



MILL  
REEF  
CAPITAL

ESG Report

2021



# Contents

## **Introduction**

Page 3

## **ESG at Mill Reef Capital**

Page 5

## **ESG in Investment Management**

Page 9

## **ESG at the Underlying Managers**

Page 11

## **Engagement Activities**

Page 22

## **Sustainable Development Goals**

Page 23

## **ESG Initiatives for 2022**

Page 26





1

# Introduction



## 1.1. Foreword

We are very happy to publish our first 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 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 first time. The results will form the basis for further engagement activities with the fund managers.

We have also launched a number of initiatives such as the measurement of the carbon footprint of both the management company as well as the portfolio. We will report back to you once results are available. Additionally, we have recently become a signatory of UNFCCC's Climate Neutral Now initiative that promotes measuring, reducing and offsetting greenhouse gas emissions.

## 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 behaviour 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 far 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 carbon footprint of 2021 as well as 2022 and 100% of its carbon footprint by the end of 2023.

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



At the beginning of 2022, we have contracted with Persefoni, a carbon accounting software provider, to measure both the carbon footprint of the management company as well as the portfolio. The implementation process is currently ongoing and is expected to finish in the first half of 2022. We will use this data on the management company level to partially offset our carbon footprint as well as to see where we can further reduce our footprint.



Additionally, Mill Reef Capital joined UNFCCC's Climate Neutral Now initiative. By taking climate action now, we want to help the world reach the Paris Agreement goals and create a carbon-neutral world by 2050 at the latest. On a firm level, we committed to measure our emissions, reduce emissions as much as possible and contribute to a carbon-neutral environment through offsetting remaining emissions.



## 2.2. 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).

---

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





## 2.3. Governance Initiatives

Mill Reef Capital is fully employee-owned and commits itself 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**

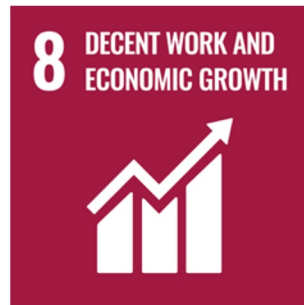
Defines the framework by which Mill Reef Capital establishes, implements and maintains an adequate Business Continuity Policy (“BCP”).

---

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.

---

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.

---

## 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.

---

## 3.3. Assessment of Portfolio Companies

Before a commitment is approved by Mill Reef Capital's Investment Committee, the firm's investment management will review a target portfolio company's business model and evaluate whether the company operates in an industry that could support one 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 first 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 eleven fund managers that were in our portfolio at the end of 2021. We enjoyed a 100% response rate. In the coming sections, we present the results. For some questions, not all participants responded. We are only showing 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. Two thirds of fund managers implement ESG-specific value creation plans in their portfolio companies. Currently, only 30% measure the carbon footprint of the portfolio as of today. 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. More than 90% of fund managers have a responsible investment policy and most of those address climate change and diversity. Almost 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 1:  
**Do you have a responsible investment policy?**

Ten out of the eleven fund managers in our portfolio have a responsible investment policy. Of the ten fund managers, one is currently completing the implementation of its policy after positive interactions with Mill Reef Capital. One fund manager currently does not have a responsible investment policy and did not comment whether they have plans to put one in place.

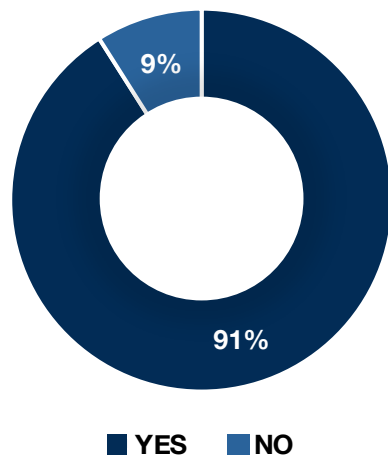
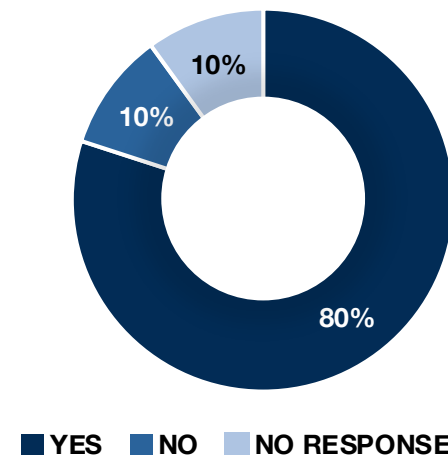


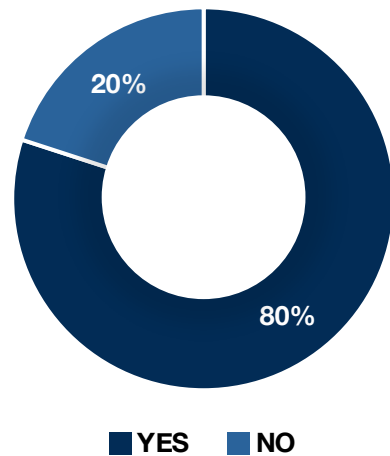
Figure 2:  
**Does your responsible investment policy address climate change?**

Of the fund managers with a responsible investment policy, 80% address climate change. 10% do not address it and 10% did not specify.



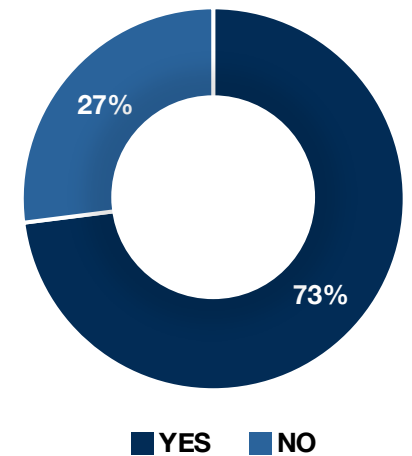
**Figure 3:**  
**Does your responsible investment policy address diversity & inclusion (D&I policy)?**

Similarly, 80% of responsible investment policies cover diversity & inclusion in their policies. 20% currently do not cover that topic.



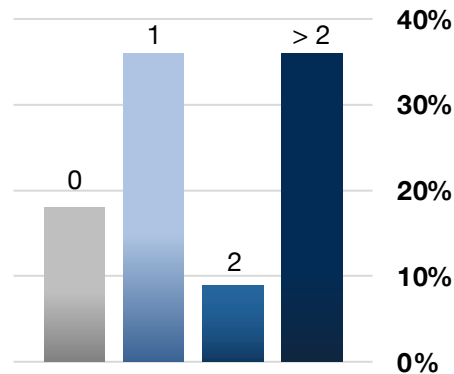
**Figure 4:**  
**Do you have a dedicated team member responsible for ESG oversight?**

73% of the 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.



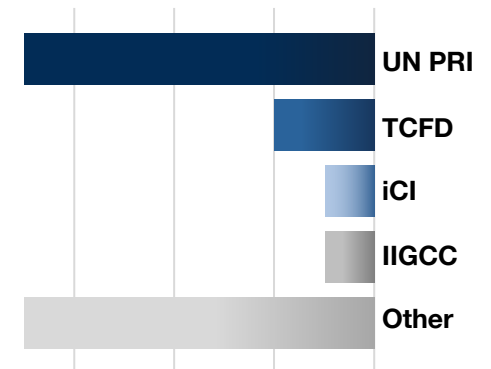
**Figure 5:**  
**Use of industry standards, guidelines, reporting frameworks or initiatives**

Among the fund managers, two are not a signatory to any initiatives, four signed up for one, one signed up for two and four signed up for more than two standards or reporting frameworks.



**Figure 6:**  
**Most popular industry standards, guidelines, reporting frameworks or initiatives of our fund managers**

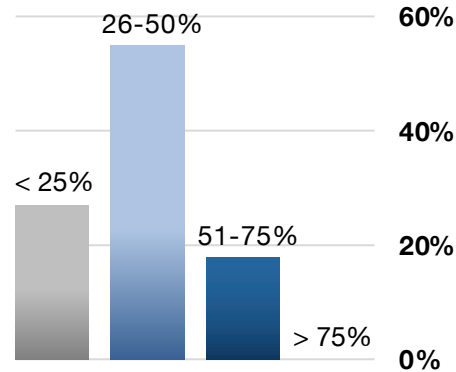
64% of fund managers are a UN PRI signatory, followed by 18% for TCFD and one each for IIGCC and Initiative Climat International (ICI). Additionally, several fund managers are part of various other diversity and climate initiatives.





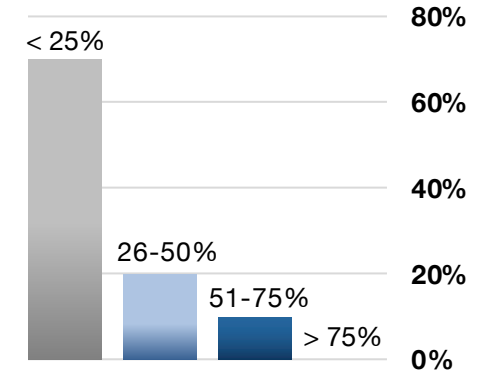
**Figure 7:**  
**Percentage of female/  
non-binary gender  
employees of the fund  
managers**

Looking at gender diversity at the fund managers, 27% of respondents have up to one quarter female/non-binary gender employees, 55% have between one quarter and a half and 18% have more than a half. The average stands at 37% female/non-binary gender team members.



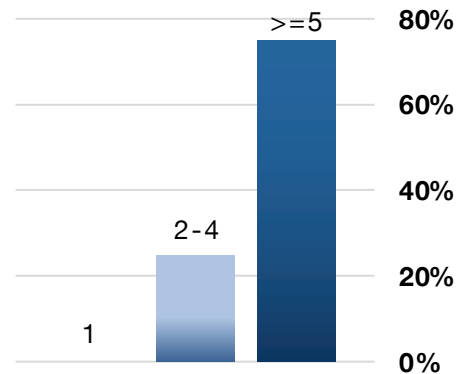
**Figure 8:**  
**Percentage of female/  
non-binary gender  
members of the fund  
managers' Investment  
Committee**

With regards to the gender diversity within the Investment Committees, female/non-binary gender representation is significantly lower. 70% of managers have up to one quarter female/non-binary gender representation, 20% have between one quarter and a half and 10% have more than a half. The average stands at 17% female/non-binary Investment Committee members.



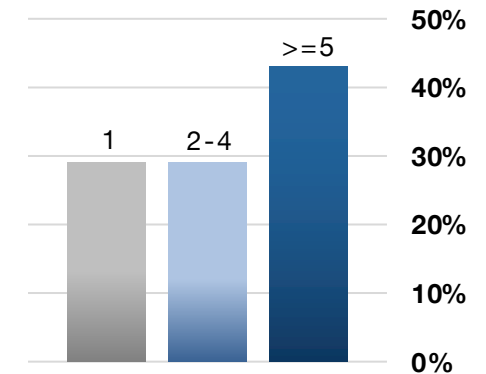
**Figure 9:**  
**Number of nationalities  
employed at the fund  
managers**

Of the eight responding fund managers, two have between two and four nationalities, six have more than five nationalities within their team. The average is 14 nationalities, which is skewed upwards by some of the larger fund managers in the portfolio.



**Figure 10:**  
**Number of nationalities  
in the fund managers'  
Investment Committee**

Within the Investment Committees, 43% of responding fund managers have more than five nationalities and 29% each one or between two and four nationalities. The average number of nationalities is four.



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 13 “Climate Action” and SDG 8 “Decent Work and Economic Growth”.



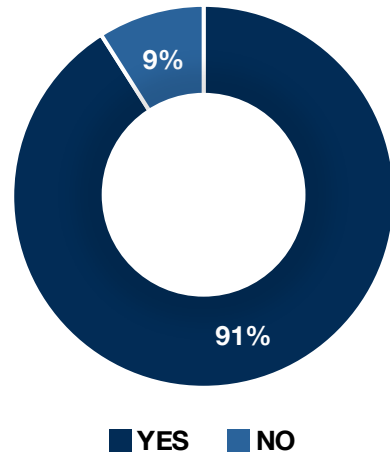


## 4.3. Investment Process

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 coming out of ESG aspects.

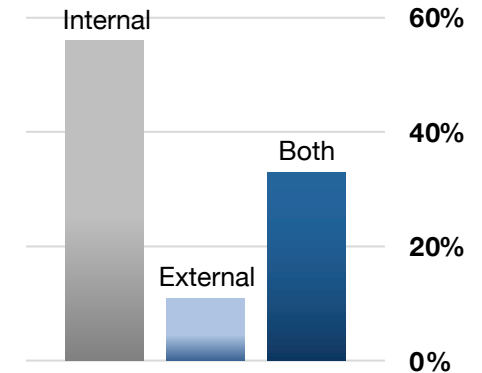
**Figure 11:**  
**Do you conduct ESG materiality and risk/opportunity analysis for potential investments?**

91% of fund managers conduct ESG materiality and risk/opportunity analysis for new investments.



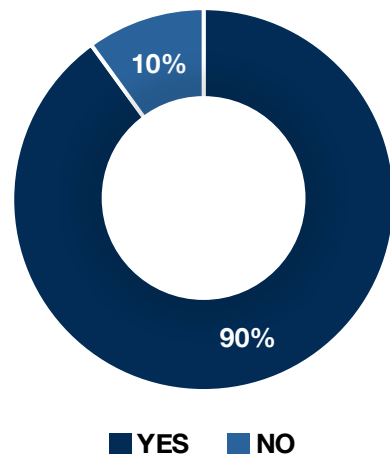
**Figure 12:**  
**How do you conduct the ESG materiality and risk/opportunity analysis?**

73% of the 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 13:**  
**Does the fund have a formal exclusion policy to exclude investments in any particular industries, geographies, or business models, based on any ESG criteria?**

90% of responding fund managers exclude certain industries, business models or geographies.



**Figure 14:**  
**How do ESG risks and opportunities affect the selection of your investments?**

The large majority of fund managers (63%) focus mainly on the risk aspect when considering ESG. A quarter of fund managers is actively seeking ESG opportunities where they see tailwinds for the investment. The remainder is considering both the risks and opportunities.

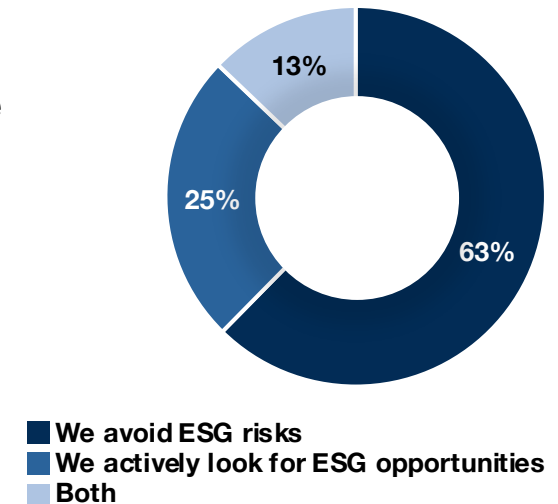




Figure 15:  
**Do you provide training, assistance and/or external resources to your staff to help them understand and identify the relevance and importance of ESG factors in investment activities?**

80% of fund managers provide training to their staff. This training varies from regular systematic training provided by external providers to more ad hoc training provided internally. 20% of fund managers have not provided ESG training yet.

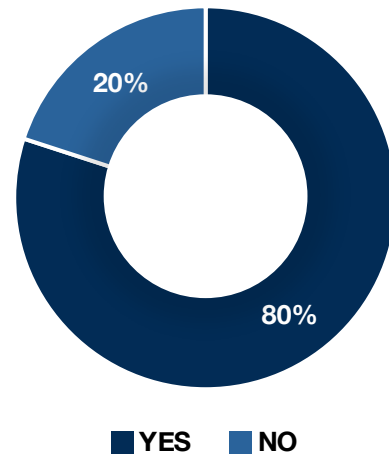
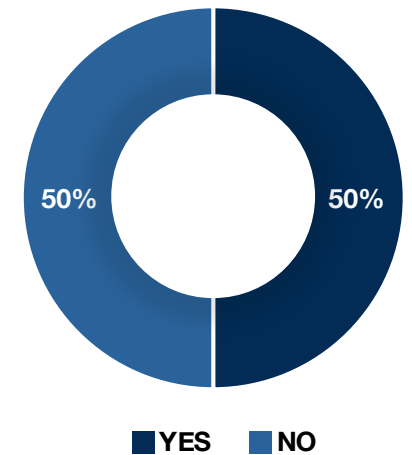


Figure 16:  
**Do you use independent experts or third-party audits to assess ESG factors on portfolio company level at entry?**

External ESG audits at entry are conducted by 50% of fund managers. The third parties range from university graduates with ESG experience to large audit firms.



## 4.4. Ownership Phase

We also inquired about ESG work after the investment has been made. Whereas two thirds of responding fund managers have ESG-specific value creation plans, only 30% 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 17:  
**Do you create ESG-specific value creation plans or incorporate ESG issues into regular value creation plans?**

Two thirds of the fund managers see ESG improvements as part of value creation and include them in their value creation plans. One third of fund managers does not specifically include ESG as part of value creation.

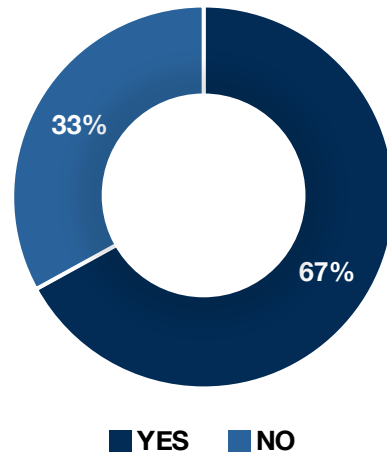


Figure 18:  
**Do you measure the greenhouse gas (GHG) emissions associated with your investments?**

Only 30% of fund managers measure emissions associated with the investments of which one just started with high-level estimates as a basis to conduct more detailed analysis. The fund managers that measure emissions are all fund managers managing larger funds. 70% of fund managers do not yet measure emissions.

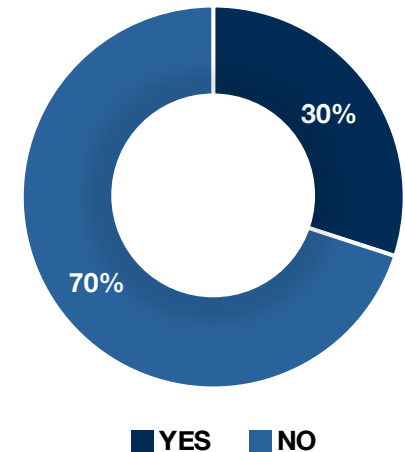




Figure 19:  
**Do you monitor and track ESG key performance indicators (KPIs) for your investments?**

All 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.

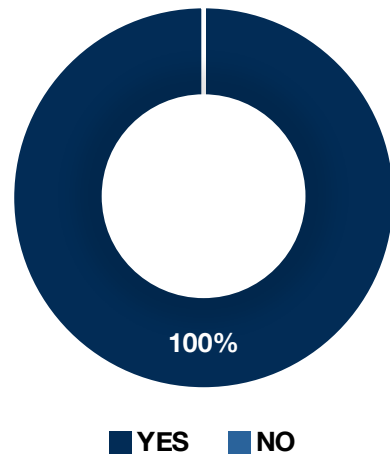


Figure 20:  
**Do you incorporate ESG considerations into preparations for exit?**

60% of fund managers incorporate ESG considerations in exit preparations, which ranges from discussions around ESG concerns to specific ESG vendor DD reports as well as the match of potential buyers' ESG values with those of the portfolio company. 40% of fund managers do not incorporate ESG considerations into exit preparations.

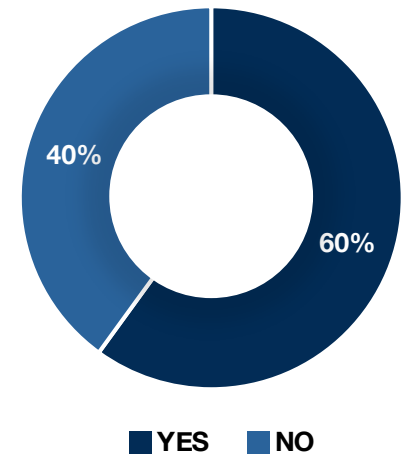


Figure 21:  
**Do you use independent experts or third-party audits to assess ESG factors on portfolio company level on an ongoing basis?**

50% of responding fund managers continue to work with experts on ESG issues during the ownership phase. Most of them use it to ensure progress of their ESG action plans.

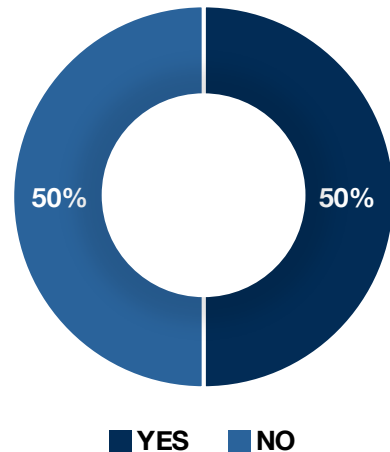


Figure 22:  
**Have there been any material ESG incidents in the portfolios of your funds?**

None of the fund managers report material ESG incidents in the portfolio.

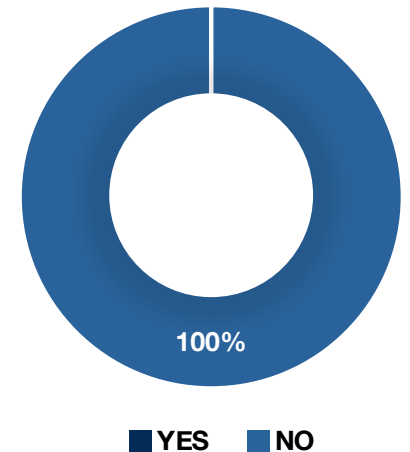


Figure 23:  
**Do you track the composition of boards of your portfolio companies with regards to gender diversity?**

78% of fund managers track the gender composition of the boards of their portfolio companies. 22% do not currently track this metric.

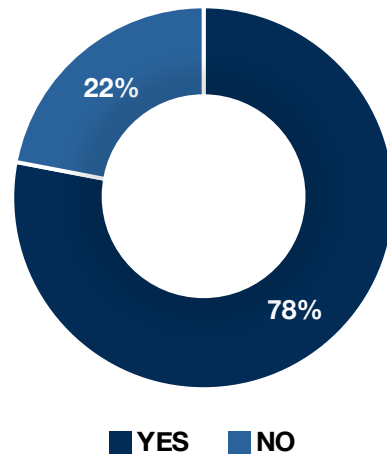
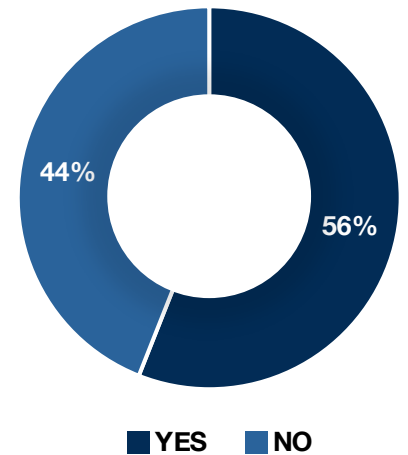


Figure 24:  
**Do you track diversity statistics on portfolio company level, including gender, ethnic and LGBTQ+?**

A slight majority of fund managers track diversity statistics at the underlying portfolio companies.



## 4.5. Reporting

While many fund managers have integrated ESG quite deep into their investment processes and are using a responsible investment policy, only slightly more than half of fund managers are issuing an ESG report. The large majority of fund managers have made commitments either on fund manager or portfolio level towards climate actions.

Figure 25:  
**Do you compile a regular ESG reporting?**

Whereas more than 90% of fund managers have a responsible investing policy, only 56% of responding fund managers issue a regular ESG report.

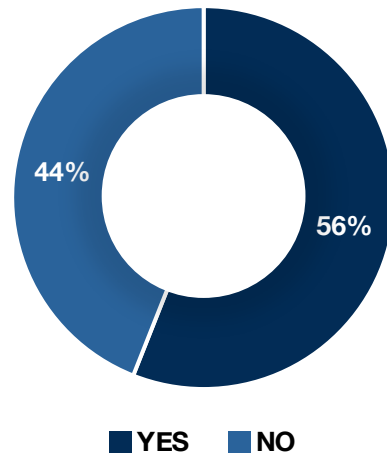


Figure 26:  
**Are you considering introducing ESG reporting in the future?**

All of the fund managers that have a responsible investing policy but do not issue an ESG report are considering writing ESG reports in the future.

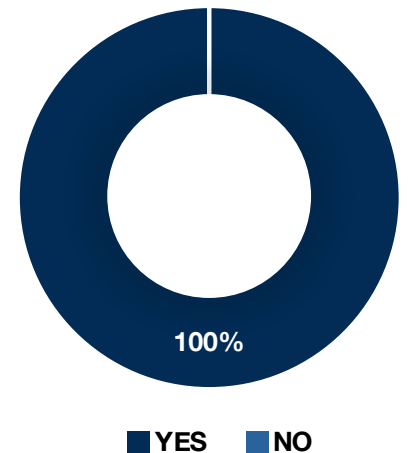




Figure 27:  
**Is the management of ESG risks and opportunities included on your Limited Partners Advisory Committee agenda?**

38% of fund managers discuss ESG topics during their Limited Partners Advisory Committee meetings. The remainder does not include it on the agenda.

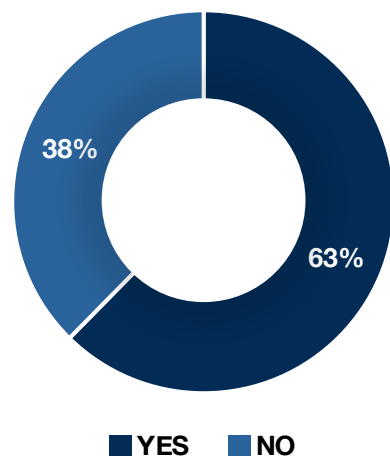


Figure 28:  
**Is the management of ESG risks and opportunities included on your annual investor meeting agenda?**

However, 67% of fund managers discuss ESG risks and opportunities during the annual investor meetings.

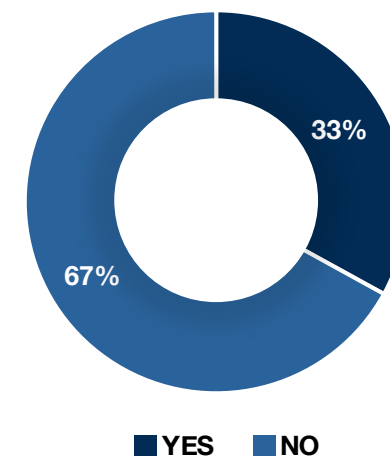
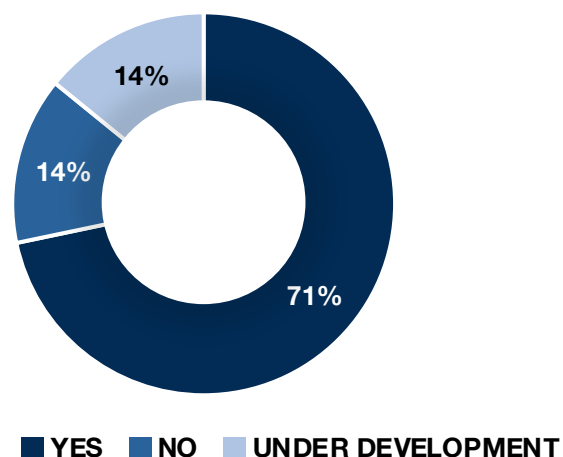


Figure 29:  
**Share of fund managers that made any climate commitments or targets, or actions to assess and address climate-related risks and opportunities not otherwise covered in this document**

71% of fund managers currently have made climate commitments and one further fund manager is currently developing its commitment. The commitments range from measuring and offsetting emissions from the fund managers offices to starting to measure emissions on portfolio level to sourcing 90% of energy in the portfolio from renewable energy.







# 5

## 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.

Mill Reef Capital conducted its first annual fund manager ESG questionnaire of which the results are presented in this report. Based on the responses to the questionnaire, Mill Reef Capital will engage with the fund managers to make suggestions in which areas they could advance their ESG implementation. This will include encouraging the measurement of the carbon footprints of the portfolio.





6

|

# Sustainable Development Goals

## 6.1. 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 has a critical role to play 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.

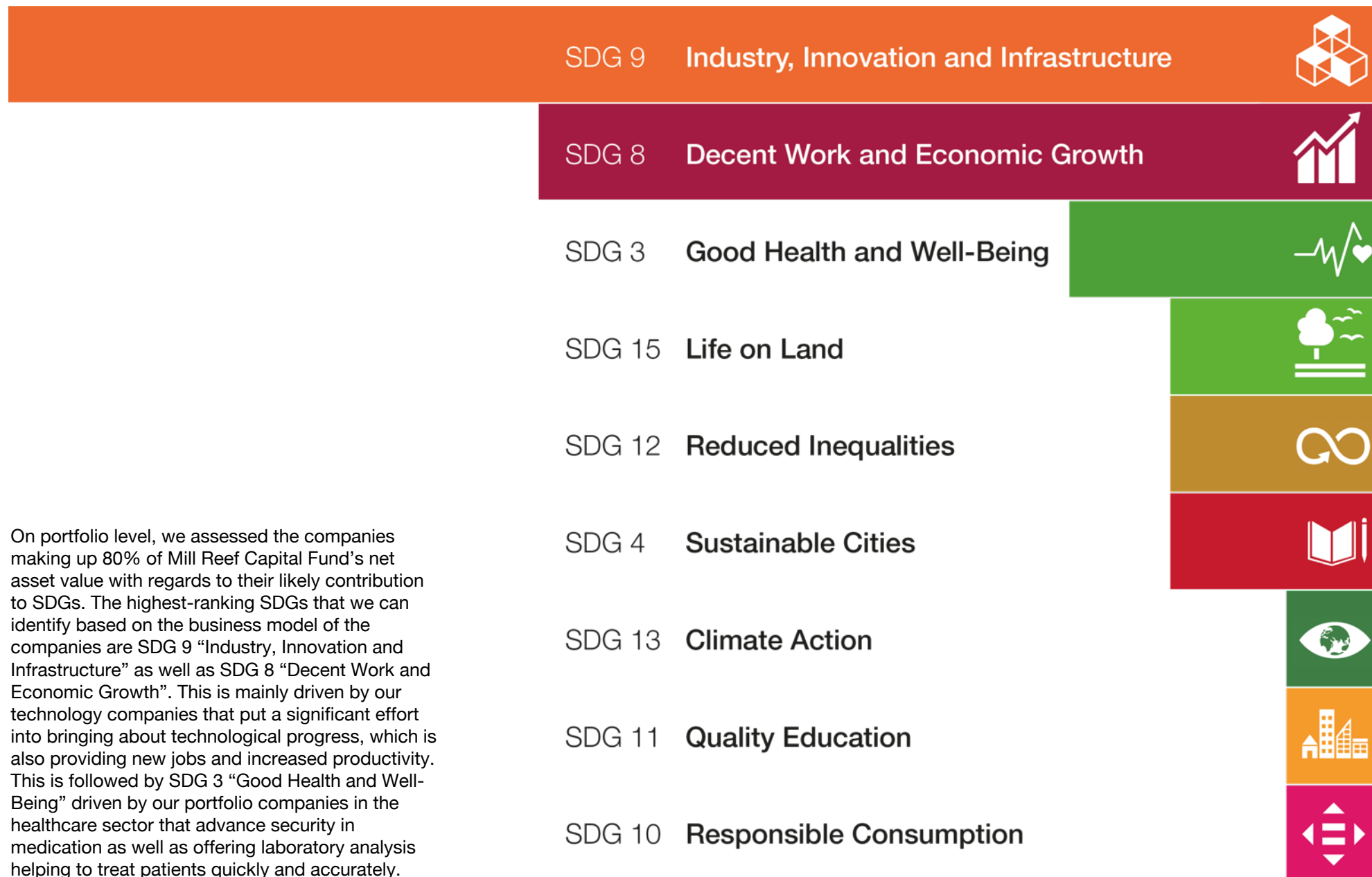
Mill Reef Capital commits itself to contribute to the achievement of the SDGs by implementing appropriate initiatives both on the level of its own business operations as well as by assessing target portfolio companies with regards to their contribution to the SDGs.

Mill Reef Capital believes it contributes to the following SDGs (see also section 2 above):





## 6.2. SDGs at the Portfolio Companies







# 7 | ESG Initiatives for 2022

In 2022, Mill Reef Capital will be working on a number of initiatives to deepen the ESG implementation and advance our impact.



## 7.1. Mill Reef Capital Management Company

At the beginning of 2022, Mill Reef Capital has selected Persefoni as its carbon accounting software to measure both the carbon footprint of its own operations as well as that of the portfolio. The implementation is planned to be finished in the first half of 2022. Subsequently, Mill Reef Capital will define measures to reduce emissions based on the results of the emissions analysis conducted with Persefoni. In parallel, Mill Reef Capital will select projects to offset 50% of the emissions from its own operations.

At the beginning of 2023, Mill Reef Capital will have to issue its first UN PRI reporting. 2022 will be used to prepare for the extensive initial reporting exercise.

Mill Reef Capital intends to further refine the ESG assessment and diligence during the investment process as well as post-investment.

Regarding potential additions to the team, Mill Reef Capital will put a special emphasis on diversity of background and gender.


Mill Reef Capital intends to establish a corporate volunteering program, which allows its employees to contribute to the firm's overall corporate responsibility and create an impact.

---

## 7.2. 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.

Mill Reef Capital is considering organising a workshop together with fund managers and ESG experts to provide a platform for sharing best practices and hands-on implementation ideas.



Mill Reef Capital AG

Dufourstrasse 90  
8008 Zurich, Switzerland  
+41 44 204 91 00  
[info@millreefcap.com](mailto:info@millreefcap.com)  
[www.millreefcap.com](http://www.millreefcap.com)