

Innovation Industries - Responsible Investment Policy

December 2021

Introduction

Innovation Industries is an independent venture capital fund. Its mission is to support technological innovations that address large markets and fundamental societal challenges, by providing investment capital to ventures as well as practical advice and guidance. Increasingly, environmental, social and governance (ESG) (or 'sustainability') factors are impacting the industries in which we are active (i.e. high tech, agri-food tech and med tech). Properly managing these factors can substantially reduce risks, increase business efficiency and effectiveness, and even uncover new and innovative business opportunities.

At Innovation Industries we believe that we have an obligation to society to invest responsibly, but also that investing responsibly is beneficial for long term financial return for our investors. With this Policy Statement we provide a broad framework for our responsible investment approach.

Scope

This Policy Statement covers all investments that Innovation Industries considers or manages on behalf of its investors. It has been developed in line with its legal responsibility and relevant international standards, guidelines and principles for responsible investment, corporate sustainability and good governance, notably: The United Nations Global Compact, the United Nations Principles for Responsible Investment, the OECD Guidelines for Multinational Enterprises, the ICGN Global Governance Principles, and the Invest Europe Professional Standards Handbook.

Materiality

For the purpose of this policy, we define "material" as: having a potentially substantial impact on a company's ability to create and preserve economic, social and environmental value. Materiality helps us define and prioritize the ESG issues that are most important to our portfolio companies and their stakeholders, with consideration for the priorities of our investors. To ensure that our processes are continuously optimized to add value, Innovation Industries aims to work in concert with its investors and portfolio company management to identify material ESG factors. This in turn enables us to uncover risks and opportunities and capture emerging best practices.

Roles and responsibilities

This policy is written by the ESG Officer and approved by the General Partners. The ESG Officer is responsible for implementation of the policy and for its periodic review, to assure its continued relevance. The investment team is responsible for ensuring that ESG-factors are considered in all phases of the investment process, following the principles and approach as set out in this policy. As such, this policy is shared with all employees.

We believe that the most effective way to integrate ESG factors into the investment process is to embed the analysis of ESG factors in existing processes and to have the investment team consider these issues alongside other factors. In each investment case however, the ESG Officer will be involved to support the analysis of material issues and the development of an action plan. The ESG Officer will offer guidance to portfolio companies. Also, the ESG Officer will monitor progress on set goals and prepare a yearly report for investors and other key stakeholders. Otherwise, the ESG Officer will provide advice and support where needed.

The final responsibility for implementation of this policy lies with the General Partners. All future changes and amendments will be approved by the General Partners before being internally communicated and executed.

Our investment beliefs and objectives

We aim to make better investment decisions and support portfolio companies in creating additional value by considering ESG factors throughout each stage of the investment cycle. We have defined the essential investment beliefs that at all times guide our actions and decision-making and the key objectives we pursue with our integrated approach to responsible investment. These beliefs and objectives guide us in its implementation and continuous improvement.

By acting on the following beliefs, we trust we can optimize long-term returns for our investors, in a manner that is both prudent and responsible:

1. An investment portfolio with a focus on technology ventures should include different industries, to allow for the application of emerging technologies to multiple societal and technological challenges and to avoid the omission of innovative applications.
2. A long-term horizon is essential to create value from high-technology ventures.
3. ESG-related risks and opportunities should be identified and managed throughout the investment process, to preserve and to create value.
4. Optimizing value creation requires active engagement with portfolio companies.

The key objectives of our approach to responsible investment are:

1. to select those investments with the highest potential for long-term value creation, both for our investors and society at large.
2. to mine the potential for positive societal change inherent in the ideas and technologies we help develop and market.
3. to optimize economic value creation through our portfolio companies.
4. to be more open to stakeholders, amongst which investors, about our priorities and actions when it comes to managing ESG risks and opportunities.

Our approach - sustainable investment

For us responsible investment is about the management of ESG-related risks and opportunities, but also about positive screening based on our sustainable, thematic investment strategy. The core of what we do is leveraging technological developments that have the potential to change industry and society, by supporting ventures that are driven by global social and/or social challenges. As per the implementation of this policy, Innovation Industries applies fund specific positive screening criteria.

Our approach - ESG management

Our ESG Management System governs how we identify material ESG factors, how they are considered in each of the investment phases and how their progress is measured and reported. The system is based on three primary features.

1. Exclusion

We have compiled a list of industries and activities that we exclude from our investment portfolio because, by definition, they do not comply with international agreements or treaties (i.e. chemical or biological weapons) or because they do not comply with our ethical standards (i.e. the production of and trade in tobacco). The content of this list is openly aligned with the exclusion criteria set by our main investors. 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.

2. ESG integration

A high-level analysis of ESG factors guides the sourcing and assessing of deal opportunities. If an actual investment procedure is started, this analysis is followed-up by thorough due diligence. During due diligence, we examine a range of features of the company, such as: the market that is currently addressed by the company, potentially accessible markets, location of markets (and operations, if not The Netherlands), governance structures of the company and the stage it is in (level of maturity). A sector-based ESG checklist is used as a template for the identification and assessment of material ESG-related risks. Also, at this stage we assess the level of maturity of the company's ESG management capacity using our ESG Maturity Grid, through which we have set a standard for ventures in different stages of development, from seed to maturity, with regard to specific issue categories.

The content of the due diligence checklist and ESG Maturity Grid is based on the Sustainability Accounting Standards Board (SASB) Industry Standards, the SASB Materiality Map, the Global Reporting Initiative (GRI) Sustainability topics for sectors and the IFC Performance standards.

3. Active ownership

We systematically integrate ESG factors into investment monitoring and engagement with portfolio companies. In an early stage of our engagement, we communicate to a potential portfolio company the essence of this policy, and discuss with them potential ESG risks and opportunities, to gather input and to raise awareness. After the deal has been closed, the assessment performed during due diligence is discussed with portfolio company management and subsequently established as a performance baseline and basis for an action plan.

The ESG Maturity Grid is core to our monitoring and engagement activities. We use the tool to regularly assess progress on material ESG issues. Where possible we support this process through KPIs. This approach allows us to have an informed understanding of the ESG profile of the company, which helps us focus engagement activities and provides us with information to report to investors.

As long as Innovation Industries is an investor, we will continue to work closely with the company to help it effectively manage ESG factors. Also, Innovation Industries aspires to act as a sparring partner on ESG, providing company management with access to our network and stimulating the sharing of best practices.

Issue coverage

Through our approach we minimally address the following issues:

Resource efficiency & circularity	Responsible supply chain management
Climate change & energy	Data privacy & security
Employee attraction & retention	Business ethics
Labor practices	Anti-bribery & corruption
Diversity & inclusion	Governance (structures)
Occupational health & safety	

Reporting

Innovation Industries communicates periodically on ESG issues deemed material for its investors and, in exceptional cases, other relevant stakeholders. We will provide a yearly Impact & ESG report. We will communicate on and disclose to investors any incidents related to ESG issues at portfolio companies or the fund manager, including mitigating actions taken.