

# ESG REPORT

## ESPIRA Investments

A progress report on the firm's integration of Environmental, Social, and Governance (ESG) issues for our investors, portfolio companies, and other stakeholders.

September 2020

*"A strong focus on ESG is an effective way for investors to respond to the global challenges we face."*

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## ABOUT ESPIRA INVESTMENTS

**Fund with Triple Bottom Line** (*focus on financial, social & environmental performance*)

ESPIRA Investments is a private equity firm investing growth capital in Central European small and medium-sized enterprises (SMEs). We invest in entrepreneurs who have developed successful businesses to a certain stage and have passion and drive for further growth. Our overriding objective is to partner with high-potential Czech and Slovak SMEs that are in a position to accelerate their growth via capital investment from an experienced investor.

As the first private equity fund in Central Europe and the second in Europe with gender lens investment strategy, we aim to have positive impact by:

- Providing access to growth capital for small and medium-sized enterprises in Central Europe
- Investing in gender diversity (Czechia and Slovakia are among the worst in the European Union in Women Economic Empowerment Index)
- Strong preference for sectors and companies with positive impact on society
- Supporting responsible entrepreneurship, transparency, improvement in approach to employees, customers, suppliers, communities, and the environment
- Generating returns for investors

### About this Report

This first annual Environmental, Social, and Governance (ESG) report describes our efforts to sharpen focus on measuring and building performance on the ESG issues that are most important to the firm's investment activities.

This report covers the period from September 2019 to September 2020. We value your feedback on our ESG initiatives and welcome your comments on both the report and our performance to date. You may contact us at [info@espirainvestments.com](mailto:info@espirainvestments.com).

## OUR CORE VALUES

We are committed to the highest standards of conduct, ethics and compliance, with zero tolerance for bribery and corruption at both in-house and portfolio levels. We are convinced that investing covers more than traditional issues such as finance, efficiency and short-term profitability. We believe in long term vision, inclusive culture, sustainability, care for customers and employees as well as creativity & innovation.

- **Respect** – acceptance of each company's unique culture and values
- **Professionalism** – objective & fact-based decision making
- **Transparency** – no conflicts of interest and reliance on transparent goals
- **Diversity** – in leadership, experience, views & perspectives
- **Ethical behaviour** – in our everyday work

## RESPONSIBLE INVESTMENT POLICY

A foundation of ESG policy and processes ensures that ESG factors are strongly embedded into the firm's culture and investment process. This report presents our Responsible Investment Strategy, which guides our efforts, and describes our approach for integrating ESG analysis into our due diligence process.

Our mission is to ensure appropriate incorporation of ESG factors at all levels and activities of our company and in our investment portfolio and we are committed to improving alignment with the UN Sustainable Development Goals ([SDGs](#)), as well as the UN Principles for Responsible Investment ([UNPRI](#)).

### Key Guidelines

1. Identify ESG issues throughout our due diligence process related to potential investments and refuse to invest in any business that wilfully exploits underserved or underprivileged communities and/or creates significant damage to society. This includes guns, ammunition, tobacco, payday lending or gambling.
2. Seek to grow and improve portfolio companies while benefiting multiple stakeholders. ESPIRA will work with portfolio companies on environmental, health, safety, and social issues with the goal of improving performance and minimizing adverse impacts.
3. Make ESG integration an ongoing endeavour. The ESG Committee consisting of our two co-founders will meet to review the firm's efforts regularly.
4. Adhere to the highest standards of conduct to avoid negligent, unfair, or improper practices. This includes proactively complying with applicable national, state, and local labour laws in the countries in which we invest; support the payment of competitive wages and benefits to employees; and provide a safe and healthy workplace in conformance with national and local law.
5. Respect the human rights of those affected by our investment activities and seek to confirm that our investments do not support companies that utilize child or forced labour or maintain discriminatory policies.
6. Ensure all ESPIRA employees are aware of the firm's culture of social responsibility and encourage them to strengthen that culture. Encourage all firm professionals to engage in non-profit giving and socially responsible volunteer activities.
7. Encourage dialogue with our investors and other stakeholders regarding how we can manage ESG issues in a way that is consistent with their initiatives. Work with our investors to foster transparency in all aspects of the firm's activities, including our ESG performance.
8. Distribute this policy and related ESG information to all appropriate employees of our portfolio companies.

## **ESG Criteria for ESPIRA & Portfolio Companies**

The ESPIRA Responsible Investment Policy and its reporting measures have been set in 2020. We are committed to measuring our ESG progress annually with the first data regarding our criteria below being available within 2021. All of the results will be published in an annual public ESG report of the company.

### *Environmental*

- Consideration of the impact that the portfolio company's operations/products/services have on the environment (e.g. climate change, pollution levels, etc.)
- Review compliance by the portfolio company with the relevant environmental regulatory bodies
- Evaluation of potential measures to reduce the environmental footprint of the portfolio company, following acquisition, either in its manufacturing facilities, transportation / delivery and waste management where applicable
- Continuous review of cost efficiencies and commercial opportunities through actively managing the environmental impact of the business
- Engagement of detailed Environmental Due Diligence when appropriate

### *Social*

- Review and encourage gender diversity in management and company teams
- Review the portfolio company's adherence to fair trade practices when sourcing, pricing and distributing products and services (e.g. working conditions, fair market pricing etc.)
- Assess how the portfolio company sources raw materials
- Review adherence to domestic health, zero safety incidents and labour standards
- Prohibit unlawful child labour or other forms of forced labour
- Track whether the portfolio company addresses social metrics such as employee turnover and satisfaction within the company
- Review the portfolio company's engagement with local communities and charities as well as support of employees with regards to charitable work / supporting humanitarian actions
- Avoid discrimination in human resources policies and processes

### *Governance*

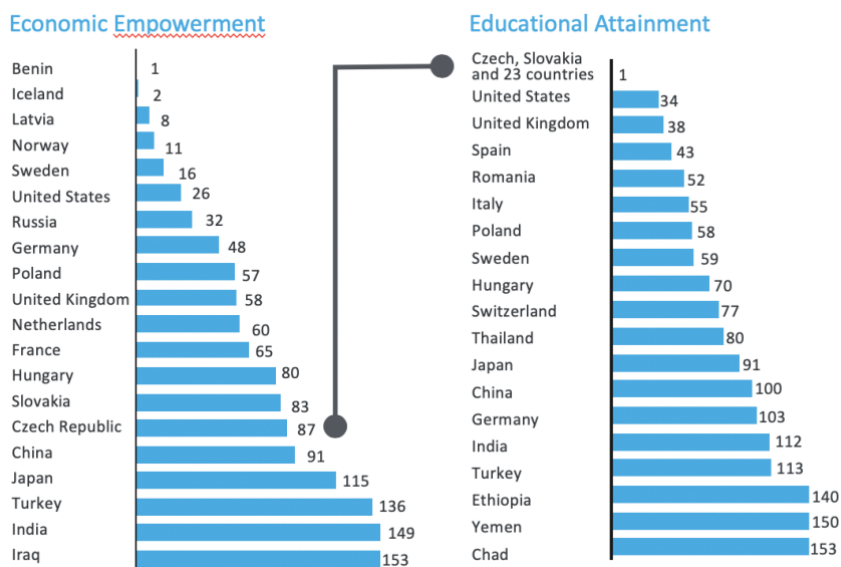
- Review compliance by the portfolio company with applicable local and national laws
- Review/establish as appropriate anti-corruption practices, including extortion and bribery
- Establish a proper decision-making board of directors that acts in the best interest of the company, including appointment of independent directors, as appropriate
- Monitor board independence and their diversity as well as integrity
- Review/establish as appropriate the portfolio company's policy on disclosure and transparency with relevant stakeholders
- Ensure portfolio company's diligent and transparent cooperation with regulatory and supervisory authorities

## ESG MANAGEMENT APPROACH

Sustainability, Corporate Social Responsibility (CSR) and ESG are all part of ESPIRA’s DNA. Since the firm’s inception, we considered our potential investments with an eye toward ESG issues and have walked away from investments that did not fit our criteria for responsibility. Our focus had always been on investing in **small and medium-sized** enterprises in Central Europe with **gender diversified** management team and a **positive impact on society**.

We consider this focus extremely important as Czech Republic and Slovakia (where we are based) are among the worst in the European Union in the Women Economic Empowerment Index ([WEEI](#)), despite leading in equality of education attainment. Czech Republic currently ranks #26 out of 28 EU countries and #87 out of 153 worldwide countries in the women economic empowerment gap.

Table 1: Gender Gap Index<sup>1</sup>



In addition, **gender diverse companies tend to perform better**. Companies managed by gender-balanced teams:

- have an *inclusive culture*,
- pay attention to *risk management*,
- are more *creative* and outperform their peers on successful innovations,
- respect stakeholders and environment, focus on long term horizons and have a *sustainable* financial structure.

The above-mentioned factors lead to best-in-class customer and employee satisfaction and ultimately result in revenue growth, profitability and higher and steadier returns than those generated by industry peers with zero diversity.

At ESPIRA, gender diversity forms a strong component of our ESG management. Embedding an ESG perspective and keeping all employees aware of current and emerging ESG issues creates better decision-making throughout all phases of the firm’s investment process. The goal is to reduce risks and

<sup>1</sup> Global Gender Gap Report 2020, World Economic Forum

increase opportunities related to all environmental, social, and governance issues across the firm and within its portfolio companies.

All strategic decisions in this area are undertaken by the founders themselves, Andrea Ferancová Bartoňová and Emília Mamajová. They consider recommendations from Hadewych Cels and Chris Mruck, the members of ESPIRA's Investment Committee.



Hadewych Cels is a founding partner of [Karmijn Kapitaal](#), which is the first private equity fund in Europe investing in companies with gender diverse management team.



Chris Mruck is a former Managing Partner of Advent International responsible for Advent's investment activities in Central and Eastern Europe. Chris has over 20 years of private equity investment experience while working with companies in diverse sectors across the Central European region.

## ESG IN INVESTMENT PROCESS

In 2020, ESPIRA formally integrated ESG analysis into its investment and due diligence process. We work across the whole company to ensure that every potential investment presented includes a detailed analysis of potential ESG risks and opportunities. We look not only at the company's ESG impact, but also at the macro-level ESG issues within the broader industry, always considering our core criteria of gender diversity and sustainable impact.

**Phase 1** ESPIRA considers whether to explore the investment opportunity. An initial ESG screening is conducted around the fundamental premise of the business already in pre-investment stage. This could result in the termination of any further diligence if the company's business model conflicts with our Responsible Investment Policy.

**Phase 2** ESPIRA reviews the investment to determine whether it merits full scale due diligence and incurring significant diligence-related costs. We consider the key ESG risk and opportunities through a preliminary ESG assessment and set forth a road map for further diligence.

**Phase 3** ESPIRA obtains answers to specific ESG-related questions through meetings with the company's management team, review of company data, and discussions with external advisors. Presentations to the Investment Committee include necessary information related to any ESG concerns raised during Phase 2.

**Closing of Transaction** If the company has material environmental and/or social impacts, ESPIRA professionals coordinate a plan for engagement and monitoring.

## Issues that may impact Investment Performance





## MEASURING OUR IMPACT

We consider relevant ESG factors related to corporate governance, social support and ecological footprint as listed above in the ESPIRA Responsible Investment Policy. Below you can find our current investment best practices that demonstrate our firm's mature approach to responsible investment as they not only generate tangible financial returns but also create significant positive social impacts.

### Environmental, Social and Governance Impacts at ESPIRA & Portfolio Companies

#### ***SOCIAL IMPACT***

ESPIRA works on promoting creation of new jobs and opportunities via its portfolio companies. ESPIRA's objective is that its portfolio companies make a significant contribution to the social and economic development of the regions where they operate by creating equal opportunities for all employees, supporting education, healthcare, or underprivileged people.

In addition, the ESPIRA team is trying to bring positive impact by supporting women in business through local women mentoring programmes such as the Equal Pay Day, the biggest conference for business women in Central Europe, the Equilibrium Programme of the British Chamber of Commerce in Prague, as well as by cooperation with Pontis Foundation in Slovakia on evaluating corporate responsibility of companies nominated for Via Bona Slovakia Award.



#### ICON Communication Centres (ICON)

Entry date: April 2019

Stake held: 91%

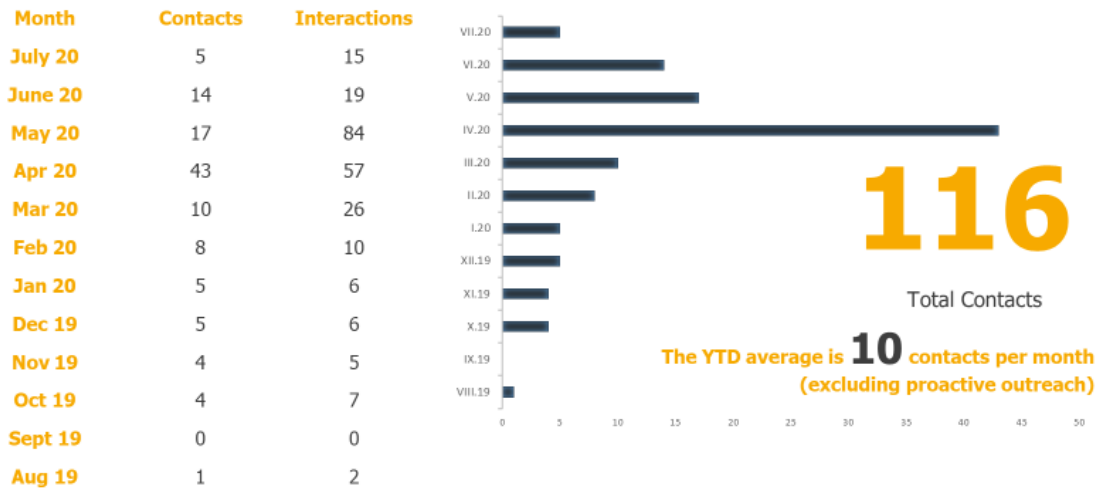
ICON is an award-winning provider of multilingual contact centre solutions which delivers leading communication strategies to connect global brands with local customers. With sixteen years' experience and almost 300 employees from 50 countries, its clients take advantage of ICON's technology-led services and Prague location with access to broad native-level multilingual talent.

#### **ICON Communication Centres launched Mental Health First Aid Program**

In 2019, ICON launched its Mental Health First Aid (MHFA) program with colleagues trained by MHFA England. The MHFA program places a focus on the importance of early intervention into resolving situations arising from mental health issues in the workplace. Early diagnosis and treatment of mental health conditions can significantly improve recovery rates. Using the experience from MHFA England, ICON's solution seeks to minimise the distress a colleague may suffer at a time of anguish.

ICON's solutions team developed an online Mental Health First Aid portal to anonymously and confidentially connect those colleagues who may need early intervention. Initial assistance is provided using the 'Support and Talk' methodology, which is a sign-posting and listening service, before directing people to further help if required. ICON is also monitoring monthly number of colleagues who used the program, with a significant increase in interactions recorded during the COVID-19 outbreak in spring 2020 when the whole team transitioned to home working.

## MHFA | FY20 Executive Summary



### JK Education

Entry date: November 2018

Stake held: 50%

JK Education is one of Czech Republic's top education groups operating three private high schools in the Czech Republic: the American Academy in Prague, the American Academy in Brno and the Prague Humanities Gymnasium. In September 2019 the group opened its fourth school - American Academy in Bratislava. Curricula of JK's schools draw on the best in the American and Finnish education systems.

### **JK Education and American Academy Network launched Online Lessons for Public School Teachers**

In 2020, two days after school closure during the coronavirus pandemic, the American Academy Network publicly offered voluntary help to Czech state schools that needed advice on how to start virtual tutoring. A website was created that received more than 10 000 unique visits during its first week of operation.

This website was the main source of promotion for the UcimeOnline Initiative, which the American Academy Network together with initiative Cesko.Digital had also created. The goal was to bring together volunteers willing to help public schools to implement various digital tools and switch to virtual learning. The initiative was later joined by companies Google CZ, GuG.CZ and Microsoft CZ. Within the first six months it helped implement virtual learning at almost 200 public schools across the Czech Republic.

JK Education is also active in a variety of charity activities with its students, such as charity clothing bazaars, visits to SOS Children's Villages, charity sales or donations to children's homes.

**JAK NA ONLINE VYUČOVÁNÍ  
SNADNO A RYCHLE**

**POMŮŽOU VÁM EXPERTNÍ DOBROVOLNÍCI. ZDARMA.**

V Učíme online pomáháme školám se zprovozněním online výuky: od výběru technologií, přes nasazení, nastavení, až po zaškolení učtelského sboru. Naši dobrovolníci řeší požadavky s každou školou individuálně. Od poloviny března jsme pomohli už 427 školám.

Máte zájem o technickou podporu spuštění online vyučování?

## GOVERNANCE IMPACT

In dealing with our governance impact, ESPIRA is guided by its Responsible Investment Policy and global practices, and forms an exemplary model to be implemented in all portfolio companies. The current system ensures effective adoption and implementation of resolutions while protecting the shareholders' rights and ensuring the firm's transparency and accountability. The high quality of corporate governance and information disclosure is also an important tool for managing the firm's ESG risks.

At ESPIRA, we focus on:

- Transparency and clarity of processes for investors and partners
- Transparent dividend policy
- Activeness and professionalism of the Board of Directors
- Investment decisions in accordance with the Invest Europe Handbook of Professional Standards
- Attention of the Board of Directors to all transactions with related parties
- Active role of the Board of Directors in strategic planning
- Development of corporate governance in portfolio companies

## ESPIRA Advisory Board



**RICHARD SEEWALD**

Co-founder Evolution Equity Partners  
Background: Partner at Alpha Associates



**MAGDALÉNA SOUČEK**

Managing Partner  
EY Czech Republic



**CHRIS MRUCK**

Former Managing Partner  
Advent International - CEE



**HELEN RODWELL**

Managing Partner Czech Republic  
Cameron McKenna



**LUBOR ŽALMAN**

Founder – ENCORE Capital  
Background: CEO Raiffeisenbank  
Czech Republic



**MARTIN VOHÁNKA**

Founder / CEO  
W.A.G. payment solutions



**JOHN LITTLE**

Finance professional and former  
CFO of AVG Technologies

**Development of Advisory Boards at JK Education and ICON Communication Centres**

ICON Communication Centres (ICON)

Entry date: April 2019

Stake held: 91%



ICON's Advisory Board is comprised of a team of accomplished industry experts, including Eric Ignoul, Simon Burckhardt and David Elliott. Each member comes with specialist knowledge of how to approach adding value to Business Process Outsourcing operations of ICON. The Board's blend of complementary expertise strengthens the depth and breadth of skills at ICON's disposal, including technology and security know-how and international business development support.

JK Education

Entry date: November 2018

Stake held: 50%



The goal of the JK Education Advisory Board was to provide the American Academy Network Leadership with advice and support in order to achieve its mission to become a network of schools where students thrive, fulfil their potential and learn all the necessary skills that will help them to succeed in the 21st century. Up to date the Board has 7 members and meets three times a year. Each Head of School participates in the Advisory Board meeting together with the Group's top management and Markus Torvinen, the Head of Education in Municipality of Tuusula in Finland.

***ENVIRONMENTAL IMPACT***

ESPIRA is aware that companies working with environmentally friendly products and services not only reduce the negative impact on the environment and climate change, but also increase the efficiency of operations. The main activities in this sphere include effective use of natural resources, reduction of waste and emissions, and promotion of "green" practices among consumers.

At ESPIRA level, we strive to behave ecologically inside the offices (usage of recycled paper, eco-friendly cleaning products, turning lights and computers off in the evening etc.), however, the small size of team limits the possible impact and therefore we do not consider the environmental area as our key impact area.

At portfolio level, ESPIRA currently has three investments in business services sectors and therefore the impact in environmental area is limited to office environmental behaviour. Should this portfolio structure change, we are ready to implement all needed measures in order to align acquired businesses with our beliefs and the above mentioned ESG Strategy.