

# 2016 Sustainability Report



GRAHAM PARTNERS



# GRAHAM PARTNERS' 2016 SUSTAINABILITY UPDATE

## We are pleased to provide

you with our second annual Sustainability Report, which provides a snapshot of our environmental, social and governance (“ESG”) work in 2016 across our portfolio, as well as within our own organization at Graham Partners. On a broader note, I recently watched a micro-film entitled [“How Wolves Change Rivers”](#) that has me thinking about our sustainability efforts at Graham Partners.



**Christina Morin**  
Managing Principal

The film documents the profound impact created by the reintroduction of a pack of 31 wolves into Yellowstone National Park in 1995, after an absence of over 70 years. Scientists and researchers have been astounded by the cascading effect on the Park’s ecosystem. This one small pack of wolves has impacted a wide range of animal species inhabiting the park, as well as its vegetation, and even the course taken by its rivers.

Just as the introduction of these 31 animals sparked large-scale change across Yellowstone’s 2.2 million acres, we aim for our ‘micro-level’ sustainability work at Graham Partners to make a lasting impact above and beyond the company-level achievements we discuss in this report. At Graham Partners, we are proud of our results from this past year, including \$320k in annual savings from Demand Response programs (page 10), the rollout of an annual employee recognition award

program across our portfolio companies (page 12), and the holding of an inaugural environmental, health, and safety (“EHS”) summit (page 11). What we really hope you’ll gain is an appreciation for how our work has important, enduring effects that extend into our own industry and across our portfolio companies’ “ecosystems.” Graham is supporting its portfolio companies to be more intelligent and mindful about our planet’s resources and how they use them, as they interface with their suppliers, customers, and competitors regarding sustainability.

I also hope you’ll join us in welcoming Sarah Kolansky to our Operations Team at Graham as Associate Director of Sustainability. Sarah’s engineering and environmental degrees, coupled with her prior work experience and enthusiasm, will enable us to reach the next level with our program. We continue our commitment to sustainability that ties back to Don Graham’s heritage, set the bar high for what we sought to accomplish in 2016 with good success, and identify even greater opportunities to further our mission in this vital area in 2017 and beyond. We hope you’ll enjoy reading this report, and welcome the opportunity to speak with you any time about Graham Partners’ sustainability program in action.

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# MEET SARAH KOLANSKY: ASSOCIATE DIRECTOR OF SUSTAINABILITY

**Graham Partners is** excited to welcome Sarah Kolansky to the Graham Sustainability Team. As Associate Director of Sustainability, she will spearhead the firm's efforts to implement sustainability and EHS programs at our operating companies, as well as lead overall sustainability strategy. Sarah sat down with Lizzie Grobbel, a Sustainability Operating Partner with Graham Partners, to discuss sustainability and her outlook at Graham.



*Sarah Kolansky*  
*Associate Director of Sustainability*

**Lizzie Grobbel:** Tell me about your background in sustainability work prior to joining Graham.

**Sarah Kolansky:** I earned my undergraduate degree in civil engineering from Bucknell University and am graduating from the University of Pennsylvania with my Master of Environmental Studies degree this spring. Prior to joining Graham Partners, I worked as a climate change and sustainability consultant for ICF, a firm based in Washington, DC, for more than six years. I consulted for federal and local government clients, as well as private entities, to implement greenhouse gas accounting and mitigation plans. I also collaborated with the City of Philadelphia to develop a climate adaptation plan, understanding which of the city's critical assets are most vulnerable to the risks of climate change.

**Lizzie Grobbel:** How do you think your background will help advance sustainability at Graham Partners?

**Sarah Kolansky:** Understanding how governments are tackling climate change and thinking about resilience helps me recognize where there are opportunities for businesses to take the lead on ESG matters. My previous work for a variety of clients on a diverse set of projects prepared me to work with our Operations Team

and our portfolio companies to engineer solutions for each facility.

**Lizzie Grobbel:** What do you see as strengths of Graham's sustainability program?

**Sarah Kolansky:** We have a full-time Operations Team member working on sustainability throughout the entire portfolio. This means that we have a robust program that has been implemented across more than a dozen portfolio companies to date. As a result, Graham's sustainability program is a leader amongst our middle-market peers.

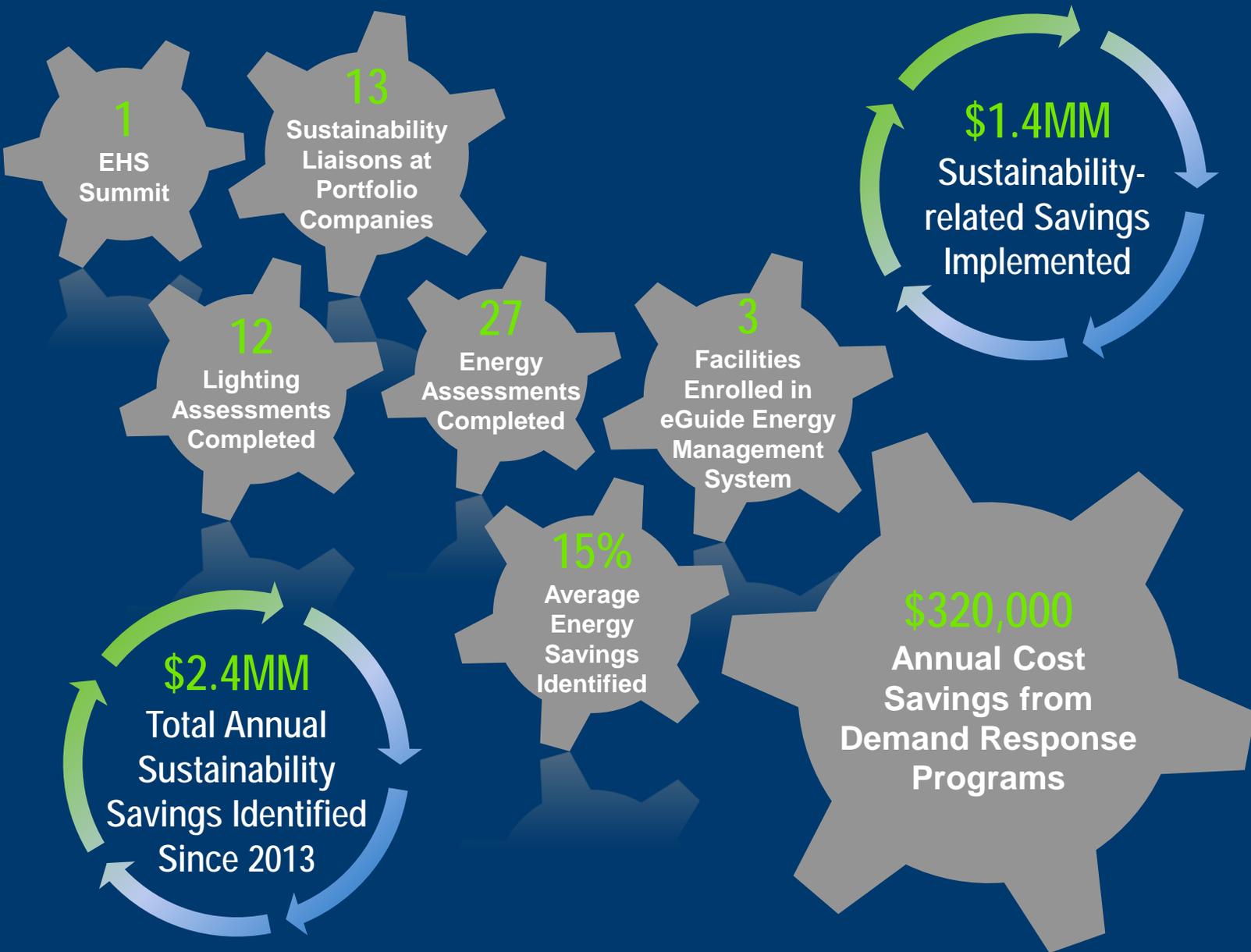
**Lizzie Grobbel:** What do you hope to accomplish in 2017?

**Sarah Kolansky:** Graham Partners has built a strong program to date, and I look forward to working with the team to continue the momentum. I will work closely with the Sustainability Liaisons at each portfolio company to continue to drive sustainability savings in energy, water, and waste. Comar, for example, has established its own sustainability and EHS goals across the company for 2017, so we will work in collaboration with the Comar team and our partners to accomplish these goals.

**Lizzie Grobbel:** What excites you about working with Graham's portfolio companies?

**Sarah Kolansky:** Graham's diverse portfolio of manufacturing companies means that there are unique challenges, but also great synergies across our high-tech manufacturing portfolio. I look forward to working closely with our portfolio companies and our partners to drive operational efficiency and create value for our investors.

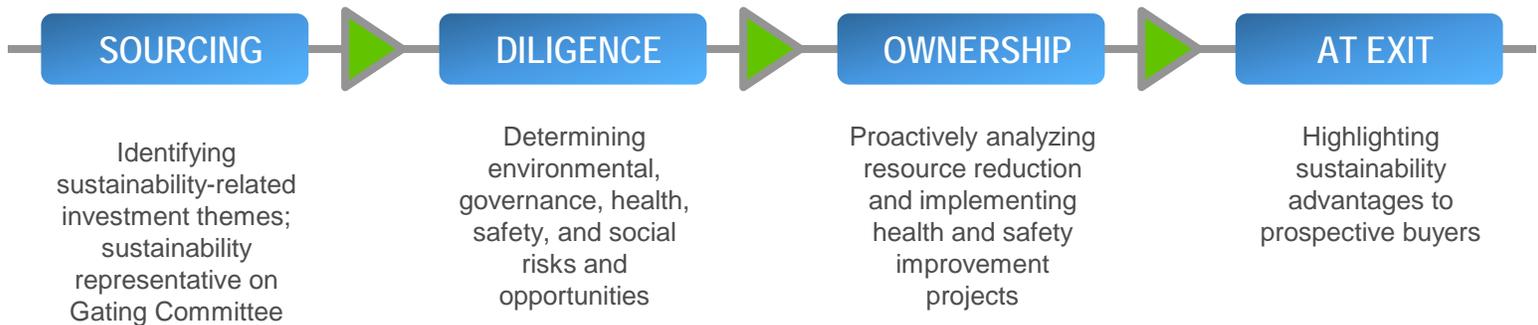
# SUSTAINABILITY AT THE PORTFOLIO LEVEL: ESG BY THE NUMBERS



The Graham Portfolio has a strong ***continuous improvement*** mentality. Our companies are applying this mentality to a variety of sustainability issues, ***driving lasting financial, environmental, and social impacts.***

# EVALUATING SUSTAINABILITY THROUGHOUT THE INVESTMENT CYCLE

Graham Partners continues to employ a holistic strategy that incorporates sustainability into each phase of the investment cycle, from sourcing through exit.



## SOURCING WITH SUSTAINABILITY IN MIND

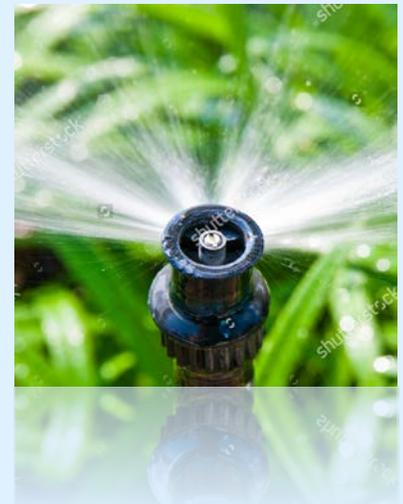
**At Graham Partners,** we actively seek to source new investments by exploring conversion opportunities benefiting from sustainability trends. We develop industry theme studies that investigate various niches to identify companies that may be benefiting from conversions to more environmentally friendly products or services.

Graham has been an active participant in the green / energy efficient building products space for over a decade. In order to proactively source companies in this sector, Graham worked with MBA students at the Wharton School of Business at the University of Pennsylvania to develop in-depth industry studies investigating green and energy efficient building conversion opportunities. Graham has successfully acquired and sold a number of companies that manufacture energy efficient building products, including:

- 🌍 **Chelsea Building Products** - Energy efficient vinyl window profiles
- 🌍 **Henry Company** - Building envelope solutions, white roof coatings, and vegetative roof assemblies

Additionally, Graham has focused on identifying companies specializing in water conservation conversion trends and has developed numerous industry theme studies surrounding water efficiency. Water efficiency companies from the Graham portfolio include:

- 🌍 **Infiltrator Systems, Inc.** - Resin-based septic systems made from recycled materials, requiring less material and occupying a smaller footprint than traditional concrete and stone designs
- 🌍 **National Diversified Sales** - Drip irrigation systems that use 75% less water than traditional broadcast irrigation



# DILIGENCING THROUGH A SUSTAINABILITY LENS: BRIGHTPET NUTRITION GROUP

## During due diligence,

Graham Partners actively seeks to identify ESG risks and opportunities. These opportunities can then be underwritten into an investment thesis to form investment decisions and post-acquisition strategies.

When Graham was diligencing BrightPet, a Graham IV investment, Graham Partners' Operations Team analyzed BrightPet's operations and energy usage to identify opportunities for cost savings. The Operations Team worked with a number of experts in pet food manufacturing and determined that a minimum of 5%



of BrightPet's energy costs could reasonably be cut. The team noted inefficiencies in compressed air usage and thermal characteristics that are expected to yield cost savings with the implementation of new, more productive energy efficient equipment. The Operations Team also identified other key areas for improvement in worker and food safety.

BrightPet has invested \$1.2MM as part of the 100-day plan to build best-in-class food and worker safety systems within its facilities, and is well on its way to realizing the identified cost savings.



BrightPet Video



# CASE STUDY: COMAR

## (BUENA, NJ FACILITY)

### Comar's guiding principle of "Doing It Right the First Time"

is the foundation of the company's sustainability efforts and has contributed to its notable achievements in operational excellence. Comar is actively engaged in reducing energy consumption and investigating potential cost savings opportunities. Since the inception of Graham Partners' sustainability program in 2013, Comar has conducted four energy assessments in conjunction with Graham Partners and University Industrial Assessment Centers ("IACs") sponsored by the Department of Energy ("DOE") to identify energy reduction measures. Participating sites include Comar's Buena, NJ (in partnership with the University of Delaware IAC), Sheboygan, WI, and Saddle Brook, NJ facilities. These audits have identified annual savings of approximately \$250,000.

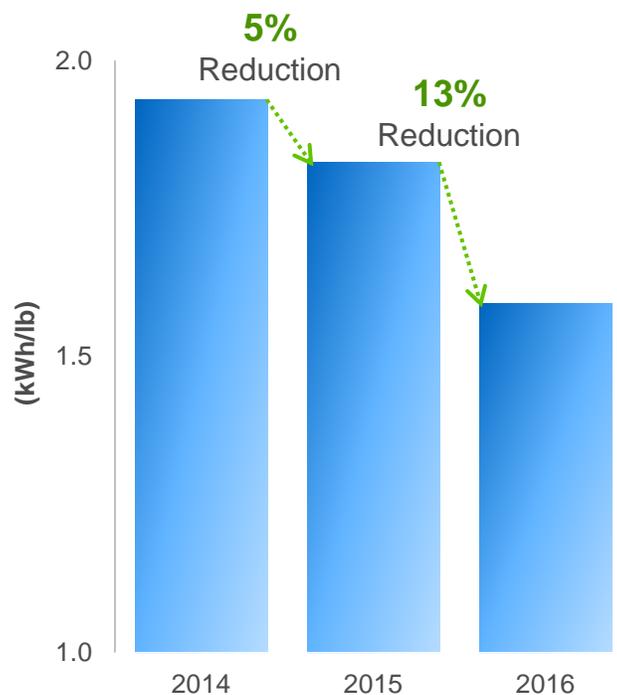
Additionally, Comar participated in the DOE's eGuide pilot program. Through this pilot, Comar's Buena plant formed an energy team in order to better understand, control, and reduce their energy usage. As a part of their daily operations process, Comar uses energy benchmarking across the company to track the number of kilowatt hours per pound (kWh/lb) of product produced.

Comar is highly sensitive to its responsibility for the health and safety of its employees, the environment, and consumers around the world who use its products. In 2015, Comar hired a corporate Environmental, Health and Safety Manager to further the company's global EHS commitment and management systems. Currently, Comar and Graham's Operations Team are investigating the benefits of installing solar panels at Comar's New Jersey sites to reduce its carbon footprint and annual energy costs.

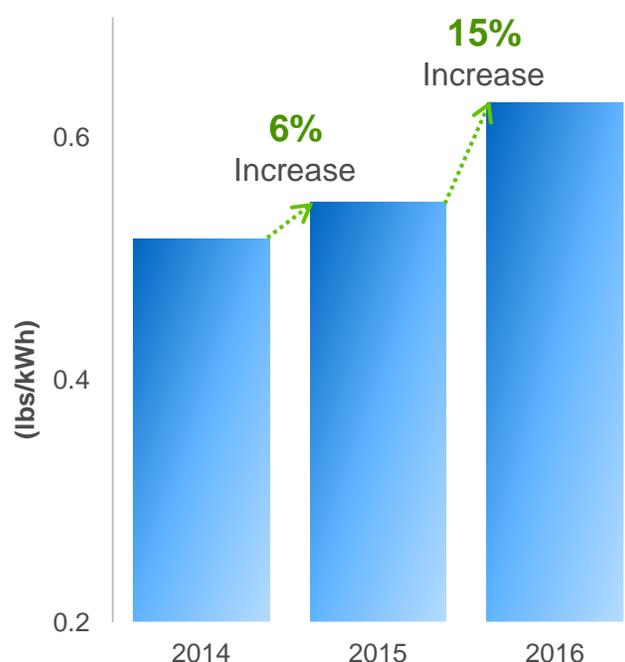


Video:  
Sustainability at Comar

### ENERGY USAGE (June)



### ENERGY EFFICIENCY (June)



# CASE STUDY: HENRY (GARLAND, TX FACILITY)

## Energy conservation is a key focus in

Henry Company's operating strategy. In order to reduce energy usage at Henry's Garland, TX facility, Graham Partners reached out to the Oklahoma State University (OSU) IAC to recommend energy management strategies.

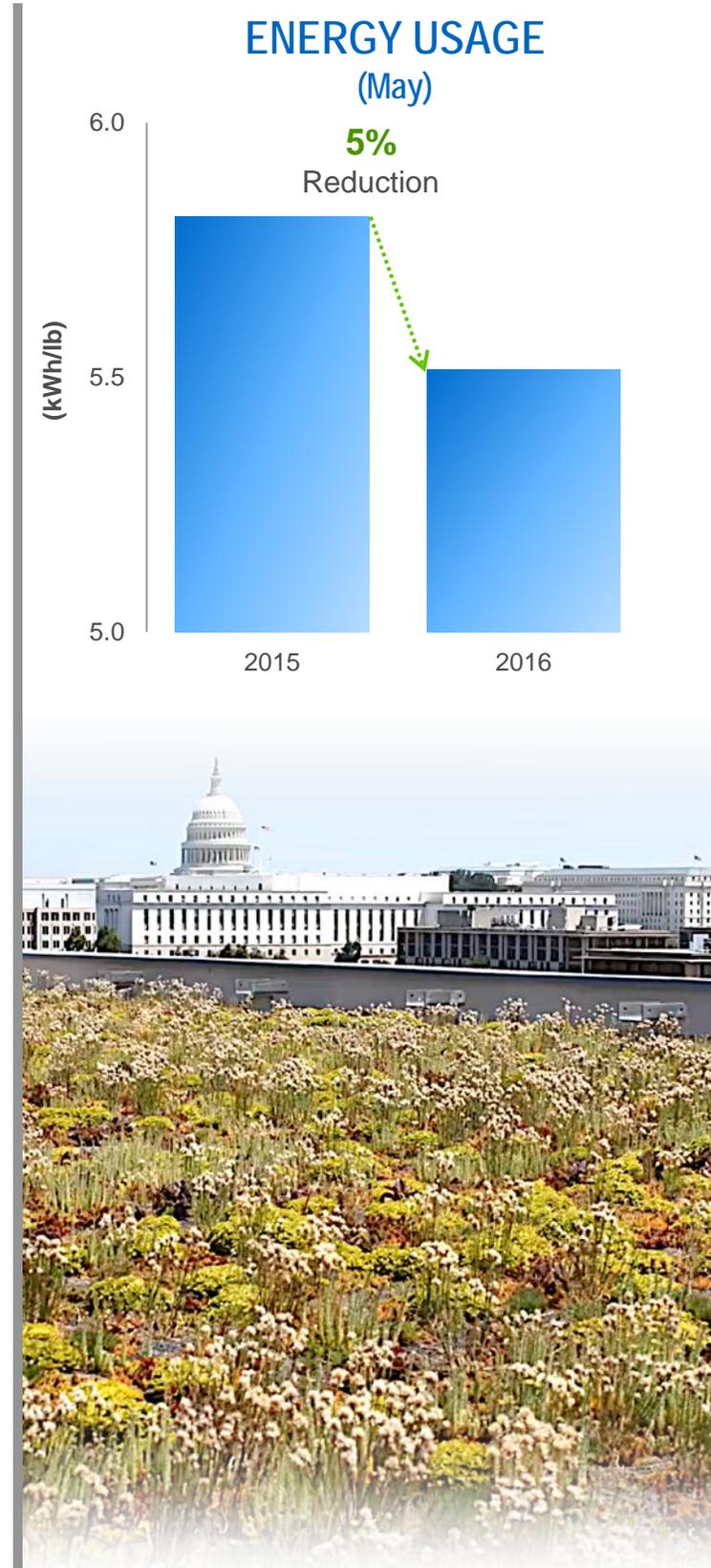
The OSU IAC team performed an energy audit of the Garland site and identified eleven energy efficiency opportunities. As a part of the audit, OSU also provided consultation on energy sub-metering technology, which helped the Garland facility visualize energy usage and work towards its energy management and sustainability goals. In addition to OSU's energy management recommendations, the OSU IAC assisted with several additional energy reduction projects at Henry. A summer independent study project was conducted by an IAC PhD student, resulting in the installation of a more efficient boiler.

Henry also was interested in the DOE's eGuide and Energy Footprint tools. Henry enrolled in a pilot program for both of these tools, and provided feedback and insight to OSU and DOE teams. By employing eGuide strategies and tools to implement a formal energy management system, Henry now has a better understanding of where energy is being consumed in the plant, is able to monitor and improve process efficiency, and can eliminate unnecessary waste.

Post-energy-audit, Henry's Garland facility achieved a 5% annual drop in energy usage.



Video:  
Henry's Energy Efficient Products



# CASE STUDY: CHELSEA

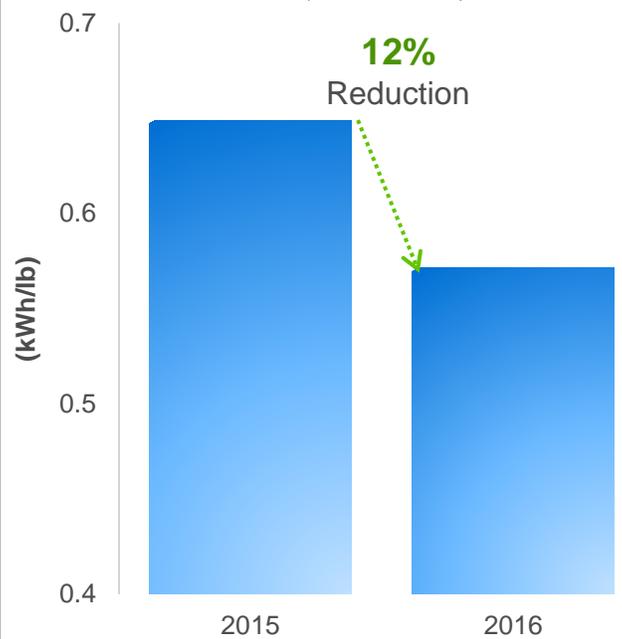
**Chelsea Building Products** has pioneered the design and manufacturing of customized engineered extruded profiles used in PVC windows and doors, cellular PVC molding, composite cellular PVC cladding, and other specialty building products.

In 2016, Chelsea participated in an energy efficiency assessment in conjunction with the Lehigh University IAC and members of Graham Partners' Operations Team. The Lehigh IAC provided recommendations that would reduce Chelsea's annual energy usage by over \$250,000. Chelsea has been working to implement these recommendations and has seen a reduction in energy intensity of 12% from June 2015 to June 2016.

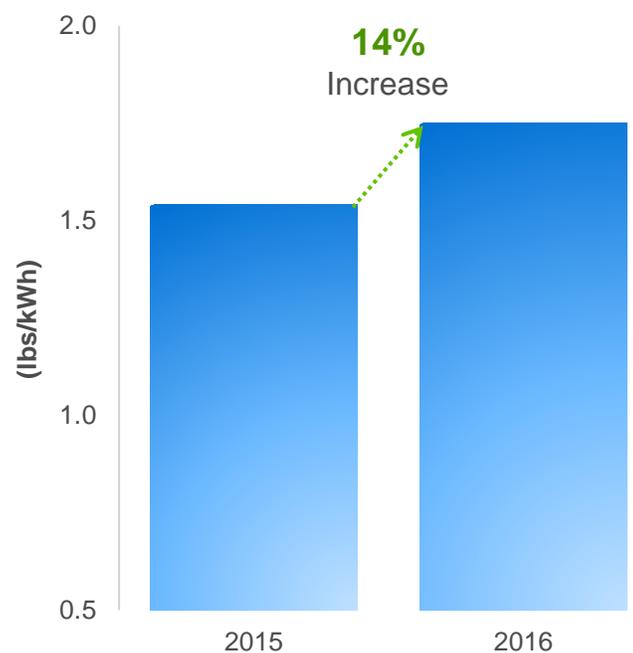
Additionally, under the guidance of Alex Treadway, Chelsea's Raw Materials Supervisor, the company's raw materials recycling rate increased from 89% in 2014, to 96% in 2015, and 100% in 2016. This increased EBITDA by \$500,000 in 2015 compared to 2014. Chelsea also saw a reduction of regrind inventory, allowing the company to better organize the plant and create a cleaner, safer work environment with better inventory control.



## ENERGY USAGE (November)



## ENERGY EFFICIENCY (November)





# GRAHAM'S ESG TOOLBOX: STRATEGIC PARTNERSHIPS

**Graham has forged partnerships** with several leading edge organizations that are working to help strengthen its operational initiatives throughout the investment cycle.



Graham Partners has been working with **EnerNOC** to identify opportunities to enroll Graham portfolio companies in Demand Response programs. Through this partnership, EnerNOC contracts with utility companies and coordinates payments to facilities that agree to curtail energy usage during times of peak demand on the electric grid. Graham's portfolio companies are slated to earn over **\$320,000** from these Demand Response programs in 2017.



**RUBICON**

By partnering with **Rubicon**, Graham Partners has identified more efficient methods of recycling and waste management. Rubicon combines a network of independent haulers, an on-demand technology platform, and onsite waste and recycling support to generate cost savings at the portfolio company level. Annual savings of at least **\$100,000** across the portfolio are anticipated.



**SmartWatt Energy, Inc.** has provided Graham's portfolio companies with turnkey lighting assessment and upgrade services since 2013. SmartWatt has conducted twelve lighting assessments at various portfolio company locations, and identified over **\$500,000** in annual cost savings opportunities through the installation of energy-efficient LED and fluorescent lighting.



Since 2015, Graham Partners has partnered with the **Department of Energy's University Industrial Assessment Centers** to provide 11 portfolio company audits. These no-cost, one-day assessments are conducted by professors and students and provide portfolio companies with energy efficiency recommendations that would reduce energy consumption and costs. **\$770,000** in annual energy savings have been identified to date, and **\$409,000** in annual savings has already been implemented.

Three portfolio company facilities successfully completed a full year of the DOE's **eGuide** energy management pilot program. These facilities have established energy teams, worked to develop an energy usage baseline, and mapped the most significant energy users in their processes. Energy teams continue to implement reduction measures identified during their usage analysis. Henry's Garland, TX facility has seen a **5% drop** in energy usage since engaging with the DOE.



**GRAHAM  
SUSTAINABILITY INSTITUTE**  
UNIVERSITY OF MICHIGAN

Through the **Graham Sustainability Institute at the University of Michigan**, faculty and students partner with external stakeholders, such as individuals, corporations, foundations, and government agencies, to foster sustainability solutions at all scales. Graham Partners worked with the Graham Sustainability Institute and alongside the University of Michigan's Tauber Institute for Global Operations to develop an environmental scorecard and an energy reduction program. Recommendations from this project formed the foundation for Graham Partners' sustainability program.

# SUSTAINABILITY EFFORTS THROUGHOUT THE PORTFOLIO

## Graham Partners' 10-point ESG Policy

**Graham Partners continues** to place increasing focus on sustainability, including ESG matters throughout the investment process and across the portfolio. In order to solidify this focus, we developed a sustainability mission statement and policy related to ESG matters. At a high level, our ten-point ESG policy, established in 2015, addresses the following:

- |  |   |
|--|---|
| I. Investing in ESG                            | VI. Prohibiting Bribery and Corruption      |
| II. Increasing Long-term Sustainability        | VII. Respecting Human Rights                |
| III. Providing Appropriate Levels of Oversight | VIII. Fostering Transparency                |
| IV. Ensuring Environmental Compliance          | IX. Encouraging Sustainability Advancements |
| V. Guaranteeing Workplace Quality Standards    | X. Upholding Sustainability as a Firm       |

We endeavor to consider sustainability in all our activities in order to pursue responsible courses of action to benefit Graham Partners, its funds and affiliates, investors, portfolio companies, and the community.

## EHS Survey & Summit

**An environmental, health, and safety assessment** was launched for all portfolio companies in February 2016. Each company completed a survey to evaluate EHS processes and performance at each of their facilities. To discuss these results and implement best practices, a summit was held at Graham Partners in April 2016.

### Survey Topics covered:

- Injury / Illness Data
- Walking / Working Surfaces
- Occupational Health / Hygiene & Safety
- Emergency Preparedness
- Environmental Compliance
- Energy Best Practices

### Summit Workshops featured:

- Occupational Health & Safety
- Waste and Recycling Efficiency
- Energy Best Practices

Graham Partners is consistently engaging with worker safety experts, consultants, and management teams to develop and execute EHS programs at each portfolio company.

## Sustainability Liaisons

In late 2015, the Graham Partners Operations Team engaged with portfolio company CEOs to broaden sustainability activities at all portfolio companies through increased employee involvement. Each CEO nominated a Sustainability Liaison within his / her company to spearhead sustainability program development and project management. Liaisons have been hard at work executing projects across the portfolio, including enrollment in demand response, developing company-wide sustainability policy, and participating in the DOE's eGuide program.

## Sustainability Steering Committee

Graham Partners' Sustainability Steering Committee works together to develop and enhance effective sustainability programs and strategies. The team, comprised of four external committee members and four internal Graham Partners members, met in May 2016 to discuss the accomplishments of the sustainability program to date and review the long-term strategy for Graham's sustainability program. The Committee's diverse group of industry experts help push the program forward and align with current trends in sustainability.

# 2016 GRAHAM PARTERS IMPACT AWARDS & INTERNAL SUSTAINABILITY INITIATIVES

**In the fall of 2016**, Graham Partners initiated its inaugural Impact Awards program. This program is designed to reward employees of Graham Partners' portfolio companies who are going to extraordinary lengths to make an impact, whether it be through securing new business, exhibiting strong leadership, having a determined work ethic, developing a new product, or finding new ways to save costs that impact the bottom line.

Thirty-six employees were nominated across Graham Partners' portfolio, and a finalist was chosen from each portfolio company. Of the thirty-six, three recipients were selected for their outstanding contributions to his / her company, and were recognized at the 2016 Annual Investors Meeting.

## ALEX TREADWAY

Chelsea

*Raw Materials Supervisor*

Tenure: 3 years



Alex increased Chelsea's recycling rate to **100%** in the last 12 months, driving a **\$500,000** increase in EBITDA and creating a **cleaner, safer** work environment with better **inventory control**

## CHIVON MACMILLAN

Comar

*Multinational Account Manager*

Tenure: 8 years



Chivon played a leadership role in winning a **key customer**, a **~\$10.0MM** annualized revenue opportunity, and has also been Comar's **top sales performer** for the last three years running

## DOUG POWERS

Tidel

*Manager & Mechanical Engineer*

Tenure: 17 years



Doug identified and implemented a **design cost reduction** that resulted in **\$400,000** savings in the first year – he also led the mechanical design of a **new product** (the Rolled Coin Dispenser)

## Internally at Graham...

**The Graham Partners Green Task Force** was established in 2015. Seven employees meet on a quarterly basis to collaborate on how to improve the internal office environment, including:

- ✓ Reducing energy footprint
- ✓ Decreasing waste generation
- ✓ Monitoring resource consumption
- ✓ Improving air quality
- ✓ Overall wellness

In May 2016, Graham Partners employees participated in a volunteer service project, planting trees and gardening with the **Philadelphia Orchard Project**, a local program committed to planting and maintaining orchards in urban areas in and around Philadelphia.





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[Graham Partners on Video](#) | [Graham Partners Sustainability](#)