

## **Sustainability at Sparkmind**

This document describes Sparkmind.vc's ("Sparkmind") approach to responsible investment and the environmental, social and governance ("ESG") considerations in its own operations and in the investment operations of the fund it manages, the Sparkmind Fund LP ("Fund").

The ESG factors may disclose risks, but also present new opportunities to our Fund's portfolio companies. Success in our investment operations is driven by the financial performance of target companies, but also by other performance criteria, which we in general call "key impact indicators". We have integrated consideration of these investment risks and opportunities into our investment process, as well as the due diligence of potential target companies. In addition, the ESG and impact indicators are reported to the investors of our Fund.

### **The UN Principles for Responsible Investment – UNPRI**

Sparkmind has signed the internationally recognized Principles for Responsible Investment in the investment manager category. This demonstrates our commitment to responsible investing and building a more sustainable future of the financial system overall. Being a signatory provides Sparkmind access to all of the support and resources that the UNPRI provides, including reports and guides, the collaboration portal, the UNPRI Data Portal and assessment tools to measure and communicate our progress.

As the UNPRI signatory we are committed to:

- apply the principles of responsible investment as part of the Fund's investment processes.
- being an active and responsible owner of businesses that actively pay attention to ESG matters.
- advocate the deployment of principles of responsible investment in the investment community.
- improve the development and application of the principles of responsible investing with the other actors of the investment industry.
- report the investment activities and results regarding the responsible investing, including the impact investment reporting.
- enhance the adequate and appropriate ESG -reporting procedures of the Fund's target companies.

### **Sustainability risk policy**

According to Article 3 (1) of the EU Sustainable Finance Disclosure Regulation ((EU)2019/2088, SFDR), financial market participants shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process. In this policy we describe how sustainability risks are integrated into our investment decision-making process, commencing from the investment decision phase of the Fund, until the exit phase of the Fund.

According to Article 2 point 22 of the SFDR, sustainability risk refers to an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

According to Article 2 point 24 of the SFDR, sustainability factors mean environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

The Fund has sustainable investment as its objective in accordance with Article 9 (2) of the SFDR.

### **Investment decision phase of the Fund**

We select investments carefully in accordance with the investment policies and principles agreed with our investors in the fund agreement and its side letters. Education sector companies operate within a business sector where realized impact and ESG issues are the core requirements for a successfully scalable business model. Measurable impact of the Fund's target companies and overall ESG issues such as sustainability, corporate citizenship and governance are part of our pre-selection process and these requirements also play an important role in our final investment decisions. Strong performance by a company from the ESG perspective and within the relevant positive impact metrics increases the likelihood of an investment.

Review of sustainability factors is part of the investment decision phase. Potential target companies are made a due diligence review, wherein sustainability factors form one area of interest. At some target companies, a separate ESG due diligence review is conducted, if necessary.

The education sector businesses should offer, for example:

1. Higher student engagement
2. Increased workflow efficiency
3. Personalized and insightful data
4. Increased access
5. Improved cost efficiency

Delivering value on within these areas enables the societies to gain better learning outcomes in larger scale more cost efficiently. Therefore, especially the social matters of ESG issues are important for the growth and development of the target companies, and thus, important for the investment decisions.

As we concentrate on the education sector, our deal flow is naturally guided by our investment strategy and normally the potential investment targets in the deal flow are already sustainable from a social point of view. It goes without saying that we exclude investments in weapons, gambling, tobacco, fossil fuels, adult entertainment and alcohol from our potential investment targets.

We have named a partner at Sparkmind, who is also a member of the Board of Directors, as a responsible person with regards to sustainability.

### **Active ownership and value creation phase of the Fund**

After making an investment, we work with our portfolio companies in order to ensure proper business practices in respect to the preset measurable impact targets. We also bring actively a holistic ESG

perspective for the daily operations of the target companies by encouraging them to develop their own ESG policies within their own education business segment. This will be extended with further emphasis on corporate responsibility and governance as the companies mature.

We typically have one of our partners named as a member of the Board or as a Board observer of the respective portfolio companies, in which position we can both monitor and impact the governance of the target company.

We require each portfolio company to work on its own corporate responsibility policy which best serves value creation in that company, and to adopt a corporate governance policy which advances good governance and a Code of Conduct based on the company's values. Also, we expect every company to reach their impact targets that typically measure the quality or efficiency of learning and teaching, or the scale of the business reach within the underprivileged customer segments, for example.

Our active ownership strategy includes ensuring that portfolio companies comply with the principles of equality, diversity and non-discrimination. We encourage our portfolio companies to focus on the competence of people instead of their external qualities. We apply the same principles in our own operations.

### **Investment monitoring and investor reporting of the Fund**

We monitor financial and non-financial performance of our portfolio companies, including a constant monitoring of ESG issues and governance practices, but especially the impact targets and metrics set for the target companies of the Fund portfolio.

We report the status of the Fund's underlying investments as well as material shortcomings in the governance of the portfolio companies to our investors in compliance with the fund agreement with our LP investors. The Fund also applies the practices of Invest Europe/IPEV guidelines, alongside the applicable legislation, accounting regulations, and other statutory requirements set out for the Fund operations.

As an ESG-related factor we are requiring the target companies to measure and report the agreed impact metrics related to the ESG issues, such as the quality of education, servicing of the underprivileged groups and inclusion of diverse customer target groups. Some of these metrics, but not all, cover ESG-related considerations that are targeted for the impact KPIs, also called as KIIs (Key Impact Indicators).

The KIIs subject to reporting by target companies towards Sparkmind, and by us to our LP investors include e.g.:

- Learning outcomes
- Availability of services to underserved segments or populations
- Improved cost efficiency
- Higher student engagement

All of the above indicators are measured as part of social sustainability objectives of our Fund.

In addition, our Board of Directors regularly reviews the general performance of our portfolio companies.

## **Exit phase of the Fund**

We want to ensure that our portfolio companies are performing adequately within their key impact indicators and other key performance metrics, such as ESG related measures, the exit phase being no exception. We believe that exact impact measurement data throughout the entire history of the target companies enhances the exit valuations and improves the potential for reaching the financial and social targets of all stakeholders of the Fund.

In the cases of failed investments, for example bankruptcies or otherwise closed down business operations, we focus on ensuring that relationships with different stakeholders (customers, employees, lenders, cooperation partners, etc.) are concluded in a responsible manner. Sparkmind wants to ensure its reputation as a responsible owner and investor in all circumstances.

## **ESG in Sparkmind business operations**

### **Environment**

We aim to minimize any burden to the environment caused by our own activities. This is being achieved by our active choices to reduce carbon emissions and also cost burden of the travelling, as we prefer to use video conferencing when appropriate, instead of international face-to-face meetings. We also use and encourage the use of digital documentation format, and additionally sort and recycle our office waste. We encourage our portfolio companies to take similar action in their daily operations.

### **Society and the social impact**

We invest in education sector companies in their early or growth stages. In many countries of target companies' business operations, a large portion of all new vacancies are created in these growing earlier stage companies, and we aim to contribute for this job creation. In addition, through our investments and business development work, we encourage innovation, promote economic growth, and enhance global competitiveness of our investee companies that operate in the global education sector. We always follow applicable labor, safety and health regulations and have valid licenses and permits for our operations, for example from the Finnish Financial Supervisory Authority.

### **Corporate governance**

We conduct our business by good ethical principles and follow the industry best practices. We follow transparent communications practices towards our investors. We strive to promote equal opportunities for all individuals. We promote fair treatment of all managers, employees, advisers, co-operational parties and other stakeholders. We aim to proactively contribute to the satisfaction and the long-term engagement of our employees and advisers. Sparkmind is an active member of the Finnish Venture Capital Association (FVCA – Pääomasijoittajat ry). We follow the Professional Standards and Code of Conduct of Invest Europe and other guidelines and recommendations, such as the Openness and Transparency Recommendations of FVCA. We are involved in the activities of the local Federation of Finnish Enterprises to promote the development of the venture capital industry and promote cooperation between education sector growth companies. Sparkmind will also actively promote the education startup industry through various co-operational organizations, such as EdTech accelerators, the EdTech Finland Association and the other Nordic EdTech associations and co-operative organizations.

## **No consideration of adverse impacts of investment decisions on sustainability factors**

According to Article 4 of the SFDR, financial market participants shall publish and maintain on their websites information on whether they consider or do not consider principal adverse impacts (PAIs) of investment decisions on sustainability factors. The EU has defined the following indicators to measure PAIs when investments are made in companies: greenhouse gas emissions, biodiversity, water, waste and social and employee matters such as diversity, respect for human rights, and anti-corruption matters.

At the moment Sparkmind does not consider principal adverse impacts on sustainability factors, as defined by the EU, in its investment decisions, because there is not sufficient data available of the target companies to measure such impacts. We follow closely the availability of such data and may later consider also principal adverse impacts of our investment decisions on sustainability factors.