

# Responsible Investment Policy

## Overview

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

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

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

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 and ESG related risks and opportunities throughout our investment activities, including the management of our investee companies.

## Scope

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

## Our approach to Responsible Investment

Responsible investment sits right at the core of our Purpose. ***'We are trusted to improve the future of millions of investors by building sustainable businesses for tomorrow.'*** This is our purpose statement, our reason for being - it is how we see our place in, and contribution to, society. Our purpose is embedded in everything we do, in every decision, every day and for every individual. It is part of our fiduciary duty and responsibility as investor of our clients' money.

What this means in practice is that we look to grow sustainable businesses which are great employers and good corporate citizens and that seek to have a positive impact through their products and services. Hg has a clear investment approach targeting software and service 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 ESG topics that are most material to the software and service sector. These ESG topics are outlined in our Sustainable Business framework (see page 4). We apply the same approach to RI across our

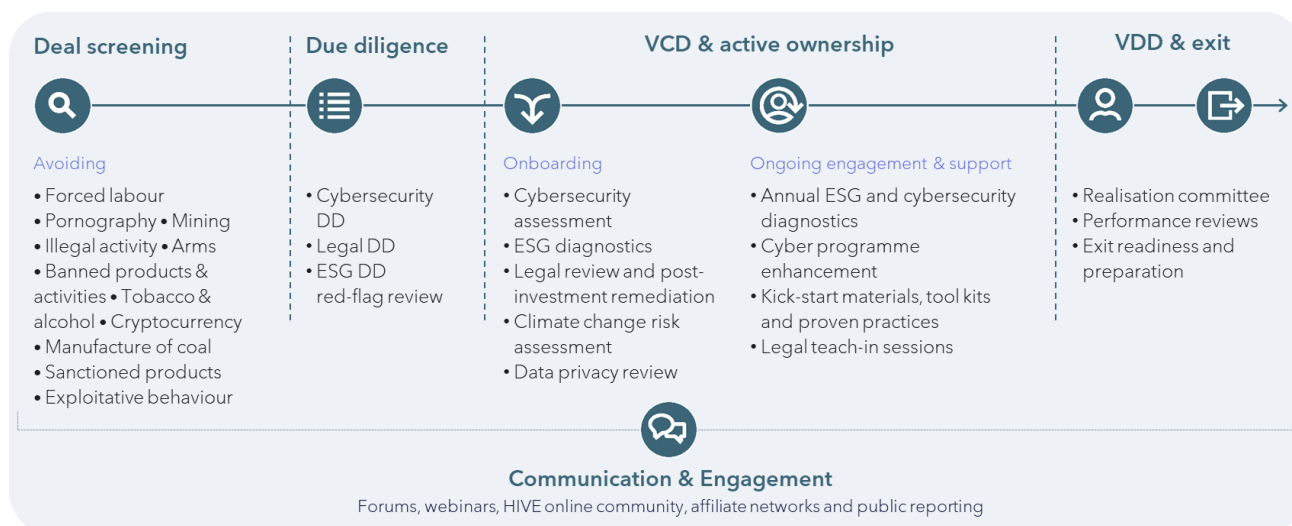
---

<sup>1</sup> Hg scores: \*\*\*\* (89/100) for Stewardship & Policy, and \*\*\*\*\* (960/100) for Private Equity. Links to Hg's most recent [2020 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.

businesses, no matter their size or location, and we strive for best-in-class ESG performance. In a non-control investment, where Hg is a minority owner, we still seek to use our knowledge and experience to influence the portfolio company in their ESG performance and often work with the majority owners to do so.

RI is embedded across the entire investment cycle from deal screening and due diligence, 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. Hg’s ESG due diligence covers our minimum ESG standards and is embedded into the legal due diligence process. Enhanced ESG screening is conducted depending on the level of inherent ESG risks.

Pre-investment, Hg examines:

- 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, health and safety and general industrial relations);
- Any 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;
- Employee matters such as employee turnover and diversity, equity and inclusion;
- Environmental matters such as climate change risks and carbon footprints; and
- Cybersecurity risks and maturity.

This is done in a number of steps:

- As a first step when considering potential new investments, we screen them against Hg’s investment screening criteria, which outlines the sectors, businesses and activities in which we 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) have a negative impact on sustainability factors that are caused, aggravated by or directly linked to the business operations or products; or

- b) be exploiting vulnerable groups in society and would not proceed with any such investment unless there are safeguards in place to protect these groups.
- Once in the **Due Diligence** ('DD') phase prior to investing:
  - a) A review is conducted by Hg's Legal team in conjunction with external legal advisors.
  - b) An ESG 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 result of the ESG 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, an additional enhanced ESG due diligence review will be conducted.
  - c) 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, helping to ensure that cyber risks and any investment required to remediate them, are included in the investment thesis.

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 ESG in the Hg shareholders agreement to encourage future support and engagement in Hg's ESG related initiatives.

Hg's approach to considering sustainability risk (i.e., an ESG event or condition that, if it occurred, could cause an actual or a potential material negative impact of the value of the relevant investment) is set out in the fund documents of the relevant Hg Fund, along with relevant disclosures under the EU SFDR 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 ESG factors and to work towards setting ESG standards consistent with the principles set out herein. We support and encourage portfolio companies to improve their sustainability and ESG performance on a continuous basis in the following ways:

- ESG is an integral part of the onboarding process and value creation planning within the first few months of investing. The ESG onboarding assesses a company's maturity against approximately 200 ESG metrics, all relating to Hg's Sustainable Business Framework (see page 4), to set a baseline and support the company in developing an improvement plan.
- Over the period of our investment, Hg will monitor investee companies' performance against our Sustainable Business Framework on an on-going basis, including adherence to agreed action plans. The result of the annual ESG diagnostic is shared with and discussed by portfolio company boards. Hg's board members play a key role in this engagement.

In addition to the ESG diagnostic, Hg conducts further assessments covering topics that have a specific risk or materiality for our portfolio:

- **Cybersecurity:** We conduct a separate in-depth assessment on cybersecurity immediately after acquisition, 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.
- **Legal:** We conduct a legal DD read out call with the 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.

- **Climate change:** Hg’s businesses are also required to understand their impact on and resilience to climate change in two ways:
  - a) By completing a climate change risk and resilience review as part of onboarding to understand if there are any key transition or physical climate change related risks that may impact the business.
  - b) By calculating and reporting their carbon footprint annually within one year of investment. If needed, Hg helps portfolio companies to calculate their scope 1, 2 and 3 carbon footprints, provides a high-level data review and benchmark footprint across the portfolio. We encourage our businesses to externally validate their carbon footprints in order to share them with key stakeholders and set targets against them. Our carbon footprint assessment also covers additional environmental metrics such as waste, biodiversity impact, energy procurement and hazardous waste (if applicable) to identify any areas for improvement and enable reporting in line with Hg’s client requirements.
- **Human rights:** with a focus on modern slavery across supply chains.

To support our businesses, Hg shares templates and sends out regular ESG related communications, has an online Sustainability & ESG community and organises ESG related events for portfolio companies to share best practice, network and get support. Hg’s ESG team conducts clearly defined strategic ESG projects across portfolio companies, supporting them to further advance their ESG performance and strategies.

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

## Realisation

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

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

## Hg’s Sustainable Business Framework

Our portfolio ESG diagnostics is based on Hg’s Sustainable Business Framework which was initially developed and implemented in 2018. The Framework highlights key ESG 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 ESG issues, and to meet the expectations of our clients.

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



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

## Essentials

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

1. **Governance and Business Integrity**, such as code of conduct, appropriate controls and policies, Board composition and appropriate health and safety, audit, risk and whistleblowing procedures.
2. **Legal** functions with appropriate team structure, strong relationships with regulating bodies and a defined approach to anti-competitive behaviour.
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**, which includes Hg's minimum standards for cybersecurity along with appropriate data protection and information security practices. Hg has a separate Cybersecurity assessment which all companies are assessed against as part of onboarding and regularly thereafter.

## Employees

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

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

## Society

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

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

## 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<sup>5</sup>:
  - a) *Hg's own Scope 1 and 2 emissions:*
    - 50% reduction by FY31
  - b) *Hg's Scope 3 financed emissions:*
    - 26% of our invested capital will be covered by SBTs by FY27
    - 100% of our invested capital will be covered by SBTs by FY41

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

## Transparency and Collaboration

To provide transparency on our ESG activities and to honour our commitment to the UNPRI to support the advancement of ESG across the private equity industry, we engage with key stakeholders on ESG 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 ESG. We publish an annual ESG report which is shared publicly on our website and fund level ESG reports which are shared with our clients via our investor portal.
- We recognise that we are not alone in our ESG journey and that we need to work together to make an impact across our industry. We are therefore actively seeking opportunities to 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 ESG 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 as we engage in these initiatives.
- We occasionally engage in political policy influence or consultations through our participation in these collaborative groups and affiliate networks with the aim to support the advancement of

---

<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.

sustainable finance across the regions where we operate. 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 ESG commitment, activities and stakeholder engagements, or that of the portfolio, will be escalated to Hg’s Audit & Risk Committee which reviews ESG 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.
- Providing Hg Staff with 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 ESG issues arising in relation to a proposed investment, as well as determining the impact of such issues on the investment plan. Responsibility for monitoring and assessment of portfolio companies lies with the deal team, who will report relevant findings and recommendations to the Realisation Committee annually and if any material RI issues arise.
- Reporting at least annually to investors in Hg Funds on the implementation of this Policy and the ESG activities of our portfolio companies.
- Reviewing our Sustainable Business framework on an annual basis to include potential new material ESG 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)  
Andrew Land (Partner and Chair of the Hg Realisation Committee)

**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 2024  
**Next review due:** April 2025

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



## Appendix: Hg's Investment Screening Criteria

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

1. Have production or other activities that involve harmful or exploitative forms of **forced labour** or child labour.
2. Produce any **illegal products** or engage in any **illegal activities** as per applicable local laws.
3. Manufacture, distribute or sell **arms or ammunitions**.
4. Manufacture or sell **pornography**.
5. Are involved with **products and activities that are banned** as per global conventions and agreements, such as certain pesticides, chemicals, wastes, ozone depleting substances or wildlife products, or otherwise compromise endangered or protected wildlife.
6. Are principally engaged in the manufacture of **tobacco and alcohol**.
7. Are principally engaged in the manufacture of **coal** or are principally engaged in **extraction of geological materials** (mining).
8. Are principally engaged in **cryptocurrency**.
9. Are involved in technologies which have a negative impact on **human rights**, such as those that restrict digital freedom, or inappropriately use artificial intelligence, automation and robotics, including dual use software applications or technology.
10. Face **sanctions restrictions** themselves, or are involved in the supply or purpose of controlled dual-use goods, technology or software which may have military uses.
11. Are, in the opinion of Hg's Investment Committee, **exploitative of vulnerable groups in society** or has a material **negative impact on the environment**.