



# Sustainability Review 2019

An introduction to MB Funds' approach to sustainability  
and highlights of the activities

2nd edition, October 2020



# Foreword

## Why sustainability matters for MB

Our sustainability work consists of three interconnected elements. We commit to responsible investment, we foster positive impact on environment and society through our portfolio companies, and we are transparent in our communication. Distinctive to our sustainability efforts are the continuous development of our practices, the cooperation with the portfolio companies and investors, and the ambitious goal setting. Sustainability is not a goal in itself, but rather a complemental element in order to amplify the portfolio companies' strategies, operations and prospects for growth. In the prevailing business environment, sustainable companies are more resilient to disturbances in the market (e.g. COVID-19) and have a more attractive value creation potential.

## MB's sustainability journey continues

The development of MB's sustainability work have taken giant leaps forward year by year. During 2017, we started to implement the responsible investment practices into our operating model in a more systematic manner and provided Limited Partners (LP) with the first ESG\* review. In 2018, we increased the focus on an active engagement with our stakeholders such as our investors and portfolio companies to better understand our role as a sustainable partner and a responsible owner. This year is no exception as we have shifted our development priority on our active ownership practices.

## Active ownership requires cooperation

Our active ownership on sustainability matters can be successful only with a deep cooperation with our portfolio companies. This cooperation includes e.g. jointly agreed sustainability initiatives, increasing knowledge on sustainability, and sharing best practices. The hands-on interactivity has been a great accelerator of sustainable business development in the companies.

## We have ambitious goals on sustainability

We are ambitious in our sustainability efforts. We constantly pursue new intermediate milestones and keep our focus on the long-term goal of being the leading private equity operator in the industry – regarding sustainability, too. We want actively to participate in private equity industry's



**Minna Heimonen**

Sustainability & communications manager

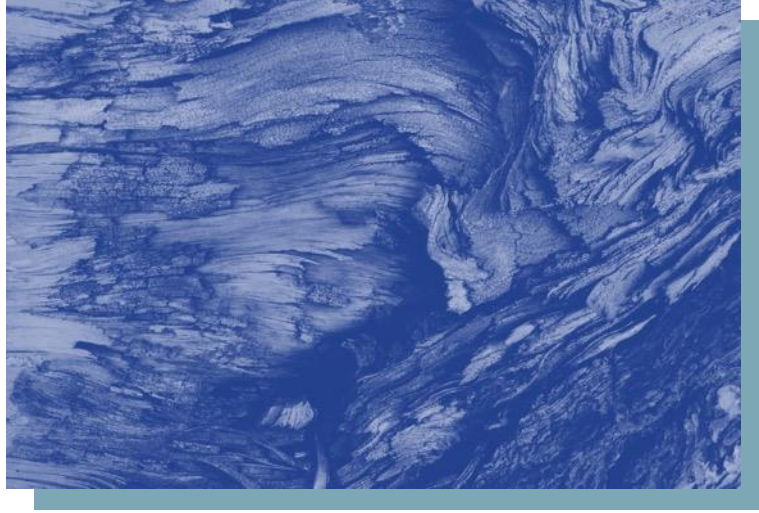
sustainability development and to promote the implementation of responsible investing in the industry. Furthermore, in the light of our transparency principles, we now publish our sustainability review for the general public for the first time.

## Sustainability Review

### – a cross section to our work

This Sustainability Review begins with a presentation of our sustainability approach and key activities during the year 2019 and early 2020. Each year, with both greater and smaller steps our responsible investment process keeps strengthening. You will learn more about those steps when you read the highlights on the Responsible investment process at MB section.

As the COVID-19 crisis hit, our active and responsible ownership has proved to be of great value. At the end of the report, there is a brief summary about how we have so far navigated through the corona year together with the portfolio companies. We are delighted to share our sustainability efforts with this report, at the same time, we acknowledge that ESG reporting is an important development area also in the future. This report is a public version of our annual ESG Review originally provided with our Limited Partners i.e. investors in spring 2020, however, due to confidentiality issues some items such as portfolio company ESG information is excluded from this version.



# 1. MB Funds' approach to sustainability

# 1. MB Funds' approach to sustainability

According to our investment strategy, MB invests in strong businesses that have promising growth potential and the capacity to further develop their position in the market. MB believes that sustainable companies, which have evaluated ESG related risks and identified ESG matters creating value are more resilient and successful in a rapidly evolving business environment. MB's responsible owner mindset allows us to cooperate with high-performing companies with long term value creation potential and to make future-proof investments.

MB's solid approach to sustainability sets the frames for MB's sustainability work and communication. Our approach captures key stakeholders' expectations on sustainability and thus directs MB's resources and activities on material ESG matters. MB's sustainability is divided into three elements – Responsible investment, Impact, and Transparency and disclosure. MB is committed to responsible investment, fosters positive impact through the portfolio companies and is transparent in our communication. Please, see the graph on the next page illustrating MB's approach to sustainability.

## Responsible investment

MB is committed to integrating Environmental, Social and Governance (ESG) aspects into our investment strategy and processes. Responsible investment practices are integrated into our operating model covering all phases from the deal sourcing and the investment process through the ownership period and till the exit. The work on responsible investment at MB is continuous and we have dedicated plenty of resources to further develop our practices.

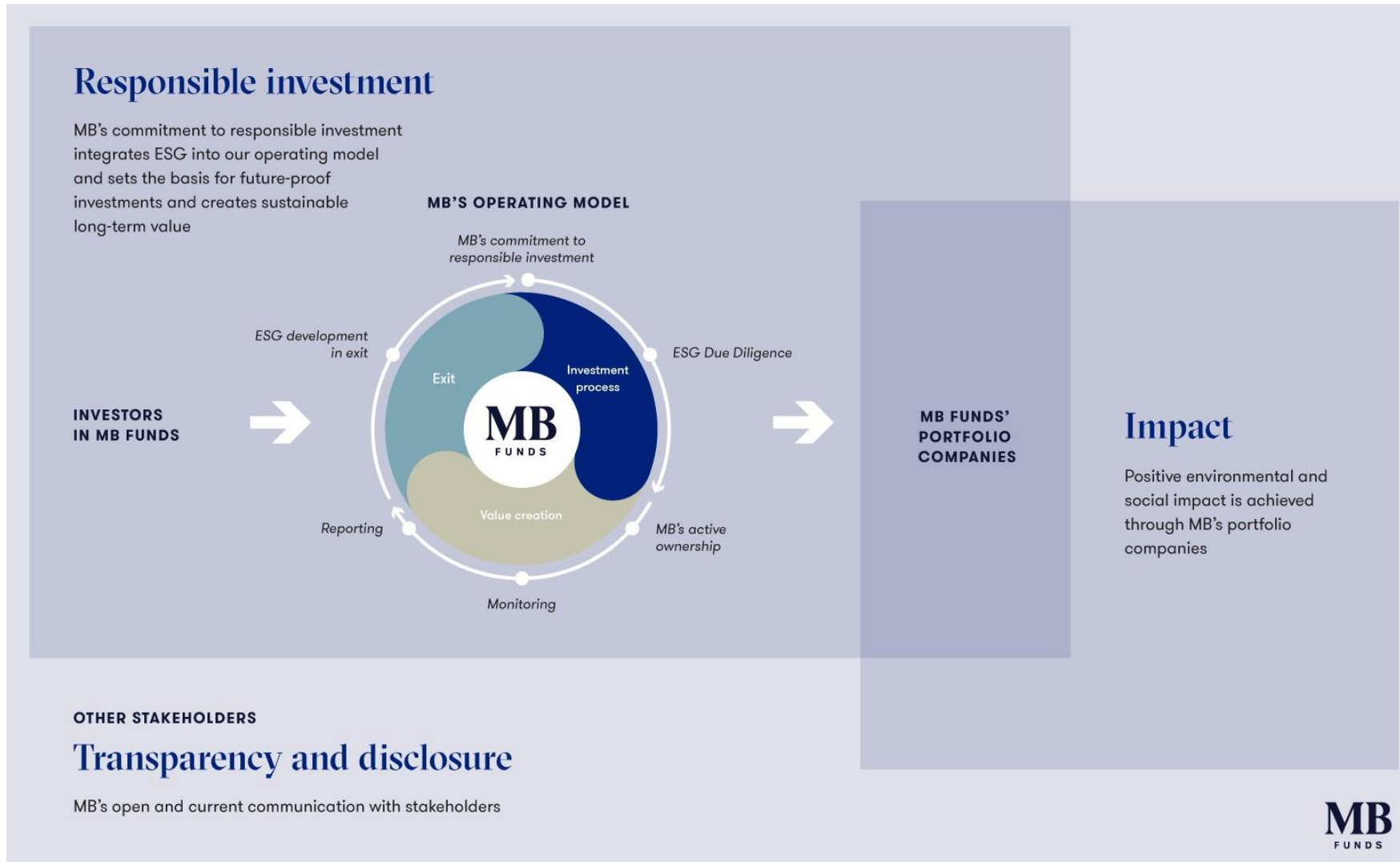
## Impact

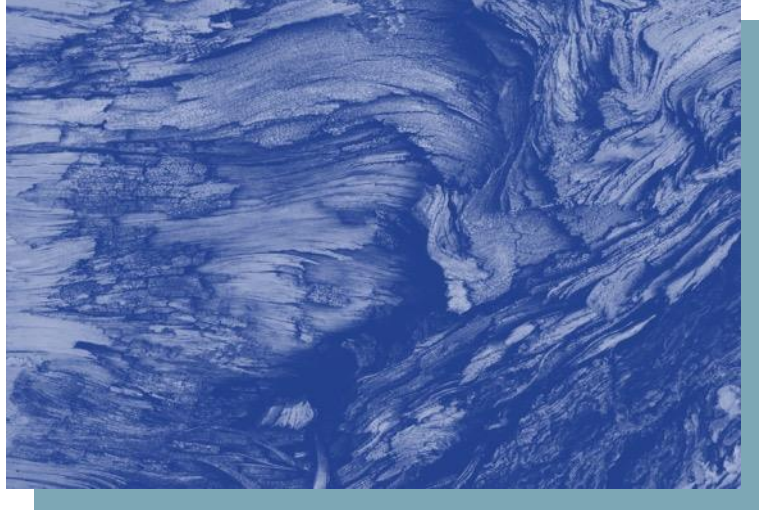
At MB we see that the environmental and social impacts are achieved through the operations of our portfolio companies. MB's aim is to genuinely engage the companies to consider the sustainability perspective in their operations to make a lasting impact on the selected focus areas. In addition to financial outcomes each portfolio company generates unique environmental and social impacts, which we as a majority owner strive to foster and communicate to our stakeholders. Even though the impact is not an investment goal in itself, MB considers that the environmental and social values contribute also to the financial outcome and value.

## Transparency & disclosure

At MB we want to provide our stakeholders with relevant and timely information about our own operations as well as our portfolio companies. We notify our investors annually on ESG matters and development and report immediately in case of any material ESG incidents or breaches. Regarding the transparency and the disclosure of MB's own operations the Finnish Venture Capital Association (FVCA) has issued a set of guidelines to promote transparency in the venture capital and private equity industry. MB Funds meets the FVCA's requirements.

# 1. MB Funds' approach to sustainability



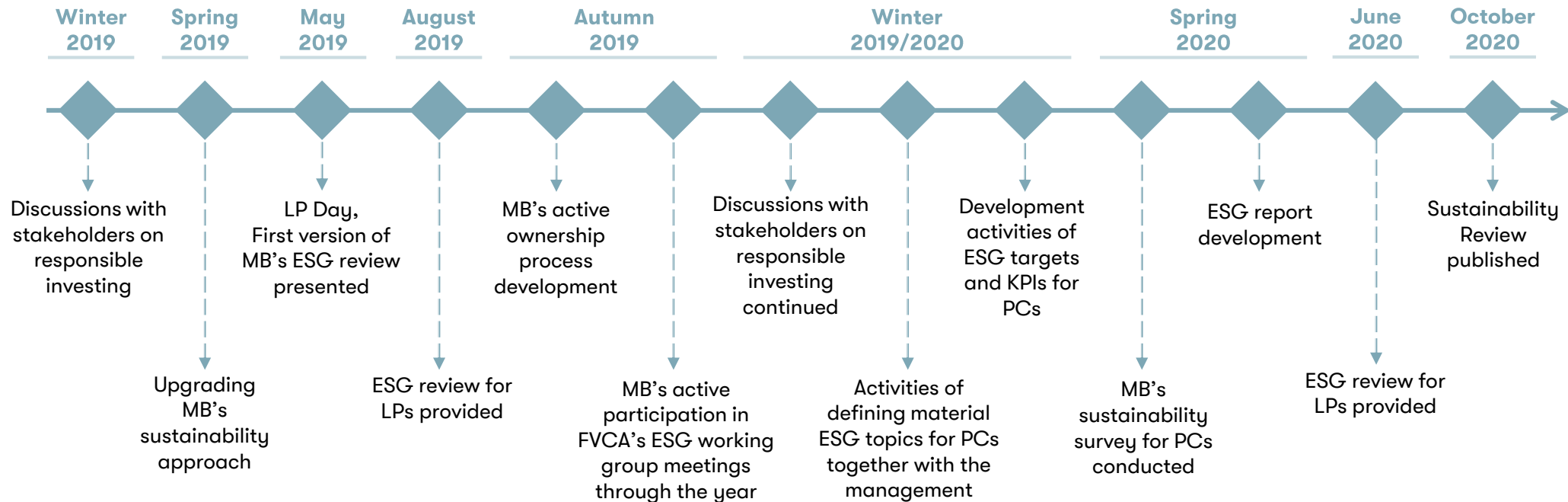


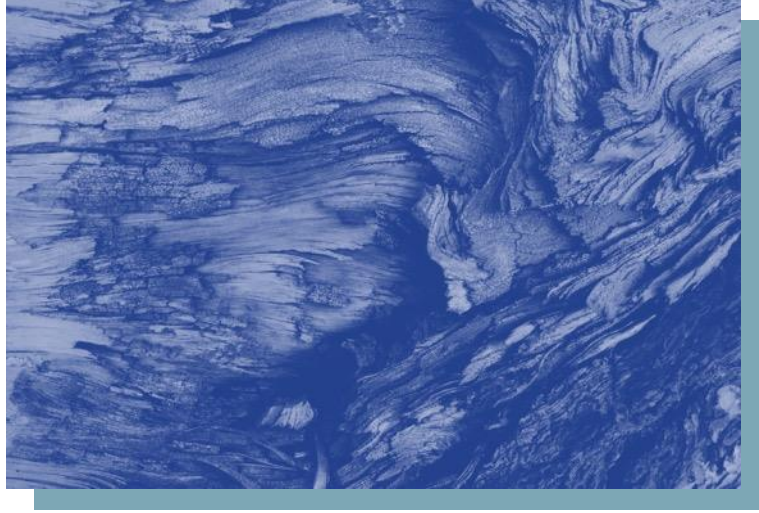
## **2. Sustainability activities in 2019 and 2020 so far**

## 2. Sustainability activities in 2019 and 2020 so far

We are very pleased to present our sustainability work and activities during the year 2019 and at the beginning of 2020. In 2019, a clear emphasis of our sustainability work was to develop MB's approach and practices on responsible investment, i.e. to further enhance our ESG integration into our operating model and providing material information on ESG to our investors and other stakeholders. As a result of an active engagement with our stakeholders and MB's internal work, we formulated our upgraded approach to sustainability, which you can see on page 5.

In 2020, the ambitious development work continues. As illustrated in the timeline the emphasis shifts more on the cooperation with our portfolio companies. As an active owner we want to together with the companies' management enhance the companies engagement to develop their sustainability management systems and integrate sustainability in the business strategies and operations. This entails defining the material sustainability topics for each company and development of ESG data measuring and monitoring processes. We have started this work with the portfolio companies and it will continue through the year 2020 and beyond.





### **3. Responsible investment process at MB**



# 3. Responsible investment process at MB

## 1. Commitment to responsible investment

MB's responsible investment process is based on United Nations Principles for Responsible Investment (UN PRI) and it covers the decision-making and ownership practices that are applied through our investment process. We commit to the following six PRI principles:

- **Principle 1:** We will incorporate ESG issues into our 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.

MB has endorsed MB Principles of Responsible Investing ("Principles"), which set out requirements, recommendations and management systems for MB to invest responsibly, taking into account our duties towards the Limited Partners of the fund. Through the Principles we work with the portfolio companies in a responsible approach to the business that starts with certain basic requirements and works towards the adoption of recognized standards of best practice.

MB has also integrated responsible investment practices into internal governance codes according to which ESG topics are regularly considered during the whole investment process including deal sourcing, due diligence, entry, ownership period and exit. In addition, MB is a member of Finland's Sustainable Investment Forum (Finsif), the member-based organisation promoting responsible investment.

## Key highlights

- During the year 2019, MB increased focus on an active dialogue with our key stakeholders on sustainability and responsible investment. The aim of the discussions was to better understand MB's role as a responsible investor and an owner. Based on the discussions with our stakeholders and MB's own internal work, we were able to upgrade our unique approach to the sustainability. This solid approach to sustainability sets the frames for our sustainability work development and communication (see pages 4 and 5).
- MB has actively participated in FVCA's ESG working group meetings through the year to promote responsible investment best practices within the private equity industry.
- In the spring of 2019, MB became a member of Finsif (Finland's Sustainable Investment Forum). The member-based organisation promotes responsible investment and offers its members a platform for networking and finding useful information. At MB, we want to promote these principles in our networks and further develop our own approach in line with industry best practices.



# 3. Responsible investment process at MB

## 2. ESG Due Diligence

We carry out ESG due diligence as an individual DD stream on every investment opportunity reaching a DD phase to assess potential ESG risks and opportunities for the target and the related industry in further detail. Through the ESG due diligence process we are able to deepen our understanding of material ESG risks and positive impacts integrated in a company's business plan and value creation, as well as to analyse the financial impacts of those ESG matters. In the ESG due diligence we evaluate, in addition to the company's performance on selected ESG matters, the quality and the efficiency of the sustainability management system.

The due diligence on ESG matters is conducted through a desk review of key documentation, studying the target company's industry specific ESG issues and best practices, as well as discussions with the company's management. Our ESG due diligence questionnaires and reporting are based on available ESG standards and reports, e.g. Invest Europe's ESG DD questionnaire and Sustainability Accounting Standards Board (SASB) industry standards and supplemented with industry and target specific adjustments as well as MB's own experience from the previous DD processes.

The observations and the conclusions from the profound ESG due diligence are introduced in the company's business plan and strategy from the very beginning of MB's ownership. In case a material ESG issue is identified in the due diligence, an action plan to bring the issue to a satisfactory level under MB's ownership is prepared. Further if any severe ESG failure or negative aspect is emerged in the ESG DD, and this cannot be corrected during MB's future ownership, the continuation of the

investment process will be carefully assessed and terminated if necessary. As well as in other areas of the business, MB acts in close cooperation with the company management to develop the sustainability management systems and thereby increase the value of the business.

### Key highlights

- In 2019, we implemented three new platform investments – TAPAU, A-Katsastus Group and Suvia Group. For all of these transactions we conducted ESG Due Diligence. ESG due diligence observations and conclusions are utilised in the development of portfolio companies' ESG management and performance during MB's ownership. MB's comprehensive ESG analysis in the due diligence phase has provided companies with valuable information of their key ESG development areas and thus accelerated the start of sustainability initiatives and projects.

**"As a result of a comprehensive ESG DD we knew the vital ESG matters impacting on the company's value creation, so we could include those ESG matters in the company's strategy planning directly during the entry phase."**

Juha Tukiainen, Suvia Group project team lead

# 3. Responsible investment process at MB

## 3. Active ownership

As an active owner MB's aim is to enhance portfolio companies' sustainable business and growth by fostering companies' engagement to develop their sustainability management systems. The level of resources on sustainability and the stage of development varies among the investee companies and consequently the level of involvement required from our side.

ESG matters that are important for the portfolio company's value creation are integrated in the strategy work already during the entry period when MB together with the management prepares a jointly agreed business strategy. MB's active ownership process includes ensuring company's management commitment to sustainable business, defining the company specific material ESG matters as well as related KPIs and targets, integrating sustainability in company's communication activities, and addressing sufficient resources for the sustainability development work. As in the other areas of business development there is a clear division of responsibilities between MB and the company management. The management executes jointly agreed sustainability initiatives and development activities as MB participates the execution through the board work and acts as a discussion and sparring partner.

In the core of MB's active ownership is to identify the most material ESG topics for each company's business and improve the company's performance and management of those topics. To highlight the most material ESG topics we apply commonly known ESG standards, frameworks and guidelines such as SASB industry standards and Nasdaq's voluntary ESG Reporting Guides. The recommended metrics by SASB and Nasdaq address well the ESG matters, which our portfolio companies are dealing with in both scale and scope as well as they focus on the financially material ESG information.

As mentioned, MB works in active cooperation with portfolio companies' management to facilitate the sustainability initiatives and projects in the companies. We for example provide companies with knowledge of sustainability in business, organise workshops to define sustainability agendas for the companies as well as contribute networking and sharing best practices among the companies.

### Key highlights

- We prepared a written MB's active ownership process on sustainability with the aim to harmonise our procedures within the investee companies. With the defined process we also aim to provide support to the deal team leaders to communicate about sustainability with the management and to enable us to monitor the companies' development.
- As a part of our active ownership activities we have had several presentations on sustainable business and workshops defining sustainability agendas with the portfolio companies' management team and board of directors.

**"Development of MB's active ownership process has helped the deal team leaders to communicate about sustainability with the portfolio companies' management."**

Anne Riecki, Partner

# 3. Responsible investment process at MB

## 4. Monitoring

The progress in portfolio companies' sustainability initiatives is monitored regularly – usually biannually or annually – at the board level. The frequency depends on e.g. the metric's seasonality and on-going sustainability related projects as well as the company size, sector and business model.

In many of our investee companies, there have been identified a need for more systematic ESG reporting system. Therefore, portfolio companies' ESG KPIs and target implementation are included in the sustainability management systems development as a part of our active ownership process. As the ESG reporting systems in the portfolio companies develop, we are able to better monitor each company's performance progress in the selected ESG topics. In addition, we have launched an annual survey for portfolio companies to follow on the sustainability management system practices' development.

A portfolio company ESG update and progress report is included in our management team's portfolio company reviews held at regular intervals. In monitoring activities MB's emphasis is on the efficiency and the quality of the portfolio companies' sustainability management systems and the performance progress in selected ESG KPIs.

### Key highlights

- MB launched an sustainability management system survey for the portfolio companies. With the survey we are able to follow up the portfolio companies' sustainability management practices development and to evaluate the quality and efficiency of sustainability management in the companies with a uniform method.

## 5. Reporting

In ESG reporting of the portfolio companies, MB has chosen to focus on selected ESG areas based on materiality and pursue tangible progress in these. We continuously seek to improve our ESG reporting and have an active dialogue with our LPs to provide useful information about our ESG activities. We have built the processes and capabilities for systematic ESG reporting to our stakeholders, at the same time, we acknowledge that ESG reporting is an important development area also in the future.

### Key highlights

- We further enhanced our portfolio reporting to provide information about material ESG issues in our portfolio companies during the reporting period.
- We participated The Upright Project's Net Positive Nordics research consortium in the spring of 2020. Joining the research consortium is one way for us to be aware of the development of various methodologies and systems in reporting the impact measurement.

## 6. ESG in exit

At exit, the emphasis is on demonstrating the development made in the selected ESG matters and the improved level of ESG management in the company to maximise the exit value.



# Responsible ownership in times of the COVID-19 crisis

**As the COVID-19 crisis hit, our active and responsible ownership has proved to be of great value. Our portfolio companies are navigating through turbulent times, however, most of the companies have had minor or moderate effects into their businesses. At the same time, we have seen plenty of new business model developments, operative streamlining, new customer relationships and identifying potential future growth areas.**

The cornerstones of MB's operations are a true commitment and a trust-based partnership. During this year, we have devoted substantial efforts on both supporting and helping the portfolio companies' management through the crisis, and facilitating further growth despite the turbulent times. We believe that companies, which have adopted a sustainable approach into their strategy and operations are more resilient when coping with a crisis like COVID-19. We have been very pleased to see that so far, our portfolio companies' readiness to react to the changed market has been convincingly good and that many of the business models in our portfolio are robust or less prone to be affected by economic cycles.

At the very beginning of the COVID-19 outbreak, the first crisis management measures in the portfolio companies included workplace preparedness to ensure personnel safety and building preparedness for securing liquidity and business disturbances in the short term. The responsible MB partner for each company has worked together with the executive management for COVID-19 business impact assessments and business contingency plans, as well as has taken necessary actions to secure liquidity. The evident priority was to adapt rapidly to the new unexpected situation to ensure the employee and client safety as well as the business continuity at the same time.

True commitment and trust-based  
partnership are cornerstones of  
MB's operations

After the immediate steps, MB has taken tailored measures for each company as the COVID-19 outbreak has affected every portfolio company in a unique manner. Together with the companies, MB has evaluated how to come out stronger from the crisis. The portfolio companies have updated financial forecasts including several scenarios varying the scale of COVID-19 impacts on the business. With the long-term continuity in mind and ensuring the companies' future growth potential, necessary business adaptations have been conducted timely. The situation has spotlighted both strengths and business priorities that will be addressed in the companies' future planning and development. With the companies having only minor or moderate short-term effects of COVID-19, MB has continued a growth focused development including e.g. analysing acquisition targets and identifying new business opportunities arising from the COVID-19. All in all, forecasts and plans are updated regularly as the situation evolves. The current market raises new opportunities and the companies have been able to create new business models, gained operational efficiency and establish new customer relationships. As a majority owner MB Funds keeps working closely together with the portfolio companies according to our responsible owner principles.

# MB Funds' portfolio companies

**Net sales 2019**  
(total of all the portfolio companies)

€687m

**Personnel 2019**  
(total of all the portfolio companies)

3 731



**TAPPAUS**

**Freebo**

**Dieta®**



A-Katsastus Group Oy

**SUVIA**  
Group



# Interview- Raksystems

## **How is sustainability integrated into Raksystems' business and operations?**

As real estate and property experts we help our customers to improve their properties' quality, energy efficiency and safety living. Through our services we ensure safe and healthy living and housing trade. Environmental responsibility is part of our everyday business and processes. Our services enable to decrease properties' environmental impact. We use the world's most widely known environmental management system. ISO 14001 allows us to guide our employees in environmental matters and to improve our in-house environmental protection.

Our business is based on expert work, so the well-being of our personnel is at the core of our values. Nurturing equality is essential for our corporate culture. We invest in the development of leadership and employees' competence and aim at ensuring that our personnel has clear targets derived from the business and professional competence to support the achievement of the targets and each individual's professional development. We act in accordance with the good governance and ethical guidelines defined by us and do not tolerate unethical acts, corruption or bribery in our operations. In addition, we expect our business to be financially profitable and stable, which creates the conditions for the long-term operations for the benefit of our customers and employees.

## **Why and when did your company started to pay attention to sustainability to a greater extent?**

Sustainability has always been one of our core ambitions.

## **Which part of sustainability work has been easy to carry out? Which has been challenging?**

Sustainability empowers us and our corporate culture, and enriches our company's purpose. More challenging is to get the whole personnel to embrace the sustainability concept.

## **Whose responsibility is it to foster sustainability in your company? What is the management's role like in fostering sustainable business?**

It is every employees' responsibility to contribute to sustainability at Raksystems. The company management is responsible for contributing and organising sustainability development. Further, it is the management's responsibility to secure that the team leaders are able to provide optimal working environment for their team members. This in turn enables our employees to provide best possible service for the customers.

## **Please describe what kind of outcomes do you expect from your company's sustainability work?**

Our aim is that sustainability is naturally integrated into our business as usual and becomes visible through our everyday work. We want to help our customers to make sustainable choices and to facilitate and roll out the sustainability best practices in real estate and construction industry in the Nordics.



**Marko Malmivaara**  
CEO, Raksystems

# Interview – Suvia Group

## **How is sustainability integrated into Suvia Group's business and operations?**

Sustainability in Suvia includes topics such as environmental issues, human resource management and corporate governance. Work safety is important to us. We have e.g. code of conduct and principles of good governance. We pay attention to responsibility aspects in procurement and when choosing service providers.

## **Why and when did your company started to pay attention to sustainability to a greater extent?**

Sustainability is an important matter to our customers as well as to our cooperation partners. Today's drivers are increasingly aware of vehicle emissions and environmental impact of the vehicle life cycle. Our responsibility is to ensure sustainable development in our working methods now and in the future. Different areas of sustainability have been a part of our business daily for years, but crystallising our sustainability themes and reporting on them has been one of our projects this year. Environmentally friendly repair methods like plastic welding, use of ecological paint products and salvage spare parts as well as minimising driving are just a few examples of how Suvia is contributing to cleaner tomorrow.

## **Which part of sustainability work has been easy to carry out? Which has been challenging?**

We further crash safety in our operations and our mindset is responsible. I think that crystallising every part of sustainability into one whole and reporting on it systematically is challenging at the beginning.

## **Whose responsibility is it to foster sustainability in your company? What is the management's role like in fostering sustainable business?**

It is a matter of every employee to foster sustainability in Suvia. The management needs to enable the sustainability work and lead by example. The management will monitor that our business continues to be sustainable.

## **Please describe what kind of outcomes do you expect from your company's sustainability work?**

According to our sustainability focus areas we foster more efficient use of materials as well as recycling. We monitor our recycling and recovery rates. We hope that also our staff takes responsibility of committing to our sustainability work and we aim to encourage the overall employee commitment as well. The NPS rate is measured regularly. In addition, we have launched our own training program and organise plenty of trainings every year to ensure that our staff's competencies are up to date. Solid processes and investing in management and leadership skills are important parts of employee experience. The development of sick leaves have been positive as we have introduced the early model of support.

We act as a responsible member of the society. In 2020, we aim to publish the focus areas of our sustainability agenda and to start a systematic sustainability reporting. We will implement the sustainability themes with our staff, customers and partners and aim to communicate actively regarding our progress.

In addition, our goal is to gain competitive advantage and open new business opportunities via sustainability.

**Jens Jensen**

CEO, Suvia Group









# **MB Funds**

**Bulevardi 1 A  
00100 Helsinki  
p. 09 131 011**

**MB**  
FUNDS