chrysalis investments

Chrysalis Investments Limited

Climate Report 2025

This report has been prepared based on Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Contents

chrysalis investments

1. Introduction

chrysalis investments

Chrysalis Investments Limited ("Chrysalis" or "the Company") is a closed-ended investment company, registered in Guernsey and admitted to trading on the London Stock Exchange's Main Market for listed securities.

G10 Capital Limited is the AIFM to Chrysalis Investments Limited. Chrysalis Investment Partners LLP is the Investment Adviser to G10 Capital Limited. Chrysalis Investment Partners LLP (FRN: 1009684) is an Appointed Representative of G10 Capital Limited (FRN: 648953) which is authorised and regulated by the Financial Conduct Authority.

The Company's investment policy is to invest in a diversified portfolio of unquoted, innovative growth companies. The Company does not pursue a dedicated sustainability objective, however there is an acceptance that ESG considerations form an integral part of the overall investment process. Evaluating ESG risks and practices is essential to supporting long-term success and positive ESG outcomes are encouraged through active stewardship.

2. Governance

Chrysalis has established a governance structure designed to integrate investment management, operational resilience and risk management.

At Board level, Chrysalis has an established Risk Committee which oversees climate risks, alongside other identified risks. The role of the Risk Committee is to ensure that the Board receives due consideration and assessment of the opportunities, risks and stress scenarios within which the Company operates and to ensure that the recommended actions of the Investment Adviser protect its portfolio of investments. Specifically, the Risk Committee:

- Recommends an overall risk appetite to the Board, monitors the principal risks to which the Company is exposed and evaluates the strength of the mitigating controls;
- Reviews the policies and process for identifying and assessing business risks and the management of those risks by the Company;
- Monitors key risk exposures ensuring that the Investment Adviser is exercising appropriate control to reduce the likelihood of risk crystallisation resulting in financial loss, reputational damage or regulatory concern;
- Reviews, challenges, monitors and approves stress and scenario tests;
- Monitors investments so that they are aligned with the agreed risk appetite;
- Reviews major initiatives such as related party acquisitions or initiatives in new geographies or sectors, to be assured that appropriate due diligence has been carried out and that any associated movement in risk profile remains within risk appetite; and
- Provides oversight and advice to the Board in relation to the current and emerging risk exposures of the Company.

The Risk Committee meets twice a year; its members are:

- Simon Holden (Chairman)
- Stephen Coe
- Tim Cruttenden
- Anne Ewing
- Margaret O'Connor

The Company Chairman, Andrew Haining, is also invited to attend meetings of the Risk Committee in an observer capacity.

The Investment Adviser is responsible for reviewing, evaluating, and reporting on each risk class identified by the Risk Committee, as well as presenting findings during Committee meetings. Climate-related risks are categorised within the ESG risk class, and the Investment Adviser provides comprehensive reporting on Key Risk Indicators ("KRIs") for this category.

A dashboard summarising ESG KRIs is presented to the Company's Risk Committee. This dashboard offers an overview of each portfolio company's maturity level in managing ESG risks, including climate-related risks. Specifically, it assesses the following climate-related metrics:

- Existence of an environmental policy
- Collection and disclosure of emissions data
- Development of a decarbonization strategy
- Establishment of short- and/or long-term emissions reduction targets

In addition, the Investment Adviser is responsible for promptly notifying the Committee Chair of any material risk indicators classified as Reportable Risk Events on an as-arising basis, including climate risks.

In addition to its Risk Committee processes, Chrysalis has an established Responsible Investment Policy. The Policy summarises the Company's approach to integrating material ESG factors into its approach to investor stewardship.

The Company also has a Code of Business Ethics that sets standards for integrity, accountability and responsible conduct. This code applies across the Company and its service providers, clearly defining the principles and behaviours expected of everyone associated with the organisation. It reinforces the Company's commitment to ethical practices and ensures that all stakeholders operate with transparency and trust.

3. Portfolio Engagement Strategy

chrysalis investments

Strategic Approach

Chrysalis does not seek investments that have a sustainability focus. However, as part of its investment process, it recognises the necessity to assess the ESG risks and practices of an investment as a contributing factor to its overall success. Chrysalis contributes to positive ESG outcomes, including climate related matters, through active stewardship.

Climate Scenario Analysis

In line with FCA requirements, Chrysalis has undertaken a scenario analysis to assess how climate-related risks could impact its portfolio and the returns of the Company.

This analysis explores **three distinct climate scenarios**:

- **Orderly Transition** - a smooth shift towards a low-carbon economy.
- **Disorderly Transition** - a more turbulent and uneven path to net zero.
- **Hothouse World** - limited action leading to severe climate impacts.

Within these scenarios, the analysis considers **key climate risks and opportunities**:

- **Physical Risks** - the direct effects of climate change, such as extreme weather events (cyclones, floods and more).
- **Transition Risks** - challenges arising from the move to a low-carbon economy, including tighter regulations and policy changes.

To provide a comprehensive view, the analysis considers how these risks might crystallise across **three time horizons**:

- **Short term:** 0-2 years
- **Medium term:** 2-15 years
- **Long term:** 15+ years

Scenario	Orderly Transition	Disorderly Transition	Hothouse World
Definition	'Orderly transition' scenarios assume climate policies are introduced early and become gradually more stringent, reaching global net zero CO2 emissions around 2050 and likely limiting global warming to below 2 degrees Celsius on pre-industrial averages.	'Disorderly transition' scenarios assume climate policies are delayed or divergent, requiring sharper emissions reductions achieved at a higher cost and with increased physical risks necessary to limit temperature rise to below 2 degrees Celsius on pre-industrial averages.	'Hothouse world' scenarios assume only currently implemented policies are preserved, current commitments are not met, and emissions continue to rise, with high physical risks and severe social and economic disruption and failure to limit temperature rise.

3. Portfolio Engagement Strategy

(continued)

chrysalis investments

Scenario	Orderly Transition	Disorderly Transition	Hothouse World
How climate change likely to impact in short term	**Physical risks:** Chrysalis believes that it is unlikely that the physical risks in this scenario will have an impact on the portfolio in the short term. The primary location of the operations of portfolio companies is in developed countries, and together with other mitigating factors, the overall impact is expected to be moderate in the short term. **Transition risks:** Most portfolio companies operate in the technology and finance sectors, having a relatively low carbon footprint, with their carbon emissions estimated to be low. Portfolio companies are expected to experience minimal disruption, with compliance and reporting costs increasing slightly. **Impact:** Portfolio profitability and returns for the Company are expected to be unaffected	**Physical risks:** The anticipated physical risks remain anticipated but under-addressed. **Transition risks:** There may be increased transitional risks for the portfolio with significant emissions from their direct operations or value chains. These companies may face higher costs to operate or other restrictions as emissions regulations tighten and the cost of carbon increases. Technology and services firms could face moderate strategic uncertainty as regulatory pathways remain unclear. Overall policy uncertainty is likely to increase volatility across the board. **Impact:** There may be a moderate impact on portfolio profitability and the returns of the Company	**Physical risks:** Early signs of physical risk may appear in supply chains, energy costs and insurance markets. Companies may begin to recognise potential climate risk and operational vulnerabilities. Reputational risk may emerge in the travel and financial sectors. With a less supportive environmental policy and a slower pace of technological progress, the risks and opportunities noted may not occur over this short time horizon. **Impact:** There may be a moderate impact on portfolio profitability and the returns of the Company
How climate change likely to impact in medium term	**Transition risks:** The Company expects opportunities for portfolio companies to provide climate related solutions and that they can reduce their carbon emissions substantially. There may be opportunities for retirement tech (Smart Pension) and financial platforms (Starling, Klarna and Wise) as green investment flows increase. Travel companies (Secret Escapes) may also have opportunities as they adapt to introduce more sustainable tourism. Insurance companies (wefox) may also be able to increase the availability of climate risk products. **Impact:** Potential opportunities exist to enhance portfolio revenue and profitability, feeding into improved returns for the Company	**Physical risks:** It is likely that the physical impact of climate change will become more widespread and systemic. Marketing (Brandtech) and retirement tech may face operational strain adapting to sudden ESG mandates. Insurance companies may see a surge in climate-related claims and financial platforms may need to invest heavily in compliance. **Transition risks:** With an unstable and unpredictable government policy environment, long term planning and the return on investment for companies are more difficult to forecast. Portfolio companies operating in the financial sector may face revaluation linked to financed related emissions, while agile technology firms may adapt faster to minimise the impact. There may be higher transition costs due to uncertainty and abrupt changes in regulations. **Impact:** There may be a high impact on portfolio profitability and the returns of the Company	**Physical risks:** Climate impacts may become more noticeable, affecting the public infrastructure, productivity and the supply chain. For example, the sea-level may be rising and cause more ground sinkings. Financial companies may experience increased risk linked to physical losses in their client base. Service and technology firms could face higher insurance premiums, energy costs and operational interruptions. **Impact:** There may be a high impact on portfolio profitability and the returns of the Company

3. Portfolio Engagement Strategy

(continued)

Scenario	Orderly Transition	Disorderly Transition	Hothouse World
How climate change likely to impact in long term	**Transition risks:** The global economy is expected to be largely decarbonised and transition risk subdued. Companies which integrated sustainability considerations and those which offer high technology in their business models are likely to be at an advantage. **Impact:** Potential opportunities exist to enhance portfolio revenue and profitability, feeding into improved returns for the Company	**Physical risks:** Risks may intensify as the delayed transition fails to fully contain climate warming. Portfolio resilience is somewhat supported by diversification, engagement with portfolio companies and the integration of climate risk factors into investment due diligence. **Transition risks:** Adaptation costs may be high. Consolidation may occur in sectors such as travel and marketing, indirectly impacting tech platforms as well. Financial platforms may have to invest heavily in compliance. Cybersecurity is expected to remain essential for systemic risk management. Countries with less advanced technology that have failed to invest, may offer markets for those companies and economies that have developed solutions to address climate change. It is conceivable that in a rapid and disorderly transition that the scale of the shock could cause severe disruption and a global depression. **Impact:** There may be a high impact on portfolio profitability and the returns of the Company	**Physical risks:** The vulnerability of the portfolio may significantly increase, posing a greater threat to returns. Some climate models illustrate a much greater probability of severe climate events such as wildfires and floods. Under such scenarios, the impact on macroeconomic policy, and investment returns, is likely to be widespread and systemic, with very few portfolio companies unaffected. Some investments may have large disruption in their industry which could significantly impair long-term asset value. **Impact:** There may be a significant impact on portfolio profitability, with some companies potentially forced into insolvency. Company returns could be significantly impacted.

4. Risk Management

chrysalis investments

Stewardship is a core aspect of the Company's investment approach. There is regular dialogue between the Investment Adviser and the leadership teams of portfolio companies.

Where the Investment Adviser has a board seat or board observer status, members of the team will attend board meetings and provide input where they believe they can help companies achieve their strategic objectives. This includes regular dialogue on ESG related topics, including climate related topics. Here the Investment Adviser seeks to influence companies where they believe the management of material ESG factors can be improved.

One of the principal challenges of ESG integration in a private company context is data availability. Unlike listed companies, many private companies do not disclose ESG related data, either publicly or to third party data providers. This reality can hinder the identification of material ESG risks and potential issues which may require engagement. On behalf of the Company, the Investment Adviser developed an internal dashboard of metrics to assess the ESG performance of portfolio companies to address these challenges. This data is collected directly from portfolio companies or from publicly available information and include climate specific metrics, namely:

- Existence of an environmental policy
- Collection and disclosure of emissions data
- Development of a decarbonization strategy
- Establishment of short- and/or long-term emissions reduction targets

Chrysalis uses the resulting metrics to assess each company's ESG performance relative to its level of corporate development and maturity, and incorporates insights gained into its dialogue with company leadership teams, to assist with their continued development. Where potential material ESG risks, or areas of group governance which require development, are identified, the Investment Adviser communicates these conclusions to management and seeks to work collaboratively with them to make improvements. Company action plans and any material ESG incidents are reported to the Risk Committee and monitored over time to assess progress.

ESG analysis is also integrated into the investment screening process. The Investment Adviser actively interacts with the management teams of the portfolio companies and recognises ESG considerations can affect the valuation and performance of the portfolio.

Analysis of ESG factors form part of assessing economic sustainability, agency and the business risk of companies. Gaining a thorough understanding of these issues is a crucial element in the assessment of the picture for, and risks to, the sustainability of future cash flow generation. The Investment Adviser considers the ESG risks that are material for each company.

Guidelines on Exclusions

Chrysalis seeks high growth innovative businesses which are leading transformation within their sectors. It excludes companies which have as their objective or direct impact any of the following activities, which are incompatible with the Company's investment approach:

i. The manufacture of controversial weapons
ii. Modern slavery, human trafficking or child labour
iii. The sale or production of illegal or banned products
iv. Exploration or production of fossil fuels

Guidelines on Environmental Factors

Limiting global temperature rises to 1.5 degrees above pre-industrial levels, in line with the Paris Agreement, is an urgent challenge facing the global economy. Chrysalis uses its influence to encourage companies to identify, manage and mitigate climate change risks or opportunities. Chrysalis believes that the Company's portfolio of tech-enabled, predominately digital businesses is not exposed to material climate risks and has limited direct environmental impacts, mainly due to the comparatively low levels of their carbon emissions. However, its view is that the scale of climate change will impact all sectors, industries, and asset classes and so acknowledges the positive role that it can play in tackling it through investment decisions, capital allocation and stewardship.

Guidelines on Social Factors

Chrysalis tracks several social factors and assesses these through the engagement with portfolio companies. Reporting tracks if portfolio companies have policies on key issues such as anti-bribery, human rights and health and safety. The business models of portfolio companies typically involve the employment of highly skilled, well-paid staff. They are typically paid above national average wages, and their employee welfare standards are generally good. There is internal judgement and subjectivity applied here to determine the relevance of social factors in the context of the geographies in which portfolio companies operate. Chrysalis is supportive of global norms on human rights, labour, environmental and anti-corruption standards. These guidelines are encapsulated in numerous frameworks which are being progressively adopted by the size of company in which Chrysalis typically invests.

Guidelines on Governance Factors

Assessing a portfolio company's corporate governance practices has always been a crucial aspect of Chrysalis' investment process. Chrysalis expects that portfolio companies implement strong corporate governance and risk management frameworks, consistent with their size, complexity and the industry that they operate within. Chrysalis accepts that the corporate governance frameworks of unlisted companies may not initially adhere to listed standards of best practice, however boards are expected to respect the principles of good governance and to ensure that governance arrangements keep pace with a company's growth. The Investment Adviser uses engagement and proxy votes to ensure appropriate oversight. As such, Chrysalis believes governance cannot be easily encapsulated using numerical metrics but requires a more holistic approach. Therefore, the approach to corporate governance may change according to a company's local laws, regulations, established guidelines and the size and maturity of the company, and will be informed by interactions with the company's management team and Board.

5. Metrics and Targets

Standardised Metrics: From this year the Company has adopted the EDCI framework which includes a core set of ESG metrics, including climate related metrics.

Benchmarking: By using these standardised metrics, the Company can compare its portfolio companies' ESG performance against industry benchmarks, providing valuable insights and driving improvements.

Transparency: The initiative promotes greater transparency in ESG reporting, enabling more consistent and comparable data for investors.

Collaboration: The EDCI is supported by a wide range of stakeholders, including over 450 investors, representing approximately $38 trillion in assets under management.

Chrysalis has used the EDCI Framework to collect the carbon footprint data of over 75% (85% by value) of the portfolio. This includes Scope 1, 2 and 3 emissions, total energy and renewable energy consumption. Data is collected in a consistent and structured way using externally developed online tools and calculators that assist portfolio companies to accurately calculate their emissions data where they do not already do so.

The Investment Adviser uses the resulting metrics to assess each company's ESG performance relative to its level of corporate development and maturity, and incorporate insights gained into dialogue with company leadership teams to assist their continued development.

Chrysalis will continue to develop the metrics and will use the data to provide shareholders with increased transparency on the sustainable characteristics of the portfolio in the Company's annual report.

Engagement at Chrysalis and TCFD Reporting Targets

Engagement is a central aspect of the Company's approach to responsible investment. The Investment Adviser maintains dialogue with portfolio companies to inform investment recommendations and advance the Company's responsible investment goals. The approach to engagement is determined by the Company's investment policy. Unlike other private market participants which operate as control or majority investors, the Company's investments typically constitute a minority holding. Where the Company has a board seat or board observer status, the investment team attend board meetings and provide input where they believe they can add value. This includes regular dialogue on ESG-related topics and Chrysalis seeks to influence companies where it believes the management of material ESG factors, including climate related matters, can be improved. Depending on a company's stage of development, this may include encouraging boards to create governance structures, policies and allocate appropriate resource to enable the management of ESG factors, aligning with recognised industry ESG frameworks, and seeking external advice or assurance where relevant.

Dialogue with companies typically takes place via regular meetings with management. Where action plans are developed to address specific ESG matters at portfolio companies, these are reported to the Risk Committee and monitored over time to assess progress. Many material ESG issues are complex and interconnected, and outcomes take time. Chrysalis is committed to long-term engagement goals, and measures progress in relation to the state of development a company has reached. However, to protect client interests, Chrysalis reserves the right to recommend the Company exits an investment if it concludes that progress is insufficient or does not meet the Company's strategic objectives. Chrysalis also uses its voting rights where applicable to hold management to account and uphold the interests of the Company.

Key Metrics

- 63% of portfolio companies have an environmental policy
- 75% of portfolio companies have calculated their Scope 1 and 2 emissions
- 50% of portfolio companies have made a net zero commitment or plan to establish one
- 50% of portfolio companies have set at least one short or medium-term carbon reduction target

5. Metrics and Targets
(continued)

chrysalis investments

CO_2 Emissions

The Company has gathered portfolio data for the year ending 31 December 2024 and for one portfolio company covering 12 months ending 31 March 2025:

Scope 1	9.74 tCO_2
Scope 2 Location based	143.96 tCO_2
Scope 2 Market based	109.98 tCO_2
Scope 3	3,379.63 tCO_2
Total Carbon Footprint (Scope 1 and Scope 2)	153.70 tCO_2
Total Carbon Footprint (Scope 1, Scope 2 and Scope 3)	3,533.33 tCO_2
Total Scope 1 & 2 intensity for portfolio (tCO_2e/£m invested)	0.19
Weighted Average Carbon intensity (Scope 1 and Scope 2) per £m revenue (tCO_2e/£m revenue)	0.85

The Company does not have any employees or physical offices, and most of its operations are carried out by external service providers. Consequently, it does calculate or report its own emissions data.

Methodology and Data Reliability Issues

There are challenges in collecting, collating and comprehending CO2 data for the Company's portfolio. The methodology used was to collect the most recently reported data from the portfolio through the EDCI framework. It was obtained directly from the portfolio companies for Scope 1 and 2 data. However, it was more difficult for Scope 3 emissions due to differences in standards and the interpretation by portfolio companies. Some portfolio companies did not provide the data. The Company is actively reviewing and interpreting climate-related data to establish benchmarks. It intends to refine comparative analyses upon receipt of next year's portfolio company data and supplement these insights with peer comparisons from credible sources.

The FCA product-level climate disclosure rules also require Chrysalis to determine if a portfolio has concentrated exposures or high exposures to carbon intensive sectors and if so to include quantitative scenario analysis metrics. Chrysalis does not believe that its portfolio has a high exposure to such sectors. Furthermore, given that some portfolio companies have not reported Scope 1 and 2 emissions, climate value-at-risk metrics would be unreliable to produce at this stage. Hence, unless specifically required, Chrysalis has chosen not to provide climate value-at-risk metrics or implied temperature rise metrics for the portfolio as it believes current methodologies, data quality and unavailability make them unreliable and could potentially lead to inaccurate or misleading disclosures.