

# Innovation Industries - Responsible Investment Policy Statement

Version 2.4 – October 2023

## Introduction

Innovation Industries is an independent venture capital fund. We support technological innovations that address large markets and fundamental social and environmental challenges, by providing investment capital, guidance and practical advice. It is our purpose to optimize value creation while driving sustainable change on a societal level.

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, support strategic and sustainability objectives, 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 (UN) Global Compact, the UN 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: potentially having a substantial impact on a company's ability to create and preserve economic, social and environmental value. Materiality helps us define and prioritize the ESG factors<sup>1</sup> 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 companies to identify material ESG factors. This in turn enables us to uncover risks, impacts 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 their analysis in existing processes and to have the investment team consider them alongside other factors. In each investment case, the ESG Officer will be involved to support the analysis of material risks and opportunities and the development of an action plan. The ESG Officer will monitor progress on set goals and prepare a yearly report for investors and other key stakeholders. Furthermore, the ESG Officer will provide guidance, 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.

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<sup>1</sup> Including factors relevant to the realization of sustainability (i.e. 'impact') objectives, as referenced in the section on sustainable investment.

## Our investment beliefs and objectives

We aim to make better investment decisions and support portfolio companies in creating additional value by considering ESG factors and related objectives 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. The most valuable<sup>2</sup> companies of our time will be those that are purposefully contributing to a solution to fundamental societal challenges.
2. 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, high-value applications.
3. A long-term horizon is essential to create value from high-technology ventures.
4. ESG risks, impacts and opportunities should be identified and managed throughout the investment process, to preserve and to create value.
5. 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 commercialize;
3. to optimize economic value creation through our portfolio companies; and,
4. to be transparent towards stakeholders, amongst which investors, about our priorities and actions when it comes to managing ESG risks, impacts and opportunities.

## 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. It covers material sustainability risks and (foreseen) adverse impacts on sustainability factors, i.e. the ESG factors that are specifically relevant for early stage and growth stage companies.

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: due diligence & decision-making

A high level assessment of sustainability risks and potential adverse impacts is performed during screening of an investment opportunity. If an investment procedure is started, we follow-up with an in-depth assessment. During due diligence, we examine a range of features of the company, such as: the market that it currently addresses,

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<sup>2</sup> with sustainable value being a mix of economic, social and environmental value

potentially accessible markets, location of markets and operations, governance structure and present stage of development.

#### *ESG risk & materiality assessment*

A sector-based checklist is used as a template for the identification and assessment of material ESG factors. We have developed different templates, tailored to the main sectors within our investment scope. Using the checklist, relevant issues are classified on an industry level as *high risk*, *medium risk* or *low risk*, taking into account the probability that risks will materialize as well as the severity of impact (on the company or its wider environment).

Subsequently, issues are classified based on their materiality for the investment opportunity. Materiality is determined by assessing a company's business model, its strategic and sustainability objectives and possible threats (or opportunities) associated with ESG factors and related developments<sup>3</sup>.

#### *Assessment of ESG management capacity*

On the basis of our 'ESG Technology Start-up Maturity Grid' (hereafter ESG Maturity Grid), we perform a preliminary, high-level assessment of the extent to which the company has (or is in the process of developing) the general capacity to manage ESG-related risks and exploit opportunities. Through this tool, we have set a standard for ventures in different stages of development, from seed to maturity, with regard to specific issue categories. At this point, the assessment is focused on establishing confidence that material ESG factors can be managed post-deal<sup>4</sup>.

#### *Decision-making*

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

- Pre-selection takes place during the origination phase, based on a high level assessment.
- Foreseen impact is usually still largely unrealized at the time of investment, which provides us with an opportunity to build a sustainable and, hence, resilient company. This approach reinforces the additionality of our investments.

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

### **3. Active ownership: monitoring & engagement**

We systematically integrate ESG factors into investment monitoring and engagement with portfolio companies. In an early stage of engagement, we inform company management of the essence of this policy and discuss with them (potential) material ESG factors, to gather input and to raise awareness. Next, through a company-specific action plan, we establish the risks that need to be addressed in the short-term and the actions required to improve the company's ESG management capacity.

#### *Governance framework*

We apply a standard but flexible governance framework for active ownership, which serves to protect and create value. It specifies roles and responsibilities and establishes the yearly engagement cycle. The framework is designed to mitigate sustainability risks as well as avoid or minimize adverse impact.

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 factors 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 to support the monitoring of progress. Where feasible, the investment manager joins the engagement meeting.

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<sup>3, 4</sup> 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.

## ESG Maturity

The ESG Maturity Grid is core to our monitoring and engagement activities. Within the first year of our investment period, we perform a detailed baseline assessment of the company's management capacity within different issue categories. On the basis thereof, we establish the company's level of ESG maturity, which is evaluated in consideration of its stage of development and monitored over time. 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 to focus our 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 to ESG management we minimally address the following issues:

Table 1. Issue categories and ESG factors

ISSUE CATEGORY	KEY BUSINESS FUNCTION(S)	DESCRIPTION
Environment	R&D (process), production	GHG emissions & Energy efficiency, hazardous materials, resource efficiency, (hazardous) waste management
Product design & lifecycle	R&D (product): material input, use phase and end-of-life	GHG emissions & Energy efficiency, hazardous materials, resource efficiency, (hazardous) waste management
Human capital	Human capital management	Employee attraction & retention, performance management, mental health & wellbeing, culture, (gender) diversity & inclusion
Occupational health & safety	R&D (process and product), production, sales	Health & safety in the workplace, product safety
Supply chain	Supply chain management	Supply chain management addressing material issues, incl. human rights
Data privacy & security	Human resource management, customer relationship management, IT	Collection, retention & use of personal data, information security
Business ethics	All	Business conduct, incl. bribery & corruption, conflict of interest, fraud

## Reporting

Innovation Industries communicates periodically on issues deemed material for its investors and other relevant stakeholders. We provide a yearly Responsible Investment report.

We will communicate on and disclose to investors any material ESG incidents<sup>5</sup> at portfolio companies or the fund manager, including mitigating actions taken.

## Our approach - sustainable investment

Innovation Industries' commitment to responsible investment is rooted in our sustainable investment strategy, which is principally shaped by a focus on disruptive technology that has the potential to transform industry and society. As per the implementation of this policy, Innovation Industries applies fund specific positive screening criteria.

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<sup>5</sup> An ESG incident is labelled "material" if it is considered as having or being susceptible of originating a direct substantial negative impact on our funds' ability to create or preserve economic, social and/or environmental value through the portfolio, as well as any substantial reputational risks to the fund manager, the funds and/or investors.