# Principal adverse sustainability impacts statement

This is the Principal Adverse Sustainability Impacts Statement of Innovation Industries, effective as of December 2021, as per SFDR article 4.

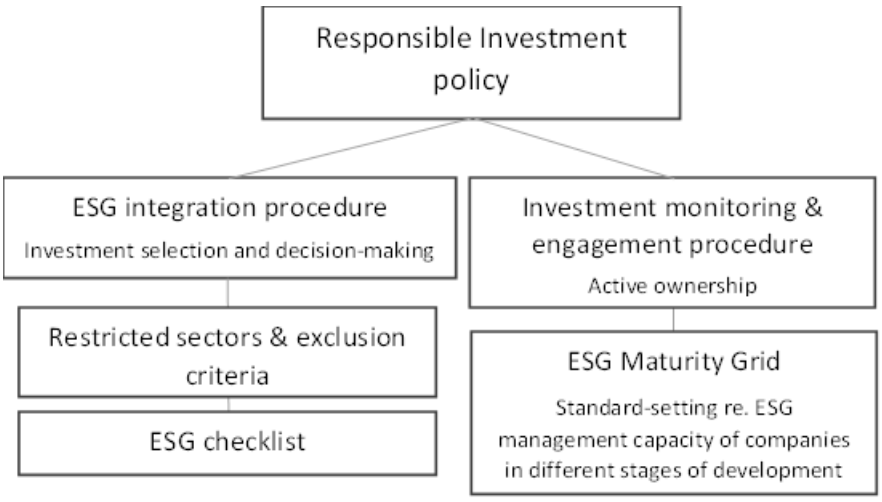
Innovation Industries considers principal adverse impacts of its investment decisions on sustainability factors. Through its Responsible investment policy statement, Innovation Industries has made a commitment to invest responsibly. It means that we consider during decision-making and actively manage sustainability risks as well as adverse impacts on sustainability factors.

The concept materiality helps us define and prioritize the sustainability issues that are most important to our portfolio companies and their stakeholders, with consideration for the priorities of our investors. We define 'material' as: having a potentially substantial impact on a company's ability to create and preserve economic, social and environmental value. This definition ensures that we approach sustainability from two perspectives:

- risks posed by potentially material environmental, social and governance (ESG) issues, including those driven by external developments
- positive and/or negative impact of our investee companies on ESG-factors in their wider environment

Our ESG management system (see figure 1) is tailored to the needs of and requirements for early stage and growth stage companies; companies with low actual impact (either positive or negative) that are operating under unique circumstances. Our approach is detailed in two procedures: an ESG integration procedure and an Investment monitoring & engagement procedure.

*Figure 1. ESG Management System*




## Description of principal adverse sustainability impacts

Our investment strategy leads us to invest in companies with low impact; significant impact is either targeted (positive impact) or foreseen (adverse impact). It is designed to optimize our funds' potential for positive impact by considering sustainability factors during investment selection and decision-making. Active and long-term engagement is essential to the realization of this potential.

### *Exclusion and positive screening*

Through our standard exclusion criteria we exclude a number of industries and activities from our investment portfolio because, by definition, they do not comply with international agreements or treaties or because they do not comply with our ethical standards. The exclusion criteria are part of the investment guidelines for each of our funds.

More generally, Innovation Industries excludes companies that are active in sectors or working in technology areas that we consider inherently unsustainable, meaning that their technology comes with adverse impact that is unmanageable and cannot be compensated by the positive impact that is foreseen. This is including but not limited to:

- companies active in the fossil fuel sector
- companies with disproportional (expected) greenhouse gas emissions or (product/process) energy requirements
- companies negatively affecting biodiversity-sensitive areas
- companies involved in manufacturing or selling weapons and ammunition

Innovation Industries also applies sustainability indicators as positive screening criteria. The details of our impact investment strategy are fund specific.

### *Avoiding and reducing principal adverse impacts through engagement*

We apply a standard but flexible governance framework for active ownership, which serves to protect and create value. This framework is designed to mitigate sustainability risks and avoid or minimalize adverse impact.

## Description of policies to identify and prioritise principal adverse sustainability impacts

Our ESG integration procedure outlines how Innovation Industries' commitment to responsible investment is embedded into the practice of investment selection and decision-making. This procedure was written by the ESG Officer and formally approved by the General Partners of Innovation Industries on March 31st, 2022. The ESG Officer is responsible for implementation of the procedure.

### *ESG due diligence*

During due diligence on an investment opportunity, we perform two assessments: a) an industry-level and strategic risk assessment, and b) an assessment of ESG management capacity.

A sector-based ESG checklist is used as a template for the identification and assessment of material ESG-related risks. We have developed different templates, each tailored to one of the main sectors within our investment scope. Using the templates, relevant issues are classified on an industry level as *high risk*, *medium risk* or *low risk*, taking into account the probability of occurrence and severity of adverse impacts.

Subsequently, issues are classified based on their strategic relevance for the investment opportunity. Strategic relevance is determined by assessing a company's business model and strategic objectives and any possible threats in the form of (the expected influence of) ESG-related factors and developments (climate change, food scarcity, the rising cost of healthcare, etc.).

Issues that are classified as of medium/high strategic relevance are assessed in detail.

The extent to which the company has (or is in the process of developing) the general ability to manage ESG-related risks and exploit opportunities within a range of issue categories, is assessed through the *ESG Technology Startup Maturity Grid* (hereafter, ESG Maturity Grid). Establishing the level of maturity of a target company for each issue category and comparing this to the company's overall level of maturity, serves the setting of post-investment priorities.

### *Decision-making*

Due diligence can lead to the exclusion of investments that are deemed unsustainable in the long-term due to expected adverse impact (see the section on exclusion). In most cases, the due diligence process does not lead to exclusion based on ESG-criteria, for two reasons:

- pre-selection taking place during the origination phase
- (positive and adverse) impact is usually still largely unrealized at the time of investment, which creates an opportunity for us to contribute by actively building a resilient and sustainable company. This is how we ensure the additionality of our impact as an investor.

If the deal is continued, the outcome of due diligence provides valuable input for engagement during the post-deal phase.

## Engagement policies

Our ESG integration procedure outlines how Innovation Industries' commitment to responsible investment is embedded into the practice of active ownership. This procedure was written by the ESG Officer and formally approved by the General Partners of Innovation Industries on March 31st, 2022. The ESG Officer is responsible for implementation of the procedure.

Through a company-specific post-investment action plan, we establish the risks that need to be addressed in the short-term and the actions required to improve an investee company's ESG management capacity. In this way, we mitigate material risks and steer its development towards a sustainable and resilient company.

One of our General Partners is appointed a seat on the supervisory board of the company. This General Partner acts as lead for engaging with the company and monitoring progress. Also central to engagement on ESG-risks and adverse impacts is our ESG officer. The ESG officer meets regularly (at least once a year) with a key contact person for the company, to discuss relevant developments, provide guidance where needed and collect information for the monitoring of progress.

In each of these processes, we use our ESG Maturity Grid. This proprietary tool is essentially an overview of the development we expect to see in how companies deal with ESG-related issues over the different stages of their evolution from seed to full maturity. Using the tool, we regularly assess the level of maturity of a company's ESG management capacity on the basis of a broad range of aspects, from level of responsiveness amongst the Management Team to implementation of mitigating measures. This allows us to offer focused guidance and induce action where it is most needed, in view of the risks, challenges and opportunities linked to the stage it is in.

The ESG Maturity Grid has two axes: company stage and issue category.

We distinguish six stages of company development:

1. Seed capital
2. Start-up
3. First stage
4. Second stage
5. Small tech company
6. Mature

Early

Growth

We distinguish seven issue categories, as depicted in table 1. Where a category encompasses multiple ESG issues (or sustainability factors), this is specified under 'Description'.

*Table 1. Issue categories and material issues*

| Issue category | Key business function(s) | Description |
|---|---|---|
| Environment | R&D (process), production | Energy efficiency, hazardous substances, resource efficiency, waste management |
| Product design & lifecycle | R&D (product): material input, use phase and end-of-life | Energy efficiency, hazardous substances, resource efficiency, waste management |
| Human capital | Human capital management | Employee attraction & retention, diversity & inclusion |
| Occupational health & safety | R&D (process and product), production, sales | Health & safety in the workplace |
| Supply chain | Supply chain management | Supply chain management addressing all material issues |
| Data privacy & security | HR, customer relationship management, IT | Collection, retention & use of personal data |
| Business ethics | All | Business conduct, Anti-bribery & corruption |

## References to international standards

Innovation industries endorses and has, through the ESG management system, aligned its investment practice with:

- The OECD Guidelines for Multinational Enterprises
- The OECD Due Diligence Guidance for Responsible Business Conduct
- The UN Guiding Principles on Business and Human Rights
- The ten principles of the UN Global Compact

Innovation Industries is signatory of the United Nations Principles for Responsible Investment (UN PRI).