Task Force on Climate-related Financial Disclosures (TCFD) Report

2023/24

Certified B Corporation

BGF

Introduction

Climate risks and opportunities are now a reality that demands immediate attention. In the UK and Ireland, increasing flood risks and shifting weather patterns due to climate change highlight the urgent need for action.

Our investment model is purpose-built for SMEs looking to scale-up. We now support hundreds of companies across different investment stages, sectors and regions. Recognising the complexities and challenges in predicting risks across investment markets, we integrate climate considerations in delivering good growth across our portfolio.

BGF is a signatory of the Principles of Responsible Investing. In 2023, BGF proudly achieved B Corp certification, scoring 97.5, reflecting our dedication to positive impact. Building on our commitment, this report is our first voluntary TCFD-aligned disclosure, highlighting our focus on transparency and enhancing our approach to climate-related risks and opportunities. We aim to advance the maturity of our climate-related actions and disclosures on an annual basis, ensuring continuous improvement in our practices.

Pillar 1: Governance

Oversight

The Board and CEO are responsible for our overall ESG risk management strategy, which includes climate-related risks and opportunities. As a minority investor backing over 300 companies, BGF recognises the complexity and size of the challenge posed by climate transition to the portfolio. Therefore, the business has embedded governance of climate-related risks and opportunities across four key committees based on their specific roles and responsibilities. These include BGF's Investment Committee, Audit and Risk Committee, Executive Committee, and ESG Committee. The Board receives quarterly ESG updates across the four committees. It assumes primary responsibility for the approach and actions for addressing climate-related matters, by ensuring an oversight mechanism is in place, and regularly reviews the membership and terms of reference of all four committees.

The Head of ESG plays an important role in coordinating BGF's climate risk management efforts. This individual engages with all four committees and the non-executive board member who is the nominated ESG representative on the Board. The Head of ESG updates the Board covering the ESG perspective as required.

Assessment and management

As an office-based, UK and Irish equity investor, BGF understands that the most significant climate risks and opportunities are inherent within our portfolio companies. Our primary influence in mitigating climate-related risks and identify climate-related opportunities lies through the investments we make.

The Investment Committee supports in embedding climate-related considerations into the investment process. Every potential growth investment made in the private markets is evaluated for climate-related risks and opportunities from the outset. This begins with a mandatory assessment at the deal memo stage, where the Investment Team, in collaboration with the Head of ESG, identifies and evaluates high-level climate risks and opportunities alongside broader ESG considerations. This initial assessment aims to gauge a company's preparedness for climate change adaptation and mitigation, its capability to track and report GHG emissions, resilience to climate-related disasters, and readiness for the transition to a low-carbon economy and changing regulatory landscapes.

Following an approval from the investment committee, companies undergo a third-party ESG due diligence conducted by Holtara to independently verify ESG and climate-related data and claims, with the findings presented to the Investment Committee for consideration. This committee, consisting of senior investment leadership, including the CEO, deliberates on the ESG due diligence outcomes, focusing on identifying and mitigating any ESG-related risks and capitalising on opportunities.

Once an investment decision is made, ESG and climate considerations are integrated into the post-investment value creation plan. This plan benefits from the active engagement of the Investment Team and the support of the Value Creation Team, which includes the Head of ESG. Furthermore, a large proportion of companies are invited to participate in the annual ESG assessment, also conducted by Holtara, providing us with an understanding of evolving climate-related risks and opportunities. Nearly 190 companies within our portfolio have participated annually in this assessment for the past two years.
The Audit and Risk Committee is crucial in tracking ESG metrics as part of the formal risk register. This process, supported by the Head of ESG, continuously evaluates our exposure to ESG risks. These metrics are reviewed quarterly, allowing the committee to monitor progress and adapt strategies as necessary. The metrics are also reported to the Executive Committee monthly. We plan to incorporate climate-specific metrics as part of the register.

The Executive Committee stays abreast of the impact of ESG and climate-related risks on the business and portfolio in a number of ways. First, they receive the monthly metrics as mentioned above. Second, they receive monthly updates on developments in ESG support provided to portfolio companies as part of the summary from the Value Creation team. Third, the Head of ESG updates the committee on strategic matters and presents relevant recommendations from the Green Innovators Group, BGF's internal climate action employee group, to the committee. In 2023, under the aegis of the committee, BGF focused on enhancing internal capabilities regarding ESG and climate matters by organising internal training webinars covering essential topics such as ESG foundations and the impacts of climate change.

Finally, comprising BGF's CEO, COO, and heads of departments from legal, portfolio, and HR, the ESG Committee is tasked with identifying, reviewing, and monitoring ESG issues, including climate related issues, within new deals or portfolio companies. The committee's duties include agreeing on actions to be taken, approving initiatives, establishing best practices in line with BGF's ESG policy, and preparing discussions on ESG issues for the Board and Audit & Risk Committee as required.

Pillar 2: Strategy

Risks and opportunities

BGF recognises there is a risk that climate change, and specifically the transition to a low carbon economy, will change the landscape in which the business operates. However, there are opportunities to be leveraged as well as an investor.

BGF aims to progress its TCFD disclosures on an annual basis. Within the first risk review undertaken for 2023, BGF identified several climate-related risks and opportunities (R&Os). Our findings are summarised in the table below:

Climate Risks & Opportunities	Risk/ Opportunity	Physical/ Transition	< 3 years	3-5 years	> 5 years
Acute, extreme weather events	R	P			
Chronic, rising mean temperatures	R	P			
Implementation of Carbon pricing	R	T			
Implementation of Carbon pricing	O	T			
Transition to a new energy system	R	T			
Transition to a new energy system	O	T			
New regulation of existing products & services	R	T			
Supply chain disruption	R	T			
Changing consumer behaviour and preferences	R	T			
Uncertain pricing environment	R	T			
Green skills gap	R	T			
Sustainable value creation	O	T			
Substitution of existing products & services	O	T			
Market leadership for "green" product and service providers	O	T			

We do not see evidence of the R/O

We may see evidence of the R/O

We will definitely see evidence of the R/O

The key aspects identified were those considered to have the potential to be material to the development, financial performance and financial position and/or prospects of BGF's portfolio.

For short-term risks (0-3 years) we focused on physical risks. Specifically, those resulting from an increase in frequency and intensity of extreme weather events such as cyclones and floods, which could effect supply chain disruption. Chronic events, such as fluctuations in seasonality and temperature extremes could impact consumer behaviour and preferences, for instance in the consumer goods sector where trading patterns are disrupted. Data centres are another area since they are considered a vital asset with significant impact to business continuity. We looked at energy supply costs since this would have the most immediate impact on operating budgets, a particular concern of the health and education sector with high energy demands.

Medium-term risks (3-5 years) include those arising from a transition to a low-carbon economy. Specifically, we looked at the impact of new regulations on businesses' ability to transition to low-carbon alternatives and challenges around lack of government incentives to leverage 'greener' products to clients which could impact a company's valuation. Similarly, uncertainty around future carbon pricing and investment in renewable energy sources could affect balance sheets and liquidity levels. A loss of market share through the substitution of existing products could present a similar risk to the construction sector.

No long-term risks (10+ years) were considered to be material to our current business strategy and operations. There is significant uncertainty in assessing the risk impacts in this timeframe, though management will continue to monitor economic disruption brought on by climate events and respond accordingly.
In addition to risks, we identified several key business opportunities.

In the short term, we found a significant opportunity to develop and scale service offerings in low-carbon markets, including in low-carbon construction and infrastructure, and substitution of existing products and services in the industrials sector. We also identified short-term opportunities to respond to changing consumer behaviour associated with rapidly evolving market demand for sustainable/climate-related services. Responding to these market demands at speed could positively affect the revenues, costs and ultimately the valuation of those investments.

In the short and medium term, we identified an opportunity to increase market share by securing new talent to deliver projects via e.g. new specialisms, expansion into new and emerging sectors e.g. clean-tech.

Impact of climate-related risks on our business and strategy

Whilst this year's focus was on preliminary risk identification, next year BGF intends to access the relevant data and analytical capabilities required to conduct a more detailed analysis. For this, we have started utilising the climate decision support tool created by AXA, named AXA Altitude, which is enabling us to identify climate, carbon and nature-related risks across our existing portfolio. As we continue to aggregate the information on this tool, we will be able to undertake scenario analysis to outline the resilience of the portfolio in different scenarios, including a 2°C or lower. The Green Innovators Group will continue to play an important role in assessing the results from the tool, impact of on-going changes in the climate space and deliberating actions for BGF. Furthermore, we are aiming to hire a new ESG manager as part of the ESG team to focus specifically on climate strategy.

Recommendation 5: Resilience of our strategy

The biggest opportunity we see is the role BGF can play in supporting products and solutions that will be critical for a low-carbon economy. As an investor, BGF will continue to invest in companies with the key themes of resource efficiency, environmental improvement, and decarbonisation. To date, BGF has backed over 35 businesses across the three key themes, investing over £245 million to date. For the broader portfolio, we will continue to work with companies to uptake operational improvements to reduce their carbon footprint and, where possible, help them evolve their products and services to be fit for a low-carbon economy.

Pillar 3: Risk management

Process for identifying risks

The Investment Committee, Audit and Risk Committee, Executive Committee, and ESG Committee engage in ongoing interactions to assess specific climate risks and opportunities. Given the significant financial and operational impacts at the portfolio level, these processes are integrated into our overall risk management system. Each committee plays a complementary role, providing different perspectives on climate-related risks. The Investment Committee reviews new growth investments for material climate risks. Annual ESG assessments update our view on managing and identifying new climate risks. At the same time, ongoing engagement between BGF investment directors and company boards offers a real-time perspective on existing and emerging climate-related challenges. The Head of ESG collaborates with various committees to stay aligned on emerging challenges and regulatory risks, ensuring that the organisation consistently manages and addresses climate-related issues.

Process for managing risks

The Audit & Risk Committee draws on the Risk Appetite Statement and management framework and the Executive Committee and other senior individuals from across the business which allows for both a holistic, top-down and bottom-up view on key R&Os facing BGF's portfolio. Management of risks is incorporated into the post-investment action plan and the implementation of ESG annual results. The Head of ESG and the Value Creation Group often support portfolio company teams in accessing expertise in the climate solution space. The support takes shape in the format of climate-focused webinars, access to workshops as part of BGF's annual ESG day, and more hands-on engagement with experts on climate-focused projects. This collaborative approach helps ensure that climate-related risks are effectively managed and mitigated across the portfolio.

Integrating climate-related risks

The execution of all actions, often coming under the purview of the Executive Committee, will be undertaken with the help of the Head of ESG (for internal BGF and investment matters), the Value Creation team (for investment and portfolio matters), and the Green Innovators Group, which includes senior-level representatives from investment and operations functions of BGF. With the hiring of an ESG manager, there will be additional expertise and capacity to make meaningful progress in managing climate-related matters.

Pillar 4: Metrics and Targets

Metrics to assess risks and opportunities

Using the Holtara platform we track various metrics to help us measure and manage our carbon and climate-related R&Os across our existing portfolio and new investments. The results are verified independently by Holtara. Sample metrics being tracked include:

The submitted results are assessed by the Head of ESG and shared with the portfolio companies and respective investment directors. The highlights and learning are disseminated across BGF, including the investment leadership group. Value creation opportunities are often identified with the help of these results, and the Head of ESG and investment director engage with the portfolio company leadership to discuss support options.

- Presence of an Environmental policy and inclusion of climate change within it
- Identification of major environmental impacts, including climate impact
- Inclusion of climate change in the organisation's formal risk management process
- Ability to identify major climate change risks and opportunities for the organisation
- Presence of a decarbonisation strategy or plan
- Short-term GHG target and long-term Net Zero plan
- Measurement of Scope 1, 2, and 3, along with details on methodology used and external audits of the data
- Specific targets set to reduce climate impact, such as renewable energy targets, water use targets.

Targets used to manage risks and opportunities

In 2022, BGF established a three-year Revolving Credit Facility with ESG targets, including two climate-related goals for the portfolio and BGF's own footprint:

- By 2024, 70% of all incoming growth companies will have undertaken a formal board effectiveness review within 12 months of investment.
- By 2024, 22% of the total growth portfolio will have attended ESG training sessions for Board, Management, or a nominated sustainability representative.
- By 2024, 40% of the total growth portfolio will be reporting or will have contracted a consultant to measure their Scope 1 and Scope 2 emissions.
- By 2024, BGF aims to achieve a 19.5% aggregate reduction in its own carbon emissions (Scope 1, 2, and 3) over a three-year period.

Alongside these targets, we actively collaborate with portfolio companies to define and set their own climate-related targets.

Disclosure of GHG emissions

Since 2020 BGF has reported and measured its Scope 1, 2 and 3 emissions, in line with the Greenhouse Gas (GHG) Protocol methodology. The business reports absolute figures (tonnes of CO2e) and intensity figures (CO2e per head) across all scopes.

Reporting year, boundary, and baseline for 2023

The report is based on all entities and offices which are either owned or under operational control globally. The greenhouse gas emissions report has been prepared based on a reporting year of 1 January to 31 December 2023, which is the same as the company's financial reporting period. This is the fourth year of reporting and the business has used FY22 as its baseline year, revised in line with further improvement in the reporting framework. The previous use of the FY20 reported emissions as a baseline was not representative of normal operations at BGF due to the impacts of Covid.

Emission Scopes for 2023

In accordance with mandatory GHG reporting, Scope 1 (direct emissions) and Scope 2 (indirect emissions from purchased electricity, heating and cooling) are required to be reported. It is not mandatory under SECR to report Scope 3 (indirect emissions from all other operational activity), excluding the emissions impact from third-party vehicle use for business travel. However, BGF continues to report on other Scope 3 emission categories in order to provide a more complete picture to stakeholders.

Consumption, emissions, and intensity for 2023

BGF emitted a total of 383.1 tonnes of CO2e across its global offices for all Scopes. Scope 3 accounted for 57.6% of the total emissions, Scope 2 for 29.7% and Scope 1 accounted for 12.7%.

In 2023, BGF concentrated on enhancing emissions data quality and accessibility, empowering our workforce to contribute to environmental efforts, and making incremental improvements. We significantly reduced reliance on estimated data, notably in tracking business travel emissions (scope 3), which is one of the largest emissions contributors, cutting estimated data usage from 30% to 3%. Improving the robustness of our data will remain a priority for the company. BGF launched Green Innovators Group, BGF's first internal employee group focusing on our environmental impact. The group represents various business teams and will play a critical role in overseeing our environmental footprint as we grow. The operations team continued to review contracts we have in place with our energy suppliers to assess where we can move to renewable sources. Additionally, we noted a 5% reduction in scope 1 emissions from stationary fuel combustion and a 10% reduction in scope 3 emissions from fuel and energy-related activities.

BGF recognises that a significant proportion of our emissions are from our Scope 3, related to business travel, hotel stays, and third-party vehicle use. These are business critical activities as we continue to support over 300 portfolio companies and have limited options for reducing the direct impact of these activities. Therefore, BGF has offset Scope 1, Scope 2, and Scope 3 emissions from the 2023 period. In total we offset 384 tonnes of CO2e through the purchase of high quality carbon credits from verified emissions reduction projects like Orb Solar, a project working to reduce global reliance on fossil fuels by manufacturing, selling, installing, and servicing a unique range of high-quality solar energy systems for residential and commercial customers in India. We are delighted to be working with Climate Impact Partners, a leader in developing and delivering high-quality, high-impact carbon market solutions with over 25 years' experience running some of the most innovative and largest voluntary carbon offsetting programs in the world. Working with them means all the projects we are supporting are independently verified and have a real and positive impact on the climate. By offsetting all three scopes for 2023 emissions, we have started our journey as a self-claimed carbon-neutral business. Our aim is to become certified under a recognised protocol over time. In order to be certified under The CarbonNeutral Protocol, the clear, credible, and transparent framework for carbon neutral programs, we have identified two sources of data that are mandatory to be reported and currently not included in our reporting. These include the categories of other waste and emissions from homeworking, which we aim to include in the 2024 inventory. We hope to continue to work with Climate Impact Partners to become certified under the Protocol and enhance our approach to corporate climate action each year.

Intensity metrics:

	FY23 UK and non-UK	FY22 UK and non-UK
tCO2e per full-time employee	**0.37**	**0.30**
tCO2e per £100,000 of revenue	**1.91**	**1.60**
tCO2e per 1000 office sq ft	**7.33**	**-**

Disclosure of GHG emissions

BGF annual greenhouse gas emissions

Type	Type	Kilowatt hours (kWh), 2023	Kilowatt hours (kWh), 2022	Tonnes of carbon dioxide equivalent (tCO_2e),	
				2022	2023
Scope 1	Stationary combustion[1]	132,471	140,323	26.9	25.6
Scope 1	Fugitive emissions[2]			21.9	
Scope 2	Electricity, heat, steam, and cooling emissions[3]	553,045	497,267	113.8	99.4
Scope 3	Mobile combustion[4]	206,338	173,833	50.5	42.9
Scope 3	Other emissions[5]			135.2	170.1
Total emissions			811,424	383.1	303.1
Offsets				383.1	120.0
Net Emissions				0	183.1

[1] Stationary combustion of fuels in stationary equipment such as boilers, furnaces, turbines, heaters, incinerators, flares, generators etc

[2] Fugitive emissions: intentional and unintentional releases, such as equipment leaks from joints, seals, packing, gaskets, as well as fugitive emissions from coal piles, wastewater treatment, pits, refrigerants, cooling towers, gas processing facilities, etc.

[3] Emissions from the generation of electricity, heat, steam, and cooling that is consumed by the reporting company.

[4] Scope 3 mobile combustion: combustion of reimbursed fuels in leased, employee owned, or rented vehicles.

[5] Upstream and downstream Scope 3 emissions – not mandatory to report for SECR

CLIMATE IMPACT PARTNERS

Making real change possible.

Business Growth Fund Limited

CERTIFICATE OF PURCHASE
22 MAY 2024

Has offset

384 tonnes CO_2e

Sheri Hickok
CEO – CLIMATE IMPACT PARTNERS

Subject: To offset the period of 1st January 2023- 31st December 2023

Purchase date: 22 May 2024

Certificate number: 20240512570

Project info: Orb Household Solar, India, Gold Standard VER (384 tCO2e)