

# BGF Responsible Investment Policy

18<sup>th</sup> December 2024

## Introduction

BGF is the most active equity investor in the UK and Ireland, providing long-term, minority investment to growing companies. Established in 2011 in response to the funding gap for SMEs following the financial crisis, BGF's mission is to support entrepreneurial companies with the capital and expertise they need to thrive.

As a responsible investor, BGF recognises the importance of integrating environmental, social, and governance (ESG) factors into our investment process. We believe that proactive ESG management not only creates value but also safeguards it in the long term. We have been a signatory to the UN Principles for Responsible Investment (PRI) since 2020, reflecting our commitment to integrating responsible investment practices. Additionally, our Head of Investment Operations, Alistair Brew, is a member of the British Private Equity & Venture Capital Association (BVCA) Impact Investment Advisory Group.

We aim to embed ESG considerations across the entire investment lifecycle, from pre-acquisition to exit. By conducting thorough research and evaluating ESG risks and opportunities, we strive to support our portfolio companies in enhancing their long-term value and performance.

In recent years, we have strengthened our ESG framework and processes to ensure consistent integration of ESG at every stage of the investment lifecycle. This policy outlines the steps we have taken to embed ESG considerations in our investment decision-making.

BGF is a volume investor across multiple sectors, with a minority equity holding in SMEs. We are committed to supporting the businesses in which we invest with a suite of ESG support, and aim to provide advice to enable companies to improve on their ESG credentials during our hold period.

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*This policy will be reviewed annually to ensure that we remain aligned with any new or updated regulatory requirements.*

# Our Responsible Investment Guidelines

## Governance and Oversight

Ultimate board-level responsibility of ESG at BGF is overseen by Chris Olds, Chief Operating Officer (COO) and Board member. We are further supported on ESG by Alice Avis, a Non-Executive Director at BGF. We also have a dedicated ESG team, comprising of Roshni Bandesha, Head of ESG, and an ESG Manager who joined in 2024. We are supported by a suite of dedicated ESG consultants who provide long-term support both on our internal processes and across our portfolio. BGF has also launched the Green Innovators Group, an internal employee resource group, to advance BGF's climate strategy. The Group includes cross-functional representation. All employees receive regular ESG training and in their induction, with key players such as Deal Team members regularly upskilled to ensure ESG is fully embedded in BGF's processes.

BGF's ESG framework includes several key initiatives designed to ensure ESG factors are incorporated consistently throughout the investment lifecycle:

- ESG screening tools and health checks
- Dedicated ESG team and advisors
- Annual ESG training open to all employees

BGF endeavours to incorporate ESG considerations into each stage of the investment in a portfolio company, from pre-acquisition to exit:

## Pre-Investment

ESG is integrated into the pre-investment process through the following steps:

- **Initial ESG Screening:** The Deal Team completes a red flag checklist using an ESG screening tool developed by our Head of ESG. The screening aims to identify potential ESG risks and factors that may require additional diligence at an early stage. It uses relevant standards (e.g., the Sustainability Accounting Standards Board (SASB), subsumed by the International Sustainability Standards Board (ISSB)) to address industry-specific topics. These include physical and transitional climate risks, human and labour rights, supplier management, cybersecurity and biodiversity impacts amongst others. The screening also helps the Deal Team to rule out investment opportunities operating within, or in the periphery of, our "exclusion list" – such as those in defence, gambling, and tobacco sectors. The Deal Team engage the ESG Team to review the screening tool.
- **Screening in Deal Memo:** ESG screening results are included in the deal memo presented to the Investment Committee (IC), highlighting material risks and opportunities requiring attention post-closing.
- **Focused ESG Due Diligence:** For all Growth companies, a third-party ESG Due Diligence Assessment is conducted to identify material risks and opportunities for value creation. Companies are assessed across all three pillars of E, S and G, with scores benchmarked against peers across the portfolio.

- **Integration of ESG Risks and Opportunities:** Where material ESG risks and opportunities are identified, BGF integrates them into the investment offer and/or post-acquisition planning.

## Investment Decision

BGF supplies the IC with the information needed to consider the ESG factors:

- **IC Paper ESG Template:** Each IC paper includes an ESG section outlining potential risks, value creation opportunities, and any more advanced ESG considerations.

## Active Ownership

### *Post-Investment Agreement*

BGF formalises ESG goals with portfolio companies in the 100-day plan:

- The ESG Due Diligence Assessment findings are incorporated into the Post Completion Note, outlining ESG items to be included in the 100-day plan.
- Following acquisition, each business is onboarded onto BGF's Value Creation programme which includes access to the BGF ESG team and facilitating the provision of third party ESG advisory services. The ESG Team may conduct follow-up calls with portfolio companies to discuss the ESG Due Diligence Assessment and offer support.
- ESG Due Diligence findings flagged under the Holtara assessment for immediate attention are incorporated into the 100-day plan. Follow-up actions identified can include the development of company-specific ESG KPIs and targets across topics such as measuring carbon emissions, developing a human and labour rights programme, and strengthening corporate governance mechanisms.

### *Monitoring and Hold Period*

We work collaboratively with our portfolio companies as a trusted minority investor, providing input as needed to help them achieve their ESG-related goals. This is supported by BGF's annual review process. Whilst BGF recognises that ESG factors can vary significantly across the sectors in which we invest, we have identified a core set of non-financial topics which may impact each business as it grows. We monitor these through our annual ESG survey:

- **Environment:** Environmental management, climate change strategy, environmental footprint, environmental targets. This includes assessing how climate change is integrated into risk management processes, whether climate change risks have been identified, and if a decarbonisation strategy is in place.
- **Social:** Employee management, diversity, equity & inclusion, health, safety & wellbeing, corporate citizenship, human and labour rights. This includes evaluating whether sufficient human and labour rights policies are in place and if the organisation is monitoring key health, safety and wellbeing indicators.
- **Governance:** Corporate governance, business conduct, risk management, product strategy, supply chain management. This includes evaluating whether a formal code of conduct exists for suppliers and if formal data protection and privacy processes are in place.

BGF works with Holtara, an external provider, to conduct an ESG survey across the portfolio, with companies reporting against ESG metrics corresponding to the topics outlined above. Portfolio companies' ESG performance is benchmarked against peers across the portfolio and communicated anonymously.

BGF also provides ongoing learning opportunities for all portfolio companies, such as webinars, workshops, and tailored ESG projects.

## **Exit**

BGF collaborates with portfolio companies to articulate performance improvement on ESG topics that has occurred during the hold period. This is undertaken, for instance, by reviewing the initial ESG Due Diligence undertaken at the pre-investment stage and comparing it to data collected from our annual ESG assessment. The portfolio company can then reference this performance improvement as appropriate during the exit process.

## **Reporting and transparency**

Since becoming a signatory to the PRI in 2020, BGF has completed its PRI submissions and publishes comprehensive annual reports, available on our website, providing updates on our ESG actions. We also voluntarily published an annual Climate Change Statement aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Starting in 2025, BGF will report to the ESG Data Convergence Initiative annually.

BGF is backed by Barclays, HSBC, Lloyds, NatWest, and Standard Chartered. As part of our revolving capital facility provided by NatWest, HSBC, and Lloyds, we track KPIs for:

- Portfolio company measurement of Scope 1 and 2 emissions.
- The number of portfolio companies attending two or more ESG training sessions.
- The number of new investee companies undertaking Board effectiveness reviews.
- A reduction in BGF's scope 1 and 2 emissions.

This reflects our commitment to regularly report to key stakeholders on our ESG risks, opportunities, and improvements both within BGF and across our investments.

## **ESG at BGF**

BGF is committed to continuously improving our own ESG monitoring and performance. For the past four years, we have been measuring and reporting our Scope 1, 2, and 3 emissions in line with the GHG Protocol, demonstrating our dedication to transparency and ongoing improvement in climate-related disclosures. In 2023, BGF proudly achieved B Corp certification.