



YFM Private Equity Limited Responsible Investment Policy

Building Better Businesses.

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Introduction and Purpose

YFM Private Equity Limited (YFM) has been investing in small businesses since 1982 through our regional office network. Providing growth equity to over 300 companies, we are dedicated to working alongside management teams to create transformational growth and long-term value for our investors.

The purpose of this Responsible Investment (RI) policy is to outline how environmental, social and governance (ESG) areas are considered as part of YFM's overall investment strategy, applied throughout the portfolio and integrated with our own operations.

YFM's Role in Responsible Investment

YFM's guiding principle is that we make strong returns for our investors by building better businesses. We aim to do this by growing businesses responsibly while recognising our duty to all stakeholders (e.g. community, employees, environment), not just shareholders.

With SMEs comprising 99.9% of all private sector businesses in the UK, YFM has a role to play in the transition towards a sustainable and resilient economy. Embedding sustainable practices today can build long-term business resilience. We empower our portfolio companies to embed these practices which can improve positioning against evolving ESG market priorities, broaden the potential buyer pool, and ultimately increase equity value.





Scope and Application

This policy will encompass existing and future investments made across all YFM-managed funds. Alongside our Investment Procedures documentation, this policy outlines the process of how ESG risks and opportunities are managed across the investment cycle.

We recognise that our portfolio companies are at different stages of growth. Our expectations for ESG implementation are applied in a way that aligns with the stage of their development, ensuring they support rather than hinder a company's financial stability and progress, particularly for early-stage businesses where building resilience is made a priority.

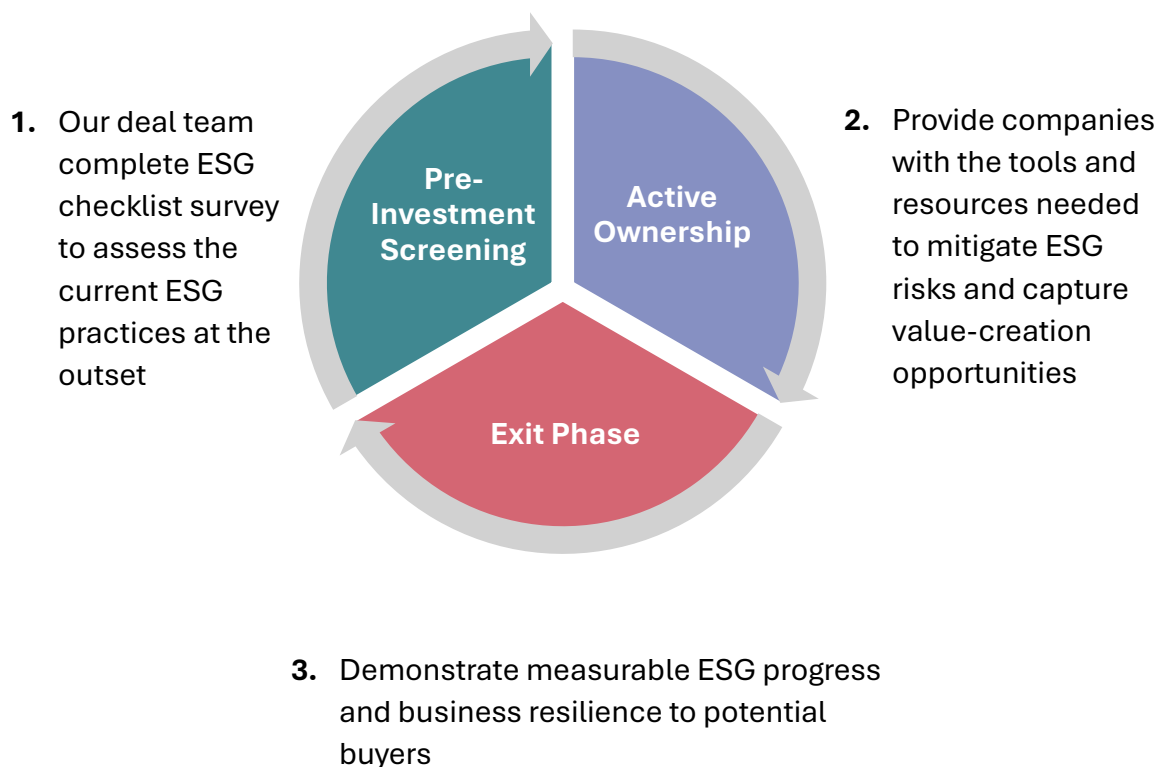
YFM’s Approach to ESG

To deliver on our mission, and to meet our commitments as signatories to the UN’s Principles for Responsible Investment (PRI), YFM has defined four key themes that we believe good businesses should be focussed on.

	Theme:	Definition:	Example KPIs:
	Protecting our Environment	Taking tangible action to reduce our impact on the environment	<ul style="list-style-type: none"> - Carbon Reduction Plan - Waste management policy - Metrics on nature and biodiversity
	Improving our Society	Making a positive contribution to our communities, in areas where we can make a difference and are passionate about	<ul style="list-style-type: none"> - Employee wellbeing programmes - Customer satisfaction scores - Supplier Code of Conduct in place - Volunteering & charity donations
	Growing our Economy	Delivering a positive impact on our economy, environment and society through our investing activities	<ul style="list-style-type: none"> - Number of new quality jobs created - Investment in R&D & innovation
	Valuing our People	Creating a positive and inclusive culture, supporting people to realise their potential at YFM and in our portfolio companies.	<ul style="list-style-type: none"> - Diversity, Equity & Inclusion training & policy - Employee engagement survey and eNPS - Fair wages and equitable pay

ESG Integration

ESG is embedded into each stage of the investment lifecycle, from pre-investment screening, throughout the holding period, through to exit:



Pre-Investment Screening

Any investment opportunities brought to YFM are subject to our Investment Screening Policy. This sets out three broad areas we consider, and if necessary, debate with Investment Committee at an early stage. These are:

1. Direct business activities that could cause harm or reputational risk and therefore form our excluded business activities list. This list includes, but is not limited to, businesses providing the following products or services:
 - a. Arms & Weapons
 - b. Tobacco
 - c. Gambling
 - d. Consumer debt collection & high-cost money lending
 - e. Adult entertainment
 - f. Fossil-fuels
2. A business history linked to past undesirable ESG impacts, behaviour or reputation.
3. Any business that contravenes international standards: OECD Guidelines for Multinational Enterprises and/or the International Bill of Human Rights.

Our due diligence process includes two key steps. First, in alignment with our Investment Screening Policy, the investment team completes a checklist to confirm any potential exposure to excluded sectors or high-risk areas before advancing the opportunity. Second, for investments progressing to the Investment Committee (IC), a detailed checklist is completed to assess the materiality of the company's ESG factors and management's approach to these critical themes. The output from this is included in our IC submissions. This two-step review ensures that ESG considerations are fully appraised prior to any investment.

Active Ownership

Once a company joins YFM's portfolio, the first step is to conduct a baseline assessment of its ESG data, policies and practices. This baseline assessment allows YFM to pinpoint key ESG improvement areas that are both material to the company's growth and to its broader stakeholder ecosystem.

From this analysis, we identify 3 to 5 priority ESG themes that have the potential to drive significant impact within the company and align with the interests of its stakeholders. This structured approach ensures that each company's ESG focus is both actionable and relevant to the business model.

In addition to the priority ESG themes, we apply a minimum set of standard governance practices across all companies that enter the YFM portfolio. Portfolio team members use a standardised governance checklist, that outlines key policies and practices all companies are encouraged to implement, ensuring a consistent baseline of good governance.

After identifying these key themes, YFM and the company co-create a targeted action plan, which outlines specific ESG initiatives and performance objectives. To measure progress against these objectives, we conduct an annual Key Performance Indicator (KPI) survey to recognise achievements, reassess priorities, and adapt to the evolving needs of stakeholders. This process includes:

- **Annual KPI Survey:** Each year, YFM conducts a survey to collect data on ESG performance across key themes. This exercise provides a clear snapshot view, allowing for an objective assessment of each company's progress and areas needing improvement. Results from these surveys are also aggregated and reported to YFM's investors, enhancing transparency on ESG performance across the portfolio.
- **ESG Updates at Board Meetings:** In addition to the KPI survey, YFM uses its attendance at board meetings to gather updates on key ESG issues on an ad hoc basis. These meetings allow for in-depth discussions where portfolio companies can share successes, address key challenges, and identify any blockers hindering the action plan. This open dialogue enables YFM to understand the practical aspects of ESG implementation and provide timely support.

- **Adaptive ESG Strategy:** Based on insights from both the KPI survey and board meeting updates, YFM collaborates with portfolio companies to refine and update their ESG action plans. This dynamic approach ensures that ESG initiatives remain relevant and impactful throughout the holding period.

YFM plays an active role in supporting portfolio companies throughout their ESG journey. By offering guidance and practical tools, we enable our companies to integrate core ESG principles into their operations. Key elements of our support include:

- **Toolkits and Resources:** Our ESG team provides companies with toolkits that outline best practices, benchmarks, frameworks and introductions to relevant partners and experts where appropriate for developing and enhancing ESG initiatives.
- **Ongoing Support:** YFM engages with our companies, offering our expertise and strategic insights to help them address challenges and capitalise on ESG-related opportunities.
- **Knowledge Sharing and Industry Best Practices:** YFM facilitates knowledge-sharing sessions among portfolio companies, enabling them to exchange learnings and adopt emerging industry best practices and guidelines.

Exit Phase

As part of our commitment to transparency, we document the ESG progress achieved by portfolio companies and, on occasion, work with sell-side ESG due diligence vendors to highlight further growth opportunities to potential buyers. Depending on the buyer's priorities, we highlight the tangible achievements and demonstrate the fundamental ESG practices that have been embedded within the company's operations.

RI Policy Oversight & Governance

This policy is approved by the Board of YFM Private Equity Limited and is reviewed annually. The ESG Committee meets quarterly and is responsible for the implementation of the policy, and meets quarterly to report on ESG performance and progress to the Board. YFM's Head of Portfolio (North) is the chair of the ESG Committee and acts as ESG representative at YFM's Investment Leadership Committee.

Reporting & Transparency

YFM is committed to transparent reporting, providing investors with clear insights into our progress on ESG.

Each year, we publish a Responsible Investment Report, outlining ESG achievements and challenges at both the portfolio and YFM level. ESG data is also included in our annual VCT reports, offering investors a comprehensive view of how their capital is being invested. Lastly, YFM submits annual questionnaires to the UN PRI, allowing our ESG efforts to be externally benchmarked and ensuring alignment with global standards.