Climate Report 2023

Aligned with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD)

Certified B Corporation

palatine

"We recognise that climate change is the biggest threat to the future of our planet and the impacts of climate change are material to our portfolio; this is whether they result from the physical impacts or in the transition to a low carbon economy. And as an investor influencing the growth of companies, we have a moral obligation to help address this global issue and we proactively support the aims of the Paris Agreement in doing so."

Palatine Climate Policy

What's inside

INTRODUCTION

At Palatine, we are proud to build upon our milestone achievements, including becoming a B Corp, the first private equity Carbon Literate Organisation, and setting a science-based target to drive our climate efforts forward. We will explore these achievements in the following sections. This report marks a significant step in our journey as we proudly present our first TCFD-aligned Climate Report, detailing our commitment to managing climate-related risks and opportunities.

Sustainability Strategy and Climate Commitment

Our Sustainability Strategy is built around three core themes: Climate and Nature, Inclusion and Diversity, and Wellbeing and Engagement. In 2022, we set strategy goals under the Climate and Nature pillar to help steer Palatine and our portfolio towards making commitments grounded in science. We're proud to provide a progress update against our climate targets:

1

Target 1: Evaluate and commit to a science-based target (SBT) in 2023 and certify by 2025

In 2023 we submitted our SBT to SBTi and received validation of our target in May 2024.

2

Target 2: Achieve net zero operations by 2028

We are still working on this. As of 2023, 76% of the electricity used in our three offices comes from renewable energy, a significant increase from 39% in 2022.

3

Target 3: Ten portfolio companies to offset 100% of scope 1 and 2 emissions as minimum by 2025

Seven of our portfolio companies currently offset scope 1 and 2 emissions. The wording of this target has changed, we are working with these companies to set carbon reduction plans to be completed by 2025.

Importance of Climate Risks and Opportunities to Palatine and Private Equity

Given its impact on investment strategy and portfolio management, climate risk is an important consideration for Palatine and the wider private equity sector. We are in the decisive decade for tackling climate change, and the years until 2030 will be make or break for achieving climate stability. At Palatine, our approach to climate risks helps strengthen the resilience of our investments while supporting the transition to a low-carbon future, in line with our commitment to sustainable growth and responsible investing. By integrating climate risk into our investment processes, we aim to improve our due diligence, manage portfolio risks more effectively, explore opportunities for sustainable value creation, and identify new investment opportunities aligned with the transition to a low-carbon economy.

OUR SCIENCE-BASED TARGETS

By 2030 we will reduce Palatine's own greenhouse gas emissions by 42%. The SBTi refers to these as scope 1 (direct emissions from company-owned and controlled resources) and scope 2 emissions (indirect emissions from the generation of purchased energy, from a utility provider).

But we are also setting targets for our Scope 3 emissions – as a private equity investor, our scope 3 emissions relate to our financed emissions and therefore the greenhouse emissions associated with our portfolio companies' operations.

We have committed 60% of invested capital to have set science-based targets by 2028 and 100% of invested capital by 2032.

Climate Action and the Sustainable Development Goals

"We will consider climate related matters in our investment strategy and support our portfolio companies to actively monitor and manage their climate change risks and impacts.

Palatine PE supports the United Nations Sustainable Development Goals, and we relate our work, and that of our portfolio, to them where there are strong contributions and outcomes aligned to the aims of the goals. We believe this will bring the goals to the attention of new business audiences." **Palatine Investment Code**

Philosophy

Our philosophy centres on driving positive outcomes across our portfolio by scaling businesses sustainably, ensuring their long-term impact on society, the environment and the economy. For over 15 years, we have been committed to responsible investment, integrating sustainable practices into our business culture and operations while striving to deliver optimal returns for our investors. This commitment, which we define as 'positive equity,' is a core aspect of our approach and is articulated in our Investment Code.

We recognise that climate change poses a significant challenge, with potential material impacts on our portfolio from both physical risks and the transition to a low-carbon economy. As investors, we understand the importance of addressing this issue, though we are still in the process of deepening our knowledge of the specific risks and opportunities it presents. Our internal sustainability strategy includes measures to help us better identify, manage, and mitigate climate risks, reflecting our alignment with the Paris Agreement. While we have made progress

Purpose of the Report

This report serves as a continuation of Palatine's long-standing leadership in ESG practices. As our first TCFD disclosure, it provides an overview of our approach to assessing and managing climate-related risks and opportunities, focusing on their implications for potential investments and existing portfolio companies, as well as our internal climate strategy. The scope of this report is limited to our Impact and Buyout funds, ensuring a focused approach to integrating climate considerations in these specific areas of our business.

Our methodology is built upon robust governance processes and prioritises raising both internal and external climate awareness. Through this report, we aim to enhance transparency around how we integrate climate considerations into our decision-making and operational practices to ensure resilience and long-term sustainable growth. Through our climate reporting, we will also report on the progress made against our science-based targets, ensuring transparency as we work towards our emissions reduction goals.

Our Funds

As shown on the right, we invest from two private equity funds, with a strategy focused around ESG, value enhancement and building strong relationships. We also have a Growth Credit offering, which shares our mission of being a force for good and enhances our ability to support an increasingly important part of the economy.

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.

growth credit

Regional Focus: Our Growth Credit Fund seeks to level-up the growth credit market across the UK regions by supporting maturing, high-growth tech companies in those regions.

Governance

GOVERNANCE

Board Oversight

The board plays a critical role in overseeing climate matters at Palatine. Climate issues are embedded within Palatine's broader investment philosophy and governance structures, ensuring they are considered at the highest levels of decision-making.

At the highest governance level, Palatine's Impact Managing Partner sits on the board and has direct oversight of climate and ESG matters. Regular updates are provided to the board by the Senior Sustainability Director, who manages the sustainability team and works closely with all partners across the business.

Climate-related policies, including Palatine's Climate Policy, general Investment Code, and ESG policy are reviewed annually by the board. The Group Managing Partner and Senior Sustainability Director sign off on these reviews, ensuring that Palatine's climate strategy is continuously aligned with global standards and internal goals.

The board also approves an annual ESG budget, which includes specific provisions for climate-related initiatives. This process ensures that climate risks and opportunities are regularly assessed and integrated into both short- and long-term business planning. Senior leadership, through board-level oversight, remains committed to addressing climate issues and supporting significant initiatives, such as our most recent science-based targets validation and the introduction of an internal sustainability strategy in 2022.

Governance Structure and Management's Role

Sustainability Team

Palatine's sustainability team is directly involved across the entire investment lifecycle, from deal structuring to portfolio management and exit processes. The team serves as a dedicated ESG resource for both Palatine and its portfolio companies, ensuring climate and broader sustainability concerns are effectively integrated at every stage. While climate factors are assessed internally, external expertise is also sought when necessary to strengthen our sustainability efforts.

The Senior Sustainability Director leads the sustainability team, which is made up of the Sustainability Manager and Sustainability Intern, and directly reports to the Impact Managing Partner. This leadership structure ensures consistent dialogue across the business, with climate issues being regularly communicated at both operational and governance levels. The team is responsible for delivering ESG due diligence and baseline assessments, annual ESG and climate reporting, carbon footprinting, and ensuring climate impacts are continuously monitored. The team is also focused on upskilling both internal teams and portfolio companies on sustainability practices, including setting and achieving climate targets.

Investment and Portfolio Team

A high level of oversight on climate matters also exists from the very beginning of the investment process, all the way to exit. The investment and portfolio teams work in close collaboration with the sustainability team to ensure any material climate matters are assessed and managed throughout the deal lifecycle. This starts with initial deal screening and extends through due diligence, investment committee approval, and post-deal portfolio management.

Quarterly ESG discussions at board meetings ensure that climate performance is continuously monitored and aligned with Palatine's sustainability goals.

Investment Committee

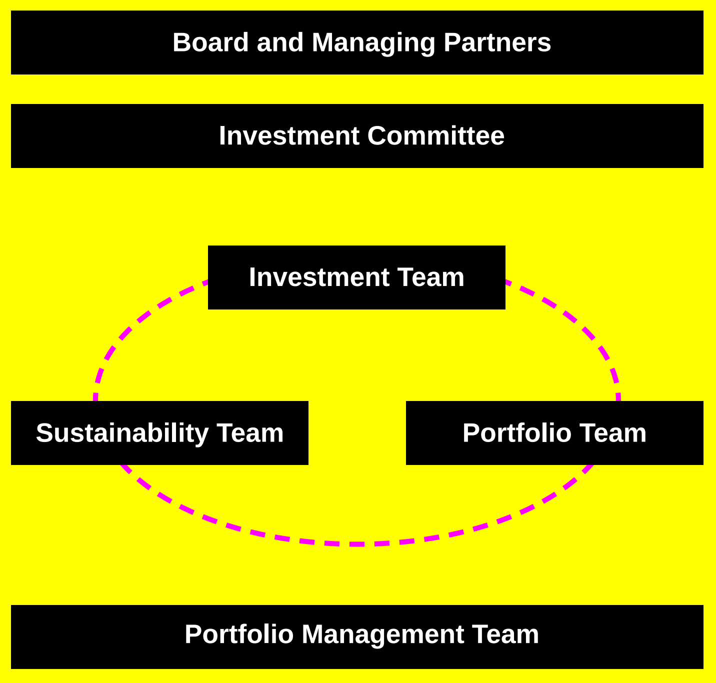
The Senior Sustainability Director is present at all Investment Committee meetings, ensuring that climate-related factors are included in all investment papers and discussed with the investment team and relevant managing partner.

Portfolio Board Oversight

Portfolio companies are encouraged to mirror Palatine's own governance structure and commitment to climate matters. Palatine encourages each new company to designate a board member responsible for ESG matters.

ESG updates, including climate and carbon related KPIs, are regular board agenda items for portfolio companies and are discussed on a quarterly basis. This ensures that climate factors are consistently discussed at the board level and aligned with Palatine's sustainability goals. As a result, climate-related risk factors relevant and material to the portfolio are brought to the attention of board members and fed back to the sustainability team. This allows for climate matters to be promptly addressed and supports continuous improvement in the sustainability performance of portfolio companies.

GOVERNANCE STRUCTURE OF CLIMATE-RELATED ISSUES



Strategy

STRATEGY

We are continuously striving to build a deeper understanding of how climate-related factors could impact our business and portfolio companies and acknowledge the need for more structured analysis in the future.

Climate Risks and Opportunities

To help shape our climate strategy, we have focused on increasing awareness of risks across the different sectors that our portfolio companies operate in. We have identified several key physical and transitional risks that could affect our portfolio, and we are working to better understand and manage these.

Risks

Physical Risks

In the UK, physical climate risks are becoming increasingly apparent. These risks are driven by the physical impacts of climate change which can disrupt business operations and damage assets. We have identified the following physical risks that could potentially impact our business and investments:

- **Flooding:** Increased rainfall and rising sea levels could pose risks to infrastructure, supply chains, and business operations, particularly for companies with assets in vulnerable areas.
- **Heatwaves:** More frequent and intense heatwaves are expected to impact workforce productivity, energy demands, and operational efficiency, leading to higher maintenance costs.
- **Extreme weather events:** Storms, high winds, and heavy rainfall have the potential to disrupt transportation and supply chains, resulting in delays and increased costs associated with delivering goods or services.
- **Water scarcity:** While we do not have any water-intensive businesses operating in currently water stressed regions in Palatine's portfolio, changing rainfall patterns and droughts could still impact supply chains. Businesses that rely on suppliers with high water usage or those operating in water-stressed regions may experience disruptions, increased competition for resources, and higher operational costs.
- **Cold spells:** Severe cold weather can disrupt transportation and logistics, causing operational delays and increased costs, particularly for sectors reliant on physical supply chains.

We understand that the impact of these physical risks may vary depending on geographic location and the operational profile of our portfolio companies, and we plan to enhance our analysis of these risks as we move forward.

Transitional Risks

As the UK accelerates its transition to a low-carbon economy, Palatine and our portfolio companies face a range of regulatory, market, and reputational risks. Staying ahead of these changes and adopting sustainable practices will be crucial to mitigate the impact of these transitional risks.

While we are still in the process of fully understanding these risks, we have identified the following key transition risks:

- **Regulatory changes and climate disclosures:** Stricter climate regulations are emerging globally, such as climate-related financial disclosures in the UK, mandatory reporting under the SECR framework, ESOS compliance, and climate-related financial disclosures. These regulations may require businesses to enhance energy efficiency, adopt low-carbon technologies, and increase transparency on carbon emissions and climate risk strategies. Failure to comply could lead to higher compliance costs, operational challenges, and reputational risks for our portfolio companies.
- **Shifts in customer requirements:** Increasing demand for climate commitments and action from customers means that companies are expected to align with climate goals, such as science-based targets or Net Zero commitments. Failure to meet these expectations, especially in tenders or contracts, could impact competitiveness, reduce market opportunities, and hinder long-term growth.
- **Technological disruption:** Advances in clean and low-carbon technologies are changing industries rapidly. While most of our portfolio is not reliant on carbon-intensive technologies, there is an increasing pressure to work with low-carbon suppliers. Failing to transition to more sustainable supply chains could lead to higher operational costs and potential disruptions, as well as increased capital requirements to meet evolving customer and regulatory expectations.
- **Reputational risk:** As expectations for sustainability increase from both investors and the public, companies that are seen as lagging on climate action or engaging in greenwashing could face reputational damage. Transparent and effective climate action is essential to avoid these risks. Failure to demonstrate clear progress in reducing carbon emissions or aligning with climate goals could result in reduced access to capital, lower investor confidence, and potential loss of stakeholder trust.

Such risks could have significant financial impacts on both operational and strategic levels. As our knowledge of these risks deepens, we aim to incorporate them more fully into our decision-making processes and the strategies of our portfolio companies.

On page 9 we share the outcome of an informal risk assessment that we have conducted using research and TCFD guidelines. This indicates the high-level risks across our portfolio, but we seek to conduct a more extensive risk assessment going forward. The criteria for this assessment is detailed below.

Risk Level	Assessment Criteria
Low	Minimal impact on operations, with little to no financial or operational disruption. The sectors are either well-prepared for this risk or the risk does not significantly affect their business model.
Medium	The risk has the potential to disrupt operations or incur moderate costs, but these can typically be managed with contingency plans or slight adjustments. There is a moderate chance of impact, but not critical to overall business continuity.
High	The risk can severely disrupt operations, lead to significant financial losses, or cause long-term damage to business performance. These sectors are highly exposed and vulnerable. Without significant intervention, the risk can have major consequences.

CLIMATE RISK ASSESSMENT BY SECTOR

			Sectors										
			Hospitality	**Consumer**	**Business services**	**Travel**	**Technology**	**Financial services**	**Healthcare**	**Recruitment**	**Construction**	**Education**	**Environmental services**
Percentage by invested capital			5%	7%	17%	4%	16%	19%	11%	4%	4%	3%	11%
Risks	**Physical**	Flooding	High	Medium	Low	Medium	Low	Low	Medium	Low	High	Medium	Medium
		Heatwaves	High	Medium	Low	High	Medium	Low	High	Low	High	Medium	Medium
		Extreme weather	High	Medium	Low	High	Low	Low	Medium	Low	High	Medium	Medium
		Water scarcity	Medium	High	Low	Low	Low	Low	Medium	Low	Medium	Low	Low
		Cold spells	Low	Low	Low	High	Low	Low	Medium	Low	Medium	Medium	Medium
	Transitional	Regulatory changes and climate disclosures	High	High	Medium	High	Medium	High	Medium	Medium	High	Medium	High
		Shifts in customer preferences	High	High	Low	High	Medium	Medium	Low	Low	High	Medium	Low
		Technological disruptions	Medium	Medium	Medium	Medium	High	Medium	Medium	Medium	Medium	Medium	Medium
		Reputational risks	High	High	Medium	High	High	High	Medium	Medium	High	High	High

Low risk **Medium risk** **High risk**

Opportunities

Engaging proactively in climate strategies can also present numerous opportunities for Palatine and our portfolio companies:

- Energy efficiency and cost savings: Improving energy efficiency through the adoption of energy-saving technologies can reduce costs and lower emissions, particularly in sectors with higher energy consumption.
- Value creation: Demonstrating strong climate action, like having climate resilience and Net Zero plans in place, can strengthen exit valuations by making portfolio companies more attractive to buyers prioritising sustainability. Additionally, a proactive approach to climate risks will enable Palatine to better respond to LP requests on climate risk management.
- Innovation and technological advancements: Encouraging the adoption of clean technologies positions our portfolio companies to capture new market opportunities and respond effectively to regulatory and customer pressures.
- Competitive advantage: Companies that actively reduce their environmental impact and align with sustainability trends are likely to gain a competitive advantage, strengthening their reputation and market positioning.
- New market opportunities: The transition to a low-carbon economy is creating new sectors and markets, offering growth opportunities for Palatine's portfolio. We work closely with our portfolio to identify ways in which they can support their clients navigate the low carbon transition.
- Resilience to future climate impacts: Early adoption of climate resilience measures can protect our portfolio companies from future risks, enhancing business continuity and operational stability.

As we continue to evolve our climate strategy, we will explore these opportunities further, ensuring that our portfolio companies are well-positioned to thrive in a changing global environment and support the low carbon transition.

Impact on Key Aspects of Business

We are aware that climate-related risks and opportunities could influence several key aspects of our business:

Portfolio Performance

- Revenue: Changing customer requirements and preferences are driving increased demand for low-carbon products and services as well as advanced carbon reporting, which presents opportunities for growth. Conversely, failure to adapt may result in lost market share.
- Costs: Compliance with new climate-related regulations and the implementation of energy efficiency measures may increase short-term operational costs, but we expect long-term savings and resilience benefits.
- Business resilience: By proactively managing climate risks, we aim to enhance the long-term resilience of our portfolio companies, ensuring that they are better equipped to navigate a changing climate landscape.

Investment Pipeline

- Our investment decisions take climate risks into account, particularly within our Impact Fund, with a focus on companies that are well-positioned to thrive in a low-carbon economy and maximise the opportunities it presents.

Impact on Financial Planning

Climate considerations are becoming an integral part of Palatine's financial planning. We are still in the early stages of fully assessing the financial impacts of climate risks and aim to begin incorporating these factors into our budgeting, forecasting, and investment strategies. As we develop a more structured approach to scenario analysis, we expect that climate risks and opportunities will play an increasingly important role in shaping our long-term financial outlook.

CLIMATE EDUCATION

Carbon Literate Organisation Silver

All businesses have a role to play in moving the UK to a low-carbon future. We aim to empower our portfolio to support this transition through knowledge sharing. Climate education is an important tool that we use to cascade knowledge and equip individuals with tools to understand climate risks and drive carbon reduction.

We are the world's first private equity firm to become a Carbon Literate Organisation, achieving silver-level accreditation. Between 2021 and 2023, we educated a total of 256 people across Palatine, our portfolio companies, and our investors. This demonstrates significant dedication to carbon reduction, with carbon-literate citizens typically realising carbon savings of 5-15% (Jacobs, 2018). We have committed to maintaining a carbon literate portfolio with plans to continue hosting additional carbon literacy sessions each year, which are open to our investors as well.

In 2022, we held our inaugural carbon reduction forum, in which we, with Anthesis, trained leaders across our portfolio to reduce carbon emissions. The training was 'action focused', centring around developing carbon reduction plans and identifying levers to minimise emissions.

To support our validated science-based target, we plan to deliver further training to our internal teams and our portfolio.

Climate Strategy

Our climate strategy is rooted in our commitment to reducing emissions and supporting the transition to a low-carbon economy.

We have taken important steps to address climate risks and opportunities:

Achievements to Date

- Climate risk is an integral part of our ESG due diligence, baseline assessments, and Investment Committee considerations, read more on page 13.
- In 2020, we joined Initiative Climat International to engage in cross-sector collaboration to create methodologies and materials to support the industry and wider economy to transition to a low carbon future.
- Since 2021, we have been training our portfolio companies, our team, and our investors in Carbon Literacy and have achieved Silver-level accreditation. We have made a commitment to maintaining a carbon literate portfolio and became the world's first carbon literate private equity house, read more on page 10.
- Finalised and submitted our SBTs in 2023, validated by SBTi in 2024, read more on page 17.
- Climate risks identified and mapped across our portfolio sectors as seen on page 9.

FUTURE CLIMATE SCENARIOS AND PLANNING

At this stage, we have not conducted a formal climate scenario analysis, but we recognise the importance of doing so to better understand how climate change could affect Palatine over different time horizons. Looking ahead, we plan to undertake a more structured analysis that will help us assess the financial impacts of various climate scenarios.

In the meantime, we are adopting a forward-looking approach by monitoring regulatory developments, technological advancements, and market trends. This will enable us to anticipate and respond to both risks and opportunities as they arise, ensuring that we remain adaptable in the face of changing climate conditions.

What's Next?

- Improve visibility of climate risks and opportunities across the portfolio.
- Embed climate risk analysis into the annual ESG information request and support the portfolio to conduct analysis of transitional and physical climate risks.
- Explore the use of climate impact accounting to quantify the monetary value of potential climate impacts across the portfolio.
- As we gain a more detailed understanding of these risks, opportunities and impacts, we will further strengthen our climate strategy to ensure it remains robust and aligned with evolving regulatory requirements and market expectations.
- Enhancing our understanding of biodiversity risks and dependencies to ensure a comprehensive approach to managing climate-related risks.

Risk Management

RISK MANAGEMENT

Processes for Identifying Climate-Related Risks

At Palatine, we understand that identifying and managing climate risks is essential for long-term resilience. We are continually deepening our knowledge and awareness of these risks at a portfolio level. We have an established process for screening material climate risks as part of our investment process framework.

How Risks are Systematically Identified

Climate risks are identified during the ESG due diligence and baseline assessment processes, which are integral to our investment strategy. During the early stages of an investment, we screen for potential environmental risks, including those related to climate change. These processes enable us to gather relevant information from our portfolio companies to evaluate how their operations may be impacted by both physical and transitional climate risks.

Our baseline assessment goes deeper by providing a detailed snapshot of each company's sustainability practices. This review includes a focused discussion on climate-related risks with the relevant company teams, particularly through the lens of their environmental management practices. We strive to continuously refine these processes to enhance our understanding of climate impacts and to ensure that climate risks are factored into our decision-making at every stage.

Pre Deal

ESG Due Diligence: During the initial investment assessment, climate-related risks are screened at a high level and flagged to the Investment Team.

Baseline Assessment: A deep dive into environmental management is conducted, where climate risks are discussed with the relevant management team. These risks are then included in the baseline assessment report, which outlines recommended actions to mitigate identified risks.

Investment Committee: All climate-related risks identified are reported in the Investment Committee Paper, along with RAG rating to reflect the company's ability to manage these risks. Climate is discussed as part of the broader ESG agenda, led by the Senior Sustainability Director, ensuring that climate risks are carefully considered during investment decisions.

Post Deal

Debrief Session: Following the acquisition, recommended actions from the baseline assessment are discussed with the relevant teams, and immediate next steps are agreed upon to mitigate risks.

Ongoing Monitoring: Annual ESG Performance Reviews: Palatine's sustainability team sends an annual ESG data request to portfolio companies, who provide carbon footprint data and updates on climate-related risk management. The sustainability team assesses performance and reports the findings to portfolio companies, investment teams, and investors.

Quarterly ESG Reviews at Board Meetings: Portfolio companies provide updates on climate-related risks as part of the quarterly ESG reviews. If a climate risk is deemed material, it is addressed at the board level and included in ongoing risk management discussions.

Exit

As part of the exit strategy, we develop an exit report highlighting the ESG improvements made by portfolio companies from baseline assessment to exit. We ensure that our portfolio companies are prepared to address future climate risks under new ownership. This process ensures that climate-related risks have been managed and mitigated throughout the investment period positioning the company for long-term resilience.

Management of Climate-Related Risks

We aim to integrate climate-related considerations into the broader risk management frameworks of our portfolio companies. This includes active engagement with company leadership to ensure climate risks are continuously monitored and managed. Initially, our focus is on building awareness and capacity within our portfolio companies to recognise and respond to both physical and transitional risks.

In practice, this involves promoting actions that reduce carbon footprints, improve energy efficiency, and ensure compliance with evolving environmental regulations. As our knowledge of climate risks deepens, we will further refine these processes to address risks more comprehensively and ensure that our portfolio companies are well-equipped to mitigate future climate-related challenges.

Integration with Overall Risk Management

As climate-related risks become increasingly important to the long-term sustainability of our investments, we are working to integrate these risks into our overall risk management strategy. We recognise that climate risks are interconnected with broader business risks, and as such, we aim to ensure alignment between climate considerations and our general risk management practices.

While we are still working on fully embedding climate-related risks into our risk frameworks, our ongoing efforts include integrating these considerations into portfolio monitoring and management processes. Over time, this will enable us to adopt a more cohesive approach, ensuring that both transitional and physical climate risks are addressed alongside other business risks.

SUPPORTING THE CLIMATE TRANSITION

As part of our commitment to responsible investment, we actively support companies that deliver climate risk assessments and strategies, enabling businesses to navigate the challenges posed by climate change. Two key investments in our portfolio, Lucion and Anthesis, are at the forefront of providing these services.

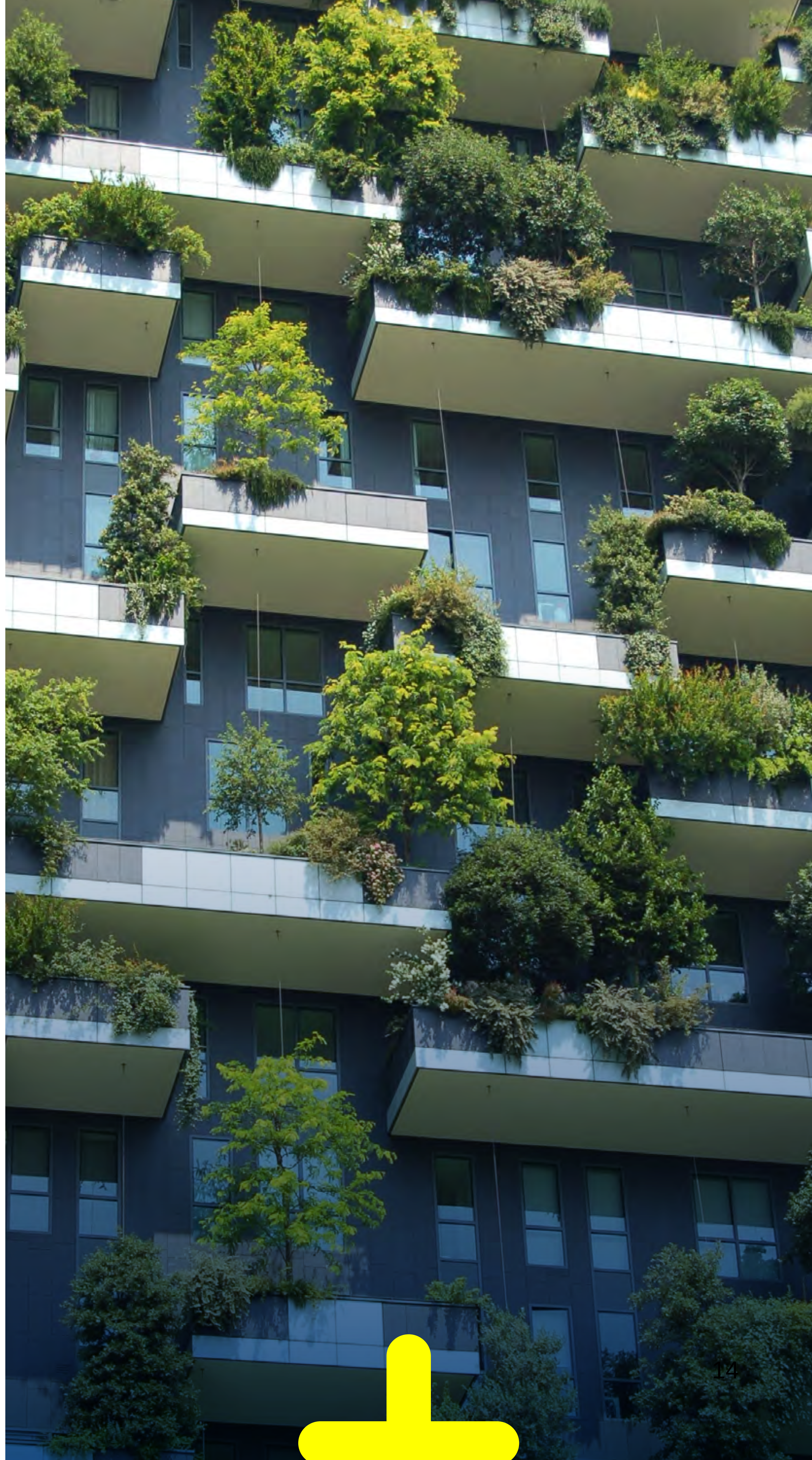
Lucion

Lucion provides companies with tailored climate risk management throughout their asset lifecycle. By assisting businesses in addressing climate risks and navigating complex regulatory frameworks like IFRS S2 and the EU Taxonomy, Lucion reflects our belief in supporting companies that drive real-world solutions for climate resilience.

Anthesis

Anthesis offers businesses comprehensive climate risk solutions, from climate risk screening to scenario analysis, helping them identify climate risks and develop strategies that reduce exposure while maximising value. This enables businesses to build resilience by preparing for climate disclosures, implementing mitigation actions, and capitalising on opportunities in the Net Zero transition.

By investing in businesses like Lucion and Anthesis, Palatine is actively raising awareness across our portfolio about the importance of identifying, managing, and reporting climate risks and opportunities. Through these investments, we are highlighting the value of partnering with experts who can support companies in navigating the challenges posed by a changing climate and evolving regulatory requirements.



Metrics and Targets

METRICS

Our Operational Carbon Footprint

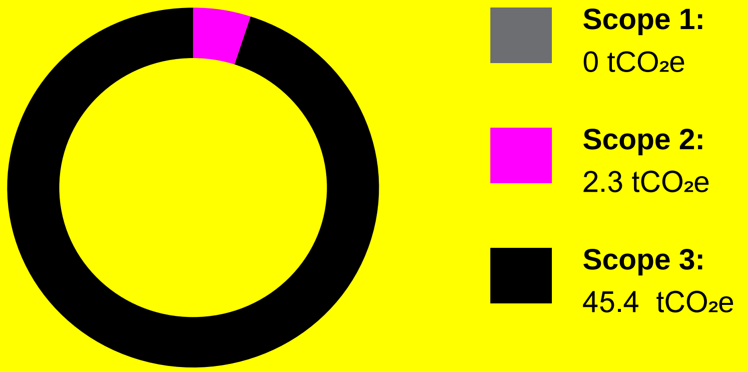
To support our climate-related risk management efforts, Palatine follows the Greenhouse Gas (GHG) Protocol for measuring and managing our carbon emissions, both internally and across our portfolio. The footprint calculations are also used to track progress against our SBTs, ensuring alignment with international climate goals. The GHG Protocol provides a globally recognised framework for tracking emissions across three scopes:

- Scope 1: Direct emissions from company-owned or controlled sources.
- Scope 2: Indirect emissions from the generation of purchased energy.
- Scope 3: All other indirect emissions in a company's value chain (e.g., supply chain emissions).

Our operational carbon footprint has been calculated using the control approach to carbon accounting, by which we have defined a boundary that includes scope 1, 2 and the following scope 3 categories: 3, Fuel and Energy Related Activities; 6, Business Travel; 8 Upstream leased assets. We have reported this internally, to our Board and key stakeholders since 2021. In keeping with the principle of continuous improvement, we acknowledge that there is scope to extend the boundary of our scope 3 calculations, and we endeavour to do so.

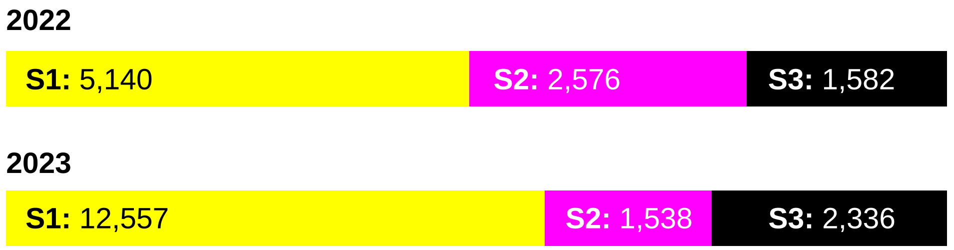
In 2023, we increased the accuracy of our operational carbon footprint calculation, which led to an increase in our reported carbon footprint compared to the previous year. All changes to our methodology have followed best practice guidance and consultation with third party experts. These improvements have been made in our scope 3 accounting; we have added Category 8 Upstream Leased Assets to our inventory and increased the scope of our Category 3 Fuel and Energy Related Activities accounting. The increase in our footprint reflects an increase in transparency, rather than a wavering in our focus. Our scope 2 carbon footprint has decreased with an increase in our renewable electricity use and scope 1 has remained negligible.

OUR OPERATIONAL CARBON FOOTPRINT



Accounting for Carbon in our Portfolio

Palatine portfolio carbon footprint (tCO_2e)



We have been measuring our portfolio carbon footprint since 2018. An approach was developed to establish a credible output at reasonable effort to gather the data from the portfolio. The methodology for calculating the company and portfolio carbon footprint has been based on the GHG Protocol Corporate Standard and the government conversion factors for GHG reporting have been used to convert the activity data into a tonnes of carbon dioxide equivalent figure. Activity data has consisted of primary data, where possible, obtained from both physical meter readings and financial records. In the absence of data, some approximations and assumptions have been used, however, we consider it to provide a reasonable overall illustration of Palatine's climate impact.

>3,000 tCO_2e

AVOIDED BY THE ADOPTION OF GREEN ENERGY

We continue to see more companies making the switch to procuring green energy as a cost-effective way to minimise their carbon footprint. 58% of our portfolio have adopted green energy. We monitor this KPI and encourage our businesses to make the switch and have been seeing more companies switch to a green energy tariff.

Due to the fluid nature of private equity portfolios, there are inherent challenges with reporting the carbon footprint at the portfolio level, making it difficult to make year-on-year comparisons.

Since 2018, this analysis has been used for dialogue with portfolio companies and engagement on footprint minimisation. The footprint has been reported to the Palatine Board, our investors, and to portfolio company management teams and Palatine investment directors sitting on the boards of those companies.

In 2023, scope 1 emissions increased by 144%, compared to the 2022 figure, due to an increase in emissions from 6 portfolio companies. Within this, there are clear hotspots: 84% of portfolio scope 1 emissions were associated with the activities of portfolio companies from carbon intensive sectors with big fleets or construction activities.

For the third year in a row, scope 2 emissions reduced, due to the further adoption of renewable energy across the portfolio, leading to the avoidance of over 3,000 tCO_2e in 2023.

Scope 3 emissions increased by 49%. The scope 3 measurement includes claimed business mileage only, therefore it represents a fraction of 'Scope 3 Category 6, Business Travel'.

TARGETS

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

Our Science-Based Targets

We advanced our trailblazing approach to sustainability by setting ambitious science-based targets for reducing greenhouse gas emissions in our own business and across our portfolio. We believe that these validated targets further solidify our position as the sustainability pioneer within the mid-market.

The target is split into absolute emissions reductions in our operational emissions (scope 1 and 2) and our financed emissions (scope 3, category 15). As interpreted by the SBTi, the latest science requires us to reduce our emissions from gas and electricity by 42% by 2030 and increase science-based target portfolio coverage to 60% by 2028. What these targets mean and how we achieve them is explained below.

Operational emissions: Reduction of absolute scope 1 and 2 greenhouse gas emissions by 42% by 2030 (from a 2022 base year).

The target covers our scope 1 and 2 emissions. Scope 1 emissions come from direct combustion of fuel onsite. Palatine's scope 1 emission are nil. As such, our scope 1 target is to maintain this. Scope 2 accounts for purchased electricity. To meet our target, Palatine endeavours to minimise energy use and ensure that the electricity we procure is generated from renewable sources rather than fossil fuels. The electricity supply is at the discretion of our landlords; however, we have been engaging with them to switch to renewable electricity since 2021. In 2023 76% of electricity used in our three offices was renewable[1], up from 39% in 2022.

Portfolio emissions: 60% of invested capital to have set science-based targets by 2028 and 100% of invested capital by 2032.

This target accounts for the emissions we finance through our investments (scope 3). Financed emissions are accounted for using the scope 1 and 2 footprints of all our portfolio companies. However, as we do not have operational control of all these businesses, our target is a 'target of targets'. We aspire to have 100% of our portfolio set a science-based target by 2032. Therefore, by 2028, we are targeting 60% portfolio coverage (invested capital).

With climate risk in mind, we have started targeting those companies in the portfolio most at risk. Target companies are in the construction and environmental services sectors. 16% of companies in the current Palatine portfolio fall into these sectors, and the sectors flag as medium-high risk on a number of the risk physical and transition risk indicators in table XX.

Why?

As leaders in ESG, setting an SBT was the natural next step in delivering our climate commitment and sustainability strategy. Not only is it the right thing to do, but it is also a key value driver for our portfolio. As such, we expect that by supporting our portfolio to develop a carbon strategy, set targets and realise reductions, companies will reap both intrinsic and extrinsic value, resulting in an uptick in valuation. There are multiple ways this value could transpire:

- through more intelligent decision-making informed by better data;
- through opportunities to expand market share or gain access to new markets, especially as large corporates set SBTs and look to their supply chain to deliver the commitment;
- through transition risk reduction, as we get closer to legally binding deadlines, the emissions reduction required will become steeper and more costly and
- by creating a differentiated offering in the marketplace, we are bolstering the reputation of our portfolio companies.

Beyond increased valuation potential, supporting our portfolio to set SBTs and action emissions reduction is the most significant positive impact we can have in mitigating the worst effects of climate change. Our financed emissions are our greatest contribution to climate change; therefore, beyond all else, setting and achieving a science-based emissions reduction target is a necessity. We will we use our influence to support our portfolio to set SBTs and implore our peers and our investors to follow suit.

[1]Defined as being backed by a renewable energy certificate or REGO.

> “There is a climate emergency, and we have a small window where we can make a change. We need to make big changes and make them quickly to reverse some of the terrible things we’re seeing at the moment.”

Beth Houghton, Impact Managing Partner at Palatine

Conclusion

This inaugural TCFD-aligned Climate Report has been instrumental in setting a solid foundation for Palatine’s climate-related financial disclosures, providing critical insights into climate risks and opportunities across our operations and portfolio.

The report has not only established a baseline for action, but also identified areas for growth and improvement that will guide our next steps. Moving forward, Palatine will refine its governance, risk management, and reporting processes, deepening our sector-specific climate analysis and integrating biodiversity considerations into our strategy. By enhancing visibility into climate risks in our financial planning and board-level discussions, we will strengthen our alignment with evolving global standards and further our commitment to sustainable growth.

This process has reinforced the value of structured climate reporting and has set the stage for greater depth and transparency in future disclosures.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