

Why RESPONSIBLE INVESTING is important to us

For Hg, responsible investing means growing sustainable businesses which are great employers, have low environmental impacts and are good corporate citizens whilst generating superior risk adjusted returns for the millions of pensioners and savers who are invested with our clients.

Through our investments we create quality jobs in sectors with low carbon emissions and generate value through revenue growth over the long-term. We want the businesses we invest in to be genuinely focused on doing well for all stakeholders (employees, customers, suppliers and other partners as well as shareholders). We firmly believe that businesses that behave this way generate superior long term performance.



Implementing Responsible Investment



Signatory of:



AA 42

2016 PRI Assessment:

- A for Strategy & Governance
- A for Private Equity Ownership

Investment Executives completed the BVCA Responsible Investment Training course

5% 24k

Organic growth in employment across Hg's portfolio companies in 2016*

Total number of employees across Hg's portfolio companies in 2016*

100's of millions

Hg invests on behalf of 100's of millions of underlying pensioners

*Figures exclude our legacy Healthcare portfolio investments

Workplace

Citation:

A top place to work

2016 saw Citation listed, for the second year running, in the Sunday Times' UK Top 100 Best Companies to Work For. They've made the list again for 2017 and await their placing.

Employee engagement is at the heart of the company's dynamic people strategy:

- Valuing its people and showing appreciation: in addition to a flexible and comprehensive benefits package, more unusual perks include a day off on your birthday, a paid week of leave when you get married, and an extra day off for new grandparents. Staff can nominate one another for annual awards and long service awards celebrate those who have been part of the team for more than five years.
- Creating a fun, friendly and supportive atmosphere: from virtual 'thank you's' which can be sent to anyone, to social get-togethers, Citation makes fun, friendliness and teamwork a core part of its culture.
- Putting an emphasis on communication: Chris Morris, CEO, does a monthly business briefing for all staff which is available to colleagues in the field and those on leave. It is a forum for all colleagues to pose questions or share updates, and particularly valuable for keeping those not based at head office in touch with what's going on.
- Making well-being a priority: 2016 was the year of well-being with initiatives run throughout the year: from a Health Kiosk to Directors making smoothies for everyone. One well-received session was run by a speaker from Andy's Man Club and concerned male mental health, a subject not usually tackled in the workplace.

Citation firmly believes that employee engagement improves customer service. Achieving national recognition also boosted its ability to attract talent, with responses to recruitment posts soaring.



Community

Sovos Compliance: Community Investment Programme

In 2016, Sovos provided over \$4,000 in matching funds of Employees contributions to their favorite non-profit charities.

Additionally, Sovos employees participated in five charitable giving community service events and offered over 200+ hours of volunteer paid time off to employees for charitable work and service in their local communities.

Environment

Sovos Compliance: Ride Share and Bike/Walk Programme

Employees who agree to carpool together or bike/walk to work at least four days a week will earn a \$65 taxable monthly payment.

38 employees have elected to participate since the programme began in October 2015. Current enrollment is 17 employees, giving a participation rate of 10%.

Marketplace

Supply chain risk management

12 companies in the portfolio fall within the reporting requirements of the UK's Modern Slavery Act and, as required, have reported via their websites on the steps they take to eradicate the risk of modern slavery in their supply chains. We have worked with them to discuss their approach to risk management on this issue.

Additionally, Teufel (which is not within the ambit of the UK Act) has adopted a new Supplier Code of Conduct during the course of the year. Hg's own statement is available at www.hgcapital.com/responsibility.

Governance

Anti-bribery policy

All companies have a current anti-bribery policy (with the one being a work-in-progress).

Governance review:

- 100% have an audit and remuneration committee in place;
- 85% use a risk framework or balanced scorecard to regularly assess operational risk;
- 62% have considered the impact of extreme events on their business; and
- 92% have an up-to-date business continuity / disaster recovery plan.



Case study

JLA is a UK-based Critical Asset Supply & Service business offering end-to-end solutions in laundry, catering, infection control, compliance & safety and consumables. JLA operates across a diverse sector, offering customers a

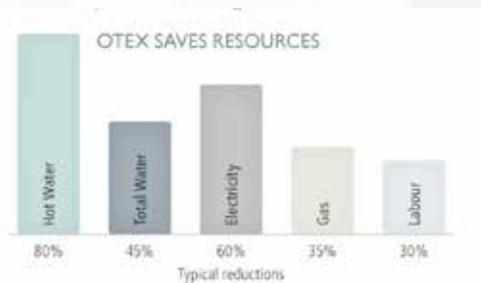
fully inclusive machine supply and breakdown service proposition under the name of Total Care, as well as other supplementary products and services such as service solutions and equipment sales.

Environment

Helping our customers become more energy efficient

OTEX

- JLA's OTEX ozone disinfection system uses ozone, one of nature's best natural disinfectants. It works best in cool temperatures leaving less moisture in linens leading to shorter drying cycles. By using less water and heat, the laundry room consumes less energy, reducing utility bills and operating costs dramatically, whilst still ensuring robust infection control.



- In addition, ozone does not harm the environment. It has a very short half-life, breaking down into oxygen once its job is done.

SMART

- JLA's SMART Wash and SMART Dry ranges cut water, energy and detergent use by up to a third, giving customers a greener and cheaper operation.
- SMART Wash uses JLA Sense - an integrated laundry 'brain' that determines the minimum water and detergent needed, saving up to 32% compared with a conventional washing machine, whilst still ensuring optimum wash quality.
- The SMART Dry range uses a two-phase heating process which cuts the time and energy needed for air to reach optimum drying temperature.

Working to protect our environment

In addition to helping customers become more energy efficient, JLA takes its responsibility to create a sustainable workplace very seriously, with the following initiatives:

- A programme of replacement for old IT equipment and lighting with more energy efficient versions;
- A vehicle tracking system dispatches the most appropriate engineer to a customer, reducing fuel consumption;
- ESOS compliant;
- HQ electricity is powered solely by renewable energy; and
- A CO₂ cap on company cars.



Community

Apprenticeship Scheme

JLA have run a successful engineer apprenticeship scheme since 2011. Apprentices learn the skills they need to succeed and work closely with an external training company, so that they get both on-the-job training and official qualifications.

With the training and support JLA give apprentice engineers, once they complete their courses, they expect to go on to become fully fledged members of the JLA team.

NVQ

Within the last 12 months over 30 JLA employees have undertaken NVQ courses, and every one of them received a qualification. JLA has an ongoing programme to upskill team members to keep them growing in line with the business.

Diversity

JLA is committed to creating a culture that values its people and operates with mutual trust and respect. JLA's employment policies and practices reflect a culture where decisions are made based on individual ability and potential in relation to the needs of the business. This is seen as a factor in JLA's success.

Community Sponsoring

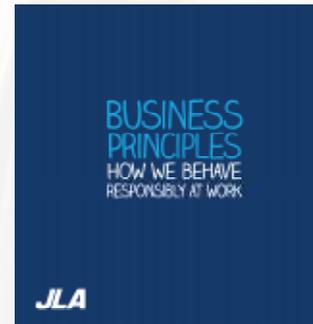
JLA is committed to creating a positive impact within the community and with its customers, regularly supporting local events and sports teams and providing charitable donations to support customer fundraising initiatives.

Governance

Business Principles

JLA's business principles are designed to ensure that all staff work towards the same goals and guard against damage to JLA's collective or individual reputations. In outlining their beliefs and expectations from an early stage, JLA promotes best practice from the day an employee joins the company.

The principles are readily available on www.jlagroup.com



Cash Collection

JLA's Total Care Vend Share division outsourced their cash collection operation to minimise business risk and improve employee safety. All cash is now returned daily to highly secure unmarked cash centres to reduce cash handling time. This process minimises the number of people in contact with cash, greatly improving JLA's accounting and audit trail.

Workplace



Hg has invested considerable time in developing our academies for talent development throughout the firm. We have won awards for our management programme and development practices, and have run an employee engagement initiative since 2012.



Governance

Although none of our portfolio companies meet the size criteria for the PERG Guidelines on transparency, Hg complies with its transparency principles in the investor reporting of HgCapital Trust plc, an investment trust listed on the London Stock Exchange, which has won numerous awards for the transparency and quality of its reporting.

We have been independently assessed against the Cyber Essentials scheme and been accredited with the Cyber Essential Plus Certification.

Environment

- We have 11 recycling stations in the office
- Our confidential waste is dealt with by First Mile who awarded us their silver certificate
- We recycle 100% of our used Nespresso coffee pods (1,900 in 2016)
- We use Green Couriers, the only carbon balanced courier company in London

Marketplace

Hg is a signatory to the UNPRI and reports annually against its framework.

Our executives contribute meaningfully to industry activities and associations to promote best practice in the private equity industry.



Community

We donate 1% of our profits to charitable causes.

These include sponsored events, other charities which employees support personally (both financially and otherwise) and requests from clients, advisors and portfolio companies. Below is a selection of the many charities we have supported in the past year.



Investment principles

When considering potential new investments, Hg will:

- Screen them against the following Exclusion List, which identifies the sectors, businesses and activities in which Hg will not invest. Hg will not invest in a company which:
 - has production or other activities that involve harmful or exploitative forms of forced labour or child labour;
 - produces any illegal products or engages in any illegal activities under applicable local laws;
 - manufactures, distributes or sells arms or ammunitions primarily designed or primarily designated for military purposes;
 - is involved in the production, sale, supply or distribution of cluster munitions;
 - manufactures or sells pornography;
 - is involved with products and activities that are banned under global conventions and agreements, such as certain pesticides, chemicals, wastes, ozone depleting substances and endangered or protected wildlife or wildlife products;
 - is involved in the supply or purchase of sanctioned products or goods to or from countries or regions covered by United Nations sanctions;
 - is, in the opinion of Hg's Investment Committee, exploitative of vulnerable groups in society.
- Assess them from an RI perspective to identify material ESG risks and opportunities, and potential consequent actions, prior to any commitment of capital.

Over the period of our investment, Hg will:

- Monitor investee companies' performance in relation to the management of ESG issues. We ask all our portfolio companies to report annually on a range of ESG issues. We also support investee companies in improving the management of ESG issues on a continuous basis to reflect evolving international and industry best practice. For example, all Hg portfolio companies are required to commit to the highest standards of business conduct through implementing a Code of Conduct applicable to all employees.

INVESTMENT SCREENING



DILIGENCE



OWNERSHIP

- When considering potential new investments, we screen them against an exclusion list, which identifies the sectors, businesses and activities in which we will not invest.
- A red flag report identifies high level concerns arising from sectors, geographies and preliminary diligence results.

- During diligence, we assess companies for compliance with relevant laws in relation to environmental, social, governance, health and safety, bribery and corruption issues.
- As part of this process, we carry out a specific review detailing risks and opportunities for improvement within our framework in relation to the deals in our main buyout fund.

We work with companies to implement initiatives and new processes, and support them in realising their ambitions within and beyond our framework. Cross-portfolio initiatives and best practice sharing in 2016 included:

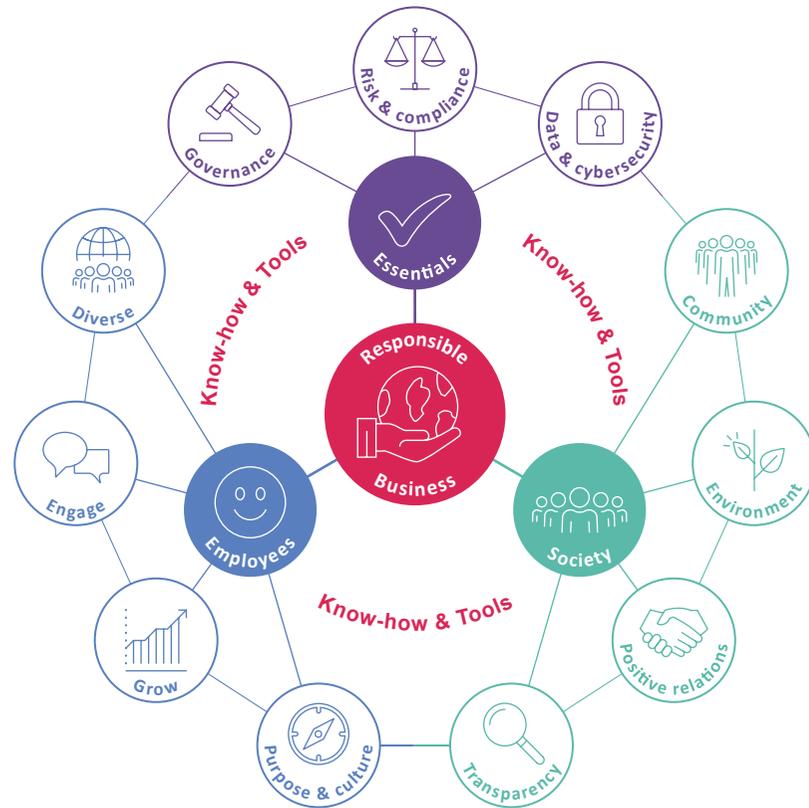
- Supply chain review for relevant companies as part of Modern Slavery Act compliance;
- Cyber security awareness raising via CFO and Legal & Compliance conferences;
- Briefing on cyber insurance;
- Best practice sharing on employee engagement initiatives at HR Directors' conference.

Initiatives planned for 2017 include a deeper dive into cyber security across the portfolio and a continued focus on human capital, in particular employee engagement.

Our Responsible Business Framework



Hg's Responsible Business framework outlines key ESG areas of focus and how Hg can support our businesses. The framework is used to assess prospects both before investment and businesses we own throughout our ownership. It focuses on three key areas:



Essentials

There are certain minimum ESG requirements that Hg expects from all our businesses. These include:

-  **Governance and Business Integrity**, such as code of conduct, appropriate controls, board composition and appropriate health & safety and grievance procedures.
-  **Risk and Compliance**, including compliance with all laws and regulations, active risk management, as well as standards and policies to combat bribery, corruption, money laundering and other malpractice.
-  **Data and Cybersecurity**, which includes Hg's minimum standards for cybersecurity along with appropriate information protection practices and GDPR compliance.



Employees

One of the most important assets of our businesses are the employees. A diverse workplace with engaged and motivated employees is vital for growth and business success. We look at employees from four aspects:

-  **Diversity of talent** and equal opportunities irrespective of ethnicity, gender, disability and background.
-  **Engagement and motivation** by promoting transparent communications, health and wellbeing, learning opportunities, recognition and good leadership.
-  **Grow businesses and talent**, including organic job growth, healthy staff turnover, talent management and succession planning.
-  **Purpose and culture**, including appropriate and value driving vision, mission, values, norms and behaviours.



Society

We want all our businesses to strive for positive external impact by acting transparently and contributing to society through their business practice, charitable and community support and supplier and customer relations.

Our businesses contribute to society in a number of ways:



Community engagement

including community engagement initiatives, apprenticeships, charitable giving and volunteering.



Environmental impact - The majority of our businesses have low carbon footprints and minimal impact on the environment. We still encourage them to consider how they can improve their energy use and waste management, as well as reduce business travel.



Positive relationships with key external stakeholders including customers and suppliers. For example, by responsible pricing and sales and supplier relationships.



Transparency of company commitments and progress, including external reporting and sustainability communications.