CLIMATE TRANSPARENCY REPORT 2020

HgCapital LLP

Principles for Responsible Investment

About the Climate-related Disclosure Indicators

Climate has been identified as a top priority for PRI signatories, with over 70% of asset owners reporting this as the most important long-term trend they are acting on.

The FSB Task Force's guidance on climate-related financial disclosure aim to create a single framework for disclosure on assessment and management of climate-related risk. The recommendations, supported by investors representing US$22 trillion, identify four main disclosures, Governance, Strategy, Risk Management, Metrics and Targets, and include specific guidance for asset owners and managers.

As a result, the PRI introduced climate-related disclosure indicators that can be used to align with the TCFD recommendations in the 2020 PRI Reporting Framework.

About this report

This report is an export of only the climate-related indicators from the 2020 Reporting Framework response. The full Public Transparency Report is available here (https://reporting.unpri.org/surveys/PRI-reporting-framework-2020/-DE0532F3-2FC0-4685-BCAC-5665A99DEE55/79894dbc337a40828d895f9402aa63de/html/2/?lang=en&a=1). It shows the responses to all the completed climate indicators, even those you chose to keep private. It is designed for your internal review or – if you wish - to share with your stakeholders.

The PRI will not publish this report on its website if you have designated your 2020 climate reporting as "private". Otherwise, you will be able to access the Climate Transparency Report of your organisation and that of other signatories on the PRI website and on the Data Portal.

To easily locate information, there is a **Recommendation index** which summarises the indicators that signatories complete and disclose. The report presents information exactly as it was reported as per signatory preference. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory are presented in this report.

TCFD Recommendations Index

Strategy and Governance - CC			TCFD Recommendation			
Indicator	Reported	Disclosure	Governance	Strategy	Risk Management	Metrics & Targets
SG 01.6 CC	✓	Public				
SG 01.7 CC	✓	Public				
SG 01.8 CC	✓	Public				
SG 01.9 CC	✓	Public				
SG 01.10 CC	✓	Public				
SG 07.5 CC	✓	Private				
SG 07.6 CC	✓	Private				
SG 07.7 CC	-	Private				
SG 07.8 CC	-	Private				
SG 13.1	✓	Public				
SG 13.2	✓	Public				
SG 13.4 CC	✓	Public				
SG 13.5 CC	✓	Public				
SG 13.6 CC	✓	Public				
SG 13.7 CC	✓	Public				
SG 13.8 CC	✓	Public				
SG 14.1	✓	Private				
SG 14.2	✓	Private				
SG 14.3	✓	Private				
SG 14.6 CC	✓	Private				
SG 14.7 CC	-	Private				
SG 14.8 CC	✓	Private				
SG 14.9 CC	-	Private				
SG 15.1	✓	Private				
SG 15.2	-	Private				
SG 15.3	-	Private				

Symbol	Status
✓	The signatory has completed this sub-indicator
-	The signatory did not complete this sub-indicator.
	This indicator is relevant to the named TCFD recommendation

Within the first column "Indicator", indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

ORGANISATIONAL OVERVIEW

This section provides an overview of your organisation. These characteristics are used to define your peer groups.

MAIN CHARACTERISTICS	
Name	HgCapital LLP
Signatory Category	Fund Management - Majority
Signatory Type	Investment Manager
Size	US$ 10 - 29.99 billion AUM
Main Asset Class	>50% Private Equity Internally Managed
Signed PRI Initiative	2012
Region	Europe
Country	United Kingdom
Disclosure of Voluntary Indicators	39% from 38 Voluntary indicators

HgCapital LLP

Reported Information

Public version

Strategy and Governance

PRI disclaimer

This document presents information reported directly by signatories. This information has not been audited by the PRI Secretariat or any other party acting on their behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented, and no responsibility or liability can be accepted for any error or omission.

Investment policy

SG 01	Mandatory	Public	Core Assessed	General

New selection options have been added to this indicator. Please review your prefilled responses carefully.

SG 01.1	Indicate if you have an investment policy that covers your responsible investment approach.

SG 01.6	Additional information [Optional].

For more information about our RI policy and approach please see: https://hgcapital.com/responsibility/

SG 01 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 01.6 CC	Indicate whether your organisation has identified transition and physical climate-related risks and opportunities and factored this into the investment strategies and products, within the organisation's investment time horizon.

◉ Yes

	Describe the identified transition and physical climate-related risks and opportunities and how they have been factored into the investment strategies/products.

Hg's climate change risk assessment tool is developed by the Climate Change team at PwC and is specifically tailored to capture climate change risks for Software and Service companies. It is based on recognised scenarios, including IEA - Sustainable Development Scenario and IPCC RCP 8.5 and 4.5, and covers a time period of up to 10 years, as well as:

1. Two Temperature Scenarios in line with the recommendations by the TCFD:

- 2-degree
- 4-degree

2. Two Climate Change Related Risks

1. Transition Risks:

- Policy and legal risk: Compliance costs; stranded assets; asset impairment; restrictions& limitations on carbon intensive assets; and asset depreciation.
- Market& economic risk: Company or securities valuations; asset impairment; viability of certain business models; and credit rating implications.
- Technology risk: Write-offs for investments in disrupted technologies; required investment in new technologies; and process change costs to accommodate new technologies.
- Reputation risk: Damage to brand value or reputation resulting in lost revenue and additional expenditures, e.g. corporate affairs, litigation.

2. Physical Risks:

- Risk of extreme weather events: Short lived extreme weather impacts. Disruption to operations, transportation, supply chains, etc. Damage to physical assets and impacts on insurance liabilities.
- Risk of gradual climate changes: Impacts due to slow insidious change such as increasing temperature or water stress. Degradation or limitations on resource availability, e.g. labour, natural resources etc.

Hg's assessment

In October 2019, Hg's portfolio companies were assessed and given high/medium/low resilience and risk related scores.

Summary of results:

- CC**resilience** scores of the portfolio companies indicate that most of our businesses have sufficient plans in place to deal with CC related risks and events.
- **Transition risks to operations** could potentially have an impact on our portfolio companies in a 2-degree scenario world. The companies all show a medium risk exposure to new legislation and regulations, as well as carbon pricing.
- **Physical risks to operations** are low or medium. Key risks relating to CC events that may occur in a 4-degree scenario are drought, flooding and storms which could result in damages to offices, disruption to staff travel and uncomfortable working conditions.
- There are a few companies that are exposed to**high transition risks relating to their supply chain** in a 2-degree scenario. This is due to one or more of their key suppliers being located in the US.
- **Transition and physical risks related to the businesses' own data centres** are low to medium, with transition risks being slightly higher.

All portfolio companies have received the output report which includes their individual CC risk scores. Companies with a low resilience score or high risks relating to their operations, data centres or supply chain are asked to consider how they can enhance their climate change resilience as part of their overall risk management and emergency response plans. This applies especially to any businesses that have received high CC related risk scores. The report also outlines opportunities to reduce risks and increase resilience, including but not limited to increasing renewable energy, relocating operations, changing suppliers and improving data centre efficiency.

○ No

SG 01.7 CC	Indicate whether the organisation has assessed the likelihood and impact of these climate risks?

◉ Yes

	Describe the associated timescales linked to these risks and opportunities.

Hg's Climate change risk assessment tool is based on recognised climate change scenarios, including IEA - Sustainable Development Scenario and IPCC - RCP 8.5 and RCP 4.5, and covers a time period of up to ~10 years (until 2030).

○ No

SG 01.8 CC	Indicate whether the organisation publicly supports the TCFD?

◉ Yes

○ No

SG 01.9 CC	Indicate whether there is an organisation-wide strategy in place to identify and manage material climate-related risks and opportunities.

◉ Yes

	Describe

Our climate change strategy includes two key aspects:

1. Hg's operations: Carbon footprint reduction and offsetting
2. Our portfolio companies: Climate change risks

Hg's own operations:

Our operational strategy is focused on reducing and offsetting our carbon footprint. In 2019, Hg carbon footprint was 1,656 tCO_2e which equals 10.28 tCO_2e per employee . Carbon emissions from business travel (85%) including hotel stays, account for the majority of Hg's carbon footprint, with most of that coming from air travel (79% of total emissions).

Hg is a certified Carbon Neutral company, committing to zero emissions by offsetting our entire carbon footprint. We recognise that offsetting is one way to reduce our environmental impact. In addition, we are committed to understanding ways in which we can reduce our overall footprint and investigating options around procuring renewable energy. In 2019, we supported the Acre Amazonian Rainforest project, which prevents deforestation and promotes sustainable economic livelihoods in the Brazilian Amazon.

Hg has a green committee which meets monthly to discuss items relating to sustainability across our offices. In 2019 Hg completed our UK ESOS assessment and we are now taking actions to save energy in line with the report.

Our portfolio:

The climate change assessment tool and report forms the basis for our climate change strategy for our portfolio and highlights opportunities to improve. The tool (developed by PwC) covers:

- Transition risks: policy, legal, technology and market risks associated with the transition to a low-carbon economy. Examples of transition risks include consumers shifting away from internal combustion engines cars to electric vehicles or governments imposing a universal carbon tax.
- Physical risks: physical impacts of climate change such as the rise in sea level and increase in global mean temperature, which lead to an increase in extreme weather events.

All portfolio companies are assessed against the tool and receive a report highlighting risks and areas for improvement.

○ No

SG 1.10 CC	Indicate the documents and/or communications the organisation uses to publish TCFD disclosures.

☑ Public PRI Climate Transparency Report

☐ Annual financial filings

☐ Regular client reporting

☐ Member communications

☑ Other

	specify

Our Climate Change Risk assessment report, as well as Hg's annual Carbon footprint report

☐ We currently do not publish TCFD disclosures

Governance and human resources

ESG issues in asset allocation

SG 13	Mandatory	Public	Descriptive	PRI 1

SG 13.1	Indicate whether the organisation carries out scenario analysis and/or modelling, and if it does, provide a description of the scenario analysis (by asset class, sector, strategic asset allocation, etc.).

☐ Yes, in order to assess future ESG factors

☑ Yes, in order to assess future climate-related risks and opportunities

	Describe

We conduct climate change risk assessments of all our portfolio companies by using a tool developed by PwC which is tailored to our target sectors (Software and Services companies).

☐ No, our organisation does not currently carry out scenario analysis and/or modelling

SG 13.2	Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets.

	We do the following

☐ Allocation between asset classes

☐ Determining fixed income duration

☐ Allocation of assets between geographic markets

☐ Sector weightings

☑ Other, specify

ESG is embedded into our investment strategy and exclusion list: Software and Services companies in western and northern Europe and the US.

☐ We do not consider ESG issues in strategic asset allocation

SG 13 CC	Mandatory to Report Voluntary to Disclose	Public	Descriptive	General

SG 13.4 CC	Describe how your organisation is using scenario analysis to manage climate-related risks and opportunities, including how the analysis has been interpreted, its results, and any future plans.

☑ Initial assessment

	Describe

According to PwC, climate change (CC) related risk levels relating to policy, legal and technology risks, as well as market and reputational risks, are low for the ICT sector compared to most other sectors. This is reassuring, however, Hg is still committed to understanding any potential CC risks across its portfolio and how these could be managed.

As part of our commitment to climate change, we have developed a climate change risk assessment tool with PwC. The tool is used to assess CC risks related to prospect businesses and existing portfolio companies.

In October 2019, all Hg's portfolio companies were assessed and given high/medium/low resilience, as well as transition and physical risk related scores. To help pinpoint opportunities for improvement, the risks were split between operational, supply chain and data centres.

Summary of Hg's assessment results:

- CC**resilience** scores of the portfolio companies indicate that most of our businesses have sufficient plans in place to deal with CC related risks and events.
- **Transition risks** to operations could potentially have an impact on our portfolio companies in a 2-degree scenario world. The companies all show a medium risk exposure with new legislation and regulations, as well as carbon pricing.

- **Physical risks to operations** are low or medium. Key risks relating to CC events that may occur in a 4-degree scenario are drought, flooding and storms which could result in damages to offices, disruption to staff travel and uncomfortable working conditions.
- There are a few companies that are exposed to high**transition risks relating to their supply chain** in a 2-degree scenario. This is due to the fact that one or more of their key suppliers are located in the US (which may impose new regulations in a 2-degree scenario).
- Transition and physical risks related to the businesses'**own data centres** are low to medium, with transition risks being slightly higher.

All companies have received the output report which includes all background information regarding the assessment, along with their individual CC risk scores and how these compared to the rest of the portfolio. Companies with low resilience score or high risks relating to their operations, data centres or supply chain are asked to consider how they can enhance their climate change resilience as part of their overall risk management and emergency response plans. This applies especially to any businesses that have received high CC related risk scores. The output report also outlines opportunities to reduce risks and increase resilience. Opportunities include but are not limited to increasing renewable energy, relocating operations, changing suppliers and improving data centre efficiency.

☑ Incorporation into investment analysis

	Describe

It is our intention, whenever possible, to start using this tool as part of the investment analysis prior to investing, however it is still early days and we are currently focusing on assessing the current portfolio and implementing opportunities accordingly. As our target companies (Software and Services companies in Europe) generally have lower CC related risks compared to many other sectors, our key focus is to make sure the assessment is completed as part of the ESG onboarding once invested.

☑ Inform active ownership

	Describe

In October 2019, all Hg's portfolio companies were assessed and given high/medium/low resilience, as well as transition and physical risk related scores. To help pinpoint opportunities for improvement, the risks were split between operational, supply chain and data centres.

Each sector (Software and Services) is assigned an impact pathway which outlines the potential physical and transition risks that may affect the business. In addition to the sector, the risk is highly depending on the location of the company and its suppliers, as well as if it has its own data centres.

Summary Hg's assessment results:

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☑ Other

	specify

Inform our investors

	Describe

We share the output report with our investors upon request and intend to communicate the results more actively as part of our client communications and sustainability reporting moving forward.

SG 13.5 CC	Indicate who uses this analysis.

☐ Board members, trustees, C-level roles, Investment Committee

☑ Portfolio managers

☑ Dedicated responsible investment staff

☐ External managers

☐ Investment consultants/actuaries

☐ Other

SG 13.6 CC	Indicate whether your organisation has evaluated the potential impact of climate-related risks, beyond the investment time horizon, on its investment strategy.

◉ Yes

	Describe

Our climate change assessment tool will assess risks on a 10-year basis (until 2030), going beyond our investment time-horizon which is typically 3-5 years.

○ No

SG 13.7 CC	Indicate whether a range of climate scenarios is used.

☑ Analysis based on a 2°C or lower scenario

☐ Analysis based on an abrupt transition, consistent with the Inevitable Policy Response

☑ Analysis based on a 4°C or higher scenario

☐ No, a range is not used

SG 13.8 CC	Indicate the climate scenarios your organisation uses.

Provider	Scenario used
IEA	☐ Beyond 2 Degrees Scenario (B2DS)
IEA	☐ Energy Technology Perspectives (ETP) 2 Degrees scenario
IEA	☑ Sustainable Development Scenario (SDS)
IEA	☐ New Policy Scenario (NPS)
IEA	☐ Current Policy Scenario (CPS)
IRENA	☐ RE Map
Greenpeace	☐ Advanced Energy [R]evolution
Institute for Sustainable Development	☐ Deep Decarbonisation Pathway Project (DDPP)
Bloomberg	☐ BNEF reference scenario
IPCC	☑ Representative Concentration Pathway (RCP) 8.5
IPCC	☐ RPC 6
IPCC	☑ RPC 4.5
IPCC	☐ RPC 2.6
Other	☐ Other (1)
Other	☐ Other (2)
Other	☐ Other (3)