



Silverfleet

ESG REPORT 2020



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Gareth Whiley
Managing Partner



“ For over thirty years, Silverfleet has taken its responsibilities seriously as an employer, investor and business owner in contributing positively to the environment and society as a whole.

In last year’s report we outlined measures we had taken to improve oversight and our enhanced framework to embed ESG best-practice throughout the investment process.

In our second ESG Report, we look forward to updating readers on progress and the many actions taken over the course of 2019 across our portfolio and within the Firm.

In addition, we outline planned initiatives for the coming year and beyond, reflecting our on-going commitment to ESG across all aspects of our operations. ”

Introduction

Underpinned by a proven origination model, Silverfleet invests in companies that stand to benefit from five selected positive macro dynamics: ageing populations, growth of cities, resource scarcity, technology changes and growth in regulation, across sectors in which we have deep experience.

We believe that these macro trends are generally irreversible and will grow in both significance and opportunity, even during a downturn, and lead naturally to integration of ESG criteria throughout our origination and investment process.

They are also closely aligned to a number of the UN Sustainable Development Goals, which help provide a blueprint to achieve a better and more sustainable future for all.

Silverfleet has been a long-standing signatory to the Principles for Responsible Investment (since 2011), making the Firm one of the earlier private equity managers to do so. By formalising its commitment, the Firm remains focussed on achieving high standards of corporate governance, business integrity and professionalism in all activities. Silverfleet has maintained its ‘A’ rating for the nine years since becoming a signatory.

Recent Developments

In 2018, we decided to further elevate our ESG focus by establishing an ESG Steering Committee and implementing a new, rigorous ESG process that stretches from due diligence through ownership and, ultimately, exit.

We also retained an external ESG specialist, Corporate Balance, to review our entire portfolio and establish a benchmark, and, having completed a second review of the portfolio in 2019, we have now formalised our approach in mapping our companies’ progress in implementing ESG initiatives.

Benchmarking our portfolio’s progress alongside a newly-formed and comprehensive set of quantifiable performance indicators will further enhance and develop our ESG work over the forthcoming year.



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Firm responsibilities

Silverfleet's commitment to responsible investing extends beyond the portfolio, and as a firm we embrace the ESG impact of our own operations by upholding the highest standards of business conduct, being a responsible employer and creating an equal opportunities culture.

In April 2020 we were delighted to announce that Silverfleet's Chairman, Neil MacDougall, has been appointed as Chair of the BVCA, the trade body for the UK private equity and venture capital sector, for the next financial year.

Neil takes on his role at a moment of unprecedented challenge for the country, where Brexit, coronavirus and rethinking of globalisation will shape the future of private equity. Being at the heart of stewardship of the industry, he is determined to ensure private equity and venture capital do their bit to address these pressing issues, and we look forward to supporting him and working closer with the BVCA as a result of his new role.



Neil MacDougall
Silverfleet and BVCA Chairman

Coronavirus

While we have made good progress in ESG integration over the last two years, we cannot ignore the immediate scale and impact that the current coronavirus pandemic will have on our portfolio. We are adopting an extremely vigilant approach through actively monitoring and managing our assets through the crisis.

Measures taken include setting up a COVID-19 working group, led by Gareth Whiley and a further dedicated Partner and speaking with management teams daily to review a detailed checklist of action items covering all aspects of Operations, Financial Performance and Banking. We are engaging with lenders, scenario re-forecasting and, where necessary, participating in industry lobbying.

In some cases, the COVID-19 situation has propelled our ESG framework into a real-time context. For example, at STAXS, a medical consumables distributor in Silverfleet's European Development Fund, the company has experienced record trading (up to ten times normal daily levels) since the start of the outbreak, bringing with it an opportunity to establish long-term meaningful relationships with new customers, whilst maintaining price continuity.

2019 PROGRESS

2019 Achievements



PORTFOLIO

- Existing portfolio company ESG update reviews completed, evidencing significant progress in the portfolio
- Completed full ESG reviews of four new portfolio companies
- Conducted a cyber security questionnaire across our portfolio of companies

FIRM

- Implementation of office recycling initiatives and donation of IT equipment
- Appointed Silverfleet's first 'Charity of the Year' in the London office

2020 Objectives



PORTFOLIO

- Initiate climate change preparedness discussions and programs
- Conduct gender pay gap analysis across the portfolio, with action plans to mitigate any identified gaps
- Roll-out ESG KPI reporting to all portfolio companies

FIRM

- Become carbon-neutral for 2020
- Develop a structured, impactful relationship with XLP, our chosen charity partner for 2020 in our London office. Complete selection of local French and German charities

Portfolio development

In 2019 we continued to build on our progress made at both the portfolio company and Firm level. With our retained ESG consultant, Corporate Balance, having undertaken update reviews of our portfolio, we are pleased to report that two-thirds have improved their performance levels.

This progress reflects the increasing importance management teams are placing on embedding ESG related practices across their businesses. Feeding back update reviews and recommendations ensures that we maintain an active role in our portfolio, going beyond board participation and working in partnership with management teams to grow and develop the business and solve problems together.

We were also pleased to present first-time ESG reports to management teams of four new portfolio companies this year:



An assessment is currently in progress for our most recent investment in Collectia, a Danish credit management services provider with a niche presence in the Nordics and Germany, following deal completion in March 2020.

Firm-wide commitment

We continue to embed ESG management throughout the investment life cycle whilst ensuring we also lead by example on issues directly relevant to the firm.



Access to employment has also been a central tenet in selecting Silverfleet's first 'Charity of the Year' partner for the coming year. In March, our London office nominated XLP, a charity supporting young people growing up in London's inner-city estates through its arts, sports and employment schemes.

Our Paris and Munich offices will soon be selecting their own charities to support through corporate donations, employee fundraising and volunteering.

Cyber security

In 2019 we developed and circulated a cyber security questionnaire to all portfolio companies. This has helped to understand the levels of maturity across our portfolio in managing IT security risks. The questions covered:

- Disaster recovery and business continuity plans
- Cyber and/or information security policies
- Cyber-related insurance
- Use of external IT security resource
- An explanation of the security features in place to ensure data integrity

The output from this exercise was reviewed by our ESG Steering Committee and tabled at each company's board meeting. In summary, there were no red flags identified through this process with all companies adequately managing potential cyber security risks.

We will continue to review portfolio company performance to ensure the correct safeguards are in place to manage increasingly sophisticated threats to IT security.

2020 OBJECTIVES

Reporting improvement

Over the coming year we will enhance our ESG monitoring practices in order to track progress across our portfolio companies more succinctly.

By integrating ESG reporting metrics in iLevel, a portfolio monitoring tool the Firm uses for all elements of performance reporting, we will be able to capture quantifiable indicators and targets through one platform, enabling clearer oversight of ESG benchmarks.

Gender pay gap

This year we will ask all portfolio companies to complete a gender pay gap analysis.

This will include a narrative statement and action plan alongside gender pay gap figures. We will continue to review progress against these plans to ensure our portfolio companies promote diversity in the workplace through equal pay.

Additionally, through the roll-out of our ESG KPIs, we will begin collecting diversity data and review D&I policies already in place. This will also help us understand how we can engage with companies to promote diverse and inclusive workplaces.

Carbon-neutrality

We are working towards offsetting our 2020 carbon footprint and becoming a carbon-neutral company.

This commitment to making a positive contribution to resource scarcity is one of five key macro trends to which the Firm aligns its investment strategy. Increasing demand for resources such as food, water, energy, land and minerals, in addition to supply-side pressures induced by climate change, will lead to resources becoming increasingly more expensive to source. While these dynamics have given rise to many innovative investment target companies striving to alleviate resource pressure, in addition to exciting opportunities within our own portfolio (e.g. manufacturing 'circular economy' products), we are acutely aware of our own impact as a firm on the global environment.

This year the firm has worked to implement several recycling and energy-saving initiatives across our offices, including donation of IT equipment to IT Schools Africa, a charity transforming IT education across Africa.

Charity partnership

Having selected **Silverfleet's** first 'Charity of the Year' partner for our London office, we look forward to working with XLP, a London-based youth charity.



In London we shall be supporting XLP's work helping to create positive futures for young people from disadvantaged backgrounds. Established in 1996, XLP operates across nine inner-city

boroughs around London, working with over 1,600 young people through education, mentoring, sport and the arts.

Establishing a partnership will involve charitable donations, fundraising events and volunteering opportunities, allowing our own employees to give back to the community and promote teamwork within the Firm. Our Paris and Munich offices are in the final stages of selecting a similar charity to support.

Outlook

As the coronavirus pandemic has channelled an even greater degree of uncertainty for our planet, global population and economy, it is clear we cannot lose momentum in progressing our ESG efforts. While our immediate focus is on the health of our workforces, liquidity and overall stability of our portfolio companies, now more than ever it is evident that ESG principles need to be fully and effectively integrated across the firm, our portfolio and throughout our investment process. The social implications of the virus are far reaching and while there are many unknowns for our businesses, we shall endeavour to support, communicate with and listen to our workforces and management teams in these unprecedented times.

As outlined in this report, the update review of our portfolio has accelerated our ESG journey, providing a further snapshot of the full potential our portfolio companies, and the Firm, have in making a positive and lasting difference to the environment and society. The scorecard methodology provides both a backward and forward-looking assessment, reflecting a summary of progress made alongside recommended actions.

This, in addition to the roll-out of KPI reporting over the coming year, will establish a sophisticated benchmarking platform and, together with our own responsibilities as a firm, will continue to form the central focus of our ESG work.



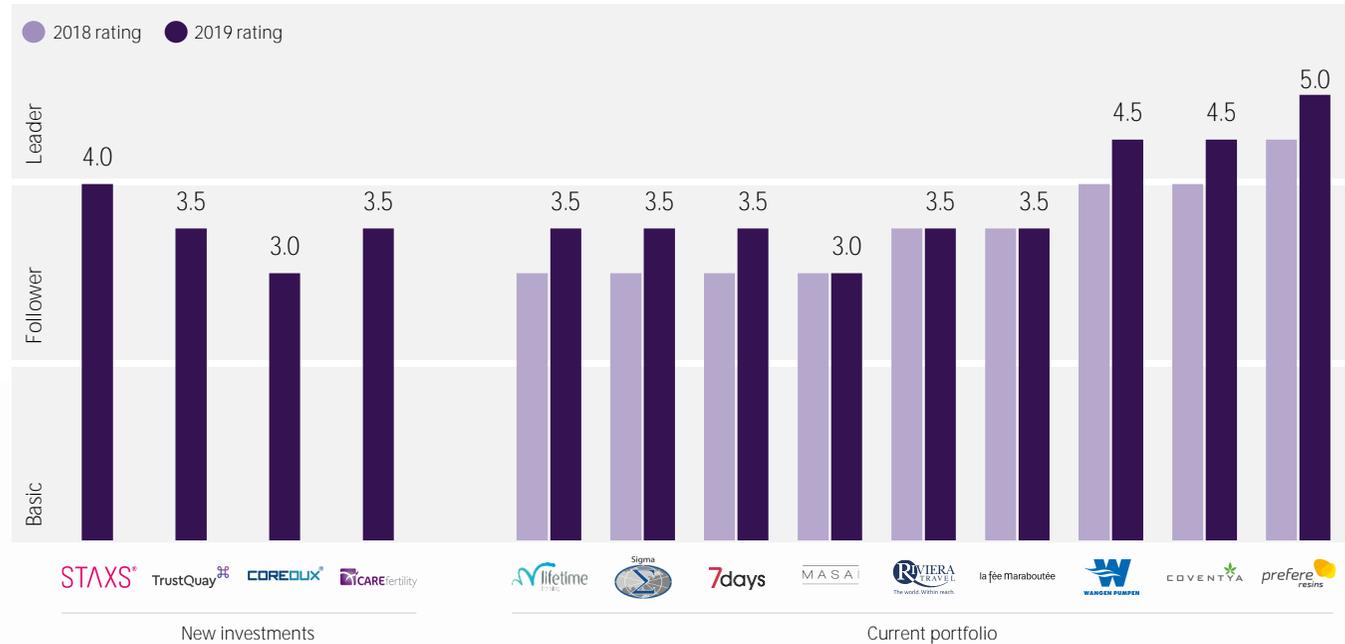
PORTFOLIO PERFORMANCE

Together with Corporate Balance we have conducted an annual update review of the entire portfolio, including a full review of four new investee companies.

We are delighted to report that the majority of our portfolio companies - six out of the nine rated across two consecutive years - have increased their rating as a result of a sharpened focus and emphasis on ESG management and fruitful cooperation between Silverfleet and management teams.

The assessment contains both general and company specific parameters. When we undertook our initial ESG ranking last year, we attached to it clear recommendations and requirements for companies to improve their scores. Having been presented constructive recommendations and advice, it appears that most companies have "accepted the challenge" and improved their performance across a number of ESG impact areas.

In addition to our assessment of the portfolio, we have spent considerable effort incorporating ESG-relevant KPI's into our iLevel reporting, such that we can efficiently and accurately monitor performance across the portfolio.



PORTFOLIO PERFORMANCE

Key ESG enhancements across the Silverfleet portfolio

Current portfolio	2018	2019	Key initiatives	Current portfolio	2018	2019	Key initiatives
	4.5	5.0	Introduction of energy benchmarking and reduction targets HSEQ supplier assessment tool launched		3.0	3.5	Mental health incorporated into CSR policy & introduction of wellbeing champions Introduction of Perkbox employee benefits
	4.0	4.5	Environmental KPIs introduced alongside reporting dashboard Automation of safety reporting		3.5	3.5	Started a 'Go-Green' project to build momentum around ESG initiatives Paper and cotton bags replacing plastic shopping bags
	4.0	4.5	Launched supplier code of conduct Leadership programme launched in 2019		3.5	3.5	Introduced an Environmental Policy Inclusion of sustainability advice in travel documents for long haul tours
	3.0	3.5	Energy & sustainability group established BSCI audits at Moroccan facility		3.0	3.0	Launched supplier code of conduct First Danish fashion company to achieve accreditation with the Forest Stewardship Council
	3.0	3.5	Various HR related improvements: new attendance system, piloting new appraisal system and 'Personal Passport'				

PORTFOLIO PERFORMANCE

Key findings across our new investments

New investments



Environmental



Social



Governance



4.0

Investigating conversion of used plastic products into pellets which can then be recycled or used to manufacture goods
Working with HZ University of Applied Science to develop a 'circular economy' offering

Implementation of a new e-training system

Refined anti-bribery policy in accordance with UK anti-bribery act and communicated to all employees



3.5

Working towards reducing desk bins to encourage further waste segregation

New Head of HR driving strategic initiatives
Launched first graduate scheme: a two-year programme to develop technical and business skills
Annual wellbeing week implemented in May
Addressing staff turnover in first year through greater HR/employee interaction during probation period

Introduction of further cyber-attack safeguards
Initiation of 'Compliance month' in October, where employees complete a range of online courses, including GDPR training



3.5

Sustainability Committee formed
Good levels of waste segregation and recovery
Completed an external energy audit to identify potential savings

External verification of safety performance
Strong value and behaviours linked with performance management

Whistleblowing policy established
Strong data protection controls



3.0

Packaging minimisation to conserve natural resources
High take-up of cycle to work scheme

Additional Health & Safety representatives appointed across the business
Strong near-miss reporting culture
Embedded people performance management framework

Annual cyber security training for all staff



PORTFOLIO THEMES

It is our ESG work with portfolio companies that has the greatest potential impact across the broad range of Environmental, Social and Governance issues.

Through close engagement with each portfolio company we have been able to identify emerging ESG themes, in turn using this insight to facilitate positive change and enhanced ESG performance.

This has been notable in the areas of environmental management, cyber security, supplier management and certain key aspects of people management.

 Environmental

 Social

 Governance



Enhanced levels of environmental management

Overall we have seen an improvement in general environmental housekeeping activities, such as the installation of more energy efficient lighting, installation of water-saving technology and a focus on waste minimisation and recycling.

These activities have all helped reduce environmental impacts across portfolio companies.

For those companies with a more significant carbon footprint, such as Coventya, Prefere Resins, Wangen and Sigma, we have challenged them to take a more holistic approach to environmental management.

In some cases this has involved extending the coverage of environmental management systems, creating performance dashboards to monitor environmental performance, and most importantly setting reduction targets.

We have also been pleased to observe the emergence of employee engagement initiatives, which for Coventya and Prefere Resins have focused on an eco-innovation challenge for internal teams.

PORTFOLIO THEMES

 Environmental

 Social

 Governance



Supplier management

Supply chains can be highly complex, with a number of our portfolio companies either operating or sourcing materials and finished products from regions which may pose ESG risks, for example an association with natural resource depletion and/or human rights abuses.

We have been working with several of our companies to ensure they have adequate oversight of supplier performance. This has been achieved by encouraging companies to sign-up to industry-led initiatives, such as Sedex, to ensure they are sourcing responsibly and managing any potential supply chain risks.

Where relevant we have included potential supplier risks on the Board agenda, to ensure transparency and hold companies to account for the management of these risks.

A renewed focus in this area has seen improvements in the way Masai, Coventya, Wangen and 7days have approached supplier management. For example, Masai has achieved Forest Stewardship Council accreditation for its use of viscose fibre in garment manufacturing to ensure these wood products were sourced from responsible forestry. The retailer was the first Danish fashion brand ever to achieve FSC certification.



PORTFOLIO THEMES

 Environmental

 Social

 Governance

People management

We have overseen a number of people management initiatives in the past year, with the objective of enhancing the retention and recruitment of talent to our portfolio companies.

Working together with our portfolio we have been able to facilitate significant improvements, and have identified a number of key themes, such as:

Performance management:
Frameworks, to include the setting of objectives and appraisals, have either now been more consistently applied or introduced for the first time. This has helped companies develop their people ensuring individuals have the necessary skills to fulfil their roles.

HR automation:
To help monitor and track performance several companies have introduced automated HR processes. This has helped address absenteeism trends, understand retention concerns and create more dynamic HR reporting, allowing HR to dedicate more time to engage with employees on career development and other business needs.

Employee wellbeing:
Wellbeing (financial, physical and mental) is an area of increasing importance for our portfolio companies. We have observed several wellbeing initiatives in the portfolio, such as offering wellbeing benefits, exercise classes etc.

Company-wide communication:
Finally, we have encouraged companies to be more open and transparent with their communication to employees. We see a trend where employees want to be more engaged in their businesses' performance, looking for channels to give and receive feedback. This has resulted in greater company-wide communication, town hall events and requesting feedback through staff employee surveys. We have seen examples of how this has positively impacted employee engagement levels and in turn business performance.

For example, this includes the launch of an employee survey by Prefere Resins, reaching out across four sites to 400 employees. This provided an opportunity for staff to provide feedback across a number of areas, with Management responding by pulling together an action plan of recommended improvements.

At TrustQuay, employee feedback is received through OfficeVibe, an online employee engagement tool. Each week the business issues employees with five different questions, generating employee engagement data (eNPS) across a number of key themes.



PORTFOLIO THEMES

 Environmental

 Social

 Governance



IT security

Cyber attacks are increasing in frequency, and their impact has the potential to be damaging to reputation and brand value, in addition to the financial impact of compensation, legal and regulatory costs.

The increasing sophistication of cyber attacks has escalated this as a key business risk for all portfolio companies.

In this context, during 2019 we raised awareness of potential cyber security risks by asking portfolio companies to complete a cyber security questionnaire. From this, we have been able to identify the levels of maturity across the portfolio, and allowing each portfolio company to develop an action plan to cover, inter alia, IT security policies, disaster recovery and business continuity plans as well as cyber insurance.

During 2020 we shall continue to work alongside our portfolio companies to monitor performance in this area and to ensure that appropriate controls are in place to mitigate potential cyber-related risks.

CASE STUDY



Prefere Resins is the European market leader in the development, production and sale of phenolic formaldehyde and melamine formaldehyde resins, which are used as a binding agent across the construction, insulation and industrial sectors.

ESG was a key component of Silverfleet's due diligence when we invested in Prefere Resins in 2018.

The company's products contribute to more efficient energy usage across a number of industries, for example by way of insulation and preservation of heat to the construction sector.

"Prefere Resins is well aware of how important our products are to our customers' end-products. This great responsibility is our motivation never to rest to improve."

Dr. Arno Knebelkamp, CEO Prefere Resins

ESG commitment

The company has been pioneering the development of "green" resins, based on biomaterials. For example, Prefere Resins co-developed a new lignin resin for laminates, where 50% of the crude oil-based phenol is replaced by lignin, which is extracted from wood pulp. The company also developed a sugar-based resin for insulation materials as a replacement for formaldehyde.

When we invested in the company, we were therefore confident that we were backing a chemicals company with a strong environmental awareness and a commitment to developing eco-friendly products.



ESG performance

Our first external ESG assessment of Prefere Resins in early 2019 validated our due diligence thesis. Corporate Balance ranked the company as a "Leader" in its ESG maturity. This ranking did not surprise us but challenged both us and the company to set even higher goals.

In conjunction with Prefere Resins, we agreed that the next ESG target should be to continue to improve its own energy usage. Chemical production processes can be energy-intensive, and, given the number of sites over which the company operated, this became a key focus for our ESG work in 2019, and we have been delighted with the significant progress in these areas:

Energy usage benchmarking

There is an increased focus on environmental KPI's across the entire production platform with all sites now benchmarked for energy usage.

Environmental KPI's

Stringent environmental KPI's and energy reduction targets have now been set by the business (for example Hamina, the company's production site in Finland, setting a 7% energy reduction target). These measures have all used 2017 as the baseline with reduction targets to 2025.

Prefere Resins Eco-Challenge

Launched in 2020, this eco-challenge focuses on both product development and production process optimisation, inviting entries from across Prefere Resins' staff, with the objective to reduce the company's carbon footprint and raise awareness of energy reduction opportunities across the Group. Up to three winning teams will be chosen, invited to the Management Forum in 2021 and rewarded for their successful initiatives.

Overall, we believe that Prefere Resins is a showcase in the area of ESG. The company has a culture that lives and breathes environmental responsibility.

Not surprisingly, the company's progress of concrete actions in 2019 rendered it a higher ranking, and with a score of 5, is the "ESG leader" in our portfolio.



CASE STUDY



Headquartered in France, Coventya is an international specialty chemicals business that develops, manufactures and supplies chemicals used for surface treatments across a range of industrial sectors, including automotive, luxury goods and data storage.

Over the past year Coventya has implemented a number of ESG initiatives, with a particular focus on enhancing the company's approach to environmental management and improving supplier management practices. Pleasingly, our recent updated review saw Coventya's ESG rating improve from 4 to 4.5 – a "Leader" score.

Enhanced approach to environmental management:

Silverfleet and Coventya's management team remain committed to articulating a strong environmental strategy, embedded across the business to drive performance and underpinned by reduction targets and monitoring.

ISO14001 environmental standard

- Now in place across three sites (India, Malaysia & Sweden)
- Currently transitioning the German site
- Gap analysis to be completed of all European sites in 2020

Energy and water reduction initiatives

- German facility collecting rinse water during the manufacturing process for use in the next blend of material
- Italian facility utilising sky lighting in the production warehouse to reduce electrical usage

Reporting dashboard

- Each site to update energy and water usage on a quarterly basis to track reduction initiatives

Improved supplier management

Ongoing improvements in supplier management processes, whilst also collecting and analysing health and safety data through a central reporting system, will continue to support Coventya's "Leader" categorisation within our portfolio and build upon some already market-leading practices.

Clear contingency planning

- Including SWOT analysis, risk evaluations by supplier and country, published code of conduct with signing required by suppliers

Dedicated supplier page on Coventya's website

ESG considerations now incorporated in the Quality Management System and audits



OUR CONCLUSION

Whilst we are pleased with our developments in 2019, we are excited by the picture that is forming of our ESG progress following our second portfolio assessment.

What is clear is that our efforts in ESG are working, but there is still more to do across our companies and at the Firm level. While coronavirus has presented entirely unforeseen challenges for our businesses, we will embrace and learn from the positive actions that our management teams take in order to navigate a way through this crisis. As a firm we continue to strive for full ESG integration across our investment process and business operations, and we look forward to sharing our continued ESG journey with our investors and wider stakeholders.

