

# ESG Policy

## Environment Social Governance

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– CONFIDENTIAL –

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## 1.0 Scope

These guidelines are in their currently valid version.

## 2.0 Philosophy

SHS Gesellschaft für Beteiligungsmanagement mbH (hereinafter referred to as '**SHS**') was established in 1993 in the university city of Tübingen, Germany, with its renowned university hospital; SHS is currently managed by four managing partners and is Germany's leading investor in high-growth healthcare companies. With attractive business opportunities and models to be found within this healthcare field, our own particular focus is on medical technology & supplier, pharma supplier, healthtech, and diagnostics & life science tools.

Since the firm's inception, the team has issued six generations of funds, invested in more than 30 healthcare companies in German-speaking countries, successfully developed many more and sold them in the context of (international) company sales or IPOs.

In their effort to maintain a productive, long-term partnership with investors in SHS funds, the partners at SHS attach great importance to ongoing, open communication. With this objective in mind, we have built up a very high level of in-house expertise in the fields of investor relations, taxes and reporting. The aim is to achieve best-practice corporate governance based on the policies of the Institutional Limited Partners Association (ILPA). SHS is also registered in accordance with the provisions of the German Investment Code [KAGB] and the European Venture Capital Fund (EuVECA) Regulation.

The healthcare sector is subject to legal framework conditions – such as medical device legislation, the EU chemicals regulation, REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) and the RoHS (Restriction of Hazardous Substances) Directive, together with current regulations from the field of environmental protection and growing requirements for substances and materials in medical devices. These conditions form the basis for the implementation of ESG and sustainability aspects in a variety of fields in medical technology.

With the following Policy, SHS commits to compliance with high standards in the areas of the environment, social affairs and corporate governance (hereinafter '**ESG**' for Environment, Social and Governance). As an investment company, this commitment extends not only to our own firm but also to the integration of principles of responsible investing into the investment process used for the investments served by SHS (as manager or consultant).

## **3.0 The Policy**

To ensure corporate governance and responsible investing, we rely on a variety of internationally recognised standards.

### **3.1. European Private Equity and Venture Capital Association**

Invest Europe is a European umbrella organisation that represents private equity, venture capital and their investors.

#### **3.1.1. Investor Reporting Guideline**

The 2018 Invest Europe Reporting Guidelines were drawn up to facilitate dialogue between GPs and LPs. As a responsible investor, we are committed to cultivating a close relationship with our investors based on this model, and to incorporating ESG-relevant concerns into our regular reporting.

#### **3.1.2. ESG Due Diligence Questionnaire**

In cooperation with an external ESG service provider, SHS uses a modified due diligence ESG questionnaire from Invest Europe (European umbrella organization of venture capital/private equity investors) for private equity investors, which is applied as part of the due diligence process and the investment phase.

### **3.2. Policies in the Governing documents**

Investments that promote Environmental/Social (E/S) characteristics are rapidly gaining in importance. Recognised organisations have drawn up standardised, international policies designed to help keep investing socially-ecologically responsible, both today and in the long-term future. These policies also play an outstanding role for SHS.

The UN Global Compact Principles (as well as the UN PRI organisation) call on enterprises to dedicate themselves to a global economic order that is socially and environmentally compatible. With more than 8,000 signatories, it is the world's largest and most widely recognised initiative of its kind. Firms are encouraged to respect fundamental principles relating to human rights, working conditions, the environment as well as corruption prevention.

The OECD Guidelines for Multinational Enterprises also specify a code of conduct for foreign investing and have been supported by the G8 countries since 2007.

Based on the principles referenced above, we have committed ourselves to ethical and responsible investments in healthcare/life science companies that promotes Environmental/Social (E/S) characteristics. The governing documents of SHS funds contain, among other things, a comprehensive list of corporate sectors that are considered not worthy of financing.

## 4.0 Implementation/procedure

### 4.1. Sustainable conduct by SHS

Within our company, we focus on the following topics in the field of sustainability:

#### 4.1.1. Environment – Targeting CO<sub>2</sub> neutrality

We strive to focus our own actions on minimising emissions of greenhouse gases while maximising resource efficiency:

- a) We consciously limit business travel to those trips that are necessary, wherever possible substituting this travel with alternative forms of communication, e.g. video conferencing and telephone calls.
- b) Our offices conform, as far as possible, to modern environmental standards in terms of air conditioning, heating and lighting.
- c) We pay attention to sustainability criteria when purchasing consumables such as office supplies, and we maintain technical office infrastructure that permits significant reductions in paper consumption. One way in which we achieve this is by filing documents electronically.

Unavoidable emissions of greenhouse gases are offset as part of a compensation project where SHS is working together with an awarded non-profit organization. This is how SHS fulfils the status of a CO<sub>2</sub>-neutral enterprise.

#### 4.1.2. Social

Our recognition that our employees are our most important resource takes many forms:

- a) Safety in the workplace, the protection of our employees' health and the maintenance of a discrimination-free working environment are our top priorities.
- b) We create opportunities for our employees' advanced training and personal development.
- c) We have systems of remuneration that adequately reward success and performance, and the company has the structure of a partnership.
- d) We observe international conventions for the protection of human rights and the prevention of child labour.

We get involved in society in a variety of ways:

- a) We are active in the field of training: **We have been an apprenticing company for office communication for many years.** Furthermore, we regularly offer dedicated interns an opportunity to gain insights into the investment business.

- b) We donate a sum of money to a carefully selected social project each year.

#### **4.1.3. Corporate governance**

We observe the highest standards for compliance with recognised standards of corporate governance. This applies not just to SHS itself but to the portfolio companies we serve as well.

Good and responsible corporate governance and control is of great importance to SHS. With open, timely and regular information, and with transparent decision-making structures, we justify and promote the trust of current and future investors, and of other investors.

Compliance with legal regulations, by SHS and the portfolio companies we serve, is indispensable for us. We pursue a ‘zero-tolerance’ policy in this regard. We are strictly opposed to any form of corruption or other unethical business practices. **To meet the high standards of compliance, both within our company and in our dealings with portfolio companies, we have introduced a comprehensive compliance system that includes the following areas:**

- a) Regulatory requirements: Reporting to BaFin (the German Federal Financial Supervisory Authority)
- b) Money laundering/anti-fraud
- c) Our Code of Conduct contains the values and guiding principles that are of central importance to us.
- d) Our compliance policy includes detailed provisions and implementation instructions relating to the individual compliance topics, such as travel expenses, entertainment, the approach to gifts and invitations, employee transactions, non-discrimination and IT.
- e) There are clear rules in place that govern the organisation and control of the compliance system; this includes its further development and the regular provision of information to employees.
- f) There are clear rules in place on compliance in transactions processes, i.e. in due diligence and in drawing up purchase agreements for investments in new portfolio companies.
- g) We have clearly articulated our standards with regard to compliance systems in portfolio companies. We also pursue the objective of seeing to it that our portfolio companies also commit to ESG principles.

#### **4.1.4. Sustainability Officer**

We have a Sustainability Officer (Head of ESG) in place at partner level who is responsible for implementing these guidelines, accordingly, reviewing them regularly, revising them if necessary, and reporting to management.

## 4.2. Responsible investments in portfolio companies

We are convinced that companies with high ESG standards are better managed, present fewer business risks and ultimately create more value. That is why we are also committed to meeting adequate ESG standards within the framework of our investing activities. This is how we seek to meet the interests of our investors in the funds we serve with regard to responsible investment.

We have designed the investment process for our investments and those we serve with this objective in mind:

- As part of our review of a new investment opportunity, we investigate the extent to which the ESG criteria described below apply.
- Over the entire holding period of an investment and continuing until its disposal, we monitor its ESG trend and, working within our possibilities (jour fixe, board seats, voting rights at shareholders' meetings, ...), we attempt to improve the relevant criteria in cooperation with the respective portfolio companies.

We have developed this policy to provide a recommendation for action and a guiding principle within our company. We want the portfolio companies we serve to view this policy as a clear expression of our expectations of their dealings with ESG matters. We are aware that each portfolio company is influenced by very individual internal and external factors, and that the ESG criteria described below may be of varying relevance as a result. Furthermore, there is also a clear division of roles between the portfolio companies we serve and SHS: Management of our portfolio companies is the responsibility of their respective management bodies. The employees and management entities of SHS do not manage the operations of our portfolio companies. They are only represented on advisory boards or supervisory boards and at the shareholder level of portfolio companies. Working from this role and the influence it involves, they have an impact on the optimal implementation of this Policy.

### 4.2.1. ESG criteria for portfolio companies

In the review we conduct before entering into a new investment and the subsequent service of a portfolio company, we focus on the following ESG criteria:

- Environment: Minimisation and professional management of negative impacts on nature
- Employment and social affairs: Promotion of good working conditions, high social standards and the effort to make a positive contribution to society
- Corporate governance and business ethics: Compliance with the best possible standards and promotion of good business practices.

#### **Environment: Minimisation and professional management of negative impacts on nature**

We are convinced that improving the environmental balance of the portfolio companies we serve will lead to sustainable value creation. We are also aware that not all decisions are free from

conflicts of interest. Still, our aim is to find the best possible solution from an ecological and economic point of view.

Our expectations for the conduct of portfolio companies are:

- Applicable environmental legislation at the respective location is strictly adhered to, and a 'zero-tolerance' policy is pursued.
- Good risk management also entails preventing harm to the environment.
- An effort is made to minimise the consumption of fossil energy, hazardous substances and water.
- An effort is made to prevent – or, if this is not possible, to minimise – the generation of waste.
- The aim is to attain a high rate of reuse or recycling if possible.

Above and beyond these core topics, we help the portfolio companies that we serve actively address other environmental issues that may arise from their specific business purpose: through introduction of a sustainability-oriented purchasing policy.

**Employment and social affairs: Promotion of good working conditions, high social standards and the effort to make a positive contribution to society**

We are convinced that safe working conditions, opportunities for personal development and attractive remuneration models are key factors that the portfolio companies we serve can use to recruit and develop outstanding employees. We also value and strongly support the positive contributions that each portfolio company can make in its respective setting.

Our expectation is that portfolio companies will deal in-depth with the following topics, and SHS is committed to compliance with and implementation of the following points, among others:

- Safety in the workplace, the protection of employees' health and the preservation of a discrimination-free working environment have priority.
- Opportunities are offered for employees' advanced training and personal development.
- Remuneration is based on systems that adequately incentivise success and performance.
- Collective-bargaining autonomy and rights are recognised and respected.
- We expect that international conventions for the protection of human rights and the prevention of child labour will be observed.

If measures to reduce the number of employees should be indispensable as a result of economic and/or corporate crises, both we and the managers of the portfolio companies we serve are mindful of the high level of responsibility for safeguarding jobs. Our standard is to find the best possible solution from a social and economic point of view.

**Corporate governance and business ethics: Compliance with the best possible standards and promotion of good business practices.**

The application of good corporate governance is an important component of our investment strategy. In our view, compliance with all of the requirements of law by the portfolio companies we serve is essential. We pursue a ‘zero-tolerance’ policy in this area as well. Specifically, we are strictly opposed to any form of corruption or other unethical business practices. When reviewing opportunities to invest in new ventures, and during service of an investment through monitoring of the portfolio company, we consider the following aspects to be particularly important; these aspects are described in greater detail in the section on integration in the investment process:

- Compliance in transactions processes
- Compliance systems on the part of the portfolio companies
- Supervisory or advisory boards of the portfolio companies

This policy was developed as a recommendation for action and a guiding principle. We want the portfolio companies SHS serves to view these policies as a clear expression of the expectations of their dealings with ESG matters. We are aware that each portfolio company is influenced by very individual internal and external factors, and that the ESG criteria described below may be of varying relevance as a result. Furthermore, there is also a clear division of roles between the portfolio companies we serve and SHS: Management of our portfolio companies is the responsibility of their respective management bodies. The employees and management entities of SHS do not manage the operations of our portfolio companies. They are only represented on advisory boards or supervisory/administrative or similar bodies of portfolio companies. Working from this role and the influence it involves, they have an impact on the optimal implementation of this Policy.

#### **4.2.2. Integration in the investment process**

We have integrated this policy in the investment process for our investments and for those we serve. For us, the investment process comprises the execution of the investment, followed by the service and sale of the portfolio companies. This document is intended to serve as a comprehensible recommendation for the members of the SHS investment team, the members of the investment committees and the managers of the respective portfolio companies.

#### **Review of investment opportunities**

All investment opportunities meeting the investment criteria of the respective investment programme are analysed. In this regard, the level of information obtained regularly improves as a function of course of the respective investment process. Particularly at the outset, usually only rudimentary information is available; typically, anonymised company profiles are used before any non-disclosure agreements are signed.

There are certain sectors or companies in which we ourselves do not invest (e.g. no investment in companies that manufacture weapons), and have contractual agreements in place, with investors in the investment programmes we maintain, to comply with such exclusionary criteria. Investment opportunities such as these are not pursued (further).

The rules in place on compliance in transactions processes (i.e. in due diligence and in drawing up purchase agreements for investments in new portfolio companies) govern our review of new investments. These rules are a component of the SHS compliance system.

### **ESG Due Diligence**

ESG due diligence (careful review of an investment opportunity) will entail an analysis of opportunities and risks arising out of the fulfilment or non-fulfilment of ESG criteria. We are aware of the fact that each investment opportunity is different, that generalisations are difficult and that the ESG criteria mentioned are of varying levels of relevance. Still, it is expedient to furnish the members of the investment the most specific recommendation possible for the definition of the content of ESG due diligence. In specific cases, this definition is then supplemented or adapted through contributions by consultants specialising in ESG topics and is intended to facilitate structured identification of relevant ESG topics. For ESG due diligence, a detailed questionnaire published by the European PE/VC umbrella organization (Invest Europe) and modified by SHS for the healthcare sector is used.

As part of the review of a new investment opportunity, the in-house due diligence examines the extent to which the described ESG criteria apply.

### **Investment proposals**

We expect investment proposals to involve careful consideration of opportunities and risks arising from (core) ESG topics. The members of the investment committees should be guided by this Policy.

### **Investment phase**

Over the entire holding period of an investment and continuing until its disposal, we monitor its ESG trend and, working within our possibilities, we attempt to improve the relevant criteria in cooperation with the respective portfolio companies. If we identify a serious violation of these ethical standards by a company currently held in a fund, we consider constructive dialogue with this company in an effort to bring about lasting improvement in social, environmental or governance conditions. The nature and scope of the dialogue will depend on the degree of non-compliance and the stage of consultations.

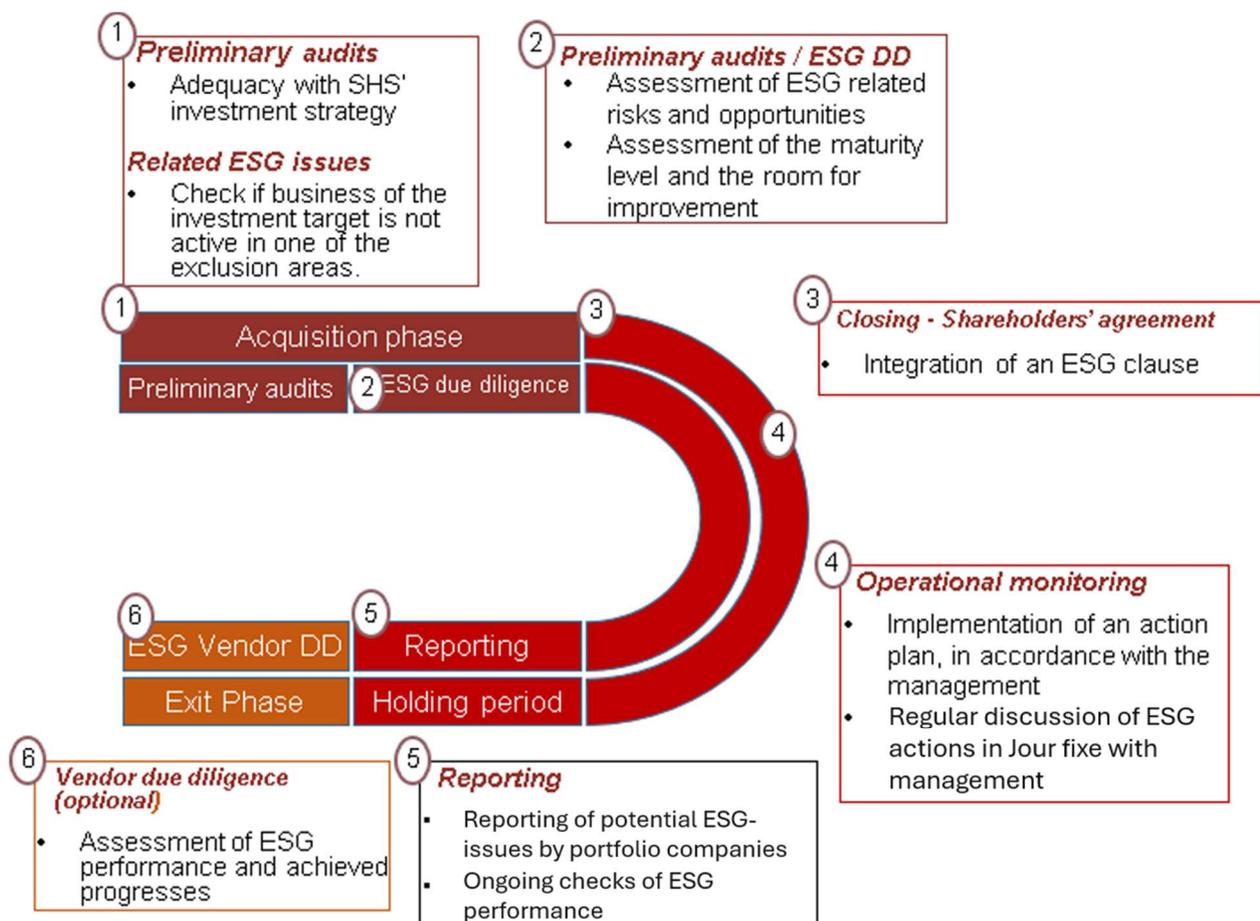
We are also prepared to exercise our voting rights at shareholders'/general meetings. In future, this instrument will also be used to safeguard social, environmental or governance conditions and will be applied in cases of non-compliance with various standards.

We also attach great importance, where this is expedient, to the formation of a supervisory or advisory board for each portfolio company we serve, which will regularly include independent industry experts as well as members of SHS' management bodies or SHS employees. Unless otherwise provided for by law, the members of these supervisory and advisory boards will be equipped with control rights and provide advice to the management of the portfolio companies. We expect the portfolio companies we serve to hold regular supervisory board or advisory board meetings. Within the framework of our position as shareholder, we will dedicate our efforts to ensuring that the implementation of ESG factors is also factored into the rules of procedure of the executive board and advisory board/supervisory board.

All ESG-relevant concerns will be addressed in the minutes of the regular meeting held with management.

## Exit

We are convinced that the measures taken during the investment phase are value-adding, and that this is reflected in correspondingly higher proceeds from disposal. To this end, we expect the provision of appropriate information on ESG performance as part of the preparation of the disposal process.



### **4.3. Reporting/Disclosure**

The monitoring of relevant ESG concerns is mapped both through reports to SHS by portfolio companies and within the scope of management reporting by SHS to investors in accordance with the Invest Europe Reporting Guidelines.

## 5.0 Appendix

### 5.1. Invest Europe - Prof. Standards Handbook

### 5.2. OECD Guidelines for Multinational Enterprises

The enterprises should take full account of the declared policies of the countries in which they do business and should also factor the views of other stakeholders into their decision-making. In this respect, enterprises should:

- a) contribute towards economic, social and environmental progress in view of promoting the sustainable development sought
- b) respect the human rights of the persons affected by their activity, consonant with the international obligations and agreements of the government of the host country
- c) foster local capacity-building through close cooperation with the respective local communities, including representatives of the local economy, while at the same time promoting the expansion of the enterprise's activities in domestic and foreign markets in accordance with the principle of sound business practices
- d) promote the formation of human capital, specifically by creating employment opportunities and facilitating the education and training of their workers
- e) refrain from seeking or accepting exemptions not provided for in laws or regulations pertaining to the environment, health, safety, the labour market, taxation, financial incentives or other areas
- f) support and ensure compliance with principles of good corporate governance and develop and apply recommended practices of corporate governance
- g) design and implement effective self-regulatory practices and management systems that foster an atmosphere of mutual trust between enterprises and the society of the host countries
- h) see to it that their workers are fully informed of and compliant with their respective company policies by providing them with sufficient information about these policies, including through training programmes
- i) refrain from discriminatory or disciplinary measures against employees who, acting in good faith, bring to the attention of management or, where appropriate, the competent authorities, practices that are in violation of applicable law, the Guidelines or company policy

- j) encourage their business partners, including suppliers and subcontractors, where practicable, to apply principles of corporate governance that are consistent with OECD Guidelines for Multinational Enterprises
- k) refrain from exerting undue interference in the policies of the host state.

### 5.3. UN Principles for Responsible Investment

Our commitments as responsible investor



By signing the PRI, we commit to implementing the following principles:

1. We will integrate ESG issues in our investment analysis and decision-making processes.
2. We will be active shareholders and will take ESG issues into account in our policies and practices as shareholders.
3. We will ask our portfolio companies to publish appropriate information regarding ESG-related issues.
4. We will promote acceptance and application of the principles towards asset management stakeholders.
5. We will work together to improve our efficiency in applying the principles.
6. We will report individually on our activities and our progress in applying the principles.