mercia
asset management

Sustainability & Responsible Investment Policy

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Status: Approved
Cross referenced related documents: Internal values and Culture policy, Origination and Investment policy, Portfolio Value Creation policy, Exclusions policy

Owner: Bansi Dhillon
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1. Executive summary

As one of the most active investors with 11 offices across the UK, Mercia combines commercial returns with responsible investment practices across its venture capital, debt and private equity activities.

Our approach integrates sustainability considerations throughout the investment lifecycle, from the initial stages of the pre-investment process, across the holding period and through to exit. Over 90% of our capital is deployed outside London, supporting regional economic development.

When reviewing potential investments, Mercia is primarily appraising the commercial opportunity, whilst also assessing the material sustainability factors associated with those opportunities. Our systematic approach to sustainable and responsible investment strives to both protect and increase value whilst fuelling business growth through reducing exposure to risk, identifying opportunities to create value or develop strategic advantage in the portfolio; and improving our access to investment opportunities and attractiveness to investors.

Key considerations

Investment decisions prioritise commercial potential, with sustainability factors integrated into our established due diligence process, with consideration to:

- Investment strategy: Our evaluation of sustainability risks and opportunities will also be guided by the requirements of the fund mandate, where that lays out criteria for investment.
- Suitability to investment type: Assessment varies by investment type; venture capital, debt or private equity.
- Value creation: We look to create value by supporting businesses to mitigate sustainability risks and leverage sustainability opportunities.
- Alignment with investors: fund objectives and investor requirements will be taken into consideration as priority when applying the approach outlined in this policy.

2. Overview

This policy outlines how Mercia integrates sustainability into our investment activities while delivering strong commercial returns. Our approach supports Mercia's core purpose: delivering the right capital, to the right companies at the right time. This policy supports understanding and enhancing our values, culture and commitment to acting responsibly as an asset manager. It highlights our stewardship through a responsible investment approach grounded in sustainability considerations. This policy is an interconnected part of the overall policy framework that Mercia has implemented to govern its business operations.

This policy has been approved and adopted by the Executive Committee ("ExCo") and will be reviewed at least annually. Where material changes are noted, the policy will be referred to the Executive Committee for approval.

3. Sustainability governance

Mercia's ExCo has appointed a Sustainability Manager, Bansi Dhillon, to lead the sustainability and responsible investment function and assist in matters specifically relating to this, including but not limited to, oversight of sustainability at Mercia, managing implementation of best practice across the investment lifecycle for Mercia's various investments and funds, reporting, training, maintenance of policies and procedures, and overall improvement of Mercia's approach to sustainability.

The focus on building sustainable businesses of the future stems from Mercia's desire to act in the best interests of investors and wider stakeholders. The Sustainability Manager works closely with the Executive Committee, Group Compliance and Risk Director, Group General Counsel and Head of People and Talent.

4. Our values & culture

Mercia's purpose is value realisation through proactive local delivery of the right capital, to the right companies, at the right time.

We are building a culture where professional and personal growth is as important as Mercia's growth. We strive to uphold the following values as a team:

- Growth focused: We seek to optimise performance and growth at an individual, team, group and investee level
- Responsive: We think deeply, always meeting commitments and aiming to exceed expectations
- Knowledgeable: We are recognised as experts in our field, sharing knowledge for the benefit of others
- Trusted: We are trusted partners, known for being honest, professional, reliable and fair
- Responsible/respectful: Responsible for making a positive financial and non-financial difference.

It is incumbent upon every Mercia employee to align to our internal values and assume accountability in implementing the Sustainability and Responsible Investment Policy, and other related policies.

Training is provided on an ongoing basis to ensure understanding of all policies and underlying processes, and to ensure that Mercia is constantly aligned with industry best practice. Training is tailored to the specific needs of Mercia employees and is comprised of introductory and best practice sessions.

Mercia Spirit

Mercia Spirit represents our collective initiatives towards volunteering, charitable initiatives and community engagement.

Mercia seeks to make a positive contribution to communities and charitable organisations in the regions in which it operates through monetary donations and corporate volunteering activities. Aiming to use multiple channels to provide support, all employees are encouraged to fundraise, volunteer, participate and contribute to a variety of initiatives that they feel passionately about.

Mercia's nominated charity is Cancer Research UK and there are multiple opportunities throughout the year to support the charity through office-based fundraising activities. Mercia also supports individual employee volunteering, with the provision of two half-day allowances, on an annual basis – this may be organised centrally by various Mercia office hubs or sourced individually by the employee.

5. Our industry commitments

As a leading investor across the UK, Mercia demonstrates leadership through active participation in key industry initiatives:

United Nations Principles for Responsible Investment ("PRI")

As a signatory to the PRI we align with the principles that ensure that Mercia is committed to acting in the best interests of investors and adhering to industry best practice.

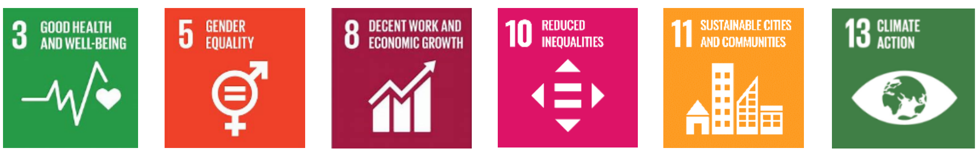
Signatory of:

PRI Principles for Responsible Investment

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

United Nations Sustainable Development Goals ("SDGs")

Mercia is an advocate of the '2030 Agenda for Sustainable Development' which provides 'a shared blueprint for peace and prosperity for people and the planet, now and into the future. At its heart are the 17 Sustainable Development Goals (SDGs), which are an urgent call for action by all countries - developed and developing - in a global partnership.' Mercia has identified alignment with the following six SDGs where we have the greatest impact through our own initiatives and our investments:



British Venture Capital Association ("BVCA")

Mercia is a member of the BVCA. The BVCA is the voice of private capital in the UK, acting on behalf of our members to engage and educate key audiences about the vital role played by private capital in business growth, transformation and innovation and the benefits this brings to life across the UK.

bvca Member Firm

The BVCA promotes private capital's role as committed responsible investors, building value in businesses for investors, society, and a greener future. The BVCA looks to support its members with ESG-related challenges and opportunities via sign posting of best practice, facilitating engagement, and knowledge sharing and education. As a member firm, Mercia agrees to abide by the BVCA's code of conduct.

Net zero commitment

Mercia takes a practical approach to measuring and reducing its environmental footprint. Mercia pledges to be net zero by 2050. Mercia annually reports and offsets all material GHG emissions of its corporate activities, ensuring all corporate operations are effectively carbon neutral. Mercia aims to take pro-active steps to decarbonise its corporate emissions and will explore advancements in technology and green energy on its pathway to net zero by 2050.

Since 2022, Mercia has worked with Positive Planet, a specialist environment consultancy to map our corporate carbon footprint. Mapping our data set provided us with a benchmark, and during 2023, we were able to refine this data through both employee and supplier engagement. Due to the nature of our business, the majority of our carbon footprint is made up of Scope 3 emissions and we are committed to addressing the complexities and improving data in this key area in order to be better understand how we can work to reduce this.

Through engagement and the implementation of sustainability initiatives, Mercia is taking steps towards setting a targeted carbon reduction based on a per-head-of-staff basis. Some of these initiatives include:

- Video conferencing: We encourage face-to-face meetings for office days but where we have remote working, we have a video-first meeting policy
- Public transport: All team members are encouraged to use public transport where possible
- Electric cars: We launched a company-wide electric vehicle ("EV") leasing scheme in 2022 and 7% of staff have now moved to an EV via the scheme.

From FY25/26, Mercia's goal is to collect scope 1, 2 and material scope 3 GHG emissions data for all portfolio companies. We are looking at practical, efficient ways to do this. This will allow our portfolio companies to better understand their carbon footprint and where reductions can be targeted in a world striving towards net zero.

Investing in Women Code

The Investing in Women Code is a commitment to support the advancement of female entrepreneurship in the United Kingdom by improving female entrepreneurs' access to tools, resources and finance from the financial services sector.

A diverse and inclusive business ecosystem is good for customers, entrepreneurs, businesses, investors and society. As a signatory to the 'Investing in Women' code, Mercia shares a commitment to work in partnership to make the United Kingdom one of the most attractive countries in the world to start and grow a business.

The Code commits organisations to promoting female entrepreneurship by:

- having a nominated member of the senior leadership team who will be responsible for supporting equality in access to finance;
- increasing the transparency of financial services firms' data concerning support for female entrepreneurs; and
- adopting internal practices to improve the outlook for female entrepreneurs.

Women in Finance Charter

Women in Finance Charter is a pledge for gender balance across financial services. This is a commitment by HM Treasury and signatory firms to work together to build a more balanced and fair industry. By signing up to this Charter, Mercia is pledging to be among the best businesses in the sector.

The Charter reflects the aspiration of the UK Government to see gender balance at all levels across financial services firms. The Charter;

- commits firms to supporting the progression of women into senior roles in the financial services sector by focusing on the executive pipeline and the mid-tier level;
- recognises the diversity of the sector and that firms will have different starting points – each firm should therefore set its own targets and implement the right strategy for their organisation; and
- requires firms to publicly report on progress to deliver against these internal targets to support the transparency and accountability needed to drive change.

Mercia pledges to promote gender diversity by:

- having one member of our senior executive team who is responsible and accountable for gender diversity and inclusion;
- setting internal targets for gender diversity in our senior management;
- publishing progress annually against these targets in reports on our website; and
- having an intention to ensure the pay of the senior executive team is linked to delivery against these internal targets on gender diversity.

From FY25/26, Mercia's goal is to report on both gender and ethnic minority diversity across both Mercia and its portfolio companies.

Please refer to Mercia's Diversity, Equity & Inclusion ("DEI") policy for more information on our approach, targets and compliance with the above commitments: Mercia Diversity, Equity & Inclusion Policy

6.Responsible investment approach

Mercia strives to be a responsible investor seeking to make a positive social and/or environmental contribution whilst promoting sustainable practices and business ethics. As a responsible asset manager, Mercia takes a pro-active approach in considering sustainability throughout the investment lifecycle, from pre-investment through to exit. Each investment opportunity is assessed in relation to ESG risks and opportunities material to the Mercia portfolio and the opportunity itself. Investment team members aim to make well-balanced decisions in line with Mercia's overall risk strategy and explore opportunities in the best interest of Investors.

Mercia's approach to responsible investment is built upon our investment guiding principles, which aim to make a positive environmental or social impact through our investment activities. We use various tools and methodologies to screen, evaluate and monitor our investments and ensure these align with our guiding principles, core values and industry commitments.

Mercia's investment guiding principles

Mercia's core investment strategy is built upon these guiding principles:

Sustainable economic growth

We seek to deliver Mercia's stated purpose, providing growth capital and tailored investment solutions to fast-growing regional businesses to create long-term shareholder value, particularly outside London and the South East.

We encourage and use technology efficiently to minimise the negative environmental impact arising from our operations, including our portfolio companies. Initiatives include reducing paper usage; leveraging the benefits of video-conferencing; and limiting long distance business trips wherever possible.

We promote talent development through a clear competency framework and support job creation within Mercia.

Reducing inequalitites within our communities

We adhere to Equal Opportunities and DEI policies which value and respect all stakeholders, irrespective of role, gender, race, age, sexual orientation or religious belief. As per our regional investment model, we proactively seek to reduce inequalities present across communities.

We actively encourage employees to become involved in volunteering and charitable community projects through initiatives such as Mercia Spirit.

We seek to engage with outreach programmes to promote diversity and inclusion within our communities.

Health & wellbeing for all

We advocate health and wellbeing for all, through both our investment activities and our business operations.

We actively encourage Mercia employees to engage with physical and mental health and wellbeing programmes (e.g. Cycle to work scheme and counselling support programme).

We challenge ourselves to maintain a balanced approach between work and life, embracing remote working where appropriate. We respect others' 'quiet' times (limiting non-essential email outside working hours).

Portfolio materiality assessment

Through the commitments set out in this policy, Mercia has put in place appropriate governance and reporting structures with respect to sustainability factors, with the goal of improving performance and minimising adverse impact in these areas. Our assessment focuses on factors that materially impact business value:

Environment	Social	Governance
Climate Change	Human Capital Development	Corporate Governance & Board effectiveness
GHG Emissions	Diversity, Equity & Inclusion (DEI)	Business resilience
Energy Consumption	Human Rights	Bribery & Corruption
Air, Land and Water Pollution	Health & Safety	Whistleblowing
Waste Management	Supply Chain Management	Business Ethics
Biodiversity & Habitat	Stakeholder Engagement	Conflicts of Interest
Responsible Use of Resources	Local Employment	IT & Cybersecurity

Exclusions

Mercia is committed to investing in companies that are aware of their environmental and/or social contribution and as part of our investment process, the risks and opportunities associated with potential portfolio companies are evaluated. As part of our investment due diligence process, Mercia operates in line with a dedicated exclusions policy which outlines specific industries, activities and sectors in which Mercia would not invest based on social, moral or ethical grounds.

The full Mercia Exclusions Policy is available upon request.

Investment screening and due diligence

Our investment process integrates sustainability considerations within standard due diligence using a proprietary tool developed in-house and that is aligned with global sustainability standards. This tool is built upon the IFRS Foundation Sustainability Accounting Standards Board ("SASB") Standards, which are designed to identify and standardise disclosure for the sustainability issues most relevant to investor decision-making in each of 77 industries. It allows our investment team to quickly assess businesses across various industries and sectors to decipher the material ESG risks and opportunities and the subsequent due diligence questions which should be addressed. Where medium to high risks are identified, these should be considered in context of the size, maturity, stage and investment type of the potential opportunity.

As part of the discussion, we will assess the quality of sustainability oversight at the portfolio company to identify potential risks and develop an appropriate mitigation plan. Additionally, where opportunities are identified, we will outline a value creation plan to maximise potential benefits. Where necessary, the investment team may engage further with our Sustainability Manager and third-party consultants for specialist assessment.

While ESG considerations are part of the investment decision-making process, these alone would not prevent Mercia from making an investment. Instead, material ESG risks and opportunities identified during the due diligence process would form part of the ongoing asset management and value creation process post investment. However, where material risks are present and, upon further evaluation, cannot be reasonably mitigated, the Investment Committee may choose not to invest.

Post-investment value creation

Mercia's primary objective is to deliver returns to its investors in line with its investment policies. Mercia believes in investing with a long-term view which creates sustainable value for investors as well as portfolio company employees, customers and other stakeholders. With this objective in mind, Mercia seeks to monitor and improve the management and performance of its portfolio companies, including sustainability factors, where reasonable in relation to the size, maturity, stage and investment type.

For each portfolio company, there will be a dedicated point of contact at Mercia. The level of engagement may depend on the size or stage of the portfolio company and/or investment type. Investment team members are provided with relevant tools, receive training on sustainability-related topics and have continuous support from the Sustainability Manager where needed.

Sustainability factors should be addressed on an ongoing basis post-investment, built upon the materiality assessment conducted pre-investment and in relation to our investment guiding principles where relevant. Through Mercia's investment strategy, we seek to create value at our portfolio companies based on a number of factors, including improving sustainability, as we believe there to be strong correlation between enhanced investment returns and building sustainable businesses of the future.

To monitor the sustainability footprint of our portfolio companies and performance in line with material ESG factors, Mercia uses the ESG_VC questionnaire as an annual due diligence framework to benchmark and assess progress. We encourage all portfolio companies to engage in this exercise and to use the results to target specific areas of improvement, either innate to the qualities of the business whereby they make an environmental or social contribution, or to create sustainable value.

We consider strong corporate governance essential to optimise each portfolio company's ability to strive for sustainable economic growth and have a positive impact on its local community. Post-investment, Mercia will prioritise initiatives to implement good governance through establishing a professional management team, including a competent finance team; a Board of Directors, including independent non-executive directors; clear, accountable management structures; structures and operations that comply with local laws; and transparent reporting procedures. In addition, we will work with portfolio companies to establish relevant sustainability-related policies, procedures and reporting, as well as seeking to optimise value creation through environmental and/or social factors. By attending board meetings and engaging with management teams, Mercia encourages sustainability best practice and value creation.

In some areas of Mercia's investment activities, namely debt investments, it may be more challenging, but we will support and guide the businesses in creating sustainable value as far as possible.

Demonstrating value at exit

Our exit preparation demonstrates value creation using a systematic approach, as outlined above, throughout the investment lifecycle. We are able to effectively demonstrate value creation through sustainable initiatives. When preparing to exit from a portfolio company, with consideration to size, maturity, stage and investment type, Mercia aims to present the sustainability journey of the portfolio company through the ownership period, including key initiatives and key performance indicator ("KPI") monitoring, to demonstrate the value created through our engagement on sustainability-related matters.

7. Transparency, disclosure and reporting

Mercia is committed to providing transparency to its investors and other stakeholders through disclosure of progress made towards its long-term sustainability objectives and targets. Through participation in widely recognised benchmarks and commitments to industry standards, Mercia enables its key stakeholders to put its performance into perspective against its peer group. As signatories to the UNPRI, we have reported to the PRI annually since 2023.

Mercia's regular reporting procedures include a review of sustainability improvements across the portfolio, using an annual sustainability questionnaire as a benchmarking tool. This questionnaire may vary based on size, maturity and type of investment.

We use sustainability KPIs to measure both our performance and that of portfolio companies to track progress towards goals and to communicate the results to our investors and other stakeholder communities.

Mercia's detailed annual report contains a dedicated section on sustainability, summarising key sustainability-related updates and reporting on performance at Mercia and across its portfolio. The annual report is shared with all investors and key stakeholders. In addition, sustainability continues to be of interest to Mercia and its stakeholders and we ensure to include it as an agenda item in periodic investor updates, as part of ad-hoc incident reporting (where material and relevant), through social media and via our website.

Finally, we continue to monitor the implementation of this policy and will review and update where necessary on an annual basis at least. We also continue to monitor the evolving UK regulatory landscape to ensure we are well-informed of any sustainability-related reporting requirements and will take steps in future to ensure compliance where Mercia is identified as being in scope.