



Granahan Investment Management
Statement on ESG, Responsible and Sustainable Investing

Granahan Investment Management (“GIM”) is a small cap equity boutique. The firm utilizes in-depth bottom-up research to seek companies well-positioned for outsized enterprise growth. Our dedication to responsible investment is fundamental to this mission. We strategically channel resources to strengthen our ability to integrate material and relevant Environmental, Social and Governance (ESG) issues for the companies we analyze and integrate these into investment decisions consistent with our fiduciary duty to our clients. Over recent years, we have scaled up our efforts in this arena, expanding our depth of expertise and enhancing our capabilities to continue to uncover the next generation of disruptive and innovative companies and deliver on our commitment to provide strong investment returns for our clients.

GIM is a signatory of PRI (Principles for Responsible Investment).

GIM Philosophy with respect to ESG Integration in the Investment Process

At a base level, GIM believes that ESG factors can have a material impact on the value of a company and the respective stock price. The consideration of ESG factors alongside traditional fundamental metrics provides us with a better understanding of the risk/return of potential investments. The relevance of specific ESG issues differ and vary in degree across companies and sectors and across GIM’s strategic offerings. We consider the challenges smaller companies face when reporting on environmental and social factors for our small-cap companies compared to their large-cap counterparts (who may have specific teams and budgetary support in place). Therefore, in-depth fundamental research is imperative to enable us to uncover and understand ESG considerations, the materiality thereof, and integrate them into our investment process.

Integration of ESG into the Investment Process

GIM subscribes to and references the MSCI and Bloomberg ESG databases for each company that is under consideration for investment. This research is incorporated into the initial purchase recommendation sheet, where Portfolio Managers identify ESG company strengths as well as their vulnerabilities to issues material to ESG prior to investing. Our ESG Associate tracks, monitors and reviews our portfolios on a regular basis as well as helping to manage our voting and our engagements with companies.

Prior to any potential investment, Portfolio Managers review third-party ESG Company Reports as well as controversy reports that may cover topics including: Climate Change (Carbon Emissions, Product Carbon Footprint, Climate Change Vulnerability), Natural Capital (Water Stress, Biodiversity & Land Use), Pollution & Waste (Toxic Emissions, Packaging/Waste Materials), and Environmental Opportunities (Clean Tech, Renewable Energy) as well as Social Factors: Human Capital (Labor Management, Supply Chain Standards), Product Liability (Quality/Safety), Privacy & Data Security, and Social Opportunities (Access to Health Care), Governance Issues: Board, Pay, Ownership, Accounting and Corporate Behavior (Business Ethics, and Tax Transparency).

It is important to note, however, that the ESG rating companies each have their own approach and selected metrics to analyze and report on ESG factors. With the rise of rating systems, most large companies are easily evaluated with respect to ESG initiatives, as they tend to have internal teams that self-report to the rating organizations. Given the reporting structure, many of our smaller companies may not screen well with the various ESG grading systems – their boards are too small compared to larger peers, or they do not have policies in place for social purpose, or they simply do not have the internal resources to report on the many required metrics.

Risks & Opportunities

Due to all the above-mentioned issues, GIM will not automatically screen out companies based on ESG scores, though we believe that ESG analysis and integration is a natural extension to quality-oriented fundamental research and risk. From an investment perspective, as a bottom-up shop, GIM views ESG factors in the research

process with an eye to both the risks for the company and the rewards of strong ESG practices. These, in turn, are factored into our stock analysis. Research from third-party data providers, such as MSCI, is reviewed at initial purchase, as needed on an ad-hoc basis, or when rating agencies update reports. However, GIM's ongoing fundamental research is integral to evaluating company specific ESG risks.

In considering specific environmental, social and governance risks, GIM may consider the following:

- **environmental risks:** climate change vulnerability, emissions, energy, waste, water, and biodiversity;
- **social risks:** human capital management, human rights, diversity & inclusion, product quality & safety, and data privacy & security; and
- **governance risks:** board and committee composition, limits to shareholder rights, business ethics, and management incentives.

GIM is committed to considering a wide range of social factors, including human capital management, modern slavery, and human rights, as integral components of its investment analysis. Here's how these social factors come into play:

- **Human Capital Management:** GIM views employees as a company's greatest asset and believes that effective human capital management can be a signal of operational excellence. During investment analysis, GIM may evaluate factors like a company's workforce diversity, labor practices, health and safety records, and employee development programs. These assessments can help identify companies with superior management quality and a potentially more sustainable competitive advantage.
- **Modern Slavery:** GIM has zero tolerance for practices associated with modern slavery and human trafficking. GIM expects the companies it invests in to have policies and procedures in place to ensure they do not contribute to such practices. Any evidence of involvement in these practices can be a critical red flag during the investment analysis.
- **Human Rights:** GIM recognizes the importance of respecting and upholding human rights. Our third-party data providers help us evaluate whether companies have policies to prevent human rights abuses within their operations and supply chains. Companies that fail to manage these risks may face significant legal, reputational, and operational consequences, which could negatively impact their financial performance.

As part of our broader ESG framework, we consider the environmental impacts of our investments. Given the increasing evidence of climate change and environmental degradation, we: evaluate potential investments and consider their environmental practices, understanding that such considerations not only reflect a commitment to responsible investing but also address the long-term risks and opportunities inherent in companies' environmental practices. We recognize that companies ill-equipped to address their environmental challenges may face regulatory penalties, reputational damage, and increasing operational costs. In contrast, those proactive in this realm are typically better positioned for long-term growth and resilience.

Opportunities

On the flip side, GIM would also consider the potential opportunities related to energy-efficient solutions or renewable energy, water, and biodiversity. Companies that develop solutions for alternative energy, renewable energy, water scarcity, improve water efficiency, or contribute positively to biodiversity represent attractive investment opportunities and will benefit from the need to provide solutions.

Integration into Investment Decisions

The insights from the evaluation of these social and environmental factors are incorporated into GIM's investment decision-making process. Companies that fail to meet GIM's standards on these issues would

typically not be purchased, and are excluded from our initial screening process, while companies with strong social or environmental practices could be viewed as more attractive investments.

Responsible Ownership

At GIM, responsible ownership is accomplished in several ways. Perhaps the most significant is to meet with company management teams directly. Through these meetings, we seek discussion on factors and risks, particularly where we believe such information could materially impact the value of our investments, including the market's perception of the company with respect to ESG and sustainability metrics. We are also able to raise awareness of important issues to management teams. Engagement with management teams is a core part of our fundamental research process as it gives us unique insights into management quality, business model, governance, financial strategy, and future business prospects. Meetings with management also allow us to evaluate the materiality of risk factors, refine our conviction levels related to our investment thesis and express our views.

GIM considers the UN Sustainable Development Goals and views these objectives as valuable.

Exclusions

GIM excludes certain investments as not meeting our fundamental growth metrics and our sustainable investing views:

- Companies with material, direct involvement in controversial oil and gas extraction practices, including unconventional oil extraction, hydraulic fracturing as a primary business activity, and deep-water offshore extraction where environmental risk is elevated.
- Thermal Coal
- Cluster Munitions, Anti-Personnel Mines, and Biological & Chemical Weapons
- Tobacco Manufacturers
- Adult Entertainment