



## **LDC Responsible Investment Statement**

### **ESG – at the Heart of What we do**

We've always believed investing should be responsible – we have been supporting the UK mid-market since 1981 and our portfolio businesses have created thousands of jobs and huge economic value. ESG is an essential part of how we operate; it's not only the right thing to do but makes commercial sense too.

Increasingly, consumers and customers expect businesses to act in a way that protects the environment and treats people fairly, with robust governance in place. That's why we're committed to embedding ESG at all levels of our business. From working with our management teams to support the low carbon transition and proactively address diversity and inclusion, to helping the UK's future business leaders through our partnership with The Prince's Trust. Our [nine-point ESG plan](#) lays out how we make it happen.

### **Defining Responsible Investment**

Responsible investment is the integration of ESG considerations into investment management processes and practices. Integrating these considerations drives both value protection by managing and mitigating risk, and value creation by enhancing investment return.

### **Our Role as a Responsible Investor**

LDC plays a key role in the UK economy through our support of medium sized businesses. Our role in the market and the scale of our portfolio – across all regions and sectors – carries with it a duty to act as a responsible investor; delivering long term value to the communities we operate in as well as our management teams and wider stakeholders.

While the length of our individual investments ranges from eight months to over ten years, we fundamentally believe that improved ESG performance delivers better social and financial outcomes for both our companies and our communities as a whole beyond our partnerships. In integrating ESG into everything we do as a company, employer and investor, we are helping to build a better future with our portfolio companies.

Our approach to responsible investment is embedded within our overarching investment and compliance policies and processes. This statement confirms the key themes and positions in these documents which run through all of our investment decisions. As part of Lloyds Banking Group, we are subject to all Group policies; this statement clarifies how they apply to LDC and how our investment activities are both compatible with, and build on, these Group policies. Responsible investing helps us assess potential investments beyond



the financials, capturing additional information that could affect the future value of an investment. By acknowledging and addressing ESG risks we aim to help maximise financial return and reduce investment risk.

### **Our Approach to Responsible Investment**

We are committed to ensuring our actions and investments deliver lasting positive impact. We believe that ESG can drive long term value creation by enabling our portfolio companies to grow responsibly and succeed in the transition to a low carbon economy. To ensure this happens, we proactively integrate ESG at every stage of the investment lifecycle – from pre-investment through to exit.

#### **➤ Pre-Deal**

Being part of Lloyds Banking Group, we are subject to the Group's responsible investment [commitments and policies](#). There are certain types of businesses and industries we will not invest in (or undertake increased diligence and care when considering investment). We consider ESG risks on a case-by-case basis and will evolve and develop our appetite in response to wider environmental, social and economic trends.

ESG due diligence is conducted as standard for all investments. We use LDC's bespoke ESG Framework which is tailored to each investment to ensure we focus on the most material issues given the company's size, sector, and location of operations. The risks and opportunities identified during this process will be included in the Investment Report reviewed by our Investment Committee to ensure ESG is considered as part of any investment decision. Any material risks identified will be mitigated as part of the 100-day plan, and any opportunities will be integrated into our longer-term value creation plan. Taking Board seats on each new investment allows us to actively engage on ESG and ensure agreed actions are implemented across the hold period.

#### **➤ Portfolio Monitoring**

To enable us to track progress and embed a culture of continual improvement, we undertake an annual ESG maturity assessment for all our portfolio companies. Building on the baseline position from our due diligence work, each of these assessments creates an action plan and we work closely with our management teams to deliver on this over the course of the year. We also regularly collect ESG data from all portfolio companies, allowing us to view aggregate portfolio performance and consistently benchmark our portfolio companies to identify opportunities for further improvement. Using this data, our companies can also report on their ESG performance externally; going beyond regulatory compliance to demonstrate the positive impact they are making.



We recognise that to fully embed ESG into everything we do, we need to equip our employees with the skills and knowledge to better consider and integrate ESG into their day-to-day work. To achieve this, all our employees have completed training from the Cambridge Institute for Sustainability Leadership. This has helped to put ESG at the forefront of our work and we continue to regularly upskill our employees on ESG.

➤ **Exit**

Our ongoing engagement with management teams and annual ESG maturity assessments ensure that we support our portfolio companies to improve their ESG credentials right up to the point of exit. We use the outputs of our engagement – alongside performance data – to understand the positive impact the business has had and the value created through ESG. We will also conduct Vendor Due Diligence, as required, to ensure that buyers have a clear view of the ESG risks and opportunities associated with the company.

**Our Governance**

To ensure that we have an effective governance framework for ESG, we have an established ESG Committee that meets monthly and reports to the LDC main board. This comprises senior representatives from across the business, including from Lloyds Banking Group, to ensure we have a diverse range of perspectives to guide and challenge our ESG approach. We have publicly disclosed our ESG commitments on our website and will regularly update this with our progress.

**Toby Rougier, Chief Executive, LDC**

**2024**