

# Sustainable Finance Disclosure Regulation (SFDR)

## Website Disclosure Level II

Financial Market Participant: Norrsken VC

Product name: NVC Fund 2 (E) AB & NVC Fund 2 (D) AB (jointly the “Fund”)

January 2023

### (a) Summary

**No Significant Harm.** The Fund is committed to ensuring that any investment does not cause any significant harm to any environmental or social objective, and that good governance is duly upheld throughout the ownership period, as also reflected in our [Responsible Investments Policy](#). Potential adverse impacts of each investment are considered through the investment process and ownership period. The Fund will draw on internal expertise to conduct this analysis and support portfolio companies, and engage third party experts on a needs basis.

**Sustainable investment objective.** NVC Fund 2 (E) AB & NVC Fund 2 (D) AB (jointly the “Fund”) has sustainable investment as its core objective, and aims to maximise positive impact on people and planet with every investment, while delivering market returns to its investors. This is done by investing in early stage businesses (typically Seed or Series A) that solve both environmental and social challenges through scalable technologies, with a demonstrable contribution to at least one Sustainable Development Goal (SDG).

To be considered an impact investment by the Fund, impact must be a core and intrinsic part of the portfolio company’s business model. This means that the contribution to the SDG(s) must be incorporated in the business model in such a way that when the company grows (depending on the stage of the company, this can be through revenue, cost, or personnel growth) the contribution to the SDG(s) must also grow, ideally proportionally.

The Fund does not prioritise between impact areas or SDGs and, therefore, does not pre-define a distribution of investments made in companies with environmental versus social objectives. The Fund has however defined minimum shares for each category, and aims for 100% of its investments to be impact investments that meet the Fund’s definition for both impact and sustainability, in line with SFDR 2019/2088 Art 2(17).

**Investment strategy.** The Fund is an early stage investor, Nordic based with European focus, primarily focused on Seed to Series A as an entry point. To achieve the Fund’s sustainable investment objective, the Fund’s investment strategy is to invest in sustainable businesses focused on solving some of the world’s biggest challenges that also have potential to generate traditional VC returns. This is done by focusing on the ‘next generation’ business model, where profits and impact go hand in hand, and where technology is a likely tool for solving problems and scaling solutions.

To ensure that each investment meets the Fund’s sustainability investment criteria, we screen not only for impact potential and for impact to be an intrinsic part of the business, but also work proactively with Sustainability/ESG screening both pre- and post-investment, to drive value creation, decrease business and investment risks and contribute to more responsible business conduct. The Fund has defined a number of binding elements throughout the investment process and ownership period.

**Proportion of investments.** We aim for 100% of the Fund’s investments to meet the definition of a sustainable

investment and adopt all binding elements of the investment strategy. Given the early stage nature of the businesses we invest in, we are mindful of the challenges involved in ensuring capability of all companies to fulfill the sustainable investment objective. Nonetheless, the Fund has designed the investment process to ensure that this commitment is upheld, and will work closely with each portfolio company to ensure that these criteria are met. The Fund does not invest in derivatives.

**Monitoring of social and environmental characteristics.** The following sustainability indicators will be used to measure attainment of the sustainable investment objective. These will be continuously developed and improved, to ensure that we are truly capturing the impact and sustainability of all our investments.

- I. Share of investments which are classified as 'sustainable investments' (SFDR 2019/2088 Article 2.17)
- II. Performance of Impact KPIs against target for each investment.
- III. Aggregation of the Fund's impact performance against aggregated portfolio targets.

**Methodology.** Each indicator is measured in different ways: I) tracking of each investment against our definition of a sustainable investment as outlined in our sustainability framework, through quarterly and annual sustainability data collection, II) quarterly reporting of portfolio companies against Impact KPIs and III) aggregation of each portfolio company's impact performance against target, weighted by the size of investment. We are continuously developing our methodology to truly capture the impact and sustainability of our investments.

**Data sourcing and processing.** To track performance against sustainability indicators, data is primarily generated by each Portfolio Company. While the Fund strives to use objective and quantitative data, the early stage nature of our investments often means that companies will need to use estimates as part of their calculations. These are however typically based on high quality sources (such as scientific reports), and thereby considered more relevant and accurate, than if the company (with limited resources) would make the calculations directly themselves.

The data is collected by the Investment Team on quarterly basis and reviewed annually against target by the Investment Team and Chief Impact Officer. Reasonable efforts are made to quality check and pressure test the data.

**Limitations to methodology and data.** Given the early-stage (oftentimes pre-commercial) nature of our investments and their use of innovative technologies to generate impact, established methodologies and historical data for measuring positive impact are many times lacking. As the Fund relies on data collected from the portfolio companies to measure attainment of its sustainable objective, some companies will still be building their data collection capability, or adapting their business model to find market fit. This may create some deviation between actual and estimated impact; however, the Fund believes that in most cases, the measurements will still be directionally right, and we work closely with each company on their impact journey to help them iterate and finetune this over time. The Fund continuously seeks to enhance its measurement methodology, and implement new best practice, standards, methodologies and data sources that emerge as the industry continues to develop.

**Due diligence:** The due diligence stage is designed to both assess impact potential and conduct a Sustainability/ESG review, and the steps are outlined below.

**Engagement policies:** The Fund actively supports and builds capacity of portfolio companies' management teams to proactively drive Sustainability/ESG topics through daily operations, business planning and strategy. If the Fund has influence over the company's structure and governance, this role is also played at the Board of Directors' level.

**Attainment of the sustainable investment objective:** Since the Fund makes investments across a wide range of sustainability objectives, it is difficult to identify one relevant index that enables comparison within and across the portfolio. Instead, we have developed our own sustainability framework, to identify investments that qualify within each sustainability objective, and monitor their attainment on a quarterly and annual basis.

## (b) No significant harm to the sustainable investment objective

The Fund is committed to ensuring that its investments do not cause any significant harm to any environmental or social objective, and that good governance is duly upheld throughout the ownership period, as also reflected in our [Responsible Investments Policy](#). Potential adverse impacts of each investment are considered through the investment process, and monitored during the ownership period. The Fund will draw on internal expertise and experience to conduct this analysis and support portfolio companies, and engage third party experts where deemed relevant.

Here are the steps taken to consider adverse impacts of our investments:

- I. Before entering the due diligence stage, each company is **screened** both for impact potential as well as potential adverse impacts of the business model. The company is also screened against a list of excluded activities that the Fund will never invest in, as defined in the Responsible Investments Policy.
- II. Once the company enters due diligence, each company completes a [Sustainability checklist](#), which among other topics also encompasses SFDR's Principle Adverse Impact (PAI). This ensures that any ESG risks or opportunities are identified early and duly documented. The checklist is inspired by Invest Europe's checklist, but has been adjusted to work for earlier stage companies. If any adverse impacts are identified, these are screened further as part of the due diligence and mitigation efforts will be required, and these may be formalised in a side letter alongside the Investment documentation.
- III. Any potential adverse impact risks are discussed together with the company's management team during the Impact Workshop, which forms part of the due diligence process.
- IV. Upon making the investment, the **Investment Agreement** regulates each Portfolio Company's commitment to provide adequate sustainability reporting and evidence that the Company contributes to an environmental or social objective while not doing any significant harm to any of the other sustainability objectives. This includes i) identification and management of ESG risks, mitigation efforts and potential incidents; and ii) development and adoption of a good governance framework to protect minimum safeguards (detailed further below). If companies do not have these measures in place upon investment, they commit to a post-investment timeline to put these in place.
- V. During the ownership period, all companies are requested to fill in our **Annual Sustainability reporting**, which covers a comprehensive range of ESG topics, including the PAI indicators. Any adverse impacts discovered as a result of this reporting are further evaluated, to ensure that appropriate mitigation measures are put in place. We support all investments with a CO2 Emissions tracker tool to facilitate this data collection and reporting.

**More information on PAI:** The PAI indicators monitored pre- and post-investment comprise the 14 mandatory indicators and 2 additional indicators, from the environmental and social category respectively, that we identify as most relevant to the portfolio and our sustainable investment objective: i) Lack of a supplier code of conduct (social) and ii) Investments in companies without carbon emission reduction initiatives (environmental).

**More information on alignment with international principles and standards:** The Fund requires all Portfolio Companies to use all commercially reasonable efforts to adopt an adequate governance framework in line with

SFDR's good governance requirements (in line with 2019/2088 Article 2.17), including (but not limited to) adoption of a sustainability policy or equivalent policy framework, that demonstrates responsible business conduct. This includes alignment with the OECD Guidelines for Multinational Enterprises, UN Guiding Principles on Business and Human Rights, the eight conventions in the ILO Declaration, and International Bill of Human Rights. The Fund provides all Portfolio Companies with policy templates and supports them with both formulation and implementation, to ensure that this requirement is met.

### **(c) Sustainable investment objective of the financial product**

The Fund has sustainable investment as its core objective, and aims to maximize positive impact on people and planet with every investment, while delivering market returns to its investors. This is done by investing in early stage businesses that solve environmental and social challenges through scalable technologies, with a demonstrable contribution to at least one Sustainable Development Goal (SDG).

To be considered an impact investment by the Fund, impact must be a core and intrinsic part of the portfolio company's business model. This means that the contribution to the UN SDGs must be incorporated in the business model in such a way that when the company grows (depending on the stage of the company this can be revenue, cost, or personnel growth) the contribution to the UN SDGs must also grow, ideally proportionally.

100% of the Fund's investments will be impact investments that fulfill SFDR's definition of a 'sustainable investment'. The Fund does not prioritise between impact areas or SDGs and, therefore, does not pre-define a distribution of investments made in companies with environmental versus social objectives. Since the Fund makes investments across a wide range of sustainability objectives, it is difficult to identify one relevant index that enables comparison within and across the portfolio. Our sustainability framework enables us to identify investments that qualify within each sustainability objective, and monitor their attainment on a quarterly and annual basis.

### **(d) Investment strategy**

The Fund is an early stage investor, primarily focused on Seed to Series A as an entry point, and is Nordic based with European focus. In order to achieve the Fund's sustainable investment objective, the Fund's investment strategy is to invest in sustainable businesses focused on solving some of the world's biggest challenges that also have potential to generate traditional VC returns. This is done by focusing on the 'next generation' business model, where profits and impact go hand in hand, and where technology is a likely tool for solving problems and scaling solutions.

Each investment is required to meet the Fund's definition for both impact and sustainability, which is aligned with SFDR's definition of a 'sustainable investment' (Regulation 2019/2088, Article 2.17). As such, we screen not only for impact potential and for impact to be an intrinsic part of the business, but also work proactively with Sustainability/ESG screening both pre- and post-investment, as a means to drive value creation, decrease business and investment risks and also contribute to more responsible business conduct.

To ensure that 100% of these investments fulfil SFDR's definition of a sustainable investment, the following binding elements are in place:

#### **Pre-investment process:**

- Impact is the first lens through which all prospective investments are assessed, to ensure that each investment solves a critical problem.
- All potential investments are screened against a list of excluded activities that the Fund will never invest in, as defined in the Responsible Investments Policy.

- Impact and sustainability is critically assessed in a structured way throughout the investment process, to weigh positive impact potential against adverse impact risks, and ensure that all material sustainability risks are captured. This information is presented to the Investment Committee to inform the investment decision.

#### **Post-investment:**

- The Fund collects quarterly information from all companies on Impact KPIs, and annual information on ESG risks, mitigation efforts, policy framework, PAI indicators, and additional information required to ensure that each investment continues to fulfil the requirements set out in SFDR's definition of a sustainable investment.
- The Fund's financial remuneration is linked to the company's impact, to ensure that impact and sustainability is a key driver in all investment decisions.
- Should companies cease to fulfil the definition of a sustainable investment during our ownership period and instead start to generate negative impact, the Fund has a contractual put option that allows us to exit.
- Aggregate Acquisition Cost of Investments in Impact-Driven Enterprises shall, at the termination of the Company, be at least eighty (80) percent of the Aggregate Acquisition Cost of Investments.

**How we assess good governance practices:** Good governance practices are both pre-investment and post-investment, covering a wide range of topics including sound management structures, employee relations, remuneration of staff and tax compliance:

*Pre-investment*, good governance practices are assessed in the due diligence stage through the Sustainability questionnaire, which asks about what policies, practices and processes that the company currently has in place. Combined with the ESG risk analysis of the company and industry, the due diligence will reveal what governance practices are especially critical depending on the risks identified in the business or industry, to ensure that these are put in place either pre- or post-investment. Given the early stage nature of our investments, many will not have this framework fully developed upon investment. These companies will commit to establish such a framework within a certain timeline, as part of the side letter in the Investment documentation, alongside mitigation of any other risks identified through the due diligence process. The Fund will monitor portfolio companies' good governance framework through our Annual Sustainability Questionnaire.

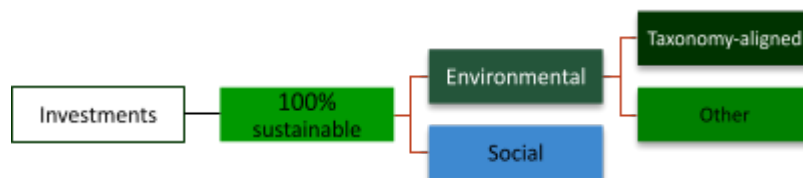
*Post-investment*, good governance practices are assessed annually through our Annual Sustainability Report, through which companies are requested to share their full policy framework and explain how these are implemented in practice. Furthermore, if the Fund has significant influence over the portfolio company's structure and governance, we exercise this influence at the Board of Directors' level and establish good governance as a key agenda for Board meetings. Although the responsibility to ensure good governance remains with the portfolio company, the Fund provides continuous support to build their capability and understanding of governance, through guidance, training and templates. This starts shortly after investment with an impact onboarding.

#### **(e) Proportion of investments**

We aim for 100% of the Fund's investments to meet the definition of a sustainable investment with either a social or environmental objective, and adopt all binding elements of the investment strategy, as outlined above. Given the early stage nature of the businesses we invest in, we are mindful of the challenges involved in ensuring capability of all companies to fulfill the sustainable investment objective. Nonetheless, the Fund has designed the investment process to ensure that this commitment is upheld, and will work closely with each portfolio company to ensure that these criteria are met. The Fund does not invest in derivatives.

Because the Fund *inter alia* invests in companies that aim to have a positive impact on the environment, some of the Fund's investments have economic activities that are within the scope of the EU Taxonomy (Regulation (EU)

2020/852). This is however not a criterion for investment, and the sustainable investments in the Fund may or may not be aligned with the EU Taxonomy. However, our ambition is to invest as much as possible in economic activities eligible within the Taxonomy, and support investments to become Taxonomy aligned.



#### (f) Monitoring of environmental or social characteristics

The Fund will use the following sustainability indicators to measure our attainment of the sustainable investment objective:

- I. Share of investments which are classified as ‘sustainable investments’, in line with SFDR 2019/2088 Article 2(17) (with a target of 100%)
- II. Performance of Impact KPIs against target for each investment
- III. Aggregation of the Fund’s impact performance against aggregated portfolio targets

We will continuously work to develop and improve our sustainability indicators, to ensure that we are truly capturing the impact and sustainability of all our investments. To contextualise these three indicators, the Fund aims to make a material contribution to the UN SDGs, which constitute a high level framework for all our investments. During the pre-investment phase, we ensure that all portfolio companies make a material contribution to at least one SDG, and establish what their ‘theory of change’ is to deliver this contribution.

To measure and track progress against their theory of change, we support companies to define impact KPIs pre-investment, which they measure and report to the Fund on quarterly basis. Since each investment should demonstrate a 1:1 relationship between impact and financial gain, the impact KPI will both be closely linked to the business performance and be clearly correlated with the chosen SDG(s).

The Fund’s impact performance is evaluated on an annual basis, by reviewing each company’s impact performance against target, and aggregating this for the full portfolio. This will inform the Fund’s annual SFDR Periodic reporting, as well as any other investor and external reporting. The Fund’s impact performance is also closely linked to the Fund’s remuneration through carried interest (detailed further below).

Quarterly data collection is done by each Investment Manager, while annual data collection, as well as analysis, aggregation and reporting of annual impact results is done by our Chief Impact Officer (CIO). The Fund uses reasonable efforts to quality check and pressure test the reported data. This data is also annually reviewed by the CIO and Fund’s Investment team to evaluate the effectiveness and impact of our investment strategy and methodology, for continuous learning and iteration.

#### (g) Methodologies

The three indicators identified above are measured in different ways, as set out below. Our methods will be continuously developed and improved, to truly capture the impact and sustainability of our investments.

**I. Share of investments which are classified as ‘sustainable investments’ (SFDR 2019/2088 Article 2.17)**

The Fund has defined a framework for how we define and will measure a ‘sustainable investment’, which aligns with SFDR’s definition set out in Regulation 2019/2088 Article 2(17) and sets out our interpretation of the Regulation and approach to achieve this. This is done in a dual track depending on if companies are eligible within the Taxonomy or not:

- **All investments:** Upon investment, these criteria should already be met, or companies should commit to a timeline for implementing anything outstanding. This is subsequently monitored in the Annual Sustainability Reporting, where critical information is gathered from each company to evaluate whether companies meet all the criteria, identify gaps, and then work with the companies to close these gaps.
- **Taxonomy-eligible companies:** If companies are eligible within the Taxonomy, we request information specific to their economic activity, in addition to the Annual Sustainability Report. These companies are subject to the Do No Significant Harm criteria through the PAI indicators and a good governance assessment.

**II. Performance of Impact KPIs against target for each investment.**

The methodology for measuring the impact generated by each Portfolio Company is established pre-investment, as defined in point (f) above.

- Unique Impact KPIs are defined for each investment, which should be directly attributable to the intended change in outcome as defined in the theory of change. These should be closely linked to the business and to the identified SDG, and can be designed to either capture scale or depth of impact, or key milestones, if the business is very early on its impact journey.
- If multiple impact KPIs are defined, these should be weighted according to their contribution to realise the intended theory of change.
- The Fund strives to use objective, quantitative data as well as established frameworks or scientific research to back up any assumptions or estimates that may form part of the methodology.
- Impact KPIs and target values for each investment are approved by the Fund’s Advisory Committee annually.
- Companies report against their unique Impact KPI on quarterly basis.

**III. Aggregation of the Fund’s impact performance against aggregated portfolio targets.**

- The Fund aggregates each portfolio company’s impact performance against annual targets, weighted by the size of investment, to derive the Fund’s annual impact performance against Fund-level targets.
- Subject to achieving at least 60% of the Fund’s annual impact targets, the team is entitled to up to a maximum of 20% carried interest (if achieving 80% of the targets or more) above a 1.25x preferred return, thereby linking financial remuneration to the company’s impact.

**(h) Data sources and processing**

The impact KPIs are defined for each individual Portfolio Company, and the data to attain the sustainable investment objective primarily comes from each Portfolio Company. While the Fund strives to use objective and quantitative data, the early stage nature of our investments often means that companies will need to use estimates as part of their calculations. Estimates or assumptions are typically based on high quality sources (such as scientific reports), and thereby considered more relevant and accurate, than if the company (with limited resources) would make the calculations directly themselves.

The data is collected by each Investment Manager on a quarterly basis and reviewed against target annually by both the Investment Manager and Chief Impact Officer. The Fund uses reasonable efforts to quality check and pressure test the reported data.

#### **(i) Limitations to methodologies and data**

Due to the nature of the Fund's investment scope, i.e. early stage companies that oftentimes are pre-commercial and often use innovative technologies to generate impact, established methodologies and historical data for measuring positive impact are many times lacking. Also, the Fund relies on data collected from the portfolio companies to measure attainment of its sustainable objective, cognisant that some companies will still be building their data collection capability, or adapting their business model to find market fit. This may create some deviation between actual and estimated impact; however, the Fund believes that in most cases, the measurements will still be directionally right, and we work closely with each company on their impact journey to help them iterate and finetune this over time. Since the Fund has defined a very high impact ambition for any investment, the portfolio company is still likely to attain the sustainable investment objective even if actual impact is lower than the estimated.

To mitigate limitations of the measurement methodologies, the Fund seeks to continuously enhance its measurement methodology, and implement new best practice, standards, methodologies and data sources that emerge as the industry continues to develop. Similarly, the Fund aims to contribute with our experience and learnings to drive the industry forward.

#### **(j) Due diligence**

The due diligence is designed to assess impact potential and conduct a full ESG review, through the steps outlined below. Commercial and financial due diligence is of course handled in parallel.

- We evaluate impact potential and sustainability using our impact assessment framework and data provided by the company, including the sustainability questionnaire which defines ESG risks and opportunities, including PAI indicators (SFDR). Our sustainability questionnaire is inspired by Invest Europe's checklist but adjusted to work for earlier stage companies. The checklist can be found as part of our [blueprint](#) on Norrsken VC's website in respect of the Portfolio Companies and ensures that any ESG concerns or opportunities are duly documented.
- We test the company's impact hypothesis and conduct an ESG review of the industry by contacting relevant industry experts and users / beneficiaries (as relevant)
- We run an impact workshop together with the company to define impact potential and adverse impact risks, short-term output and outcome KPIs



Due diligence is currently handled internally, with engagement of external third party experts as needed, to validate the impact and investment case of each investment.

#### **(k) Engagement policies**

If the Fund has significant influence over the portfolio company's structure and governance, our influence is exercised at the Board of Directors level, where we make sure that ESG related topics are added to Board meeting agendas. The Fund also actively engages with management to ensure that ESG is carefully considered and integrated into daily business operations. However, in accordance with the investment strategy of the Company, the Fund does not obtain such control of the Portfolio Companies of the Fund.

Consequently, the Fund actively supports Portfolio Companies to ensure that ESG topics are adequately considered, that risks are actively mitigated and any incidents handled in an appropriate way. In summary:

- The Fund actively supports management to consider ESG an integral part of daily business operations.
- As part of our Investment Agreement, we request portfolio companies to disclose to the Fund how ESG related risks and opportunities are managed and integrated into both daily business operations as well as more long-term business planning and strategy. Portfolio companies also agree to monitor and report ESG risks and opportunities on quarterly basis, including any incidents occurred and mitigation efforts.
- We support portfolio companies to add ESG to their Board meeting agendas, providing support to prepare high quality material.

As mentioned above, should companies cease to fulfill the definition of a sustainable investment during our ownership period and instead start to generate negative impact, the Fund has a contractual put option that allows us to exit. If ESG related incidents occur during the ownership period, we monitor these on a quarterly basis, to ensure that sufficient action has been taken, effects are mitigated, and measures are in place to prevent such incidents from happening again.

#### **(l) Attainment of the sustainable investment objective**

Since the Fund makes investments across a wide range of sustainability objectives, it is difficult to identify one relevant index that enables comparison within and across the portfolio. Instead, we have developed our own sustainability framework as outlined above, which enables us to identify investments that qualify within each sustainability objective, and monitor their attainment on a quarterly and annual basis.