

Chrysalis Investment Company (“Chrysalis” or “The Company”) provides shareholders with exposure to some of the most innovative, entrepreneurial and creative private companies in Europe, the US and the UK.

After rigorous analysis, portfolio holdings are selected on the basis of their customer offering and growth potential. This approach is not directed towards the achievement of short-term financial metrics, rather companies are partnered because of their strength and the sustainability of the business model. Therefore, understanding corporate culture and the factors that uphold long-term success is at heart of our stewardship approach.

The integration of material environmental, social and governance factors is applied throughout the investment process and is assessed in terms of both risks and opportunities that drive long-term value. We believe this contributes to astute investment decision-making by partnering companies that are aligned to shareholder and stakeholder interests. We are actively engaged with portfolio holdings by providing challenge and support to management. The Investment Advisor receives additional assistance from Jupiter’s Governance & Sustainability team with respect to research and monitoring of companies. The overall approach is also underpinned by the internal governance and oversight provided by Jupiter’s CIO Office.

Chrysalis is active in private markets but the ESG and ownership approach is differentiated from a normal private equity model. Although in certain instances we may hold a board seat, our investments will typically constitute a minority holding, and our ESG framework reflects that.

We believe our approach to exiting positions, which we expect to mainly be via IPO, also distinguishes us from private equity peers and further reinforces our stewardship commitment. A key feature of the Company is its dual capability as a ‘crossover investor’ which means we can provide funding in both private and public arenas. Therefore, on occasions, we may continue to hold companies once they are listed and this shapes the manner in which we consider ESG risks and impart expectations to businesses at this stage of their development.

Another important aspect of the exit stage is the experience of the investment team within public markets. The Company’s investment managers, and the broader Jupiter UK Small and Mid-cap team within which they sit, have decades of experience between them and currently manage £6.5bn in listed equities as at 31st March 2021. In addition, the support offered by the Governance and Sustainability team means we are able to help companies through the journey from IPO to established listed status and consider best practice and governance reforms.

Chrysalis is in a privileged position to be able to work with cutting edge companies that harness technology to disrupt the marketplace and empower consumers. These types of companies are an engine of growth that create further opportunities in the modern economy. As we look ahead to a world that seeks to rebuild from the COVID crisis, it is clear that private capital will play a pivotal role in this regard. The decline of listed markets is a theme that has been debated since the 2008 crisis. We are of the view that the economy needs a healthy private market but support the view that public markets should be a desirable destination for dynamic growth companies so a wider population of savers can share in this growth.

Our stewardship approach is guided by a commitment to consider ESG within investment decisions, but we also see a wider role in contributing to a well-functioning market. In addition to dialogue with companies, the Investment Advisor will also engage with policy makers and regulators where it is considered relevant. As an example of this, the Investment Advisor made important contributions to the Hill Listing Review report which was published in March 2021. The overall stewardship approach is also guided by Jupiter’s commitment to the UK Stewardship Code and PRI signatory status.

Jupiter has also aligned its strategy, purpose and principles with the UN Global Compact such that all investment decision-making and engagement is guided by the principles of the UNGC and all investee companies are expected to abide by the Compact’s Ten Principles, committing to meeting fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption. These commitments apply to the investment management of Chrysalis and are welcomed by the Board.

ESG Factors

The overall ESG integration process is described below but it is important to highlight the areas of focus when material risks are considered.

Investments are typically made in late-stage, tech-enabled companies and this influences the type of ESG information that is sought. Although there is an underlying tech influence it should be noted that the businesses themselves may operate in different sectors e.g. e-commerce or banking and this will bring additional scrutiny on a case by case basis. For independent reference, the SASB materiality map is also used to consider sector specific issues. However, the following themes are typically incorporated in our general approach:

- i. **CORPORATE GOVERNANCE:** Considering the quality of the management team, succession planning, shareholder alignment and engagement, remuneration and incentivisation.
- ii. **HUMAN CAPITAL:** Given the competitive and evolving nature of technology dominated companies we consider how businesses are attracting and retaining talent. This also includes developing and training employees, diversity and inclusion, health and safety, human rights and industrial relations.
- iii. **CYBER & DATA SECURITY:** Assessing policies on data security and use of customer information and relationship with third parties. Better understanding the company's cyber security policies and mechanisms and updates on breaches.
- iv. **BUSINESS ETHICS:** Scrutiny around sales practices, supply chain risk, conduct and culture, anti bribery and corruption policies, sanctions, environmental impact and regulatory matters.
- v. **CORPORATE REPORTING & AUDIT:** Integrity of financial statements, audit and accounting concerns.

A review on whether a company has violated the UN Global Compact principles is also undertaken. The investment team may also use external advisers to assist with due diligence and monitoring of ESG issues.

DEAL ORINATION & IMPLEMENTATION

We recognise distinct phases as we look to implement our ESG framework. The following apply to the respective phases:

1. **EXCLUSIONS:** We will not invest in companies that manufacture controversial weapons, or utilise forced or child labour
2. **DUE DILIGENCE:** We aim to identify material ESG issues prior to investment. This may include:
 - A review of company's own ESG policies, goals and reporting
 - An assessment of director backgrounds
 - An assessment of the impact of megatrends e.g. climate change, e-commerce
 - A review of legal requirements relating to ESG issues
3. **PARTNERSHIP:** We look to monitor ESG matters through regular dialogue to understand how ESG goals are being met and whether new challenges have arisen. These can include:
 - A focus on customer and employee issues
 - A consideration of how management are handling ESG risks
4. **PRE IPO:** This is a significant milestone and means the company has reached a level of maturity commensurate for listing. The key consideration is whether governance structures and policies have matured in line with the company's growth and are suitable for a listed environment. Each situation is treated on its own merits and if it is not possible to fully implement governance best practice at IPO, we will work with companies to communicate our expectations and set a framework that delivers on this goal. This process will typically consider issues such as:
 - Board composition
 - Remuneration structures
 - Shareholder rights
 - ESG reporting