



Armilar Venture Partners

Sociedade Gestora de Fundos de Capital de Risco, SGFCR, S.A.

Sustainability Policy

March 9, 2023

TABLE OF CONTENTS

INTRODUCTION – BACKGROUND AND PURPOSE	2
ESG POLICY SCOPE	3
OUR BELIEFS: SUSTAINABILITY AND ESG AT ARMILAR	3
EMBEDDING ESG WITHIN OUR INVESTMENT PROCESS	4
OUR INTERNAL APPROACH TO RESPONSIBLE INVESTING	6
GOVERNANCE AND OVERSIGHT	6
REPORTING AND ACCOUNTABILITY	7
PRINCIPAL ADVERSE IMPACT STATEMENT	7
INTEGRATING ESG WITHIN OUR REMUNERATION FRAMEWORK	7

Introduction – background and purpose

Armilar is a leading European VC fund manager, which aims to partner with the founders of technology startups to transform the world. We are convinced that technology can be a "force for good" that generates positive impact in the society at large, and as long-term-focused investors, see it as our responsibility to make thoughtful decisions that will safeguard and protect the planet for generations to come.

Environment, Social and Governance-related considerations ("ESG") have been core to Armilar's decision making process ever since the team started to invest back in the year 2000. With the advent of a more structured approach to these matters in recent years, we have been focused on increasing the integration of sustainability indicators into our own operations as well as our investment and post-investment activities, for which we have formulated a clear vision for ESG best practices within venture capital investing, grounded in an analysis of material ESG issues for us and our funds' investments, and set accountability and transparency standards around those. This ESG policy ("ESG Policy") sets out our approach to responsible investing taking into account ESG risks and opportunities.

ESG Policy Scope

This ESG Policy aims to cover 100% of Armilar's assets under management ("AuM").

The policy will come into effect on March 31, 2023, and will be applied to all new investments going forward. For existing investments made prior to March 31, 2023, the policy and its elements will be implemented on a reasonable best efforts basis.

We will be setting up Armilar Fund IV, our new €250 million Series A+ VC fund, as a fund which promotes environmental & social characteristics, within the scope of Article 8 of European Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector ("SFDR").

The degree of influence over ESG topics in our funds' portfolio companies varies with our ownership stake and formal influence (lead investor, board seat, etc.), as well as the stage of development (and therefore resources available) at that portfolio company. We strive to ensure that there is alignment on ESG goals for each portfolio company, insofar as relevant and on a best efforts basis, in collaboration with the lead investors, other co-investors and the companies, where practical to do so.

This policy also covers Armilar as the fund manager, as stated in the relevant sections below.

Our Beliefs: Sustainability and ESG at Armilar

At Armilar, we have consistently practised a proactive ESG mindset since inception, back in 2000. We believe ESG to be one of several drivers of value creation, for our portfolio companies, our limited partners and the world. As a result, we have identified and built key ESG themes that will form the guiding blocks of our consideration during the ESG due diligence, stewardship and monitoring, and reporting process for potential and actual investments made through Armilar's funds.

Below are a list of themes that we believe are material to Armilar and its portfolio companies.

- **Environment**
 - Climate action;
 - Green cities; and
 - Responsible consumption & circular economy

- **Social**
 - Human capital development (job creation, skilling and retention);
 - Diversity and Inclusion (fair treatment, work-life balance, parental policies);
 - Employee well-being (health & safety and mental wellness); and
 - Community.
- **Governance**
 - Ethical business conduct, including anti-corruption and anti-bribery practices, consistent with the United Nations Convention against Corruption;
 - ESG policies and integration at portfolio companies; and
 - Shareholder rights, including voting rights, shareholder meetings, voting frequency and procedures, quality of information provided to shareholders.

These themes form the basis from which we derive a standardised list of indicators and metrics for measurement at our funds' portfolio companies. Where relevant, additional indicators and metrics are added to the standardised list, in order to measure and monitor the most material ESG topics for relevant fund investments. The list of ESG topics noted above is not an exhaustive list and Armilar will continue to revisit, refine and build on it.

Embedding ESG within our investment process

The following section describes Armilar's approach to integrating material ESG factors during the investment process from screening and sourcing potential opportunities through to the exit.

Screening

Our investment screening process includes a check list that incorporates the [IFC Exclusion List](#) and [Principles of the UN Global Compact](#). We will not knowingly make direct investments in businesses:

- which directly manufacture, distribute or sell weapons in general;
- whose principal activity is the direct manufacturing/service of arms, ammunition, radioactive materials, alcohol, tobacco or gambling;
- which systematically use harmful or exploitative forms of forced or child labour;
- which has exposure to sale, distribution, exhibition or circulation of any obscene picture, painting, writing, book, pamphlet, drawing or video in physical or electronic form which is lustful or lewd;
- which operates in the Ad-tech space and is involved in unlawful tracking and abuse of Internet users' personal data or has lack of controls over user data protection resulting in manipulation of user behaviour and attention;
- which is in non-compliance of the regulations and/or has investigations or regulatory proceedings commenced against it in the past 5 years;
- where the company has been (A) sanctioned by the United Nations Security Council pursuant to any resolution issued under [Chapter VII](#) (Action with Respect to Threats to the Peace, Breaches of the Peace, and Acts of Aggression) of the United Nations Charter; or (B) debarred by the World Bank Group (see the World Bank Listing of Ineligible Firms and Individuals at www.worldbank.org/debarr or any successor website or location);
- whose principal activity is involved in fostering the coal and oil industries; or
- whose principal activity involves research (1) aimed at human cloning for reproductive or therapeutic purposes; (2) intended to modify the genetic heritage of human beings which could make such changes heritable (excluding research relating to cancer treatment of the gonads); (3) intended to create human embryos solely for the purpose of research or for the purpose of stem cell procurement, including by means of somatic cell nuclear transfer; and (4) relating to genetically modified organisms (GMOs).

Any investment opportunity meeting the above set criteria will not be taken further into the diligence stage.

Due Diligence phase

After the screening process, which includes but is not limited to ESG factors, for all relevant potential investments, we identify whether there are any material ESG issues, taking into consideration Armilar's ESG themes as identified in the section **"Our Beliefs: Sustainability and ESG at Armilar"**.

In order to assess the ESG risks and opportunities of each potential investment, the deal team evaluating the opportunity is required to complete an ESG assessment check-list. This check-list consists of a standardised set of questions, across environmental, social and governance themes, as outlined in the section **"Our Beliefs: Sustainability and ESG at Armilar"**. In addition, since each potential investment is different in its business model and execution, the deal team may add additional ESG criteria to the check-list. As part of the investment memo, the deal team must present at least one slide summarising the findings of the ESG due diligence, along with material ESG risks and opportunities to the fund's Investment Committee.

We may instruct external experts to perform additional ESG due diligence, where needed. Where material issues are identified, the Investment Committee may request further action to be taken to ensure that these issues are properly investigated, before proceeding to investment.

Closing phase

The deal team will document all material ESG issues identified, in order to ensure appropriate monitoring, and where appropriate, value creation, of the portfolio companies' ESG performance during our ownership period.

Additionally, Armilar will use ESG-related term sheet clauses, across environmental, social and governance themes, as outlined in the section **"Our Beliefs: Sustainability and ESG at Armilar."** Notable term sheet clause includes, insofar as the portfolio company does not already maintain, adopting an ESG and D&I policy at latest within 12 months following the signing, and completing the annual ESG survey sent by Armilar to report on the chosen ESG metrics. Such policies and metrics shall be discussed and the progress reported to the company's board annually. While these elements will be requested generally, each clause may have some variations depending on the specific investment. Moreover, each investment will have specific indicators which are material to it from an ESG perspective. The deal team will add such additional specific metrics with the portfolio companies, as relevant.

Portfolio monitoring

Armilar's deal teams pro-actively engage with the portfolio companies to help them deliver high levels of sustainable performance. Where possible and appropriate, we also work with the investor syndicate to influence portfolio companies at the board level to measure and address key ESG issues, with the portfolio company's management taking active ownership of addressing such key ESG issues. There are a number of ways that we aim to help portfolio companies focus on ESG issues, including:

- Collaborating with the management team and co-investors to identify key ESG issues that are relevant to the business or that may be relevant in the future, discussing how to manage the issues, and how to take account of the issues in business planning and strategy;
- Collaborating with the management team and co-investors to set company-specific ESG targets and KPIs, and monitoring and tracking them annually;
- Sending an annual ESG survey to all portfolio companies to report on Armilar's chosen ESG metrics, which will require to share with us key information pertaining to the ESG metrics identified. Monitoring these ESG metrics annually and collaborating with stakeholders to identify future course of action.
- Striving to add ESG to the agenda of annual board meetings, where Armilar has a board seat.

- Where the portfolio company does not have an established ESG policy, or where there are gaps in ESG practice and/or issues with ability to collate data, Armilar strives to help address such gaps, either directly or by reference to external experts.
- Where possible, Armilar seeks to provide portfolio companies with access to ESG training and materials.
- If ESG-related incidents occur at portfolio companies, Armilar strives to assess and take actions quickly to reduce such risks in the future. For Armilar's reporting to its stakeholders, please see Section "Reporting and Accountability".

Exit

Armilar believes that the focus on sustainability will be rewarded during the company's exit process. To ensure that the full potential of sustainability-related value is captured at exit, we will highlight the ESG work done during our ownership and the impact it has created as part of any information pack or online data room pertaining to the company's future fundraising, sale or IPO process.

Our Internal Approach to Responsible Investing

We strive to be a responsible investor when it comes to our own operations and make a positive impact directly and continuously in a number of ways:

- Reduce food waste to minimal levels. Reduce digital and electronic waste. Maximise recycling of our office waste and packaging
- Bring nature into our office and have greenery and plants in the office space.
- Build an inclusive and diverse workplace. This includes but is not limited to equitable pay across all levels of staff, diverse leadership, generous and an equal paid parental leave.
- Maintain a zero tolerance for all forms of corruption and follow the highest standards of conduct.
- Comply with the whistle-blower policy in place which allows employees to flag concerns and serves to make us aware of any concerns with respect to breaches of Code of Conduct or other policies, or other misconduct.
- Provide staff annual training on sustainability topics to help the employees fulfil the firm's ESG commitments.

Governance and Oversight

In developing this policy, we have sought external support from an independent private equity and venture capital advisory firm, in order to ensure that our ESG practices are in line with global best practices for a firm of our size and investing in the types and stages of business that our funds invest in. We shall endeavour to annually review and upgrade our ESG policy, where needed with the help of external experts, to continue to maintain ESG best practices over time.

Reporting and Accountability

Armilar aims to have broad transparency on ESG topics with all our stakeholders, the limited partners and the regulators. We commit to publishing our approach to responsible investment in our annual report, and making the ESG report available on the Armilar website. We aim to also proactively share any major updates or events, reported in quarterly reports or at the earliest possible.

Principal Adverse Impact Statement

Armilar does not currently consider the principal adverse impacts of the investment decisions on sustainability factors as set out under the SFDR. We currently do not have the means to obtain or measure all the data that would need to be reported under the SFDR, since small and medium size companies are generally not required to report this data and may not currently do so. We will continue to monitor the situation and will re-evaluate our approach whenever more data becomes available. As soon as we start considering adverse sustainability impacts of our investment decisions on sustainability factors, we shall disclose the relevant information to investors and on our website.

Integrating ESG within our remuneration framework

All of the Armilar Partners and staff are subject to Armilar's remuneration guidelines. The remuneration guidelines have been designed to support and safeguard Armilar's objectives related to business and fund financial performance, ESG and sustainability, and ultimately the objective of delivering long-term value to its funds' LPs, amongst broader stakeholder group, including colleagues, peers in the industry, and the globe. The policy is designed to attract, retain and motivate talent and ensure that the interests of the employees are aligned with those of the relevant stakeholders.

The remuneration policy provides a framework and guidance in relation to the total remuneration package, which consists of the following key elements: (1) fixed salary, (2) variable compensation (bonus), (3) carried interest and (4) other non-monetary benefits such as flexible working arrangement, health insurance and family coverage, etc.

The composition of each employee's total remuneration package will be based on the employee's position, responsibilities, capabilities and achievements. A number of factors are taken into account in setting remuneration levels, and these include the funds and GP's financial performance during the compensation period, staff's contribution to the achievement of firm's and funds' objectives, both strategic and operational, staff's efforts and achievements to pursue firm's policy on ESG in their work, investment-related or otherwise, and other considerations such as adherence to risk management and compliance with internal and external rules, management and leadership capabilities. By nature, a number of these factors are qualitative, and based on internal and external feedback for each Partner or employee. As such, currently no set mathematical formulas are established and no fixed benchmarks are used in determining individual annual remuneration level, although the component parts of the decision-making are as determined herein. The bonus is awarded on an annual basis, and are set on a discretionary basis by the Partners of the firm.