

Disclosure Statement

Operating Principles for Impact Management

Nippon Sangyo Suishin Kiko Ltd.

April 27, 2022

Nippon Sangyo Suishin Kiko Ltd. (“NSSK”) hereby affirms its status as a signatory to the Operating Principles for Impact Management (the “Impact Principles”). This Disclosure Statement applies to the following assets under management (the “Covered Assets”):

- NSSK I (JPN) Investment L.P.
- NSSK II (JPN) Investment L.P.
- NSSK III (JPN) Investment L.P.
- Chubu/Hokuriku Region Vitalization Investment L.P.
- Regional Vitalization/Business Succession Advancement Investment L.P.
- Kanto/Higashi-Nihon Region Vitalization/Business Succession Advancement Investment L.P.
- Kinki/Nishi-Nihon Vitalization/Business Succession Advancement Investment L.P.
- Chubu/Hokuriku Region Vitalization/Business Succession Advancement Investment L.P.

The total assets under management in alignment with the Operating Principles for Impact Management is US\$1,134 million as of March 31, 2022.



Jun Tsusaka

Chief Executive Officer and Chief Investment Officer, Chairman of ESG Committee

Nippon Sangyo Suishin Kiko Ltd.

Principle 1: Define strategic impact objective(s), consistent with the investment strategy.

The Manager shall define strategic impact objectives for the portfolio or fund to achieve positive and measurable social or environmental effects, which are aligned with the Sustainable Development Goals (SDGs), or other widely accepted goals. The impact intent does not need to be shared by the investee. The Manager shall seek to ensure that the impact objectives and investment strategy are consistent; that there is a credible basis for achieving the impact objectives through the investment strategy; and that the scale and/or intensity of the intended portfolio impact is proportionate to the size of the investment portfolio.

ESG is part of NSSK's mission statement, which states that NSSK seeks to generate superior outcomes and contribute to the environment, society and governance of Japan and beyond.

NSSK believes that implementing an Environmental, Social and Governance ("ESG") policy is socially responsible and can also improve the returns in our investment portfolio. Since the establishment of NSSK, we have embedded the following principles in our investment process:

1. Consider ESG issues associated with target companies when evaluating whether to invest in a particular company or entity, as well as during the period of ownership.
2. Seek to engage with relevant stakeholders either directly or through representatives of portfolio companies, as appropriate.
3. Seek to grow and improve the companies in which we invest for long-term sustainability; work with portfolio companies through representation on their boards or other governance structures with the goal of improving performance and minimizing adverse impacts in ESG areas.
4. Seek to provide appropriate levels of oversight in the areas of audit, risk management and potential conflicts of interest, and to implement policies that align the interests of owners and management.
5. Comply with applicable labor laws in all respects, including those pertaining to wages, workplace safety, equal employment opportunities and rights of employees to join unions and engage in collective bargaining in the countries where we invest.
6. Maintain strict policies that prohibit bribery and other improper payments in order to gain commercial advantage.
7. Respect the human rights of those affected by our investment activities and seek to confirm that our investments do not flow to companies that utilize child or forced labor or maintain discriminatory policies.
8. Provide timely information to our limited partners on our commitment to ESG matters.

9. Seek ESG disclosure from our portfolio companies, and encourage our portfolio companies, service providers and industry peers to advance ESG principles.

As part of its investment strategy, NSSK also launched its Regional Impact Fund Platform (“Platform”). The Platform has been active since 2016 in order to ensure that NSSK’s investment and value up platform is promoted in a way that contributes to domestic regional communities. With a focus on business succession and attractive small and medium-sized companies with high growth potential in the local area, the Regional Impact Funds aim to contribute to the development of the local economy and society by providing growth capital for operational improvement, reinforcement and development of human capital, and support of business and sales development both in Japan and overseas. This will result in the creation of employment opportunities as well as the improvement of corporate and shareholder value in partnership with local financial institutions. In addition to the Chubu/Hokuriku Vitalization Investment L.P., the NSSK Group has expanded its Regional Impact Fund initiatives to include the Kanto/East Japan, Kinki/West Japan and nationwide areas. As a result, the NSSK Group operates 5 Impact Funds focusing on regional vitalization in Japan.

In operating the NSSK Funds, we select ESG improvement targets for each investment from NSSK’s 66 target list which we complied with reference to global standards, such as SASB. The target list is comprised of three sections (Environment, Social and Governance), and also include targets that align with the Sustainable Development Goals (SDGs). As a private equity investor focusing on Japanese small-to-medium sized companies and regional vitalization, we are especially focusing on the following themes of the SDGs:

- Good Health and Well-Being
- Quality Education
- Gender Equality
- Decent Work and Economic Growth
- Industry, Innovation and Infrastructure
- Sustainable Cities and Communities
- Peace, Justice and Strong Institutions

Principle 2: The Manager shall have a process to manage impact achievement on a portfolio basis.

The objective of the process is to establish and monitor impact performance for the whole portfolio, while recognizing that impact may vary across individual investments in the portfolio. As part of the process, the Manager shall consider aligning staff incentive systems with the achievement of impact, as well as with financial performance.

NSSK identifies ESG risks and opportunities through ESG due diligence conducted by external ESG experts in the pre-investment stage. The due diligence process includes: 1) negative screening, 2) identification of ESG risks and opportunities, 3) comparison with ESG initiatives taken by the comparable companies, and 4) setting KPIs post investment in reference to NSSK's 66 target list.

NSSK sets KPIs for portfolio companies based on the outcome of ESG due diligence, and provides continuous monitoring. Portfolio companies are required to report KPI's on a quarterly basis and NSSK provides appropriate guidance based on these reports. Such information is also disclosed to investors through our quarterly reports and ESG Annual Report. NSSK further implements an ESG audit which is conducted by our ESG and Compliance Officer. Through these audits, the ESG and Compliance Officer evaluates ESG initiatives and the monitoring process of the NSSK team, and reports on any issues directly to the Chairman of the ESG Committee.

The ESG Committee is chaired by the CEO, and consists of members from each business division (Investment Team, Operations Team, IR Team, Business Support Team). The CEO, as the Chairman of the Committee, supervises all the activities of the Committee. The ESG Committee designs ESG targets and monitoring systems for the NSSK Group in consultation with external ESG experts and ESG related daily operations are carried out by Committee Members. ESG Committee Members from each division give opinions to the Committee from the view point of their respective divisions and support the initiation of ESG operations.

NSSK also aligns its staff incentives with impact achievement by incorporating contribution to ESG initiatives into its 360-degree evaluation system as one of the key items.

Principle 3: Establish the Manager's contribution to the achievement of impact.

The Manager shall seek to establish and document a credible narrative on its contribution to the achievement of impact for each investment. Contributions can be made through one or more financial and/or non-financial channels. The narrative should be stated in clear terms and supported, as much as possible, by evidence.

Many of the regional markets outside of Japan's first and second cities, Tokyo and Osaka,

have experienced slow economic growth, as well as a brain drain. NSSK strives to actively support local communities by implementing various measures for regional vitalization.

NSSK issued our first ESG Annual Report in June 2021, providing specific examples of the contributions to local communities by each investment. Selected cases from the report are as follows:

Enhancing Regional Infrastructure to Meet the High Demand for Elderly Nursing and Healthcare

Case Study: Welfare Suzuran operates seven residential style nursing homes, three group homes for persons with disabilities, and one group home for persons with cognitive disorders in and around Nagoya, offering a high quality service at an affordable price. The company is working to strengthen its business foundation. Through the introduction of business management techniques and support to boost revenue and enhance internal control systems, it seeks to fulfill its role as regional infrastructure to meet the high demand for nursing and healthcare for elderly people.

Contributing to the Regional Economy through Management Support

Case Study: Ise Sea Paradise operates an integrated leisure facility that includes souvenir stores, restaurants and an aquarium, at a highway service area near to Meotoiwa, a key tourist attraction in Mie Prefecture. Recently, the company renovated the aquarium and other facilities, and bolstered operations by renewing relationships with travel agencies and offering tour packages. It also introduced an overall facility concept and content tailored to tourist tastes to contribute to the local economy.

In its investment activities, among all of the aspects of ESG, NSSK focuses especially upon diversity and inclusion. The gender gap is currently a major issue in Japan. And there are many initiatives now underway to address it. NSSK considers diversity and inclusion improvement as one of its key missions. It actively promotes advancement of female employees at investees, with numerous achievements to date as below¹.



Note:

1. As of September 2021 of NSSK Fund II portfolio companies

2. % of our portfolio companies which have women / minority CEO / COOs.

Principle 4: Assess the expected impact of each investment, based on a systematic approach.

For each investment the Manager shall assess, in advance and, where possible, quantify the concrete, positive impact potential deriving from the investment. The assessment should use a suitable results measurement framework that aims to answer these fundamental questions: (1) What is the intended impact? (2) Who experiences the intended impact? (3) How significant is the intended impact? The Manager shall also seek to assess the likelihood of achieving the investment's expected impact.

In assessing the likelihood, the Manager shall identify the significant risk factors that could result in the impact varying from ex-ante expectations. In assessing the impact potential, the Manager shall seek evidence to assess the relative size of the challenge addressed within the targeted geographical context. The Manager shall also consider opportunities to increase the impact of the investment. Where possible and relevant for the Manager's strategic intent, the Manager may also consider indirect and systemic impacts. Indicators shall, to the extent possible, be aligned with industry standards and follow best practice.

If an investment opportunity aligns with the objectives of our strategies, NSSK conducts ESG due diligence, working closely with external consultants to take advantage of their industry and impact expertise. The ESG due diligence starts with the development of a logic model for the investment, linking the investment to potential outputs, outcomes and, ultimately, SDG impacts. Logic models help set out how society experiences the impacts generated by the activities of a company or asset, both in positive and negative terms.

This Due Diligence is conducted in reference to a 66-item "checklist" prepared by NSSK, and interviews are conducted with management with a focus on the priority items defined by the SASB by sector. With a view to considering future measures, the ESG experts conduct a comprehensive evaluation based on the four steps of "having policies and targets," "having management and operational systems," "understanding performance and complying with laws and regulations," and "disclosing information. In addition, from the viewpoint of the potential to increase business value from the perspective of impact investment, a comparison with competitors is made; if the company is ahead of its competitors in its initiatives, it is evaluated as having the potential for positive impact. Conversely, if the target company is less competitive, it is evaluated as being at risk.

After this collaborative process with outside experts, NSSK selects several focus areas for improvement in terms of ESG based on the due diligence report. In order to assess the expected impact through the improvement, short and long term KPI targets are set in consultation with the management team of the investee together with the determination of specific initiatives.

Principle 5: Assess, address, monitor, and manage potential negative impacts of each investment.

For each investment the Manager shall seek, as part of a systematic and documented process, to identify and avoid, and if avoidance is not possible, mitigate and manage Environmental, Social and Governance (ESG) risks. Where appropriate, the Manager shall engage with the investee to seek its commitment to take action to address potential gaps in current investee systems, processes, and standards, using an approach aligned with good international industry practice. As part of portfolio management, the Manager shall monitor investees' ESG risk and performance, and where appropriate, engage with the investee to address gaps and unexpected events.

ESG factors are central to NSSK's investment processes in both evaluating opportunities and risks. NSSK's ESG policy provides guidelines for the investment to take ESG factors into account in decision-making. For NSSK's ESG Policy, see the link below:

<https://www.nssk-japan.com/en/ESG/>

The impact investment strategy is built on the strength of NSSK's existing investment program. NSSK offers its unique NSSK Value-Up Program (NVP) to businesses for management support. NVP is comprised of the know-hows deployed by excellent companies worldwide, providing expertise for management improvement, human resource development, and financial optimization, organized according to the circumstances of businesses in Japan. It is implemented by NVP Support Team comprised of highly specialized personnel. ESG enhancement in portfolio companies is executed in the same way as operational enhancement is conducted through NVP. We use the systematic approach included in the NVP for setting targets, identifying step-by-step action items towards achieving goals, hiring and assigning required resources, monitoring KPIs, and incentivizing.

NSSK also has established its NSSK Philosophy Program (NPP) as an approach to support the education of employees and human resource development. One ideal of the NPP is to do what is right in life. All employees connected to NSSK are encouraged to follow this life philosophy, which we believe leads to the happiness of all employees and prosperity for the company and the community around it.

Principle 6: Monitor the progress of each investment in achieving impact against expectations and respond appropriately.

The Manager shall use the results framework to monitor progress toward the achievement of positive impacts in comparison to the expected impact for each investment. Progress shall be monitored using a predefined process for sharing performance data with the investee. To the best extent possible, this shall outline how often data will be collected; the method for data collection; data sources; responsibilities for data collection; and how, and to whom, data will be reported. When monitoring indicates that the investment is no longer expected to achieve its intended impacts, the Manager shall seek to pursue appropriate action. The Manager shall also seek to use the results framework to capture investment outcomes.

After the closing or in some cases, even before the closing of the investment, NSSK holds discussions with the investee's management team to establish Impact KPIs, taking into account the expected impact identified through the ESG due diligence. Impact KPIs must be measurable, achievable, and cost-effective, and NSSK collects data from portfolio companies and discusses progress and initiatives at monthly management meetings. Investment team members who are in charge of the monitoring of the investment are responsible for data collection; this data is reported to the ESG Committee for re-evaluation of impact risks and, in the case of underperformance, commentary on impact risk mitigation. The KPIs and action items are also shared with investors through quarterly reporting and the ESG Annual Report.

Principle 7: Conduct exits considering the effect on sustained impact.

When conducting an exit, the Manager shall, in good faith and consistent with its fiduciary concerns, consider the effect which the timing, structure, and process of its exit will have on the sustainability of the impact.

NSSK's basic strategy prioritizes investment in companies for which impact is intrinsic to business success, helping to ensure that impact is sustained at exit.

Exit strategy for each investment is thoroughly discussed with management and other stakeholders of the portfolio companies. In addition to the financial returns to the investors expected through the exit, the Value Creation and Exit Committee also takes into account how the exit decision will affect 1) the sustainability of the business of the portfolio company, 2) continuity of the ESG initiatives that have been taken, and 3) the community where the portfolio company belongs to when designing exit strategy.

Principle 8: Review, document, and improve decisions and processes based on the achievement of impact and lessons learned.

The Manager shall review and document the impact performance of each investment, compare the expected and actual impact, and other positive and negative impacts, and use these findings to improve operational and strategic investment decisions, as well as management processes.

NSSK has a defined process in place to review and document the impact performance of each portfolio company. Together with the monthly impact KPIs, ESG initiatives taken at each portfolio company is reviewed and documented in the quarterly performance review materials, in which we check the progress of business improvement and financial performance of our portfolio companies. Both positive and negative cases reviewed in the quarterly review are also reported to the ESG Committee; Committee Members discuss and decide how we can improve our firm-wide ESG activities and management processes.

Principle 9: Publicly disclose alignment with the Impact Principles and provide regular independent verification of the alignment.

The Manager shall publicly disclose, on an annual basis, the alignment of its impact management systems with the Impact Principles and, at regular intervals, arrange for independent verification of this alignment. The conclusions of this verification report shall also be publicly disclosed. These disclosures are subject to fiduciary and regulatory concerns.

NSSK publicly affirms its alignment with the Impact Principles in this Disclosure Statement and that this statement will be updated annually. NSSK also states its alignment with the Impact Principles in the ESG Annual Report as well as at the Annual General Meeting with investors.

While Principle 9 requires that signatories provide regular independent verification of alignment, due to the lack of a local verifier in this field, NSSK is currently analyzing options to complete the verification process and plans to complete it by the end of 2022.