

# Environment, Social, and Governance (ESG) Policy

## GL Capital Group



***Responsible Team:*** Investment, Portfolio Management and Compliance

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## GL Capital Group ESG Policy

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## ***1. About Us***

GL Capital Group (“GL Capital” or “GL”) is a local China-based private equity firm focused on buyout and significant minority opportunities in the fast-growing healthcare sector. Since its inception in 2010, GL Capital has helped build industry leading companies in the Chinese healthcare space through providing capital, strategic advice, and operational assistance to grow these companies and create value.

GL Capital strives to be the partner-of-choice for leading healthcare companies, generate superior returns for our investors and contribute to the sustainable development of China’s healthcare industry.

## **2. Background and Purpose**

As a long-term investor and owner, GL Capital recognizes that environmental, social and governance (“ESG”) can affect the performance of investment portfolios, and companies that proactively manage ESG risks and seize relevant opportunities will be better positioned in the rapidly evolving world. Integrating ESG from an opportunity, return and risk point of view, throughout GL Capital’s investment process is essential to achieve sustainable financial success for its investors and create positive impacts on society.

GL Capital is dedicated to reducing ESG risks, as well as strengthening ESG awareness and results across its business and businesses it invests in. This is realized by ensuring that the value of improving ESG in line with best practices over time is recognized, as well as helping its portfolio companies to enhance corporate governance and ESG risk management capacity, for achieving long-term corporate and financial performance. Meanwhile, GL Capital aims to collaborate with shareholders and management teams who have a similar commitment to achieving strong governance and effective management of environmental and social factors.

The purpose of this ESG Policy (“Policy”) is to set out GL Capital’s vision and approach to investing responsibly as well as incorporating ESG factors into its investment process. The Policy forms the foundation of GL’s overarching responsible investment strategy and serves as a guiding principle for its investments and business decisions.

In line with international principles and guidelines, the Policy is based on GL Capital’s commitment to promoting ESG as set out in:

- ‘The Equator Principles’ by the Equator Principles Association;
- ‘IFC Performance Standards on Environmental and Social Sustainability’ by International Finance Corporation;
- ‘Environmental and Social Framework<sup>1</sup> (E&S Framework)’ and ‘Policy on Prohibited Practices’ by Asian Infrastructure Investment Bank (AIIB);
- ‘ESG Assessment Framework’ by Institutional Limited Partners Association (ILPA);
- UN Sustainable Development Goals (UNSDGs);
- Industry standards by Sustainability Accounting Standards Board (SASB)
- UN Principles for Responsible Investment (UNPRI);
- ‘Appendix 20 Corporate Governance Code’ and ‘Appendix 27 Environmental, Social and Governance Reporting Guide’ by Hong Kong Stock Exchange (HKEx); and
- ‘Sustainable Finance Disclosure Regulation (SFDR)’ by the European Union (EU).

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<sup>1</sup> Including AIIB’s Environmental and Social Policy, Environmental and Social Standards, and Environmental and Social Exclusion List

### **3. Scope**

This Policy is applicable to all GL Capital staff as well as any contractors or consultants providing services to GL Capital, and is reviewed at least annually, while improved and upgraded if needed, to reflect the emerging ESG issues, the evolution of relevant frameworks, standards and practices and incorporation of the reference frameworks of current and potential LPs. ESG Management Handbook and Toolkits have been developed to facilitate the implementation of the above Policy, which would be updated in accordance with the Policy updates.

This Policy is intended to set out GL Capital's ESG integration approach for private equity investments across different subsectors within the Chinese healthcare industry. GL Capital seeks to integrate and monitor ESG considerations into the business processes of its majority-owned portfolio companies. In cases where GL determines it has limited ability to influence and control the consideration of ESG issues for an investment (e.g., GL is a minority shareholder), applying appropriate elements of this Policy is nonetheless expected.

## 4. Objectives and Commitments

As a China-based investment firm, GL Capital pays close attention to relevant policy trends, including those on responsible investment and ESG. Dedicated to better aligning our responsible investment practices with the broader sustainable objectives of society, we focus on understanding the real-world outcomes of our investments, and shaping them in line with the SDGs to drive positive impacts. In response to China's '30-60 goals'<sup>2</sup>, GL is committed to supporting the transition toward a low-carbon and cleaner future by making responsible investment decisions and encouraging portfolio companies to manage climate-related risks appropriately. Further, GL Capital seeks to create an equal and inclusive environment, where different backgrounds, beliefs and cultures are valued and work together to achieve greater outcomes. The principles of diversity and inclusion, as integral parts of GL's culture, are thoroughly embedded in our daily operation, where we expect every employee to be responsible for making a contribution.

Through broad and global stakeholder consultation, together with thorough consideration of relevant issues, activities and geography, GL Capital is committed to investing responsibly and seeking to drive changes across our portfolio, including by:

### Environmental

- Ensuring a cautious and responsible approach to environmental management in our business operations, including efficient use of natural resources, adoption of low-carbon strategies, etc.

### Social

- Respecting and promoting employees and contractors' rights to decent working conditions (e.g., human rights, occupational health and safety, etc.);
- Fostering diverse talents with their long-term development and retention in mind;
- Educating employees on topics including data protection and privacy, Code of Conduct, conflicts of interest, etc. through firm-wide trainings; and
- Active participation in socially responsible activities and building healthy communities

### Governance

- Implementing a strong corporate governance and risk management culture, and adhering to high standards of business integrity and ethics;
- Complying with relevant laws and regulations, and being aware of and prepared for emerging regulatory requirements in markets where GL operates;
- Integrating material sustainability factors into GL's investment and management processes, while encouraging portfolio companies to also do so, and provide guidance for improvement where appropriate;
- Disclosing GL's responsible investment approach, ESG issues, goals and progress to investors and other stakeholders; and

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<sup>2</sup> In September 2020, China announced it would hit peak carbon emissions by 2030 and achieve carbon neutrality by 2060.

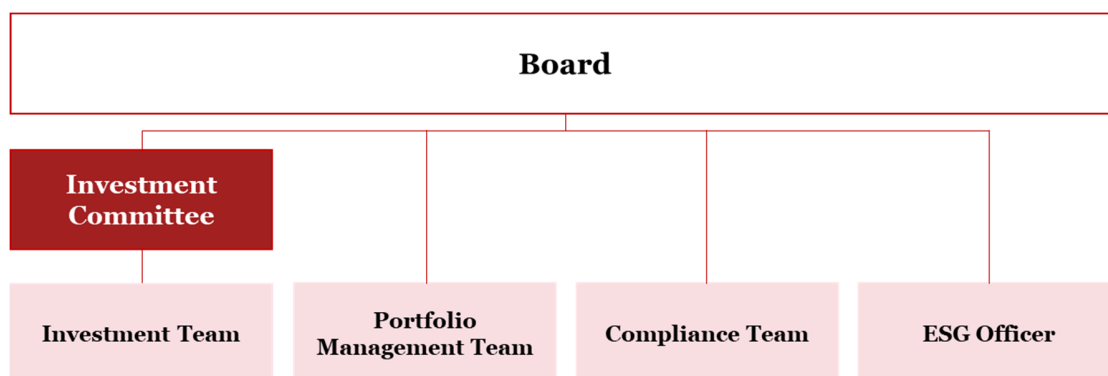
- Advancing the recognition and efforts on responsible investment across the financial industry through collaboration

These guiding principles will drive GL's daily business and GL expects its investors and portfolio companies to respect the aforementioned principles and pursue transparency on their corresponding management efforts.

## 5. Governance

### Role and Responsibilities

GL Capital has defined roles and responsibilities for overseeing the integration of ESG considerations in the investment process. The ESG governance structure is presented in the following diagram.



The Board has the ultimate responsibility for defining responsible investment strategy, incorporating emerging ESG issues such as climate change into investment considerations and overseeing the Policy and responsible investment efforts. The Investment Committee is responsible for the final investment decision-making, which is informed by findings relating to ESG risks and opportunities of the due diligence.

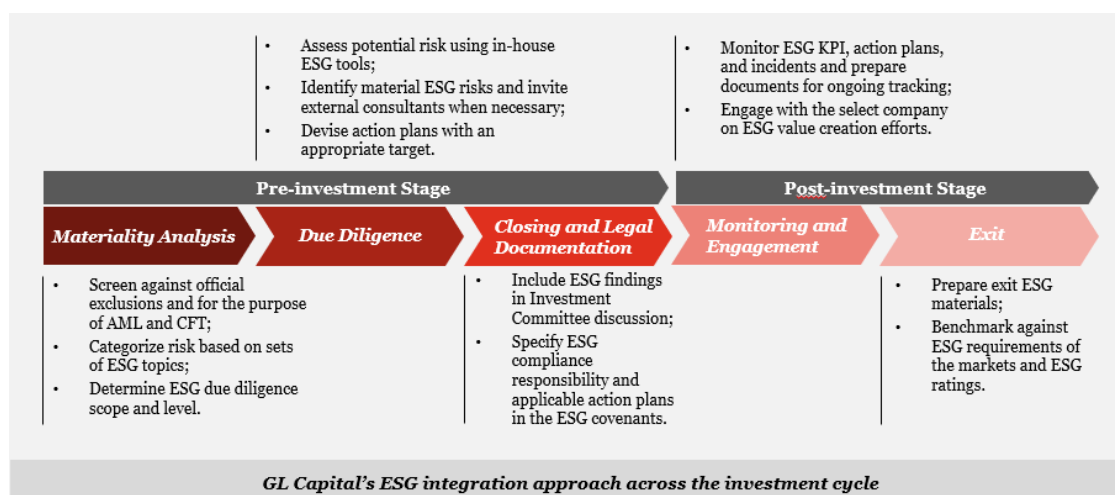
The Investment Team and Portfolio Management Team integrate the consideration of material ESG factors throughout the investment lifecycle. The Investment Team determines whether there are any ESG issues, and how materials those issues are, examining both industry specific and individual company backgrounds and exposure. Our Portfolio Management Team and Investment Team are responsible for engaging with portfolio company management teams to implement action plans and value-added initiatives, monitor progress and prepare detailed reports to be fully informed. The Compliance Team oversees firm-level compliance with best practices in Anti Money Laundering(AML), and incorporates the requirements of up-to-date ESG-related regulations with reference to regular monitoring reports submitted by fund administrators into the firm’s Compliance Manual. The Compliance Team also monitors and evaluates firm-level compliance from investment and operation aspects, and any non-compliance with AML or ESG-related regulations will be reported to the Board.

In addition, GL Capital has appointed dedicated personnel as ESG officer to coordinate for development and implementation of the ESG policy across the firm and communicate ESG issues among stakeholders. For the detailed accountabilities of each role in the ESG governance structure, please refer to GL Capital’s ESG Management Handbook.



## ESG Integration

GL Capital is committed to responsible investment practices and believes that embedding ESG considerations in its investment process is essential not only to sustainable investment performance, but also to positive development in the society. GL aims to broadly adopt applicable sustainability frameworks to assess the risks at each stage of the investment process to identify the key ESG risks and mitigate them to the extent possible. The diagram below describes our approach across the investment cycle.



### Pre-Investment

#### Materiality Analysis

GL capital aims to minimize the negative impact of our investments and will assess operations of the prospective investee company and apply a set of exclusions prescribed by IFC and AIIB depending on the requirements of different funds to manage relevant risks stemming from climate change, resource depletion, environmental degradation, money laundry, financing for terrorism and other social harms.

At the initial stage of sourcing and review of a transaction, as part of the overall assessment of the transaction, the projects will be categorized in terms of ESG risk as high, medium or low based on an in-house tool. GL Capital will only look at projects of medium and low ESG risk. The scope and level of ESG Due Diligence (DD) for a proposed investment will be determined by its ESG categorization and ESG risk profile in preceding procedures.

#### Due Diligence

When assessing an investment opportunity, GL Capital will consider material ESG factors as an integral part of its due diligence. As we deem appropriate, our investment team determines whether to utilize an in-house ESG tool or engage external consultants or other advisors to assist in conducting ESG DD.

For projects of medium ESG risk, if GL believes that conflicts with the guidelines can be mitigated in a reasonable timeframe, and/or through contractual arrangements/provisions with sellers, and/or by the target, GL will still consider investing. Subsequently,

GL Capital will work together with portfolio companies to devise a time-bound action plan with appropriate targets and to review the effectiveness of such a plan.

### **Closing and Legal Documentation**

The outcome of ESG DD is outlined in the investment memo, which will be reviewed and considered in investment decision-making by GL Capital's Investment Committee.

For all investments, GL Capital will build in ESG related concerns and compliance into its covenants, representations and warranties. In addition, portfolio companies are expected to have documentation confirming that they have and will comply with all relevant laws, regulations and permits in all material respects in the relevant host country action plan and all applicable standards on an ongoing basis. GL's approach is not simply to mitigate risks but to adopt a proactive approach to assessing the opportunity set to reduce costs and environmental impacts through our investment.

### **Post-Investment**

#### **Monitoring and Engagement**

GL Capital is devoted to acting as an active steward of the assets its own. GLs believe that active ownership is an important part of the value-added practices in the investment management process. We emphasize engaging in an active dialogue with our portfolio companies and partners to improve ESG practices.

GL Capital continuously monitors the portfolio companies' sustainable practices and ESG performance. ESG information is gathered through regular monitoring and reporting activities through ESG risk, KPIs, action plans and incident reporting. Depending on the type of data, collection occurs at least every 12 months.

Portfolio companies will be analyzed and assessed on an ongoing basis after the investment. GL identified, developed and applied a set of ESG Key Performance Indicators (KPIs) that are material to the healthcare industry with reference to SASB, SFDR, ILPA, IFC and HKEx metrics while considering AIIB and PRI requirements. As an investor, we support the management in implementing best ESG practices and managing material ESG factors, such as climate change, through offering expertise, tools and training.

Regarding the findings of ESG DD and incidents occurring during the operation, GL will monitor the progress and results of the corresponding action plan to ensure ESG issues or risks are adequately resolved within the given time frame where applicable. For minority investments, GL capital performs close monitoring and regular company visit at least once a quarter as part of the management protocols to ensure ESG compliance.

Moreover, GL can understand a company's position on ESG issues, actions and precautionary measures being taken or to be taken through ESG-focused engagement. Additionally, this places GL in a better position to improve the portfolio companies' ESG performance, corporate governance, carbon footprint, diversity and inclusion and disclosure practices during its ownership period, as GL's governance position and influence allow. Where GL does not have board representation, it will work closely with co-shareholders to encourage the adoption of the best ESG practices.

We seek to implement appropriate grievance redress mechanisms (GRM) at our fund and portfolio companies to receive and handle feedback on ESG related issues. GL's ESG officer coordinates fund-level GRM to collect grievances, keep records, organize discussions and provide responses to internal stakeholders and relevant portfolio companies in a timely manner. In addition, GL will disclose fund-level contact information and the availability of GRM of other stakeholders (i.e., LPs) to inform potentially affected parties. GL will submit quarterly grievance reports to concerned LPs when necessary.

### **Exit**

ESG issues should be given early consideration as material ESG aspects will form part of the potential buyers' due diligence, initial public offering prospectus and other divestment process documents. Thus, GL Capital should systematically incorporate ESG considerations into document preparations for exit from its investments. GL Capital should benchmark with exit requirements of target stock exchanges to improve ESG performance and highlight ESG achievements related to its investments. It is also crucial for GL Capital to review any material ESG issues to ensure the potential problems are solved within the time frame.

## **6. Reporting**

### **Disclosure to the public**

GL capital aims to promote transparency of ESG information in the public domain as an integral part of improving responsible investment to move on to the next stage. For this purpose, GL Capital plans to provide relevant ESG information on its website.

### **Disclosure to investors**

GL Capital will periodically communicate relevant ESG information with investors, i.e., Limited Partners via reports, annual meetings and any other necessary manners following different investors' requirements. Apart from GL Capital's general responsible investment update, ESG performance and themes in focus are reported on a portfolio company level.

In addition, GL Capital will establish processes to have portfolio companies timely report medium and severe ESG-related incidents. The portfolio management team will take appropriate action to mitigate risks and identify lessons learned to share with other portfolio companies where applicable. Relevant incidents and remediation progress will be reported to the LPs.

If LPs request direct access to company management and independent ESG consultants, GL Capital will facilitate.

## ***7. Training***

GL capital intends to host ESG-focused training for all employees to improve ESG awareness and learn ESG integration approaches and best practices. In addition, more detailed ESG training programs will be provided and in development for relevant employees.

## 8. Appendix 1: Definitions

The following ESG definitions are based on terms critical to GL Capital, which reflect our view on how factors influence our investments.

- **Responsible Investment:** an investment approach that incorporates ESG factors into GL Capital's investment life cycle, to better manage risk and generate sustainable, long-term returns;
- **Material ESG factors:** such factors have a substantial impact on the current and future financial, economic, reputational, and legal prospects of an investment, and the disclosure of which will be conducted by GL Capital to its investors through reports, annual meetings and other necessary manners as requested;
- **ESG materiality analysis:** the process of the identification, assessment, and incorporation of material environmental, social, governance, and emerging issues into the process of investment research, portfolio construction, or asset selection;
- **ESG integration:** The process of including ESG factors in investment analysis and decisions to better manage risks and improve returns. It is often used in combination with screening and thematic investing;
- **Screening:** the application of a set of exclusions to assess the operations of a prospective investee company for the purpose of managing relevant risks while minimizing impact on our investments;
- **ESG due diligence:** a systematic process to investigate how a prospective investment perform on material ESG factors, which may be facilitated by in-house tool or external consultants or other advisors where appropriate;
- **Engagement:** interaction between GL Capital and a current or potential investee company, in aim of improving the company's management capability and performance on ESG issues, or enhancing its public disclosure;
- **D&I:** diversity and inclusion, which is a term used to describe the culture and policy of GL Capital to promoting an equal working environment through adequate representation and participation of employees of different backgrounds;
- **Climate-related risks:** potential negative impacts of climate change on GL Capital, which can be linked to physical events (e.g., extreme weather events, longer-term shifts in weather patterns, etc.), or the transition to a lower-carbon global economy and the consequent impact on policy and legal actions, technologies, market shifts and reputation