BRIDGES
Fund Management

*****IMPORTANT NOTICE*****

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<u>Sustainability-related disclosures: Bridges Sustainable Growth IV(B) LP</u>

1. **Summary**

Bridges Sustainable Growth IV(B) LP (the "**Fund**") has a sustainable and impact investment objective to make our economy more inclusive and more sustainable – and by doing so, unlock lasting economic value. The Fund is focussed on backing profitable, high-growth, high-impact businesses in the UK and Europe and is managed by Bridges Fund Management Limited (the "**Manager**", "**Bridges**" or "**we**").

2. **No significant harm to the sustainable investment objective**

Across all investments, the Fund is committed to reducing all significant harm for all stakeholders. We do this through sustainability screening and application of impact management standards through diligence and the investment period.

During diligence, and then subsequently at regular intervals, we identify all significant potential or existing negative impacts of each investee company – defined as those outcomes caused by the company, where performance is outside the boundary that is considered 'sustainable' by best-available science, widely accepted research or the affected parties themselves. This exercise includes requesting data from each of our investments on the relevant indicators from Table 1 of Annex I of Regulation (EU) 2022/1288 on a quarterly basis and comparing this data against appropriate thresholds to demonstrate that the investments do not significantly harm any environmental or social objectives. We decide whether to collect data on the indicators from Tables 2 and 3 of Annex I of Regulation (EU) 2022/1288 on an investment-by-investment basis, having regard to the level of risk of each investment demonstrating significant harm with respect to each indicator.

As set out in our Sustainable Investment Policy, our diligence and investment management processes follow the OECD guidance on Responsible Business Conduct for Institutional Investors. Our processes therefore implement the recommendations of the OECD Guidelines for Multinational Enterprises (the "**OECD Guidelines**") where applicable. The OECD Guidelines are fully aligned with the UN Guiding Principles on Business and Human Rights.

3. **Sustainable investment objective of the financial product**

The sustainable investment objective of the Fund is to make investments that contribute positively to meeting the needs of people and the planet, now and in the future. Each of our investments has a sustainable investment objective which means each asset targets a positive social or environmental outcome, where 'positive' or 'sustainable' performance is assessed relative to a scientific, local or national standard or (where these don't exist) stakeholder feedback.

Bridges aims to identify clear positive correlation between the social or environmental outcomes of a business and its commercial success. This speaks to the "lockstep" that the Sustainable Growth platform seeks in all its investments. If we do not believe that the delivery of social or environmental impact is integral to the company's business model, but only incidental to the business, we will not pursue the opportunity.

4. **Investment strategy**

This growth capital Fund targets the buy-out segment of the private equity lower mid-market, focusing on profitable (£2-10m+ EBITDA) high-growth, high-impact businesses that have a strong lockstep. The Fund strategy is focused on backing the companies of the future, companies that will deliver superior returns because of impact, not in spite of it. These are companies Bridges expects to contribute to a more sustainable and more inclusive economy. The Fund focusses mainly on businesses operating in the UK and Ireland, and may investment up to 25% of total commitments elsewhere in Europe.

Our assessment of the governance practices of potential investee companies is embedded within our standard due diligence process as described in section 10 (*Due diligence*) below. Specifically, we assess each potential investee company's HR and governance practices and procedures, adherence to legal requirements and systems to identify and manage risk. During investment, we work to improve practices, procedures or systems that are below our required standard. We manage any material governance risk with the relevant investee company collaboratively over the investment period, using a mitigation plan with respect to which progress is reported and reviewed regularly at Board meetings and at Fund portfolio review meetings.

5. Proportion of investments

100% of the Fund's equity allocation will go into sustainable investments. At least 30% will be invested in sustainable investments with an environmental objective and at least 10% in sustainable investments with a social objective. These are minimum thresholds and the actual percentages of sustainable investments with an environmental objective and a social objective, respectively, will be disclosed in the Fund's periodic disclosures.

100% of the Fund's investments represent direct exposures to the Fund's investee companies, except the Fund may enter into hedging agreements (in relation to currency and interest rates only) in relation to any borrowing incurred by it. Such arrangements reduce risk within the Fund and will be put in place solely in connection with the sustainable investments made by the Fund (and not, for the avoidance of doubt, for speculative purposes).

6. Monitoring of sustainable investment objective

Performance against key performance indicators (KPIs) relating to each investee company's impact thesis is collected from each company monthly. Further information on how we monitor the Fund's sustainable investment objective and impact KPIs are set out in Section 7 (*Methodologies*) below.

7. **Methodologies**

During diligence, we determine the core impact thesis of an investee company (using a theory of change and our impact valuation methodology, the Bridges impact score) and ensure that it is aligned with the Fund's sustainable investment objective. We work with our investees to establish targets for the impact thesis and determine the key performance indicators (KPIs) to be reported against on a monthly basis, to inform how we manage progress against those targets. The set of KPIs tracked are tailored to each outcome, and therefore each investment, with a focus on ensuring the information collected is decision-useful for all parties. The impact performance is analysed alongside financial performance to inform integrated decision-making.

Thresholds to define sustainable performance against each indicator are identified using stakeholder feedback and/or best available science pre-investment. We aim to set meaningful targets to guide progress towards better outcomes, aiming to achieve truly 'sustainable' performance on each KPI by exit, where possible.

Performance against targets is reviewed quarterly at board meetings with investee companies and at our own portfolio review meetings. We make sure to review these targets regularly, taking into account available societal and ecological thresholds to ensure the level of performance we are aiming for is as ambitious as possible.

8. **Data sources & processing**

Impact performance data on each investment is collected directly from the relevant investee company on a monthly basis, as agreed between Bridges and each investee company. Impact reporting is integrated with reporting of financial indicators for the purposes of analysis and decision-making, including in board packs in which monthly impact data is disclosed alongside financial data.

See section 9 (*Limitations to methodologies and data*) for the measures we take to ensure we are using accurate data for decision-making. None of the Fund's impact KPIs rely on estimated data, other than scope 3 greenhouse gas (GHG) emissions. Whilst most of the Fund's companies are reporting some scope 3 categories, our engagement with our businesses suggests that most do not yet have full information to allow them to calculate complete scope 3 GHG emissions based on physical activity data. To avoid understating these figures in our reporting, we have used Partnership for Carbon Accounting Financials (PCAF) emission factors to calculate scope 3 GHG emissions for the majority of the Fund's companies.

9. Limitations to methodologies and data

The main limitation of our methodology described in section 8 (*Data sources & processing*) is that the impact data is provided by investee companies directly into our monitoring platform, so we cannot completely eliminate the risk of inaccurate data. This may particularly be the case for KPIs which are calculated, such as carbon emissions which are calculated using conversion factors. We take the following steps to internally assure the quality of the data reported: (i) we agree impact KPIs with investee companies collaboratively to ensure that they are practicable for them to collect and decision-useful, reducing the likelihood of inaccurate data, (ii) as one of our first post-investment steps, we agree an "impact lead" within the investee company to take primary responsibility for all impact KPI data and (iii) we check all data, including by reference to underlying calculations, where appropriate, and discuss any discrepancies in our regular meetings with investees. Given we take these steps to mitigate the risk of error, we do not believe that this limitation will affect the attainment of the sustainable investment objective of the Fund.

10. Due diligence

We carry out a thorough due diligence process against all aspects of our investment thesis, which includes stress-testing the alignment of our indicative impact thesis with the company's business model and assessing all the other material positive and negative outcomes that the company has the potential to generate for society and the environment.

This is a collaborative process between our impact management team members and investment team members. The impact thesis and impact due diligence are analysed and interrogated alongside financial, commercial, legal and other relevant due diligence by the Fund's investment committee.

As part of our due diligence, the impact management team works with the company to carry out an initial materiality assessment to identify the company's social and environmental risks and opportunities pre-investment. This assessment is based on existing standards and frameworks and takes the form of a checklist and set of required KPIs. Where a potential risk is identified, Bridges may use external consultants to assess the extent of the risk and make an action plan for mitigation. This initial diligence results in a series of 'impact workshops' where we discuss the impact potential and agree KPIs for ongoing management of impact with the company's management team. Impact priorities for the 100-day plan are then agreed.

This work informs the monthly and quarterly reporting against KPIs specific to the impact thesis, which – in turn – informs ongoing engagement and impact-led value creation.

Once due diligence has been thoroughly undertaken, all investments need to be approved formally by the Fund's investment committee prior to the execution of legal documentation.

11. Engagement policies

Please see sections 7 (*Methodologies*) and 10 (*Due diligence*) above for how we engage with our investee companies. Broadly, as described in those sections, we work with investee companies to guide progress towards improved outcomes, in respect of each company's impact thesis as well as all other material positive and negative impacts. Our aim is to achieve truly sustainable performance on each KPI by exit, where possible.

Prepared on 19 July 2023