



Environmental, Social, and Governance Policy

Heartwood Partners pursued a more formal ESG initiative beginning in 2019. This was an important step forward for the firm as it enables deeper consideration of how the capital it deploys influences not just the growth and profitability of the companies in which it invests, but also other key factors such as the employees, surrounding communities and environment. Aiming to better integrate this influence into the investment decision making process has become more commonplace in private equity over the past several years as both general partners and limited partners are focusing more on developing ESG-minded investment practices and policies.

Heartwood Partners' approach to ESG is summarized in the following ESG Investment Policy Statement.

ESG Investment Policy Statement

Our Values and Approach

Heartwood Partners believes that investment performance can be impacted by environmental, social and governance (“ESG”) issues. While Heartwood Partners’ foremost priority is to honor its commitments and fiduciary duties set forth in its fund private placement memoranda and partnership agreements, we believe that responsible management of ESG factors within our own firm and the companies with which we partner can both reduce investment risks and positively influence longer-term investment performance. Further, we believe our actions have a broader impact on society. We measure success not only in financial terms, but in our portfolio companies having an overall positive impact on their employees and communities while limiting any negative impact on the environment.

As we manage our firm, pursue new investment opportunities and oversee our portfolio investments, we endeavor to do things the “right way.” Since Heartwood Partners’ founding in 1982, we have strived to take good care of people, both within our own firm and within the companies in which we invest. We believe it is good business practice to treat people fairly, provide competitive compensation and benefits programs, communicate clearly and generate goodwill among employees. We aim to foster positive work environments, where individuals from different backgrounds feel welcome and valued. Many of our businesses thrive on the diversity of their people.

Our ESG Integration Process

We seek to follow policies and practices that ensure environmental, social and governance matters are incorporated into our investment process, from the initial review of new investment opportunities to portfolio company management. This includes expanding the scope of our diligence checklist beyond the primary financial and business diligence items to identify key ESG issues in the screening process for new investment opportunities and creating a more formalized decision-making process that takes these factors into account. Through the investment process, we evaluate key considerations around environmental factors, climate change, social issues, and other governance aspects of prospective investments. For managing portfolio companies, tracking of ESG datapoints is important to our efforts. Heartwood Partners has developed a system to track these factors across our portfolio and will evaluate these metrics on an annual basis.

The following summarizes Heartwood Partners' approach to incorporating management of ESG matters within the firm and its investment portfolio:

- 1. Firm**
 - a. Establish and communicate firm ESG principles*
 - b. Create and maintain a responsible employee handbook*
 - c. Implement and maintain responsible compliance programs*
 - d. Create and maintain an organizational structure for effective and responsible communication and decision making*
- 2. Monitor and update the ESG policy as necessary**
- 3. Investment Review and Diligence Process**
 - a. Assess ESG risks and opportunities with aid of due diligence checklist*
 - b. Engage third-party consultants in key diligence areas*
 - c. Seek strong alignment from portfolio company management teams and re-investing sellers*
 - d. Submit results to Investment Committee for review and discussion*
- 4. Portfolio Company Investment Period**
 - a. Install an outside board member to supplement Heartwood Partners' personnel and portfolio company management in governance practices*
 - b. Require portfolio company management to develop plans to address ESG issues identified during due diligence*
 - c. Require ongoing compliance with laws and regulations*
 - d. Require management to present ESG scorecard periodically*
 - e. Create "dotted-line" reporting of portfolio company CFO to the board of the portfolio company*
- 5. Limited Partner Reporting**
 - a. Include updates on material issues in quarterly letters*
 - b. Provide progress reports on portfolio progress during annual meeting*

Our Commitment

Heartwood Partners will seek to dedicate the appropriate time and resources to advance its ESG goals. Our commitment includes training portfolio company leadership to be aware of potential issues on the horizon and to be prepared to address and resolve issues that may arise in order to protect our investment, the portfolio companies, their employees and their neighbors. We are committed to tracking our progress and believe in the concept of striving toward "continuous improvement". We endeavor to refine our policies and practices over time as we continue to learn, improve and pursue our ESG and broader firm goals.

In support of this effort, Heartwood Partners began to track key metrics that influence ESG factors from each of the portfolio companies. Toward this end, Heartwood Partners has developed an ESG Scorecard that each portfolio company completes on an annual basis, starting with 2019. As for the expectations of results, the firm decided that it would be challenging to set benchmarks or goals from the outset but may likely revisit after the scorecard has been implemented for a longer period.

Heartwood Partners understands that each business in which it invests is unique. It does not expect that all companies to perform uniformly across various categories and does not approach this with a binary "better" or "worse" view. The ESG Scorecard is designed to be a helpful tool to measure progress, learn and implement best practices across the portfolio and continue its efforts toward building great businesses that not only generate growth and profit, but also have a positive impact on the world. Heartwood Partners hopes that by implementing the ESG Scorecard it will see improvement in the scores across each portfolio company over time.