in the company's value creation plans, including specific ESG actions and initiatives, timings, responsibilities and an assessment of whether more detailed ESG reviews are needed (where appropriate).

To support ESG implementation and reporting, Alchemy mandates that all control investments report against a set list of Diversity & Inclusion, Governance, and Climate Change ESG KPIs. Where appropriate, we work with portfolio company management during onboarding to define targets against these and may define further company-specific ESG KPIs for reporting.

2.3.2. Monitoring and reporting of portfolio ESG performance

During the hold period, we periodically monitor the ESG performance of Alchemy portfolio companies against a set of portfolio-wide ESG KPIs and targets, as well against company-specific ESG KPIs where relevant. To facilitate the monitoring process, we work with portfolio company management to appoint a responsible individual for ESG data collection and reporting. On-site ESG reviews are also conducted to assess ESG performance, where appropriate.

Performance against ESG targets is discussed regularly during portfolio company Board meetings and during Alchemy's Quarterly Portfolio Review meetings on a 6-monthly basis. Material ESG issues are elevated for discussion at Alchemy's Quarterly Portfolio Review meetings as they arise.

2.3.3. Exit

Nearing the exit phase, Alchemy's investment team assesses a portfolio company's ESG progress since acquisition, using the initial ESG review performed as a benchmark (where available). In due course, we will consider specific ESG vendor due diligence using a third-party provider to assess the impact of ESG factors on the portfolio company's performance and prospects. This information will be incorporated into exit documentation to demonstrate the value of ESG integration into business strategy to prospective buyers.

2.4. ESG in our reporting to external stakeholders

Alchemy will provide ESG data and information to its investors through annual and exit reporting. Our annual ESG investor report includes information about our progress towards implementing the UN PRI as well as the ESG performance of Alchemy portfolio companies. Additionally, ESG-related incidents are directly communicated to relevant stakeholders via quarterly reporting as they arise.

We also provide a house and portfolio level ESG update at Alchemy's Annual General Meeting with investors and regularly update our policies which are hosted on our website.

2.5. ESG in our industry engagement

Alchemy actively engages with co-investors and sponsors on the rationale for ESG and the development of good practices. We have also communicated our ESG Policy and expectations to relevant stakeholders (i.e. employees, portfolio companies, our advisor community and investors) from whom we have received strong acceptance and support for our initiatives.

To promote the widespread adoption of ESG and responsible investment practices, we also engage with peers through various industry groups, such as the UN PRI, the Initiative Climat International, Level20 and the British Private Equity & Venture Capital Association.

3. A materiality-driven approach

We apply the concept of materiality when determining which ESG issues to address in the Alchemy portfolio. This approach allows us to remain pragmatic and ensures that our ESG efforts are aligned with what matters most to portfolio companies and their other stakeholders. We currently use the Sustainability Accounting Standards Board's Materiality Finder as a guide, alongside bespoke ESG DD (to the extent it has been undertaken).

4. ESG implementation and governance

The Investment Committee is responsible for setting, developing, and implementing Alchemy's overall ESG strategy and is the owner of the ESG Policy. The Investment Committee is supported by the ESG Committee, which consists of:

- Dominic Slade – Managing Partner
- Ian Neill – Director
- Emma Macfarlane – Investor Relations Manager
- Annabel de Morgan – ESG & IR Associate

Alchemy's ESG Committee is responsible for overseeing the day-to-day implementation of ESG activities and for providing information and updates on responsible investment and ownership areas to Alchemy's Partnership and Alchemy's investors.

The ESG Committee will review and, where necessary, update the ESG Policy annually to reflect on-going efforts to improve Alchemy's ESG approach, as well as emerging requirements from stakeholders and evolving good practices.

The ESG Committee will actively communicate the ESG Policy to the investment team and will use the ESG Policy as a basis to engage internal and external stakeholders on ESG management, as appropriate.

Appendix 1: Alchemy Black List

Alchemy Funds do not invest in companies that:

- 1. Have production, supply chains or other activities that involve harmful or exploitative forms of forced labour or child labour.**
- 2. Produce any illegal products or engage in any illegal activities as per applicable local laws.**
- 3. Manufacture, supply, produce, distribute, or sell arms or ammunitions.**
- 4. Manufacture or sell pornography.**
- 5. Are involved with products and activities that are banned as per global conventions and agreements.**
- 6. Are principally engaged in the manufacture of or trade in thermal coal.**
- 7. Are involved in the supply or purchase of sanctioned products, such as goods to or from countries or regions covered by United Nations sanctions.**

Appendix 2: Alchemy ESG Red List – Tier 1

Alchemy considers all potential investments on the red list to require additional due diligence and higher scrutiny.

Any company that falls into Tier 1 of the red list **must have the potential to materially improve ESG-related performance and thereby contribute to improving the sector's ESG performance** to make it a viable investment. They must maintain a **red flag** rating throughout the investment process.

When considering the Tier 1 sectors, Alchemy will put particular emphasis on GHG emissions, water & waste management, labour practices (dependent on geography), employee health & safety, and business ethics.

1. **Mining**
2. **Thermal Coal (not engaged in the manufacture of or trade)**
3. **Metallurgical and coking coal**
4. **Oil and Gas**

Appendix 3: Alchemy ESG Red List – Tier 2

Alchemy considers all potential investments on the red list to require additional due diligence and higher scrutiny.

Companies that fall into Tier 2 of the Red List must be given a **red flag** at the **Initial Screening** stage; however, the red flag rating can be changed during the Due Diligence phase if the investment team determines (with the support of the Alchemy ESG Committee) there are sufficient mitigants in place.

When considering the Tier 2 sectors, Alchemy will put particular emphasis on customer welfare, business ethics, vulnerable people and selling practices.

5. **Alcohol**
6. **Tobacco**
7. **Gambling**
8. **Fast Fashion**
9. **Consumer Finance**
10. **Agriculture, Forestry & Land Use**