

# ESG Report

# 2022

MILL<sup>7</sup>  
REEF  
CAPITAL





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# Introduction



## 1.1. Introduction

We are very happy to publish the 2022 Mill Reef Capital ESG report. Investing responsibly has a very high priority at Mill Reef Capital, especially with respect to the challenges we face related to climate change. By mid-century the latest, all businesses will have to be carbon neutral. At Mill Reef Capital, we are convinced that we have a particular responsibility to promote setting a path towards carbon neutrality given our influence via the fund's investments. Additionally, we believe that deep implementation of ESG measures at fund manager and portfolio company level is both an increasingly important part of risk management as well as a significant value creation driver.

This report gives an overview of the activities of Mill Reef Capital as a management company as well as of the underlying fund managers and their portfolio companies. You will find the results of the ESG questionnaire that was conducted with our fund managers for the second time. The results will form the basis for further engagement activities with the fund managers.

We have also completed the implementation of the carbon accounting software Persefoni to measure the footprint of the portfolio as well as of the management company. In this report, we present the results of this initiative.

## 1.2. Mill Reef Capital Core Values

Our core values represent the essence of our firm and define our attitude and behaviour. Mill Reef Capital's approach to ESG is anchored in its core values, which provide guidance for managing the firm and investing in funds and businesses according to ESG principles.



### Stewardship

- We invest our money side by side through a significant GP commitment
- We work with best-in-class partners to invest our clients' money
- We go the extra mile



### Integrity

- We follow highest standards of ethical behavior and corporate governance
- We strive to build our firm based on sustainable principles
- We communicate openly



### Meritocracy

- We empower our team members and make sure they grow with the firm
- We set the right incentives for full alignment of the team



### Excellence

- We hire exceptional people
- We apply analytic rigor to create superior investment returns
- We strive to deliver best-in-class service to our investors



### Collaboration

- We form strong partnerships with our investors and partners
- We grow with our investors and partners





# 2 |

## ESG at Mill Reef Capital

**Mill Reef Capital is committed to incorporating ESG into its business operations to contribute to the United Nations (UN) Sustainable Development Goals (SDGs).**



## 2.1. Environmental Initiatives

The following initiatives have been implemented at Mill Reef Capital:

### Use of public transport

The firm's employees are encouraged to use public transport to commute to work and to commute to and from airports. Mill Reef Capital encourages the use of public transport by providing yearly public transportation subsidies to all its employees.

### Reduce air travel

Mill Reef Capital limits intercontinental travel as much as possible. For short-distance travel in Europe, Mill Reef Capital encourages its employees to travel by train.

### Consume renewable energy

100% of Mill Reef Capital electricity consumption at its offices come from mostly locally produced energy from water, solar and wind.

### Reduce use of paper

Mill Reef Capital strives to operate a fully paperless office. The firm uses tablets for meetings with clients and prospects.

### Offset emissions

As a firm, Mill Reef Capital will offset 50% of its 2021 and 2022 carbon footprint and 100% of its carbon footprint starting from 2023. Now that the Persefoni implementation has been completed, we will determine an appropriate way to offset the emissions of 2021 and 2022.

### Waste reduction

In 2022, Mill Reef Capital introduced two measures to reduce waste:

- We introduced reusable boxes for take away food. The introduction has reduced office waste by an estimated 40%.
- We started separating waste for recycling using a different company given regular waste in Zurich is incinerated. The recycling company also offers employment to people with more challenging resumes.

Mill Reef Capital believes that these initiatives contribute to the following SDGs:





## 2.2. Mill Reef Capital Footprint Estimate

We have completed the implementation of carbon accounting software Persefoni both to calculate the emissions on management company level as well as on portfolio level. In 2022, the management company across Scope 1-3 had a footprint of 27 tCO<sub>2</sub>e.

Figure 1:  
**Source of emissions on management company level.**

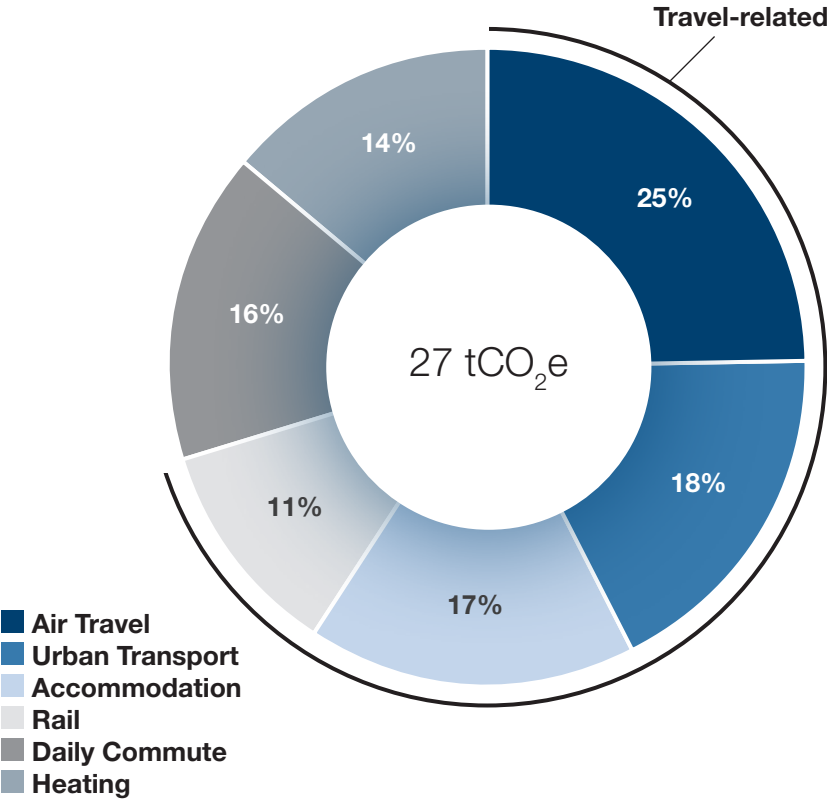
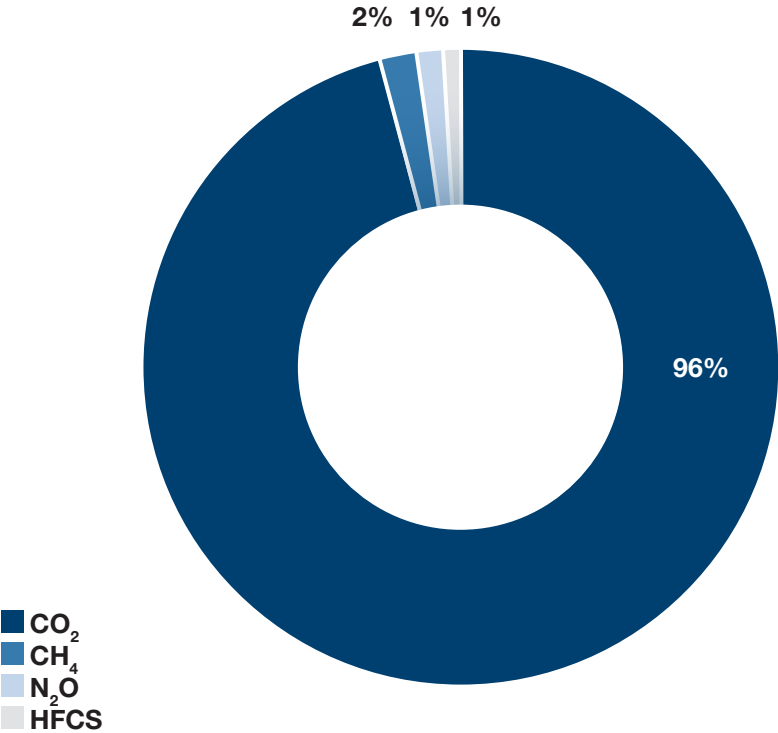


Figure 2:  
**Type of greenhouse gas emitted.**



Roughly 70% of emissions were related to travel, i.e. transport and accomodation, 30% were related to daily employee commute and the office. With regards to the type of greenhouse gases, more than 90% was emitted in the form of CO<sub>2</sub>, with the rest comprised of methane, nitrious oxide and HFCs.



## 2.3. Social Initiatives

The following initiatives have been implemented at Mill Reef Capital:

### **Encourage team diversity**

Mill Reef Capital is keen to promote diversity of perspectives for optimal decision making. The team has therefore been built on the principles of gender and cultural diversity.

At Mill Reef Capital, as of the beginning of 2022, we had a share of 30% women in the team and 25% in the senior team.

Within our team of ten full-time professionals, we count five nationalities with Swiss naturally being the most represented nationality.

### **Welcome working parents**

At Mill Reef Capital, maternity leave stretches beyond the legal entitlement of 98 days and lasts 112 days. Mill Reef Capital employees are also entitled to 25 business days of vacation, above the minimum legal requirement of 20 business days.

### **Employee well-being**

Mill Reef Capital believes that the physical health of its employees is very important and sports is a very good counterbalance to our work. Mill Reef Capital offers a weekly guided fitness class in the office where the whole team is invited. To further encourage physical activity, the firm fully subsidises gym memberships or other sports club memberships.

### **Develop human capital**

Mill Reef Capital supports the further education of its employees by paying for language courses or other professional education (e.g. CFA).

### **Volunteering**

In 2022, we introduced a volunteering program at Mill Reef Capital. During the year, the team has volunteered in total 36 hours in centres for Ukrainian refugees.

Mill Reef Capital believes that these initiatives contribute to the following SDGs:





## 2.4. Governance Initiatives

Mill Reef Capital is fully employee-owned and committed to growing the firm based on the highest institutional standards. Amongst others, the following policies contribute to our commitment:

### **Investment policy**

Details the investment process and defines relevant control mechanisms.

### **Compliance policy**

Governs rules and regulations with regards to AML, handling of material, non-public information “MNPI”, outside business activities of Mill Reef Capital employees etc.

### **Risk policy**

Identifies and describes the handling of strategic, operational and investment risk of Mill Reef Capital.

### **Business Continuity Plan**

Defines the framework by which Mill Reef Capital establishes, implements and maintains an adequate Business Continuity Policy (“BCP”).

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Mill Reef Capital has one independent director on its three-member Board of Directors. Furthermore, Mill Reef Capital has built a high-quality group of external advisors. It is comprised of professionals who have deep knowledge of asset management and private equity. They support Mill Reef Capital in the achievement of strategic objectives and further enhance the firm’s high governance standards.

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Mill Reef Capital believes that these initiatives contribute to the following SDGs:





3.

## ESG in Investment Management





## 3.1. Incorporation of ESG Factors in the Investment Process

Mill Reef Capital incorporates analysis of ESG factors into all stages of its investment management process, from sourcing, through to screening opportunities, proposing investments to the investment committee and, finally, monitoring of closed investments. All relevant documents and tools used by Mill Reef Capital have built-in ESG checkpoints.

Fund managers and portfolio companies with significant ESG issues or insufficient commitment to ESG will be excluded from Mill Reef Capital's investment universe.

Mill Reef Capital expects individuals in its investment management team to incorporate ESG issues in their day-to-day investment management work and it is the responsibility of the partners of Mill Reef Capital to support the firm's employees in incorporating ESG principles in their role.

In Mill Reef Capital Fund II (launched post the current reporting period), we further expanded the ESG implementation both during the evaluation as well as the ownership phase. Details can be found in the dataroom.

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## 3.2. Assessment of Fund Managers

### 3.2.1. Pre-investment

Each fund manager's ESG adoption is assessed by Mill Reef Capital's investment management team before a commitment is approved by the investment committee. The assessment is based on a checklist and rating system referencing best practices.

The ESG assessment is critically reviewed and challenged by the investment committee and is a firm requirement for an investment proposal and decision.

### 3.2.2. Post-investment

The pre-investment ESG assessment will be monitored on an ongoing basis once an investment has been closed. Mill Reef Capital performs a formal assessment based on the ESG Questionnaire of each fund manager on an annual basis. This assessment reviews a fund manager's execution relative to its stated ESG strategy and operations. Mill Reef Capital also monitors and assesses the ESG activities within a portfolio and the fund manager's ongoing adoption of responsible investing practices. Negative and positive events are captured and to the extent a material incident occurs, additional interactions with the fund manager will be conducted to address the issue.

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## 3.3. Assessment of Portfolio Companies

Before a commitment is approved by Mill Reef Capital's investment committee, the firm's investment management team will review a target portfolio company's business model and evaluate whether the company operates in an industry that could support any of the 17 SDGs. In addition, the companies are assessed against Mill Reef Capital's exclusion list (see ESG Policy, 6.3.).





4.

# ESG at the Underlying Managers



## 4.1. Mill Reef Capital Fund Manager ESG Questionnaire

For the second time, Mill Reef Capital asked fund managers to complete an ESG questionnaire to assess the current status of ESG implementation and to collect KPIs. We sent the questionnaire to the fourteen fund managers that were in our portfolio at the end of 2022. We had a 93% response rate, with thirteen managers submitting answers. In the coming sections, we present the results. For some questions, not all participants responded. We only show the responses per question for those fund managers that responded, i.e., the underlying number of fund managers may vary from question to question.

Generally, a large majority of fund managers has implemented ESG into their investment processes as well as into their operational interaction with companies. Most of the fund managers are driven by risk considerations with regards to ESG assessment, whereas 25% actively look for ESG opportunities. 75% of fund managers implement ESG-specific value creation plans or incorporate ESG issues in their regular value creation plans. Currently, only 33% measure the carbon footprint of their portfolio. Regarding diversity, there is a wide range between fund managers. Generally, diversity is less prevalent in investment committees compared to general team composition. Please find below the results of the questionnaire divided into Manager Commitment, Investment Process, Ownership Phase and Reporting.

## 4.2. Manager Commitment

We wanted to understand the commitment to ESG on fund manager level. 85% of fund managers have a responsible investment policy and most of those address climate change and diversity. More than two thirds are UN PRI signatories. With regards to diversity in investment committees, we believe that more can be done, especially regarding gender diversity.

Figure 3:  
**Do you have a responsible investment policy?**

Eleven out of thirteen respondents have a responsible investment policy. Two respondents currently do not have a responsible investment policy, however, both indicated that they are planning to implement one.

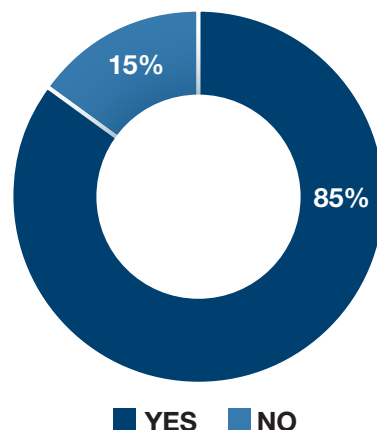


Figure 4:  
**Does your responsible investment policy address climate change?**

Of the fund managers with a responsible investment policy, 82% address climate change while 18% do not address it.

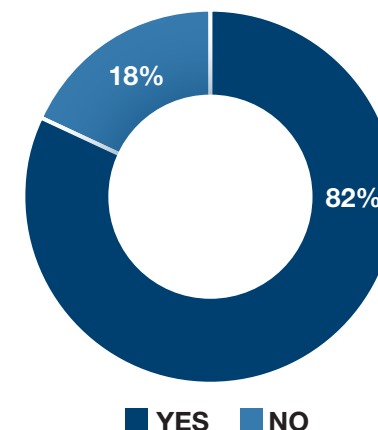




Figure 5:  
**Does your responsible investment policy address diversity & inclusion (D&I policy)?**

Similarly, 82% of responsible investment policies cover diversity & inclusion in their policies. 18% currently do not cover that topic.

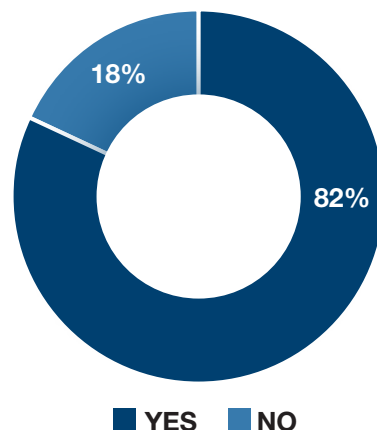


Figure 6:  
**Do you have a dedicated team member responsible for ESG oversight?**

92% of responding fund managers have a dedicated person responsible for ESG matters, in some cases supported by a larger ESG team. Most of the fund managers have also made ESG commitments in either their LPA or side letters with specific LPs.

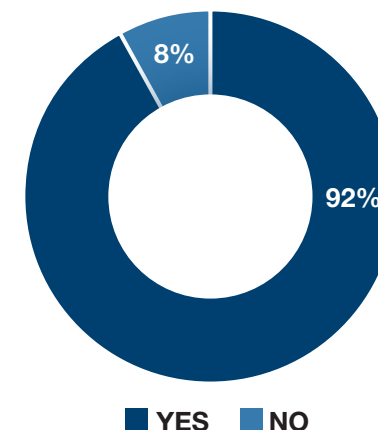


Figure 7:  
**Use of industry standards, guidelines, reporting frameworks or initiatives.**

Among the responding fund managers, three are not signatories of any initiatives, while ten are signed up for at least one initiative, standard or reporting framework.

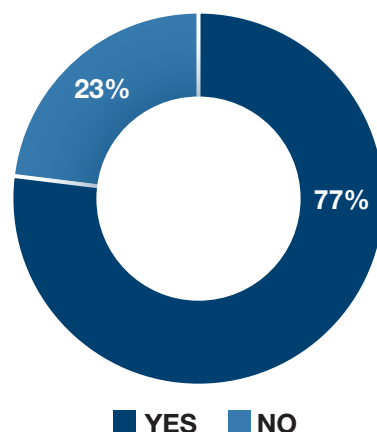


Figure 8:  
**Most popular industry standards, guidelines, reporting frameworks or initiatives of our fund managers.**

69% of responding fund managers are UN PRI signatories, followed by 15% for TCFD and Initiative Climat International (iCI) respectively. Additionally, several fund managers are part of various other diversity and climate initiatives.

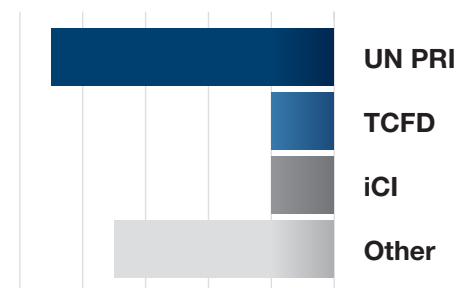


Figure 9:  
**Percentage of female/  
non-binary gender  
employees of the fund  
managers.**

Looking at gender diversity at the fund managers, 38% of respondents have up to one quarter female/non-binary gender employees, 46% have between one quarter and a half and 15% have more than a half. The average stands at 40% female/non-binary gender team members, which is a positive increase from last year's average of 37%.

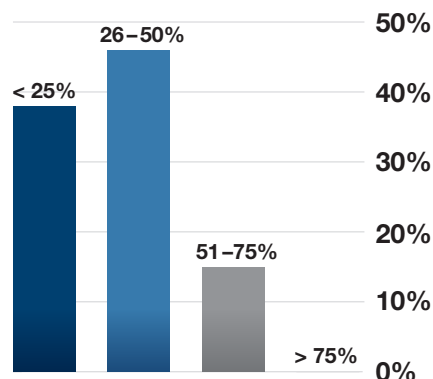


Figure 10:  
**Percentage of female/  
non-binary gender  
members of the fund  
managers' investment  
committee.**

With regards to the gender diversity within the investment committees, female/non-binary gender representation is significantly lower. 77% of managers have up to one quarter female/non-binary gender representation, 8% have between one quarter and a half and 8% have more than a half. The average stands at 10% female/non-binary investment committee members.

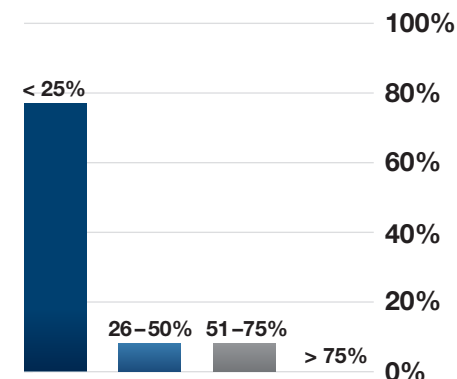


Figure 11:  
**Number of nationalities  
employed at the fund  
managers.**

Of the twelve responding fund managers, four have between two and four nationalities, eight have more than five nationalities within their team. The average is twelve nationalities which is skewed upwards by some of the larger fund managers in the portfolio.

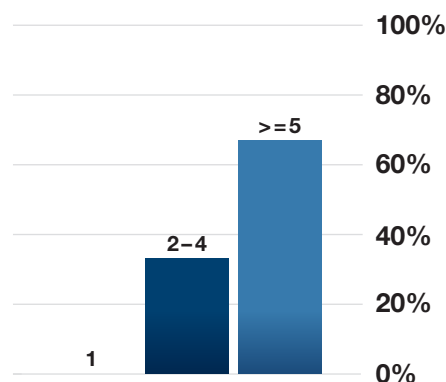
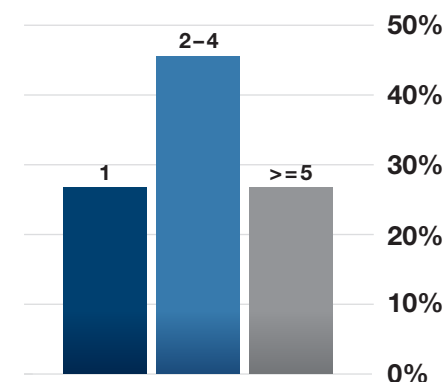


Figure 12:  
**Number of nationalities  
in the fund managers'  
investment committee.**

Within the investment committees, 27% of responding fund managers have only one nationality, 45% have between two and four nationalities and 27% have over five nationalities. The average number of nationalities is three.





**Which Sustainable Development Goals (SDGs) are of highest importance to your firm?**

We asked the fund managers to select the five highest priority SDGs for their firms. The highest importance was attributed to SDG 5 “Gender Equality”, followed by SDG 9 “Industry, Innovation and Infrastructure”. Third place is shared by SDG 3 “Good Health and Well Being” and SDG 8 “Decent Work and Economic Growth”, which both received an equal amount of votes.



## 4.3. Investment Process

Prior to investment, almost all fund managers conduct an ESG analysis. The majority conducts the analysis internally. The focus is mostly on risks related to ESG issues and less on opportunities arising from ESG aspects.

Figure 13:

**Do you conduct ESG materiality and risk/opportunity analysis for potential investments?**

83% of respondents conduct ESG materiality and risk/opportunity analysis for new investments.

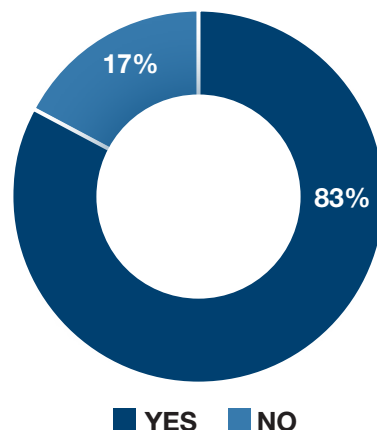


Figure 14:

**How do you conduct the ESG materiality and risk/opportunity analysis?**

40% of fund managers conduct their ESG materiality and risk/opportunity analysis internally only, while 60% both internally and externally.

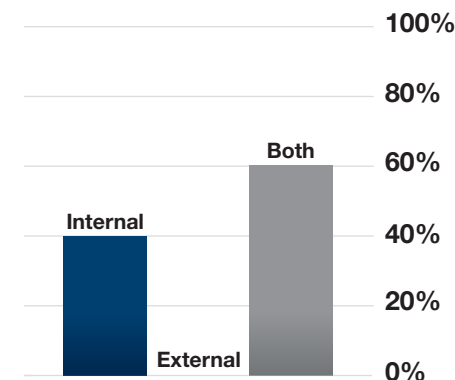


Figure 15:

**Does the fund have a formal exclusion policy to exclude investments in any particular industries, geographies, or business models, based on any ESG criteria?**

69% of responding fund managers exclude certain industries, business models or geographies. Of the eleven fund managers with a responsible investment policy, nine have a formal exclusion policy.

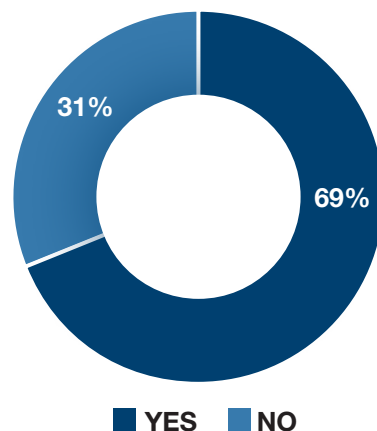


Figure 16:

**How do ESG risks and opportunities affect the selection of your investments?**

The majority of respondents (67%) consider ESG risks and opportunities when selecting investments. 42% focus only on the risk aspect when considering ESG, while 25% also actively seek ESG opportunities where they see tailwinds for their investment. 33% of fund managers do not explicitly consider ESG risks and opportunities when selecting investments.

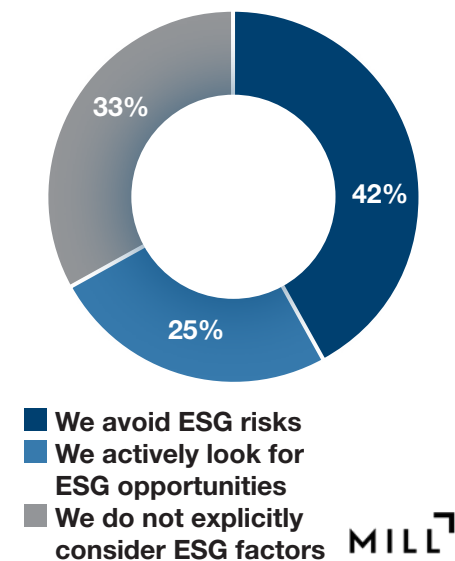




Figure 17:

**Do you provide training, assistance and/or external resources to your staff to help them understand and identify the relevance and importance of ESG factors in investment activities?**

77% of respondents provide training to their staff. This training varies from regular systematic training provided by external providers to more ad hoc training provided internally. 23% of respondents have not provided ESG training yet.

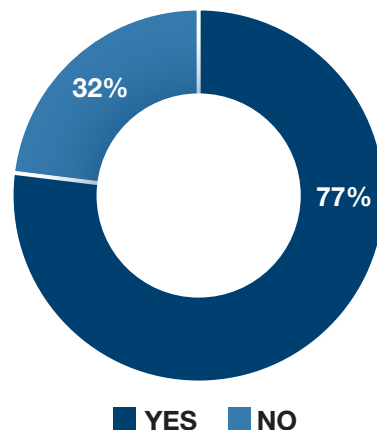
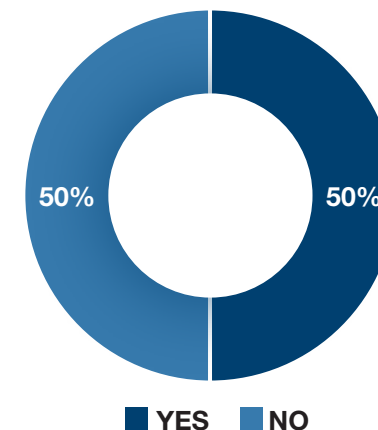


Figure 18:

**Do you use independent experts or third-party audits to assess ESG factors on portfolio company level at entry?**

External ESG audits at entry are conducted by 50% of respondents. The third parties range from operating partners with ESG experience to large audit firms.



## 4.4. Ownership Phase

We also inquired about ESG work after the investment has been made. Whereas three quarters of responding fund managers have ESG-specific value creation plans, only a third actually measure emissions in the portfolio. It seems that tracking of diversity-related KPIs is more prevalent in Mill Reef Capital's universe

of fund managers. Generally, the larger fund managers have a broader set of KPIs they track. Most fund managers push ESG at board meetings and assist with the implementation of ESG-related actions at portfolio company level by sharing tools and best practices.

Figure 19:

**Do you create ESG-specific value creation plans or incorporate ESG issues into regular value creation plans?**

Three quarters of respondents include ESG improvements in their value creation plans. One quarter of respondents do not specifically include ESG in their value creation plans.

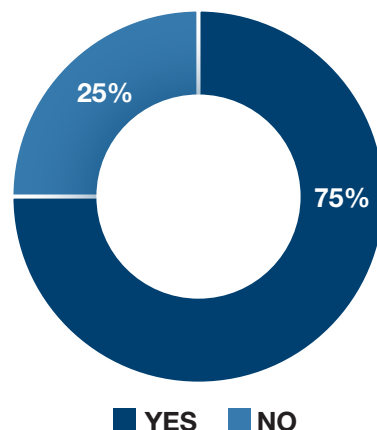


Figure 20:

**Do you measure the greenhouse gas (GHG) emissions associated with your investments?**

Only 33% of respondents measure emissions associated with their investments. The fund managers that measure emissions are usually relatively large. 67% of respondents do not yet measure emissions.

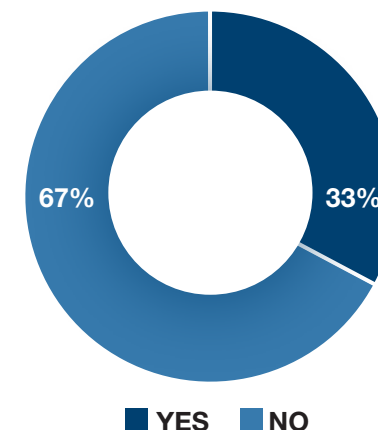


Figure 21:

**Do you monitor and track ESG key performance indicators (KPIs) for your investments?**

77% of responding fund managers track ESG KPIs with a wide range of depth ranging from basic social measures to comprehensive sets with more than 100 indicators tracked.

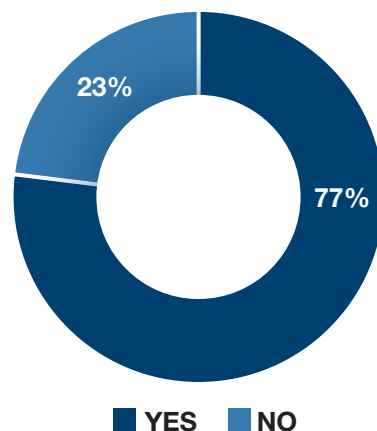
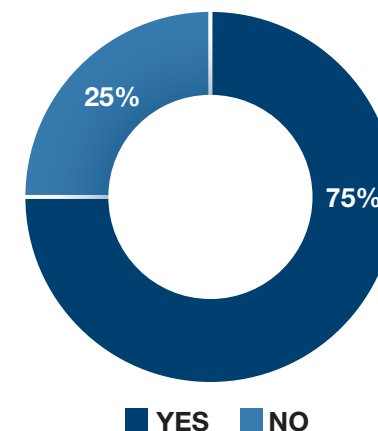


Figure 22:

**Do you incorporate ESG considerations into preparations for exit?**

75% of respondents incorporate ESG considerations in exit preparations, which ranges from discussions around ESG concerns to specific ESG vendor DD reports as well as preparing ESG impact assessments. 25% of respondents do not incorporate ESG considerations into exit preparations.





## 4.5. Reporting

While many fund managers have integrated ESG quite deep into their investment processes and are using a responsible investment policy, only close to two thirds are issuing an ESG report which is an increase over last year. The large majority of fund managers have made commitments either on fund manager or portfolio level towards climate actions.

Figure 27:

### Do you compile a regular ESG reporting?

64% of responding fund managers issue a regular ESG report, which is an increase from last year's 56%.

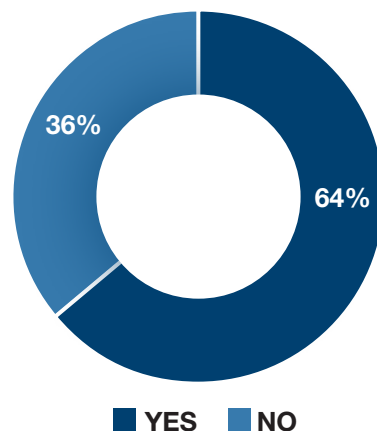


Figure 28:

### Are you considering introducing ESG reporting in the future?

Of the fund managers that do not compile regular ESG reporting, 50% are considering writing ESG reports in the future.

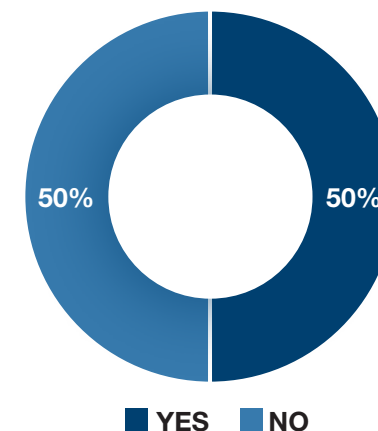


Figure 29:

### Is the management of ESG risks and opportunities included on your Limited Partners Advisory Committee agenda?

33% of respondents discuss ESG topics during their Limited Partners Advisory Committee meetings. The remainder does not include it on the agenda.

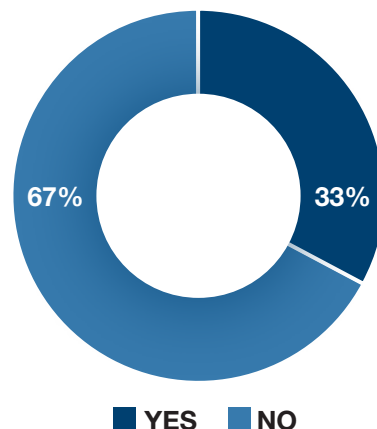


Figure 30:  
**Is the management of ESG risks and opportunities included on your annual investor meeting agenda?**

However, 60% of fund managers discuss ESG risks and opportunities during the annual investor meetings.

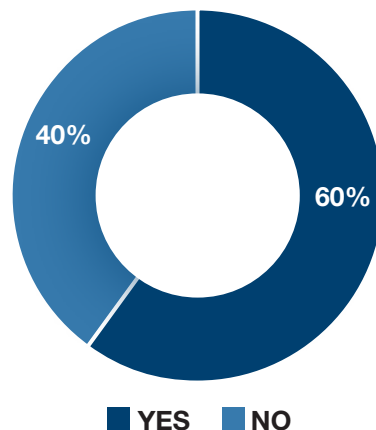
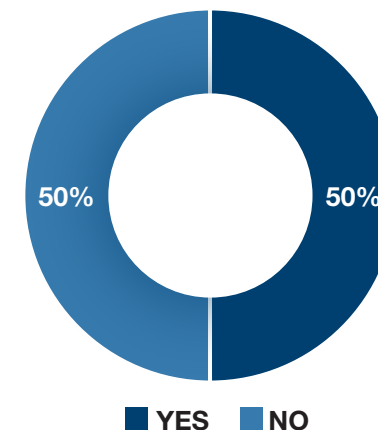


Figure 31:  
**Share of fund managers that made any climate commitments or targets, or actions to assess and address climate-related risks and opportunities not otherwise covered in this document.**

50% of responding fund managers have made climate commitments. The commitments range from planting trees to measuring and offsetting emissions from the fund managers offices to starting to measuring emissions on portfolio level.







# 5

## Portfolio Footprint Estimate

Given only a small share of fund managers measure greenhouse gas emissions at this stage, we implemented carbon accounting software Persefoni to estimate emissions. The estimation is based on Partnership for Carbon Accounting Financials („PCAF“) guidelines. PCAF was created in 2015 by financial institutions with the aim of standardizing reporting for portfolio emissions.

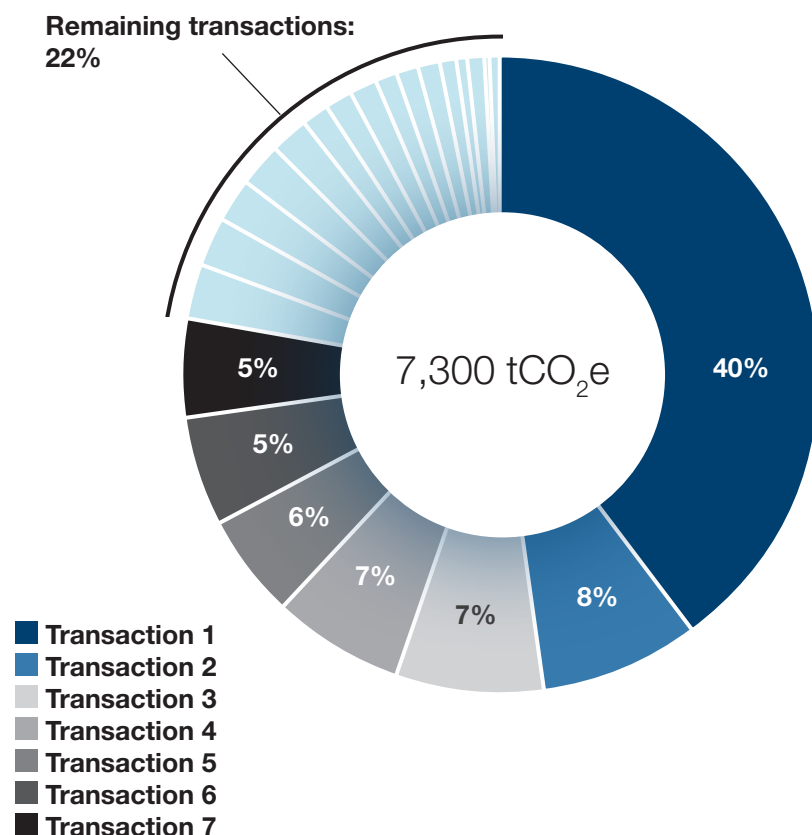
The top-down calculation is based on factors such as industry classification, location and revenues of the underlying portfolio companies.

Once emissions are calculated, they are distributed between debt and equity holders. The footprint of the Mill Reef Capital portfolio considers our look through equity shareholding. In 2022, Mill Reef Capital Fund's portfolio footprint was estimated at approximately 7,300 tCO<sub>2</sub>e.

Over time, we will improve both the data quality within Persefoni as well as introduce bottom-up data from the underlying companies.



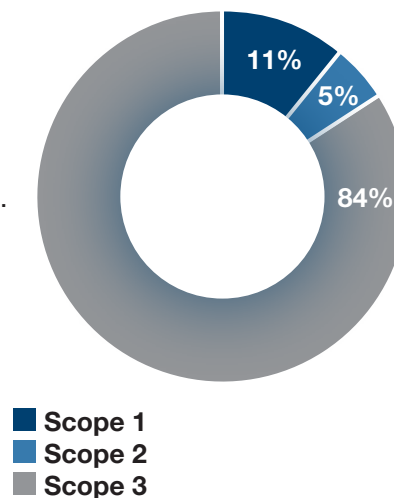
Figure 32:  
**Split of MRC Carbon Footprint by Transaction.**



Approximately 40% of Mill Reef Capital's portfolio footprint is generated by Transaction 1, involving a company manufacturing steel structures. The top 7 transactions account for almost 80% of the portfolio footprint, and involve companies from diversified sectors, including manufacturing, telecom, healthcare and professional services.

Figure 33:  
**Scope 1, 2 and 3.**

11% of Mill Reef Capital's portfolio footprint relates to Scope 1 emissions, whereas 5% relates to Scope 2 emissions. The majority of the portfolio footprint (84%) relates to Scope 3 emissions.



PCAF standards organize corporate emissions into Scope 1, Scope 2, or Scope 3 based on the emissions source.

Scope 1 emissions occur from sources controlled or owned by an organization, such as boilers, furnaces, and vehicles. Scope 2 are indirect emissions associated with the purchase of electricity, steam, heat, or cooling.

Scope 3 emissions are also indirect GHG emissions. These emissions are the result of activities from assets not owned or controlled by the reporting organization but that the organization indirectly impacts in its value chain. Scope Three emissions also often represent the majority of an organization's total GHG emissions and, by extension, offer the most opportunities for emissions reductions.





6 |

## Engagement Activities

Mill Reef Capital believes the most impactful way to have a positive effect on environmental and social issues is to engage with fund managers in order to deepen their ESG implementation. The fund managers can then instigate change at the portfolio companies.

During 2022, Mill Reef Capital has engaged with several fund managers where it saw potential for improvement. Specifically, we engaged with a fund manager in the United Kingdom to discuss

improvements to their ESG approach and shared best practices on improving their responsible investment policy. Additionally, we worked with a growth fund manager with regards to initial steps of introducing a responsible investment policy and further implementation in their investment process. We also recommended ESG consultants who could help them in the process and provide guidance around best practices and regulatory implications.





# 7 | Sustainable Development Goals



## 7.1. SDGs at Mill Reef Capital

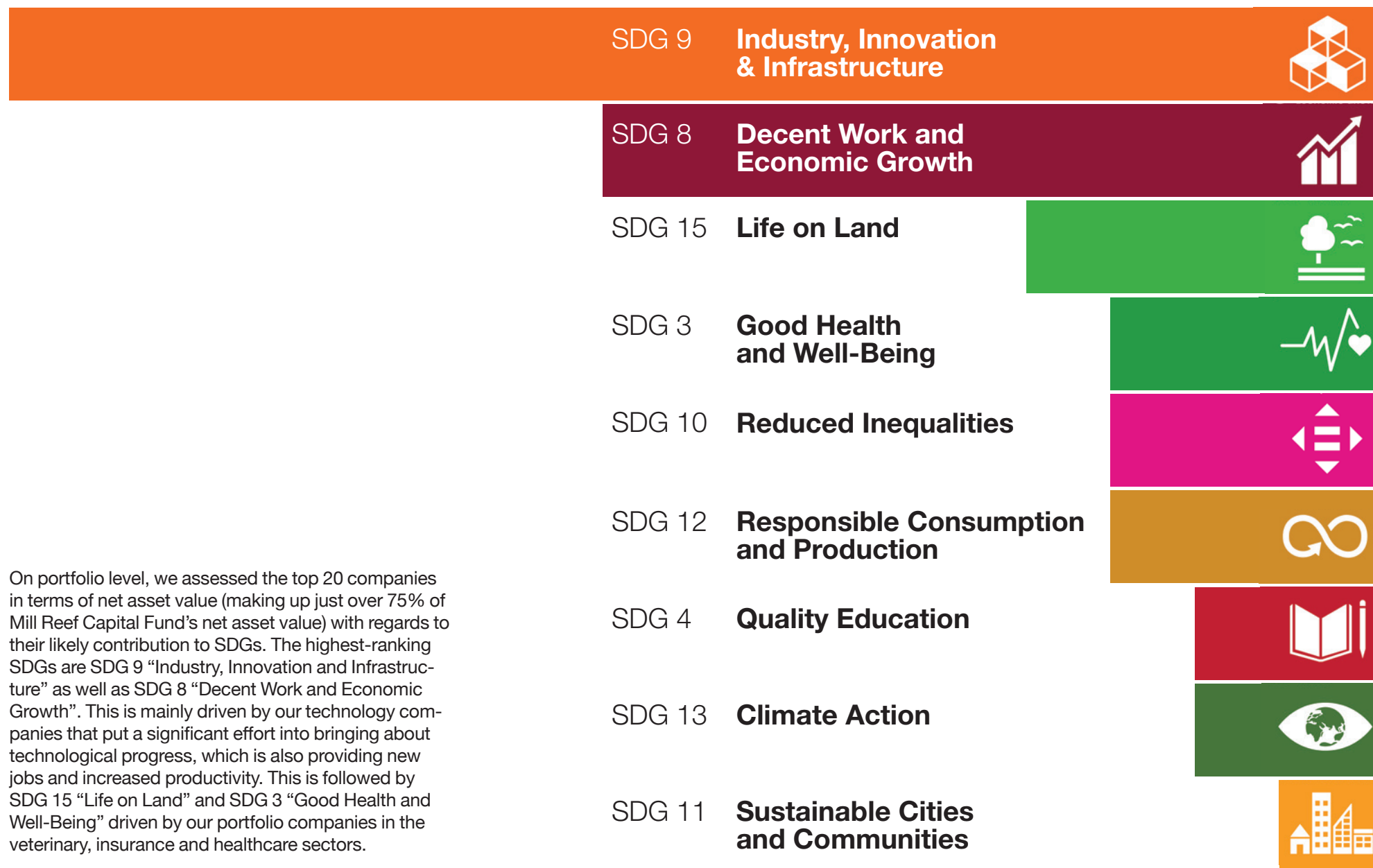
The SDGs set out a pathway to inclusive growth and represent a call to action for the private and public sectors as well as civil society. Mill Reef Capital firmly believes that the private sector plays a critical role in achieving the SDGs, and private equity investors are in a unique position to invest in and influence businesses in a manner that creates positive change.

Mill Reef Capital is committed to contributing to the achievement of the SDGs by implementing appropriate initiatives both on the level of its own business operations as well as by assessing target portfolio companies with regards to their contribution to the SDGs.

Mill Reef Capital believes that its own business initiatives contribute to the following SDGs:



## 7.2. SDGs at the Portfolio Companies







8 |

# ESG Initiatives for 2023

In 2023, Mill Reef Capital will be working on a number of initiatives to deepen the ESG implementation and advance our impact.



## 8.1. Mill Reef Capital Management Company

During 2023, we plan to work on the following projects:


- Set up our first UN PRI reporting. The new reporting framework has been finalised, so we will be working on setting up our reporting capabilities accordingly.
- Mill Reef Capital Fund II SCS is classified under Article 8 of SFDR. We will streamline data collection, monitoring and reporting.
- Also, considering the topic above, our ESG Policy will be updated and aligned.
- Increase the Scope 3-coverage in the management company's footprint by including further suppliers.

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## 8.2. Portfolio

Based on the responses of the fund manager ESG questionnaire and the carbon footprint analysis with Persefoni, Mill Reef Capital will engage with the fund managers to encourage further advances in the depth of ESG implementation and understand measures to reduce emissions on portfolio level.





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