

# Responsible Investment Policy

## Overview

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 and, through this sustained growth, collectively create thousands of jobs worldwide. These are enduring businesses that generate consistent profits while creating multi-dimensional value for their customers, by improving how people work. 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.

Our RI approach is not just a screening process. We take an active interest in our companies' sustainability business practices. We encourage, support and stretch the businesses we partner with, to have a positive impact through their operations and products whilst minimising risks through practices, such as robust cybersecurity standards.

Hg has been a signatory to the United Nations Principles for Responsible Investment (UNPRI) since 2012 and is dedicated to the UNPRI's six principles<sup>1</sup>.

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

## Scope

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

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<sup>1</sup> Hg scores: \*\*\*\*\* (94/100) for Policy, Governance and Strategy, \*\*\*\*\* (97/100) for Private Equity and \*\*\*\*\* (100/100) for Confidence Building Measures. Links to Hg's most recent [2024 transparency report](#) and [UNPRI's methodology](#).

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

## Our approach to Responsible Investment

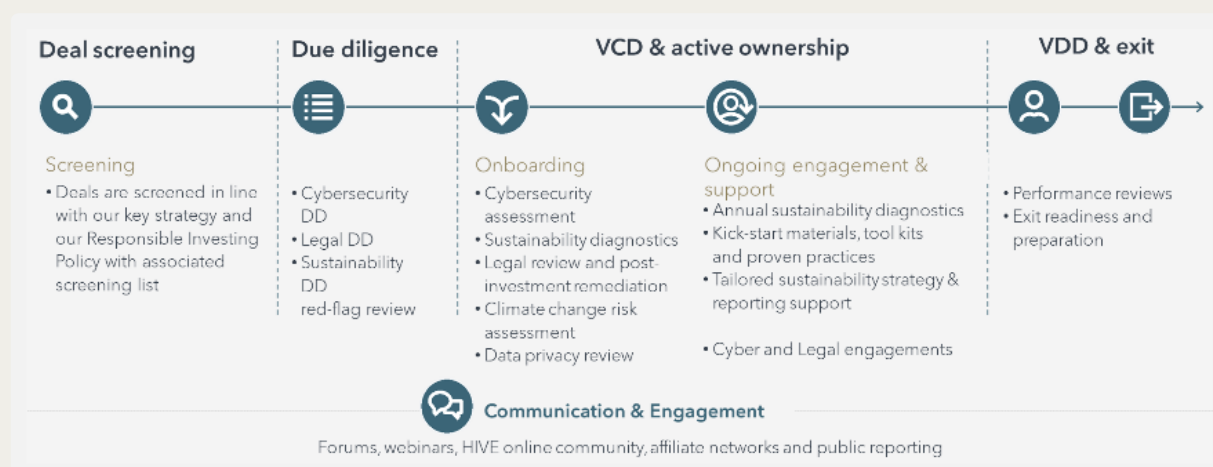
We look to grow sustainable businesses which are great employers and good corporate citizens and that seek to have a positive influence through their products and services. Hg has a clear investment approach focusing on software and services companies. Hg primarily seeks majority equity buyout investments in, predominately, Northern European and North American headquartered businesses, though such companies will often have a global footprint and customer base.

Our targeted investment approach means we have extensive knowledge and a clear focus on the sustainability topics that are most material to the software and services sector, namely:

Good governance	Promoting accountability, transparency, fairness and responsibility through structures, policies and procedures.
Resource efficiency	Being mindful of resources, minimising material and energy waste throughout operations. Preparing for a low carbon future, and associated legislation, through energy efficiency and procurement.
Effective risk management	Implementing robust risk management processes to identify and mitigate operational disruptions, protecting business value. A strong focus on key risks such as cybersecurity.
Talent attraction and retention	Cultivating engaged workforces where different perspectives are encouraged to help drive superior decision-making. Promoting cultures that embrace these differences and leverage a range of inputs for enhanced problem-solving and inclusion - driving improved performance, talent attraction and retention.
Social licence to operate	Cultivating stakeholder trust through responsible environmental, social, and financial practices that reinforce the company's license to operate.  Including meeting sustainability related requirements set out by clients and customers.

We apply the same principles across our businesses, no matter their size nor location. In a non-control investment, where Hg is a minority owner, we still seek to use our knowledge and experience to influence the portfolio company and often work collaboratively with the majority owners to do so.

RI is embedded across the entire investment cycle from deal screening and due diligence (prior to ownership), to ownership and exit:



### Pre-investment Deal Screening and Due Diligence

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

Pre-investment, Hg covers:

- Compliance with relevant laws, and adherence to best practice, relating to data protection, sanctions, anti-bribery and corruption, antitrust and employment matters (including discrimination, whistleblowing and health and safety);
- Violations of the OECD Guidelines for Multinational Enterprises and UN Global Compact principles;
- Internal governance, including board composition, internal controls and audit procedures, as well as relevant incident response, whistleblowing and grievance mechanisms;
- Cybersecurity risks and maturity;
- Employee matters such as employee turnover, inclusion and employee engagement; and
- Environmental risks such as climate change.

This is done across several steps:

- As a first step when considering potential new investments, the deal team reviews the investment to ensure it is in line with Hg's core investment strategy and focus – software and services businesses that provide critical services that are truly valued by its customers by helping to improve the way they work – and with our Responsible Investment Policy. Our investment screening criteria outlines the areas in which we, as a software investor, do not invest – this is set out in Appendix 1.

- The **Investment Committee** ('IC') considers whether there are any risks that the investment could:
  - a) Cause any significant negative social or environmental impacts that are aggravated by or directly linked to the business operations or products; or
  - b) Have any vulnerable customer groups and if so which safeguards they have in place to protect such groups.

Once in the **Due Diligence** ('DD') phase prior to investing:

- A legal review is conducted by Hg's Legal team in conjunction with external legal advisors.
- A comprehensive cybersecurity due diligence exercise is conducted by Hg's cybersecurity team in conjunction with external specialists. The cybersecurity due diligence helps to ensure that material cybersecurity risks are identified and flagged at an early stage in the diligence process. Findings are fed into the investment decision as a required item within IC briefing materials and is a standing item on the IC agenda, helping to ensure that cyber risks and any investment required to remediate them, are included in the investment thesis.
- A sustainability red flag review identifies high-level concerns arising from geographies, sectors or business practices. The red flag review is conducted in conjunction with our Legal DD and is reviewed and signed off by Hg's Chief Sustainability Officer. The results of this review, along with any red flags, is shared with the investment team and is considered as part of the investment decision. If there are any key concerns highlighted during this process, enhanced sustainability due diligence will be conducted.

For new acquisitions, where any gaps against the above standards are identified prior to any investment, we will seek commitment from the company to implement measures to fulfil the requirements. In addition, we aim to include a standard clause on sustainability in the Hg shareholders agreement to encourage future support and engagement in Hg's sustainability related initiatives.

Hg's approach to considering sustainability risk (i.e. an event that relates to the environment, society or governance, or a condition that, if it occurred, could cause an actual or a potential material negative impact of the value of the relevant investment) is set out in the fund documents of the relevant Hg Fund, along with relevant disclosures under the EU SFDR which can be found on the Hg website or in the relevant Fund documents.

## Active Ownership

Hg proactively supports our existing portfolio companies to address material sustainability risks and opportunities and to work towards setting standards consistent with the principles set out herein. We support and encourage portfolio companies to improve their performance on a continuous basis in the following ways:

- Sustainability is part of the onboarding process and value creation planning within the first few months of investing. The onboarding consists of several value creation workstreams, including but not limited to sustainability, cybersecurity and legal.
  - a) A sustainability assessment focuses on a company's maturity against approximately 100 sustainability metrics, all relating to Hg's Sustainable Business Framework (see page 6) and helps set a baseline and identify opportunities to support the company in any improvements.

- b) A cybersecurity assessment is completed immediately after investment, with reassessments conducted, at least, annually. If companies are found to have low cyber maturity, the Hg Cybersecurity team works with them to drive improvements at pace and bring them in line with portfolio standards.
- c) A legal DD read out call is conducted with relevant members of the portfolio management team to agree a plan to remediate any legal and governance issues identified during the legal DD process and onboarding, including uplift required against Hg's minimum policies and procedures and data protection frameworks, with support available from Hg and our advisers.
- d) A climate change risk assessment is conducted to help assess potential climate change related risks, including transition or physical climate change related risks, that may impact the business.

Over the period of our investment, Hg will monitor investee companies' performance against our Sustainable Business Framework on an on-going basis, including adherence to agreed action plans. The result of the annual sustainability diagnostic is shared with and discussed by portfolio company boards. Hg's board members play a key role in this engagement.

We require our portfolio companies to calculate and report their carbon footprint annually starting within one year of investment. This helps us benchmark portfolio companies and identify any specific areas for improvement, where energy consumption could potentially be optimised.

To support our businesses to improve their performance related to above topics, Hg shares templates and sends out regular communications. Our online collaboration platform, Hive, has several communities focused on topics such as sustainability, cybersecurity, legal compliance and data privacy. Hg also organises events for portfolio companies to share best practice, network and get support. Hg's value creation teams conduct clearly defined strategic projects across portfolio companies, supporting them to further advance their performance and strategies.

Finally, portfolio companies are expected to report material incidents to Hg in line with our incident reporting guidelines, which includes guidance on materiality, as well as reporting obligations. Hg will support the portfolio companies appropriately and communicate any material incidents to our clients.

## Realisation

Cybersecurity, legal and sustainability improvement plans are reviewed by portfolio company Boards and may be part of the Realisation Committee discussions, depending on the performance and maturity of the business.

We work with the portfolio company to articulate the increased value from improved sustainability performance. This includes case studies supported by a selection of key performance indicators.

## Hg's Sustainable Business Framework

Our portfolio sustainability diagnostic is based on Hg's Sustainable Business Framework which was initially developed and implemented in 2018. The Framework highlights key sustainability areas for our businesses, along with support provided by Hg. It is updated on an annual basis and evolves to adapt to regulatory changes and emerging issues, and to meet the expectations of our clients.

The framework covers material sustainability topics for software and services companies and is based on extensive benchmarking of best practices and industry standards, as well as interviews with Hg employees and feedback from our clients.

It takes external practices into account such as The ESG Data Convergence Initiative, UN Guiding Principles on Human Rights, UN's Convention against Corruption, the Ten Principles of The UN Global Compact and UN's Sustainable Development Goals (SDGs).



Our portfolio companies are assessed against the Framework, which is focused on three areas below; Essentials, Employees and Society.

## Essentials

There are certain fundamental sustainability requirements that Hg expects from portfolio companies.

1. **Governance and Business Integrity**, such as anti-competitive behaviour, code of conduct, appropriate controls and policies, Board composition and appropriate health and safety, audit, risk and whistleblowing procedures.
2. **Legal** functions with strong relationships with regulating bodies.
3. **Compliance**, including compliance with applicable laws and regulations, active risk management, as well as standards and policies to combat bribery, corruption, money laundering, tax evasion, harassment and other malpractice.
4. **Data and Cybersecurity**. Hg has a separate Cybersecurity assessment which companies are assessed against as part of onboarding and regularly thereafter. Hg is also launching a separate Data Privacy framework assessment.

## Employees

One of the most important assets of a business is the employees. A diverse workplace with engaged and motivated employees is vital for growth and business success.

1. **Purpose and culture**, including an engaging mission, purpose and values.
2. **Grow** businesses and talent, including job growth, healthy staff turnover and talent management.
3. **Engage** and motivate employees by promoting transparent communications, health and wellbeing, development opportunities and recognition.
4. **Diversity** of talent and inclusion. Cultivating engaged workplaces where different perspectives are encouraged to help drive superior decision-making.

## Society

We want our portfolio companies to have a positive impact on society, as well as being mindful of resources by minimising material and energy waste throughout operations.

1. **Community** engagement including apprenticeships, charitable giving and volunteering.
2. **Environmental** impact, such as the use of renewable energy, data centre efficiency, carbon reduction targets, as well as preparing for a low carbon future, and associated legislation, through energy efficiency and procurement.
3. **Positive relationships** with key external stakeholders such as customers and communities.
4. **Transparency** of sustainability commitments and progress, including external reporting on sustainability related activities.

## Hg's Own Operations

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

- We uphold the highest standards of business conduct. All Hg Staff are required to abide by Hg's Guidelines for Business Conduct and Ethics, as well as our Anti-Corruption Policy. Furthermore, Hg's core set of "Values" guides our way of thinking, behaving, and conducting ourselves.<sup>3</sup>
- We are committed to be a best-in-class employer, by creating a diverse and inclusive workplace where everyone is welcomed, motivated and stretched. We strive to develop a diverse pool of high calibre staff and are dedicated to talent management and development to give everyone at Hg the opportunity to perform to the best of their ability.
- We strive to have a positive impact on society by building positive external relationships, act with transparency, minimise our environmental impact and give back to communities. Hg is committed to donate part of our profits and carry to charitable causes through The Hg Foundation and other charitable initiatives.
- We are committed to minimise our climate change impact in line with science. Hg is compensating for our firm level carbon emissions and has a long-term goal is to be NetZero by 2050. Our Science Based Targets<sup>4</sup> (SBTs) set out the plan for how we will get there. Our targets are<sup>5</sup>:
  - a) 50% reduction in Hg's own Scope 1 and 2 emissions by FY31
  - b) 26% of our invested capital will be covered by SBTs by FY27
  - c) 100% of our invested capital will be covered by SBTs by FY41

Hg will report on our progress towards these targets in our annual sustainability reporting. Hg is engaging with portfolio companies to support them in setting science-based targets.

## Transparency and Collaboration

To provide transparency on our sustainability activities and to honour our commitment to the UNPRI to enable the private equity industry to be sustainable, we engage with key stakeholders on relevant topics in the following ways:

- We are dedicated to be transparent and engage with our employees, clients, regulators, portfolio companies and other key stakeholders on an ongoing basis to provide clarity around our actions and commitments relating to sustainability. We publish an annual sustainability report which is shared publicly on our website and fund level sustainability reports which are shared with our clients via our investor portal.
- We recognise that we are not alone in our sustainability journey and that we need to work together to make an impact across our industry. We support a more sustainable PE industry by participating in external collaborations and affiliate networks, such as through the UNPRI, BVCA, ILPA, Invest Europe and iCI. While we set our own sustainability strategy and targets, we collaborate with others to develop transparent industry standards or codes of practice aimed at making products or processes more sustainable. This is completely voluntary, and we respect competition law and other laws and regulations as we engage in these initiatives.

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<sup>3</sup> Hg's Values are: **Be genuine** (Be honest, Speak the truth, Be authentic, Retain humility), **Go beyond** (Strive for excellence, Be ambitious, Perspiration as well as inspiration, Take ownership), **Outlearn** (Smart & entrepreneurial, Leverage collective expertise, Continuously challenge, A growth mindset) and **Win right** (A "one firm" & inclusive mindset, Play hard but always play fair, Consider our long-term impact.)

<sup>4</sup> Set in line with the PE standard defined by the Science Based Targets initiative.

<sup>5</sup> Reporting years are based on Hg's financial year end which is 31 March.



- We occasionally engage in political policy consultations through our participation in our collaborative groups and affiliate networks. Our Chief Sustainability Officer, Audit & Risk Committee and/or Marketing team oversee these activities to make sure they are aligned with our position on sustainable finance and our commitment to the 6 Principles of the UNPRI.
- In addition to adhering to its obligations as an FCA authorised entity and as an “Alternative Investment Fund Manager”, Hg places the highest value on professional integrity and fair dealing and is committed to managing conflicts of interest between its investors / the investment funds and other investment vehicles it manages, and between these investors / investment funds and vehicles and itself, fairly, openly and transparently. Appropriate governance processes have been set up to reflect this commitment.
- As a private equity firm, Hg does not engage in proxy voting.

Any concerns related to our own sustainability commitment, activities and stakeholder engagements, or that of the portfolio, will be escalated to Hg’s Audit & Risk Committee which reviews sustainability risks on a quarterly basis and reports to the Board.

## Implementation and Governance

To implement this Policy, Hg is committed to:

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

Hg employees must notify the Chief Sustainability Officer as soon as possible if they believe or suspect that a conflict with this Policy has occurred or may occur in the future.

Hg’s Audit & Risk Committee and Board will review this policy on an annual basis.

## Background and oversight

This Policy has been in effect since October 2012.

**Policy Sponsors:** Steven Batchelor (Partner and Board member)  
Matthew Brockman (Managing Partner and Board member)

**Policy Supervision:** Hg Board

## Review dates

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

**Last reviewed:** April 2025

**Next review due:** April 2026

## Appendix: Hg's Investment Screening List

Hg's investment strategy is to focus on software and services investments, and to follow our RI approach - as such Hg Funds would **not** invest in companies that, in the opinion of Hg's Investment Committee:

- Use harmful or exploitative forms of forced labour or child labour, human rights violations or are exploitative of vulnerable customer groups.
- Manufacture, distribute or sell technologies which have a negative impact on human rights, such as those that restrict digital freedom.
- Manufacture, distribute or sell arms or ammunitions or controlled dual use software applications or technology.
- Manufacture, distribute or sell pornography, adult entertainment or gambling operations and equipment.
- Manufacture, distribute or sell substances such as tobacco, e-cigarettes, alcohol, cannabis and narcotics.
- Are principally engaged in medical and scientific activities such as human cloning, GMO production and animal testing.
- Are involved with products and activities that are illegal as per applicable local laws or banned as per global conventions and agreements, such as certain pesticides, chemicals, wastes, ozone depleting substances or wildlife products, or otherwise compromise endangered or protected wildlife.
- Are principally engaged in the extraction of geological materials or the processing of such materials or in nuclear energy production.
- Cause environmental violations or concerns (such as loss of biodiversity or habitat, land /water/ air pollution, waste incidents, climate-change related issues or use of non-renewable or scarce natural resources).
- Are the subject of sanctions restrictions or are involved in money laundering, terrorist financing, bribery and corruption or sanctions violations.

*Please note that this Sustainability 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 utilized, 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.*