

ESG Report

2023

MILL⁷
REEF
CAPITAL



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1 Introduction

1.1. Foreword

We are very happy to publish the 2023 Mill Reef Capital ESG report. 2023 was a milestone year for Mill Reef Capital (“MRC” or “we”), both in terms of the development of our business as well as our commitment to sustainable investment practices. In 2023, we raised our second flagship fund, Mill Reef Capital Fund II, which significantly increased our assets under management. We have also spent considerable effort to upgrade our frameworks as well as due diligence and monitoring processes to classify Mill Reef Capital Fund II as an Article 8 fund under SFDR and formalise our commitment to ESG in this way. In Section 3 of this report, we outline the updated processes. We have also introduced an updated ESG policy to align with the updates.

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. In line with the updated due diligence and monitoring processes, we have changed the ESG questionnaire format and questions.

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 fund manager 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



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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 has offset 50% of its 2021 and 2022 carbon footprint and will offset 100% of its carbon footprint starting from 2023.

Waste reduction: In 2023, Mill Reef Capital continued to reduce waste by:

- Using reusable boxes for take away food. The introduction has reduced office waste by an estimated 30-40%.
- Separating waste for recycling with a separate provider given regular waste in Zurich is incinerated. The recycling company also offers employment to people with more challenging resumes.

Compensation project: In 2023, Mill Reef Capital offset 50% of its 2022 and 2021 management company footprint (16 tCO₂e) by supporting a project providing improved cookstoves in Guinea. In Guinea, firewood and charcoal meet around 98% of the household energy needs. Demographic growth is leading to an increasing pressure on the woodlands, with deforestation currently progressing at 6.8 million m³/year. According to FAO figures, Guinean forests have decreased by around 10% over the last 20 years. Women and children are often in charge of wood collection, a time-consuming and sometimes dangerous task, which can take up to 15 hours per week just to meet the needs of one household. Generally, cooking is then done on open low efficiency hearths. Consuming a high quantity of firewood and generating a lot of smoke. Long-term use of these open hearths are known to cause serious respiratory diseases. Through the distribution of cookstoves adapted to the needs of the local communities, this project aims to improve the conditions of Guinean households, tackle global warming and reduce pressure on woodlands by preventing some of the drivers of deforestation.

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



2.2. Mill Reef Capital Footprint

We continue to use carbon accounting software Persefoni both to calculate the emissions on management company level as well as on portfolio level. For the current report, we have expanded the scope of the emissions covered on the management company level to also include purchased goods and services, with a focus on IT and software spending, such as Microsoft 365 products and financial data providers. In 2023, the management company across Scope 1–3 had a footprint of 32 tCO₂e. This compares to 33 tCO₂e in 2022 (we updated the comparable figures for 2022).

Roughly half of those emissions were related to purchased goods and services, 25% were related to business travel, i.e. transport and accommodation, and 25% related to daily employee commute and the office. With regards to the type of greenhouse gases, more than 80% was emitted in the form of CO₂, with the rest comprised of methane, nitrous oxide and HFCs, SF₄ and PFCs.

Figure 1:
Source of emissions on management company level.

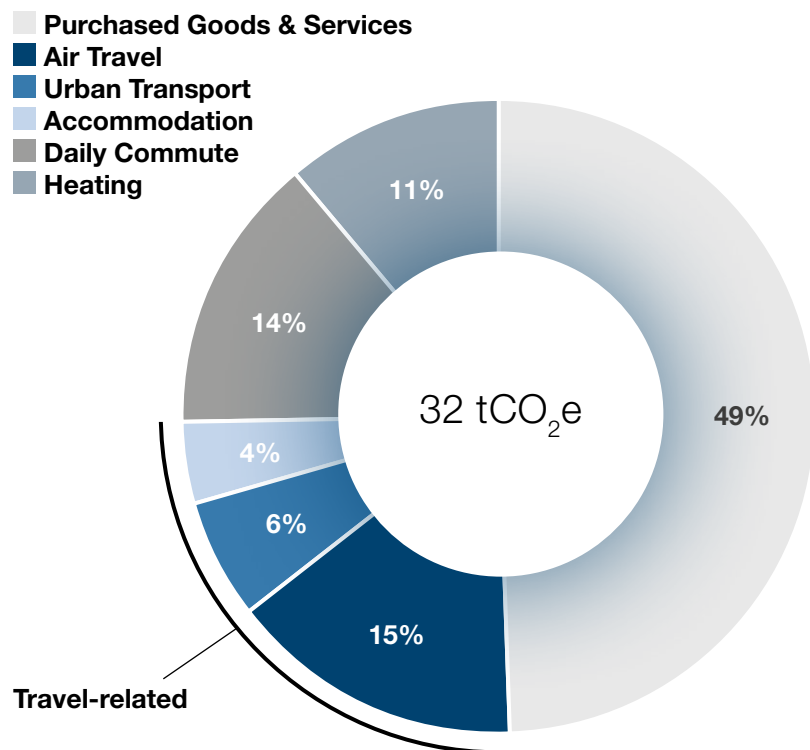
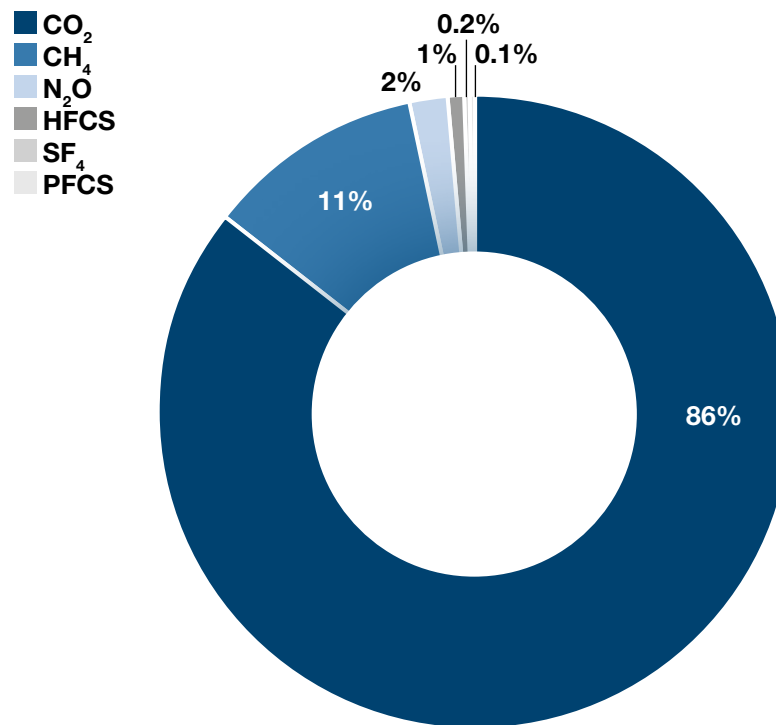


Figure 2:
Type of greenhouse gas emitted.



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 at the end of 2023, we had a share of 36% women in the team and 25% in the senior team.

Within our team of eleven 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.

Physical 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 two guided fitness classes per week in the office where the whole team is invited. To further encourage physical activity, the firm subsidises gym memberships or other sports club memberships.

Holistic well-being: Mill Reef Capital encourages employees to pursue their interests and lead a fulfilling life outside of work. To support them in this endeavour, we offer the opportunity to take sabbatical leave to all members of the team in addition to their allocated vacation days. Employees may take an additional 10 days of leave after 5 years of employment and an additional 20 days after 10 years of employment.

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 2023, we continued our volunteering program at Mill Reef Capital. During the year, the team has volunteered for a total of 25 hours through various volunteering initiatives. For example, several members of our team ran a financial education workshop at a Swiss public secondary school. The interactive workshop acquainted pupils with the most common asset classes and investment strategies. It also introduced the Swiss pension system and presented the idea of responsible personal investment goals. Other members of the team volunteered at the Terre des hommes stand at the Zurich Christmas market, selling knitwear for charity. Terre des hommes is the largest Swiss children's aid organisation, committed to protecting the lives of children and promoting their rights and well-being worldwide.

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



2.4. 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. ESG in Investment Management

The funds advised by Mill Reef Capital from 2023 onwards are classified as Article 8 funds under the EU's Sustainable Finance Disclosure Regulation (SFDR) ((EU) 2019/2088). The funds promote environmental and/or social characteristics and may invest in sustainable investments, but do not have sustainable investing as a core objective.

The funds will consider ESG-related factors across:

- The investment selection process, through proprietary ESG target fund manager and asset due diligence
- The investment monitoring process, through a yearly fund manager questionnaire and other checks confirming or updating the ESG status of our investments

Mill Reef Capital has pledged to allocate at least 51% of the funds' commitments starting from Fund II to investments that promote environmental and/or social characteristics ("E/S Investments"). Additionally, we committed to excluding any underlying assets that do not pass the negative screening or that have been involved in severe and systematic violation of the UN Global Compact (investments not classified as E/S investments but passing the negative screening and UN Global Compact test are considered "Other Investments").

3.1. ESG in the Investment Selection Process

During the investment selection process, we run a comprehensive ESG assessment based on the following elements:

- Negative screening
- ESG asset due diligence with a focus on activities and behaviours
- Target fund manager due diligence regarding ESG capabilities and processes
- Disclosure assessment of the investment according to the Sustainable Finance Disclosure Regulation ("SFDR") or equivalent standards

The results of the assessment determine if the investment is classified as an E/S Investment, as an Other Investment or is excluded.

3.2. ESG in the Investment Monitoring Process

As part of the ongoing monitoring of the investments, most of the steps from the investment selection process are repeated annually to confirm or update the original ESG assessment, and to conduct initial ESG analysis on new underlying companies. This is done primarily through an annual ESG questionnaire sent out to all fund managers, as well as internal assessments.



4

ESG at the Underlying Fund Managers

4.1. Mill Reef Capital Fund Manager ESG Questionnaire

For the third time, Mill Reef Capital asked fund managers to complete an ESG questionnaire to assess the current status of ESG implementation and to collect KPIs. This year, the questionnaire was revised to ensure alignment with our SFDR Article 8 framework and processes. We sent the questionnaire to the 22 fund managers that were part of our portfolio at the end of 2023. We had a 91% response rate, with 20 fund managers submitting answers. In the coming

sections, we present the results. For some questions in the company-level section, no data was provided by the respective fund managers. We only present the responses for companies where data is available, i.e., the underlying number of companies may vary from question to question.

4.2. Fund Manager Assessment

The survey results revealed a growing emphasis on ESG considerations and responsible investment practices among fund managers. 86% of surveyed fund managers have established a responsible investment policy compared to 85% last year. However, there is a spectrum of engagement: 32% of fund managers are not signatories of any initiatives, while 68% actively participate in at least one ESG initiative or reporting framework. 64% provide ESG training to staff, with varying approaches—some systematic and external, others more ad hoc and internal. Notably, 36% have yet to offer ESG training. Tracking ESG performance

is common, with 73% monitoring ESG KPIs, ranging from basic social measures to comprehensive sets. 55% use materiality maps to identify critical ESG factors. Encouragingly, 77% plan ESG improvements, spanning policy updates, environmental initiatives, and social actions. Mill Reef Capital collaborates with managers demonstrating strong ESG commitment, with 82% achieving Tier 1 or Tier 2 ratings. Meanwhile, Mill Reef Capital continues to engage with Tier 3 managers to enhance their ESG approach.

Figure 3:
Do you have a responsible investment policy?

86% of all fund managers have a responsible investment policy.

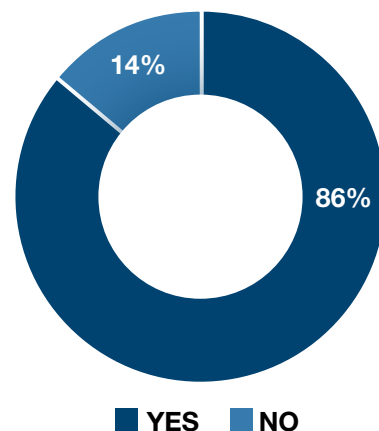


Figure 4:
Are you a UNPRI signatory or member of a similar association?

Among all fund managers, 32% are not signatories of any initiatives, while 68% are signed up for at least one initiative, standard or reporting framework.

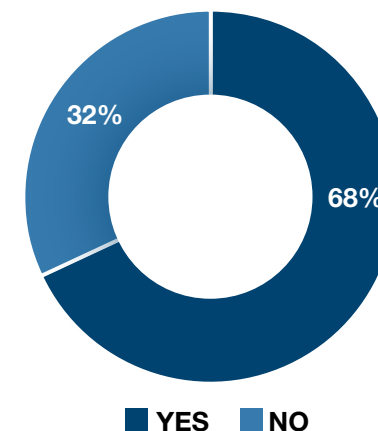


Figure 5:
Do you provide ESG training for staff?

64% of all fund managers provide ESG training to their staff. This training varies from regular systematic training provided by external providers to more ad hoc training provided internally. 36% of respondents have not provided ESG training yet.

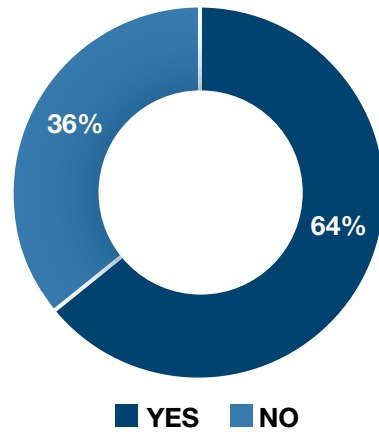


Figure 6:
Do you track ESG progress on company level for your investments?

73% of all 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.

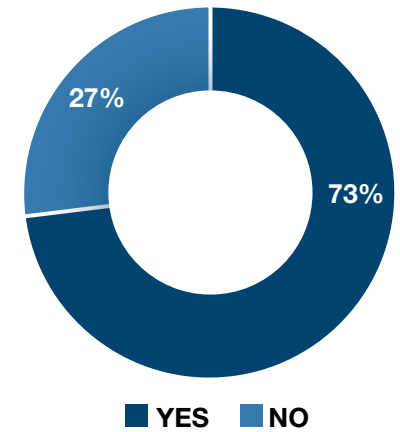


Figure 7:
Do you use a materiality map to identify material ESG factors?

55% of all fund managers use a materiality map to identify material ESG factors.

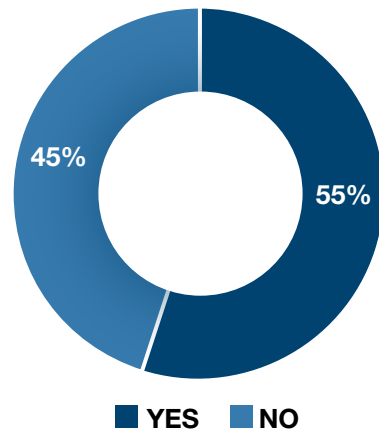


Figure 8:
Are you planning to implement ESG improvements in the coming year?

77% of all fund managers indicated they are planning ESG improvements in the coming year. The planned improvements vary from standardising ESG reporting and updating policies to various environmental and social initiatives both at fund manager and portfolio company level.

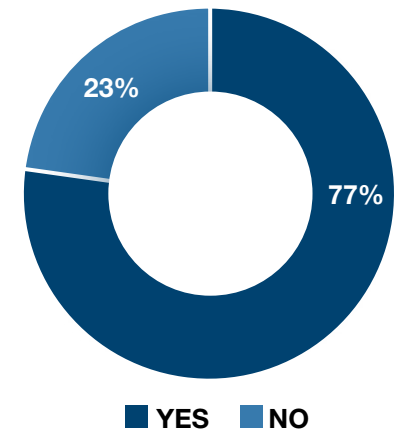


Figure 9:
Do you compile a regular ESG reporting?

68% of all fund managers issue a regular ESG report, which is an increase from last year's 64%.

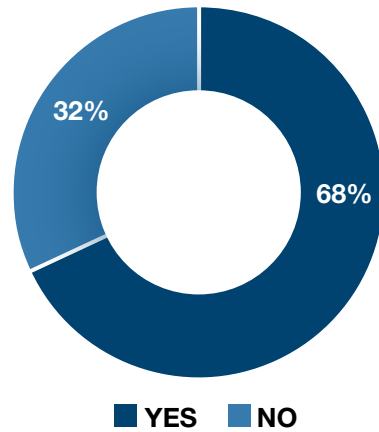


Figure 10:
Do you include ESG implementation as part of value creation?

73% of all fund managers include ESG implementation in the value creation plans for their portfolio companies.

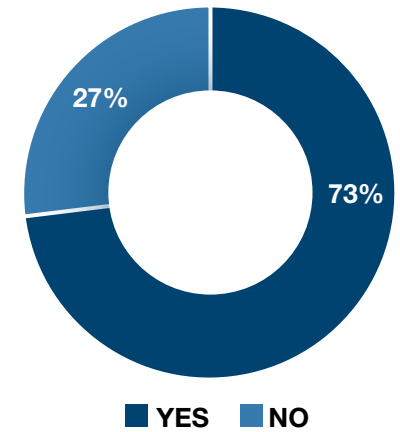
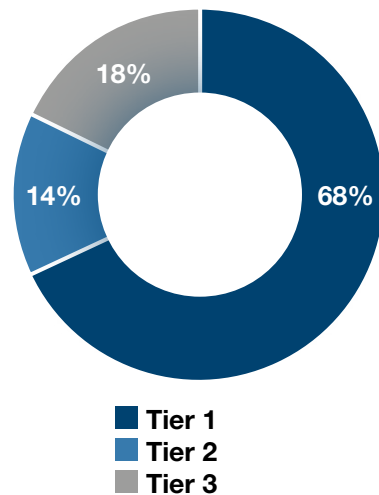


Figure 11:
Split of underlying fund managers by rating

Prior to investment and on an ongoing basis, all underlying fund managers MRC is invested with are rated based on the proprietary MRC fund manager ESG rating.

Mill Reef Capital is proud to work with managers that show a high commitment to ESG, with 82% of our underlying fund managers achieving a Tier 1 or Tier 2 rating. Meanwhile, we continue to engage with Tier 3 fund managers to strengthen their commitment to ESG.



4.3. Company Level Assessment

All 95 underlying portfolio companies in our portfolio adhere to the UN Global Compact principles, demonstrating a commitment to responsible business practices. Stranded asset risk is low with 93% of relevant companies classified as Green (categories ranging from Green to Amber and Red), indicating low risk. Additionally, 60% of portfolio companies have an existing ESG policy.

Encouragingly, 81% of companies with no ESG policy indicated they plan to implement one in the future. Our portfolio companies generally track ESG performance, with 68% of relevant companies reporting KPIs and 46% tracking greenhouse gas emissions. Furthermore, 29% of portfolio companies have a dedicated ESG training plan.

Figure 12:
Adherence to UN Global Compact principles

Out of 95 underlying companies in our portfolio as of December 2023, all adhere to UN Global Compact principles.

The UN Global Compact violation test is completed prior to investment through the fund manager questionnaire as well as a negative media screening via Factiva. Adherence is confirmed by the fund manager each year through our annual ESG questionnaire.

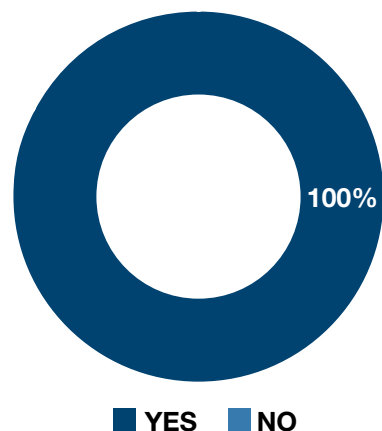


Figure 13:
Negative screening against exclusion list

All 95 underlying portfolio companies have been screened against our exclusion list.

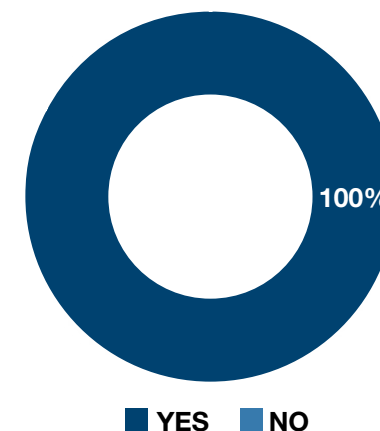


Figure 14:
Stranded asset risk assessment

Starting from 2023, we screen all new portfolio companies for stranded asset risk. Using the company's activity (via NACE code), we classify the company as either Green, Amber or Red – with Green representing the lowest stranded asset risk and Red the highest. 93% of the companies were classified as Green, while 7% of companies were classified as Amber. The companies classified as amber operate in the healthcare equipment space.

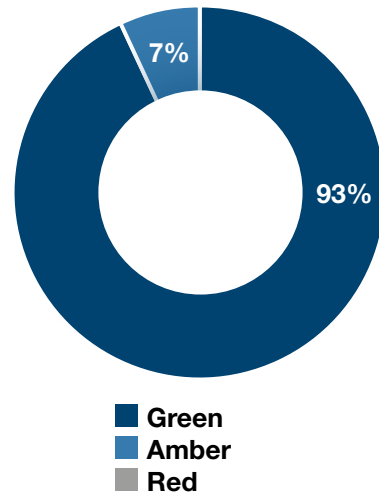


Figure 15:
Environmental or social controversies

Starting from 2023, we screened all new underlying portfolio companies for environmental and social controversies prior to investment via adverse media screening. None of them were involved in any environmental or social controversies.

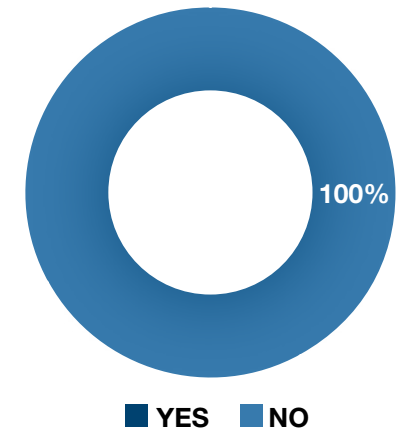


Figure 16:
Percentage of portfolio companies with an ESG policy

60% of portfolio companies for which we have available data have an ESG policy.

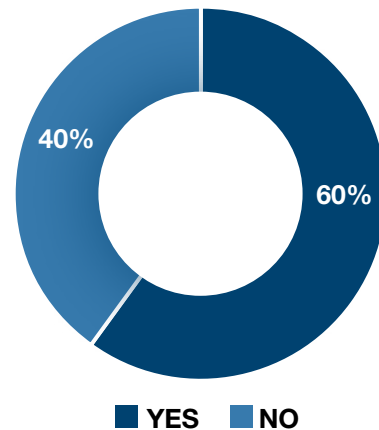


Figure 17:
Percentage of companies with no ESG policy that plan to implement one

81% of portfolio companies that do not currently have an ESG policy plan to implement one in the future.

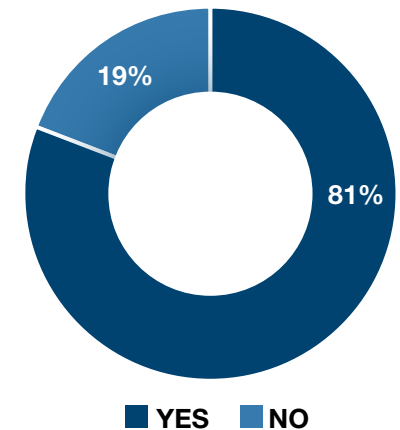


Figure 18:
Percentage of portfolio companies reporting ESG KPIs

68% of portfolio companies for which we have available data report ESG KPIs.

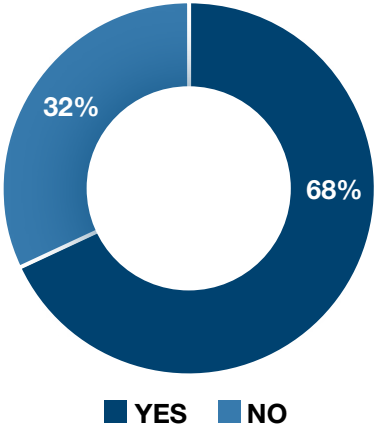


Figure 19:
Percentage of companies tracking GHG data

46% of portfolio companies from responding managers track greenhouse gas emissions data.

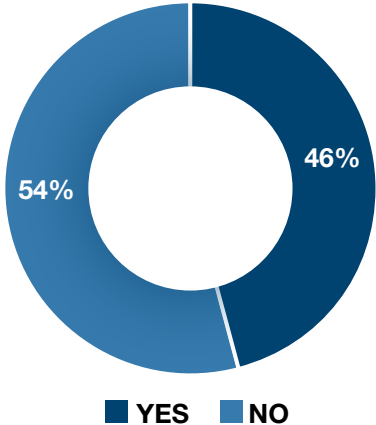
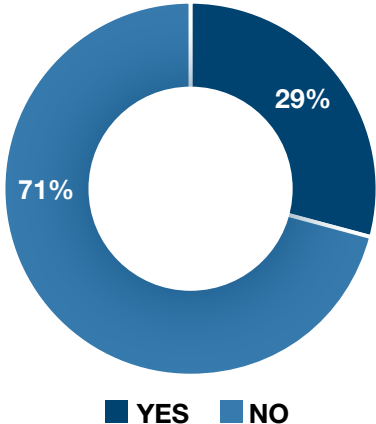


Figure 20:
Percentage of companies that have a dedicated ESG training plan

29% of portfolio companies from responding managers have a dedicated ESG training plan.





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Portfolio Footprint

5. Portfolio Footprint

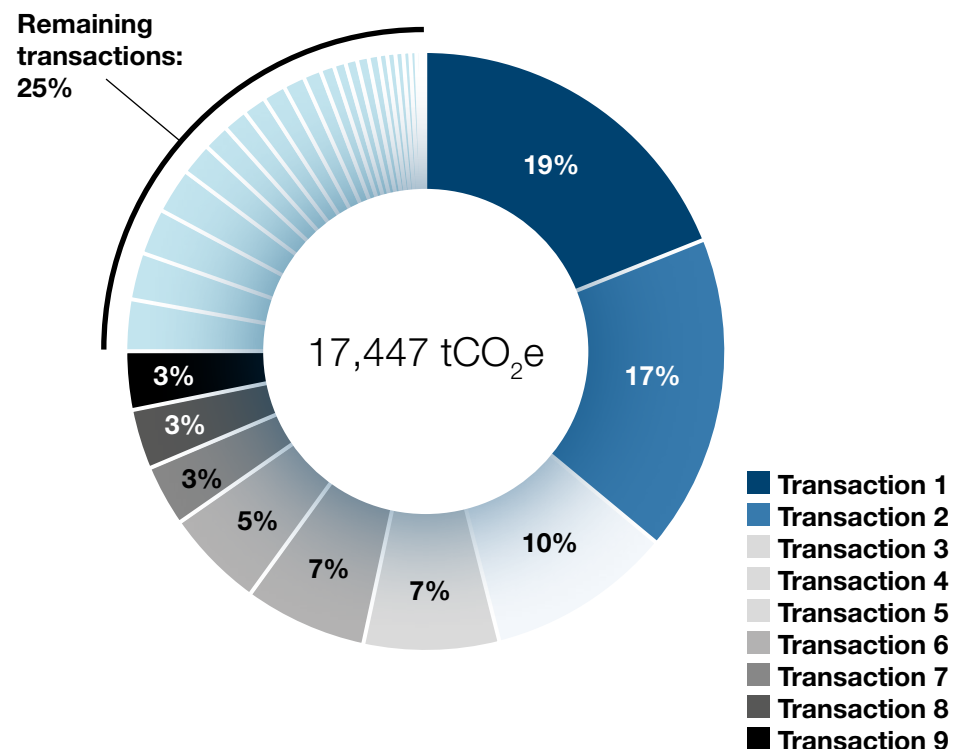
Given a lot of fund managers do not report greenhouse gas emissions at this stage, we continued to use carbon accounting software Persefoni to estimate our portfolio emissions for 2023. Nevertheless, this year we have witnessed a large increase in reported bottom-up data on portfolio companies from fund managers. Of the 95 companies in our portfolio as of December 2023, we received data for 22 companies, representing 20.8% of total FMV. Meanwhile in our 2022 report, bottom-up data was available for only one portfolio company. We believe this underscores the increasing awareness of fund managers we work with regarding climate issues. By integrating climate considerations into investment strategies and engaging with portfolio companies to address sustainability challenges, fund managers can enhance the resilience of companies adapting to a low-carbon economy. This also shows the broader commitment towards sustainable investment practices, thereby aligning financial objectives with environmental stewardship.

For the portfolio companies where no bottom-up data is available, this report relies on the Persefoni estimate. The estimate is based on Partnership for Carbon Accounting Financials („PCAF“) guidelines. PCAF was created in 2015 by financial institutions with the aim of standardising 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. Over time, we will continue to improve both the data quality within Persefoni as well as introduce more bottom-up data from the underlying companies.

In 2023, Mill Reef Capital Fund’s portfolio footprint was approximately 17,447 tCO₂e. This compares to 6,941 tCO₂e in 2022 (comparable number adjusted for the new emissions factor set used in 2023 by Persefoni). This growth follows the development of our firm, as the number of portfolio companies increased significantly with the closing of Mill Reef Capital Fund II in 2023 and continued new investments.

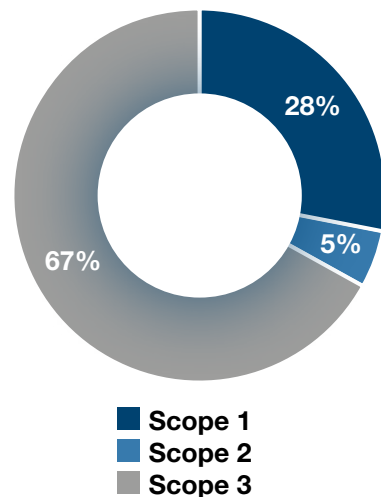
Figure 21:
Split of MRC Carbon Footprint by Deal in 2023



Approximately 19% of Mill Reef Capital’s portfolio footprint is generated by Transaction 1, involving a company in the technical services space, in which more than 90% of emissions result from Scope 3, i.e. from suppliers and customers. The second largest contributor to the footprint is Transaction 2 which includes two funds with 3 underlying companies. The top 9 transactions account for approximately 75% of Mill Reef Capital’s portfolio footprint and involve companies from diversified sectors, including manufacturing, telecom, healthcare and professional services. The remaining 25 transactions account for approximately 25% of the portfolio footprint.

Figure 22:
Scope 1, 2 and 3.

28% 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 (67%) relates to Scope 3 emissions.



PCAF standards organise 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 organisation, 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 organisation but that the organisation indirectly impacts in its value chain. Scope 3 emissions also often represent the majority of an organisation's total GHG emissions.



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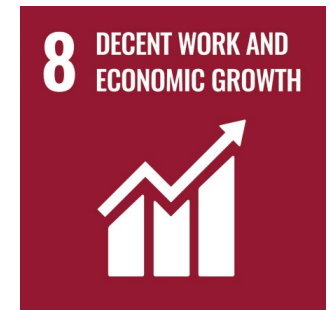
Sustainable Development Goals

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



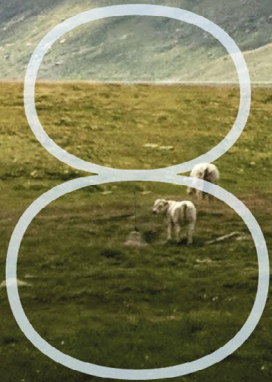
On portfolio level, we assessed the top 20 companies in terms of fair market value across Mill Reef Capital funds (making up approximately 65% of fair market value) with regards to their likely contribution to SDGs. The highest-ranking SDGs that we can identify based on the business model of the companies remain unchanged from last year, and are SDG 9 “Industry, Innovation and Infrastructure” as well as SDG 8 “Decent Work and Economic Growth”. This is mainly driven by our technology companies that put a significant effort into bringing about technological progress, which also provides new jobs and increases productivity. This is followed by SDG 15 “Life on Land” and SDG 10 “Reduced Inequalities” driven by our portfolio companies in the veterinary, insurance and healthcare sectors.



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 2023, 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 including starting ESG reporting, joining UN PRI and using a materiality map. Additionally, we worked with a fund manager in the United Kingdom to sign an updated side letter which includes ESG language. We also spoke to a fund manager in the Netherlands and suggested joining UN PRI and starting regular ESG reporting. We shared PRI contacts and our annual ESG report to encourage the fund manager to take this step.



ESG Initiatives for 2024



8. ESG Initiatives for 2024

In 2024, Mill Reef Capital will be working on a number of initiatives aimed at enhancing the implementation of ESG principles and furthering our impact.


8.1. Mill Reef Capital Management Company

Given the significant progress made during 2023, we will use 2024 to consolidate the progress we have made by:

- further streamlining processes
 - enhancing data coverage and data collection processes and
 - providing ESG data in standardised templates to investors
-

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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