

MIDDLEGROUND CAPITAL

ESG Policy

CONTENTS

Purpose	1
Scope.....	1
Principles & Standards	1
Roles and Responsibilities.....	2
ESG Integration	3
Pre-Acquisition.....	3
Stewardship – Monitoring & Portfolio Engagement.....	4
Post-Acquisition	4
Transparency & Stakeholder Engagement	6
Appendix	8

Purpose

As the Principles for Responsible Investment’s (PRI) first sub-billion industrial signatory, it is the practice of MiddleGround Capital to consider Environment Social and Governance (“ESG”) factors in its internal operating procedures, portfolio company pre-acquisition due diligence, and post-acquisition management and monitoring of its portfolio companies as outlined in this policy. Considering material ESG information as part of our investment decisions is part of the fiduciary duty to our investors. By incorporating material ESG factors into our investment decision making process, we are able to further assess the resilience of our portfolio companies for current and future risks and opportunities.

Scope

This ESG Policy applies to MiddleGround Capital’s portfolio investments and firm operations. This policy is reviewed annually to reflect changes in the business and strategy. MiddleGround’s ability to influence and exercise control over ESG matters with respect to companies in which its business units invest will vary depending on the asset class, investment structure, and contractual rights.

Principles & Standards

MiddleGround is committed to integrating ESG factors throughout internal firm operations and within the management of our portfolio companies. MiddleGround operates by the motto, *“Leave everything better than you found it”*, and we aim to show our commitment through leading by example and demonstrating our consideration for material ESG factors, regulatory, and reputational considerations into our investment decision-making and management practices, where relevant. MiddleGround utilizes the PRI’s Six Principles as a foundation for this policy:

Six Principles for Responsible Investing

1. We will incorporate ESG issues into investment analysis and decision-making processes
2. We will be active owners and incorporate ESG issues into our ownership policies and practices
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles

The Firm seeks to operate as a corporate role model for the companies in its portfolio. As such, MiddleGround expects to conduct its business, as a firm and through the fund owned investments, with the following minimum standards:

- Communicating its ESG and responsible investment approach transparently to the public, MGC's fund investors, and other stakeholders.
- Integrating the Principles for Responsible Investing into our investment and business practices which could include considering key risks and opportunities during the diligence process.
- Fostering an environment where diverse talent is considered through equitable interview and recruiting process and celebrated through our diverse experiences and backgrounds of our teammates.
- Maintaining MGCs own internal governance and culture to ensure that MiddleGround acts as a good citizen in the communities in which we operate.
- Ensure compliance with applicable labor, health, and safety laws and standards
- Measuring, tracking, and improving environmental related performance resulting from our businesses and portfolio companies, where appropriate.
- Keeping MiddleGround employees apprised of material ESG factors through regular communications and/or trainings, where appropriate.

Roles and Responsibilities

ESG Champion

John Stewart, the firm's founding partner, is the internal champion for ESG. MiddleGround's ESG policy and processes are based on John's belief that, *"The way to drive real change is to not wait for legislation but for everyone to take initiative and do their part."*

John Stewart holds ultimate responsibility for overseeing the MiddleGround Capital ESG Policy. Any exception to the ESG policy must be approved by the Managing Partner (John Stewart).

ESG Team

The ESG team consists of dedicated professionals responsible for providing expertise in the field of ESG as it relates to firm business, portfolio company management, and engagement with our communities and stakeholders. To achieve goals related to our ESG commitments, the ESG team is responsible for:

- Overseeing collection and monitoring of ESG related metrics at our portfolio company investments and management company as described under [Stewardship – Monitoring and Portfolio Engagement](#)
- Supporting other MiddleGround business units in integrating ESG into their internal and external processes, as appropriate

- Reporting relevant metrics to key stakeholders and frameworks, as appropriate
- Actively participating in the stewardship of our portfolio companies by supporting the BOD ESG Committee, supporting development of ESG related goals and applicable KPIs, as appropriate
- Coordinating training to keep relevant management company personnel apprised of current ESG information, as appropriate
- Developing longterm strategy at the firm level to drive ESG performance across the business and portfolio investments

ESG Committee

As outlined in the ESG Committee Charter (see [Appendix](#)), the ESG committee is a cross functional committee that is responsible for advising the MiddleGround Executive Leadership Team on relevant ESG factors. Each member is responsible for maintaining awareness of ESG related topics as they relate to their individual department to provide a fulsome approach to ESG strategy implementation and execution.

Executive Management Team

The Executive Management Team is responsible for ensuring ESG factors are considered by their teams throughout applicable workstreams. The Executive Management Team is responsible for staying apprised of relevant regulatory changes, stakeholder pressures, and firm initiatives as they relate to ESG factors, where appropriate.

Investment Committee

The Investment Committee is responsible for considering material ESG information when making investment decisions deemed appropriate during diligence.

All MiddleGround Business Units

All Employees at MiddleGround are responsible for adhering to relevant policies and practices as they relate to ESG. Specific groups may hold responsibility for oversight of Portfolio Company data collection, reporting, and resource allocation, communication to LPs and external stakeholders, and other responsibilities that directly or indirectly support or impact ESG strategies and initiatives.

ESG Integration

Pre-Acquisition

Deal Sourcing

MiddleGround will evaluate investments to identify environmental, social, and/or ethical exclusionary characteristics, which may include (but are not limited to) the following:

- Exploitation of labor, including child labor and modern slavery
- Illegal human or animal trafficking
- Illegal deforestation
- Participation in illegal activities
- Production, distribution, or selling of illegal products
- Production of unacceptable levels of pollutants that are deemed harmful to the environment
- Manufacture, distribution, or selling of arms or ammunition
- Manufacture, distribution, or selling of pornography

- Involvement with activities or products that are banned per global conventions or under United Nations sanctions

Due Diligence

During diligence the firm will make its best effort to identify and evaluate material ESG risks and opportunities. ESG Diligence may include, but is not limited to:

- questionnaires to gauge current relevant ESG policies and practices
- review of environmental permits, licenses, and certifications related to ESG issues
- consideration of future climate related risks and the transition to a low-carbon economy
- review of wages, safety metrics, and diversity statistics
- review of existing Board of Directors, ESG oversight, and committees
- evaluation of other Environmental, Social, and/or Governance Issues and KPIs, as relevant

Key ESG risks and opportunities will be included in the underwriting memorandum and reviewed by the Investment Committee.

MiddleGround may retain advisors and/or specialized and independent external consultants, as necessary, to further evaluate specific risks. The team will report any relevant findings, along with relevant ESG KPIs, in its Investment Committee memorandum.

Stewardship – Monitoring & Portfolio Engagement

Post-Acquisition

Portfolio Company ESG Integration

MiddleGround prides itself on being an operationally focused firm and works directly with each portfolio company management team to support ESG initiatives and strategies, as applicable.

MiddleGround identifies relevant ESG KPIs for each portfolio company. Each portfolio company is expected to set meaningful ESG targets, develop policies and programs, and track progress toward the targets. Through the Board of Directors and ESG Committee, MiddleGround collaborates with its portfolio companies, and discusses ESG related issues, best practices, monitoring, and reporting.

Each portfolio company is expected to have defined activities to support the improvement of their KPI's as part of its Hoshin Plan. These activities are established by the company, in conjunction with its ESG Committee, and approved by the Board of Directors.

Third-party providers may be utilized to assess items, support plan development, and/or audit performance.

Monitoring

MiddleGround Capital monitors each portfolio investment by collecting ESG related data on a monthly, quarterly, and annual reporting cadence. Participation in our survey and data collection is an expectation of all portfolio companies. The information collected may include, but is not limited to:

- Utility usage

- Greenhouse Gas Emissions and/or associated raw data
- Employee compensation related metrics
- Safety metrics
- Policy information
- Diversity information including Board of Directors
- ESG related certifications (e.g. ISO, LEED, etc.)

MiddleGround works with each portfolio company annually to recommend ESG related targets to maintain continuous improvement in our broader ESG efforts.

Portfolio Company Engagement

As part of MiddleGround's management of the fund's investments, there is frequent communication and interaction between the company, the BOD ESG Committee, the Portfolio Company ESG Coordinator, the Board of Directors, and MiddleGround employees. During these scheduled and ad hoc engagements, a discussion of ESG issues is regularly part of the agenda. Examples of this engagement may include, but are not limited to:

Portfolio Company Onboarding

ESG related issues are regularly introduced to portfolio company employees during town hall sessions post-acquisition. It is emphasized to the CEO that ESG will be a core function of their role and that they will be responsible for oversight and delegation of ESG responsibilities, as appropriate. Designated members of the portfolio company's management team will participate in corporate governance training and more detailed ESG related onboarding.

Daily Oversight

MiddleGround Operations team members are frequently onsite at portfolio company facilities. During these visits, reviews of company policies, ESG initiatives, and performance may take place, as appropriate.

Monthly Oversight

Portfolio companies are expected to report ESG KPIs including safety results, environmental initiatives, hiring and human resources updates, and corporate governance updates.

MiddleGround may utilize a third-party provider to provide data analysis from source data gathered by each of the companies.

Quarterly Board Meetings

The CEO of each portfolio company is appointed as the chairperson of the company's ESG committee, which is formed immediately post-acquisition. A member of MiddleGround's ESG Team serves as an advisor to each Portfolio Company Board of Directors ESG Committee. This team meets on a quarterly basis and topics for consideration may include, but are not limited to:

- Climate Scenarios & Risks
- Supply Chain Risks
- Targets and Goal Setting
- ESG Projects and Resource Allocation
- Whistleblower Reports

- Cybersecurity Incidents
- Implementation of Corporate Governance Programs

The ESG Committee Chairperson is responsible for communicating outcomes of the ESG Committee to the Board of Directors.

Portfolio Company Governance

ESG factors are an integral part of MiddleGround’s corporate governance in the management of the fund’s portfolio companies. Figure 1 outlines the structure of portfolio company ESG management.

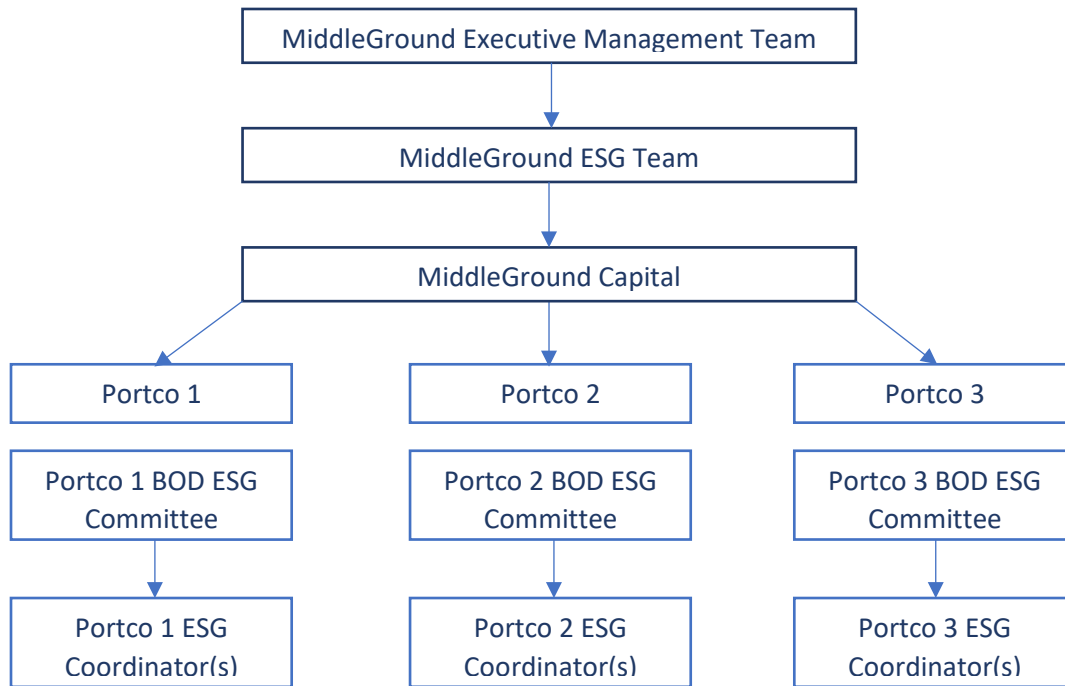


Figure 1

Transparency & Stakeholder Engagement

Annual Sustainability Report

MiddleGround is committed to being transparent with our investors and stakeholders about our initiatives, successes, and goals. Our Annual Sustainability Report provides updates regarding our ESG program firm-wide on an annual basis, and we regularly provide updates via external platforms when requested.

Limited Partner Transparency and Engagement

We engage with our limited partners, investors, and stakeholders on ESG matters. As applicable, ESG matters are discussed at our annual general meeting.

External Transparency

MiddleGround firmly believes that the consideration of ESG factors is required for success today and in the future. As such, we are committed to supporting other investment owners, investment managers, and other financial institutions in their ESG journeys. We maintain a commitment to transparency and helping others on their journey in ESG.

Appendix

Definitions

- **Social Issues** – issues relating to the rights, well-being and interests of people and communities. Ex. Human Rights, Modern Slavery, Child Labor, Working Conditions, Employee Relations, Worker Health and Safety
- **Environmental Issues** – issues relating to the quality and functioning of the natural environment and natural system. Ex. Climate Change, Resource Depletion, Waste, Pollution, Deforestation
- **Governance Issues** – issues relating to the governance of companies and other investee entities. Ex. Bribery and Corruption, Executive Pay, Board Diversity & Structure, Political Lobbying and Donations, Tax Strategy
- **Material (IASB IFRS)** - Information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users of financial statements (hereafter, investors) make on the basis of those financial statements.

MiddleGround ESG KPIs

- Energy usage and intensity
- Water usage and intensity
- Carbon footprint (if conducted, otherwise estimated based on provided information),
- ISO14001 certifications
- Total Recordable Incident Rate
- Turnover Rate
- Gender Diversity
- Racial Diversity (where available)
- CEO to median pay ratio
- Employees earning less than \$15/hr. (or comparable prevailing wage in non-US regions)
- Established Board of Director committees (Audit, Compensation, ESG)
- # Independent members of the board
- Board Diversity – gender, racial, and total
- Established corporate policies –
 - Code of conduct/ethics
 - whistleblower
 - cyber security
 - anti-corruption
 - anti-trust

Transaction Roadmap



5.1.4.2 ESG

Transaction Roadmap

ESG Committee Charter Example



ESG Committee
Charter - Template.c

ESG Committee Chairperson Responsibilities



ESG Committee
Chairperson Respor