

## RESPONSIBLE INVESTING IN INTERNATIONAL OIL & GAS

A PRIVATE EQUITY APPROACH



# KEROGEN

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## Capital



# A Message from our Founders

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Global demand for energy continues to expand as a result of population growth, rising living standards and increasing levels of urbanisation. Existing energy sources are ever more strained and significant investment will be required to meet the needs of future generations.

As private equity invests increasingly outside North America and Western Europe, investors rightly require assurances that the investee (or 'portfolio') companies operate to the same standards of best practice as they do at home. Kerogen addresses these concerns through placing paramount importance on the establishment of operating procedures that provide a safe and environmentally responsible working environment, a zero-tolerance policy on corruption, and the promotion of positive engagement with local communities and all other stakeholders.

Over recent decades, most oil and gas companies have developed and embraced Environmental, Social and Governance (ESG) principles. At Kerogen, we believe that these principles are not secondary but a central commercial priority. Not only do we promote such principles within our portfolio companies to ensure good governance, safe working conditions and minimal impact to the environment, we believe that ESG initiatives significantly reduce risk, create long-term value and are a competitive advantage.

Kerogen incorporates ESG considerations at each stage of its investment process. In selecting investments we recognise that a strong health and safety culture in an organisation is likely to be a good indication of a well-managed company.

We know that good governance and rigorous anti-bribery and corruption controls, together with transparency in terms of tax and other payments to government, protect the legitimacy of our investments when governments or regulatory regimes change.

We have found that effective social programmes and community engagement foster strong public and government support for projects, which are the best defence against future localised discontent. Steady and dependable support from all stakeholders is particularly important in oil and gas given the long-term investment horizon and capital intensity of energy projects.

Kerogen is proud to be a signatory to the United Nations Principles for Responsible Investment (UNPRI) and to adhere to Extractive Industries Transparency Initiative (EITI) principles. We firmly believe that integrity, transparency and engagement are key to building trust and long-term partnerships amongst stakeholders.

We have developed this booklet to outline our approach to the environment, social responsibility and good governance; and to demonstrate how we evaluate ESG issues prior to making investments and how we manage them in our portfolio companies. We have also set our General Business Principles, Values and a Code of Conduct which embody this approach.

Yours Sincerely,

**Ivor Orchard**  
Founder, Executive Chairman

**Jason Cheng**  
Founder, Managing Partner

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# Kerogen at a Glance

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Kerogen is an independent private equity fund manager specialising in the international oil and gas sector. Kerogen currently manages in excess of US\$1.0 billion in capital on behalf of a range of blue-chip financial institutions.

- Formed in 2007, Kerogen's founding team originated from J.P. Morgan's Energy and Natural Resources Group in Asia
- Sector focus: upstream oil and gas industry
- Geography: International, outside North America. Focused on basins with large-scale resource potential
- Segment: established small- to mid-sized ('junior') oil and gas companies
- Stage: growth and development capital with core focus on appraisal and development projects
- Our team comprises highly experienced professionals with investment, technical and operational expertise in the oil and gas industry

Kerogen aims to be the leading private equity fund manager in the international oil and gas sector through the consistent delivery of superior returns. We aim to do this in a socially and environmentally responsible manner through our commitment to ESG responsibility.

This commitment involves leading the ESG discussion within the energy-focused private equity industry. Kerogen aims to be the private equity manager of choice for those seeking to invest in oil and gas and we ensure that within our own business we implement sustainable and compliant practices.

These practices extend to our engagement with our portfolio companies and in particular the Health Safety and Environmental (HSE) and Corporate and Social Responsibility (CSR) programmes they implement.

Kerogen is also committed to ensuring consistently applied performance monitoring throughout the life of the funds.



# The Importance of ESG Management

## A commercial priority, not a “nice to have”

Returns for our investors are fundamental to our success and we see profitability and ESG considerations as inexorably linked. Attention to ESG considerations can reduce project risks, build social support for projects and generate incremental value.

Historically, mainstream investors have not been the strongest advocates of more integrated ESG management, partly because of a perception that ESG considerations were not compatible with fiduciary duties and maximising profits. This has clearly changed, as investors in all sectors, not least in oil and gas, have come to recognise that operational practices that lack proper health and safety procedures, ignore environmental impact planning, or presume the support of local communities, can cause significant project delays and, in exceptional circumstances, can actually lead to the suspension of operations and cause substantial losses.

As the acceptance of this logic has become widespread, the consideration of ESG issues is no longer a ‘nice to have’ but a

pre-requisite for our investors and other stakeholders. Where our exits from investments come from sales or farm-outs to the world’s leading oil and gas companies or through listings on stock exchanges, clear and functioning ESG policies are critical.

## Comment from Lord Mark Malloch-Brown

“ A broad programme of community investment and development helps to build long-term community support, and therefore, legitimacy for projects. People need to see the benefits in their immediate communities and lives; too often too little of the royalty payments trickle back. So ESG has moved beyond corporate philanthropy to a critical part of business strategy in terms of maintaining and protecting project investments.

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Some ESG issues of Strategic Importance:

### Environmental

- Compliance with environmental law
- Carbon emissions, in particular venting and flaring
- Impact on landscape and wildlife
- Water management, particularly where hydraulic fracking is involved
- Waste and by-product management
- Oil spill prevention and management

### Social

- Operational health and safety
- Energy supply to the domestic market
- Local employment, contractors, skills transfers and training
- Development of local industry, including procurement involving local content
- Local ownership, including indigenous rights

### Governance

- Ethics, integrity and transparency
- Regulation and compliance
- Anti-bribery and anti-corruption compliance
- Stakeholder engagement and communications

## Governance

Good governance is key to managing political risk in a global industry. Successful international businesses recognise that making a meaningful, enduring contribution in their host country beyond any short-term project or political relationship is vital to ensuring the legitimacy of their assets and sustainability of their business in the long-term. When political regimes change, evidence of social impact makes it less likely that a new government will institute additional taxes, or that such levies will be demanded by their citizens.

Some of the ways in which businesses can positively contribute in-country include: generating sustainable tax revenues; creating new jobs; providing training and education; assisting in the development of local industry through building infrastructure and utilising local content; and providing oil and gas for domestic needs to help provide a better quality of life and power industrial development.

### Comment from Lord Mark Malloch-Brown



*Sometimes projects may have relatively low 'below-the-ground' risk in respect of the geological or technical aspects of the project, and much of the risk remains 'above-the-ground'. Social Performance is key to managing 'above-the-ground' risk.*



In response to legislation such as the UK Bribery Act 2010 and the U.S. Foreign Corrupt Practices Act 1977, companies operating around the world have initiated, and continue to develop, effective anti-corruption and anti-money laundering programmes and spend time managing, monitoring and documenting their governance practices.

At Kerogen we believe that combating corruption is about much more than compliance. A zero tolerance policy on corruption is at the heart of our investment selection and due diligence process. A project with corrupt roots, without a solid, transparent and legitimate foundation, is likely to be short-lived and hazardous, especially in the face of a new government hostile to agreements made under prior administrations. Moreover, we believe that the eradication of bribery and corruption through improved governance and increased transparency will create a fairer business environment in which to operate and will encourage more effective governance.

Good governance is rooted in adherence to regulations and laws, both in letter and in spirit. Kerogen adheres to the regulatory standards in countries in which it is undertaking regulated activities. Where those requirements do not exist, we look to introduce international standards of behaviour.

Ensuring a culture of integrity, accountability and transparency, through the continued training and development of all levels of staff, is just as critical as ensuring that compliant procedures are in place. This culture is embodied in our Business Principles, our Values and our Code of Conduct.



A close-up, blue-toned photograph of a hand holding a piece of paper. The hand is positioned at the top right, with fingers gripping the edge of the paper. The paper is held over a metallic surface, likely a desk or a filing cabinet, which features a prominent pushpin and some circular indentations. The lighting is dramatic, with strong highlights and shadows, emphasizing the textures of the skin, paper, and metal.

### Comment from Lord Mark Malloch-Brown

“ Political risk has undergone a subtle change. It used to be the threat of a coup in the State House and the loss, therefore, of friends at court. With two thirds of the world now turning over their governments at the ballot box rather than by the bullet, this risk has receded. And indeed any investor who is dependent on friends at court is living on borrowed time. Instead, issues are much more about potential changes in tax and regulatory regimes, the transparency and integrity of the licensing regimes, and the background and beneficial ownership of local commercial partners. At the heart of managing political risk is addressing corruption.

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**Kerogen ESG Sub-Committee**

The ESG Sub-Committee of the Executive Board reviews policies and performance in relation to the ESG activities of our portfolio companies; Kerogen's Business Principles; our Code of Conduct; and our HSE and Social Performance commitments.

**Lord Mark Malloch-Brown, Chair of Kerogen's ESG Sub-Committee**

Lord Mark Malloch-Brown is Chairman of FTI Consulting for Europe, Africa and the Middle East. He is a peer in the House of Lords and a former Minister in the British Foreign Office with responsibility for Africa, Asia and the United Nations. Prior to that, he served in the United Nations as Deputy Secretary-General and prior to that as Administrator of the United Nations Development Program. Before joining the United Nations he was a Vice President at the World Bank. He has also served as Vice Chairman of the Soros Management Fund and Soros' Open Society Institute. Mark graduated with first class honours in history from Cambridge University and completed his postgraduate studies in political science at the University of Michigan. He is an Honorary Fellow of Magdelene College Cambridge, Distinguished Practitioner of the Blavatnic School of Government and a former visiting Fellow at the Yale Centre for the Study of Globalisation. He is on a number of Foundation Boards including chairing the Royal Africa Society and co-chairing the International Crisis Group.



# ESG Management in our Investment Process

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The private equity model can play a vital role in promoting, agreeing and implementing ESG considerations in the oil and gas industry. As an investor actively engaging and partnering with our portfolio companies, aligning stakeholder interests and enabling the long-term development of assets, private equity can be a potent force in not only creating, unlocking and capturing value, but also ensuring a positive environmental and social impact.

ESG management is embedded in each step of Kerogen's investment process starting with pre-investment due diligence to ongoing asset management post-investment until exit. We continuously seek to improve our process by incorporating lessons learnt.

## ESG Management Prior to Investment

Kerogen undertakes rigorous due diligence around the commercial, technical, operational and financial aspects of each investment including how the company manages or is affected by ESG issues.

Areas for diligence typically include:

- Portfolio Company anti-bribery and anti-corruption compliance, including establishing a detailed understanding of the provenance of each license, the background and reputation of former and current company principals and the beneficial ownership of local partners and affiliates;
- Portfolio Company neither belonging to OFAC-listed countries nor to countries subject to UN Security Council Sanctions;
- Portfolio Company compliance with environmental

regulations (for example, flaring, water usage and waste management);

- Risk analysis and management systems, including operational health and safety policies and performance assessment;
- The government's plans and objectives for the oil and gas industry and how the development of the target assets fits into the context of broader development plans
- The impact on and attitudes of the local community to the company and project;
- The level of 'localisation' and employment of local staff and senior management; and
- The general governance framework and the alignment of various stakeholders of a target company.

Kerogen can use ESG due diligence as a negative screening tool. From time to time, we inevitably have to make a decision not to proceed with a transaction based on the lack of clarity around the provenance of a licence and/or suspicions of corruption, no matter how superficially compelling the investment proposition may seem.

However, with the exception of such red flags relating to bribery and corruption, a decision whether to invest or not is rarely due solely to ESG issues. Typically an ESG issue may be more symptomatic of other issues of concern relating to the company's management or overall business. Alternatively, an ESG issue might represent an opportunity for Kerogen to enter a situation and add value through its resolution.

### **Managing ESG Issues during an Investment Hold Period**

Kerogen typically invests at a value inflection point or on the cusp of a “step change” in a portfolio company’s life. This often involves a significant ramp up in the scale and nature of operations and is accompanied by challenges to human resources and operational and reporting systems. As activity increases, ESG considerations become more pertinent and Kerogen aims to assist in the development and implementation of ESG policies to support the intended business plan.

As an active investor, Kerogen is represented on the boards of its portfolio companies and typically forms joint technical and operating committees with management teams. We may also be involved in other decision-making bodies such as joint venture committees at the asset level or sub-committees for compensation, audit, HSE, etc. At the board or relevant forum Kerogen sets expectations and supports the efforts of portfolio company management teams to manage ESG issues and report and review progress and performance.

However, there are situations where Kerogen is not in control of a portfolio company, or where a portfolio company has a non-operated interest in one or several of their assets. In these circumstances we encourage and influence the relevant parties to adopt ESG policies and practices.

### **Measurement and Reporting**

Demands for greater transparency have been driven by growing expectations for corporate accountability, particularly as companies expand their operations internationally. Disclosure around ESG considerations has become an important feature of this discussion.

Kerogen undertakes an annual portfolio review, together with its Executive Board, to understand and assess the ESG performance, against Key Performance indicators (KPIs), across Kerogen’s portfolio as a whole. The results of this review are included in our Annual Report to our investors.





# Our Response to Key HSE and CSR Challenges in the Oil and Gas Industry

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HSE management is critical in the oil and gas industry where operations can have a profound impact on the environment, communities and workforce.

Kerogen invests in small to mid-sized 'junior' oil and gas companies with strong management teams that already understand the importance of HSE, as well as broader governance issues, to their business. As these businesses grow and develop, transitioning from explorers to producers, Kerogen is equipped with the capacity, knowledge and tools to support these companies operationally and financially.

## **Health and Safety**

Effective health and safety risk management is about embedding HSE practices into a company's culture and operating procedures. We strive constantly to improve our portfolio companies' health and safety practices by understanding what can go wrong, minimising the possibility of it occurring and reducing the potential

consequences. Safe drilling operations require rigorous well design, well trained competent staff, strict safety procedures and maintenance standards for all equipment. Operations and facilities must have the appropriate mechanisms to prevent incidents that may harm employees and contractors or nearby communities, or cause environmental impact. Our goal for each portfolio company is to prevent fatalities or other incidents that harm employees, contractors or civilians, or put company assets or the environment at risk.

Kerogen consistently advocates the importance of operational health and safety at the Board of Directors of each of its portfolio companies. We ensure that injury and incidents are reported and monitored, and serious incidents thoroughly investigated. We also promote additional initiatives to improve performance against KPIs.





# **LUCAS** SAFETY ZONE

Injury free. Every Day

## You are entering a Lucas Safety Zone

- FIRST report to the Lucas site office
- NO petrol vehicles allowed on site without permission
- WEAR all issued PPE at all times whilst on site
- ATTEND the Daily Safety Meetings
- STOP and ASK if you're not sure



**WE ARE PROUD OF OUR SAFE RIG**

## **Environment and Climate Change**

With a rising global population coupled with improving living standards and increasing urbanisation, global energy demand is expected to double by 2050. At the same time, the world's attention is ever more focused on climate change.

To address future demand, the world needs to develop a variety of energy sources, both traditional and renewable, to build a sustainable low carbon economy. Natural gas is the environmentally preferred fossil fuel and is typically seen as the best bridge for a long-term transition to alternative energy sources. The substitution of coal by gas fired power is the most effective and feasible way to immediately reduce carbon dioxide, nitrogen oxides and sulphur oxide emissions.

Kerogen believes that shale gas could provide lasting economic benefits including energy security, job creation and cheaper energy to fuel growth. Yet in many countries public concern has been expressed over the development of shale gas due to the large amount of drilling that is required, as well as the use of hydraulic fracking, its use of water and the management of waste water. Kerogen encourages portfolio companies to engage with the public, local communities and regulators on these issues. We support sensible regulation to protect both the environment and local communities. Both the conventional oil and gas industry and the development of the shale gas industry can significantly benefit local communities and the potential risks that have been identified can be managed with appropriate environmental assessment and management.

## **CSR**

As custodians of a country's natural resources, governments and the communities they serve are key stakeholders in the oil and gas industry. The division of the profit from a country's oil and gas production is dictated by its licencing regime, but guaranteeing that our portfolio companies add value beyond tax and royalty payments is a high priority from a local stakeholder perspective. This may include infrastructure development, social investment, training and capacity building initiatives, meeting local content requirements, and domestic market obligations for off-take agreements amongst others.





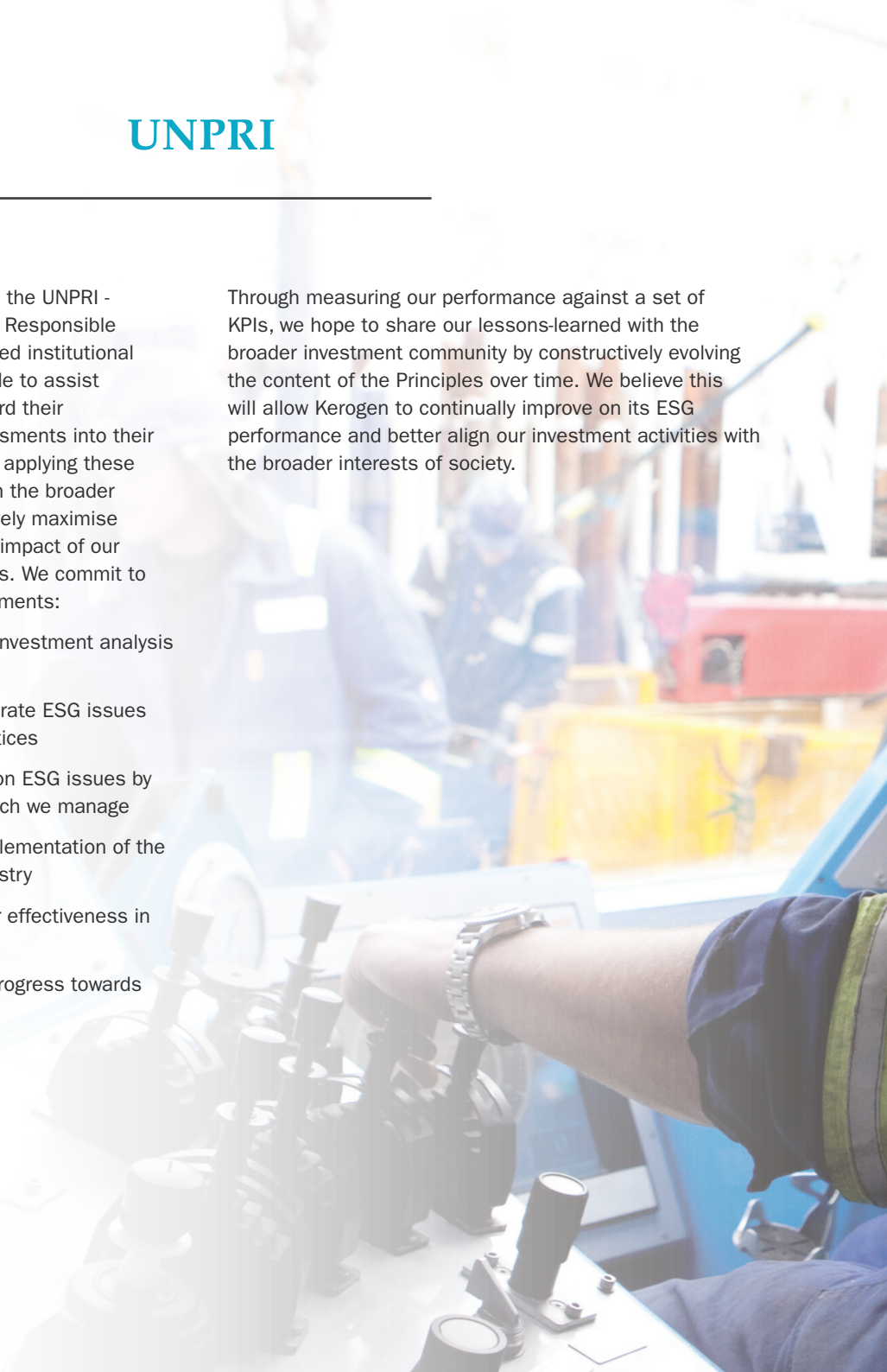
# UNPRI

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In 2013, Kerogen became a signatory to the UNPRI - the United Nations backed Principles for Responsible Investment. UNPRI is a globally recognised institutional framework which acts as a voluntary code to assist institutional investors to further safeguard their investments by incorporating ESG assessments into their investment practices. We recognise that applying these Principles may better align investors with the broader interests of society and therefore positively maximise the social, environmental and economic impact of our investments in our operating geographies. We commit to the following six principles for our investments:

- We will incorporate ESG issues into investment analysis and decision-making processes
- We will be active owners and incorporate ESG issues into our ownership policies and practices
- We will seek appropriate disclosure on ESG issues by the entities in which we invest or which we manage
- We will promote acceptance and implementation of the principles within the investment industry
- We will work together to enhance our effectiveness in implementing the principles
- We will report on our activities and progress towards implementing the principles

Through measuring our performance against a set of KPIs, we hope to share our lessons-learned with the broader investment community by constructively evolving the content of the Principles over time. We believe this will allow Kerogen to continually improve on its ESG performance and better align our investment activities with the broader interests of society.







## Extractive Industries Transparency Initiative

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Revenues from a country's extractives sector can have a transformative effect on the development potential of economies. We are committed to working with governments, non-governmental organisations and international agencies on increasing transparency of revenue payments within the extractives sector. We follow the framework of the EITI and advise our portfolio companies to:

- Support and subscribe to the principles of payments disclosure developed by the EITI
- Work collaboratively with EITI member host country governments on the implementation of their EITI commitments
- Work with host country governments and other stakeholders to support country-level efforts towards EITI certification in operating countries that are not yet signatories to the principles

# Kerogen's Principles and Policies: Foundations for Sustainable Investment

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Kerogen's Business Principles set the standard for the way we conduct business. They detail our responsibilities towards our investors, portfolio companies, employees, governments and society. We measure our business performance against these principles and we will terminate prospective investment opportunities if they are in violation of our principles. In partnerships and joint ventures which we do not control, we encourage our partners to apply and adhere to business principles consistent with our own which are included in full at the back of this document.

## **Our Values**

Kerogen employees share a set of core values: honesty, integrity and respect for all stakeholders.

Our values can be encapsulated in the following statements:

- We are committed to delivering the highest standards of professionalism, accountability, ethical integrity and transparency in our dealings;
- We believe in trusted long-term partnerships with talented management based on respect for all cultures and responsible corporate citizenship;
- We believe that innovation, creativity and deep insight based on industry expertise is the key to creating or unlocking value; and
- We can create sustainable value for all stakeholders by committing to responsible and sustainable investment practices.

Kerogen has an inclusive culture and fosters diversity in its workforce. We are respectful of different nationalities, cultures and religions as would be expected from a firm engaged in operations around the world.

## **Kerogen's Code of Conduct**

Kerogen's Code of Conduct helps employees and contractors to meet the standards and behaviours expected of them as set out in our Business Principles. The Code of Conduct covers areas including insider trading, anti-bribery and corruption controls, the safeguarding of confidential information and corporate assets.



## Kerogen's Business Principles

### 1: Private Sector Value Creation

Profitability is essential to achieving our business goals and to our long-term success. We believe the private equity model can not only maximise commercial value, but that investment can be leveraged to drive social, environmental and economic development for local stakeholders.

### 2: Business Integrity

Kerogen seeks high standards of performance and professionalism founded on honesty, integrity and fairness in our business practices.

We select partners and work together based on the same principles of integrity and fairness with zero tolerance for bribery and corruption.

### 3: Partnership and Alignment

Our partnerships are our most valuable asset. Fostering alignment between all stakeholders is critical to achieving objectives, managing risks and creating value.

We take a long-term approach to our partnerships with each of our stakeholders. We aim to be the private equity manager of choice for investors, portfolio companies, governments and local stakeholders.

### 4: Communication and Engagement

We are committed to open and transparent communication with our partners, regulatory authorities and all stakeholders. We promote proactive dialogue and seek honest feedback on all our activities.

### 5: Health, Safety and the Environment

We place great importance on ensuring that operations in which we invest are safe for employees, contractors and nearby communities. We work with partners to develop standards and practices with active monitoring, evaluation and reporting.

We aim to minimise the impact on the environments in which our portfolio companies operate through compliance with relevant environmental regulation and ensuring international standards of practice.

### 6: Responsible Investment

We integrate economic, environmental and social considerations into our decision-making. Kerogen believes that environmentally and socially responsible investment builds long-term sustainability for the business and reduces risk.

We aim to ensure stakeholder support by ensuring ESG concerns are addressed and local communities benefit from investment projects.

### 7: Compliance

We comply with all applicable laws and regulations in the geographies in which we do business and strive to meet and surpass recommended industry best practice.

