

ESG Report 2013

ESG (Environmental, Social and Corporate Governance) is an integrated part of Argentum's activities. This applies to investment decisions, both towards investment partners and in the internal organisation.





Argentum's ESG strategy

Argentum believes that responsible value creation ultimately provides the best returns. Having sound procedures for ESG (Environmental, Social and Corporate Governance) work is an important part of Argentum's strategy of maintaining a focus on this area – both in investment decisions and in terms of the company's own environmental impact.

Key aspects of Argentum's ESG work

Argentum's **ethical guidelines** are available on the company's website: www.argentum.no. Argentum has followed the UN Global Compact and UN PRI principles for several years and its guidelines are also based on these principles. Argentum became a full **member of the UN Global Compact** in 2012 and submitted its first report to the UN in 2013.

The company has **ESG performance indicators** – both internal targets for the organisation and investment-related targets. Separate ESG requirements have been drawn up for the investment process, making this is an integral part of processes, decision-making and monitoring of managers in the portfolio.

Argentum works systematically on ESG and on the further development of the company's processes in this area. The company collaborates on ESG work with other investors and is a member of the newly established association **NORSIF**. Argentum also prepares an **annual report on its ESG work**, which is approved by the Board and is available on the company's website.

ESG strategy

Argentum has identified seven main points that form the foundation of our work in the area of environmental, social and corporate governance:

- Thorough ethical guidelines that are actively communicated internally and externally

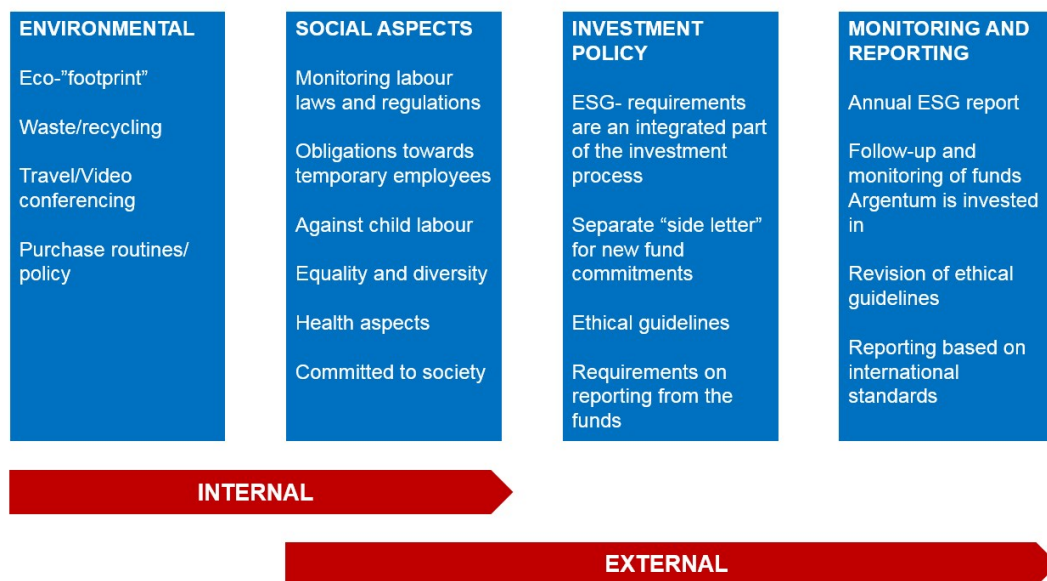
- Integration of the ethical principles in the company's investment processes, including primary, secondary and co-investments
- Dialogue with the funds Argentum invests in regarding implementation of ESG in operations as well as monitoring and reporting
- Engagement in the industry, contributing to an increased focus on ESG (e.g., via our website)
- Environmental awareness internally in our activities and operations
- Raising ESG awareness in our own organisation
- Annual reporting on our internal and external ESG activities

Argentum has ethical guidelines, which are periodically reviewed. The guidelines include the statement:

"In its investment activity, Argentum shall integrate considerations targeted on good corporate governance, the environment and society at large". In addition, each year Argentum shall prepare a report on corporate social responsibility in respect of its own activities and specifically at portfolio level*.

* Cf. section B1 of Argentum's ethical guidelines.

**Cf. sections A15 and B5 of the guidelines.



In addition to the company's ethical guidelines, the principles of the UN Global Compact and the UN PRI (Principles for Responsible Investment) are placed at the core of the company's investment activities. The UN Global Compact is based on ten principles related to human rights, employment standards, the environment and anti-corruption. UN PRI is related to environmental, social and corporate governance issues, including incorporation of ESG into the investment process and a focus on increased transparency and implementation of these principles in the industry.

Having followed the UN Global Compact principles for a considerable time, Argentum became a full member of the UN Global Compact in 2012. The first report to the UN was submitted in October 2013.

THE TEN CORE PRINCIPLES OF THE UN GLOBAL COMPACT ARE AS FOLLOWS:

Human rights

Businesses should:

Principle 1: support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour standards

Businesses should uphold:

Principle 3: the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labour;

Principle 5: the effective abolition of child labour; and

Principle 6: the elimination of discrimination in employment and occupation.

Environment

Businesses should:

Principle 7: support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

Businesses should:

Principle 10: work against corruption in all its forms, including extortion and bribery.

Argentum supports these principles and uses them as the basis for its operations. It is important for Argentum as an investor in private equity funds that managers and funds are also conversant with these principles and base their activities on them. This is Argentum's aim in its monitoring and dialogue of managers.

In addition to the Global Compact principles, Argentum also follows EVCA's (European Private Equity & Venture Capital Association) standard for responsible investment and monitoring. This standard was established in 2012 and is integrated into our monitoring process. These questions relate to the work the funds carry out prior to making new investments, and the follow-up work after the investments have been made.

The internal ESG reporting is based on relevant indicators from the UN Global Reporting Initiative (GRI), and shows our impact on the environment and the trends in these indicators.



Argentum's investment activities

Argentum places high demands on the funds in which we invest. All investment processes must disclose the ESG-related assessments that have been made.

Investment process

A separate analysis of the manager's vision, guidelines and working methods in the area of ESG is conducted prior to investing in a new fund. The analysis is made by collecting information and then discussing with the managers how they collect relevant information prior to investing in a portfolio company, as well as how these issues are followed up and reported during the ownership period. Argentum's findings and assessments are presented separately in the investment recommendation.

Argentum has systemised ESG-related assessments in such a way that they form part of the legislative agreements when investing in new funds. Argentum has established a standard agreement in the form of a side letter, which all managers must endorse in one form or another prior to committing to a new fund. This includes acceptance that:

- Argentum's investment activities are based on the principles of the UN Global Compact
- They have received Argentum's ethical guidelines and are urged by Argentum to develop similar guidelines
- They will evaluate the social, environmental and ethical consequences of current and future investments.

The managers also commit to report on ESG-related work to the fund's investment committee annually.

Argentum is constantly working to further develop its ESG-work and will increasingly include this in our reference calls in our assessments of new managers in the future.

ESG is also an inherent part of the investment process within secondary and co-investments.

Within secondary investments*, Argentum does not have any influence on the existing legislative agreements of established funds, although all the companies in the underlying portfolio are screened against Argentum's

ESG investment criteria before any investment decision is made. If Argentum is unfamiliar with the manager, the manager's approach to ESG is reviewed, including ethical guidelines, existing investment restrictions and existing reporting procedures. In the future, Argentum will increase the focus on presenting its guidelines to managers of funds in which we choose to invest and will also support the further development of the managers' own guidelines when needed.

Within co-investments, where Argentum invests in companies alongside the funds, ESG is one of the points that is specifically investigated before an investment decision is made. Argentum places a particular focus on anti-corruption in the investment process related to co-investments.

An overall ESG-based assessment of the investment opportunity is always conducted in connection with the first internal review. This is based on the UN Global Compact's main areas:

- Human Rights
- Labour
- Environment
- Anti-corruption

In the period ahead, Argentum will further develop the process of monitoring and evaluation of existing co-investments, and an internal status report related to issues, risks and existing procedures is also planned.

**Secondary: When Argentum purchases stakes in funds on the secondary market.*

New commitments in 2013

During the course of 2013, Argentum committed to six new funds in the primary portfolio: Riverstone GE&P V, Nordic Capital VII, Triton IV, FSN IV, Herkules IV and Northzone VII.

All of the management teams have accepted our side letter, and have thereby also committed themselves to annual reporting on their ESG-related work. Two of the managers, Riverstone and Triton, are new to Argentum's portfolio. A particularly thorough process is done before Argentum invests with a new management team, also with regards to ESG considerations.

General status report 2013

Argentum conducts an annual review of the status related to ESG for the funds in the portfolio.

To conduct the review, Argentum asks the managers to answer a number of ESG-related questions. In addition to providing us with an overview of the portfolio status, it contributes to raise the fund managers' awareness of ESG issues. In 2013, Argentum's portfolio consisted of 34 different management teams, managing a total of 80 funds.

Indicator	Status 2013	Status 2012
How many of the funds in our portfolio follow ESG guidelines in their investments?	74 out of 80 (93 %)	67 out of 73 (92 %)
How many of the funds in our portfolio have satisfactory ESG Guidelines?	61 out of 80 (76 %)	54 out of 73 (74 %)
How many of the funds in our portfolio submit a report on their ESG activities to investors?	6 new commitments committed to this. In addition, 8 new commitments had previously committed to this. 1 manager developed this during the year, and 2 others were in the process of developing	5 new commitments committed to this. In addition, a further 3 managers committed to this the previous year. 2 others already comprehensively cover ESG activity. 2 more managers were in the process of

	this kind of reporting.	developing this kind of reporting.
Transparency: Do fund managers report on transactions and portfolio companies on their websites?	Satisfactory: 30 out of 34 managers	Satisfactory: 27 out of 31 managers

*The point relating to satisfactory guidelines is based on whether the managers have made their own efforts to develop an ESG policy, and does not refer solely to national/international guidelines.

The management reports we have received show that our portfolio managers have a strong focus on ESG. Looking at the question about having satisfactory ESG guidelines, there has been an increase of seven funds responding positively. This is because existing managers have improved their ESG work and new funds in the portfolio have developed good ESG practices. The reports also show that seven of the managers in Argentum's portfolio have updated their ESG policies in 2013/14, while two additional managers are in the process of doing so. As a result of Argentum's side letter requirements, all of our new commitments in the primary portfolio have undertaken to report on their ESG-related work in 2014.

As the majority of managers in the portfolio have developed their own ESG policy, which forms the basis of their investments, it is natural to examine how they monitor this, both in the investment process and during the ownership period. In 2012, Argentum expanded its ESG reporting to include EVCA's newly established standard for responsible investment. These issues relate to the work the funds carry out prior to making new investments, and subsequent post-investment monitoring. In addition to a modified version of the questions from the previous year, the managers were also asked specific questions relating to what action is being taken to prevent corruption.

ARGENTUM ASKED THE MANAGERS THE FOLLOWING QUESTIONS:

1. ESG – Environmental, social and governance

- To what extent are ESG factors included in the due diligence processes when evaluating new investments?
- Please list the ESG factors assessed, and any relevant processes for reporting.
- Are responsible investment guidelines and policies evaluated on a regular basis?

2. Environmental issues

- To what extent has the potential environmental impact of the portfolio companies' business operations been assessed?
- How has any potential risk or negative impact been mitigated or resolved?

3. Social factors

- To what extent has there been conducted an assessment of social factors, issues affecting the workforce, customers, suppliers and communities, which could be applicable to the portfolio companies?
- How have any negative issues been addressed and/or resolved?
- Would you like to highlight any positive externalities of portfolio companies on the community and other stakeholders?

4. Corporate governance

- What measures have you taken to ensure good corporate governance and sound ESG practices in the portfolio companies?

5. Anti-corruption

- Does any of your portfolio companies have operations in areas where corruption is widespread?
- If so, what anti-corruption measures have been taken and how are these monitored?

The responses we have received indicate that managers are aware of ESG – both in the pre-investment evaluation phase and in the general monitoring. For most managers, ESG is an integral part of the due diligence process. (The pre-investment evaluation phase). The majority of those that have not included this are funds that have already completed their investment period, which means that this evaluation is not relevant. Several managers have also implemented, or are in the process of implementing, measures to develop ESG-work and evaluate ESG factors prior to the investments. According to the responses we received on the evaluation of environmental factors, several managers include this in their overall evaluation. Hereit is also common for the evaluation to be conducted on a case-by-case basis, with an *environmental due diligence* (external analysis and reporting of environmental aspects) conducted by external advisers when needed. Where managers do not have this on the agenda, it is often because their funds' investment focus (software, for example) means that environmental factors are considered less relevant. Social factors are also normally included in the due diligence process and are followed up within the individual companies when needed. The managers have generally good procedures related to corporate governance. Several managers are also working actively to develop and implement more standardised ESG reporting from their portfolio companies.

With regard to anti-corruption activities, the reports we have received indicate that managers of portfolio companies with operations in countries where corruption is widespread are aware of this and have established good procedures and guidelines to monitor/prevent corruption.

In last year's report, Argentum evaluated the funds' guidelines and legislative agreements related to ESG issues. As these are permanently in place, it was not appropriate to repeat the question this year. Instead, we conducted an evaluation of the portfolio, with managers being asked to answer questions about the different portfolio companies, and to say whether they consider the portfolio companies to have a high, medium or low risk in respect of the main points of the UN Global Compact. Argentum has received reports on 272 underlying portfolio companies, which corresponds to 64.6% of all underlying portfolio companies.

The reports are as follows:

Indicator	Human Rights	Labour	Environment	Anti-corruption
Low risk	97.10 %	90.85 %	81.30 %	82.70 %
Medium risk	2.90 %	9.20 %	18.80 %	17.30 %
High risk	0.00 %	0.00 %	0.00 %	0.00 %

No managers reported any high-risk portfolio companies. Most of the companies in the portfolio reported low risk associated with the Global Compact criteria. Risk in the areas of human rights and labour standards was particularly low. Some companies reported medium risk in the areas of environment and anti-corruption. As the reporting here is related to risk, this is mainly due to companies operating in an industry or a region with some risk. Risk in the area of the environment is particularly attributable to manufacturing companies. Anti-corruption risk is considered to be medium for companies that have operations/subcontractors in countries or areas where corruption is more widespread. The reports we have received indicate that the risk is mainly related to industry/country and that there are more general reasons behind the risk assessment than company-specific ones. As mentioned above, managers that operate in areas where corruption is widespread also have good follow up-procedures for portfolio companies in respect of this.

Argentum follows OECD guidelines in the area of taxation, as well as the Global Forum standards and only invests in jurisdictions that have taxation agreements with Norway. Argentum provides information about the jurisdictions of the funds on our website and in the annual report.

Reporting breaches of recognised principles for responsible investment

In dialogue with the funds, the managers are specifically asked whether they know of any breaches of the ethical guidelines and legislative agreements. Two breaches of the recognised principles for responsible investment were reported to Argentum in 2013. In the reporting of breaches, Argentum emphasizes how the breach has been handled, and what measures and procedures have been implemented to prevent any recurrence. The reported breaches were handled in a satisfactory manner by the managers.

Actions and focus in the future

Argentum noted a positive trend for ESG-work in the portfolio in 2013. While the majority of managers have developed a separate policy for this work, we are also seeing positive developments related to the inclusion of ESG factors in the investment process – several managers are working actively to further develop their evaluation of ESG factors, both prior to the investment process and during the monitoring of the investments.

Argentum will continue its efforts to ensure that our requirements in the area of ESG are addressed in legislative agreements when committing to new funds, as well as to follow up existing managers on their work on ESG in the portfolio. Argentum works continuously to further develop its ESG-related work within all the company's investment areas.



Argentum's business operations

In accordance with section A.15 of the Ethical Guidelines, Argentum is required to prepare an annual ESG report in respect of its own activities. This report is based on selected indicators from the UN Global Reporting Initiative (GRI). This is a set of standardised reporting indicators for corporate social responsibility that has been accepted as a global standard.

GRI indicators

GRI consists of more than 80 indicators for economic, social and environmental performance, with certain core indicators that must be reported on unless they are considered to be of little importance to the company.

GRI is a set of general reporting indicators used by a number of industries, with many of the indicators being of particular relevance to larger companies. For example, Argentum does not have production activities or own buildings, but operates as an asset manager. The company has therefore decided to report on a selection of GRI indicators that are relevant to the company and its activities.

Below is an overview of the parameters Argentum reports on in connection with GRI.

Indicator	Status 2013	Status 2012
Recycling (Paper and IT)	43.00 %	45.00 %
Business Travel, CO2 equivalents	50,2 tonnes	4940.00 %
Business Travel, CO2 equivalents per employee	2,4 tonnes	2,9 tonnes
Sick leave	3.91 %	3.70 %
Percentage of women	43.48 %	29.00 %
Skills development (Per employee) (Average hours of training per year)	17 hours	29 hours

The indicators show that Argentum's impact on the external environment was somewhat higher in 2013 than in the previous year. The figures should be seen in the context of increased activity in the company and an increase in the number of employees during the year. The recycling percentage has shown a slight decline,

while total emissions related to business travel are a little higher. Argentum's business operations entail some travelling, and there is limited potential to reduce this further. It is natural to assume that this activity will increase in the coming years, in line with the company's development. Argentum has video conferencing equipment, which is used regularly, and this has contributed to reduce the company's travel activity for both internal and external meetings. The proportion of women in the company has risen sharply as a result of new appointments in the company's three departments. Sick leave has increased slightly, while training per employee has declined. This is due to the increased number of employees and the fact that the 2012 figures were somewhat higher than normal.

Environmental indicators

Argentum's business operations involve travelling. In 2013, this resulted in 50.2 tonnes of CO2 equivalents, while the corresponding figure for 2012 was 49.4 tonnes of CO2 equivalents. This represents an increase of 1.6% compared with 2012. As the number of employees increased during 2013, total emissions per employee fell by 0.5 tonne compared with 2012, when the figure was 2.4 tonnes per employee. This is the lowest emissions per employee since Argentum began reporting GRI factors in 2010.

Although emissions remained relatively stable in 2013 despite several new appointments, there is likely to be limited potential for reducing the activity further. As the company's activity increases and extends beyond the Nordic region, we can expect to see this rise in the coming years. Today's emissions show a considerable reduction since 2010, when they were 70.5 tonnes of CO2 equivalents. This decline is mainly the result of the company's investment in video conferencing equipment, which is now used frequently for internal meetings.

Argentum has an agreement with an external party regarding recycling of our discarded IT equipment, and we also require our suppliers to have environmental certification. Argentum has also implemented environmental initiatives regarding paper recycling and 43 percent of paper waste was recycled in 2013. This is in line with the previous year, although slightly lower, as increased activity in the company has caused a rise in paper consumption. From an employee perspective, there has been a decline in paper consumption per employee.

Social indicators

Argentum had 23 employees at the end of 2013, compared with 17 employees at the beginning of the year. The number of full-time equivalents in 2013 was 21, which is used in average calculations in this report. Sick leave was 3.9 percent of total working hours in 2013, compared with 3.7 percent in 2012. This is not abnormally high, and as Argentum is a small organisation, individual absences push up the figures.

Argentum strives for gender equality and the proportion of women in 2013 was 43.5 percent, compared with 29 percent in 2012. The sharp increase is a result of Argentum having appointed more women in 2013. Skills development/training per employee averaged 17 hours in 2013, compared with 29 hours in 2012. The considerable change here was partly an effect of the increase in the number of employees, while a programme conducted over a long period of time pushed up the average in 2012. In 2011, the average was 20 hours per employee. More employees participated in courses and skills development programmes in 2013 than in 2012, and Argentum will continue to focus on developing the expertise of its employees.

Economic indicators

The proportion of our value creation, measured by the share of the company's revenues in 2013, that is

attributable to our owners is 95 percent, compared to 92 percent in 2012. The proportion attributable to employees has fallen from 3 to 1 percent, the government's proportion has fallen from 2 to 1 percent, while the suppliers' proportion is unchanged at 3 percent. The reason behind these changes is that the revenue base has grown significantly compared with the previous year, which means that a larger proportion of the value creation is attributable to the owners through dividends and increased value of the portfolio.

Raising awareness

In addition to the annual ESG report, a summary of the status of ESG work is presented in Argentum's annual report. A meeting is convened each year with the Ministry of Trade, Industry and Fisheries' ownership department specifically focusing on ESG activities. Argentum also submits an annual ESG report to the UN Global Compact. Argentum submitted its first report in 2013, and the report is available on the Global Compact organisation's website. In addition to the annual reports, Argentum's ethical guidelines and our ESG reports are available on our website: www.argentum.no

Argentum wishes to work closely with Norwegian and international investors to develop work on ESG in the portfolio. This work continued in 2013, where Argentum amongst others attended EVCA's Responsible Investment Summit. Both during and after the summit, Argentum has engaged in dialogue with other leading private equity investors about the challenges and opportunities associated with ESG in the portfolio.

In 2013, Argentum became a member of the newly established NORSIF (Norsk forum for ansvarlige og bærekraftige investeringer) a Norwegian forum for responsible and sustainable investments. NORSIF is an independent association of asset owners and asset managers, service providers and industry associations with interest in, and activities related to, responsible and sustainable management. Argentum has been active in the association since it was established and has also been represented on the association's events committee. Argentum will continue discussions during 2014 with other Norwegian and international investors in connection with the work on ESG.