Sustainability report 2022

palatine

The front and back cover image was created by Zahra Alam as part of the Young London Print Prize, in support of COP26. We sponsored the event with Anthesis to give young people from across London the opportunity to express their response to the climate crisis through their love of art.

What's inside

Positive Equity

It's been over a year since we launched the Palatine 'positive equity' branding, and I'm delighted to demonstrate our continued success in delivering this purpose in our second annual sustainability report.

This report showcases outstanding achievements from 2022 within Palatine and across our portfolio from a year in which our teams faced new and complex challenges resulting from geopolitical, macroeconomic and environmental uncertainty (just when we thought the unprecedented difficulties were behind us). In the face of this, we continue to be guided by our mission to 'do the right thing, with the right people (and success will follow)', which is why we have remained focused on delivering ESG improvements.

It was a year of significant ESG progress within Palatine as we achieved B Corp accreditation, with a score that puts us in the top four private equity companies worldwide. Obtaining an externally assessed and approved accolade and joining the B Corp community is part of our continued drive to remain at the forefront of sustainable investment.

People: Giving our employees a voice is essential to strengthening our culture and building a better business. In 2022, 96% of our staff responded to our employee engagement survey with a satisfaction score of >80%. Following the feedback, we launched an employee engagement group, improved employee benefits and completed a significant refresh to our appraisal process.

Planet: This year we became a silver-level Carbon Literate Organisation. And as part of our commitment to knowledge share and upskilling, we held a climate conference for our portfolio companies, equipping them with the knowledge and the tools to realise carbon reductions.

Portfolio: This year we welcomed five new companies into the Palatine family and have commenced working with them to accelerate sustainability performance to create positive impact beyond our investment period. We also completed four exits, returning strong and sustainable returns to our investors. We achieved sustainable outcomes through our collaborative stewardship approach, and an example exit case study has been included in this report, which gives a flavour of ESG achievements in one of our portfolio companies.

With all the uncertainty in the world, one sure thing is that sustainability is a movement that will affect us all. But, with our framework for precision and our ambitious vision, we are well equipped to take advantage of this by creating value in our investments and identifying the opportunities it brings.

Gary Tipper Managing Partner

About us

Palatine sees private equity as a force for good. We strive for sustainable growth by building on solid foundations with a commitment to the environment and society. We work with our partners, on an equal footing, towards the same goal. Together, we shape businesses that prosper, even after our stewardship. It's simple: do the right thing, with the right people, and success will follow.

We invest from two funds, with a strategy focused around ESG, value enhancement and building strong relationships:

buyout

Sustainable Returns

Our Buyout Fund invests in dynamic and visionary management teams looking to drive their business through their next phase of sustainable growth.

impact

Returns with Purpose

Our pioneering Impact Fund invests in commercially driven businesses with a mission to positively impact on society or the environment.

There is an increasing amount of peer collaboration to help effect change in the industry. The associations we have joined forces with include:

Operating Principles for Impact Management

Certified B Corporation

Carbon Literacy Project

IIGCC The Institutional Investors Group on Climate Change

INVESTING IN WOMEN CODE

Committed Member of Inclusive Employers

initiative climat international Private equity action on climate change

ilpa Institutional Limited Partners Association

PRI Principles for Responsible Investment

bvca Member Firm

Our vision for the future

Emmeline Pankhurst, the Manchester born and most influential British suffrage leader, was the inspiration for our sustainability strategy, recognising that we can draw parallels between Pankhurst and Palatine; each being innovative, transformative, sincere, and dedicated to delivering positive outcomes. With this, we built the essence of our sustainability strategy with the guiding principles being inspired by her movement:

DEEDS NOT WORDS

We will maintain our leadership position through the delivery of ESG improvements and outcomes within Palatine. We will lead by example.

RALLY THE PORTFOLIO

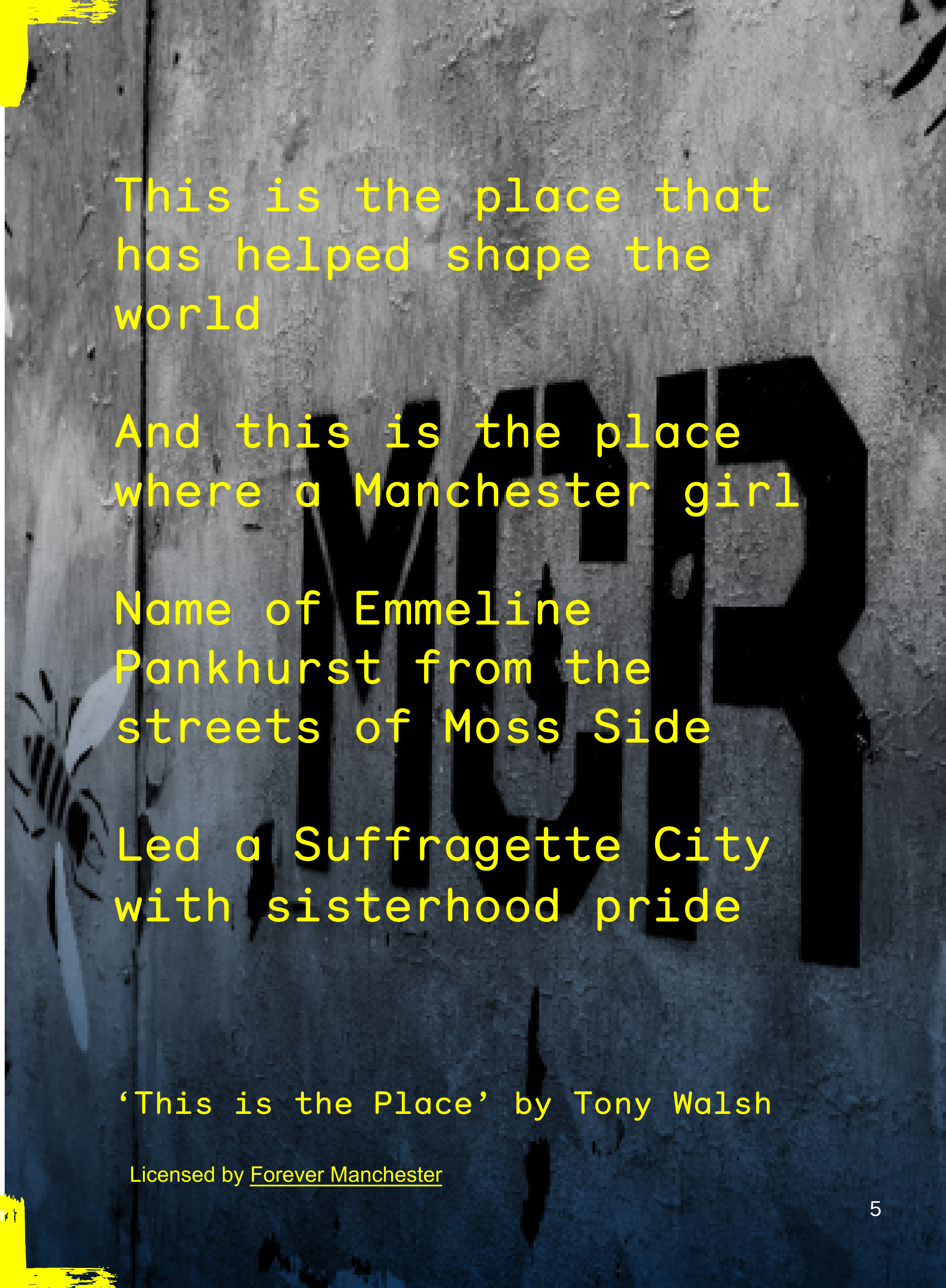
We will support and facilitate our portfolio companies to improve their sustainability performance; realise efficiencies, gain competitive advantage and future proof value.

ACHIEVING TOGETHER

We will build the capability of the team through ongoing learning and collaborate with our network to achieve our vision together.

RISE UP INDUSTRY

We know that we cannot do this alone. We will use our platform to influence the industry and invite them on this journey to achieve a common goal of sustainable investment.



This is the place that
has helped shape the
world

And this is the place
where a Manchester girl

Name of Emmeline
Pankhurst from the
streets of Moss Side

Led a Suffragette City
with sisterhood pride

'This is the Place' by Tony Walsh

Licensed by Forever Manchester

Our vision for the future

OUR MISSION: Do the right thing, with the right people, and success will follow.

OUR VISION: Be a pioneering, sustainable investor delivering positive outcomes for society and the environment.

To deliver our vision, we've implemented a sustainability strategy to provide a framework to achieve performance improvements in three areas that we have deemed materially important to Palatine:

CLIMATE + NATURE

Improve the health of the planet

1. Evaluate and commit to a science-based target (SBT) in 2023 and certify by 2025
2. Achieve net zero operations by 2028
3. Ten companies in the portfolio to have achieved carbon neutral status by 2025

INCLUSION + DIVERSITY

Contribute to a fairer, more inclusive society

1. Gain accreditation to the inclusive employers standard by 2025
2. Deliver a I&D portfolio event in 2023
3. All portfolio companies to have an I&D policy in place by 2024

WELLNESS + ENGAGEMENT

Support people to be fit and flourish

1. Annual delivery of ESG training for all Palatine employees
2. Develop and implement a Palatine wellbeing strategy/plan
3. All portfolio companies to have as many first aiders for mental health as they do for physical health

Our achievements to date

2010

Made a commitment to be leaders in ESG and for ESG to be championed by the Partners throughout our journey.

2010

Decided on a clear course of action from the start to take a joined-up, value driven approach, not just focusing on risk.

2010

Adopted a far-reaching policy that we continue to evolve.

2010

Created our proprietary 6 Pillar ESG framework to manage the complexity of sustainable investment while maintaining consistent focus, which we have refreshed to reflect new priorities while retaining core topics.

2010

Trained and engaged our team to drive our ESG system, with the support of tools and guides and more latterly our in-house team.

2011

Fully implemented the ESG framework across the full investment lifecycle from screening to DD to action planning to monitoring.

2011

Adopted a comprehensive ESG KPI set and annual update process to give us, our companies and our investors a year-on-year snapshot of progress and action planning by company and by portfolio.

2012

Commenced annual ESG investor reporting and introduced exit reports to evidence ESG progress and outcomes during our investment period.

2018

Built our own in-house ESG and Impact team from 2018 onwards.

2020

Joined the initiative Climat International to collaborate and engage in cross-sector collaboration to create methodologies and materials to support the industry, and wider economy, to transition to a low carbon future.

2021

Our Positive Equity brand launch placed sustainability at the heart of Palatine's purpose.

2021

Became signatories of the Operating Principles of Impact Management to demonstrate that our impact strategy is verified to best practice impact investing standards.

2021

Trained portfolio companies, our team and our investors in Carbon Literacy, made a commitment to maintain a carbon literate portfolio, and became the world's first carbon literate private equity house.

2022

Launched our internal I&D committee to build upon our inclusive culture and keep diversity on the agenda.

2022

Joined the ESG Data Convergence Initiative (EDCI) supporting the aim to create greater transparency and convergence on ESG reporting.

2022

Became a B Corp. After years of being leaders, we gained external verification and scored in the top four PE houses in Europe.

2023

Restructured our ESG programme to place even greater emphasis on sustainable outcomes throughout our hold period.

2023

Became a signatory to the Investing in Women Code.

2023

Raised our second Impact Fund that is labelled as Article 9 under the EU SFDR.

The changing landscape of impact investing

By Beth Houghton, Impact Managing Partner

We've come a long way since raising our first Impact Fund in 2016-17 to closing our second, larger fund earlier this year.

Raising the first fund was ambitious– no other mid-market firm had done it before, and for many of our investors it was the first time they had invested in an impact platform.

For these investors, supporting a new type of fund and asset class showed their commitment to being early adopters in the impact space. I'm pleased to say it has been justified. Since 2017, we've invested in, partnered with, and created value in more than a dozen purpose-driven companies, several of which we've now exited, delivering great returns for investors and, all of which have quantifiably demonstrated a positive contribution to society or the environment.

An evolving landscape
Today, from an investor perspective, there's much greater awareness and understanding of impact funds. As the market is maturing, Limited Partners (LP) are becoming more knowledgeable. Even if they are not investing directly yet, they are mapping the impact fund landscape. Those who are investing are becoming more focused on ensuring General Partners are able to clearly demonstrate the positive impact being created through these investments.

As early adopters of ESG, and having embedded our ESG framework in our investment cycle over 13 years ago, Palatine has long taken an analytical approach to monitoring and measuring non-financial KPIs. This has naturally extended into our impact strategy, and we have used our experience to identify meaningful metrics to monitor and measure the impact of our companies.

We are now part of the Operating Principles for Impact Management – a global community of impact investors, which, despite only having been established in 2019, now comprises 177 signatories across 40 countries.

There has been new regulation too, including the EU's Sustainable Finance Disclosures Regulation (SFDR). I expect the regulatory environment will continue to evolve to protect investors and ensure their funds are being deployed in the right way.

Climate remains a dominant theme
This summer, we experienced the world's hottest day on record – a potent reminder of the need for action on climate. Global warming is happening, and unless we make some seismic shifts in our behaviours around energy use and consumption of fossil fuels, it is not going to get any better, and we will inevitably have more episodes of extreme weather globally that will cause not only environmental disasters but also social impacts as well.

> "At Palatine, we are looking to drive change by investing in companies that are trying to move the dial to address some of the biggest challenges society is facing."

While climate is the most important challenge society faces, it cannot be and is not the sole focus of Palatine's Impact Fund. Wider social issues are hugely important too.

Among the ESG community, there's been a real focus on the environmental agenda but not so much on the social aspect, which I believe is really important in the context of making sure there is a 'just transition' to net zero – (this ensures that those already on the margins of society are not left behind or penalised and can maximise the social and economic opportunities of climate action).

In this country, it's clear there are some very significant inequalities around healthcare, access to education, work and skills, which need to be fixed too.

I feel that with the money invested in impact funds - £58bn in the UK - there is too little focus on social issues. With the likes of the Estio, TradeSkills4U, and Veincentre exits, we have shown that you can make private equity returns with social investments.

Future trends in the market

As I have said, the impact market is continuing to evolve at a fast pace in order to respond to the increasingly complex and hard-felt impacts from the environmental and social challenges we are faced with. This is also in line with societal and corporate shifts. Equity, diversity and inclusion (ED&I) is an excellent example of this. Since the #metoo and Black Lives Matter movements arose a few years ago, we have seen many businesses starting to take action on ED&I.

So ten years ago, would a business like our portfolio company, Inclusive Employers, have been investible for private equity? Probably not – it would not have had the ability to scale as needed because major companies were not thinking seriously about inclusion and diversity, whereas in the last three years, they have, and it is a key strand of the corporate agenda.

This, of course, is welcome. No one should go into a workplace and feel excluded or marginalised for what and who they are. We are delighted to support Inclusive Employers in their mission to do more in this space.

While our investment ethos is unchanged, and we will continue to support companies across four pillars: Sustainable Communities, Healthy Living, Environment and Resources and Sustainable Choices; within this framework, I believe biodiversity will be an increasingly key area of investment focus.

If we act with urgency and at scale, we can limit our impact on climate change and environmental pollution, but we cannot reverse the damage if we lose biodiversity (i.e. of plant and animal species), they will be gone forever.

Our portfolio company, Curra Terrae, is doing some brilliant and important work in this field; its mission is to provide services and solutions to help take care of the Earth.

In conclusion

The impact market is evolving all the time and maturing. We are backing businesses that might not have existed five years ago. I am delighted to see the increasing prominence of impact investing amongst LPs, which is needed to provide long-term sustainable outcomes.

What success in impact investing looks like varies significantly. At Palatine, we are looking to drive change by investing in companies that are trying to move the dial to address some of the biggest challenges society is facing.

A compelling example of this philosophy in action is Back2Work Group, a Manchester-based business that helps to upskill or reskill people struggling to get into employment.

For us, impact is about delivering change. Since our investment, Back2Work has created 200 jobs as the company has grown, but we've also helped train over 20,000 people and find them new roles in areas of the economy where there is a skills gap.

We launched the Impact Fund with the ambition to prove that returns and purpose could be achieved alongside each other. Having now raised our second fund, we are proud that our team and portfolio companies are delivering every day and making a difference to the world in which we live.

A year in numbers

256

people trained in carbon literacy across palatine, our portfolio and our network

4

New recruits

Danielle Garland
Investment Director

Carly Sinicrope
Investment Manager

Greta Steponaviciute
Strategic Growth Manager

Rachael Taplin
Investment Manager

3.8

Average ESG score of portfolio companies

111.3

B Corp score

60:40

Male to female gender split at Palatine

3

New Partners

6

Promotions

4

Exits

7

New invesments

How we do it

ESG is a crucial part of value enhancement. Through our considered approach to ESG, not only do we achieve sustainable outcomes for people and the planet, but we also add value, build better businesses, and generate sustainable returns.

Palatine's proprietary Six Pillar framework is applied consistently across all funds and all deals.

It frames ESG activities and ensures a rigorous and robust approach to ESG that is consistent and replicable. It allows for the identification of risks as well as having a strategic application to take advantage of the opportunities that ESG brings.

CLIMATE

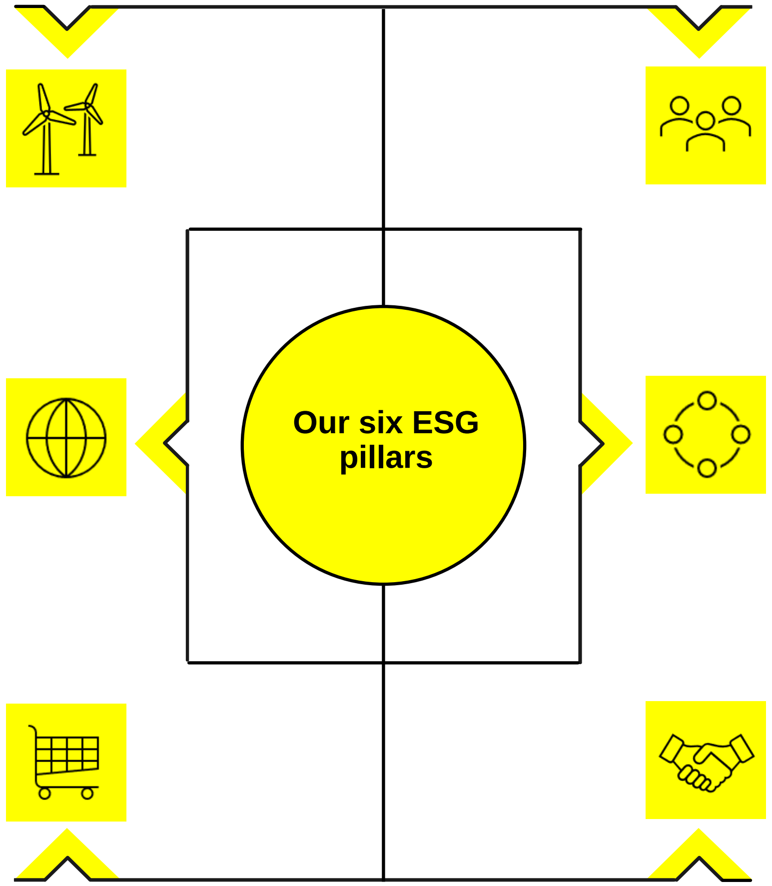
Strategies for climate resilience and the transition to Net Zero.

ONE PLANET

Reducing the impact of business inputs and outputs through redesign, re-use and recycling.

SUPPLY CHAIN

Building ethics, sustainability and resilience into business supply chains.



PEOPLE

Creating positive workplaces that promote safety and wellbeing, and nurture progression and inclusion to allow employees to flourish.

CUSTOMERS + COMMUNITY

Meeting customers' needs in the best, most responsible way possible and putting something back through purposeful community engagement.

LEADERSHIP

Steering companies towards robust management of business ethics, risk and compliance and commitment to sustainable business practices.

How we do it

STEWARDSHIP

PRE-DEAL 1

- Assess potential deal for material ESG risks and opportunities
- Commence management team engagement on ESG topics
- Completion of ESG assessment across the Six Pillar Framework and ESG DD
- ESG performance summarised within the Investment Paper and discussed at the investment committee

CAPACITY BUILDING 2

- Assign Board Level responsibility for ESG
- Issue ESG report to portfolio company
- ESG strategy workshop with the company to shape the ESG action plan
- Deliver ESG training, networking and events

MONITORING 3

- Quarterly reporting on ESG at the Board
- Quarterly portoflio ESG progress meetings
- Annual ESG data request

REPORTING 4

- Annual performance update and summary report
- 12 month action planning
- Internal review on ambition and progress

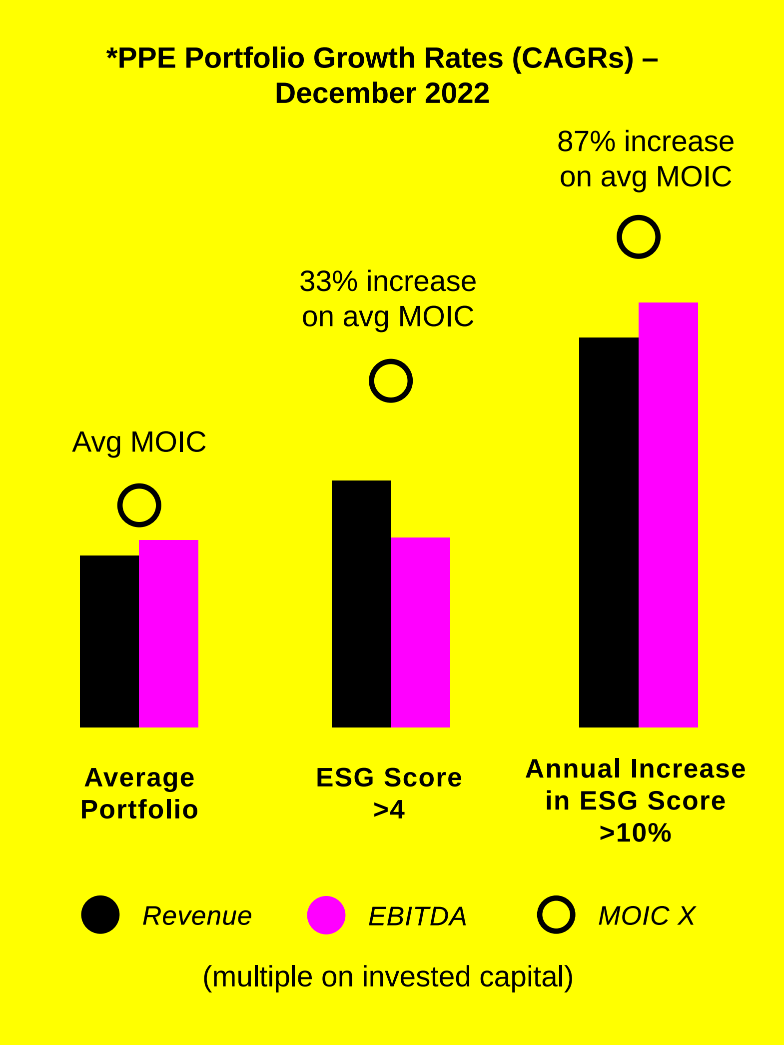
EXIT 5

- ESG journey documented in exit documentation
- Case study development

To track performance improvements, we apply a quantitative score. We have developed a scoring matrix against which performance in each pillar is appraised from non-compliance to trailblazer. From the start of our investment, every company is evaluated using this method, and the score they receive becomes the baseline from which we and the business collaborate to improve. From our experience, when companies score over four, ESG is considered in a holistic and strategic way, which is embedded into the business and significant value is realised.

Non-compliant → **Trailblazer**

Linking ESG to returns



Whilst a wealth of research and publications overwhelmingly suggest that companies performing well in ESG can create more business value, there is currently no quantifiable evidence to prove a link between ESG performance, financial performance and investment returns. This is mainly because most private equity firms have only recently realised the importance of ESG, so they don't have a long enough track record and evidence to prove the link. Palatine started its award-winning journey in ESG adoption in 2010, so we can evidence the link between performance and ESG.

Over the last 12 years, we have collected quantified ESG data annually, as previously described. The chart to the left shows the correlations between growth rates, financial returns and ESG excellence as of December 2022.

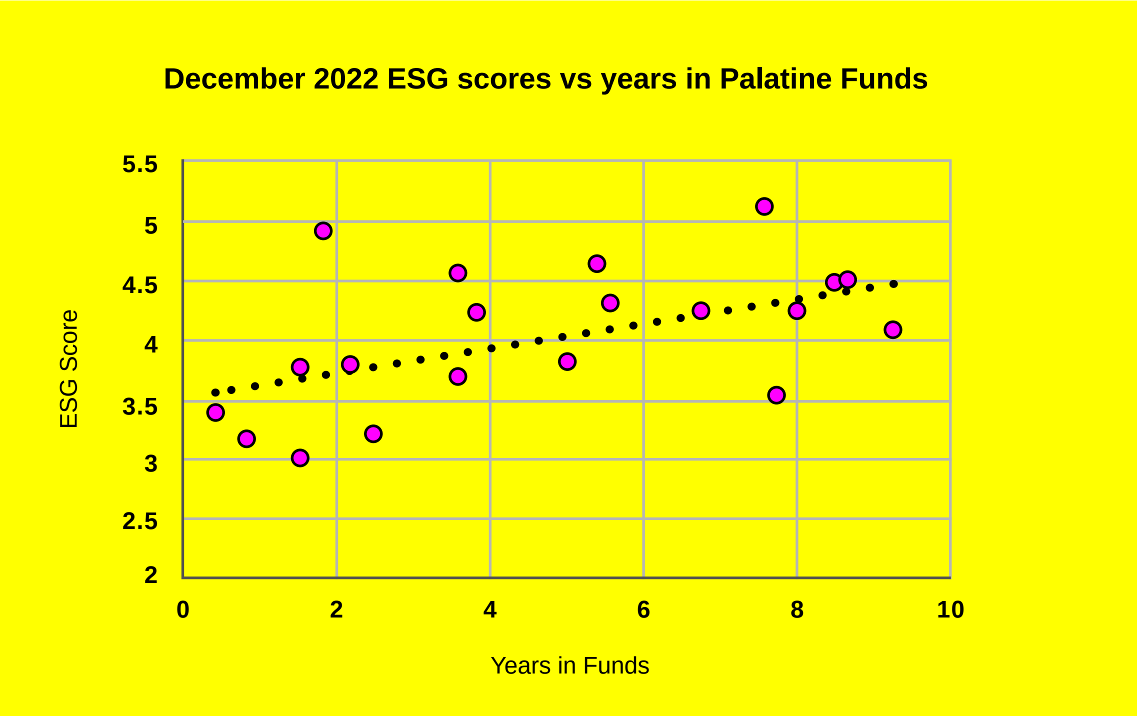
The data shows that for businesses with an ESG rating of 4, the score we define as "integrated innovators" in ESG, there is a marked increase in financial performance and returns.

The December 22 results are impressive in both the CAGR metrics and the absolute MOIC values achieved. Our extensive dataset of portfolio company performance clearly shows that companies with the highest ESG rating have stronger turnover and EBITDA growth rates and generate higher returns. It also shows that those companies that improve their ESG performance at a greater rate generate even higher growth rates and returns. From our experience, the reasons for this linkage are numerous, including facilitating top-line revenue growth (accessing new markets or expanding into existing ones and securing new customers), minimising operating costs, increasing employee productivity, engagement and staff retention and minimising impacts and costs associated with regulatory intervention/ insurance claims.

This analysis also demonstrates an improvement on the same assessment that we completed in 2021.

The link between ESG and value creation is evident. And in this decisive decade where sustainability concerns are becoming ever more urgent, business leaders can clearly benefit from doing the right thing.

We were also able to use our robust quantitative dataset to analyse progress in portfolio company ESG performance over our ownership period. The graph below shows a strong correlation between ESG performance and time in the portfolio. This correlation is driven by our rigorous and robust ESG programme that we have developed over the last 12 years, providing our management teams with access to our expertise across all aspects of their business.



*Data for Buyout portfolio companies

Action on inclusion and diversity

We are committed to providing an inclusive working environment that promotes a culture that empowers people. We aim to attract and retain a diverse workforce that feels valued. To achieve this and drive positive change, we have created an Inclusion and Diversity (I&D) working group with representation across the company.

Last year, we became members of Inclusive Employers, a membership that grants access to training and guidance on the full breadth of I&D themes. With this additional support and expertise, we have achieved a significant amount in a short period. Our initial focus has been on four key areas: baselining our current position, training and upskilling, policy development and inclusive recruitment.

We conducted an inclusion and diversity survey and benchmarked the results, where possible, against the BVCA and Census data sets. In light of these results, we have made inclusion training available to everyone at Palatine, refreshed six of our people policies and introduced a set of inclusive recruitment guidelines to ensure we attract and bring diverse talent into the business. The survey results continue to inform our approach to I&D in the business, and we are committed to developing and raising awareness of I&D within our team; alongside this, we will look to complete the Inclusive Employers Standard to benchmark our achievements and drive continuous improvements.

Proud to be a B Corp

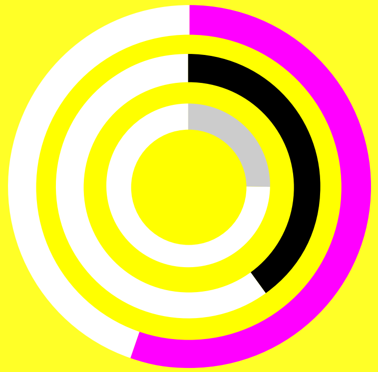
In 2022 we were thrilled and proud to join the B Corp community.

B Corporations (B Corps) are businesses that demonstrate high standards of social and environmental performance, transparency, and accountability. To become a B Corp, companies are assessed and certified by the B Lab to verify that they meet the high ESG standards required to support a sustainable future. Each company is examined across five factors: governance, workers, community, environment and customers and needs to score 80 or above to be accredited.

With our leading position in delivering sustainable business growth and pioneering role in sustainable investing, we were eager to join the community of global sustainability leaders driving the shift to a new kind of economy, where solid financial returns are achieved because organisations are better for workers, communities and the environment.

We scored **111.3 out of 200** in the B Impact Assessment, making us Europe's fourth highest-scoring private equity firm and clear of our sector average of 81.1 by over 30 points.

Overall B Impact Score:



- **111.3** Overall B Impact Score
- **80** Qualifies for B Corp Certification
- **50.9** Median Score for Ordinary Businesses

Based on the B Impact assessment, Palatine earned an overall score of 111.3. The median score for ordinary businesses that complete the assessment is currently 50.9.

‘Neutralising’ our carbon footprint

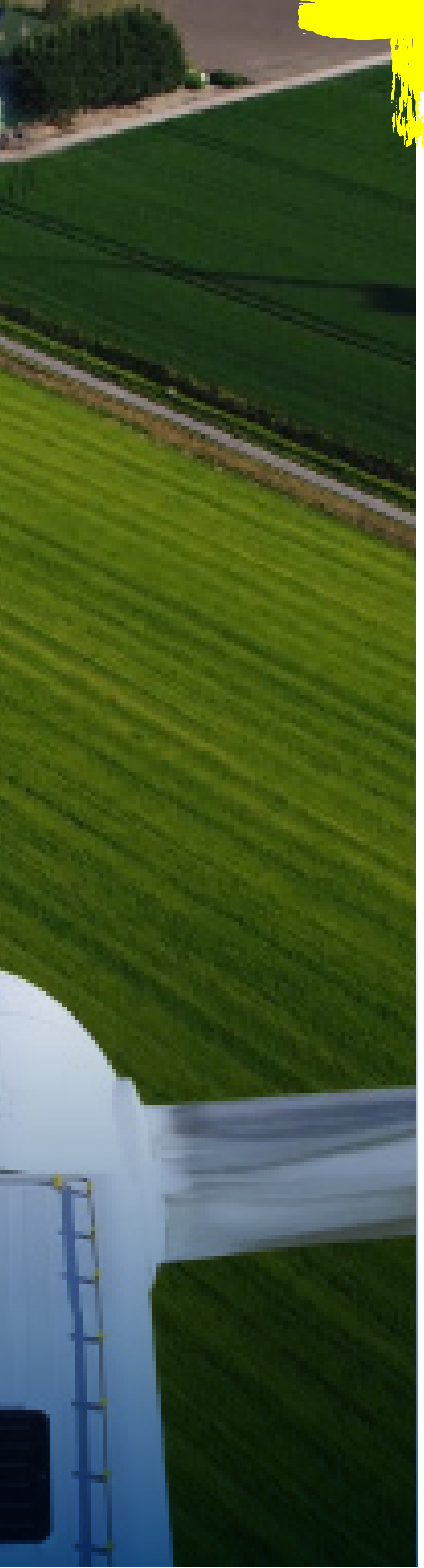
We have offset **27** Tonnes of CO_2e

Partnered with Organic Carbon

This year, we have continued to ‘offset’ our emissions but decided to partner with an organisation closer to home. Based on our total operational carbon footprint of 27 tCO2e, we have invested in an equivalent number of carbon credits with Organic Carbon. Organic Carbon works with UK farmers to generate carbon credits through long-term sequestration whilst enhancing and protecting our natural soils. The team create regenerative organic farming systems to improve soil health and the ability to sequester carbon; they also improve how our food is grown and reduce the chemicals in our water and food systems. Therefore, this project supports our climate goals and correlates with our 2022-23 charity pledge to support the aims of the second Sustainable Development Goal, Zero Hunger.

The Organic Carbon Code independently verifies the projects to ensure that the credits have been generated by following strict governance procedures, including external auditing and verification. While we sought this verification, this year, we are taking a more considered approach to ‘offsetting’; therefore, we have opted against seeking re-certification of our ‘carbon neutral’ status. We are continuing to follow the PAS2060 methodology to ‘offset’ our emissions but are doing so without making any additional ‘neutrality’ claim. This is because we wanted to support a carbon sequestration project but believe it is impossible to completely ‘neutralise’ the effects of emissions without reaching Net Zero.

As we are not there yet, we will continue to support projects that have a real impact on people and the environment and will continue to be iterative in our approach to the types of projects we support and where. Not to mention that our most significant carbon reduction impact can be made in supporting our portfolio to decarbonise; as such, our efforts will remain fixed to this goal.



Looking forward

We strive to continuously improve our sustainability performance and our approach to ESG and Impact Investing. In the coming year we will achieve the following:

- Engage with our London landlord to procure green energy in our one remaining office location currently not on a green tariff.
- Maintain a Carbon Literate portfolio and continue to raise climate awareness through the delivery of the course.
- Continued roll out and further development of our wellbeing action plan.
- Achieve Cyber Essential plus to build upon the work we have undertaken to improve cyber and data security in the business.
- Set a science-based target (SBT) and develop a Net Zero road map for Palatine as well as the action plan to achieve our portfolio level commitment.
- Continue to engage with employees in the selection of charity partners and ensure volunteer days are utilised and that charitable donations and contributions are maximised. This will include at least two charity fundraiser events.
- Publish our first Task Force on Climate-Related Financial Disclosure (TCFD) aligned report, which will identify any key risks and opportunities in the portfolio and our approach to ESG.
- Achieve a minimum of bronze level in the Inclusive Employers Standard
- Include ESG targets in all personal development plans.

Our contribution to the Sustainable Development Goals

The Sustainable Development Goals (SDGs) articulate the most pressing ESG issues we're facing as a planet. The SDGs are a universal call to action to drive economic growth, support risk identification and guide investment decisions. We support the following SDGs across our diverse portfolio:

UN Sustainable Development Goals Supported:

Q + A with Andrew Noone

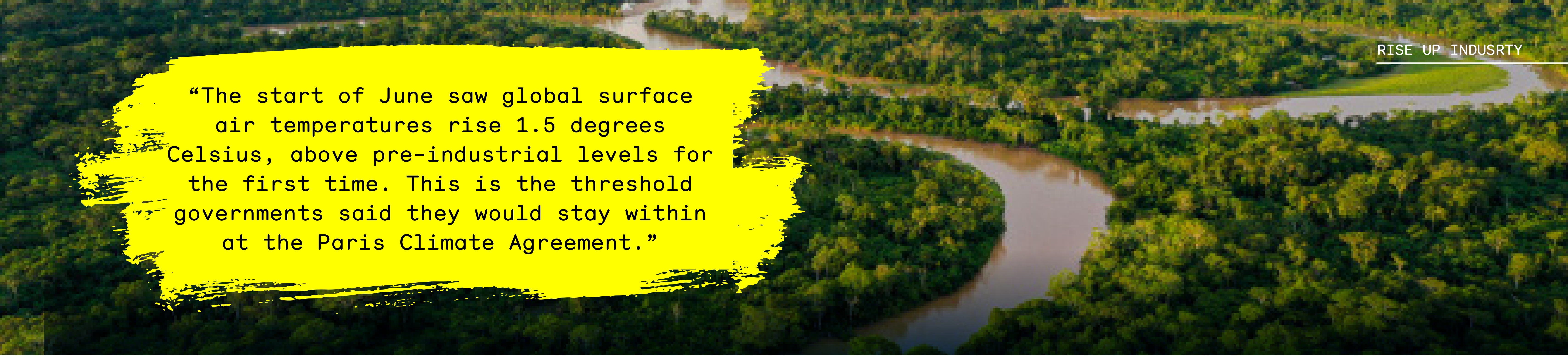
We spoke with Andrew Noone, UK Managing Director at Anthesis to understand some of the trends that a global sustainability consultancy is seeing in the ESG space and get advice on how to lay solid governance foundations to underpin ESG activities.

Over the last few years, ESG has increased in importance in many sectors, particularly in finance, why do you think this is?

In my opinion there have been two driving factors; increasing regulation and business success better aligned to the importance of ESG.

We now see two defining periods. An old era, where businesses didn't have to disclose their material sustainability risks and few consequences financially or reputationally by not making them readily available. However, as the new economy has driven for more sustainable business models to generate value - comparability between businesses has now become a focus. Investors are playing a part in this also and are pushing for standardisation across ESG metrics, helping to make investment decisions on a more level playing field and uncovering sustainable value creation opportunities.

Businesses who invest in strong ESG practices have become more appealing for investors, because of the evident correlation between ESG performance and financial performance. Showing a long-term commitment to ESG is providing investors with reassurances around the future-proofing of the business, and in turn, the longevity of their investment.



> "The start of June saw global surface air temperatures rise 1.5 degrees Celsius, above pre-industrial levels for the first time. This is the threshold governments said they would stay within at the Paris Climate Agreement."

Are you worried that, amid an economic downturn amid the UK's 'cost of living crisis', that we could see companies pulling back on their sustainability efforts?

There is always a worry when confidence in the economy declines, that sustainability and ESG efforts could be de-prioritised. We have seen consumer sentiment this year still focused on a cost of living crisis. However, I think the days of businesses seeing this agenda as discretionary spend have long passed. Take the summer of 2023, as inflation holds high and interest rates rise to curb inflation, the start of June saw global surface air temperatures rise 1.5 degrees Celsius (2.7 Fahrenheit) above pre-industrial levels for the first time. This is the threshold governments said they would stay within at the Paris Climate Agreement. So, plenty to do for businesses to speed up their sustainable performance transitions.

Also, there is a growing pressure from shareholders to hold companies to account on climate science and issues that align with their sustainability beliefs. There have been several incidents over the last few years where shareholders have not backed resolutions they feel are not working fast enough to remove unsustainable practices, showing that the broad culture around ESG has changed.
The lack of global agreement on standards in all areas of ESG leaves companies in a challenging position of defining their own targets and reporting mechanisms, leading to the rise of alleged greenwashing.

Do you have any tips for companies to leverage good governance to accurately disclose its ESG performance?

The ESG and sustainability landscape is continually evolving, with demands on companies only becoming more complicated as they seek to engage and communicate complex information with stakeholders.

Some basic tips to drive good ESG reporting governance with rigour and robustness include:

- Defining material topics & targets – stakeholders need to see how decisions of impact and importance of ESG issues have been identified.
- Upskilling your board of Directors – having support from the top down on the understanding of ESG to risk and value thinking.
- Use of existing business processes – expanding the enterprise controls and risk management system needed to address material ESG risks.

What ESG themes do you think will be pivotal in shaping company strategies and forming business decisions over the next few years?

Biodiversity loss and business interactions with nature are high on the corporate agenda now. The extinction of species, loss of flora and fauna, this is something that many businesses don't immediately see as their responsibility, like they have done with carbon emissions and waste management. However, better sophistication and understanding of the interconnectivity across all ecological systems of business are needed i.e. if you are protecting natural resource systems, you'll be protecting your business.

2022 portfolio performance + highlights

Understanding our carbon footprint

Our current carbon footprint (tCO_2e):

Scope 1: 5,140	**Scope 2:** 2,576	**Scope 3:** 1,582

In 2022, the total carbon footprint of the portfolio was 9,298 tCO_2e, representing an absolute decrease in total emissions of 29% from 2021 for the scope measured. That's the equivalent of reducing the electricity consumption (grey) of 6,660 average UK households to zero.

The most significant decrease in emissions was seen in scope 1, which fell by 43%. There were several contributing factors, such as an increase in the number of electric vehicles in company fleets, the move to more renewable energy at the office, and the exit of portfolio company CTS.

The scope 1 emissions would have been far greater in the year had 67% of companies with a fleet not chosen to invest in one or more electric vehicles, which all of these companies did for the first time in 2022.

The total scope 2 emissions reduced by 20% year on year, attributed to the increase in green energy procurement across the portfolio and equated to an avoidance of over 600 tCO_2e in the year.

Half of our portfolio companies now procure green energy. Unfortunately, we saw scope 3 emissions increase by 90%. This increase is due to the return to business travel for the entire year since the COVID-19 restrictions in 2020 and 2021 were lifted. We have focused first on reducing operational emissions but understand that tackling scope 3 is vital. We are also challenging ourselves to broaden the scope of our footprint calculation for scope 3, and therefore, we expect these emissions to increase as the calculation matures across the portfolio.We will continue with our action to support our portfolio to measure all relevant scope 3 categories and identify reduction levers to measure and reduce emissions material to each business' outputs. We hope to report on this next year.

As is the nature of private equity portfolios, it is never static, and therefore, it isn't easy to make like-for-like comparisons year on year. However, our analysis shows an absolute reduction and efficient growth and innovation from the portfolio supporting emissions reductions.

The absolute figures are more meaningful in mitigating the real-world effects of the climate crisis; however, to enable meaningful comparison, we have also normalised the emissions, allowing us to track efficient growth of the portfolio. We are proud that both these measures show a meaningful decrease:

24% decrease in tCO_2e per £m revenue

43% decrease in tCO_2e per number of employees in the portfolio

Future proofing value – transitioning to a low carbon economy.

Committed to building knowledge and taking action on the climate crisis, we hosted a climate conference for our portfolio companies: 'Future Proofing Value: The Low Carbon Transition'. We welcomed CEOs and ESG leads from across the portfolio to interact, share knowledge and learn from industry experts on responding and adapting to the climate emergency. The training equipped companies with the tools and expertise to develop and deliver carbon reduction targets. Watch our video here.

Prioritising the environment

GUSTO

164 tCO2e avoided through switching to a green energy tariff.

Gusto is a contemporary Italian restaurant chain. It is procuring green energy at all thirteen of its restaurant sites. Making this switch to green energy has resulted in a 42% decrease in its carbon footprint.

FourNet

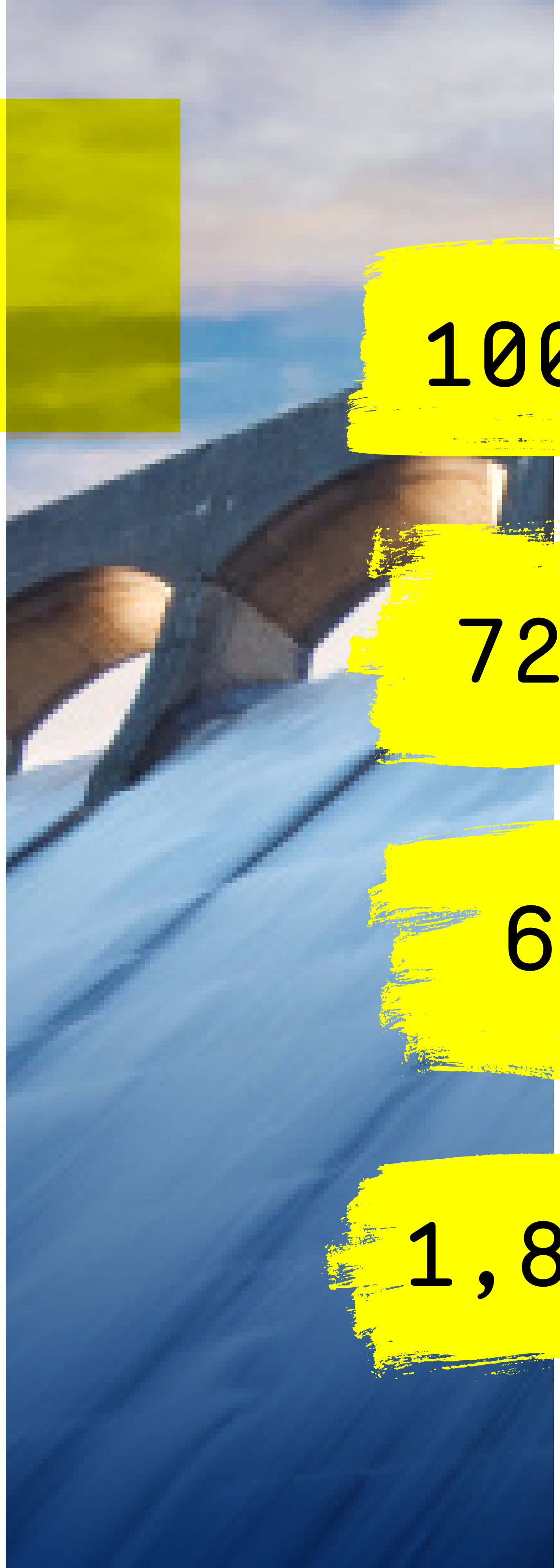
Bronze carbon literate organisation.

Fournet is a provider of IT management services and cloud solutions that supports its clients with digital transformation. Following the Carbon Literacy training delivered by Palatine, Fournet has achieved Bronze in the Carbon Literate Organisation Standard. It is committed to building knowledge of climate impact and mitigation and has committed to net-zero by 2050. Anthesis and Lucion are also carbon literate organisations in the portfolio.

THE ALCHEMIST

30% reduction in electricity usage across sites in the last 5 years.

The Alchemist is an experiential creative cocktail bar and restaurant brand. It has achieved the above, in part, through an increase in energy-efficient technologies deployed across its restaurants and its network of 'Green Keepers' that keep energy efficiency high on the agenda at all venues. Energy efficient technologies include appliance timers, LED and sensor lighting and a variable air volume (VAV) kitchen extraction system.

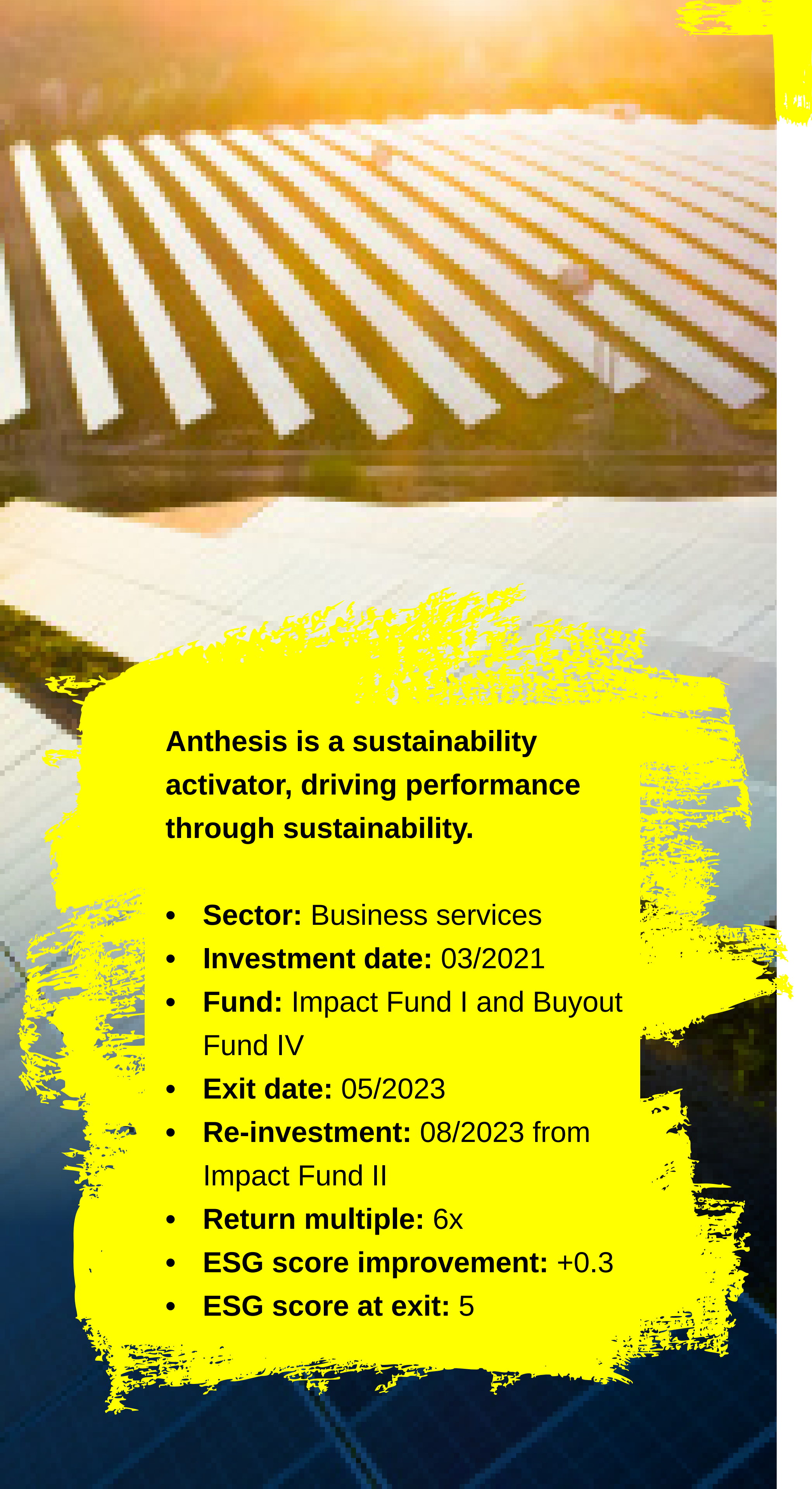


100% measure carbon footprint

72% took steps to minimise energy consumption and reduce their carbon footprint

6 companies are carbon neutral

1,847 tCO2e saved through procuring green energy



Anthesis is a sustainability activator, driving performance through sustainability.

- **Sector:** Business services
- **Investment date:** 03/2021
- **Fund:** Impact Fund I and Buyout Fund IV
- **Exit date:** 05/2023
- **Re-investment:** 08/2023 from Impact Fund II
- **Return multiple:** 6x
- **ESG score improvement:** +0.3
- **ESG score at exit:** 5

Anthesis

"We recognise the power of business to change the world. When sustainable lifestyles, products and business models are aligned with commercial value drivers, we see great results. Similarly, we support government and publicly-funded bodies to work in partnerships as the needs of policymakers and businesses converge. Our solutions are technically clever, but where we stand out is in our understanding of client needs and in our shared determination to reduce risk, increase resilience, realise opportunity and deliver truly sustainable organisations." Stuart McLachlan, Anthesis CEO

Anthesis is a specialist global sustainability advisory business created to deliver sustainable performance. As a B-Corp, it is committed to putting people and the planet at the heart of its activities. Recognising that sustainability challenges are ever more pressing, complex, cross-cutting and multi-faceted, Anthesis has created a unique model of engagement and delivery to upskill and empower clients to deploy solutions that grow productive, resilient organisations, ecosystems, cities, communities and people.

As companies look to decarbonise and prepare for the transition to a low-carbon economy, Anthesis has set a target to support clients to eliminate 3Gt of CO_2 via their Net Zero strategies by 2030. This is a significant contribution to the 40 Gt CO_2 that the Intergovernmental Panel on Climate Change (IPCC) estimates the world will need to reduce emissions before 2050 to stay within the 1.5°C climate ambition to limit the damage from climate change.

To achieve this, Anthesis has developed services and tools that will facilitate clients in assessing risks and identifying transformational innovations to reach their desired and required Net Zero goals. The recently launched RouteZero tool is one example of this. It is the 'most comprehensive digital GHG solution to accelerate actionable climate planning, investment and implementation', automating carbon data capture and analysis.

Data collection is the first step to net zero, and Anthesis has created an end-to-end service solution to unlock the decarbonisation journey for its clients. By the end of 2022, Anthesis had supported around 550 companies in setting carbon reduction targets and delivered over 130 training programmes to build knowledge and capacity on the net-zero transition.

Anthesis' climate efforts are not limited to supporting its clients; the company is also leading by example and taking action to mitigate its impact on the planet. With this, Anthesis is committed to setting a Science Based Target (SBT) and implementing an emissions reduction strategy focusing on maximising energy efficiency, preventing pollution, choosing lower emission transport options, maximising resource efficiency, implementing circular solutions, minimising homeworking impacts and protecting biodiversity. Mindful of its historical impact, Anthesis is offsetting its carbon footprint since its establishment in 2013, totalling 16,900tCO_2e.

These are just a few ways Anthesis strives for a more productive and resilient world.

Enhancing social impacts

“In the summer of 2022, I completed an internship at My Pension Expert. During this period, I improved my writing and communication skills and learned how to create formal statements and policies. My colleagues were friendly, helpful, and supported us.” Summer Intern, Franchesca

My Pension Expert (MPE) provides independent pension advice to the mass market.

MPE wants to support young and disadvantaged people in the local community in which it is headquartered. According to the 2023 ONS data, Doncaster has a higher proportion of 16-24 year olds claiming Out-of-Work benefits than the national average.

To ensure a pipeline of talent in the business and to support the young talent in the local area, in 2022, My Pension Expert launched My Academy, which aims to grow and develop young talent in the area. It provides a clear path for development and progression for anyone interested in pursuing a career in the financial services industry. This is not limited to advisory or accountancy roles; it includes marketing, sales, technology and data science roles. My Academy tailors programmes to meet individual needs, whether personal or educational requirements, aiming to develop a well-rounded individual who will be poised to succeed in a professional setting. The first set of certified Independent Financial Advisors (IFAs) have received their qualifications through MPE and are working for the business.

181 Mental Health First Aiders across the portfolio

88% of companies have a People Strategy in place

71% of companies have an Inclusion and Diversity policy

4,973 hours supporting community initiatives

Enhancing social impacts

CYBERFORT

Cyberfort provides leading end-to-end cybersecurity-managed services to mid-market businesses. It believes neurodiversity is an advantage.

Neurodiversity is the term used to describe natural variations in the human brain. It relates to differences in how we think, process, learn and behave. Cyberfort expects an increase in neurodivergent employees, as many of the strengths of neurodivergent individuals are traits it looks for in new hires to support the increasingly complex, diverse and sophisticated approach to cyber security. To attract, retain and develop neurodivergent employees, Cyberfort is taking proactive steps to instil an inclusive culture. It launched its Neurodivergent Community, an employee resource group led and chaired by an employee with ADHD. Cyberfort is also a corporate member of the charity Neurodiversity in Business, which provides businesses with a wealth of resources and information on the topic. A Neurodiversity Talent Management Toolkit is in place, providing practical strategies and tools to create a welcoming, inclusive and neurodivergent-friendly culture. With this, Cyberfort has trained all its hiring managers in recruiting neurodivergent candidates with the aim of giving neurodiverse candidates the best possible chance of succeeding once they get to interview. One outcome of this is the training of hiring managers in recruiting neurodivergent candidates to give neurodiverse candidates the best possible chance of succeeding once they get to interview.

SKILLS ALLIANCE

Skills Alliance provides workforce solutions in the global life sciences market. It puts wellbeing at the heart of company culture.

Supporting and promoting mental and physical wellbeing is proven to create a positive working environment where individuals and organisations can thrive. Wellbeing practices are especially vital in the recruitment industry, which is often fast-paced and high-pressured. The war for talent means that individuals must work harder to find good, top-quality talent for their clients. Alongside this, the changing demographics of the talent pool bring new expectations of recruiters and employers.

Skills Alliance recognises this and has centred its culture around employee wellbeing to relieve and reduce avoidable stresses. Each team member has the support of the in-house Associate Director of Global Learning and Development, who provides both team and individual coaching. Additionally, employees have access to a wellbeing day entitlement, bi-weekly meditation sessions, flexible working and confidential support from a qualified professional.

These mechanisms are designed to support team members to thrive personally and professionally and build a fruitful career in recruitment.

THE ALCHEMIST

"The food and drink sector is awash with trends. From veganism to 'low and no' - you have to be hyper-aware of the market and its needs and wants. For us, the trick is to fold these trends into your main product - you can't shift your whole offer to suit a fleeting moment in time. That said, you have to be clear about how you reflect those options." Simon Potts, CEO of The Alchemist

The Alchemist is an experiential creative cocktail bar and restaurant brand.

- **Sector:** Consumer and Leisure
- **Investment date:** 05/2015
- **Fund:** Buyout Fund II
- **ESG score improvement:** +2.1

The Alchemist is a creative bar-restaurant brand with a highly trained and engaged team offering top-quality food and drink products in immersive venues; responding to changing consumer behaviours has resulted in sustainable growth in a demanding sector.

Management of a wide-reaching and potentially volatile supply chain is key to responding to these trends and delivering the quality products that The Alchemist has become known for over the last 15 years, and applying the lens of sustainability is another dimension that fortifies these networks.

Companies are becoming increasingly aware of the need to scrutinise the sustainability of their supply chains. This results from growing consumer and investor demands, increasing awareness of negative environmental and social impacts, increasing fragility of supply chains and increasing regulation. With this in mind, The Alchemist has engaged with its supply chain for many years. It started with communications that were mainly one-way. But, as these supplier relationships have grown and the sustainability conversations have matured, the goal has changed: The Alchemist no longer seeks one-way interactions with its suppliers but seeks and values collaborative, sustainable partnerships.

In 2019, The Alchemist worked with a procurement consultancy to map its entire supply chain and understand the web of purchasing agreements and contracts it had in place, with emphasis on quality, innovation and value. This enabled the company to implement a tendering process in which suppliers profiled on price and aligned with company values.

Throughout 2020 and 2021, The Alchemist continued to implement its tender process and was iterative with its supplier selection. For example, it started to switch to locally sourced produce and delisted soya products linked to deforestation. From 2021, it began selecting suppliers for strong ESG credentials and targets to support The Alchemist in reducing its Scope 3 emissions. Last year, it developed this process further by increasing the focus on ESG in the tender process. For example, when the business conducted its spirits tender, it asked the brands to detail how the owners were improving their sustainability, which was then considered when designing menus.

The Alchemist created its Sustainable Supper Club. Using the information captured through the tender process, The Alchemist was able to spotlight its most sustainable suppliers and create a menu just for them. The menu has been crafted in association with Meatless Farm, Discarded, Ellers Farm Distillery and Sipsmith and consists of three closed-loop cocktails and six delicious, plant-based dishes. In doing so, The Alchemist has continued to bring creative new products to customers while fostering collaborative partnerships with its key suppliers to increase the sustainability credentials of its main suppliers and its own.

Governance - the foundation of sustainability

A business services company that protects people from hazardous environments and the environment from people's impacts.

To inspire change, Lucion's ESG team needed to make the climate, nature and social crises tangible to its management team. It partnered with Cranfield University's Sustainable Business School, enabling the team to 'experience the future' in the University's Exploring Sustainable Futures game. The game takes players on a scenario exploration through four different pathways towards 2050. These pathways made players think years into the future to consider the consequence of their actions in parallel to changes in the economy, technology and society. For the Lucion team, it reinforced the requirement to evolve, innovate and partner with appropriate organisations to amplify positive impact. 'Protecting people and planet' has been put at the heart of the business, and delivery of this ethos is monitored through key ESG KPIs regularly reported to the Board. The 2023-24 financial year will also be the first time the Board has committed to dedicate a budget to ESG, allowing the team to implement ESG across the business more robustly and consistently than ever before.

Cementing its dual commitments of guiding its clients to a more sustainable existence and standing firm behind its own. Anthesis is a sustainability activator, driving performance through sustainability.

Anthesis is a certified B Corporation demonstrating high social and environmental performance standards, transparency, and accountability. It is the most rigorous and holistic sustainability standard that exists and requires companies to make a legal commitment to ensure all stakeholders, not just shareholders, are considered in business decisions. Anthesis said: "Becoming a B Corp has enabled us to double down on our governance commitments to run our business in a responsible, transparent and sustainable way." Using the framework, Anthesis has updated its sustainability policy, modern slavery and human rights trafficking policy, and established a new ethics council.

More can be read about what it means to be a B Corp and Palatines B Corp journey on page 18.

56% of companies screened suppliers for ESG policies, standards and/or practices

71% of companies have an Environmental Policy in place

100% of companies in the fund for 1+ years have implemented a certified security management system to protect customer data

100% of companies in the fund for 1+ years have implemented a certified security management system

Cyberfort provides leading end-to-end cybersecurity-managed services to mid-market businesses.

- **Sector:** Technology
- **Investment date:** 07/2017
- **Fund:** Buyout Fund III
- **ESG score improvement:** +1.4

CYBERFORT

"Principally, Cyberfort exists to provide our clients with the peace of mind about the security of their data and the compliance of their business, which is much needed in our increasingly data-hungry world." Andy Hague, Cyberfort CEO

In an increasingly connected and data-driven world, risk, compliance, and data protection are of huge and growing importance to all companies, especially as instances of cyberattacks continue to increase. In response, cybersecurity must be a core pillar of companies' governance structures.

Cyberfort exists to provide its clients with peace of mind about the security and compliance of data. As the cybersecurity landscape matures, companies must progress from an implemented solution to mitigate risk to putting good governance policies and systems in place to ensure a more strategic and proactive approach to cybersecurity. In identifying this, Cyberfort has created solutions for its clients to protect assets from data hosting services by developing and delivering risk management programmes and security strategies. Its blend of services aims to create 'safer organisations', be an authentic leader and provide a human voice in an increasingly digitised and robotic world.

In its ambition to be an authentic leader, Cyberfort performs very well in cybersecurity governance due to the company's deep technical expertise and understanding the importance of placing it at the heart of the governance structure. The tone is set at the Board, making cybersecurity a priority. With this, it has the supporting infrastructure in policies, systems and processes that integrate cybersecurity throughout all activities and levels of the business.

The business understands the need for independent validation when clients entrust the security of valuable or sensitive data to a third party, which is why Cyberfort seeks certification of its governance systems. Cyberfort has achieved information security management standards, including ISO 27001, Cyber Essentials Plus, PCI Security Standards and Cyber Security Incident Responder (CSIR). These systems and certificates are constantly being reviewed, and the Board is committed to continual improvement. Cyberfort's strategic approach to cybersecurity governance mitigates its risk and adds value to the business by attracting and retaining clients and nurturing the company's growth.

Deal Statistics

- **Sector:** Education
- **Macro theme:** Sustainable communities
- **Investment date:** 03/2021
- **ESG score improvement:** +0.6

The positive impact story

B2W group

B2W is a skills and training provider focused on pre-employment and employability training, bootcamps and apprenticeships.

Scalability: More people equipped, employed, trained and upskilled

On track:

+ KPI: Number of people trained in the last twelve months

Quality: Successfully gaining employment and career progression

On track:

+ KPI: Re-employment training achievement rate

Durability: Equipping for success and achievement

On track:

+ KPIs: Proportion of learners entering employment or studying at Level 2 or above

Inclusivity: People from all backgrounds

On track:

+ KPI's: Female learners, learners from ethnic minority groups and areas of deprivation

B2W delivers a clear social impact by helping people return to work and gain new skills for employment. It works with large employers and job centres to provide high-quality training to upskill and support unemployed people in getting paid employment. B2W focuses on upskilling workers beyond the minimum wage poverty trap and into better-paid careers.

Recent funding has come predominantly from the Adult Education Budget (AEB) and delegated to the Mayoral Combined Authorities (MCAs), where new deployment rules allow for better targeting of local employment and training needs. In Greater Manchester, the funding was used to offer free level 2 training for all, including those without qualifications, allowing anyone in the area to apply for career-enhancing level 2 training, which B2W and others delivered.

"Making a difference in people's lives and communities": B2W's core focus is on permanently breaking cycles of 'unemployability', low skills and low-paid work that keep people trapped in poverty and negatively impact regional economies via four strands:

Employability Skills - sector-specific 2 to 5 week pre-employment training (PET), often catering for the long-term unemployed and designed to meet the skills shortages of local employer partners; job interviews are guaranteed for course completers ("achievers") and B2W supports interviewees until they gain a job.

Skills Bootcamps - lengthier, more intense courses to meet national skills gaps and post-Covid recovery, enabling candidates access to better-paid careers and vetted employer vacancies, e.g. in Digital, Greentech and HGV driver training. Candidates may also progress to an apprenticeship.

Digital and IT apprenticeships – B2W's acquisition of Just IT in 2022 added 900+ learners on a route to well-paid careers while addressing vital national skills gaps.

Employment Support – aimed at the 18-24 years cohort who are 'NEET' (not in employment, education or training), or the more hidden 'economically inactive', to learn essential employability skills and address the 'social timebomb' caused by Covid lockdowns and subsequent 'social drop out', that has left some young people unable to undertake the normal behaviour required of the workplace. To date, almost 500 people in the Greater Manchester region have achieved job outcomes, meaning they have accumulated earnings that exceed the equivalent of someone working 16 hours per week for 26 weeks, earning the National Living Wage. This is the best outcome of all training providers in the Greater Manchester region.

Deal Statistics

- **Sector:** Business services
- **Investment date:** 11/2018
- **Fund:** Buyout Fund III
- **Exit date:** 08/2022
- **Return multiple** (when combined with CET): 5.8x
- **ESG score improvement:** +1
- **ESG score at exit:** 4.2

ESG to exit + beyond

Construction Testing Solutions

CTS is a leading provider of onsite and laboratory testing, geo-environmental and structural assessment services to the UK infrastructure and construction industry.

At the time of investment, the business was part of a larger group, which included CET (exited in October 2021). We supported management in formally separating the two companies enabling us to execute two distinct strategic growth and exit plans.

ESG Management

Understanding the value and opportunities associated with good ESG performance, sustainability was embedded into the long-term business strategy and governed by the Board. To ensure continual performance, a dedicated ESG manager was recruited, and an ESG committee was established. Not only did this ensure resource was available to progress ESG, it also provided opportunities for passionate and talented staff to develop and drive sustainable performance in the business. Throughout our investment, CTS performed strongly across our six sustainability pillars, with key highlights across Climate, One Planet, People, and Leadership:

Climate: CTS calculated a comprehensive carbon footprint, identifying emissions hot spots and informed reduction strategies. With this understanding, the business was able to make several site improvements to minimise carbon emissions (e.g. LED lighting installation and the procurement of green energy), make changes to the fleet (procuring seven electric vans) and develop a comprehensive list of climate risks and opportunities to consider as part of its transition journey. CTS was committed to learning and development and used the Palatine Carbon Literacy training programme to build a team of carbon-literate employees. This built understanding in the business of climate impact and opportunities for mitigation across teams and levels.

One Planet: CTS appointed environmental champions at each site responsible for collecting ESG data and influencing behavioural change. The business had a certified environmental management system to ISO 14001, an effective framework for assessing and managing environmental and pollution risks. Water-saving devices and greywater harvesting were installed at several locations, which not only had a positive environmental impact but also significantly reduced water spending. At the Harrietsham site, annual water savings were calculated at 731m³ and annual cost savings of £13,000. Waste generation and recycling rates were also audited, which informed a waste improvement programme across the sites. New recycling infrastructure was provided and changes to waste suppliers resulted in an uplift in recycling rates and diversion of waste streams from landfill.

People: The business has a key focus on health and safety, and in recognition of the potentially high-risk sites that employees are exposed to, CTS increased health and safety controls and introduced real-time hazards, near-misses and accident reporting to ensure effective and timely risk management. Furthermore, it introduced Health, Safety and Environment action bulletins to increase awareness of risks and mitigation to ensure employees were equipped to work in the safest manner possible. Recognising that wellbeing and workplace performance are intrinsically linked, CTS trained over 40 mental health first aiders and appointed an in-house MHFA instructor. Maximising the potential of its employees sat at the core of the business. In support of this, CTS launched its Career Pathways, aimed at providing a clear and transparent framework for progression in the business. In its first year, CTS experienced increased staff retention and new (and returning) talent attraction. Supplementing this, CTS increased its focus on inclusion and diversity, with an emphasis on promoting women in construction. This resulted in the introduction of management and leadership programmes, an apprenticeship programme and e-learning modules for all team members.

Leadership: The CTS leadership team not only demonstrated a robust approach to risk management, compliance and strong governance structures, but the team also understood the value that a holistic approach to ESG brings to business. With that, as mentioned, ESG was given Board level focus and attention and an investment in a dedicated role to drive performance.

palatine

Want to know more?

Get in touch with Steph Wall:

stephanie.wall@palatinepe.com

Certified B Corporation