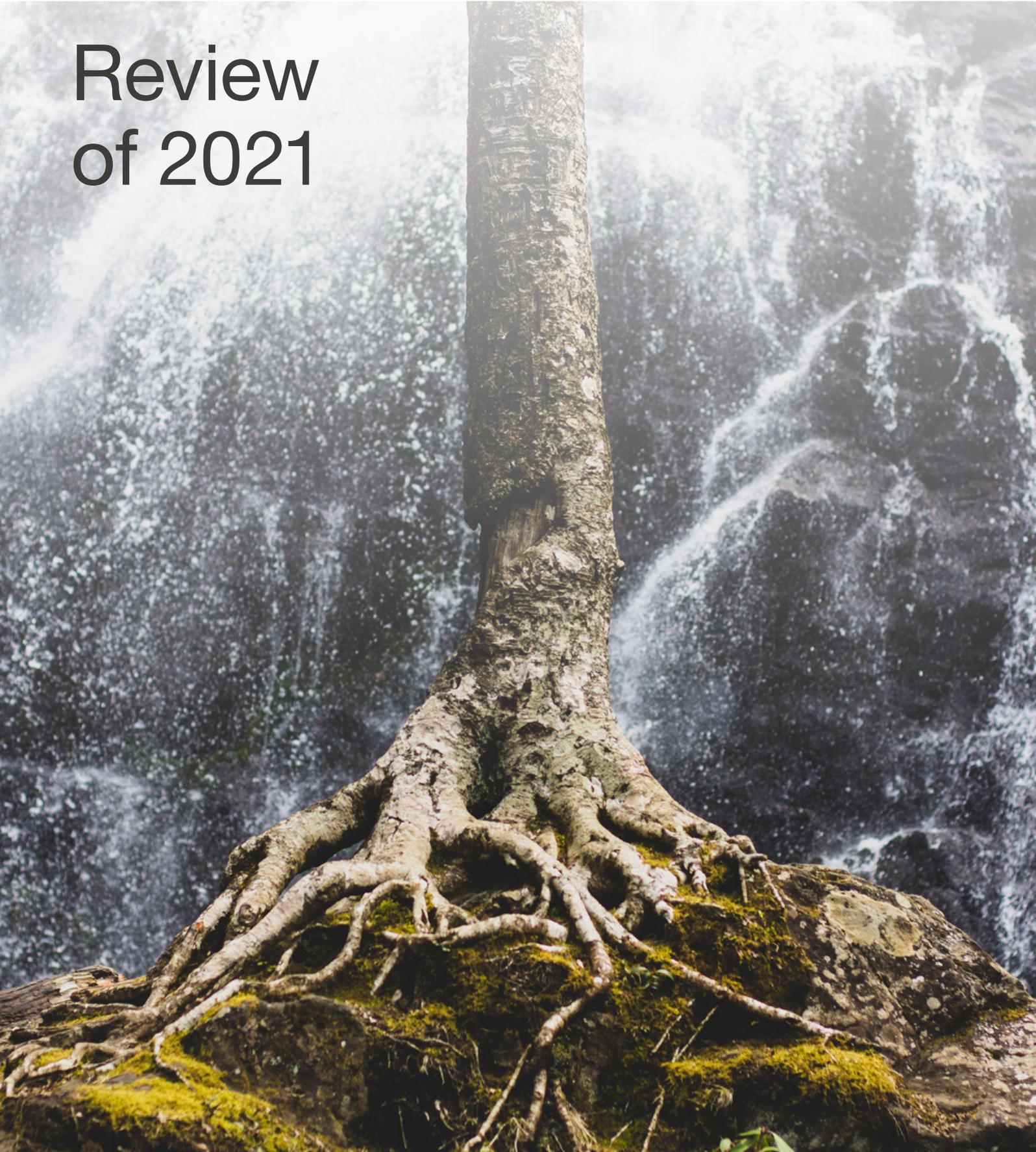


Sustainable Investment Report

Review of 2021



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Welcome from our Managing Partner

I am delighted to be introducing our Sustainable Investment Report on 2021

2021 was a year of resilience

This year YFM is celebrating its 40th year of helping small UK businesses to grow. Over that time, we have seen the challenges and opportunities of a good number of booms, recessions, economic and political upheavals, as well as the impact of disruptive new technology.

Some businesses have been caught in the eye of the bad storms and have adapted their business models to survive, others have ridden the waves as new opportunities arose from disruption, while still others capitalised on the unleashing of pent up demand. With this perspective, perhaps 2020 was a storm year, 2021 a year to demonstrate resilience, and 2022 will turn out to be a year of opportunity?

This prediction may be right or wrong (and the recent events in Ukraine give us all pause for thought) but what we do know is that focusing on sustainability gives businesses the best chance to ride these cycles. And for us, sustainability means building businesses which are not just growing their revenues and profits, but building ones which value their people, keeping them loyal and enthused. Ones which respect and understand their customers. Ones which are providing valuable or critical services and products. Ones which check that their supply chains are managed ethically and responsibly. And ones which minimise their long-term impact on finite natural resources.

Putting Sustainable Investing into practice

As we explained in our 2020 report, in recent years we have been more explicit about, and have formalised a number of our policies and procedures around Sustainable Investing (SI). We have published our Sustainable Investment Policy, developed an SI programme, and become a signatory to the Principles for Responsible Investment (PRI).

In 2021 we adopted a new pre-investment ESG screening tool, and collected a third year of over 50 pieces of ESG data from each of our portfolio companies, setting and refining targets so that we can track progress for each business in which we are invested. And we made our first submission to PRI.

We will continue to grow and shape our sustainable investment approach in the coming years with ESG reports on exited investments and portfolio teach-ins on ESG topics planned for 2022.

Looking for progress

You will read in this report that good progress has been made on most of the areas which we targeted last year, with progress on mental wellbeing programmes and carbon offsetting measures particularly pleasing to see. But there is still a long way to go and we will continue to drive improvements over the coming years as we look to make our investments more sustainable.

As it has been over the past 40 years, our guiding principle will remain that YFM makes strong returns for its investors by building better businesses.

David Hall
Managing Partner
YFM Equity Partners




YFM – review of the year for 2021

39
team members



5
new joiners



£28m
new funds raised



£36m
invested in UK
businesses

of which half was to finance R&D,
geographical expansion and job creation

5
new investments



40
companies in the
portfolio at the end
of the year

4
exits from the
portfolio which
together had:

- created almost 100 new jobs
- grown annual R&D to £1.5m
- almost doubled revenues
- achieved a 14001 Environmental Management ISO and a 2 star Best places to work award
- moved from only two having female board representation and a chair to all four having these in place



YFM portfolio at a glance

Our BSC and BSC2 VCT portfolios with data at 31 December 2021

Software

Logos for software companies in the YFM portfolio:

- Elucidat
- SharpCloud
- MATILLION
- panintelligence
- arcus global
- Force24™
- traveltek
- B2M™ SOLUTIONS

Services

Logos for services companies in the YFM portfolio:

- ACC AVIATION GROUP
- SPRINGBOARD.
- IntelligentOffice^{UK}
- unbiased
- ARRACO GLOBAL MARKETS
- e2E
- WOOSHII
- sipsynergy
- VUEALTA
- outpost
- vypr

Products

Logos for products companies in the YFM portfolio:

- displayplan
- MACROART
- KeTech
- nCAM®
- WAKEFIELDACOUSTICS NOISE CONTROL TECHNOLOGY

Consumer

Logo for consumer company in the YFM portfolio:

- TOKKOTSU

YFM portfolio at a glance

Buyout Fund I and Buyout Fund II portfolios at 31 December 2021

Products



Services



Consumer



Our approach to Sustainable Investment

Why Sustainable Investment matters to us



YFM's central strategy is, and has always been, to make investments in businesses and then help those businesses to become bigger and better, while producing strong financial returns for our investors. We believe that building better businesses includes improving their impact on the economy, on the people they employ, on wider society and on the environment.

Our Sustainable Investment Principles

To seek to understand the ESG related impacts and potential impacts of what we invest in, aiming to grow and enhance positive impacts and to avoid, reduce or minimise any negative impacts over the lifetime of our investments, leaving them overall better businesses.

To place a focus on the challenge of climate change both as it may be affected by our investments, and as it may impact on them and their resilience to possible climate change scenarios.

To play a positive role in the investor, business and wider communities in which we work by promoting good practice in ESG management, and by being accountable and transparent in the way we invest and behave.

To show leadership by managing our own business ESG impacts to the best of our ability.

To be a proactive signatory to the PRI and to integrate its principles into our business practices.

What have we done so far?

From its earliest days, YFM has tried to be a responsible investor. By investing in small UK businesses and looking for longer term returns over several years, we have helped create long term jobs, increased investment in new technologies, and helped strengthen the SME portion of the UK economy. And by being an active investor we have also helped improve governance standards in those businesses.

As we reported in our first annual Sustainable Investment review, in 2020 we took a big step forward and became signatories to the PRI, published our Sustainable Investment Policy and re-wrote our ethical policy. We started including a formalised Impact and ESG section in our internal investment approval papers and collected 50 thematic ESG KPIs from our portfolio.

In 2021 we continued to develop our approach, by designing a pre investment assessment tool which is now used to assess Sustainability and ESG issues for all new investment opportunities.

A new portfolio ESG progress monitoring tool was also launched in the year, providing an "at a glance" overview of the key issues for each business and the targets for improvement which are agreed at investment and then updated each year.

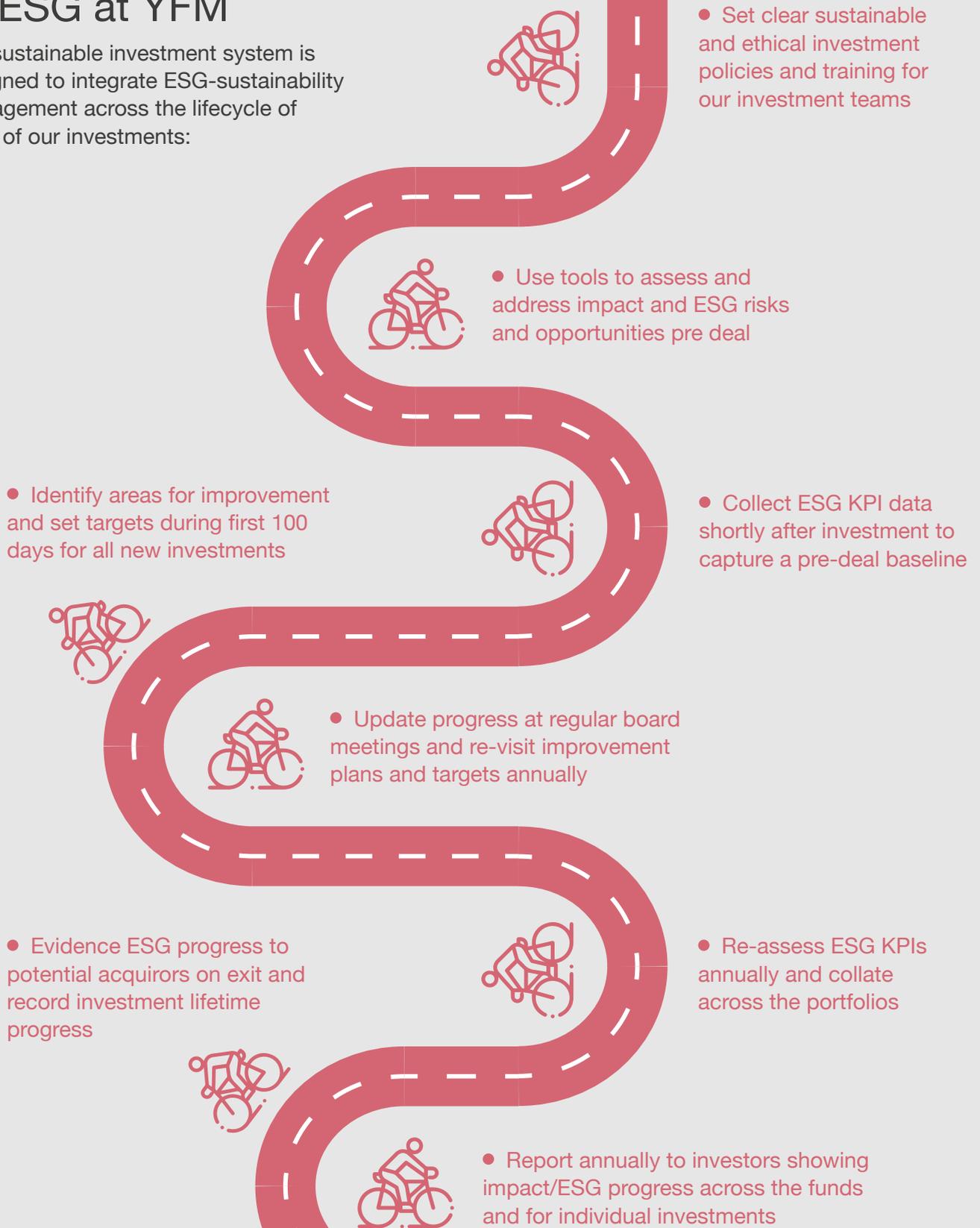
We also started to build a library of resources covering some of the more common ESG issues faced by our portfolio of businesses. This provides case studies of good practice from within our portfolio as well as pointers to available external resources.

Full training on the new tools was undertaken by the whole investment team.

We also made our first submission to the PRI and are awaiting feedback on how this compares to others in our industry.

Lifecycle integration of ESG at YFM

Our sustainable investment system is designed to integrate ESG-sustainability management across the lifecycle of each of our investments:

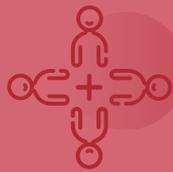


A thematic approach

Our lines of enquiry, assessment, action planning, and reporting are organised around a set of four themes, each with subsidiary ESG sub-themes, to provide consistency of focus. We take into consideration how material each sub-theme is for any given company to ensure that we place emphasis on the things that matter most.

Improve our Society

- Strong ethics and governance
- Treating customers well
- Sustainable supply chain
- Supporting local communities



Protect our Environment

- Climate strategies
- Inputs and waste
- Caring for our natural capital



Grow our Economy

- Creating new jobs
- Growing output
- Investing in R&D
- Increasing exports



Value our People

- Health safety and wellbeing
- Skills and development
- Diversity and Inclusion
- Engaged employees



Improving our own business

We believe we should set an example to our portfolio by also looking at our own ESG performance.

Our biggest impact

We believe that YFM can probably make the biggest impact on sustainability and ESG through its portfolio of 40 UK businesses, which is why our newly strengthened Sustainable Investment system is so important to us. But YFM itself operates from 5 UK locations and has nearly 40 employees, so we too have our part to play in improving our society and our economy, valuing our people, and protecting our environment.

What steps did we take in 2021?



Contributing to local communities – we introduced a “Charity of the month” programme with £1000 being donated each month to a local charity supported by a YFM team member



Reducing carbon footprint – we held our All staff Away day in a location accessible by train (and will do so in 2022 as well)



Supporting and representing our industry – Our Managing Director Dave Hall volunteered as chair of the VCTA which represents 80% of the VCT industry

Creating new jobs – we made 5 new hires in 2021



Culture book – we set out our values and what we stand for in our new Culture Book

Looking after the mental wellbeing of our staff – we introduced Mind’s Wellness Action Plans as a support tool for our teams, with training provided by Mind for all line managers

A Whole Team Approach

Our ESG and Sustainable Investing lead

Paul Cannings, one of our partners, has led our increased focus on sustainable investment and ESG in recent years. He has drawn on his own experiences in the social finance world having worked alongside Big Society Capital, Social & Sustainable Capital, and the Charities Aid Foundation. He has also drawn on the expertise of our specialist external ESG advisors, FWA, to guide our new policies and procedures.



YFM's Laura Sisson says why YFM's encouragement of diversity is important to her

"Diversity in the workforce and a commitment to creating an inclusive working environment is a real passion and priority of mine. A workforce that better represents society can bring a range of perspectives from which to deliver enhanced innovation, teamwork and decision making. And combining a diverse team with a supportive workplace culture that actively encourages people to bring their whole selves to work has been shown to positively contribute to employee engagement and retention.

in the North of England. At Fund Her North's core is the aim of empowering female founders and supporting them in tackling the many barriers women face in accessing tools, resources and financial investment to successfully scale their businesses. Together we are making real strides in breaking down these barriers, and I am proud to be able to play my part in supporting the female founders of today and potential success stories of tomorrow."

Thanks to my investment role with YFM, I am also a Steering Committee member for Fund Her North, a collective of over 30 women in finance with combined investment power of over £450m



YFM'S TEAM YFM's Sustainable Investment approach needs the commitment of our whole team. Everyone at YFM has undertaken ESG training and in 2021 our investment and portfolio management teams took additional training on our ESG screening and progress tools. It didn't really include learning how to make sustainable scotch eggs but we thought you might enjoy the team photo!

ESG Portfolio KPI report

Highlights from 2021

Introduction

We collected over 50 pieces of data from businesses in the YFM portfolio relating to calendar year 2021, to add to the data previously collected for 2019 and 2020.

We now collect this data from every new investment at the point of investment as well as at each year end, so we will be able to make comparative analyses over the whole period of

our hold. It will not always be possible to collect all data from every business but for 2021 we collected data from 35 of the 40 businesses in the portfolio. Some of the portfolio businesses did not have systems in place to collect and collate all data accurately (such as team ethnic diversity). Our aim over time is to be able to collect more of this data and to support our companies to do so as an increasingly important management measure.

The findings

Findings are presented using topics within our thematic ESG framework as presented on page 09.

In many cases 2021 has been an easier year for small businesses than the heavily disrupted 2020. It has been pleasing to see that this has not only meant improvements in revenues and job creation but also in ESG matters such as continuing investment in R&D and environmental issues, and the increased adoption of wellbeing programmes for employees.

Our approach is to help individual portfolio companies to focus on matters which are most material to their particular businesses. However, there are some common themes which we identified in our 2020 report where we wanted to see some improvement across the portfolio as a whole. In particular:

- **Building ESG into Values Statements or Mission Statements**
- **Calculating carbon footprint**
- **Adopting an Environmental Policy**
- **Screening of key suppliers for environmental,**

human rights, and business ethics issues

- **Conducting employee engagement surveys**
- **Adopting a Diversity & Inclusion Policy**
- **Putting a Mental Wellbeing programme in place**

We have marked these areas with a target symbol in the following pages.



It is good to see progress in 4 out of these 6 areas this year marked:



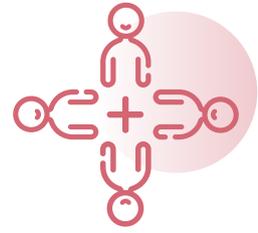
The increased proportion having mental wellbeing programmes in place and the increased proportion measuring/offsetting their carbon footprint are particular highlights. But clearly there is still some way to go on other issues particularly supply chain screening and female director representation.

We will continue to focus on improvements in these targeted measures in 2022.

On the following pages we set out highlights of our ESG KPI data collection and analysis.

ESG KPI report

Improving our Society



Highlights from 2021 continued



GOVERNANCE

did businesses have an independent chair?

95% of businesses are independently chaired

(90% in 2020)



GOVERNANCE

did businesses have a female CEO?

1 in 6 had female CEO's but only 1 in 3 had any female directors at all

(1 in 6 and 1 in 3 in 2020)



QUALITY STANDARDS

did businesses have Quality or Information Security accreditations?

50% had ISO 27001 (IT security) or ISO 9001 (Quality) standards in place

(45% in 2020)



SUPPLY CHAIN SUSTAINABILITY

did businesses screen their supply chain?

30% screened their suppliers for both human rights and wider ethics standards

(30% in 2020)



TREATING CUSTOMERS WELL

did businesses monitor customer satisfaction?

55% collected customer satisfaction data

(50% in 2020)



SUPPORTING LOCAL COMMUNITIES

did businesses contribute to community causes?

37 volunteering days and £55k donated to community causes

(207 days and £113k in 2020)

ESG KPI report

Protecting our Environment



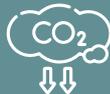
Highlights from 2021 continued



ENVIRONMENTAL STANDARDS

did businesses have an accredited standard?

20% had ISO 14001 Environmental Management Standard accreditation
(20% in 2020)



CARBON REDUCTION

did businesses have carbon reduction strategies?

60% had carbon reducing strategies in place...
(45% in 2020)



WASTE

did businesses have input and waste strategies in place?

55% had material input reduction strategies
70% had landfill diversion strategies
(50% and 75% in 2020)



ENVIRONMENTAL IMPACT OF SUPPLY CHAIN

did businesses screen suppliers for environmental factors?

Only 10% screen their suppliers for environmental management or have a Sustainable Supply Chain policy
(15% in 2020)



CARBON REDUCTION

did businesses measure their carbon footprint?

...but only 20% offset their carbon and 15% calculate their carbon footprint
(5% and 10% in 2020)



SINGLE USE PLASTICS

did businesses have single use plastic reduction strategies in place?

60% have plastic reducing strategies in place
(55% in 2020)

ESG KPI report

Valuing our People



Highlights from 2021 continued



KEEPING PEOPLE SAFE

did businesses have mental wellbeing initiatives in place?

60% had mental wellbeing programmes in place
(50% in 2020)



TRAINING PEOPLE

did businesses give staff skills and development training?

30,000 hours of non-statutory training given
(20,000 in 2020)



EMPLOYEE ENGAGEMENT

did businesses formally survey their employees?

50% conducted formal employee surveys
(35% in 2020)



WELL PAID MEANINGFUL JOBS

did businesses pay more than the minimum wage to all staff?

95% paid all their staff more than the minimum wage
(95% in 2020)



DIVERSITY & INCLUSION

did businesses have a gender diverse workforce?

30% of employees were women
(30% in 2020)

ESG KPI report

Growing our Economy



Highlights from 2021 continued



ECONOMIC GROWTH

did businesses create and/or maintain jobs?

3,573 FTE jobs

(2,954 in 2020, 20% up LFL*)



ECONOMIC GROWTH

did businesses invest in R&D?

£34m invested into R&D

(£12m in 2020, 200% up LFL*)



ECONOMIC GROWTH

did businesses increase exports?

£52m of exports

(£34m in 2020, 23% up LFL*)

*Like for like figures compare 2021 to 2020 excluding businesses added to or exited from, the portfolio during 2021

Case study

Reducing carbon impact from data



What was the challenge?

When thinking about how to meaningfully reduce the carbon footprint of businesses, it is often assumed that there is very little an office based service business can do, or needs to do, to address its climate impact. Outpost is a good example of why this might not always be true.

Outpost VFX creates stunning visual effects for film and episodic productions in the UK and overseas. It has operations in LA, Mumbai and Montreal as well as its headquarters in Bournemouth. VFX requires heavy computing power and Outpost moves very large amounts of data into and out of the cloud. A recent study from Lancaster University estimated that data storage now has a carbon footprint as big as the airline industry.

In addition, Outpost employees need to travel between the US, Canada and UK to meet the demanding schedules of its film studio and streaming clients.

How did they address this?

Outpost found that their three biggest carbon impacts were international flights, energy resources needed for their cloud services, and the electricity requirements for their own servers.

During 2021 they put in place measures to address each of their three main impact areas by:

- fully carbon offsetting all flights using accredited offset partners.
- switching to Google Cloud for all computing capacity in LA and Mumbai. Google is currently carbon neutral and has committed to run on carbon-free energy at all of their data centres by 2030.
- and moving the electricity supply for their own servers in UK and Montreal to a renewable source.

What was the outcome?

Outpost have recognised that their operations do have significant carbon impact even though they are an office based service provider. They have put in place some sensible first measures to address this. The next step is to find a

workable way to measure the whole of their carbon footprint in order to create a full carbon management plan.

Outpost is still held in YFM's portfolio having grown its revenues from £8m to £15m and jobs from 47 to 81 since YFM's investment at the beginning of 2021.

Case study

Providing Impactful Services



DEEP SECURE

What was the challenge?

Cyber attacks on critical national infrastructure and major financial institutions are a significant threat to our society.

Deep Secure, a cyber security specialist, has developed world leading expertise in combating cyber threats but these were historically particularly aimed at the protection of defence assets. This was typically lumpy and bespoke work and the challenge for Deep Secure was to find a way to address the needs of more widespread commercial markets such as the major banks which needed an ultra-safe but commercially replicable solution.

How did they address this?

A unique approach to cyber defence was developed by Deep Secure, involving many years of R&D, further investment from YFM and some changes in company leadership. In 2017, under the entrepreneurial leadership of CEO Dan Turner, Content Threat Removal was finally launched.

The problem with *detecting* threats is that they are constantly changing and eventually a smart attacker will find a way to evade detection.

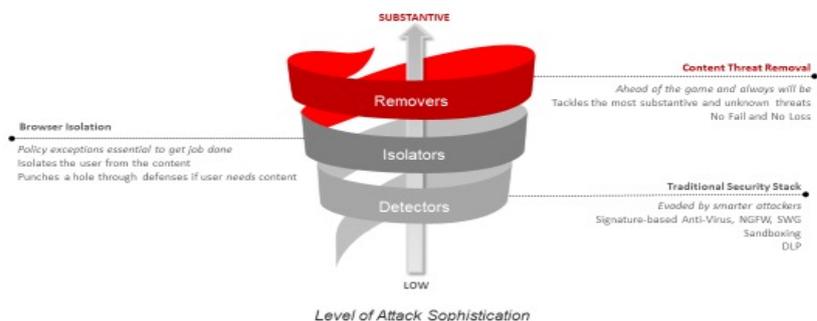
The problem with trying to *isolate* threats is that it significantly restricts a business' agility to operate meaning that exceptions need to be made to allow the business to function and this inevitably creates a hole in the defences.

Deep Secure's approach provided total protection against unknown zero-day threats, without the need to detect threats or isolate business content. Threat Removal removes the threat entirely and only delivers inherently safe data to the user.

What was the outcome?

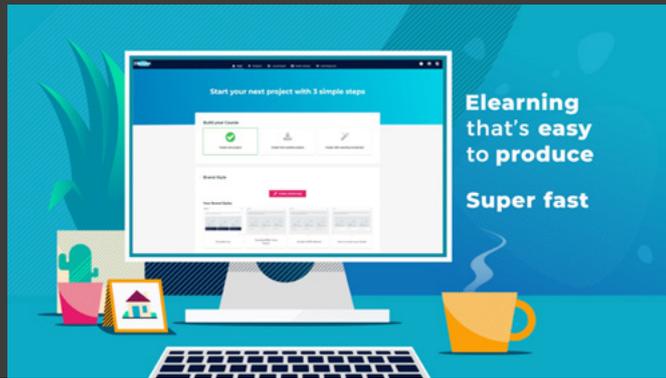
Deep Secure's unique software together with proprietary hardware to deal with high speed verification of large quantities of data, is a transformational development in cyber security and has provided protection to global banks, governments and critical infrastructure. Certainly a service innovation with real impact to our society.

Deep Secure was sold in 2021 to Forcepoint Federal LLC, a US-based cyber security business, yielding a 6.5x return on YFM's investment.



Case study

Valuing People



What was the challenge?

Elucidat sell their content authoring software for e-learning to large corporates in the UK, US and Europe. Their mission is to help people within big organisations to collaborate, create and unlock knowledge from any employee.

They face a competitive market for attracting the right people, in both their head office in Brighton and in the US, who can clearly articulate the benefits of the product, listen to what the customers need, and help large corporates to get the most out of the Elucidat platform.

How did they address this?

As they say on their own website “Our success is fuelled by the positive attitudes and exceptional talent of our team – who live by our learn, care, share values every day”.

Turning those values into practice needs a culture of valuing people and giving them space to succeed. There a number of tools which Elucidat have used to achieve this:

- Monitoring employee engagement quarterly using 15Five, a performance management and employee engagement platform.
- Encouraging continual flexible learning – all full-time employees can use up to one working day per month for learning time using a budget of £280 per year to spend as agreed with their line manager.
- Looking after employees mental wellbeing – three employees have been trained as Mental Health First Aiders and a Health Cash Plan was

introduced in 2021 for all UK employees, including a 24 hour Employee Assistance helpline, as well as access to face to face counselling sessions. Elucidat also continues to promote day to day wellness through other services such as Headspace subscription, virtual pilates and generous holiday entitlements.

- Entering the process of a well-respected employee experience benchmark, such as Best Workplaces, to bring independent employee engagement feedback into their People strategy, as well to give them a higher profile reputation as a good employer.

What was the outcome?

Elucidat was officially accredited as a ‘Great Place to Work’ for 2022.

Elucidat was also recognized as a Great Place to Work for Wellbeing, after the GPTW culture experts had analysed thousands of employee surveys, assessing their experiences of all facets of wellbeing at work including work-life balance, sense of fulfilment, job satisfaction, psychological safety, and financial security.



Elucidat is still held in YFM’s portfolio having grown its revenues from £3m to £5m and headcount from 33 to 55.

