Hg

Taskforce on Climate-related Financial Disclosures

Report 2023

Hg recognises the major challenges that the world is facing due to climate change. Slowing the rate of global warming is crucial for the future of our planet. 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 seriously.

We believe that by 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 supporting portfolio companies to promote positive environmental and social change.

In this 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.

Our climate-related disclosures are consistent with the four pillars and cover the major recommended disclosures as set out in the Task Force on Climate-related Financial Disclosure (TCFD) recommendations (see Table 1 below).

Table 1. Hg TCFD report 2023 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 in order 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 2023 – 31 December 2023 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 2023 and the Hg Carbon Footprint Report 2023/24 as indicated throughout.

Steven Batchelor
Partner and Board member

28 June 2024

Governance

Hg's ESG team leads the implementation of the ESG 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 Hg ESG governance model below. Hg's Senior Leadership Team (SLT) reports into the Hg Board.

Hg Board-level oversight extends across all our ESG approach and activities. In particular, the Hg Board reviews our Responsible Investment policy, firm-level carbon emissions report, carbon offsetting initiative and our commitment to the Science-based Targets initiative (SBTi).

At the management level, Hg's Chief Sustainability Officer, who is leading our ESG team, reports to our Head of Portfolio Value Creation. The ESG team works closely with the Head of Portfolio Value Creation, Hg's ESG Board Sponsor (who is a Partner and a member of Hg's Board) and broader partnership to define the firm's ESG strategy, including the approach to climate change and actions for implementation. Additionally, climate change 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 ESG expertise with deep knowledge on ESG topics, including climate change. As such, Hg's ESG team reviews and monitors climate-related issues and collaborates with the deal teams, legal team, compliance team, marketing team and other teams to provide expertise during the investment process.

	Hg Senior Leadership Team (SLT)						
	ESG SteerCo ESG Board Sponsor & Chief Sustainability Officer					**Risk & Audit Committee** (ARC)	**Portfolio Operating Board** (POB)
Working groups / topics	ESG and Compliance	ESG Reporting	Green Committee	Hg Carbon Footprint	Sustainable financing	Climate Change Related Risks	Portfolio ESG
Members	ESG and Compliance	ESG, Client Services, Legal, Compliance, Marketing	Employee Resource Group: Voluntary employees	ESG, Operations team and Finance	ESG, Capital Markets and Client Services	Compliance and ESG	ESG Team and Portfolio Leadership Team
Meeting cadence	Monthly	Monthly	Monthly	Quarterly	Project Dependent	Quarterly	Monthly

Strategy

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

Climate-related Risks and Opportunities

Hg recognises that identifying climate-related risks and opportunities is fundamental 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 with regards to the firm-level operations.

Table 2. Summary of key climate-related opportunities*

	Climate-related opportunities	Potential financial impact	Horizon**
Resource efficiency	• Use of more efficient modes of transport • Use of 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 fuel 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 passing on higher energy-related compliance costs	Increased operating costs	Medium-term
Market	• Shift in demand towards low carbon investment portfolios	Reduced revenue and/or access to capital	Short-term
Reputation	• Increasing pressure to act on climate risk from peers, 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.

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 analysis, which is based on Hg's climate risk assessment tool provided by PwC, shows that there is a low climate-related financial risk to Hg's core business and supply chain by 2030 (Table 4 overleaf). Further details on the assessment methodology can be found in the Scenario Analysis.

Hg ensures climate-related risks and opportunities are as far as possible systematically managed by delegating responsibilities to the management and functional groups, with Board-level oversight, as described in the Governance section of this report. Additionally, Hg leverages externally created tools, external consultancy and legal advice, and works with other third parties to measure and manage our carbon footprint and climate change risks.

Since 2018, we have worked with external parties to annually calculate our carbon footprint and compensate for our emissions through carbon avoidance projects, which are not just supporting climate change action, but also contributing to delivering against the UN's Sustainable Development Goals. We have a number of firm-wide initiatives to 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 consists of companies in the 'technology and services' sector, who are typically providing B2B software as a service solution. Climate change risk levels across this sector are generally lower than for sectors which rely heavily on natural resources.

Despite the lower risk, we understand the need to assess potential climate change risks across our portfolio. Particularly, 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 report on climate change risks and resilience associated with our portfolio companies to investors in our annual client fund-level ESG reports. The principal findings and assessment methodology are summarised in the Scenario Analysis below.

We prioritise managing those risks that can have the greatest impact in our investments and ESG strategies and also work on improving the climate resilience of investments across our portfolio. We have actively been supporting our portfolio companies in calculating their carbon footprints, reducing their carbon emissions and setting targets. For details of how Hg considers warming scenarios as part of its investment process, please see the section below, "Managing climate related risks at portfolio level".

Scenario Analysis

Since 2019, we have been using a climate change risk tool 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. The tool has been developed in conjunction with PwC's Sustainability & Climate Change team. 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 considers the sector and geographical locations of each company, as well as its exposure to climate change risks. The risks are assessed by taking into consideration the following indicators:

The tool then assesses how resilient each of our firm and portfolio companies is, by identifying how adequate 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 supply chain. The tool also provides an overall climate resilience score for the relevant company. Table 4 summarises the outputs of the Scenario Analysis for Hg at the firm-level.

42 portfolio companies have conducted the climate risk assessment using our tool. The results showed that all companies have either Very Low or Low physical and transition risks. Furthermore, with the exception of one company, all exhibit Medium to High climate resilience. The sole exception is a company 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 ESG reports.

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*	High resilience
4-degree scenario	Low risk*	Not modelled	High 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.

Risk Management

Managing climate related risks at Hg firm level

How Hg identifies, assesses and manages climate-related risks

Hg's Board, acting through its Audit and Risk Committee, 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 are methodically 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 fully 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

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 reports directly to the Hg Board, and 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 of 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 relating 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 London, Munich, and San Francisco offices to 100% renewable electricity. Where our landlords have not been able to provide renewable energy directly to our offices, we have achieved this by purchasing renewable energy certificates.

We recognise that it is crucial to collaborate to drive change globally. In 2020, Hg became a founding member of the UK network of Initiative Climat International (iCI), a global organisation with over 200 PE firms that join forces to advance the industry's commitment to tackling climate change. As part of this, in 2021, Hg worked with a number of other PE firms in the iCI NetZero working group, the World Resources Institute (WRI) and the **SBTi** to develop a standard for how PE firms can set and commit to Science-based Targets (SBTs) with the ultimate goal to be Net Zero by 2050. 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.

Managing climate related risks at portfolio level

Climate change risk is 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 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 ESG team leads the pre-investment ESG due diligence (DD) in close 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 reporting and setting targets once invested.

Onboarding

We take an active approach to manage climate-related risks and opportunities during ownership. This starts with an ESG onboarding and maturity assessment against our Sustainable Business Framework. Please see our RI policy for further details about our ESG 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 ESG, 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, ESG, and talent. Within ESG, we support our companies to enhance their practices around climate change data, risk mitigation strategies, procedures and reporting practices.

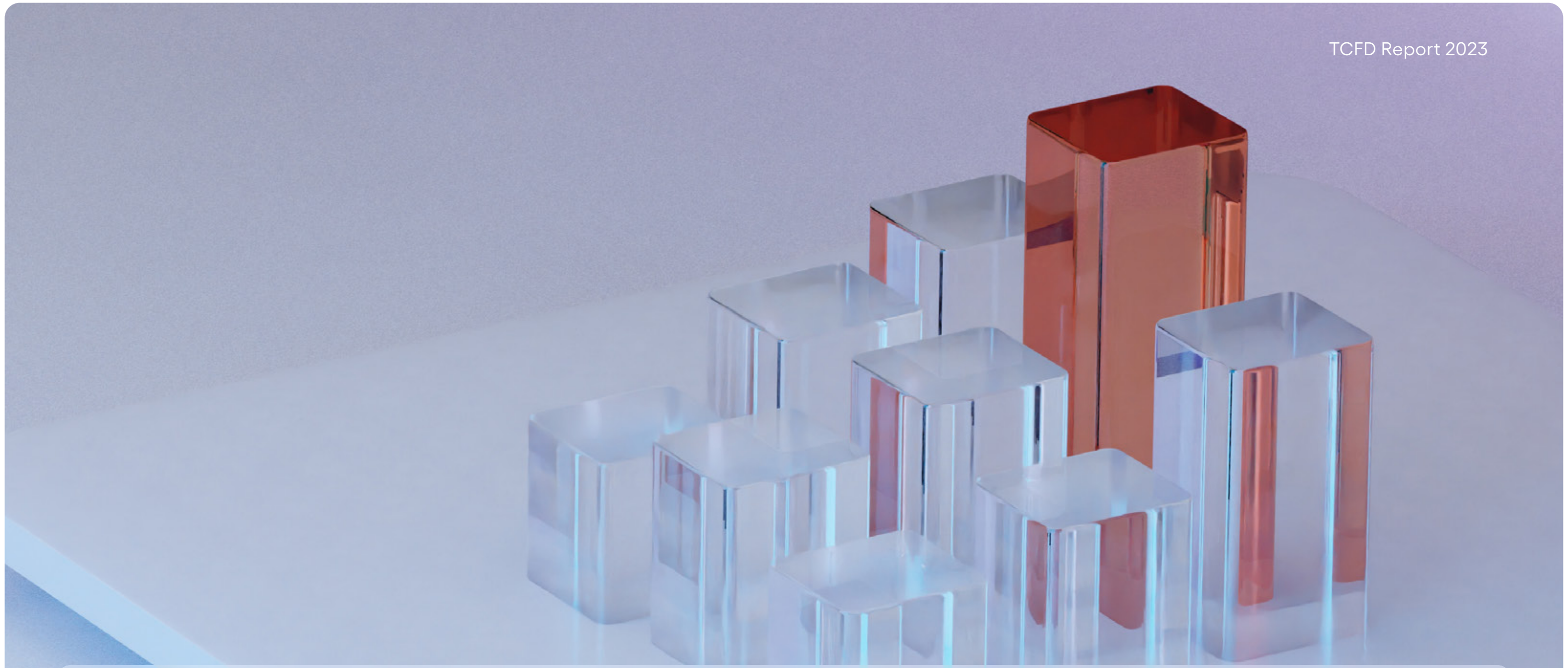
Our key climate risk management initiatives at the portfolio level include:

- Supporting our businesses in calculating the carbon footprints on an annual basis. In 2023/24 we continue to support our portfolio companies calculate their carbon footprints for the fourth year in a row. About 20 of our portfolio companies have had their carbon footprints externally verified by third parties.
- Working actively with the portfolio companies on SBTs.
- Supporting the portfolio companies 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.



Science-Based Targets

As Hg is committed to driving action on climate change, we have set targets for the carbon footprints of Hg and our portfolio which is in line with SBTi's guidance for PE firms. In November 2021, Hg became one of the first seven PE firms globally to get approved SBTs, setting an example for the rest of the PE industry.

The targets are aligned to the SBTi standard for PE and 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 (2030/31) 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 (2026/27)[2]

Hg's Scope 3 financed emissions:

100% of our invested capital will be covered by SBTs by FY2041 (2040/41)[2]

Full details of Hg's SBTs 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.

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; FY2041 is 1 April 2040 – 31 March 2041.

Firm-level Carbon Metrics

Together with an external carbon footprint solution provider, we assess our GHG emissions 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

Note that 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 our portfolio-level carbon metrics below in this TCFD Report.

As mentioned on previous page, we have 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 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. Table 5 provides an overview of our progress. Particularly, in FY2023/24 we achieved a significant reduction in our total scope 1 and 2 emissions by 32% compared to the FY2019/20 baseline. We are slowing heading in the right direction and decreasing our footprint.

In greater detail, our scope 1 emissions for FY2023/24 decreased to 0, marking a 100% reduction from our FY2019/20 baseline. We have updated our calculation methodology to accurately account for the heating of our London office, transferring 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 11% reduction in FY2023/24 compared to the baseline of FY2019/20. Our London office remains on a 100% renewable energy tariff since 2021, except for a 6-month period from April to October 2023. Munich and San Francisco offices have been on 100% renewable energy tariffs in 2023. We are currently looking at options for sourcing renewable energy for our New York office. Purchasing renewable energy for our Paris and Luxembourg offices remains a challenge as these are very small offices based in shared working spaces where the landlords provide us with estimated utility data based on square footage.

Once Hg has finalised its scope 3 emissions calculations, Hg aims to compensate for its FY2023/24 footprint for the fifth year running.

By measuring, reducing and offsetting our carbon footprint, we aim to do our part in tackling the global climate emergency, whilst also supporting sustainable development and solutions.
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 and switching to renewable energy sources.

Hg currently does not measure additional metrics other than carbon emissions and has no internal carbon price.

Table 5. Hg's firm-level carbon footprint

	2018 /19	2019 /20	2020 /21	2021 /22	2022 /23	2023 /24*	% Change from baseline year (19/20)
Scope 1 – Direct emissions (tCO_2e)	51	38	19	5	20	0	-100%
Scope 2 – Indirect electricity emissions (tCO_2e)	195	119	94	26	40	106**	-11%**
Scope 3 – Other indirect emissions (tCO_2e)***	1,410	2,093	178	1,487	3,009	****	
Total (tCO_2e)	1,656	2,249	291	1,519	3,069	****	
# of employees	161	201	218	299	315		
tCO_2e / employee	10.3	11.2	1.3	5.1	9.7	****	
FUM ($ bn)	12.5	18.5	31.0	41.1	63.1		
tCO_2e / FUM	132.5	121.6	9.4	37.0	48.6	****	

* Hg's financial year runs from April to March. The above emissions data relates to the financial year beginning 1 April 2023 and ending 31 March 2024. Please see note at the end of this section for further information on calculation periods.

** We are planning to purchase renewable energy certificates to match our energy consumption for FY2023/24 for the New York office and for the 6-month period from April to October 2023 for the London office. Accordingly, we expect a reduction in our scope 2 emissions for FY2023/24, which will be reported in our Carbon Footprint Report 2023/24.

*** 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.

**** We report on our scope 1 and 2 GHG emissions and aim to report on our scope 3 emissions where appropriate, in line with the TCFD Recommendations and Recommended Disclosures. We are in the process of reviewing our firm-level scope 3 emissions for FY2023/24 and seeking opportunities to improve data quality with the help of an external carbon footprint solution provider. Accordingly, in this table, we report on our scope 1 and 2 emissions covering up to the most recent reporting period and include historical firm-level scope 3 emissions. We will publish firm-level scope 3 emissions and related carbon intensity metrics for FY2023/24 in Hg's Carbon Footprint Report 2023/24, available on our **website**. We anticipate this to be a one-time occurrence for ensuring data quality, and we endeavour to incorporate our firm-level scope 3 emissions and related carbon intensity metrics into the main TCFD report in future publications.

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. If a company has already calculated a carbon footprint by themselves, they report the final data to Hg. However, if they have not done such calculation with an external party, Hg helps the portfolio company to calculate a footprint based on their activity data, along with potential estimates, for the GHG scope 3 categories that are most material to software and services companies. This includes:

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 employee's working from home and employee commuting, purchased goods and services, waste, and any other indirect fuel related activities

Hg's carbon reporting solution then calculates the carbon emissions based on the submitted data, in line with the GHG Protocol. In the limited cases where activity data was unavailable (e.g., kWh for energy use from landlords) data has been estimated using square footage or the number of employees, as recommended by the GHG protocol. Note that portfolio company emissions, unlike Hg firm-level emissions, are generally reported for the calendar year.

Due to the nature of the metrics, there may be some variation between actual and reported numbers. We encourage portfolio companies to get their footprints externally validated. We have also aligned to the Partnership for Carbon Accounting Financials (PCAF) data quality hierarchy and seek to continue to improve the quality of data collected, with a preference for activity data over estimates.

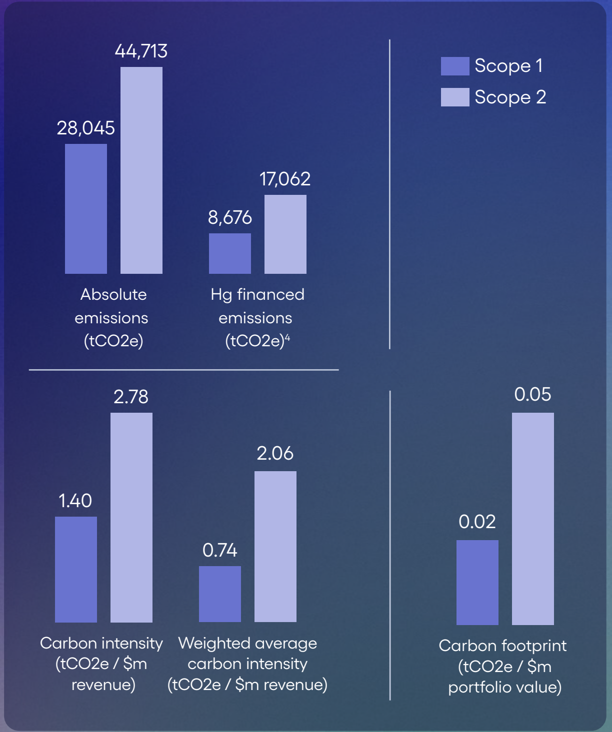
The emissions from the calendar year are shared with portfolio companies through a dashboard and normalised to enable them to compare their carbon footprint against other companies in the portfolio. To benchmark carbon emissions across the portfolio, we have normalised emissions by number of employees and compared by fund (Mercury, Genesis and Saturn) to better account for the difference in company size and business operations.

Table 6 below outlines estimates of scope 1 and 2 emissions from our portfolio companies, covering data for the 2023 calendar year. The emissions intensity metrics were calculated in line with the **TCFD recommendations for asset managers**. The absolute emissions for portfolio companies and the calculation of any CO_2e thereon including carbon intensity metrics presented in Table 6 were independently verified by a third party, with a limited level of assurance. The emissions calculated below cover 81% of Hg investments, by invested cost.

Table 6. Scope 1 and 2 emissions from Hg portfolio companies

	2023[3]		
	Scope 1	Scope 2	Scope 1 & 2
Absolute emissions (tCO_2e)	28,045	44,713	72,758
Hg financed emissions (tCO_2e)[4]	8,676	17,062	25,738
Carbon intensity (tCO_2e / \$m revenue)	1.40	2.78	4.18
Weighted average carbon intensity (tCO_2e / \$m revenue)	0.74	2.06	2.80
Carbon footprint (tCO_2e / \$m portfolio value)	0.02	0.05	0.07

3. Our portfolio-level carbon metrics for the 2023 calendar year have been independently verified by a third party. Previously, Hg did not conduct audits or external reviewsof 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 2023 to prevent any misinterpretation if historical figures are compared directly.
4. 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 focusing on improving data quality on scope 3 emissions, 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 have partnered with some of the world's largest cloud service providers, and our work 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.

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 April 2023 to 31 March 2024. We have additionally provided historical data for previous financial years to ensure that there is no period after 1 January 2023 that is not covered by a TCFD report.

By contrast, our portfolio companies' year ends are generally aligned to the calendar year. We recognise that this difference between Hg's emissions calculation period and that of our portfolio companies could be confusing to some users of this report. For that reason, we are exploring options to align the two calculation periods in future reporting cycles.

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 **ESG@hgcapital.com**