

**ESG / SDG Guidelines****1. Objective and Scope**

The purpose of these guidelines is to define HBM Partners' ("HBM") approach to investing responsibly and to promote positive social-, environmental- and governmental change in line with the UN Sustainable Development Goals (SDG). These guidelines also outline the principles which HBM aspires to and the procedures it has implemented in order to integrate these aspects into its activities. Furthermore, it outlines the regulatory framework HBM aims to adhere to with its financial products across the HBM group of companies whenever possible.

These guidelines cover all HBM funds, investment activities across the deal cycle, and HBM's own operations.

The Public and Private Equity teams as well as the Finance/Operations team are responsible for implementing the ESG / SDG Guidelines, with the support of the Risk Committee. HBM endeavours to provide its staff with regular and specific training and resources to support them in fulfilling our ESG / SDG commitments.

**2. Motivation and Strategy**

Investing in the healthcare sector is and remains the main strategy of HBM.

HBM is aware of the necessity to act against climate change and social inequalities and views it as crucial to align financial flows with ESG and SDG principles in order to reduce the negative impact by humans on the environment as well as promote equal rights and create opportunities for current and future generations. Alongside its main strategy, HBM therefore aspires to positively contribute to the conservation of the environment and to socially responsible practices within its portfolio companies.

From an investment perspective, a key reason for integrating ESG / SDG at HBM is that considering sustainability factors is an additional tool to reduce risks not assessed by traditional investment analysis. Furthermore, it opens up opportunities, both by creating new investment ideas and by attracting investors who are sensitive to responsible investing.

HBM considers ESG / SDG factors in its investment approach but does not promote its products as dedicated ESG / SDG strategies.

HBM will report on its efforts regarding ESG / SDG according to current laws and regulations.

To comply with the fast-evolving regulatory frameworks and respond to trends and investor demand, HBM will monitor developments closely and act accordingly.

**3. Alignment of HBMs Strategy with ESG / SDG Principles**

By investing solely in companies within the healthcare sector, HBM specifically provides funds to innovative young firms developing groundbreaking therapies that have the potential to improve the health and wellbeing of people around the globe. HBM generally invests in development stage companies, which are often exclusively engaged in R&D, as many of them do not have products on the market. Carbon emissions and the use of natural resources are typically low. Accordingly, their negative impact on the environment is limited. On the other hand, such firms have a positive impact on society by creating jobs and providing a dynamic and modern working environment with equal rights and opportunities for their employees. As part of public and private equity due diligence, HBM investment professionals ensure that only companies from the healthcare sector are considered as potential investments.

Involvement in sectors often described as problematic, such as mining, controversial weapons etc., can thus be ruled out.

As such, HBMs strategy is by its very nature optimally aligned with the goals of ESG and SDG.

#### 4. ESG Definition and Positioning

ESG means using Environmental, Social and Governance factors to evaluate companies and countries on how far advanced they are with sustainability.

**Environmental** factors include the contribution a company or government makes to climate change through greenhouse gas emissions, along with waste management and energy efficiency.

**Social** factors include human rights, equal opportunities, labour standards in the supply chain, any exposure to child labour, and more routine issues such as adherence to workplace health and safety.

**Governance** factors refer to a set of rules or principles defining rights, responsibilities and expectations between different stakeholders in the governance of corporations.

ESG has been the first sustainability scoring concept which was adopted very early on by large index providers (e.g. S&P Dow Jones Indices launched the Dow Jones Sustainability World Index in 1999).

Factor	Assessment	Position
Environmental		
Natural Resource Use	HBM portfolio companies inherently cover these topics due to their R&D focus and as such have little negative impact on the environment.	Inherent
Carbon emissions		
Biodiversity		
Environmental regulations		
Water efficiency		
Energy efficiency		
Pollution waste		
Sustainability initiatives		
Social		
Health and safety of workforce	HBM actively contributes to improvements in these fields by providing capital to firms within the healthcare industry.	Positive ESG impact by HBM
Well-being and interests of people and communities		
Product safety	By providing capital to innovative firms within the healthcare sector, HBM helps to reduce unwanted side-effects known in certain therapies.	Positive ESG impact by HBM
Diversity opportunity policies	By way of active ownership*, HBM can positively influence its portfolio companies' strategies with respect to these topics.	HBM can help to align portfolio companies' strategies to ESG principles
Equal opportunities		
Human rights		
Privacy data security		
Child labour		
Governance		
Business ethics	By way of active ownership*, HBM can positively influence its	Engagement
Board independence		
Board diversity		

Management of risks and reputation	portfolio companies' strategies with respect to these topics.	
Shareholder rights		
Management compensation policy		

\* Active ownership in public companies means execution of voting rights aligned with ESG / SDG principles (proxy voting) (see more below under 6.2.1). Engagement in private portfolio companies means that HBM promotes ESG / SDG factors in companies where it holds board seats.

## 5. SDG Definition and Positioning

SDG is a sustainability scoring concept which has been driven by the Division for Sustainable Development Goals (DSDG) in the United Nations Department of Economic and Social Affairs (UNDESA). The 17 Sustainable Development Goals aim to promote the well-being of the planet and people worldwide now and for generations to come.



<https://www.un.org/sustainabledevelopment/news/communications-material/>

Factor	Assessment	Position
1 No poverty	Out of scope	
2 Zero hunger	Out of scope	
3 Good health and well-being	HBM actively contributes to the improvement in health and well-being by providing capital to firms within the healthcare industry.	Positive ESG impact by HBM
4 Quality education	Out of scope	
5 Gender equality	By way of active ownership*, HBM can positively influence its portfolio companies' strategies with respect to gender equality.	HBM can help to align portfolio companies' strategies to SDG goal 5
6 Clean water and sanitation	Out of scope	
7 Affordable and clean energy	Out of scope	

8 Decent work and economic growth	By way of active ownership*, HBM can positively influence its portfolio companies' strategies with respect to decent work and economic growth.	HBM can help to align portfolio companies' strategies to SDG goal 8
9 Industry innovation and infrastructure	Through its investments, HBM provides capital to innovative firms and helps to promote industry innovation and infrastructure.	Positive ESG impact by HBM
10 Reduced inequalities	By way of active ownership*, HBM can actively help to reduce inequalities in its portfolio companies.	HBM can help to align portfolio companies' strategies to SDG goal 10
11 Sustainable cities and communities	Out of scope	
12 Responsible consumption and production	By way of active ownership*, HBM can positively influence its portfolio companies' strategies with respect to responsible consumption and climate action.	HBM can help to align portfolio companies' strategies to SDG goals 12 and 13
13 Climate action		
14 Life below water	Out of scope	
15 Life on land	Out of scope	
16 Peace, justice and strong institutions	Out of scope	
17 Partnerships for the goals	Out of scope	

\* Active ownership in public companies means execution of voting rights aligned with ESG / SDG principles (proxy voting) (see more below under 6.2.1). Engagement in private portfolio companies means that HBM promotes ESG / SDG factors in companies where it holds board seats.

## 6. ESG / SDG Integration at HBM

These guidelines form the basis of HBMs' approach and implementation of ESG / SDG principles. The concept is based on three pillars: regulatory framework, integration in daily business / processes and marketing.

### 6.1 Regulatory Framework

The lack of standardized and comparable frameworks for the measurement of companies' ESG / SDG performance has led to so called "greenwashing" (firms claiming to be environmentally and socially responsible, without delivering well-grounded facts for that). With increasing attention and investor demand for ESG / SDG products, regulatory bodies worldwide are developing / introducing standards to minimize greenwashing and provide a basis for transparent and comparable reporting on ESG / SDG.

The "Sustainable Finance Disclosure Regulation" (SFDR) is the applicable framework for financial market participants and financial advisors operating in the European Union (EU). Our HBM UCITS (LUX) Fund, with its current two subfunds – (HBM Global Biotechnology and HBM Global Healthcare) fall under its scope.

SFDR defines three levels of ESG engagement for investment products. Products adhering to Art. 6 do not actively promote ESG factors and build the lowest level of ESG ambition. To comply with Art. 8, a strategy does, amongst others, also promote ESG characteristics. The highest level of ESG ambition is Art. 9, where a product has sustainable investment as its objective.

For the time being, HBM UCITS (LUX) Funds investment products are classified as an Art. 6 strategy and thus do not promote ESG factors.

However, the procedures currently in place (as described in these guidelines) already go further than required for Art. 6 products. HBM implemented these processes independently from regulations because of the belief that it is a necessary step towards a more sustainable future. Furthermore, the current measurements are a good groundwork for HBM to expand its engagement in the future. HBM currently does not fully comply with all stipulations as outlined in SFDR Art. 8 but is actively considering and working towards a potential classification of Art. 8 if reasonably feasible. Please refer to SFDR relevant disclosures on HBM Partners website (<https://www.hbmpartners.com/sustainability>).

## **6.2 Integration in Daily Business / Processes**

Education of our business development/investor relations personnel, investment professionals as well as our finance / operations team members ensures that HBM complies with regulatory requirements and raises awareness for ESG / SDG topics.

Processes for investments in private and public equity and monitoring during ownership need to be considered separately as per below.

### **6.2.1 ESG / SDG Integration in Public Equity Investment Process / Ownership**

- Investment decision (Pre-investment): Potential public equity investments will not be screened specifically for ESG / SDG performance prior to investment.
- Monitoring (Post-investment): HBM performs monthly screenings for ESG / SDG performance and red flags of all public portfolio companies for all investment products.
- Active ownership: HBM is available to support portfolio companies in identifying potential risks and responding to opportunities related to ESG / SDG. Where an HBM investment product holds more than 1% shareholding of a company, HBM generally executes its shareholder rights via proxy voting whenever possible. If feasible, HBM seeks to align companies' strategies with sustainable and responsible goals outlined in section 4 and 5 of these guidelines. Specifically, the issues as outlined in Annex 1 will be taken into consideration when placing a vote.

In instances where HBM identifies severe red flags relating to ESG / SDG topics in a portfolio company, the Risk Committee will review and determine on how to proceed with such particular investment.

### **6.2.2 ESG / SDG Integration in Private Equity Investment Process / Ownership**

- Investment decision (Pre-investment): Potential investments will not be screened specifically for ESG / SDG performance prior to investment.
- Monitoring (Post-investment): HBM performs semi-annual portfolio review meetings for private equity investments. As a part of such review process, a review of ESG / SDG related developments, including potential risks and opportunities that might have come up since initial investment or last portfolio review meeting, will be included. Due to the absence of external data providers for private companies, HBM relies on information provided by the company's management and information received through board seats being held (if applicable).
- Active ownership: HBM is represented on the board of certain large private investments. Board mandates allow HBM representatives to directly influence decisions of these portfolio companies. This opportunity is used to align companies' strategies with sustainable and responsible goals outlined in section 4 and 5 of these guidelines, whenever such topics arise in board meetings. HBM does not actively force ESG / SDG goals upon its portfolio companies



but is available to support portfolio companies in identifying potential risks and responding to opportunities related to ESG / SDG.

In instances where HBM identifies severe red flags relating to ESG / SDG topics in a portfolio company, the Risk Committee will review and determine on how to proceed with such particular investment.

### **6.2.3 ESG / SDG Consideration for Nontransparent Assets**

Investments in private equity funds, emerging market securities (private or public) and smaller firms might not be covered by external data providers or provide only insufficient information regarding ESG / SDG topics. Experience has shown that the major part of the investment universe however does provide ESG / SDG related information. In the case of the absence of ESG / SDG data, HBM investment professionals entirely rely on traditional parameters during investment decision making and monitoring process as far as available. Investment opportunities will not be left out because of missing ESG / SDG data.

HBM generally only invests in best in class issuers with solid track records. Such issuers are generally well renowned within the healthcare industry and adhere to state-of-the-art practices. HBM is therefore confident that these investments do not significantly impact the overall ESG / SDG alignment of the portfolio.

## **6.3 Marketing**

As outlined in section 2 and 6.1 of these guidelines, HBM does not promote its products as dedicated ESG / SDG strategies. However not in focus and to the extent allowed under applicable regulations, HBM can report the ESG / SDG performance of its products (respectively of its portfolio holdings) on marketing materials such as presentations and fact sheets. HBM will also make its ESG / SDG guidelines publicly available and respond to ad hoc requests regarding responsible investment from investors.

## **7. ESG / SDG within HBM**

- Ensuring ethical behaviors in HBM activities: All HBM employees are subject to and receive training on HBM policies. They are required to acknowledge they have received, read and understood and agree to comply with HBMs policies on an annual basis.
- Promoting diversity in the workplace: HBM is an equal opportunities employer and respects the diversity of its people. The employees use their initiative, good judgment and creativity to drive superior performance for HBM and its portfolio companies. HBMs aim is to attract, motivate, develop, and retain a diverse talented group of people who make informed career and life style choices within a supportive working environment.
- Adhering to laws and regulations: HBM adheres to the highest standards and values of business conduct, acts responsibly as investor, business partner and employer. HBM does not tolerate illegal or harmful practices, active or passive bribery, corruption, collusion and money laundering and implements appropriate preventive procedures in-house.
- Considering its own environmental footprint: HBM aims to reduce its own environmental footprint by promoting home office (less commuting), holding meetings electronically (less flying), drinking tap water (less bottled water use) and following an overall healthy lifestyle.

## Annex 1: Active Ownership - Specific considerations for voting Proxies

Issue	ESG/SDG
<i>Board of Directors</i>	
Board Independence	Generally vote against or withhold votes from ALL director nominees when independent directors make up less than a majority of the directors.
Shareholder Proposal on Independent Chair and Separation of CEO/Chair positions	Generally vote for shareholder proposals that would require the board chair to be independent of management.
Risk Oversight Failure	Generally vote against or withhold from directors individually, on a committee, or potentially the entire board due to material failures of governance, stewardship, risk oversight, or fiduciary responsibilities at the company, including failure to adequately manage or mitigate ESG risks, or a lack of sustainability reporting in the company's public documents and/or website in conjunction with a failure to adequately manage or mitigate ESG risks. Generally vote against directors due to failure to manage climate-related risks.
Board Diversity	Generally vote against or withhold votes from incumbent nominating committee members (or other nominees on a case-by-case basis) if the board is not comprised of at least 40 percent underrepresented gender identities and at least 20 percent racially or ethnically diverse directors. Generally vote for requests for reports on a company's efforts to diversify the board. Generally vote for requests for reasonable steps to increase the levels of gender and racial representation on the board.
Board Discharge	Generally vote against proposals to discharge directors due to failure to manage ESG risks. Generally vote against the discharge of directors due to failure to manage climate-related risks and/or if the board does not appear to have improved the company's climate strategy and climate exposure.
Climate Accountability	Net Zero and Greenhouse Gas Emission considerations are to be taken into consideration.
<i>Auditor Related</i>	
Non-audit Fees	Generally vote against the ratification of auditors when a company's non-audit fees (i.e. consulting fees) are greater than 25 percent of total fees paid to the auditor.
Auditor Rotation	Generally vote for shareholder proposals to rotate company's auditor every five years or more.
<i>Shareholder Proposals</i>	
Overall approach	Generally vote for proposals that seek standardized reporting, or that request information regarding an issuer's adoption of, or adherence to, relevant norms, standards, codes of conduct or universally recognized international initiatives to promote disclosure and transparency. Generally vote for shareholder proposals calling for the reduction of GHG emissions.

	<p>Generally vote for shareholder social, workforce, and environmental proposals that promote good corporate citizens while enhancing long-term shareholder and stakeholder value.</p> <p>In addition, generally supportive of the following:</p> <p>Generally vote for shareholder proposals to establish a new board committee with oversight responsibilities on climate-related matters.</p>
<i>Financial Results/Director and Auditor Reports</i>	
Statutory Reports	<p>Generally vote for approval of financial statements and director and auditor reports, unless the company performs poorly on climate-related performance, significant climate change controversies have occurred or a material weakness in the management and oversight of climate-related risks has been identified.</p>