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Equity Partners

Investing responsibly

ESG report 2022

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A year of significant progress

Calum Paterson, Managing Partner

In the year since we launched our first Responsible Investment Report, businesses and society have faced major challenges that have tested the resilience and resolve of leaders in ways they could not have anticipated.

Across our investment portfolio we are proud of the way our companies have responded to both threats and opportunities posed by a more volatile business environment.

Our second year of benchmarking portfolio company performance on environmental, social and governance (ESG) issues showed that they individually and collectively raised the bar, surpassing last year's ESG performance on virtually every measure.

There have been challenges on many fronts – from continuing fallout from the global pandemic, to supply chain disruption, heightened geopolitical tension arising from the war in Ukraine, and increased threats from cybercrime.

Rising inflation now presents a major threat to the most vulnerable members of society, while at the other end of the spectrum, many companies are engaged in a battle for talent as they compete for skilled people to help their business grow.

Against this challenging backdrop, there is an even greater onus on business leaders to take responsibility for the impact their decisions and policies have on employees, customers, the communities in which they operate and the environment we all share.

Management teams across our portfolio have worked hard to engage and support employees, many of whom are working remotely, while our own team and advisers have equipped companies with specialist knowledge to help them pursue successful growth strategies.

As a long-term investor in high growth technology companies, we are committed to using our capital (both financial and intellectual) to make a positive impact as well as to achieve returns for stakeholders. Indeed, some of our portfolio companies have developed innovative solutions that directly address major societal and environmental challenges such as financial exclusion and decarbonisation.

Our responsible investment framework informs the way we run our own business as well as being integral to our investment decisions and engagement with portfolio companies. There is a strong alignment between our commitment to helping build sustainable businesses and our role in funding ambitious companies.

Good governance is the foundation for a sustainable business; therefore we are pleased that the latest ESG benchmarking highlighted a strong focus on governance across the portfolio.

Pursuing excellence in ESG standards is the right thing to do from an ethical standpoint as well as being critical from a compliance viewpoint. ▶

◀ Academic studies also point to tangible benefits that accrue to companies that score highly on ESG factors, including better risk management, improved business resilience, enhanced employee and customer loyalty, and shareholder support.

Harvard Business School analysed the performance of more than 2,000 US companies over 21 years and found that firms that improved their record on material ESG issues, significantly outperformed competitors with poor performance on material ESG issues[1]. According to the report, 'Corporate Sustainability: First Evidence on Materiality', the research suggested that investments in sustainability issues enhance shareholder value.

In our own portfolio we see a correlation between strong growth and companies that invest in and look after employees well, support their communities, and take their environmental responsibilities seriously.

As we head into our third year of benchmarking ESG performance, we will continue to set the bar high and support companies on their ESG journey. ■

1 *hbr.org/2020/09/social-impact-efforts-that-create-real-value*

Key achievements

Together with our portfolio companies, we have taken major strides in the last year in developing knowledge, sharing best practice, and driving higher standards on critical ESG issues.

In our second year of collating and benchmarking key performance indicators (KPIs) under our bespoke Responsible Investment (RI) Framework, our portfolio have improved their scores on almost every single indicator – an impressive achievement in a more uncertain business environment.

Having detailed knowledge of their performance has enabled us to target our own resources and expertise even more efficiently, strengthening our ability to add long-term value to the businesses we back.

We introduced several innovations in the year, including running a Growth Series of events to cascade learning on key topics across the portfolio, equipping management teams with expert knowledge to navigate obstacles and capitalise on opportunities in their growth journey.

We drew on external experts as well as experienced members of our own Advisory Board, to address topics including creating a culture that supports growth, successful hiring strategies in fiercely competitive markets, and how technology companies can work towards achieving net zero.

Rav Dhaliwal, senior adviser to SEP, led a Growth Series event on how to build an effective customer success function within a high growth business. These events are highly effective in connecting management teams to continue sharing insight.

We continued to engage closely with portfolio company management teams throughout the year. Without exception, they demonstrated a strong desire to learn through sharing experiences, as well as a firm commitment to continuous improvement in their ESG journey.

As our companies move through the investment cycle, from raising capital to preparing for exit, we are well-placed to ensure that the principles of responsible investment are applied diligently at every stage of the process.

Rav Dhaliwal, senior adviser to SEP

A highlight of the year was SEP achieving top ranking in the ESG Transparency Private Equity and Venture Capital Index 2021[1]. The report analyses the Environmental, Social and Governance (ESG) reporting performance of 155 private equity and 122 venture capital firms across the UK. We were one of only 11 firms to have fulfilled all four criteria in the venture and growth capital category and to be named as a top performer.

We continued to monitor portfolio exposure to the ongoing impact of the pandemic and took swift action to assess the potential impact and mitigate any risks associated with conflict in Ukraine. We focused on companies with employees or customers located there as well as the potential impact of associated sanctions and supply chain disruption.

Milestones during the year included portfolio company Zuto achieving B Corp status. It became the second portfolio company to do so, following regulatory compliance software specialist FundApps which became a B Corp in 2018.

1 *itpenergised.com/wp-content/uploads/2022/02/ITPEnergised_ESG_Transparency_Index_2021_FINAL.pdf*

Certified B Corporations (B Corps) are companies verified by B Lab to meet high standards of social and environmental performance, transparency and accountability. There are currently 5,000 B Corps across the globe. By harnessing the power of their business, B Corps commit to positively impact all stakeholders – workers, communities, customers, and the planet.

The Investing in Women Code was established by the UK Treasury as a means for financial services firms to make a formal commitment to improving access to tools, resources and finance for female entrepreneurs. As a signatory, SEP is commited to creating an inclusive culture as well as to advancing access to capital for female-led and female-founded businesses.

The Women in Finance Charter is focused on achieving gender balance in UK financial services firms. As a signatory, SEP's commitments to promoting gender diversity include having a senior executive team member responsible for diversity and inclusion. We also set internal senior management gender diversity targets and publish annual progress towards these targets.

◀ FundApps has been recognised as being in the top 10% of B Corps globally in the Workers category, which appraises people and culture.

Zuto, a fintech focused on optimising car finance solutions for consumers, is among a growing movement of companies acknowledging a higher purpose. Becoming a B Corp entails a independent assessment of every aspect of a business' social and environmental performance, from renewable energy sources to diversity and inclusion.

There is increasing interest in B Corp certification across our portfolio demonstrating growing awareness that it is possible for companies to be both commercially successful and to be a force for good.

Another key focus during the year was talent and diversity, as companies, including SEP, strive to develop a diverse workforce and to bring on board and develop skilled employees.

We demonstrated our own commitment to advancing female entrepreneurship by signing the Investing in Women Code. This involves adopting internal practices to give female entrepreneurs improved access to tools, resources and finance to grow their businesses.

We also drew on our own network of distinguished women entrepreneurs and advisers for our Women in Tech Leadership events, bringing together inspiring and accomplished executives from across our portfolio and from within our own business.

We are committed to developing the careers of our female employees and this year, as part of our obligations to the Women in Finance Charter, reported that women now hold 36% of our senior management roles, surpassing the target we set of 30%.

"Women now hold 36% of our senior management roles, surpassing the target we set of 30%."

On a wider perspective, we are also proud to be backing companies attacking major societal and environmental challenges and supporting the wider community.

In this report we highlight TotallyMoney whose credit app can help people improve their credit rating and progress to a better financial future. It is tackling financial exclusion, which impacts an estimated 29 million people in the UK who are either currently financially 'under-served' or 'financially fragile.'

Portfolio company Vital Energi provides low carbon energy distribution and management solutions. It is addressing climate change challenges through industry-leading products and services that support energy transition to net zero. ■

ESG in action

We are committed to pursuing excellence in ESG standards through sustainable practices in our own business as well as in the positive long-term influence we seek to have on portfolio companies.

Our Responsible Business Group plays a pivotal role in identifying opportunities to introduce new sustainable practices and ways in which we can support our community. The group's efforts to bring the full team on board for these activities are fully supported by SEP's senior leadership.

Recent initiatives include implementing a responsible procurement policy and a drive to reduce the amount of paper we use. Specific measures include a new paperless electronic purchase approval process, using recycled paper and encouraging the team to think before they print documents. We are also working with banking, credit card and other key suppliers to move to paperless statements and reporting.

We assessed the environmental impact of our supply chain and prioritised local, sustainable suppliers and centralised ordering to reduce waste. ▶

We are also increasing our recycling efforts through purchasing recycled or recyclable products where possible, avoiding single use plastic, and providing recycling facilities at all our premises. We send redundant IT equipment for recycling or for secure destruction by certified specialists who dispose of electronic waste responsibly.

We are limiting business travel to reduce our carbon footprint and increased use of videoconferencing is helping achieve this. All employees are expected to manage diaries in an eco-friendly way, only making essential business trips and seeking travel options with the lowest carbon emissions. We also use airlines' carbon offsetting options where possible.

The pandemic delivered an opportunity to re-examine the way we work, with most of our team now adopting flexible and remote working patterns and fewer people now commuting daily to our London and Glasgow offices.

We strive to reduce the amount of energy we consume in our premises, and we are working with landlords on a number of energy saving initiatives. Our website is also hosted in a data centre which is powered by 100% renewable energy.

Annual performance reviews now appraise all staff on their contribution to responsible business practice, ESG innovation and ESG engagement with portfolio companies. We have taken this one step further by linking variable compensation such as bonuses, to staff engagement with SEP's responsible investment policy.

ESG is high on our agenda at every level: the SEP partnership board regularly reviews staff ESG capabilities and training requirements; responsible investment is discussed at every investment team meeting; and our Responsible Investment Committee meets regularly to progress both strategy and implementation.

We are proud of our team's enthusiastic support of charitable, volunteering and community initiatives. In the past year this has included contributing to the Disasters Emergency Committee Humanitarian Appeal for Ukraine, which provided emergency funding for people affected by the Ukrainian conflict.

In the UK, we supported the Simon Community which tackles homelessness, Fareshare which distributes surplus food to frontline charities, and Trees for Cities, which helps improve city neighbourhoods by planting trees.

Our staff also dedicate their own time to mentoring young people through the Youth Group which helps young people access job opportunities, skills, and mentoring support.

Building young people's confidence and skills is a common theme in our community work. Activities include participating in judging panels for the Youth Philanthropy Initiative (YPI), an active citizenship programme involving high school pupils competing to manage grant funding for local charities. We are also involved with Winning Scotland, a charity focused on initiatives that develop confidence and resilience in young people.

We make a concerted effort to look after our team's mental and physical wellbeing by providing access to mental health resources as well as encouraging staff to participate in a 10-week fitness challenge, involving three teams competing to achieve the longest distance by walking, running, or cycling.

Our ESG journey

We have been committed to building a sustainable and responsible business since SEP was founded in 2000. In the more than two decades since then, our commitment has only deepened both in ensuring we employ sustainable practices in our own business, and in the positive long-term influence we seek to have on companies within our investment portfolio.

We introduced our first formal responsible investment policy a decade ago, refining it over the years. The last year has seen an acceleration and intensification in our ESG-related efforts, driven by SEP's Responsible Investment Committee which we formed in 2020, following a strategic review of our approach to environmental, society and governance issues.

Becoming a signatory to the Principles of Responsible Investment in December 2020 helped to inform our ESG strategy. Also, in the last two years, we have seen very encouraging results from the Responsible Investment Framework we created to help our portfolio companies build ethical, resilient and sustainable businesses. ■

ESG milestones 2021-2022

2021

May

SEP launches Women in Tech Leadership Network

Sep

Publication of first Responsible Investment Report

Women in Tech Leadership event on career coaching with Caroline McCoy

Nov

Growth Series event on how tech companies can achieve net zero carbon

Dec

SEP announces 36% of senior managers are women, exceeding our 30% target

ESG expert Alison Hampton provides specialist training for SEP team

2022

Jan

Women in Tech Leadership event with Arlene Adams, Founder of Peppermint Technology

Mar

SEP makes top rank of ESG Transparency Private Equity and Venture Capital Index 2021

SEP signs Investing in Women Code

Growth Series event on accelerated recruitment

May

Growth Series event on creating an inclusive culture for growth

May

Zuto becomes second portfolio company to achieve B Corp status

Jun

Women in Tech Leadership event with Lynne Weedall, Non-Executive Director

Growth Series event for Customer Success leaders

ESG in the investment cycle

Screening

We screen all potential new investments against our exclusion list, which outlines the businesses, sectors, and products in which we will not invest.

Due diligence

Pre-investment, we assess businesses against our responsible investment framework, identifying key opportunities and any potential concerns. The results are discussed with our Investment Committee and Investment Advisory Board.

Value creation plan

We share information gathered during due diligence with management and work together to develop and implement an individual value creation plan designed to support future growth.

Ongoing engagement

Throughout our investment, we record and monitor portfolio company performance against our responsible investment framework and regularly assess performance against agreed objectives.

Value-add

We share best practice across the portfolio and engage closely with management teams, providing advice and support. Specific programmes include our Women in Technology Leadership network and our 'Growth Series' programme which equips management teams with essential tools and expert knowledge to support their growth plans.

Exit

As we focus on building long-term value, we generally work with portfolio companies over several years, supporting their growth journey. When it comes to securing an exit, we look at opportunities that will deliver a 'responsible exit.' This means ensuring acquirers of portfolio companies are aligned with management team values and long-term growth aspirations.

Our approach to responsible investment spans the entire cycle of the investment process. It is embedded across our entire operation and in processes from deal origination and initial engagement with potential investee companies, to due diligence before we commit to an investment, supporting a company throughout the lifetime of an investment and securing an exit. ■

Responsible investment framework

We created a bespoke Responsible Investment (RI) framework to address the most material aspects of responsible business for the high growth technology companies in which we invest.

We ask our portfolio to submit information on key performance indicators (KPIs) grouped under the three core topics of governance, culture, and society. Recording and monitoring ESG data in this systematic way enables us to engage with management teams more effectively to help them create sustainable value for the long term.

Portfolio companies complete the RI framework benchmarking exercise annually. It covers 100 individual data points grouped under the three core topics and further categorised into 12 important issues.

We designed the framework this way as years of investment experience have taught us that collectively, these 12 factors have a major influence on a company's ability to run a business responsibly, to grow sustainably, to make a positive impact on people and the environment and to build long-term value.

We chose governance, culture, and society as our principal areas of focus because we regard strong governance, putting in place a culture that supports growth, and a commitment to being a positive influence on society, as essential building blocks for a responsible and sustainable technology business.

We have collated data under this framework for two years now, enabling us to benchmark progress in key areas for all portfolio companies. Our investment team shares an overview of aggregated data with portfolio companies and produces tailored reports that show individual company performance against the portfolio company average.

Having a detailed view of each company's performance allows us to share knowledge and best practice across the portfolio. It also provides opportunities for our investment team to offer specific support on areas where we detect scope for improvement.

Our RI framework and annual benchmarking exercise has produced valuable actionable insight that helps us support our companies in highly practical ways.

Over the last two years, key themes emerging from the KPI data are: diversity & inclusion, cybersecurity, environmental policy, and community engagement.

Portfolio management teams now use our KPI reports to develop and implement specific value creation objectives. Progress towards these targets is reviewed regularly at board level. The intelligence we gather facilitates continuous improvement and learning across our investments and within our own team. ■

Principles for Responsible Investment

SEP became a signatory to the internationally recognised PRI (Principles for Responsible Investment) in December 2020 as part of our commitment to adopting best practice in responsible investment.

These six principles influenced the creation of our own Responsible Investment framework and are reflected in all our business practices and every investment decision we make.

The PRI is the world's leading proponent of responsible investment. It was founded in 2006 in New York as an independent organisation, with the support of the United Nations. Today more than 4,300 investors worldwide are PRI signatories, representing the majority of the world's professionally managed investments.

The PRI works to understand the investment implications of environmental, social and governance (ESG) factors. It supports signatories in incorporating these factors into their investment practices and ownership decisions.

The PRI's aim for the next decade is to bring responsible investors together to work towards sustainable markets that contribute to a more prosperous world for all. ■

Signatory of:

PRI Principles for Responsible Investment

Six Principles for Responsible Investment

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will report on our activities and progress towards implementing the Principles.

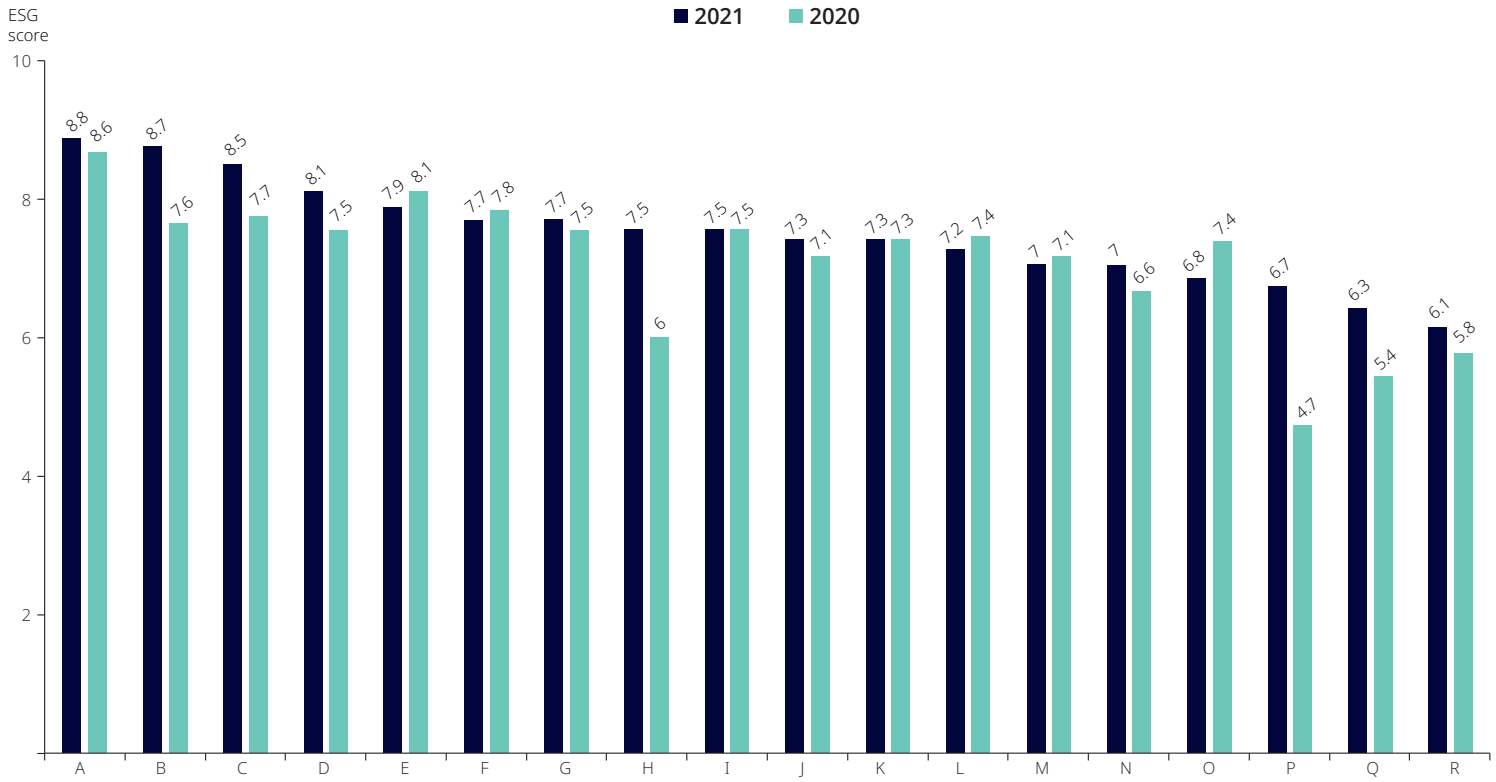
Strong improvement in ESG performance

Our portfolio companies worked hard during the past year to improve their environmental, social and governance performance, resulting in the majority achieving higher year-on-year aggregate scores.

Our companies made strong progress, addressing some of the biggest challenges facing businesses worldwide: including strengthening measures to combat cybercrime risk, devising strategies to attract and retain skilled employees amid a global talent war, and taking steps to measure and limit their environmental impact.

As responsible technology investors, with a portfolio that includes leading software businesses supplying mission-critical solutions to global enterprises – we recognise that maintaining customer trust in information security is a paramount concern.

The PwC Economic Crime and Fraud Survey 2022[1], which gathered the views of almost 1,300 executives across 53 countries and regions, found that cybercrime is the biggest fraud threat facing most businesses today.



The chart shows anonymised aggregate ESG performance scores for portfolio companies (A, B, C, etc) in 2020 vs 2021.
All figures in this report are based on a like-for-like comparison of the 18 companies surveyed during this year's ESG data collection exercise.

1 *pwc.com/gx/en/services/forensics/economic-crime-survey.html*

"Cyber security is rising up boardroom agendas across our portfolio"

◀ Almost half of the organisations surveyed had experienced some form of fraud or economic crime in the past two years.

Our benchmarking exercise found that cyber security is rising up boardroom agendas across our portfolio – one of the most significant positive developments of the last 12 months. The percentage of our portfolio companies where information security measures are now subject to regular board scrutiny has increased from below 50% to 61%.

This underlines the growing recognition that cybercrime and data breaches present significant strategic as well as reputational risks. We anticipate board engagement increasing further as we support companies in taking steps to ensure information security measures are even more robust.

We have also focused on helping companies create a culture that promotes growth and innovation and supports the attraction and retention of talent. The hunt for top people has intensified in the last 12 months. ▶

> *"There has been significant progress across the portfolio on increasing female representation"*

It is a global phenomenon that is not restricted to the technology sector, although some of the fiercest competition has been among tech companies at both ends of the scale.

The first of our Growth Series events in 2022 addressed the challenges of scaling high performance teams at a time when demand for skills and experience is outstripping supply. We brought together experts to share insight on diverse topics including the importance of differentiation in a crowded recruitment market, strategies to increase workforce diversity and how career development can help build a pipeline of future leaders.

There has been significant progress across the portfolio on increasing female representation, both as a percentage of the overall workforce and at board level. For SEP portfolio companies in aggregate, females account for 46% of the total workforce – a far higher female representation than in the wider UK technology sector where women account for just 19% of the workforce, according to Tech Nation[2].

We also helped companies consider how to respond to growing demand for remote working opportunities and more flexible working models. Remote working practices may present challenges, but on a positive note, adopting this approach enables companies to recruit from a larger and mobile global talent pool.

Through our Growth Series, portfolio company Tyk shared its experience of operating as a default remote business, with 130 staff located in more than 26 countries. Tyk, an emerging leader in the Application Programming Interface (API) management market, explained how the company functions with asynchronous communications and decision making.

Another strong theme from our benchmarking exercise was a growing commitment to having a positive impact on climate change and helping the UK meet its target of achieving a net zero economy by 2050.

Our companies take their responsibilities in terms of environmental impact seriously. Data centres worldwide emit as much carbon dioxide as the global commercial airline industry and the problem is becoming more acute as global data generation, transmission and storage grows exponentially every year.

46%

female representation across SEP portfolio companies

In this context, it was encouraging to see a sharp rise in the number of portfolio companies measuring energy consumption. There is scope for further improvement, and this will be a focus in 2022/23.

We are proud of the overall progress made by all our portfolio companies. As well as providing an overview of their achievements, this report highlights the actions of several portfolio companies that emerged as high achievers last year in one or more aspects of ESG.

2 *technation.io/insights/diversity-and-inclusion-in-uk-tech-companies*

Companies rise to growing cybercrime challenge

Cracking down on cyber risk by strengthening information security measures is a major focus for all our companies, with the entire portfolio intensifying efforts to prevent data loss and data breaches over the last year.

Combatting information security risk has become increasingly complex. This stems from a combination of factors, including the growth in global data, an increase in organised crime activity, and the proliferation of networked devices. According to Cisco, by 2023 there will be three times more networked devices on earth than humans – this year internet users globally are expected to hit 6 billon[1].

Both the frequency of cyber-attacks and the financial impact of cybercrime are predicted to rise. 'Ransomware' attacks (in which criminals demand ransoms from consumers or businesses in exchange for stolen data or regaining access to data) are forecast to increase to every two seconds by 2031 from every 11 seconds today, according to Cybersecurity Ventures.

The firm also estimates that the global cost of cybercrime will rise to $10.5 trillion by 2025[2], from $6 trillion in 2021. In perspective, if cybercrime were measured as a country, it would rank as the world's third largest economy after the US and China.

Our portfolio includes leading-edge technology companies who have built strong reputations as trusted software and services suppliers to customers worldwide, with many serving sectors such as finance and law where data security beaches could have profound consequences. From board directors to frontline employees, they are keenly aware of the need to remain hypervigilant against cyber-attacks to maintain customer trust.

A standout statistic from our ESG benchmarking was that 100% of our portfolio companies now conduct external 'penetration testing' to evaluate the robustness of their information security, up from 83% a year ago.

External IT review / penetration testing	
2021	100%
2020	83%

$10.5tn

estimated global cost of cybercrime by 2025

Penetration testing involves a controlled simulated attack to identify potential flaws and weaknesses within a business' IT network, devices, processes, or people.

It provides an opportunity for companies to assess risks, identify potential weaknesses and implement appropriate risk mitigations.

More than 95% of cyber security breaches involve human error. Increasing employee awareness and providing staff with the tools to identify and mitigate threats is a key component of a company's information security strategy.

With 89% of portfolio companies providing regular cyber security training to staff, they are empowering their employees, helping them gain an awareness of specific types of potential threats and giving them the tools to act, fostering a culture of security throughout the business. ■

1 *rcrwireless.com/20200218/internet-of-things/connected-devices-will-be-3x-the-global-population-by-2023-cisco-says*

2 *cybersecurityventures.com/hackerpocalypse-cybercrime-report-2016*

Increased board scrutiny of cyber risk

Cyber security, as with other critical risk issues, requires expert leadership and strong governance. While all our portfolio companies already have a strong focus on cyber security at the point we invest, it has not always been elevated to the agenda for senior management and the board.

Our work supporting technology companies to scale, involves helping them build an effective board to ensure that rapid growth is underpinned by good governance.

We have been instrumental in helping companies to recruit high calibre directors, and across the portfolio, board members have an average of 18 years board experience.

We are encouraging portfolio company boards to become increasingly involved in cyber risk assessment, with 61% now having reviewed cyber security in the last 12 months, up from 44% previously.

SEP provided masterclasses on data management last year and we are planning a special 'Growth Series' cyber event for portfolio companies later this year.

There was marked progress in other key governance areas last year too, including more companies establishing separate audit and remuneration committees and greater emphasis on introducing anti-bribery and corruption policies as well as formal whistleblower policies. ■

Board review of Cyber in the last 12 months	
2021	61%
2020	44%

> *"We have been instrumental in helping companies to recruit high calibre directors"*

Basis Technologies

Basis Technologies is a leader in specialist software solutions that enable organisations to drive business agility and transformation.

The company, led by chief executive Martin Metcalf, has demonstrated a strong commitment to ESG performance. Its efforts led to a significant year-on-year increase in its overall score in SEP's latest benchmarking report.

Basis is a trusted solutions partner to a global base of clients that operate across diverse industry sectors – from consumer products giant P&G to insurer Allstate and a range of other customers across technology, utilities and manufacturing. They have a common need for agile software solutions to overcome complex challenges associated with digitisation, cloud migration and changing customer behaviour.

Basis meets these needs in a highly sophisticated and unique way. It is rapidly emerging as a global leader in DevOps, a set of practices combining both software development and IT operations.

It has created innovative solutions that are deployed in systems powered by SAP, the world leader in Enterprise Resource Planning (ERP). The DevOps solutions that Basis delivers are mission-critical for its customers as SAP-based ERP systems are at the nerve centre of most of the world's major enterprises.

Basis has earned customer trust both through the high quality of its products and through consistently making privacy, cyber security, and risk management top priorities. In common with other SEP portfolio companies, Basis has strengthened its board with independent non-executive directors who have a wealth of experience and knowledge of the SAP ecosystem including the needs of its enterprise customer base.

SEP's ability to bring added rigour and expertise on ESG issues to the company as it expands, was one of the reasons Basis chose to partner with SEP. ■

Sharp focus on talent and gender diversity

Attracting, retaining, and developing top talent is key to achieving sustainable growth and is an area on which our portfolio remains intently focused.

Management teams are also increasingly focused on building a diverse workforce that is not only more representative of wider society, but that can bring different viewpoints to bear, influencing corporate strategy and company culture.

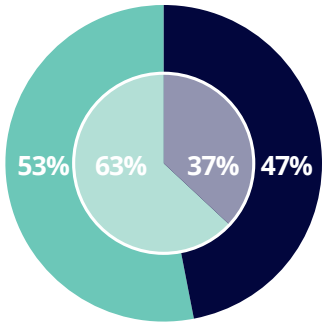
Having a diverse workforce is important both from an equality perspective and from a competitive standpoint. Research conducted in 2019 by analysts for the Wall Street Journal concluded that diverse and inclusive cultures give companies a competitive edge over their peers[1].

Forbes magazine attests that a growing list of studies by economists, demographers, and research firms confirms that socially diverse groups are both more innovative and productive than homogeneous groups[2].

The recruitment challenges faced by our portfolio companies over the last year are not unique. The entire technology sector has been among industry sectors hardest hit by intense competition for talent, with big tech companies frequently battling smaller ones for highly skilled people.

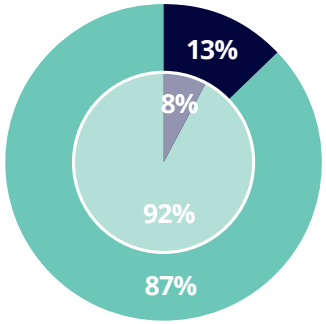
Businesses worldwide have been affected by the 'Great Resignation' – in which large numbers of people reassessed employment choices during the pandemic, prompting many to either quit their jobs or change career. During 2021 we saw a small increase in employee turnover across the portfolio, most likely due to this broader market trend.

Portfolio companies have adopted innovative approaches to hiring and developing talent.



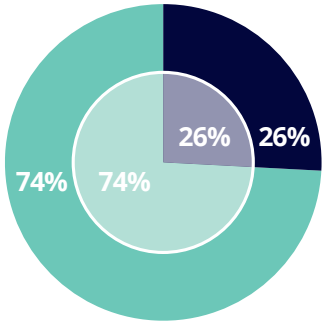
Portfolio companies with female Board representation

Female *Male*



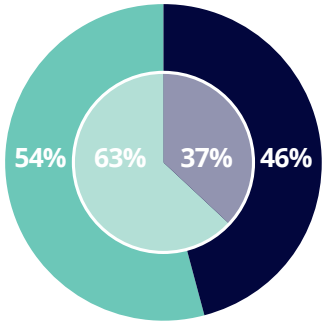
Board composition

Female *Male*



Direct reports to CEO

Female *Male*



Total workforce

Female *Male*

outer rings 2021; inner rings 2020

1 *wsj.com/articles/the-business-case-for-more-diversity-11572091200*

2 *forbes.com/sites/forbesinsights/2020/01/15/diversity-confirmed-to-boost-innovation-and-financial-results/?sh=6ce7f618c4a6*

76%

of portfolio companies have increased learning and development opportunities

◀ Peppermint Technology demonstrated that strong leadership, investing in training and career development and carrying out regular staff sentiment surveys can increase employee engagement and simultaneously reduce employee turnover.

We held two Growth Series events focused on talent, including how to recruit in competitive markets and how to create a culture that fosters growth. We will continue to address this important issue in coming events.

A key area in which our portfolio companies have made major strides is in addressing the gender gap. Across the portfolio's collective workforce of more than 5,000 employees, the gender split last year advanced to 47% female, a significant increase from 37% female the previous year. This is far ahead of female representation in the wider UK technology sector, in which, according to Tech Nation, just 19% of the overall workforce are female[3].

Alizeh McClelland
SEP Principal

Attaining gender equality is a strategy being pursued by big as well as smaller tech companies and so far, according to data from Deloitte Insights[4], it seems smaller companies (certainly those in our own portfolio) are ahead of the pack. An analysis of 20 large technology companies showed that progression towards gender balance has been steady but relatively slow, with female representation moving up from 31.5% in 2020 to an estimated 32.2% last year and forecast to reach 32.9% this year.

As well as striving to increase overall female representation in our own business and across our portfolio, we support female career development through our Women in Tech Leadership network. SEP Principal Alizeh McClelland has helped us bring together female entrepreneurs, executives, and board directors from Europe's most dynamic technology companies to share knowledge and insight on career progression in the technology sector.

Inspiring leaders who have addressed our events include Lynne Weedall, a highly regarded and highly experienced non-executive director. She is an expert in people and business transformation who has advised numerous boards and management teams on major change programmes. Other issues we have addressed include how an employee-oriented strategy can drive growth and support innovation.

Some of our companies, including Peppermint Technology, have made major progress in achieving higher female representation both across the workforce and at board level and we encourage them to share best practice on addressing gender diversity across our broader network. Peppermint founder Arlene Adams has also participated in our Women in Tech Leadership Network.

Another highlight of our latest benchmarking was evidence of increased commitment from portfolio companies to calculate and report on the gender pay gap. Within the next 12 months, 61% of the portfolio will be reporting on gender pay gaps and we will support companies' efforts to increase gender pay transparency. ▶

3 *technation.io/insights/diversity-and-inclusion-in-uk-tech-companies*

4 *deloitte.com/us/en/insights/industry/technology/technology-media-and-telecom-predictions/2022/statistics-show-women-in-technology-are-facing-new-headwinds.html*

61%

of portfolio companies will report on the gender pay gap within the next 12 months

◀ Our companies have proven to be diligent in looking after and investing in employees. All portfolio companies have employee mental health safeguarding policies in place and an overwhelming majority (76%) have increased training and development opportunities.

Management teams have also made concerted efforts to develop a deeper understanding of employees' concerns as well as their aspirations and what motivates them, with regular staff surveys taking place across the portfolio.

A common theme emerging is the increasing value placed on flexible working practices and a good work-life balance. People want to work for an employer with whom they have a shared sense of purpose and shared values. This year, we will continue to focus on helping companies develop a culture in which employees feel happy and valued and have opportunities to progress. ■

TotallyMoney

TotallyMoney CEO Alastair Douglas has made diversity, equity and inclusion (DEI) a strategic priority for the London-based fintech, which has been widely recognised for creating a culture in which employees feel valued and engaged.

TotallyMoney, whose credit report service enables consumers to improve their credit score and become more financially resilient, has repeatedly been named one of the best companies to work for in the UK. The Best Companies scheme last year awarded TotallyMoney a three-star accreditation, the highest standard of workplace engagement. It was also ranked as 5th best company in the finance category.

An ability to recruit, retain and develop talented employees is a key component of TotallyMoney's commercial success. Building a supportive and distinctive culture has enabled it to maintain high employee engagement despite increased competition for talent and the impact of remote working and the pandemic. Focusing on mental wellbeing and finding new ways for people to stay connected have helped.

The CEO sees strong alignment between developing a product that helps customers to 'move on up' financially, and a strategy to equip employees with the skills and support they need to flourish.

As part of these efforts, TotallyMoney is sharpening its focus on DEI. The CEO, board and management team believe firstly, that this is the right thing for a responsible business to do. They also recognise that multiple benefits can flow from creating an inclusive company culture in which everyone feels welcomed, celebrated, and valued, and has equal access to opportunities.

Plans include specialist training to raise awareness of diversity, equality, and inclusion issues, including the potential for hiring bias. The company will also regularly gather demographic data which will allow it to measure progress and assess impact on innovation and company performance.

The company appointed a DEI partner last year and by early 2022 more than 80% of the TotallyMoney team had participated in DEI 'listening' groups. Next steps will include creating a DEI committee, defining related values and mission, and building an associated roadmap. ■

Companies step up efforts on climate change

In a year which saw world leaders convene in Glasgow for COP26, (the United Nations Climate Change Conference) to discuss global climate change challenges, our portfolio companies demonstrated increased commitment to responsible environmental practices.

This was the area in which we saw the highest number of companies making improvements, particularly on measuring energy consumption, with half of the portfolio now doing so.

Research by the British Business Bank suggests that smaller businesses (with fewer than 249 employees) account for around half of UK business-driven emissions, the same proportion as larger businesses[1].

Our responsibilities as an investor include requiring portfolio companies to address climate considerations as an integral part of business planning.

1 *british-business-bank.co.uk/press-release/smaller-businesses-responsible-for-around-half-of-all-uk-greenhouse-gas-emissions-from-businesses-british-business-bank-research-reveals*

We encourage all our companies, irrespective of size, to go beyond compulsory actions and to voluntarily implement policies to measure energy usage and reduce both energy consumption and CO2 emissions. Boards have an important role to play in scrutinising and reviewing environmental policy.

We held a Growth Series event in November on ways in which technology companies can set and achieve net zero targets. It was led by ESG consultant Alison Hampton and Chairman of Thames Water Utilities, Ian Marchant, who urged companies to adopt a 'top-down' approach with climate change initiatives led by the CEO and executive leadership team.

Our companies are rising to climate change challenges in a variety of innovative ways and more than 90% already have workplace green initiatives in place.

Our work to support sustainability efforts involves sharing best practice across our portfolio, including examples of companies achieving major ESG milestones.

90%

of portfolio have workplace green initiatives

Measuring energy consumption	
2021	50%
2020	33%

Notable examples last year include Mister Spex, an omnichannel international eyewear retailer becoming a certified climate neutral company. It has committed to only using electricity from renewable sources, using recyclable, sustainable materials for packaging, and climate friendly alternatives for shipping. It also plans to increase its range of eco-friendly and sustainable brands.

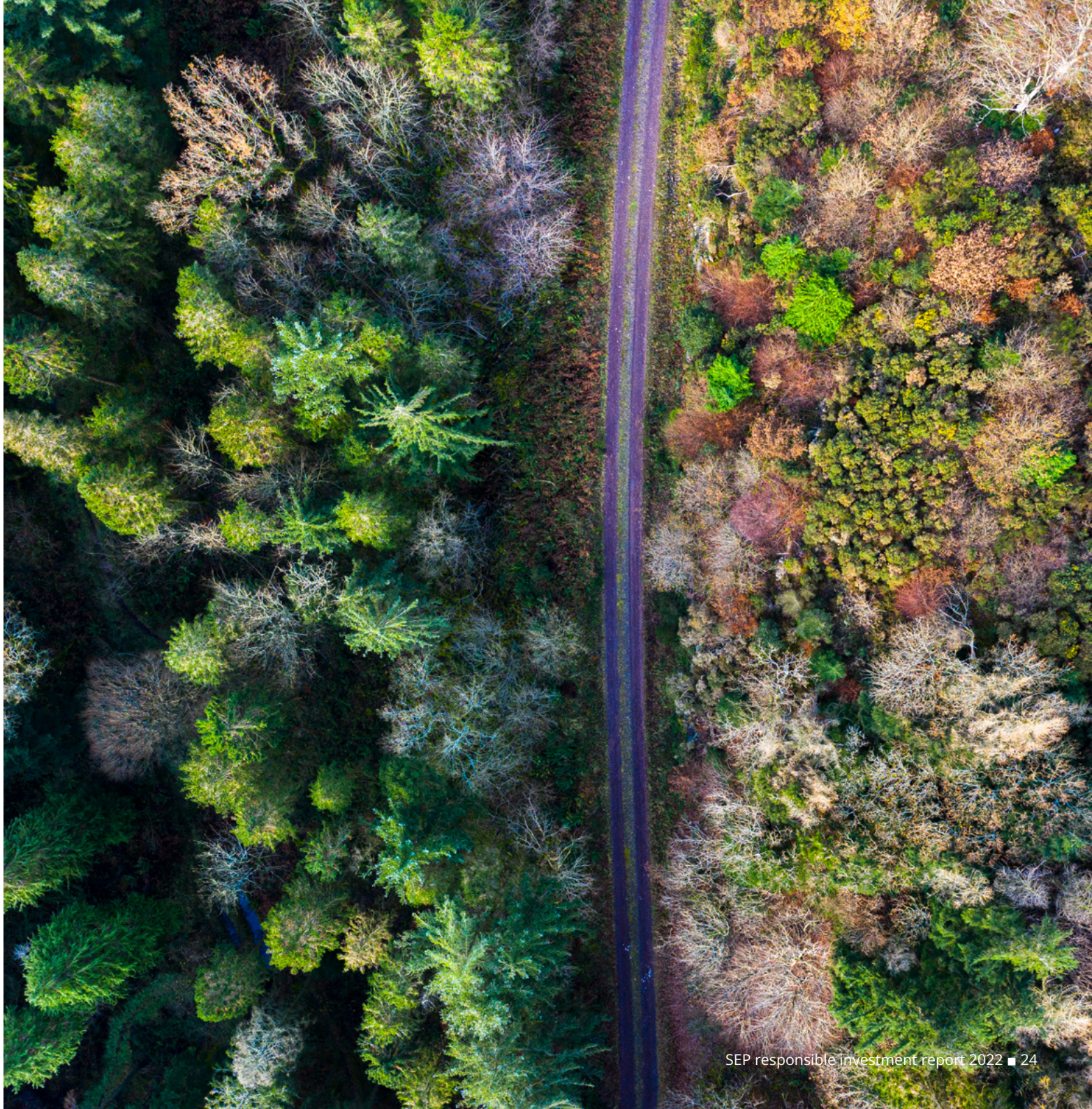
In addition, two of our portfolio (Manchester-based fintech Zuto and regulatory compliance software specialist FundApps) are now certified ▶

"Portfolio companies are tackling climate change in ways large and small"

◀ 'B Corporations' (B Corps), having undergone rigorous inspection to verify that they meet high standards in social and environmental performance. FundApps, the first portfolio company to become a B Corp in 2018, seeks to reduce harmful emissions through a combination of staff engagement, 'green IT' and supply chain monitoring.

Our portfolio includes expertise in sustainable energy such as Vital Energi. It specialises in energy generation and multi-utility network distribution schemes based on low carbon and zero carbon technologies. It is investigating new ways of heat generation from low carbon sources.

Across the portfolio companies are increasing efforts to tackle climate change in ways large and small, from using energy-saving light bulbs to subsidised bike schemes for employees, reduced business travel and carbon offsetting. ■



Growing emphasis on green supply chain

We saw a marked increase in the number of companies checking the green credentials of their suppliers in the past year, driven by an awareness that environmental responsibility does not stop at a company's own front door.

It is increasingly an issue that concerns not just customers but also employees as well as potential recruits for whom a company's ethics can be a deciding factor when weighing job offers.

A year ago, a very small proportion of our companies assessed suppliers' green credentials – now one in three do this, and we expect this to increase further. Pressure is coming from customers who expect companies supplying them with goods or services to demonstrate that they are part of a sustainable supply chain.

The 2022 State of Supply Chain Sustainability report[1] indicates that pressure to support supply chain sustainability has increased steadily since last year, with a sharper focus on environmental dimensions, including climate change mitigation.

It can be challenging for companies to verify suppliers' green credentials, however new research indicates that businesses that succeed in doing so, can reap rewards. A UK survey by Ivalua found that 87% of UK businesses see "greener", sustainable supply chains, as a competitive advantage[2]. We will continue to share insights on these critical topics with portfolio companies in 2022/23. ■

Assessing green credentials of suppliers	
2021	33%
2020	17%

1 sscs.mit.edu

2 ivalua.com/blog/green-supply-chain

Supporting communities

A commitment to supporting communities, both locally and internationally, has long been a hallmark of our portfolio companies who share our ethos on the importance of giving back.

At a time when many families and individuals are struggling to cope with the rising cost of living, and may be suffering from issues linked to the pandemic and other pressures, even more of our companies committed resources to extending a helping hand.

Activities across the portfolio in the last year ranged from fundraising for hospices, cancer research, mental health, and homeless charities, to support for education and training schemes and volunteering and mentoring work with children and young adults.

Involved in community projects	
2021	78%
2020	67%

Content Guru

Content Guru, the leading provider of mission-critical cloud contact centres to large global organisations, is as proud of the impact it makes as a responsible business as it is of the major growth milestones it has achieved.

The company takes a holistic approach to ESG issues. CEO Sean Taylor sits alongside team members from across the business on an Environmental, Social and Governance Committee which addresses ESG-related policies, practices, and initiatives. These include energy-saving measures and targets to help the UK achieve carbon neutrality by 2050, as well as funding several charities.

The company is committed to having a positive impact on communities, both locally and globally, which is why it supports projects such as a local hospice as well as national charities in the UK and overseas organisations. Examples include Foundation Kika, a Dutch charity researching childhood cancers and a charity offering befriending services for older people.

As a global IT services provider, the company is keenly aware that data centres are major contributors to carbon emissions. As part of its responsible business strategy, Content Guru has attained ISO 14001 environmental management system accreditation, which involves implementing a system to monitor and report its own carbon emissions.

Content Guru helps reduce the environmental impact of communication in two further ways. Firstly, moving clients from contact centres hosted on their own premises to multi-tenanted cloud environments reduces carbon emissions. Secondly, most of the data centres it uses have internationally recognised environmental accreditations and adhere to stringent energy management standards.

The company is involved in several sustainability projects currently, including the potential use of energy efficient lighting in its headquarters as well as the installation of solar roof panels. Employees are also encouraged to reduce their personal carbon footprint through using company bikes and making more use of remote meetings, a move that has significantly reduced business travel. ■

Peppermint Technology

The portfolio company with the highest overall ESG performance score for the second consecutive year was Peppermint Technology, an innovative cloud software company providing a range of applications to leading law firms.

A key factor in achieving top performer status was a strong performance across all three categories of the SEP responsible investment framework (governance, culture, and society), demonstrating commitment to excellence in all its ESG practices and policies.

Peppermint, led by chief executive Gary Young, is a rapidly expanding leader in the UK legal software market, serving a growing number of the top 200 UK law firms and with plans to double UK market share in the next few years. It has also established a foothold in North America as part of its ambitious growth strategy.

Gary says that embedding strong governance and robust ESG practices across its entire operation is key to maintaining the trust of its law firm clients, for whom customer data integrity, security and privacy are of paramount importance.

Peppermint, which already had Cyber Essentials accreditation, has continued to raise the bar in this area, gaining ISO 270001, an audited international standard that defines the requirements of an information security management system (ISMS). To gain accreditation, companies must demonstrate the effectiveness of policies, procedures, and processes to manage information risks such as cyber attacks, hacks, data leaks and theft.

Gary Young on how to influence company culture

- Listen to employees at every level across the business
- Ensure everyone takes responsibility for the customer experience
- Invest in developing employees' skills and knowledge
- Use reward and recognition schemes to celebrate success

"Our entire operation went through a nine month, very rigorous, two-stage independent audit to obtain ISO 270001." says Gary.

"The auditor was pleasantly surprised that we were already in very good shape, with no major gaps in our information security systems. It's testament to not just our leadership team but to everyone in the company."

Peppermint has Microsoft Gold partner status and was recently recognised as a finalist for UK Partner of the Year for 2022, a mark of trust in the business. "Our trusted partner status is absolutely key to our clients and to their customers."

Peppermint's legal software platform sits within the Microsoft technology 'stack' which brings additional benefits in terms of environmental impact

as Microsoft is committed to becoming a carbon negative and zero waste business by 2030.

"Peppermint itself has a relatively low carbon footprint, all our software is in the cloud. We also have a lot of software hosted with partners like Microsoft which are world class organisations with ambitious ESG agendas."

Processes are only as good as the calibre of people responsible for them. Attracting and retaining top talent has been a major focus since Gary became CEO four years ago. "The culture of the company has always been high on my agenda, it's not just something we looked at because of talent wars in the tech sector."

Peppermint has systematically measured employee engagement in six-monthly surveys for more than four years, using the insights to dramatically reduce what was previously a relatively high rate of staff turnover.

These efforts have had enormously beneficial results for Peppermint, with a consistent improvement in engagement scores and a major reduction in turnover. "We benchmarked turnover against other technology companies of a similar size and our turnover is now regularly below the market average."

Unusually in the tech sector, which remains generally male-dominated, Peppermint has an almost 50/50 split of male/female employees as well as a 50/50 gender split on its executive board. Senior roles occupied by women include chief financial officer, financial controller, head of people performance, marketing and communications manager, head of product enablement and leaders of our development, QA and customer support teams.

Having access to SEP's Women in Tech leadership network events is a boon for existing managers as well as up-and-coming female talent.

Inculcating a positive and inclusive culture at Peppermint begins even before day one for new starters, with a well-designed recruitment process, followed by a warm welcome and smooth induction. As the talent war rages, these things can be pivotal in wooing fresh talent.

Maintaining a strong community spirit across the company has been challenging during the pandemic. Peppermint has tackled this with monthly online 'all-hands' meetings as well as getting employees together in charitable projects such as sleep-outs to raise money for a homeless charity. 'We did a sleep-out in Nottingham because we are a Midlands-headquartered company, but homelessness is a global problem we can all help tackle."

Gary says: "Being a responsible business means looking outwards as well as inwards at ways to make a positive impact. It's important for our customers, our employees and for the communities we engage with either directly or indirectly."

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