Innovation Industries

Sustainability related fund information

Innovation Industries Fund III

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Summary

Innovation Industries Fund III has a sustainable investment objective. As such, all investments from the fund will be sustainable, meaning that they contribute to a social or environmental objective and do no significant harm to any other objective. Through the fund we specifically seek positive impact in five key areas, by which we address a range of Sustainable Development Goals.

Key to sustainable investment is active engagement, to drive positive impact and to manage sustainability risks and adverse impacts. It is our mission to not just invest in companies with high-impact potential but to build sustainable and resilient companies.

No significant harm to the sustainable investment objectives

Through its investments, Innovation Industries does not significantly harm any sustainable objectives, neither the objectives of its funds nor any other environmental or social objectives. We have integrated in the investment process procedures for considering adverse impacts on sustainability factors that are material, or likely to become material, to our portfolio, alongside relevant financial and sustainability risks. The different elements of our approach together are referred to as our *ESG management system*. Through it, we consider the indicators for principal adverse impacts (PAIs) on sustainability factors as far as these indicators are material to our portfolio and as far as we are able to collect the data. We do so for two reasons: to make sure that no significant harm is done (DNSH assessment) and to support the continuous management of sustainability risks. In line with our exclusion policy, we deem indicators 4, 7, 10 and 14[1] indicative of direct exposure to significant harm. We monitor and consider disclosed data for several other indicators and relevant correlated indicators (proxies) to facilitate improvement. Proxies are used when no data is available for specific indicators that would be relevant to consider.

Our ESG management system is designed to support Innovation Industries' commitment to responsible investment. In doing so, it incorporates the principles and standards for responsible business conduct as set in the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. These principles and standards are addressed in the process of identifying and assessing sustainability risks and (potential) adverse impacts, wherein we consider a broad range of potential sustainability factors from a perspective of double materiality.

For more information, see Innovation Industries' statement on *Sustainability risks and adverse impacts* on the website.

Sustainable investment objective

The fund has sustainable investment as its objective. This means that Innovation Industries will:

- ✓ exclusively invest in companies that (seek to) contribute to a long-term solution to one (or several) of what we perceive as some the most fundamental challenges of our time. We actively seek investments that have positive impact potential within the scope of five central investment themes:
    - ❖ Resource efficiency & circularity
    - ❖ Energy transition & carbon reduction
    - ❖ Sustainable connectivity & infra
    - ❖ Health & wellbeing
    - ❖ Sustainable & healthy food

[1] See Annex I of the SFDR RTS

- ✓ partially invest in activities that qualify as environmentally sustainable following article 3 of Regulation (EU) 2020/852;
- ✓ exclude companies that are active in sectors or working in technology areas that we consider inherently unsustainable, meaning that the associated adverse impact is unmanageable and cannot be compensated by the positive impact that is foreseen.

Linking impact to the UN SDGs

17 Sustainable Development Goals (SDGs) were adopted in 2015 by the countries of the United Nations with the aim of solving the most pressing social and environmental challenges of our time. The SDGs call on all companies globally to address these challenges through innovation and creativity and to demonstrate how their business helps to advance sustainable development. To achieve the goals, companies are asked find solutions to minimize negative impact and to maximize positive impact on people and planet.

We believe in the power of technological innovation to solve difficult societal challenges. With our investments, we seek to make a positive contribution to the following SDGs:

Investment strategy

We actively seek investments through which we can address key societal issues; five impact-based investment themes guide deal sourcing. During the origination phase, a potential deal is screened for its contribution to the fund's sustainable investment objective. Next, as part of due diligence, we assess impact potential in detail, on five dimensions of impact (in line with the Impact Management Project). Our assessment methodology helps the team align decision-making with Innovation Industries' investment strategy. Binding selection criteria are:

- ✓ the overall impact (potential) score for an investment opportunity is 'high' or 'very high';
- ✓ the investment opportunity does not concern a company active in sectors or working in technology areas that we consider inherently unsustainable, i.e. the company must not do significant harm to any environmental or social objective;
- ✓ the company observes good governance practices, as defined via Innovation Industries' Good governance principles.

Good governance

Innovation Industries supports the ICGN Global Governance Principles and the OECD Principles of Corporate Governance. We have defined a set of basic expectations for companies' governance structures. A broader range of governance issues is tackled through our ESG management system. For more information, see Innovation Industries' statement on *Sustainability risks and adverse impacts* and its *Good governance principles* on the website.

Asset allocation

All investments by the fund will be direct investments in companies. 100 percent of investments will have a sustainable objective.

Two types of investment are possible:

- – The majority of our investments will align with one or several of our investment themes. The proportion of investments with an environmental versus a social objective will be dependent on the investment opportunities presented.
- – The remaining share of investments will support our long-term positive impact objective, but within a broader scope of impact. Our investment scope includes a range of relevant

societal problems. To avoid the omission of high-value technologies and applications, we choose to keep open the possibility of considering, as part of our responsible investment strategy, other (related) sustainable investment objectives, such as reducing the use of hazardous substances or toxic emissions into the air.

Taxonomy alignment

The fund will partially invest in activities that qualify as environmentally sustainable following article 3 of Regulation (EU) 2020/852. It is likely that this will in part be investments done with the intent of contributing substantially to one or more of the following environmental objectives by directly enabling other activities to make a contribution to those objectives:

- climate change mitigation
- climate change adaptation
- the sustainable use and protection of water and marine resources
- the transition to a circular economy
- pollution prevention and control

It is ex ante not possible to estimate the proportion of investments that will qualify as sustainable under the EU Taxonomy, as this will be dependent on the investment opportunities presented. The taxonomy eligibility and alignment of the investments underlying the fund will be monitored over time.

Measuring & monitoring impact

The sustainability indicators used to measure the attainment of the fund's sustainable investment objective are:

- pre-closing: assessment of impact potential on five dimensions of impact: what, who, how much, additionality and moderators
- post-closing: company progress in line with impact objective (based on annual assessment of impact potential)
- post-closing: company development in line with impact objective (based on annual assessment of impact maturity)

See figure 1 for an overview of relevant indicators.

Figure 1. Impact framework for assessment, monitoring and reporting

Sustainable investment objective		**Impact potential** *(assessment on five dimensions of impact)*								**EU Taxonomy eligibility**	
Investment theme	**Relevant SDGs**	**What**		**Who**	**How much**			**Additionality**	**Moderators**		
		Level of outcome contributed to	*Importance to stakeholders*	*How underserved stakeholders are to the outcome*	*Scale*	*Degree*	*Duration*	*Extent to which the outcome is better than what will likely occur*	*Risk of moderating factors reducing impact*	**Taxonomy eligible**	**EU objective**
Status per closing *(score 1-5)*										*yes/no*	
Status per *<date>* *(score 1-5)*										*yes/no*	
Company progress in line with impact objective *(% of closing score maintained)*											

	Impact maturity *(assessment based on proprietary Impact Maturity Grid framework)*				
	Value proposition & business model	**Leadership, team & culture**	**Governance**	**Goal-/target-setting & performance monitoring**	**Go-to-market strategy & execution**
Status per *<date>* *(maturity stage: 'seed'-'mature')*					
Company development in line with impact objective *(% alignment with company stage)*					

Impact potential and impact maturity
As a result of our investment focus on early stage and growth stage companies, impact has rarely been realized at the moment of investment. Where it is, its magnitude is often still limited. The (full) realization of impact potential may even lie beyond the horizon of our investment period. Hence, we usually invest in potential, rather than in actual impact.

For this reason, we monitor impact on two levels:

a) Impact potential: how companies progress towards the attainment of impact objectives (i.e. realization of their stated impact potential) whilst they bring a product/ technology to the next level and, eventually, to the market;
b) Impact maturity: how companies develop/mature in a way that supports the attainment of impact objectives.

As such, our approach incorporates necessary process steps rather than a focus on outcomes. Central to monitoring, engaging and reporting on ESG management capacity is our ESG Maturity Grid tool (for more information, see Innovation Industries' statement on *Sustainability risks and adverse impacts*). On the basis of similar principles, we have developed an Impact Maturity Grid: an overview of the development we expect to see in how companies embed impact objectives over the different stages of their evolution from seed to full maturity. We will regularly assess the level of maturity of companies' impact management capacity on the basis of a range of aspects. This will allow us to offer focused guidance and induce action where and when it is most needed.

The Impact Maturity Grid supports our sustainable investment objective in three ways:

- through standard-setting, specifying the key steps we expect companies to take towards realization of their impact potential;
- through focused engagement, guiding how we support companies in embedding impact objectives in the relevant business functions;
- through monitoring and reporting, allowing us to measure, steer and report on performance.

Data sources and processing
The assessment of impact potential and impact maturity is based on a combination of external data and data retrieved directly through engagement with the company and from documentation received from the company. Additionally, the assessment will be supported by external resources, such as publicly available information about the company and its technology or input from external experts. To ensure quality and consistency, assessments that are performed by the deal team (pre-deal) or investment manager (post-deal) are reviewed by the ESG officer, and vice versa.

Limitation to methodologies and data
As a result of our investment focus, measuring real-world impact is generally not possible, or of little added value. In addition to the fact that impact potential still needs to be realized, for early stage companies even the level and character of this potential may be unsure. For example, at the time of investment it may be unknown which application(s) will gain traction and be successful.

Considering the above, we perform regular detailed assessments of impact potential and maturity, wherein we combine the information that actually is available to us (see the section 'Impact potential and impact maturity').

To address the relative uncertainty inherent to our investment strategy, our internal assessments are reviewed by an independent Impact Committee consisting of sustainability experts from various backgrounds.

Through this approach, we minimize the effect of data limitations on the attainment of our sustainable investment objective. If at some point we will come to the conclusion that a company is no longer on course for realizing impact, despite our efforts (see section on engagement), Innovation Industries will abstain from further (follow-on) investment via the fund.

Due diligence

For information on (ESG) due diligence carried out on potential investee companies, see Innovation Industries' statement on *Sustainability risks and adverse impacts* on the website.

Engagement policies for the sustainable investment objective

One of the key features of our investment strategy is active and long-term ownership. Our contribution to social and environmental objectives is not just shaped by the criteria on the basis of which we select our investments, but also by the way we engage with investee companies. Our *Investment monitoring & engagement procedure* guides how Innovation Industries' commitment to ESG and impact (as described in its *Responsible investment policy statement*) is embedded into the practice of active ownership. It is our mission to build sustainable and resilient companies. This involves managing sustainability risks and adverse impacts as well as driving positive impact in line with our sustainable investment objective.

Central to our approach to engagement is the development of a post-investment impact & ESG action plan. We engage with investee companies via three pathways:

- via our General Partner with a seat on the supervisory board;
- via the ESG officer through regular meetings with company management; and,
- via the investment manager, on an as-needed basis.

Engagement serves several goals, of which the most important are:

- discussion of relevant developments to assure that action plans remain up-to-date;
- monitoring of progress;
- inducing action; and,
- providing companies with guidance where needed.