Taskforce on Climate-related Financial Disclosures Report 2021

Contents

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Hg recognises the major challenges that the world is facing due to climate change. Slowing the rate of global warming over the next ten years is crucial for the future of our planet. There is more carbon dioxide in our atmosphere today than at any time in human history[1], average wildlife populations have dropped by 60% in just over 40 years[2] and scientists warn of "severe, widespread and irreversible" climate change effects unless emissions reach net zero by 2030. Without radical action, our lives – including our resources, economies and businesses – are going to be profoundly impacted.

In this context, governments, industries, and companies are being urged to take steps to prepare, reduce risks, and take advantage of any opportunities that might arise from climate change. Hg is acting too, and we take our responsibility to be part of the change very seriously.

We believe that by better understanding and managing the emerging risks and opportunities that arise from climate change we can enhance our investment decisions. We are measuring our carbon footprint and working with our portfolio companies to increase their understanding of, and resilience to, climate change. By seeking a controlling stake in most of our investments, we can make an active contribution in decision-making processes and promote positive environmental and social change.

With our inaugural TCFD report, we expect to contribute to the disclosure of clear, comparable, and consistent information about the risks and opportunities presented by climate change. We hope to continue sharing our learnings and challenges with our peers and stakeholders, so that we can collectively achieve the goal of limiting global warming to 1.5 degrees Celsius, compared to pre-industrial levels.

[1] The National Oceanic and Atmospheric Administration (NOAA)
[2] World Wide Fund for Nature (WWF)

Governance

The Responsible Investment team leads the implementation of the ESG strategy and the Board reviews climate change issues on a regular basis.

Hg has established Board oversight for our ESG activities, including our approach to ESG more generally and climate change more specifically. In particular, the Hg Board reviews our firm-level carbon emissions report, carbon neutral certification, carbon offsetting and portfolio company engagement strategy. Climate change forms part of Hg's quarterly risk management process.

We believe it is important to have dedicated in-house ESG expertise with deep knowledge on ESG topics, including climate change. As such, Hg's Responsible Investment (RI) team address and monitor climate-related issues and collaborates with the deal teams and legal teams to provide expertise during the investment process. Hg's Chief Sustainability Officer, who is leading our RI team, reports to our Deputy COO and works closely with our Deputy COO and Managing Partner to define our ESG strategy, including our approach to climate change and actions for implementation.

We recognise that it is crucial to collaborate on climate change to drive change globally, and in particular across the private equity industry, where many portfolio companies are not large and mature enough to meet the thresholds for mandatory carbon reporting. In 2020, Hg became a launch member of the UK network of Initiative Climat International (iCI), a global organisation with over 120 PE firms that join forces to advance the industry's commitment to tackling climate change. The group works together to define tools, methodologies, and standards to enable climate change action, whether that is on how to measure and report on carbon emissions across their funds, or how to set credible carbon reduction targets. As part of this, Hg worked with a number of other PE firms, the World Resources Institute (WRI) and the Science Based Targets initiative (SBTi) to develop a guidance document for how PE firms can commit and set science- based targets, in line with the Paris Agreement, with the ultimate goal to be Net Zero by 2050.

In November 2021, Hg became one of the first seven PE firms globally to get approved Science Based Targets, leading the path for the rest of the PE industry. The ScienceBase Target initiative (SBTi) is one of the most rigorous frameworks on how to set emissions reduction targets grounded in climate science which will keep global temperature increases within 1.5°C compared to pre-industrial temperature levels.

As part of our commitment to drive change across the investment industry, we have also joined to the NetZero Asset Managers (NZAM) initiative, an international network of over 120 asset managers with a combined AUM of $43 trillion committed to supporting the goal of net zero greenhouse gas emissions by 2050 or sooner. To support the acceleration of climate change action across governments we also signed the 2021 Global Investor Statement to Governments on the Climate Crisis.

Sharing knowledge and collaborating with our peers is fundamental to advance on climate action. Consequently, we contribute to disclosing consistent information by reporting publicly on our progress via our TCFD report, annual RI report and UNPRI submission.

Strategy

Understanding and managing climate-related risks and opportunities based on TCFD´s recommendations is a fundamental part of our Sustainability Policy. TCFD provides a guiding framework for our investment and ownership strategy.

Hg recognises that identifying climate-related risks and opportunities are fundamental in a sustainable transition to a low-carbon economy. Thus, we have identified different elements that shape our climate change strategy:

Scope

Geography

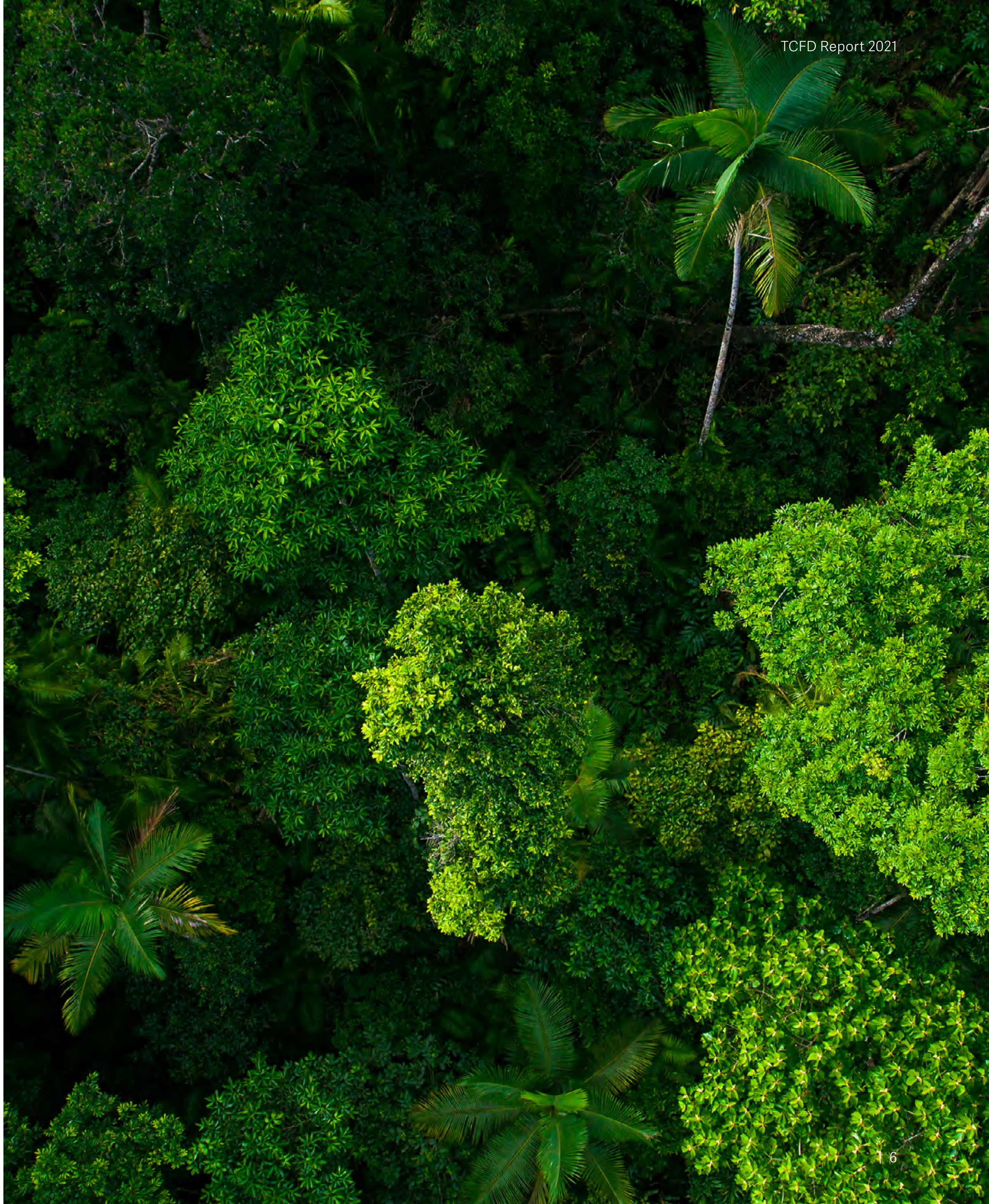
Hg primarily seeks controlling equity buyout investments in businesses headquartered predominately in Northern Europe and North America. In our risk assessment, we consider geographical location as one of the criteria for identifying and mitigating climate-related risks and opportunities.

Sectors

Hg specialises in the software and services sector, which generally has lower financial risks related to climate change compared to other sectors that rely on energy-intensive processes or sourcing raw materials with complex supply chains. Software and services are generally considered lower risk, less carbon intensive, sectors, with the exception of software companies with sizeable data centres.

Climate risk scenarios

We assess our portfolio companies' climate-related risks based on a 2-degree scenario aligned with the Paris Agreement and a 4-degree scenario aligned with the World Bank's study on the risks of a 4-degree warmer world. We seek to understand how resilient our portfolio companies are, by identifying how adequate their policies and processes are to face potential transition and physical risks.



Timeframe

As a private equity firm, our typical hold period is between 3-5 years, but it can sometimes go beyond that. We recognise that climate change has a longer-term impact than our investment timeline. Our climate change risk assessment covers risks and opportunities at the portfolio level until 2030, which is the timeframe that most externally recognised climate risk frameworks currently align to.

Potential impact

We consider the impact of climate change on our portfolio companies' operations and strategies and assess risks from an operational and a supply chain perspective, including any data centres. We prioritise managing those risks that can have the greatest impact in our investment and ESG strategies, but also work on improving the climate resilience of investments across our broad portfolio.

Firm level strategy

At the firm level, we have made significant progress on measuring and managing our carbon footprint in the past years. Since 2018, we have worked with an external party to be certified as a carbon neutral company and offset our emissions through projects contributing to delivering on the Sustainable Development Goals. In 2021, we achieved firm-level carbon neutral status for the third consecutive year.

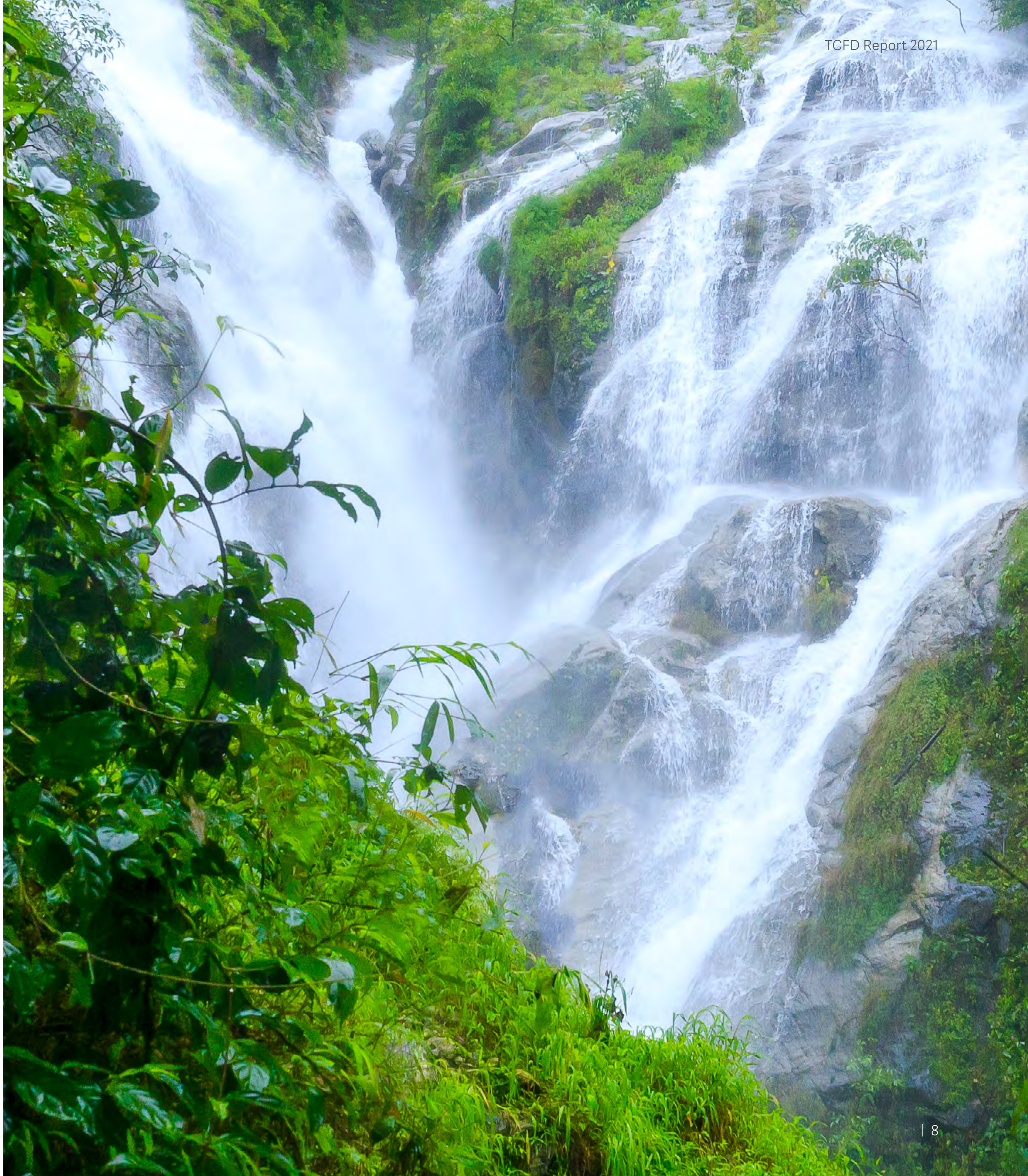
To help reduce our footprint, we have a number of firm-wide initiatives, including energy reduction projects and procuring renewable energy. Our footprint also takes homeworking into account, though currently most of our carbon reduction initiatives are relating to the office environment as we acknowledge that directing similar initiatives in a private, residential context is more complex.

Acre Amazonian Rainforest project

For the past 3 years Hg has been certified as a Carbon Neutral company by offsetting all carbon emissions through the Acre Amazonian Rainforest project which prevents deforestation and promotes sustainable economic livelihoods in the Brazilian Amazon. This is an externally verified natural climate solutions project focusing on forest conservation (REDD+) in line with the CCB, VCS standards.

With the support of carbon finance, the project supports local communities to create models of economic development, to prevent deforestation and protect the ecosystem. The project aims to deliver on 4 of the 17 Sustainable Development Goals:

More information on Acre Amazonian Rainforest project: https://www.naturalcapitalpartners.com/projects/project/acre-amazonian-rainforest-conservation



Risk Management

At Hg, climate-related risks and opportunities are covered across the investment process – from screening to ownership.

Throughout the investment process we focus on two main categories of climate-related risks:

- **Transition risks,** arising from the shift to a lower-carbon economy, which include policy and legal risks, technology risks, market risks, and reputational risks.
- **Physical risks,** arising from a changing climate, which include acute risks (such as extreme weather-related events), and chronic risks (such as sea-level rise).

Our climate change risk assessment highlights if and where these risks occur and considers how resilient each portfolio company is in managing any potential risks.

The investment process

Climate change risk is considered across our investment process, from screening to active ownership:

Screening

Hg's exclusion list clearly states that we do not invest in companies in sectors that are considered high-risk from a climate risks perspective. Our focus is on software and services companies. Our exclusion list prevents us from investing in companies that are principally engaged in the manufacture and trade of coal, burning of fossils soils or in the extraction of geological materials.

Due diligence

Our RI team leads the pre-investment ESG due diligence (DD) in close collaboration with our legal and investment teams. This covers four key metrics related to climate change: climate change risk management; business continuity plans; carbon footprinting; and carbon reduction targets. Due to the sectors in which Hg operates, it is rare that we come across any climate change risks that would prevent us from investing in a business.

Onboarding

We take an active approach to manage ESG risks and opportunities during ownership. This starts with an ESG onboarding and maturity assessment against our Sustainable Business framework to identify areas for improvement, where Hg can support portfolio companies to realise their ambitions within and beyond our ESG framework. Please see our RI policy for further details about our ESG assessment. As part of our engagement with portfolio companies on ESG, we conduct a climate change risk assessment covering transition risks and physical risks, under a 2-degree and a 4-degree scenario. Our climate change risk tool has been developed in conjunction with PwC's Sustainability & Climate Change team. It is specifically tailored to capture climate change risks presented by software and services companies and takes externally recognised methodologies and indices into account. The tool considers the sector and geographical location of each company, as well as its exposure to, and preparedness to address, climate change risk. In addition, we work with our portfolio companies on an annual basis to calculate their carbon footprints. Our onboarding assessments and annual carbon footprint measurements allow us to prioritise our efforts on ESG during the investment period. The outputs from our assessments are shared with the Board members of each portfolio company.

Ownership

Our portfolio team works with the management of our businesses to focus on a set of operational levers which are key to their performance, including growth, transformation, technology, cybersecurity, data analytics, ESG, and talent. Within ESG, we support our companies to enhance their practices around climate change data, risk mitigation strategies, procedures and reporting practices. Each company reports formally to Hg on climate-related issues at least annually. By providing both strategic and practical support to portfolio companies, as well as facilitating the active collaboration across our portfolio, we aim to help reduce risks and create maximum value for all shareholders.

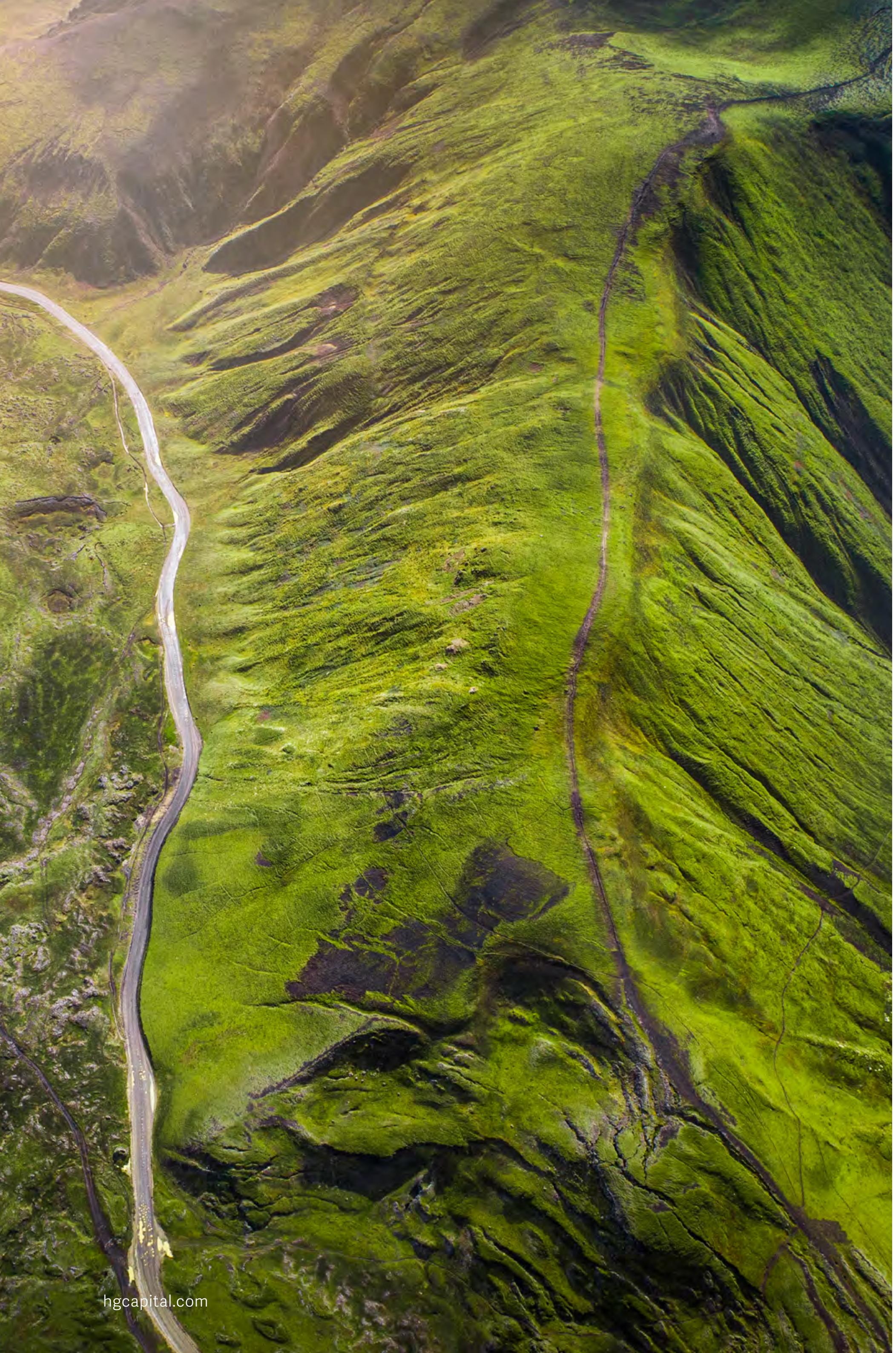
Metrics and Targets

We believe robust data is fundamental to better understand and manage climate-related risks and opportunities. We are constantly working on improving data quality both at the firm level, as well as for our portfolio companies.

Firm-level carbon neutrality

In 2021, Hg was recertified as a Carbon Neutral company for the third year, as we continue to offset all our carbon emissions. We assess our GHG emissions in line with the GHG Protocol Standard. Our scope includes all relevant categories of the GHG Protocol, including metrics such as water, wastewater, energy, waste management, business travel, hotel stays, staff- commuting, and more recently home working and procured IT Equipment.

In our last financial year, we saw a decrease of 87% in our carbon footprint, mostly driven by the reduction in business travel due to the pandemic. At the same time, our business has grown. Our headcount increased by around 8% to 218 employees, and our Funds Under Management (FUM) grew by 68%. Our carbon footprint per employee consequently decreased by 88% (from 11.2 to 1.3 tonnes of CO_2e / employee) and our footprint per billion dollars of FUM decreased by 92% (from 121.6 to 9.4 tonnes of CO_2e / $ bn FUM).



By measuring and offsetting our carbon footprint, we aim to do our part in tackling the global climate emergency, whilst also supporting sustainable development in local communities. However, we recognise that offsetting is not the optimum solution, and we must work towards achieving reductions in our absolute emissions. As such, we are constantly working across our offices to reduce our energy consumption. We have set firm-level targets for our Scope 1 and 2 emissions, approved by the SBTi, to reduce absolute scope 1 and 2 GHG emissions 50% by 2030 from a FY2019 base year. We aim to meet these targets by further reducing our energy consumption, switching to renewable energy sources and by reducing business travel. Below is an overview of Hg's firm-level carbon footprint (excluding investments).

	2018/19	2019/20	2020/21	% YoY change
Scope 1 – Direct emissions	51	38	19	-51%
Scope 2 – Indirect electricity emissions	195	119	94	-21%
Scope 3 – Other indirect emissions[6]	1,410	2,093	178	-91%
Total	1,656	2,249	291	-87%
# of employees	161	201	218	8%
tCO_2e / employee	10.3	11.2	1.3	-88%
FUM ($bn)	12.5	18.5	31.0	68%
tCO_2e / $bn FUM	132.5	121.6	9.4	-92%

You can find further details in our 2020/21 carbon footprint report.
https://hgcapital.com/wp-content/uploads/2021/09/Hg-Carbon-Footprint-2020-2021-Report-Final.pdf

Portfolio carbon emissions

In 2021, we started to conduct a carbon footprinting exercise of all our portfolio companies by collecting scope 1, 2 and 3 emissions data consistent with the GHG Protocol. This includes direct emissions from owned and controlled sources, indirect emissions such as purchased electricity for powering offices, and emissions from business travel. Our portfolio scope 3 carbon footprint does not yet include emissions from external data centre providers and cloud solution providers. We are looking at embedding this into our carbon footprint tool over the longer-term and are currently working on gathering credible carbon emission factors to calculate these emissions. By supporting our portfolio companies to calculate their carbon footprints, we are hoping to enable them to think more strategically about how to mitigate climate-related risks and identify opportunities for reducing their carbon emissions. It will also better position them to comply with current and future GHG reporting requirements and improve credibility and reputation among stakeholders, potentially increasing profitability and benefiting from cost savings through operational efficiency measures.

To compare and benchmark carbon emissions across the portfolio, we have normalised emissions by number of employees and compared by fund and cluster to better account for difference in company size and business operations. In the limited cases where activity data was unavailable (e.g., kWh for energy use from landlords) we have estimated the data using square footage or number of employees, as recommended by the GHG protocol.

As Hg is committed to driving action on climate change, we have set a target for the carbon footprint of our portfolio which has been approved by the SBTi in line with their guidance for PE firms. The targets will cover 100% of our total investment and lending activities, where Hg has an ownership of 25% or more and at least one Board seat.[please add a footnote]. It requires our businesses to set science-based targets by 2040 at the latest, with the long-term goal that our portfolio will be Net Zero by 2050.

In line with the SBTi PE guidance.
https://sciencebasedtargets.org/resources/files/SBTi-Private-Equity-Sector-Guidance.pdf

We constantly try to improve in this space and are committed to provide an update towards our commitments at least annually to the public and our clients via our external RI reports.

If you have any questions about the content of this report, please contact ESG@hgcapital.com.