



Introducing our approach to Sustainable investing in private equity

IMPACT and ESG

4 September 2023

Foresight

1. Definitions and what we believe

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What is Sustainable Investing?

There is a lot of language used in this area - this is what it means in Foresight Private Equity

Firstly, what is Sustainability?

Meeting the needs of the present without compromising the ability of future generations to meet their own needs. Foresight supports this by **investing responsibly** in businesses that commit to delivering **impact** and **ESG** improvements

What does delivering impact and ESG improvements mean?

What is Impact?

We pursue impact themes aligned to the objectives of the UN Sustainable Development Goals; which strive for the universal reduction of poverty and environmental harm, and the improvement of education, health, and economic growth. We have four **Impact Themes** focused on small companies, and we select impact metrics for each investee that we can measure & improve

What is Environmental, Social, Governance?

ESG is the reporting of data across environmental (e.g. carbon emissions), social (e.g. health & safety) and governance (e.g. board diversity) categories. We have our **Five Principles Approach**, which we use to measure and improve the ESG performance in accordance with increasingly standard practice

What does Sustainable Investing mean in Foresight?

We partner with commercial businesses aligned to our impact themes and support them in maximising their positive impact

We incorporate ESG diligence & considerations into our investment decision making process, and play an active influencing role in delivering value enhancing improvements during our period of ownership

Impact: Four Impact Themes

We invest across four impact themes, and select customisable impact metrics for each investee

Foresight Impact Themes



Sample Impact Metrics



ESG: Five Principles Approach

A Foresight framework for companies to evaluate, monitor and improve ESG standards over time

Five Principles Approach



Awareness

- Does the business demonstrate a good awareness of ESG?
- Is this reflected in its processes and management structure?



Environmental

- Does the company follow good practice for limiting or mitigating its environmental impact, in the context of its industry?
- How does it encourage the responsible use of the world's resources?



Social

- What impact does the company have on its employees, customers and society as a whole?
- Is it taking steps to improve the lives of others, either directly, such as through job creation, or indirectly?



Governance

- Do the management structures represent best practice?
- Are the correct policies and structures in place to ensure it meets its legislative and regulatory requirements?



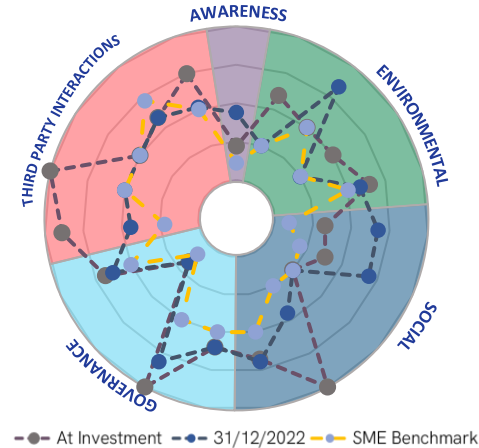
Third Party Interactions

- Is the principle of corporate responsibility evidenced in the company's supply chain and customers?
- How does it promote ESG values and share best practice?

Data Capture Process

- Questionnaire: Foresight assess performance using a standardised in-house questionnaire via our sustainability data platform
- Data Points: Overall, there are 100+ tracked KPIs (quantitative and qualitative) in the questionnaire
- Frequency: Carried out pre-investment and annually thereafter
- Output: The KPIs are used to generate a summary evaluation matrix, as below, alongside a summary appraisal of an investee's ESG position to identify areas of success and areas for improvement

Example: Summary Evaluation Matrix



2. The practicalities of investing sustainably

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Foresight's Approach to Sustainable Investing

It's a practical approach – which is synergistic with value creation

What we do

Set Parameters

We invest thematically and, specific to each investee, select an **impact theme**, a small number of **impact metrics** and **ESG issues** to **improve** during the investment horizon

1

Offer Active Support

We take a **hands-on approach** to drive impact and ESG improvements to better **align SMEs with external stakeholders for the long-term**

2

Provide the Tools

We provide SMEs with tools and processes to **monitor the improvement in their ESG metrics** and evaluate **their impact on their local communities and beyond**

3

Why we do it

We are **responsible** investors, we come to work and work with small companies because of the **opportunity to make a difference**. We also believe that companies that align themselves with this approach in a **sustainable** manner will outperform those that do not, over the medium term

1 Set Parameters

For each investee, we select an impact theme and target broad ESG improvements

Impact

All investees are aligned to an impact theme and adopt customised outcome-oriented KPIs.

Foresight Regional Investment Fund: Impact Highlights (2022)



1,600+
Jobs created



c.18,500
People supported
for better health / weight
loss / smoking and
alcohol cessation



c.1,200
Hospitals and
institutions
supported by the
Fund

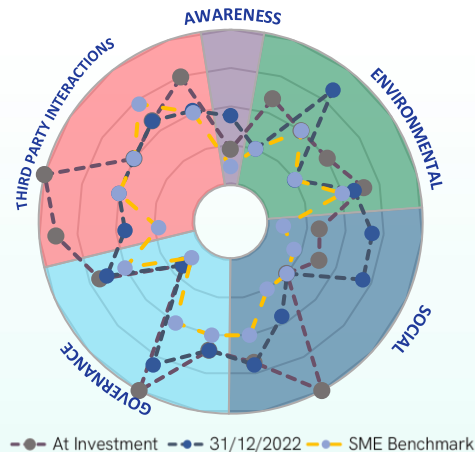


c.70%
of boards have
female members

- We select impact metrics that are bespoke to each investee
- Some impact metrics are universal (e.g. # of jobs supported), whilst others are investee specific (e.g. # of fire safety risks assessed)
- We perform annual measurements against each impact metric and report at fund and overall portfolio level

ESG Performance

Our ESG Five Principles Framework identifies a number of core ESG issues and KPIs for investees to improve.



- We perform annual assessments against each of the Five Principles
- We benchmark performance against our entire portfolio, plus the investees rating at date of original investment
- The assessment data points are both quantitative and qualitative and are used to calculate a rating from 1-5
- The rating is used to generate a summary evaluation matrix, represented graphically as shown above, which is recorded alongside a summary of an investee company's ESG position

2 Offer Active Support

Hands-on approach to drive impact and ESG improvement to better align SMEs with external stakeholders

Hands-on Approach

We work collaboratively with investees to identify the right impact metrics and ESG improvements by:

- Selecting appropriate impact metrics and ESG issues to improve
- Sharing our ESG initial assessment results to identify how improvements can be made
- Introducing regular reporting and monitoring as part of overall governance and regulatory requirements
- Providing access to training
- Facilitating knowledge sharing from other companies in the portfolio
- Constantly looking for further ways we can support our portfolio and actively seeking feedback on how we can improve our approach
- Providing a library of resources and tools to drive improvements



Alignment with External Stakeholders

Stakeholders recognise that impact and ESG can drive better business performance and long-term value creation by:

Delivering Better Financial Returns

- Research indicates that strong ESG propositions correlate with higher equity returns and reduced risk¹
- Focus on ESG can improve sales growth, cost reduction, employee productivity and investment/capex returns²

Motivating Employees

- There is greater awareness amongst society of the need to change consumption habits to reduce humans' impact on the environment
- This awareness is strongest amongst millennials, who make up the largest single generation in the workforce
- Companies with a strong ESG proposition are more likely to attract and retain high performing, motivated and productive employees³

Attracting Investment

- In 2018, global sustainable investment exceeded \$30 trillion⁴, up 68% since 2014, driven in part by the realisation that a strong ESG proposition can safeguard a company's long-term success
- Early-stage companies with a strong ESG culture are more likely to have a wider availability of funding options as they grow

[1] Mozaffar Khan, George Serafeim, and Aaron Yoon, "Corporate sustainability: First evidence on materiality," The Accounting Review, November 2016, Volume 91, Number 6, pp. 1697–724, ssrn.com; Zoltán Nagy, Altaf Kassam, and Linda-Eling Lee, "Can ESG add alpha? An analysis of ESG tilt and momentum strategies," Journal of Investing, Summer 2015, Volume 25, Number 2, pp. 113–24, joi.pm-research.com.




[2] <https://www.mckinsey.com/business-functions/strategy-and-corporate-finance/our-insights/five-ways-that-esg-creates-value#>

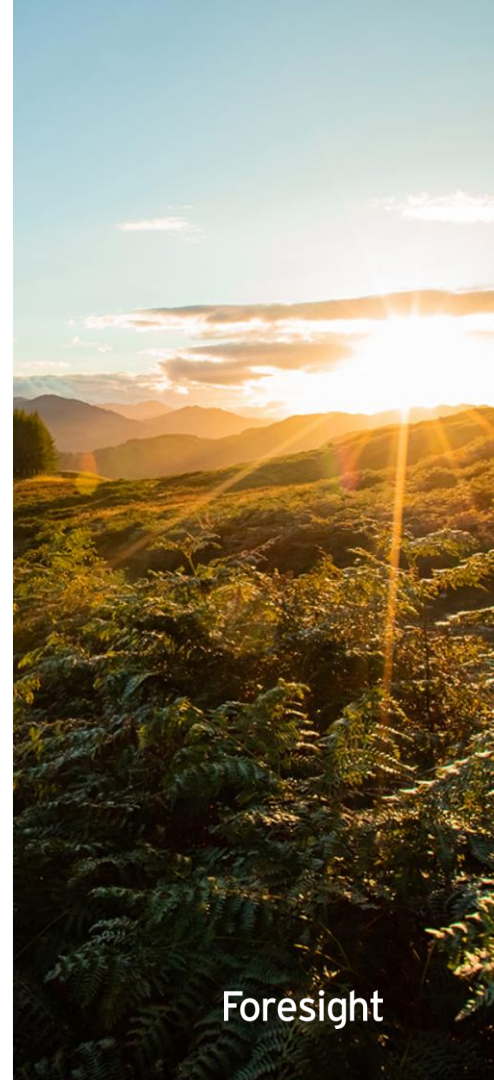
[3] <https://nielseniq.com/global/en/insights/analysis/2018/global-consumers-look-for-companies-that-care-about-environmental-issues/>

[4] Global Sustainable Investment Review 2018, Global Sustainable Investment Alliance, 2018, gsi-alliance.org

3 Provide the Tools

We have an established library of checklists, disclosures, resources and tools for investees, which will evolve over time to further drive improvements

	Awareness	<ul style="list-style-type: none">▪ ESG questionnaire▪ Introduction to ESG training▪ 100-day plan actions and monitoring
	Environmental	<ul style="list-style-type: none">▪ Carbon emissions data collection and calculation▪ Training on regulation terminology
	Social	<ul style="list-style-type: none">▪ Demographic data collection templates▪ Job creation tracking▪ Spend on training and charitable practices tracking
	Governance	<ul style="list-style-type: none">▪ Board pack and reporting templates, including ESG considerations▪ Template service agreements▪ Template policies
	Third Party Interactions	<ul style="list-style-type: none">▪ Cyber security assessment and action plan▪ Tracking of investment in R&D, patents and new product launches



Foresight's Sustainability Platform

Foresight's platform provides investees with the necessary resources to measure, monitor and improve their impact



"We're proving our commitment to supporting our business and portfolio companies in achieving their sustainability ambitions with the implementation of this platform.

Utilising the platform enables us to support the move towards a net zero emissions economy and the numerous initiatives many of our SMEs are involved in. The platform will allow us to better track sustainability metrics across our global offices, and our private equity SME investments."

In 2023, we chose Salesforce's Net Zero Cloud, working with PwC as our delivery partner, to build a platform with heavily tailored elements to track emissions reporting at a Foresight Group and Private Equity SME level. By using this platform, Foresight will be future-proofing itself and its investors, with the aim of working towards fund-level TCFD disclosures.

With the platform now built to bespoke specifications, Foresight Group has captured emissions in line with GHG protocols. Private Equity portfolio companies will have direct access to the platform where they will be able to capture their scope 1 and 2 and some scope 3 emissions alongside the bespoke metrics disclosed in this report, which are required as part of our investment agreements and legal documents.

This tool enables companies to build a compelling ESG data set that supports enhanced operations, marketing, recruitment and retention, reporting - industry and internal, emissions tracking, supply chain management and risk and opportunity identification. Not only this, but it will help them demonstrate their value-added ESG activity to potential acquirers at exit. Being able to demonstrate a reputation for ESG excellence that is backed up by reliable data is a highly sought-after element to desirable companies, and we see this as synergistic to returns. To date, ESG KPI capture has been completed. The next phase aims to enable companies to track their carbon emissions at an asset level for accurate data reporting and trend analysis. This will take time to get right and build gradually but we are pleased to have started this industry-leading journey.

Appendix 1: Foresight approach to ESG

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Our Overall Approach to ESG: Improvement Focused Principles

Embedding it in our investment lifecycle

Due Diligence

- Targeting broad alignment with one of our four impact themes
- Screening against exclusion list
- Opportunities to make improvements core part of evaluation
- Company deep dive aided by ESG due diligence questionnaire
- Conducted by investment executive - leveraging extensive third party diligence

Investment Committee

- Investment Committee submission includes ESG assessment
- Rating of 1-5 against five ESG criteria
- Analysis of risks and opportunities
- Supported by qualitative and quantitative data
- Embedded in standard legal documentation since 2020

Ownership

Engagement

- ESG is part of the 100 day post-investment review
- Investment agreement obligations
- Addressing material risks with appropriate solutions
- Team buy-in, agreeing link to value
- Establish committees: risk, audit, remuneration
- Agree continuous improvement and monitoring process
- Now part of legal agreements

Monitoring

- ESG standing item on board agenda
- Continuous qualitative evaluation - risks and opportunities
- Annual quantitative and qualitative data collection and review - assisted by Foresight's Sustainability Platform

Exit

- Companies with well embedded policies tend to be 'exit ready'
- Also more valuable, all else being equal
- ESG framework encourages long term outlook, which is well received on exit
- Both trade and increasingly private equity buyers ESG focused
- Obligation to disclose to buyers on exit, embedded in new standard legals

Thank You

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