

Annual ESG Report 2020



epiris



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**Solving
Complexity
Unlocking
Potential**

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About Epiris

Epiris is an independent private equity firm which invests in opportunities to transform businesses in partnership with exceptional management teams.

We are currently seeking investment opportunities for Epiris Fund II, an institutional private equity fund which held its final close in 2018 with total commitments of £821 million from some of the world's leading private equity investors.

Our primary goal is to build great companies to deliver outstanding returns for our investors. We are generalists who look across business sectors, including in unfashionable or cyclical sectors, for high-quality businesses with transformation potential.

Our approach to transformation is to focus on strategic clarity, operational excellence, growth acceleration and M&A. On average, businesses we invest in more than double earnings under our ownership. This has delivered a top-decile investment performance record.

The organisational culture we have created to support this goal is built on the four Epiris Values, which we share as a team and which govern the way we work internally and externally.

Our primary goal is to build great companies to deliver outstanding returns for our investors.

Our Values



A strong moral compass

We are guided by a strong moral compass within both our own business and the companies in which we invest.

We work by the highest standards of integrity and professionalism. More than that, we want to be proud of our businesses, of what they do and of how they treat their people, their customers and suppliers and the world around them.



Straightforward, open and collaborative

We work together as a group, with everyone encouraged to contribute.

We share problems and issues early. We are straightforward. We take collective responsibility for our successes and failures and seek to learn from them.



Energetic, enquiring and creative

We thrive on complex situations and on our mission to transform businesses.

This calls for us to challenge constantly, to think innovatively and to push relentlessly.



Ambitious, rewarding and fun

We aim to build diverse and high-performance teams to deliver our long-term goals.

To do so, we offer opportunities to learn, advance and earn financial rewards. We create an environment which, whilst demanding, is also fun, so that we can grow talent and leadership for the future.

Our Portfolio



Appello
Technology-enabled care services



The Club Company
Country club operator



James Hay
SIPP administrator



Saunderson House
Independent Financial Advisors



Bonhams
International auction house



Diamorph
Advanced materials products



Portals
Security paper



The Big Table
Restaurants

£1.5bn

Equity invested since 2011

24

Companies invested in since 2011

35%+

IRR: a top decile fund manager

6,763

Employees across the portfolio¹

¹ Full Time Equivalents (FTEs) as at 31 August 2020

2 Introduction

This is our first annual ESG Report

It comes as part of our commitment to ensuring that our approach to ESG evolves. We hold this commitment because we strive, in ESG as in every other aspect of our business, to build on our experiences to improve the way we do things.

We have incorporated ESG into our investment decision-making and management for many years. Although the details of our programme have changed over that time, the underlying rationale—to manage risk, to improve performance, to take responsibility – has been constant.

This report illustrates some of the successes of our ESG programme over the past year. These have been achieved against a most challenging backdrop, with not only ongoing preparations for the UK's departure from the EU but also the consequences of the Covid-19 pandemic placing new demands on our and our management teams' focus and capacity.



Whilst we have therefore spent some time and energy working with companies to address these exogenous issues, we have also continued to execute our strategies for our firm, for each of our portfolio companies, and for our funds.

We have continued to build our own team. Three new recruits joined the firm in April and have been successfully integrated despite having to spend the first few months of their career with us working from home. We will continue to invest in our people with training and development as required, and with another graduate intake underway for 2021.

On the portfolio side, we have progressed our investment strategies for each of the companies in which we have invested. We have completed the capex programme which is at the heart of our transformation strategy for Portals. We have completed two add-on acquisitions for The Club Company as well as the first of several new-build hotels. Bonhams has significantly accelerated its digital transition, whilst Diamorph is seeing success with its new route-to-market strategy. We have separated IFG Group into its two component parts, James Hay and Saunderson House, to allow greater focus and aligned incentives in each. Whilst the environment remains difficult, we have made pleasing progress at each business.

In April we achieved the first exit from Epiris Fund II, of TI Media, generating a return of 2.1x cost, a 44% IRR. During the course of our ownership we transformed TI Media into an

independent business, outperforming its markets by executing distinct strategies across a clearly structured product portfolio, with a simplified operational and management structure and a demonstrable record of cash generation.

In April we achieved the first exit from Epiris Fund II, of TI Media, generating a return of 2.1x cost, a 44% IRR.

At the end of July we made our first post-Covid platform investment, in restaurant operator The Big Table. The restaurant sector is at the sharp end of government measures to contain Covid, so we have structured the investment to withstand a slow, halting recovery in the sector's fortunes. Our focus is on positioning the business to prosper in the medium term when we expect consumer demand will return to pre-Covid patterns and levels.

Finally, we have taken a fresh look at our ESG programme. We have identified four areas that are material to every business, and where we can share expertise and resources across the current and future portfolio to drive progress towards ambitious goals over the medium to long term. We look forward to applying this new focus in the months and years ahead.



Alex Fortescue
Managing Partner



Alex Cooper-Evans
Partner, Chairman of
ESG Committee

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ESG at Epiris

Strong management of ESG issues is an essential part of delivering attractive and sustainable returns for investors. It is also an essential part of ensuring that sustainability and responsibility are at the heart of the business agenda.

As an owner of businesses, our primary impact is through our portfolio companies and the legacy we and their management teams leave in terms of ESG policies, practices and culture. However, we lead by example and submit ourselves to the same ESG approach as our portfolio companies.

At Epiris, we seek to operate with integrity and to adopt the highest ethical standards, considering environmental sustainability and social responsibility in all our operations.

The principles and commitments that drive our ESG approach are set out in our ESG policy, which builds on best practice whilst considering the opinions of our staff and investors. The policy is reviewed annually by Epiris' ESG Committee and has been communicated to all Epiris staff.

From this foundation, we have integrated ESG management into our operations and those of our portfolio companies and at all stages of the investment lifecycle – from screening and

identification pre-acquisition, through management and reporting during our ownership, to disclosure at exit.

Pre-acquisition

Before we make a new investment, we screen companies to identify key ESG considerations and to determine whether they derive a significant proportion of their profits from certain activities. We will not make investments in companies involved in gambling, or in the production and/or sale of alcohol, armaments, pornography and/or tobacco, without ensuring that these activities are undertaken lawfully and any issues of concern can be satisfactorily mitigated on ownership.

Following the initial screening, we perform discrete ESG due diligence, including a more detailed analysis of any issues of particular concern or materiality. The findings of this due diligence are included in our investment committee papers and discussed by the Epiris Investment Committee. Identifying and understanding relevant ESG issues and opportunities before acquisition means we ensure that these topics are incorporated into our investment analysis and decision-making processes.

Ownership

Once we have made an investment, we build on our pre-acquisition due diligence and analysis to develop an ESG Plan for each portfolio company.

This work uses a standard Epiris process to review all the ESG risks and opportunities a company faces, to identify the most material ones, and to set clear targets together with key performance indicators to measure progress against those targets.

We review each company's performance every year and update the ESG Plan accordingly.

From this we can also provide our investors and other stakeholders with a clear picture of ESG performance.

Exit

This approach means that, when we come to sell an investment, we are able to demonstrate to the next owner the contribution that ESG management has made to the portfolio company's performance.

At exit, we include details of a portfolio company's ESG performance in the information to be disclosed to potential buyers, to demonstrate the improvements made during the ownership period and the value enhancement achieved.

ESG Committee

Our ESG Committee is made up of Partners and other staff from across the firm. It meets regularly to review our own and our portfolio companies' ESG performance. It is responsible for ensuring that our approach to ESG continuously evolves to meet new challenges and the needs of our investors.





THE BIG TABLE

During the acquisition of The Big Table, we commissioned due diligence to screen and identify ESG risks and opportunities. This allowed us, whilst addressing the challenges the Covid-19 pandemic created for the restaurant sector, to identify our longer-term ESG priorities. Our due diligence noted good groundwork in food sourcing, animal welfare, energy and waste management, as well as diversity and inclusion, and we will be building on this in the future. We will look in particular at further improvements in energy efficiency, food waste recycling and staff turnover.

The Big Table has taken an industry-leading position in many areas of ethical sourcing. Its collaboration with Compassion in World Farming, as a signatory to the European Chicken Commitment, is a clear sign of its commitment to responsible sourcing and animal welfare. This commitment to higher welfare chicken has put pressure on others in the industry to follow suit. Dr Tracey Jones, Compassion's Director of Food Business commented, "They have a genuine ambition to make a positive contribution to animal welfare across their business, but also across the wider industry."

— The —
Big Table

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Looking ahead

We are proud to have worked with management teams over many years to deliver valuable and sustainable ESG improvements which have had a tangible impact on the world around us. Nonetheless, we believe there is more that we can and should do to promote our values.

We have therefore been refreshing our approach this year. Every portfolio company naturally has its own particular set of ESG risks and opportunities, and it is important that our programme continues to identify and manage the most material of these. But there is also a set of ESG issues that is material to every portfolio company and where we can be more impactful by setting ambitious targets and sharing expertise and resources across the portfolio. We have identified four such issues:



Climate change



Sustainability



People



Ethics

For each of these ESG Pillars we have set an aspiration and a set of best practices. The aspiration sets a direction of travel to guide long-term decision making. The best practices combine several influences: our experience of working with companies across different sectors; evolving investor expectations; and new regulatory requirements. We expect every company we invest in to implement these best practices.

We report against these four Pillars for the first time in this report and will build on them in our refreshed programme and future reporting.

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Pillar: Climate change

Navigating the energy transition

The transition to a low-carbon economy is underway, driven by public policy, new technologies, physical risks and the integration of climate risks and opportunities into capital allocation decisions.

Our and our portfolio companies' ability to adapt to this transition will increasingly have a bearing on financial performance, valuations and thus investment returns. This makes climate change of critical relevance to investment and business decision-making: we and our portfolio companies must understand how we will undertake the transition and the economic considerations involved.

Our first step is to collect reliable information about the carbon footprint of our portfolio. We then use this information to target reductions, often achieved by making capital investments to drive energy use down.

The premises our portfolio companies occupy can have a dramatic impact on the energy they use. We are taking the opportunity during planned site moves in the Diamorph and Saunderson House businesses to include energy efficiency in the decision-making process. Elsewhere, we are making improvements to current premises, such as by installing LED lighting at Bonhams' UK operations.



Aspiration:

Carbon Neutral

Epiris and its portfolio companies will each have a plan to be carbon neutral by 2030, or as soon as technically and economically practicable thereafter.



DIAMORPH

Diamorph has two manufacturing facilities, in the UK and in the Czech Republic. During the first year of this investment, the company has calculated the carbon footprint of both facilities and begun to set targets to reduce electricity and gas consumption and emissions. In the UK, the target is to reduce CO₂e emissions per £ of revenue by more than 25% against pre-acquisition levels with a number of investments, including a new compressor, the ongoing introduction of LED lighting and IE4 motor replacements. The process of target setting in the Czech facility will shortly be complete, and the opportunity to improve energy efficiency as part of the planned move of the UK facility will be explored over the coming months.



THE CLUB COMPANY

The Club Company has invested in LED lighting, installed two Combined Heat and Power (CHP) plants and run behaviour change campaigns to reduce electricity use. With sites having been forced to close three times during 2020 because of the Covid-19 pandemic, it is difficult to measure the impact of these changes at the moment. This disruption has also seen a delay to the installation of three further CHP plants, which are set to reduce emissions further.



P O R T A L S

PORTALS

Portals has reduced CO₂e emissions from energy consumption per tonne of product sold by 12.5% since we acquired the business. Over this time, the company has invested over £20 million in upgrading its manufacturing facilities to improve efficiency. This includes, for example, a new continuous refining process, which has replaced outdated batch process equipment and so helped to reduce the energy intensity, and improve the yield, of cotton preparation. This investment programme is expected to deliver further reductions in carbon intensity in the coming years.

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Pillar: Sustainability

Improving supply chain sustainability

Whilst the world's resources are finite, its population, and with it the consumption of those resources, is growing.

It follows that as demand outstrips supply, many resources will become rarer and more expensive. In recognition of this, governments are introducing policies to promote responsible resource use – from the UK's landfill tax to the EU's circular economy package.

We therefore need to use resources efficiently in our and our portfolio companies' operations and supply chains. We need to use more sustainable sources of raw materials to reduce the lifecycle impacts of our products and services. We need to design efficiency into our products and processes. And we need to improve circularity by wasting less and by reusing and recycling more at all stages of a product's lifecycle.

We are taking steps to source responsibly, use resources wisely, and manage waste properly: looking at where we can replace raw materials with more sustainable alternatives; assessing products and processes to identify efficiencies; and managing waste to improve recycling.



Aspiration:

Reduce, reuse, recycle

Epiris and its portfolio companies should:

- Source raw materials from certified sustainable sources.
- Reduce raw material consumption.
- Reuse or recycle materials and products at the end of use.
- Reduce emissions and / or discharges of hazardous pollutants or chemicals.
- Send zero waste to landfill or incineration if there is an alternative.
- Ensure that their and their suppliers' activities do not involve land degradation, deforestation or harm to IUCN Red List species.

Bonhams

BONHAMS

Bonhams has long used printed magazines and sale catalogues to support its auctions of luxury goods ranging from fine art and classic cars to jewellery and vintage wines. More recently the company has been working to improve the sustainability of these marketing materials. All the paper used for catalogues and magazines is FSC accredited, from sustainable and renewable sources. Magazines have been posted in a 100% recyclable paper wrapper since September this year, replacing single-use plastic. Other items also moving to greener alternatives include bubble wrap, printing paper and envelopes, which also offer considerable savings.

Whilst using more sustainable materials is good, reducing material usage is even better. Bonhams is moving to digital in both catalogues and seller documentation. The business has reduced the number of catalogues printed and in some instances has stopped printing catalogues altogether, with 80% of auctions at its Knightsbridge sale room now running without printed catalogues. Where catalogues are printed, their size and weight have been reduced. Seller documentation is also becoming digital, a move Bonhams predicts will result in 20,000 fewer letters being printed in 2021.



DIAMORPH

Diamorph's UK operations at Trafford Park in Manchester produce 64 tons of non-hazardous waste each month. Our ESG Plan has a target of zero non-hazardous waste to landfill, and over the past twelve months the company has successfully reduced the proportion of such waste going to landfill from 50% to 20%. The focus has now broadened to achieving the same target - zero non-hazardous waste to landfill - at Diamorph's operations in the Czech Republic and the US.

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Pillar: People

A healthy, diverse and engaged workforce

Companies rely on their people to deliver their strategy.

We must therefore create and maintain a culture in our own firm as well as in our portfolio companies that attracts talented people, that develops and harnesses their talents in pursuit of our goals, and that protects and retains them. Success translates into innovation, productivity, quality and service.

We are working hard to ensure all our companies offer safe, healthy working environments and to develop and engage employees, providing career pathways and recognition to staff. We recognise the value of diversity in our workforces and are supporting our portfolio companies to report on and take steps to improve diversity.

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Aspiration:

World-class workforces

Epiris and its portfolio companies should:

- Be employers of choice, able to attract and retain the very best candidates for each role.
- Offer an open and inclusive working environment populated by a diverse workforce and which encourages and recognises contributions from and collaboration between every member of staff.
- Recognise the importance of their workforce's physical and mental health and safety.



DIAMORPH AND PORTALS

Both Diamorph and Portals operate in traditionally male industries, and both have been trying to attract more women to their workforce. Since 2017, female representation at Diamorph has risen from 10% to 15%, and at Portals from 13% to 16%.

This has been achieved by reviewing recruitment processes and materials, by providing unconscious bias training, and by offering greater flexibility around working practices. Notably these initiatives are led from the top of each organisation.

Portals has reported that the initiatives to improve gender diversity have also had a positive impact on the ethnic diversity of new starters, with the proportion of new recruits from BAME backgrounds doubling between 2018 and 2019 to 16%.

Bonhams

BONHAMS

One of the key hires we have made at Bonhams has been of a Chief People Officer. This has enabled a number of new initiatives in the business, including: the creation of a Diversity Committee to advance gender and ethnic diversity; the design of staff development plans and tools to promote vacancies internally; and the introduction of succession and talent plans to manage high performance and high potential people. These are crucial steps towards engaging and developing Bonhams' workforce.

SAUNDERSON HOUSE

SAUNDERSON HOUSE

In a business that is built on the knowledge and expertise of its employees and their focus on customer service, valuing and rewarding those individuals is of utmost importance. Saunderson House received the Silver Investors in People Accreditation in March 2018 and will hold it until March 2021. This award is held by only 20% of the firms which take part in the Investors in People survey, showing that the company is leading in supporting its people.

Saunderson House has a strong framework for professional and personal development, which includes continuing professional development (CPD), technical training, skills-based training and opportunities for graduates to achieve their Chartered Financial Planner qualification.



EPIRIS

Epiris is a proud sponsor of Level 20, which was set up in 2015 to inspire more women to join and succeed in the private equity industry. Its aim is that 20% of senior roles in private equity should be held by women. We encourage our female staff to participate in and contribute to Level 20 alongside the efforts we are making through our staff recruitment and development to improve diversity in our own team.

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Pillar: Ethics

A strong moral compass

Companies that behave with integrity and professionalism earn their licence to operate.

Investors and stakeholders want to work with companies they can trust, and that operate ethically and transparently. Those that do not end up with a damaged reputation, financially disadvantaged or even acting illegally.

The foundation on which a strong ethical framework is based is a strong governance structure. We are working to ensure that both we and our portfolio companies have strong governance structures in place supported by training on key issues.



Aspiration:

We want to be proud

Of the businesses we invest in, of what they do and of how they treat their people, their customers and suppliers, and the world around them. This attitude should be led from the top and engrained in the culture of each business.



SAUNDERSON HOUSE

SAUNDERSON HOUSE

In financial services, strong risk and conduct management are essential. Saunderson House reports on conduct and risk to the Board-level risk committee. This is supported by systems, processes and training to manage a wide range of risks. For example, training on cyber security and anti-money laundering is mandatory for all staff, with non-compliance followed up with individuals and escalated to line management.

To protect customers' data, certified ISO 22301 business continuity and ISO 27001 information security management systems are in place which are supported by cyber security plans which include audits, penetration testing and vulnerability assessments.

The quality of advice is a source of pride at Saunderson House. Ten per cent of the advice given is reviewed each month to ensure it is suitable and appropriate, and that the records are correct.



JAMES HAY

Risk management is an important factor for James Hay, heavily driven by the FCA's requirements. The company has implemented its own Risk Management Framework and Risk Team and monitors a range of related factors and metrics. Beyond risk management, James Hay tracks a suite of product governance KPIs; has included anti-bribery and corruption and financial crime into its mandatory training; and offers an independent whistle-blower scheme which is championed by one of the company's non-executive directors.



EPIRIS

At Epiris we follow the same ESG implementation process as our portfolio companies, supported by staff training, stakeholder engagement and policies on issues including anti-bribery and corruption, compliance, whistleblowing and cyber security.



IMPORTANT INFORMATION

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Epiris LLP

Forum St Paul's,
33 Gutter Lane,
London EC2V 8AS
epiris.co.uk

