

# Responsible Investment Policy

## Overview

For Hg, responsible investment ('RI') means growing sustainable businesses which are great employers and good corporate citizens, at the same time as generating superior risk-adjusted returns for the millions of pensioners and savers who are invested in our funds. Our expertise and capital support the sustainable growth of 'knowledge' businesses, enabling them to improve how their customers operate, whilst also providing quality employment opportunities for thousands of people worldwide.

We want the businesses we invest in to be genuinely focused on doing well for all stakeholders including employees, customers, suppliers, shareholders and wider society. We firmly believe that responsible business practices help generate superior long-term performance. As such, our RI approach supports the backbone of our investment philosophy – to invest in growth companies and sectors, rather than turnaround or distressed investing.

This is not just a screening process. As part of our RI approach, we take an active interest in how our companies manage environmental, social, and governance ('ESG') issues. We encourage, support and stretch the businesses we partner with to strive for best practice ESG standards.

Hg has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2012 and is dedicated to the UNPRI's six principles. Our vision is to be a leader on ESG in the Private Equity space and this ambition is reflected by our A+ rating from UNPRI in both categories for which we are assessed (Strategy & Governance and Private Equity ownership)<sup>1</sup>.

The purpose of this Policy is to set out Hg's approach to the identification and management of sustainability and ESG related risks and opportunities throughout our investment activities, including the management of our investee companies.

## Scope

This Policy applies to all Hg Staff, across all our funds and covers all assets under management (AUM)<sup>2</sup>.

## Our approach to Responsible Investment

Responsible investment (RI) sits right at the core of our Purpose. **We are trusted to improve the future of millions of investors by building sustainable businesses for tomorrow.** This is our purpose statement, our reason for being – it is how we see our place in, and contribution to, society. Our purpose is embedded in everything we do, in every decision, every day and for every individual.

What this means in practice is that we look to grow sustainable businesses which are great employers and good corporate citizens. Hg has a clear investment approach targeting software and services companies. Hg primarily seeks controlling equity buyout investments in predominately Northern European and North American headquartered businesses, though such companies will often have a global footprint and customer base.

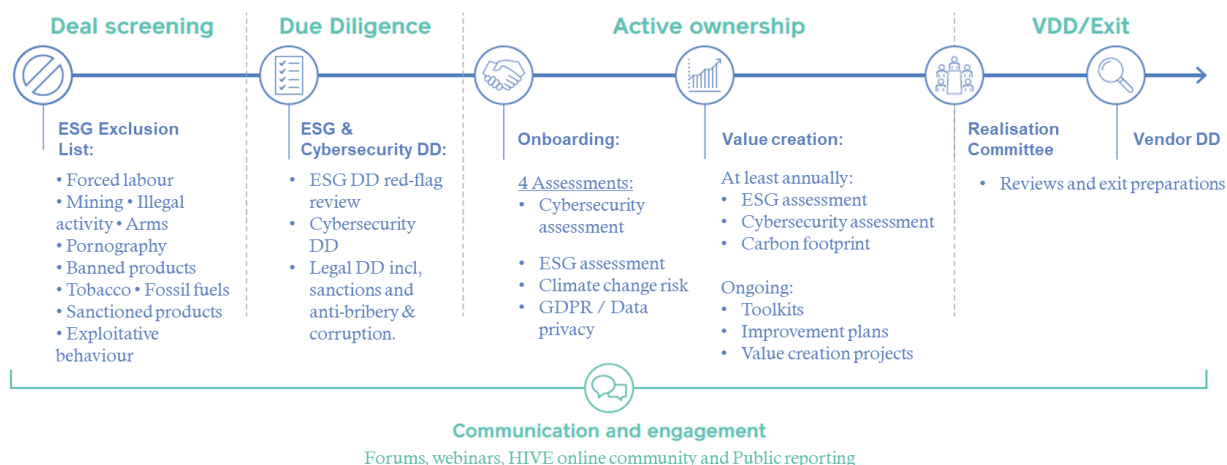
Our targeted investment approach means we have extensive knowledge and a clear focus on the ESG metrics that are most material to the software and service sector. These ESG metrics are outlined in our Sustainable Business framework (see page 4). We apply the same approach to RI across all our businesses, no matter their size or location, and we always strive for best-in-class ESG performance. In a non-control investment, where Hg is a minority owner, we still seek to use our knowledge and experience to support the portfolio company in their ESG performance.

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<sup>1</sup> Links to Hg's transparency report: <https://www.unpri.org/signatory-directory/hgcapital-llp/1300.article> and UNPRI's methodology: <https://www.unpri.org/reporting-and-assessment/how-investors-are-assessed-on-their-reporting/3066.article>

<sup>2</sup> Please refer to the relevant Fund documents for information on how each Hg Fund has been classified under the European Sustainable Finance Disclosure Regulation ('SFDR') and for all related disclosures.

RI is embedded across the entire investment cycle from deal screening and due diligence to ownership and exit.



## Pre-investment

All companies are assessed prior to investment to identify key risks and opportunities, along with any gaps against Hg's minimum standards. Hg's ESG due diligence covers our minimum ESG standards and is embedded into the legal due diligence process. Enhanced ESG screening is conducted depending on the level of inherent ESG risks.

- As a first step when considering potential new investments, we screen them against Hg's Exclusion List, which outlines the sectors, businesses and activities in which we will not invest – the Exclusion List is set out in Appendix 1.
- The Investment Committee ('IC') considers whether there is a risk that the investment could be exploiting vulnerable groups in society and would not proceed with any such investment unless there are robust safeguards in place to protect these groups.
- Once in the Due Diligence phase, an ESG red flag review identifies high-level concerns arising from sectors, geographies and any preliminary diligence results. Potential red flags are carefully considered prior to investment. If there are any key concerns highlighted during this process, an additional, external, enhanced ESG due diligence review will be conducted. In addition to the ESG red flag review, a separate Cybersecurity due diligence is conducted prior to investing.
- Hg's approach to considering sustainability risk (i.e. an ESG event or condition that, if it occurred, could cause an actual or a potential material negative impact of the value of the relevant investment) is set out in the fund documents of the relevant Hg Fund, along with relevant disclosures under the EU SFDR.

Pre-investment, Hg examines:

- Compliance with relevant laws in relation to environmental, social, governance, health and safety, bribery and corruption;
- Relevant policies, including those related to anti-bribery & corruption, antitrust, discrimination, health & safety, ESG and employee code of conduct;
- Internal governance, including board composition, internal controls and audit procedures, as well as relevant incident, whistleblowing and grievance mechanisms;
- Employee matters such as employee turnover, talent management and diversity, equity & inclusion, as well as environmental matters such as climate change risks and carbon footprints; and
- Cybersecurity standards.

For new acquisitions, where any gaps against the above standards are identified prior to any investment, we will require commitment from the company to implement measures to fulfil the requirements.

## Ownership

Hg proactively works with our existing portfolio companies to address material ESG factors and to achieve the standards set out herein. Hg takes an active approach towards managing ESG across our businesses. We support and stretch portfolio companies to improve their sustainability and ESG performance on a continuous basis in the following ways:

- ESG is an integral part of the onboarding process and value creation planning within the first three months of investing. The ESG onboarding assesses a company's maturity against 170 ESG metrics, all relating to Hg's Sustainable Business Framework (see below), to set a baseline and support the company in developing an improvement plan.
- Over the period of our investment, Hg will monitor investee companies' performance against our Sustainable Business Framework on an on-going basis, including adherence to agreed action plans.
- To support our businesses further, Hg sends out regular ESG related communications, has an online Sustainability & ESG community and organises ESG related events for portfolio companies to share best practice, network and get support. Hg's ESG team conducts clearly defined ESG impact projects across portfolio companies, supporting them to further advance their ESG performance and strategy.
- In addition to the assessment against Hg's Sustainable Business framework, we conduct a separate in-depth assessment on cybersecurity and a climate change risk analysis.
- All our businesses are also required to calculate and report their carbon footprint at least annually within one year of investment. Scope 1 and 2 emissions are mandatory and scope 3 is recommended. Hg helps portfolio companies to calculate their scope 1, 2 and 3 carbon footprints, provides a high-level data review and benchmarks the footprints across the portfolio. We encourage our businesses to externally validate their carbon footprints.
- The results of the annual Sustainable Business assessment and carbon footprints are shared with and discussed by portfolio company Boards.
- Our portfolio companies are expected to report any ESG related incidents to Hg in line with our incident reporting guidelines which includes guidance on materiality, as well as recording and reporting obligations. Hg will support the portfolio companies appropriately and communicate any material incidents to our clients.

## Realisation

- ESG improvement plans are reviewed by portfolio company Boards and Hg's Realisation Committee.
- We work with the portfolio company to articulate the increased value from improved ESG performance. This includes case studies supported by a selection of key performance indicators.

## Hg's Own Operations

Hg strives to be a responsible investor, business and employer in a number of ways:

- We uphold the highest standards of business conduct. All Hg Staff are required to abide by Hg's Guidelines for Business Conduct and Ethics, as well as our Anti-Corruption Policy.
- We are committed to be a best-in-class employer, by creating a diverse and inclusive workplace where everyone is welcomed, motivated and stretched. We strive to develop a diverse pool of high calibre staff and are dedicated to talent management and development to give everyone at Hg the opportunity to perform to the best of their ability.
- We strive to have a positive impact on society by building positive external relationships, act with transparency, minimise our environmental impact and give back to communities. Hg is committed to donate part of our profits and carry to charitable causes through The Hg Foundation and other charitable initiatives.

- We are committed to minimise our environmental impact in line with the Paris Agreement and are, as of 2019, carbon neutral. Hg’s long-term goal is to be NetZero by 2050 and our Science Based Targets<sup>3</sup> (SBTs) set out the plan for how we will get there<sup>4</sup>:
  - Hg’s own Scope 1 and 2 emissions: 50% reduction by 2030.
  - Hg’s Scope 3 financed emissions: 26% of our invested capital will be covered by SBTs by 2026.
  - Hg’s Scope 3 financed emissions: 50% of our invested capital will be covered by SBTs by 2030.
  - Hg’s Scope 3 financed emissions: 100% of our invested capital will be covered by SBTs by 2040.

Hg will report on our progress towards these targets in our annual carbon footprint report. Hg is engaging our portfolio companies to develop plans to support them in setting science-based targets.

These commitments form part of Hg’s core set of “Values,” which is our way of thinking, behaving, and conducting ourselves.<sup>5</sup>

## Hg’s Sustainable Business Framework

Hg’s approach to responsible investment is outlined in our Sustainable Business Framework which was initially developed and implemented in 2017/18. The Framework highlights key ESG areas for our businesses, along with support provided by Hg. It is updated on an annual basis and is evolves to adapt to regulatory changes, emerging ESG issues and meet the expectations of our clients.

The Sustainable Business framework covers the most material ESG topics for software and service companies and is based on extensive benchmarking of best practices and industry standards, as well as interviews with Hg employees and feedback from our clients. It takes external practices into account such as Sustainability Accounting Standards Board (SASB), UN Guiding Principles on Human Rights, UN’s Convention against Corruption, the Ten Principles of The UN Global Compact and UN’s Sustainable Development Goals (SDGs).



All our portfolio companies are assessed against the Framework, which is focused on three areas; Essentials, Employees and Society:

### Essentials (~83 metrics)

There are certain fundamental ESG requirements that Hg expects from all portfolio companies:

1. **Governance and Business Integrity**, such as code of conduct, appropriate controls and policies, Board composition and appropriate health and safety and whistleblowing procedures.
2. **Risk and Compliance**, including compliance with applicable laws and regulations, active risk management, as well as standards and policies to combat bribery, corruption, money laundering, anti-competitive behaviour, tax evasion, harassment and other malpractice.

<sup>3</sup> Set in line with the PE standard defined by the Science Based Targets initiative.

<sup>4</sup> All reporting years are based on Hg’s financial year end which is 31 March.

<sup>5</sup> Hg’s Values are: **Be genuine** (Be honest, Speak the truth, Be authentic, Retain humility), **Go beyond** (Strive for excellence, Be ambitious, Perspiration as well as inspiration, Take ownership), **Outlearn** (Smart & entrepreneurial, Leverage collective expertise, Continuously challenge, A growth mindset) and **Win right** (A “one firm” & inclusive mindset, Play hard but always play fair, Consider our long-term impact.)

3. **Data and Cybersecurity**, which includes Hg's minimum standards for cybersecurity along with appropriate data protection and information security practices. Hg has a separate Cybersecurity assessment which all companies are assessed against as part of onboarding and regularly thereafter.

### Employees (~58 metrics)

One of the most important assets of a software business 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:

1. **Purpose and culture**, including an engaging mission, purpose and values, as well as positive impact/contribution to the SDGs.
2. **Grow** businesses and talent, including job growth, healthy staff turnover, talent management and succession planning.
3. **Engage** and motivate employees by promoting transparent communications, health and wellbeing, development opportunities and recognition.
4. **Diversity** of talent, equal opportunities and inclusion irrespective of ethnicity, gender, disability or background.

### Society (~34 metrics)

We want all portfolio companies to strive to have low environmental impact and make a positive impact by acting transparently and contributing to society through their business practice, charitable support and positive relations with key stakeholders. We assess external impact from four aspects:

1. **Community** engagement including apprenticeships, charitable giving and volunteering.
2. **Environmental** impact, such as energy use, energy efficiency, use of renewable energy, data centre efficiency, waste management, carbon reduction targets and climate change risks and opportunities.
3. **Positive relationships** with key external stakeholders such as customers, communities and suppliers.
4. **Transparency** of company commitments and progress, including external reporting and sustainability related communications.

## Implementation and Governance

To implement this Policy, Hg is committed to:

- Investing time and resources to ensure we are able to adhere to our RI commitments consistently.
- Providing Hg Staff with sufficient knowledge, training and tools to ensure that they fully understand this Policy and can effectively identify and manage RI related risks and opportunities within their jobs.
- Using a combination of investment professional experience, internal expertise and external advisor input to support implementation of our RI approach. This may include obtaining advice from external commercial, legal, technical and sustainability advisors where appropriate.
- Regularly monitoring and assessing the effectiveness of implementation of this Policy. For all new equity investments, the Investment Committee is responsible for reviewing any ESG issues arising in relation to a proposed investment, as well as determining the impact of such issues on the investment plan. Responsibility for monitoring and assessment of portfolio companies lies with the deal team, who will report relevant findings and recommendations to the Realisation Committee annually and if any material RI issues arise.
- Reporting at least annually to investors in Hg Funds on the implementation of this Policy and the ESG activities of our portfolio companies.
- Review our Sustainable Business framework on an annual basis to include potential new material ESG topics and reflect any concerns of our key stakeholders.

The Hg Board will review this policy on an annual basis.

## Background and oversight

This Policy has been in effect since October 2012.

<b>Policy Sponsors:</b>	Steven Batchelor (Partner, COO and Head of Client Services)
	Phil Marshall (Group CFO)
	Andrew Land (Partner and Chair of the Hg Realisation Committee)
<b>Policy Supervision:</b>	Hg Board

## Review dates

This policy has been reviewed and approved by the Hg LLP Board and will be reviewed annually.

**Last reviewed:** July 2022  
**Next review due:** April 2023

*Disclaimer: Please note that this ESG Policy is not a marketing document and is provided for information purposes only. The ESG or impact goals, commitments, incentives and initiatives outlined in this policy are purely voluntary, are not binding on investment decisions and/or Hg's management of investments and do not constitute a guarantee, promise or commitment regarding actual or potential positive impacts or outcomes associated with investments made by funds managed by Hg. Hg have established, and may in the future establish, certain ESG or impact goals, commitments, incentives and initiatives, including but not limited to those relating to net zero, greenhouse gas emissions reductions and diversity, equity and inclusion. Any ESG or impact goals, commitments, incentives or initiatives referenced in any information, reporting or disclosures published by Hg are not being promoted and do not bind any investment decisions made in respect of, or stewardship of, any funds managed by Hg for the purposes of Article 8 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector. Any measures implemented in respect of such ESG or impact goals, commitments, incentives or initiatives may not be immediately applicable to the investments of any funds managed by Hg and any implementation can be overridden or ignored at the sole discretion of Hg.*

## Appendix 1: Hg's Exclusion List

Hg Funds do **not** invest in companies that:

1. Have production or other activities that involve harmful or exploitative forms of **forced labour** or child labour.
2. Produce any **illegal products** or engage in any **illegal activities** as per applicable local laws.
3. Manufacture, distribute or sell **arms or ammunitions**.
4. Manufacture or sell **pornography**.
5. Are involved with **products and activities that are banned** as per global conventions and agreements, such as certain pesticides, chemicals, wastes, ozone depleting substances or wildlife products, or otherwise compromise endangered or protected wildlife.
6. Are principally engaged in the manufacture of or trade in **tobacco and alcohol**.
7. Are principally engaged in the manufacture of or trade in **coal** or are principally engaged in **extraction of geological materials** (mining).
8. Are involved in the supply or purchase of **sanctioned products**, such as goods to or from countries or regions covered by United Nations sanctions.
9. Are, in the opinion of Hg's Investment Committee, **exploitative of vulnerable groups** in society.