Hg

Taskforce on Climate-related Financial Disclosures

Report 2024

Hg is trusted to improve the future of millions of investors by building sustainable businesses for tomorrow. This is our purpose, and it is embedded in everything we do, in every decision, every day and for every individual. It means we are focused on generating returns for our clients – and the millions of individuals, pensioners and savers, who are invested in their funds. They trust us, not just to deliver superior risk-adjusted returns, but also to be good custodians of their money, whilst safeguarding their reputation by investing their capital responsibly and adhering to rigorous sustainability standards.

We achieve this by investing in businesses that are growing over the long term. We invest in this future – helping to progress workplace automation and digitalisation trends, set to transform the workplace for professionals over decades to come. Our Responsible Investment (RI) approach supports the backbone of this investment philosophy – to invest in growth companies and sectors rather than short term, turnaround or distressed investing.

We believe long-term sustainable returns depend on stable, well-governed social, environmental and economic systems. This is achieved through the adoption of sustainable business principles including good governance, resource efficiency, effective risk management, well managed talent attraction and talent retention programmes, whilst maintaining a 'social licence' to operate.

Hg acknowledges the significant global challenges posed by climate change. Limiting global warming is essential for our planet's future. Without substantial intervention, resources, economies and businesses will face severe impacts. In response, governments, industries and companies are being called upon to prepare, mitigate risks, and identify potential opportunities that might arise from climate change. Hg is participating in this effort and is taking action accordingly.

We recognise that understanding and managing climate-related risks and opportunities can impact our investment decisions. We measure our carbon footprint and collaborate with our businesses to enhance climate change awareness and resilience across our portfolio. By often having a majority stake in our businesses, we have the opportunity to support our portfolio companies in promoting positive environmental and social impacts.

This report aims to provide transparent, comparable, and consistent information about the risks and opportunities presented by climate change for Hg and our portfolio.

Our climate-related disclosures align with the four pillars, and address the primary recommended disclosures, as set out in the Task Force on Climate-related Financial Disclosure (TCFD) recommendations (see Table 1).

Table 1. Hg TCFD report 2024 table of contents

UK FCA TCFD Report

HgCapital LLP is authorised and regulated by the Financial Conduct Authority (“FCA”) (firm reference number 478870) and provides investment advisory services to the Hg Group (“HgCapital”). Hg Pooled Management Limited (firm reference number 122466) provides investment management services and also holds investments in subsidiary undertakings (“Hg PM”). Both entities are subsidiaries of Group Holdco 1 Limited. HgCapital, Hg PM, Group Holdco 1 Limited and its other subsidiary companies are collectively referred to in this report as “Hg”, “we” or the “firm”. Climate policy is generally set and climate-related risks and opportunities are generally managed at the firm-level and disclosures relating to Hg are applicable to HgCapital and Hg PM except as otherwise indicated.

One of the purposes of this report is to set out our disclosures in line with the TCFD recommendations for HgCapital and Hg PM to comply with their obligations under Chapter 2 of the FCA’s Environmental, Social and Governance (ESG) sourcebook (“FCA ESG”). Hg’s TCFD in-scope business comprises managing an AIF and portfolio management (as those terms are defined in the FCA ESG). Hg’s TCFD in-scope business is wholly covered by this TCFD report (“TCFD Report”).

This TCFD Report covers the reporting period 1 January 2024 – 31 December 2024 unless otherwise stated.

During the reporting period, Hg did not delegate any of its management or advisory functions and there is therefore no interaction between climate-related risks and opportunities and delegation.

The disclosures for Hg set out in this TCFD Report, including firm disclosures cross-referenced, comply with the requirements of Chapter 2 “Disclosure of climate-related financial information” of the FCA ESG sourcebook included in the FCA’s Handbook. This TCFD Report should be read in conjunction with the relevant sections of the Hg Responsible Investment Report 2024 and the Hg Carbon Footprint Report 2024/25 as indicated throughout .

Steven Batchelor
Partner and Board member
27 June 2025

Please note that this TCFD Report or communication is not a marketing document and is provided for information purposes only. The act of selecting and evaluating material sustainability matters is subjective by nature, and there is no guarantee that the criteria utilised or judgment exercised by Hg will reflect the views, internal policies, or preferred practices of any particular investor or other asset manager or reflect market trends. The sustainability goals, commitments, incentives and initiatives outlined in this report reflect current thinking, are subject to change, are purely voluntary and, are not binding on Hg’s investment decisions and/or Hg's management of investments, and are subject to Hg’s fiduciary or similar duties and applicable legal, regulatory, and contractual requirements. Any measures implemented in respect of such sustainability goals, commitments, incentives or initiatives may not be immediately applicable to the investments of any funds managed by Hg, and Hg may determine in its discretion, taking into account any applicable contractual commitments or regulatory requirements, that it is not feasible or practical to implement or complete certain of its sustainability goals, commitments, incentives and initiatives based on cost, timing, or other considerations.

Governance

Hg's Sustainability Team leads the implementation of the sustainability strategy and Hg's Audit and Risk Committee, reporting to our Board, reviews climate change issues on a regular basis.

Hg has established governance systems to effectively manage sustainability issues, including climate change risk management, as outlined in the governance model below.

Hg Board-level oversight extends across our sustainability initiatives and commitments. Our sustainability strategy is shared with and approved by key Partners in the firm, including the head of Value Creation, the head of Client Services and our Sustainability Board Sponsor. In particular, the Hg Board has visibility of our Responsible Investment policy, firm-level carbon emissions report, carbon offsetting initiative and our Net Zero commitment. Further, portfolio related goals, which include climate-related targets, are monitored every quarter by Hg's Head of Value Creation and Partner, in the 'Portfolio Operating Board' meetings. Finally, our sustainability initiatives are funded through a dedicated annual budget.

At the management level, Hg's Chief Sustainability Officer (CSO), who leads our Sustainability Team, reports to Hg's Head of Client Services. Our CSO has quarterly meetings with Hg's Sustainability Board Sponsor, who is both a Partner and member of Hg's Board. In addition, the Sustainability team works closely with the head of Portfolio Value Creation to establish portfolio related sustainability goals. Both the Sustainability Sponsor and Head of Value Creation are partners based in the UK. Climate change also forms part of Hg's quarterly risk management process which is conducted by our Audit and Risk Committee reporting to Hg's Board.

Separately, various groups such as Hg's Green Committee and Hg's Carbon Footprint working group have been set up and meet on a regular basis to review progress on climate change related topics, including Hg's own firm-level carbon footprint and reporting.

At the level of functional groups, we believe it is important to have dedicated in-house sustainability expertise with deep knowledge on sustainability topics, including climate change. As such, Hg's sustainability team reviews and monitors climate-related issues and collaborates with the deal team, legal team, compliance team, marketing team and other teams to provide expertise as needed during the investment process.

Hg Board – Hg Board Sustainability Sponsor

Committees	**Sustainability steering group**	**Risk & Audit committee** (ARC)	**Portfolio Operating Board** (POB)
	Informal committee consisting of Hg Chief Sustainability Officer and Hg Board Sustainability Sponsor, meeting quarterly to discuss firm level commitments and overall sustainability strategy.	Hg's formal risk committee overseeing key risks and reporting to Hg's Board	Value creation team lead and senior leadership team meeting monthly to discuss key portfolio projects and progress.
Topics	**Sustainability Strategy & Commitments**	**Sustainability Related Risks**	**Portfolio Sustainability**
	Reporting; Compliance; Climate change; Sustainability Strategy	Climate change; Sustainability	Sustainability Diagnostic; Portfolio climate change targets
Teams involved	Sustainability, Marketing, Legal, Compliance, Client Services & Facilities teams	Compliance & Sustainability teams	Sustainability and Value Creation teams

Strategy

Understanding and managing climate-related risks and opportunities based on TCFD´s recommendations is a fundamental part of our sustainability strategy.

Climate-related Risks and Opportunities

Hg recognises that identifying climate-related risks and opportunities is important in a sustainable transition to a low-carbon economy. Tables 2 and 3 below provide an overview of climate-related opportunities and risks that Hg has identified at firm-level.

Table 2. Summary of key climate-related opportunities*

	Climate-related opportunities	Potential financial impact	Horizon**
Resource efficiency	• Use of more efficient modes of transport • Increased recycling	• Reduced operating costs through efficiency gains • Improved health, safety and employee satisfaction	Short-term
Energy source	• Use of lower-emission sources of energy • Use of new technologies across our offices • Participation in voluntary carbon market • Use of supportive policy incentives	• Reduced operational costs • Reduced exposure to future fossil fuels and associated price increases • Reduced exposure to GHG emissions and therefore less sensitivity to changes in cost of carbon	Medium-term
Products and services	• Ability to diversify business activities across Hg and our portfolio • Shift in investor preferences	• Gain access to capital through demand for lower emissions products • Better competitive position to reflect shifting investor preferences	Short-term
Markets	• Access to new markets for port cos developing low-carbon strategies and solutions	• Increased portfolio revenues through access to new and emerging markets • Increased diversification of financial assets	Short-term
Resilience	• Participation in renewable energy programmes • Adoption of energy-efficiency measures	• Increased resilience and ability to operate under various conditions	Medium-term

* This analysis is an illustration of Hg's evaluation of potential climate-related opportunities and is fundamentally qualitative. There is no certainty of achieving the referenced financial impacts. This assessment is distinct from the Scenario Analysis in this report.

** Time horizon in which the climate-related issue is expected to manifest itself.

Table 3. Summary of climate-related risks*

	Climate-related risks	Potential financial impact	Horizon**
Transition Risks: Risk of transitioning to a low carbon economy			
Policy and legal	Increased compliance costs due to • New emissions-reporting obligations for Hg and across our portfolio • Landlords who pass on higher energy-related compliance costs	• Increased operating costs	Medium-term
Market	• Shift in demand towards low carbon investments / portfolios	• Reduced access to capital	Short-term
Reputation	• Increasing pressure to act on climate risk from customers, regulators and stakeholders	• Reduced revenue and increased operating costs due to reduction in sale of services, disruption to business activities and higher recruitment costs	Short-term
Physical Risks: Risk of extreme weather events			
Insurance	• Higher insurance premiums	• Higher operating costs	Medium-term
Property	• Disruption in utility supply or office supplies	• Increased operating or procurement costs from switching supplies	Short-term
Travel	• Disruption to staff travel	• Increased operating costs, reduced revenue due to interruption to business	Short-term
Staff	• Staff prevented from travelling or delayed in their journey to work or work-related meetings / business travel • Uncomfortable working conditions	• Increased operating costs due to interruption to business • Reduced revenue due to loss of productivity and loss of business opportunities	Short-term

* This analysis is an initial risk assessment as part of the Scenario Analysis, identifying the key climate-related risks Hg may be exposed to as a business within the service sector. The risks listed in Table 3 do not imply their materiality or financial significance. This forward-looking assessment is subject to change. Please refer to the Scenario Analysis section for the assessment methodology.

** Time horizon in which the climate-related issue is expected to manifest itself as estimated by Hg's Sustainability team.

Timeframe

Hg anticipate that climate-related risks and opportunities could generally manifest within the following timeframes:

0-2 years: short term

2-10 years: medium term

10+ years: long term

As a private equity (PE) 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. Additionally, our climate change risk assessment (which identifies climate-related risks with a potential financial impact at the firm-level outlined in Table 3), covers risks until 2030. This is the timeframe that most externally recognised climate risk frameworks currently align to.

Potential Impact of Climate Change on Hg's Strategy

Firm-level operations

At the firm level, our evaluation, based on Hg's climate risk assessment tool developed by PwC, indicates minimal climate-related financial risk to Hg's core business and supply chain by 2030 (Table 4 below). Assessment methodology details can be found in the section on Scenario Analysis.

Hg ensures climate-related risks and opportunities are as far as possible systematically managed by delegating responsibilities to our functional groups and committees, with Board oversight (see previous section on Governance). Additionally, we leverage externally created tools, external consultancy, legal advice, and third party collaboration to assess and manage our carbon footprint and climate change risks. Since 2018, we have worked with external parties to annually calculate our carbon footprint and offset emissions through carbon reducing projects. Various firm-wide initiatives help reduce our footprint and manage climate-related risks, detailed in the Risk Management section of this TCFD Report.

Portfolio level

In terms of investments held on behalf of clients, Hg's portfolio comprises 'technology and services' sector companies, which typically provide B2B software and/or service solutions. This sector generally presents lower climate change risk exposure, despite significant energy and water use, compared to sectors which heavily rely on natural resources.

Nevertheless, we understand the need to assess potential climate change risks across our portfolio. We specifically examine climate change impact on our portfolio companies' operations and strategies and assess risks from an operational and a supply chain perspective, including data centre considerations. We report on climate change risks and resilience associated with our portfolio companies to investors in our annual client fund-level sustainability reports. The principal findings and assessment methodology are summarised in the Scenario Analysis section below.

We prioritise management of those risks that can have the greatest impact on our investments and sustainability strategies, while enhancing climate resilience across our portfolio. We encourage our portfolio companies to calculate and report on their carbon footprints, and encourage initiatives to reduce emissions and establish science based targets. For details of how Hg considers warming scenarios as part of its investment process, please see section Managing Climate Related Risks at Portfolio Level.

Scenario Analysis

In 2019, in conjunction with PwC's Sustainability & Climate Change team we developed a climate change risk tool. It is used to assess climate-related risks at the firm and portfolio levels, 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. It is specifically tailored to capture climate change risks presented by financial firms (for Hg) and software and services companies (for Hg portfolio companies) and takes externally recognised methodologies and indices into account. The tool is regularly reviewed by Hg's Sustainability team to update it as needed and to ensure it is tailored to Hg and its portfolio.

The tool considers the sector and geographical locations of each company, as well as its exposure to climate change risks. Risks are assessed by using the following indicators:

The tool assesses the resilience of a business by identifying how prepared a company's policies and processes are to face potential transition and physical risks. Climate change resilience is assessed against six risk attributes: extreme weather events, policy & legal, transition to a low carbon economy, shifts in market and consumer behaviour, growth of 'green' technologies and reputational risks. The level of resilience reflects the level of preparedness a company has against these risks.

With regards to outputs, the tool calculates and presents average scores for the risk of extreme weather events and the risk of transitioning to a low carbon economy in 2030 for each company. This includes overall risk scores, along with detailed scores within the company's core business, owned data centres (if applicable) and top three suppliers. The tool also provides an overall climate resilience score for the company. Table 4 summarises the outputs of the Scenario Analysis for Hg at the firm-level.

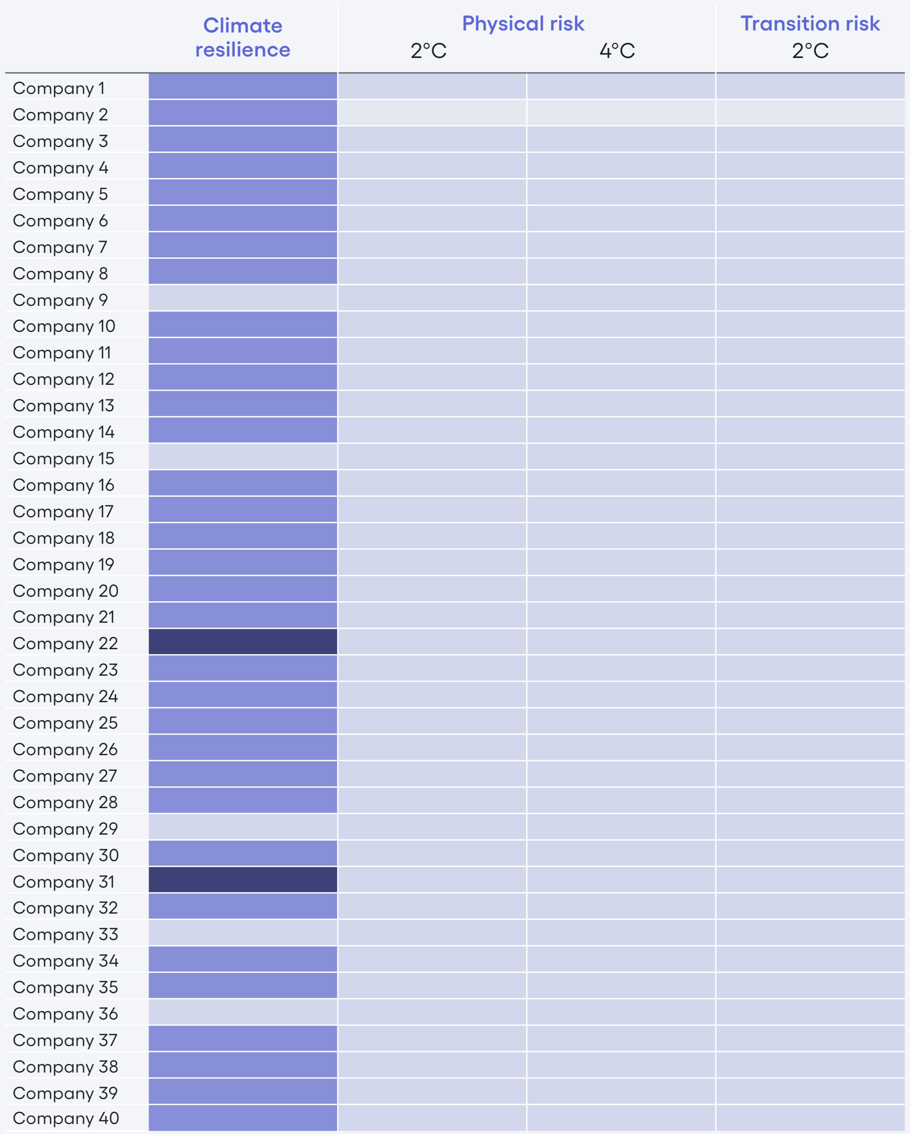
Table 4. The resilience of Hg firm-level's strategy, taking into consideration of a 2-degree scenario and a 4-degree scenario

	Risk of extreme weather events	Risk of transitioning to a low carbon economy in 2030	Climate resilience
2-degree scenario	Low risk*	Low risk*	Medium resilience
4-degree scenario	Low risk*	Not modelled	Medium resilience

* These scores are the overall aggregated climate risk scores, based on a risk breakdown by country, core business and supply chain. The individual scores vary for individual geographical locations and business areas.

40 portfolio companies have conducted the climate risk assessment using our tool. The results showed that 97.5% of Hg's portfolio companies have Low physical and transition risks, and 2.5% are at Very Low risk, as demonstrated in Table 5. Furthermore, with the exception of two companies, all exhibit Medium to High climate resilience. The exceptions are companies with Low climate resilience, which, however, has Low physical and transition risks. We report on detailed climate change risks and resilience ratings associated with the portfolio companies to clients in our annual client fund-level sustainability reports.

Table 5.
Resilience and risks across Hg's portfolio, taking into consideration of 2-degree and 4-degree scenarios.



RAG Score

- Very high risk
- High risk / Low resilience
- Medium risk / resilience
- Low risk / high resilience
- Very low risk
- Not applicable

Risk Management

Managing climate related risks at Hg firm level

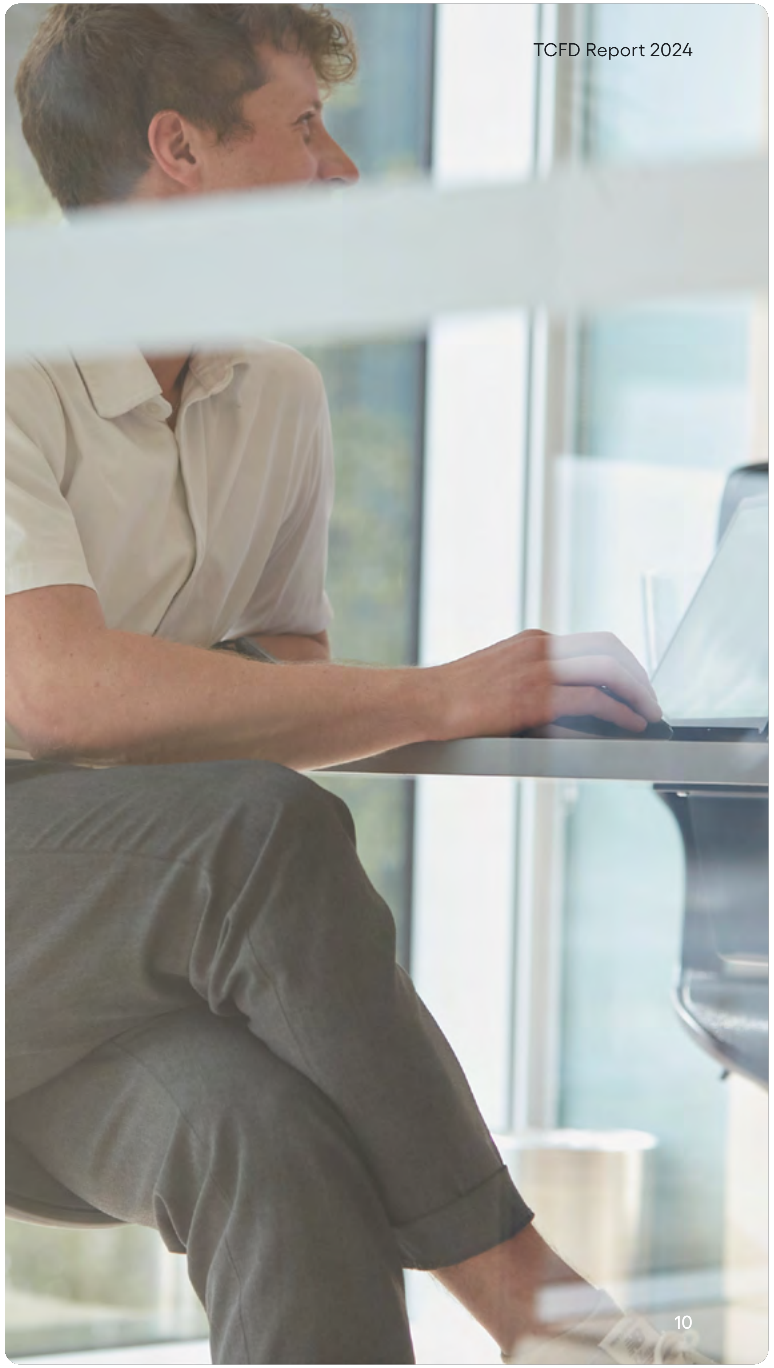
How Hg identifies, assesses and manages climate-related risks

Hg's Audit and Risk Committee, reporting directly to Hg's Board, has developed a comprehensive Risk Management Framework which is used to identify and assess the principal and emerging risks facing Hg. Within this Framework, climate-related risks have been integrated and subject to the same processes of identification, assessment, management and reporting as other risk items. The Framework is reviewed and approved at least annually by the Audit and Risk Committee and the Hg Board.

The Risk Management Framework forms the basis for Hg's Risk Register. Climate-related risks are documented in the Risk Register, following identical procedures applied to other risks. Each Risk Item, including climate change risk, is assigned an overall Risk Rating, based on an assessment of both the probability and impact of a risk event crystallising. Changes in Risk Ratings from quarter to quarter, and the reason for those changes, are identified within the Risk Register. Like other Risk Items, climate change risk is managed through established controls and action points and has a designated owner (which in this case is the Chief Sustainability Officer) as recorded in the Risk Register. Furthermore, climate change is a standing item on the agenda in Hg's quarterly risk review process, which is led by the Risk Management Function.

As described above, climate risks are integrated within Hg's overall risk management arrangements and subject to the overarching controls of the Risk Management Function, the Audit and Risk Committee and the Board. The Risk Register provides a description of the climate-related risks facing Hg at any point in time, the controls / mitigants put in place by Hg to manage those risks, and identifies any actions required to manage, maintain, or reduce the overall level of risk. The Head of Compliance and Risk presents the Risk Register, on a quarterly basis, to the Audit and Risk Committee who may require additional measures to be taken, as necessary.

Below are additional insights into Hg's risk governance arrangements, namely the Risk Management Function and the Audit and Risk Committee.



Hg's firm-level Risk Management Function

Hg has established a Risk Management Function, which is headed by Hg's Head of Compliance and Risk. The Risk Management Function has direct access to the Hg Board, and access to all parts of Hg's business that are capable of having an impact on Hg's risk profile.

The Risk Management Function operates independently and is actively involved in Hg's risk management arrangements, strategy, and all material risk management decisions, to ensure a complete view of the risks to Hg is delivered. The Head of Compliance and Risk may only be removed as the Risk Management Function with the approval of the relevant Hg Board.

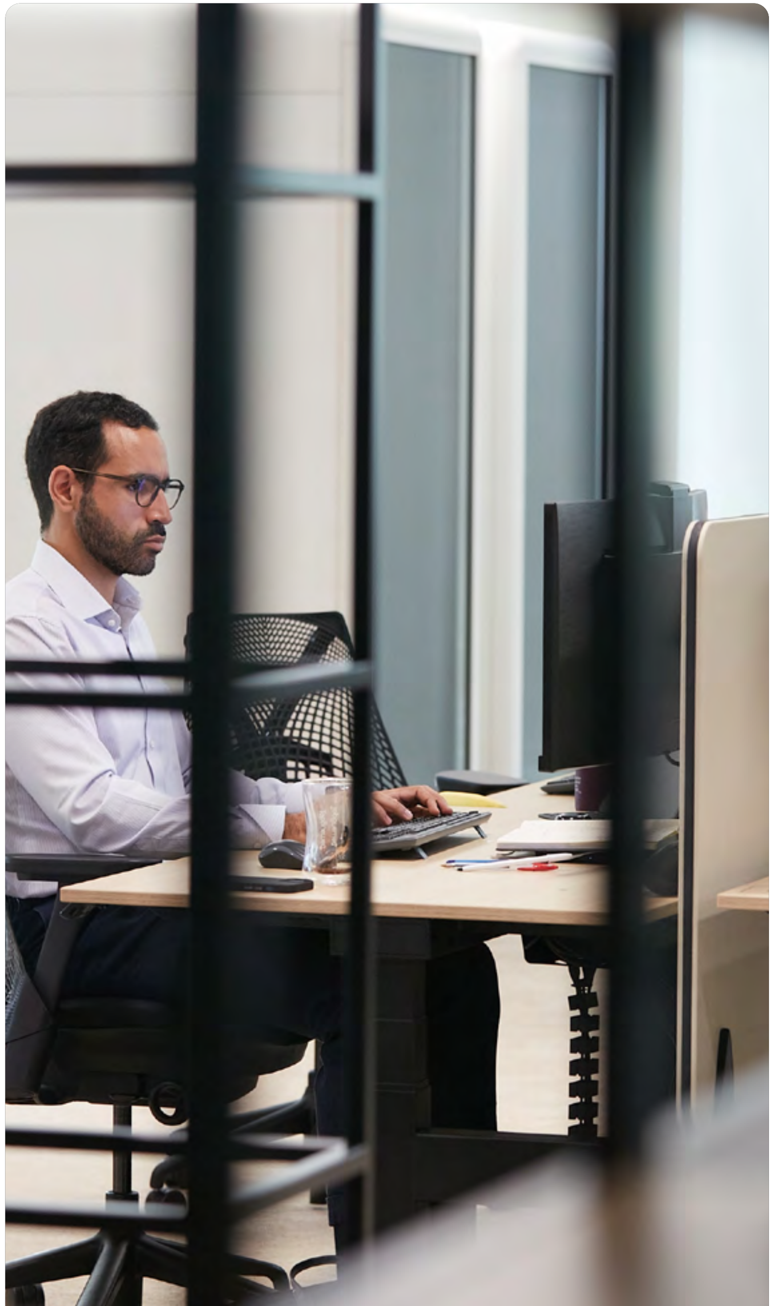
The Head of Compliance and Risk is responsible for:

- establishing, implementing and maintaining adequate policies and procedures to identify risks (including any emerging regulatory requirements), setting the level of risk tolerance and having processes to manage the risks relating to Hg's activities in light of that risk tolerance;
- implementing strategies and policies for identifying, measuring, managing, monitoring, mitigating and reporting risks to which Hg is or may be exposed, including operational risks, professional liability risks and risks posed by the macroeconomic environment, and ensuring that data used to assess such risks is fit for purpose, taking into account the data quality, quantity and breadth;
- reviewing: i) the effectiveness of Hg's risk management policies and procedures; ii) the level of compliance of Hg and Hg Staff with arrangements to manage risks, and ensuring adequate risk training is delivered to Hg Staff and the Hg Board; and iii) the adequacy and effectiveness of measures taken to address any deficiencies in the relevant policies, procedures, arrangements, processes and mechanisms; and
- overseeing and validating Hg's external reporting of risk, where relevant.

In order to help address these requirements, Hg has conducted a comprehensive risk identification exercise across all business lines to ensure that all material risks have been identified. Such risks and their mitigants are set out in the Risk Management Framework.

The Risk Management Framework is reviewed on an annual basis by the Hg Board. During the annual review, the Risk Management Function reviews whether the mitigating controls identified in the Risk Management Framework have been properly implemented. The Risk Management Function will record, monitor and internally report to senior management any known operational failures together with any losses that might have resulted, so that there is a historic loss database.

Quarterly meetings are held by the Risk Management Function with senior members of Hg Staff responsible for the various business areas to identify any new risks and monitor progress on the mitigation of existing risks. Any new risks identified are added to a Risk Register by the Head of Compliance and Risk who will, in consultation with the Risk Management Function and other Hg Staff, score each risk.



Hg's Audit & Risk Committee

The Risk Management Function reports on risk matters (including the outcomes of the regular risk meetings referenced above) to the Audit and Risk Committee and will warn the Audit and Risk Committee of any specific risk developments which affect or may affect Hg. The Audit and Risk Committee is a committee of the Board, and the Audit and Risk Committee papers also form part of the quarterly Board papers.

The Audit and Risk Committee is required to:

- examine Hg's management process for ensuring the appropriateness and effectiveness of systems and controls (including accounting policies); ii) examine the arrangements made by management to ensure compliance with the requirements and standards under the regulatory system; and iii) provide an interface between management and external auditors;
- develop proposals for consideration by the Hg Board in respect of overall risk appetite and tolerance, and the metrics used to monitor Hg's risk management performance; and
- advise the Hg Board on, and provide oversight of, Hg's overall current and future risk appetite and assists in overseeing the implementation of, strategy vis-à-vis risk; ii) provide oversight and challenge the day-to-day risk management, strategy and associated procedures and controls; and iii) provide advice, oversight and challenge necessary to embed and maintain a supportive risk culture throughout the firm.

Hg ensures that members of the Audit and Risk Committee have the necessary knowledge, skills and expertise, and have adequate access to information on the risk profile of Hg (including, where necessary, external expert advice and support on any risk issue). The Audit and Risk Committee is responsible for reviewing and approving Hg's Risk Management Framework at least annually, to ensure it adequately identifies the risks to which Hg is, or may be, exposed.

Climate risk management initiatives

Hg has implemented various climate risk management initiatives, starting with an annual assessment of our carbon footprint. Our carbon footprint takes homeworking into account, though currently most of our carbon reduction initiatives are relate to the office environment as we acknowledge that directing similar initiatives in a private, residential context is more complex.

In addition to measuring our impact, we actively mitigate it by reducing emissions, where possible. We have moved our key investment offices to 100% renewable electricity[1.] Where our landlords have not been able to provide renewable energy directly to our offices, we have achieved this by purchasing renewable energy certificates.

In 2020, Hg became a member of Initiative Climat International (iCI), a global organisation to support PE firms in recognising the risk and opportunities climate change presents to their investments. As part of this, in 2021, Hg worked with the iCI NetZero working group, the World Resources Institute (WRI) and the SBTi to develop a standard for how Hg can set its own Science-based Targets (SBTs). In 2023, Hg co-led an iCI working group to develop a scope 3 GHG accounting guidance for the software and services sector. This is a comprehensive guide to help technology businesses understand and calculate their scope 3 emissions.

[1] This excludes Paris, Singapore and Luxembourg, see 'Firm Level Carbon Metrics' below for further details.

Managing climate related risks at portfolio level

Climate change risk and other material sustainability topics are considered across our investment process, from screening to active ownership.

Screening

Hg's screening criteria clearly states that our focus is on software and services companies and as such we do not invest in companies in sectors that are considered high-risk from a climate risk perspective. Our investment strategy is informed by our responsible investing approach meaning we are guided away 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 Sustainability team leads the pre-investment sustainability due diligence (DD) in collaboration with our legal and investment teams. This covers five key metrics related to climate change: (i) climate change risk assessment; (ii) climate change risk management; (iii) carbon footprinting; (iv) carbon reduction targets; and (v) SBTs.

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. However, we often find there is a fairly low maturity related to climate change in the businesses we invest in and are aware of the uplift required in terms of encouraging both reporting and setting targets once invested.

Onboarding

We take an active approach to managing climate-related risks and opportunities during ownership. This starts with a sustainability onboarding and maturity assessment against our Sustainable Business Framework. Please see our **RI policy** for further details about our sustainability assessment.

We also conduct a climate change risk assessment covering transition risks and physical risks, under a 2-degree and a 4-degree scenario. The outputs from our assessments are shared with the Board members of each portfolio company. Our onboarding assessments allow us to prioritise our efforts on sustainability, including climate-related risks, during the investment period.

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 cybersecurity, data analytics, growth, legal, transformation, technology, sustainability, and talent. Within sustainability, we support our companies to enhance their practices around carbon footprinting, risk mitigation, procedures and reporting practices.

Our key climate risk management initiatives at the portfolio level include:

- Supporting our businesses to calculate their carbon footprints on an annual basis using externally recognised partners. In 2024/25 we gathered carbon footprint data from our portfolio companies for the fourth year in a row. About 33 of our portfolio companies employed third-party consultancies or software providers to calculate their carbon footprints.
- Working actively with our portfolio companies on SBTs and encouraging them to commit to the SBTi and have their targets approved by the SBTi.
- Engaging with the iCI and external legal advisors and consultancies to stay up to date on NetZero commitments and the SBTi.
- Developed a decarbonisation toolkit for our portfolio companies to leverage in setting targets and building their carbon reduction plans.

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 investors.

Metrics and Targets

We believe robust data is fundamental to better understand and manage carbon emissions and 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.

Carbon Reduction Targets

Hg is committed to driving action on climate change, and as a result we have set targets for the carbon footprints of Hg and our portfolio in line with the SBTi. Hg's targets were approved by the SBTi in November 2021.

The targets cover the portfolio companies where Hg has more than 25% ownership stake and at least one Board seat. Hg's long-term goal is to be NetZero by 2050, aligning with the UK's national climate commitment, and our SBTs – approved by the SBTi – set out the plan for how we will get there.

Hg's own scope 1 and 2 emissions:

50% reduction by FY2031 (31 March 2031) on a FY2020 (2019/20) baseline[1]

Hg's scope 3 financed emissions:

26% of our invested capital will be covered by SBTs by FY2027 (31 March 2027)[2]

Hg's scope 3 financed emissions:

100% of our invested capital will be covered by SBTs by FY2041 (31 March 2041)[3]

Full details of Hg's carbon reduction targets including a summary of the actions in plans to reach its targets can be found **here**. Note that in line with Hg's usual accounting period, these targets (baseline years and progress) are measured by reference to the period 1 April – 31 March.

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[1] Baseline set as our carbon footprint covering FY2019/20 (1 April 2019 – 31 March 2020).

[2] FY2027 is 1 April 2026 – 31 March 2027

[3] FY2041 is 1 April 2040 – 31 March 2041

Firm-level Carbon Metrics

Together with an external carbon footprint solution provider, we assess our carbon footprint in line with the GHG Protocol Standard. Our scope includes relevant categories of the GHG Protocol:

Scope 1
diesel or petrol used for owned vehicles, and any owned/controlled gas and fuel sources, e.g. boilers

Scope 2
kWh electricity consumed at offices, renewable electricity procured, and kWh from heating and cooling, including purchased kWh mains gas

Scope 3
electricity consumed when employees are working from home, business travel including flights, rail, taxi and hotel stays as well as other travel-related emissions such as staff commuting, deliveries and consumables, any purchased goods and services including capital goods and food consumption

As mentioned, Hg has set firm-level targets for our scope 1 and 2 emissions, in line with the SBTi, to reduce absolute scope 1 and 2 GHG emissions 50% by FY2031 (2030/21) from a FY2019/20 base year. We aim to meet these targets and further reduce our footprint by decreasing our electricity and gas consumption and switching to renewable energy sources. In FY25, our New York office switched to renewable energy, meaning, as of 2024, all Hg's main investment offices use renewable energy[1].

Table 5 provides an overview of our progress. Particularly, in FY2024/25 we achieved a reduction in our total scope 1 and 2 emissions by 35% compared to the FY2019/20 baseline. We are slowly heading in the right direction and decreasing our footprint. For further detail on how we are streamlining our energy usage and more detailed GHG reporting, please refer to Hg's group Streamlined Energy and Carbon Accounting reports[2].

Key numbers from our latest carbon footprint report for 2024/25:

- Our scope 1 emissions remain 0, marking a 100% reduction from our FY2019/20 baseline. As noted in last year's report, we updated our calculation methodology to accurately account for the heating of our London office, by transferring the emissions associated with the purchased gas consumption from scope 1 to scope 2, since we do not own or control the boiler at the office.
- In scope 2 emissions, we achieved a 52% reduction compared to our baseline of FY2019/20. In June 2024, we opened an office in Singapore and, along with our Paris and Luxembourg offices, data is challenging to obtain due to these being very small offices based in shared working spaces. Therefore, we have had to use estimates based on square footage.

Since our baseline year, Scope 3 emissions have increased by 242%. This substantial rise can be attributed to several key factors, including enhanced data collection capabilities and growth in business-critical activities such as travel, which has increased year-on-year. Our organisation has also experienced significant growth during this period, with employee numbers increasing by 95% and Funds Under Management expanding by over 300%.

Table 6. Hg's firm-level carbon footprint

	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	2023 /24	2024 /25	% Change from base-line year (19/20)
Scope 1 – Direct emissions (tCO_2e)	51	38	19	5	20	0	0	-100%
Scope 2 – Indirect electricity emissions (tCO_2e)	195	119	94	26	40	46	58	-52%
Scope 3 – Other indirect emissions (tCO_2e)*	1,410	2,093	178	1,487	3,009	7,560	7,150	+242%
Total (tCO_2e)	**1,656**	**2,249**	**291**	**1,519**	**3,069**	**7,606**	**7,208**	**+220%**
# of employees	161	201	218	299	315	394	391	+305%
tCO_2e / employee	10.3	11.2	1.3	5.1	9.7	19	18	
FUM ($ bn)	12.5	18.5	31.0	41.1	63.1	73	75	-21%
tCO_2e / FUM	132.5	121.6	9.4	37.0	48.6	104.2	96	

The above data relates to the period 1st January to 31st December 2024. Please see note at the end of this section for further information on calculation periods.

* Our footprint is currently excluding scope 3 category 15 of the GHG protocol, i.e. financed emissions / investments. For information on our financed emissions, please refer to our portfolio-level carbon metrics below in this report.

Despite this growth, Hg continues to offset 100% of our emissions through a strategic investment in carbon credits, consistent with our approach in previous years. In 2023/24 we made a shift from avoidance carbon credits to a portfolio comprising 100% carbon removal credits. We are currently in planning for this year's offsetting strategy, and looking into the most suitable carbon offset mechanisms available. Further details will be published in Hg's annual carbon footprint report.

Note that currently, Hg does not use an internal carbon price. Further, our firm-level footprint excludes scope 3 category 15 of the GHG protocol, i.e. financed emissions / investments. For information on our financed emissions, please refer to the section on Portfolio-level Carbon Metrics below in this report.

[1] Available here

[2] This excludes Paris, Singapore and Luxembourg.

Portfolio-level Carbon Metrics

Since 2021, we have been using carbon reporting software solutions to collect and calculate scope 1, 2 and 3 carbon footprints across our portfolio companies. This year, in acknowledgment that many of our portfolio companies work with their own preferred third parties to calculate their footprints, we opted to use a simplified questionnaire to collect their independently calculated total emission figures across scopes 1, 2 and 3. For companies that were new to the process or lacked third-party agreements, we provided a personalised introduction to an online carbon footprint calculation platform and offered tailored guidance throughout the calculation process. The emissions figures collected include:

Scope 1
diesel or petrol used for owned vehicles, and any owned/controlled gas and fuel sources, e.g., boilers

Scope 2
kWh electricity consumed at offices or owned data centres, renewable electricity procured or produced, kWh from heating and cooling

Scope 3
emissions from business travel/hotel stays, emissions from cloud service providers, data centre usage, emissions from employees working from home and employee commuting, purchased goods and services, waste, indirect fuel related activities and any other category relevant to the portfolio companies upstream/downstream operations

Along with the scope and category totals collected, we requested information on the predominant data sources for scopes 1 and 3, to understand whether the calculations relied on activity or spend-based data. We also asked portfolio companies to report scope 2 emissions from both a market and location-based perspective. Note that portfolio company emissions, unlike Hg firm-level emissions, are generally reported for the calendar year.

Due to the nature of carbon footprinting, there will always be some variation between actual and reported numbers. We encourage portfolio companies to get their footprints reviewed by an external carbon accountant to improve the quality of their reporting. Many of our portfolio companies worked with external providers for the first time this year, improving the reliability of their submissions.

Table 7 below outlines estimates of scope 1 and 2 emissions from our portfolio companies, covering data for the 2024 calendar year. The emissions intensity metrics were calculated in line with the TCFD recommendations for asset managers. The calculation of the weighted average carbon intensity metrics presented in Table 7 were independently verified by a third party, Auditel, with a limited level of assurance. The emissions calculated below cover 81% of Hg investments, by invested cost.

Table 7. Scope 1 and 2 emissions from Hg portfolio companies

	2023			2024[1]		
	Scope 1	Scope 2[2]	Scope 1 & 2	Scope 1	Scope 2	Scope 1 & 2
Absolute emissions (tCO_2e)	28,045	44,713	72,758	25,934	42,348	68,282
Hg financed emissions (tCO_2e)[3]	8,676	17,062	25,738	11,868	14,622	26,490
Carbon intensity (tCO_2e / $m revenue)	1.40	2.78	4.18	0.97	1.28	2.25
Weighted average carbon intensity (tCO_2e / $m revenue)	0.74	2.06	2.80	0.97	1.08	2.05
Carbon footprint (tCO_2e / $m portfolio value)	0.02	0.05	0.07	0.02	0.03	0.05

[1] Our portfolio-level carbon metrics for the 2024 calendar year have been independently verified by a third party. Previously, Hg did not conduct audits or external reviews of carbon emissions from our portfolio companies. Given the nature of the metrics, there may be some variation between actual and reported numbers. Therefore, we do not report on the portfolio-level carbon metrics for the years prior to 2024 to prevent any misinterpretation if historical figures are compared directly.

[2] Scope 2 emissions are based on market-based data where available. Location-based data was used only to supplement any missing values.

[3] Financed emissions fall under scope 3 category 15 of the GHG Protocol. In quantifying these, we have accounted for the scope 1 & 2 emissions of our portfolio companies, proportional to the Hg percentage ownership of each business.

We continue to focus on encouraging portfolio companies to improve the quality of their scope 3 emissions data, recognising that the highest source of a company's emissions is often scope 3. For software companies this largely resides in data centres which use large amounts of electricity to process and store data. We are working with some of the world's largest cloud service providers, and our engagement with them includes raising awareness and providing tools to our portfolio companies to help them calculate the footprints that are arising from data centre usage.

In addition to supporting our portfolio companies to calculate their carbon footprints, we encourage them to focus on their emissions hotspots, identify opportunities for carbon reduction, as well as set interim and long-term targets. This active engagement approach helps to ensure that our portfolio companies adhere to current and upcoming GHG reporting regulations and stakeholder expectations in both the public and private sectors. We also anticipate potentially increasing profitability and benefits from cost savings through operational efficiency measures, as well as improving credibility and reputation among stakeholders.

Upon collecting and reviewing the 2024 portfolio carbon footprints, we also conduct a Net Zero alignment review in line with the **Private Markets Decarbonisation Roadmap** (PMDR) and the **Net Zero Investment Framework (NZIF) Component for the Private Equity Industry**. Following their guidance, we analysed the veracity of Net Zero progress amidst our portfolio, grading each company on a scale from "Not started" to "Aligned to Net Zero" for PMDR and "Committed to Aligning" to "Net Zero" for NZIF.

Timing of emissions data calculations

Hg's financial year runs from 1 April to 31 March. As such, Hg-specific emissions at the firm level (excluding scope 3 category 15 of the GHG protocol, i.e. financed emissions / investments) are calculated for this period each year. The latest scope 1, 2 and 3 emissions data (excluding financed emissions / investments) relate to the period 1 January to 31 December 2024.

Hg

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 TCFD, Carbon Footprint and Responsible Investment reports.

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