# SFDR WEBSITE DISCLOSURE CSCF - article 8


**Summary/*Samenvatting***

Capricorn Sustainable[1] Chemistry Fund (CSCF) promotes environmental and social characteristics in accordance with article 8 and does not have as its objective sustainable investment as defined in the EU Regulation 2019/2088. The sustainability factors are integrated in the investment scope of the Fund through its thematic approach as well as in the analysis of non-financial criteria during the pre-investment due diligence and post-investment portfolio management. While not using benchmarks to assess its environmental or social performance the assessment and post-investment follow-up of its investee companies systematically include consideration of environmental and social factors.

*Capricorn Sustainable Chemistry Fund (CSCF) bevordert ecologische en sociale kenmerken overeenkomstig artikel 8 en heeft niet als doelstelling duurzaam beleggen zoals gedefinieerd in de EU-verordening 2019/2088. De duurzaamheidsfactoren zijn geïntegreerd in het beleggingsgebied van het fonds via zijn thematische aanpak, alsmede in de analyse van niet-financiële criteria tijdens de opbouw en het beheer van de portefeuille. Het fonds gebruikt geen benchmarks om zijn ecologische of sociale prestaties te beoordelen, maar de beoordeling en opvolging van de ondernemingen waarin wordt geïnvesteerd omvatten systematisch ook ecologische en sociale criteria.*


**No sustainable investment objective**

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment.

**Environmental or social characteristics of the financial product**

CSCF promotes environmental and social characteristics in accordance with article 8 of the EU Regulation 2019/2088.

CSCF's scope and investment thesis aim to make a positive impact by focusing on fields that are of relevance to society and contribute to environmental and/or social advancement, such as agro-biologics, food and feed ingredients, CO2-emission-derived polymers and chemicals, waste valorisation, consumer ingredients and novel, environmentally friendly packaging materials.

An environmental characteristic that recurs with all investments within the CSCF portfolio is responsible consumption and production, typically achieved through CO2 emission or raw material reduction. For CSCF Capricorn Partners reports on this and other environmental and social characteristics in a separate and voluntarily initiated Annual Responsible Investment report to the shareholders.

**Investment strategy**

The investment scope of CSCF consists of companies in “clean chemistry”, which has been defined in the shareholders' agreement as technology-based early stage and growth companies, active in the business of bio-based and/or clean chemistry, including the development of alternative feedstocks, such as biomass, carbon dioxide, and waste as feedstock for the chemicals industry, using conversion technology based on catalytic chemistry, biochemistry or electro-chemistry, into novel functional materials for food, feed, fibres and jet fuel. Thereby CSCF focuses on enabling technologies or tools, platform materials and products that deliver innovative performance in end markets. These fields are a subsegment of what is also called ‘cleantech’.

Environmental and social characteristics are thus integrated in the investment strategy through the thematic approach, as well as in the analysis of nonfinancial criteria, including both sustainability factors and sustainability risks, during the pre-investment due diligence and post-investment portfolio management. Sustainability risks are integrated into the investment strategy to the extent that they represent an actual or potential material risk; with their identification remedial actions to prevent or mitigate

[1] Capricorn Sustainable Chemistry Fund was founded in 2016, long before the SFDR legislation was in place. That is the reason why the Fund has the word ‘sustainable’ in its name, and at the same time CSCF is currently classified as an article 8 fund. To avoid all confusion: **the Fund does not have as its objective sustainable investment and does not make any sustainable investment as defined by the SFDR.**

these risks are put in place. In addition to a general ESG assessment, we require that all CSCF's portfolio companies aim to deliver positive societal impact, as defined in one or several of the UN SDGs. For each portfolio company the UN SDG(s) that is/are being addressed are identified at the moment of initial investment and reviewed at least annually. Also, exclusion factors are applied to sectors and activities with major sustainability risks.

In summary, in the deal flow stage we:

- identify investments within the Fund's investment scope: investments with E/S characteristics
- exclude investments in problem areas (excluded sectors)
- assess potential investments by explicit mapping to SDG impact
- assess ESG factors of the company, identify potential ESG risks and propose mitigation steps where applicable
- assess that "no significant harm" is done (related to the ESG risk identification and mitigation strategy).

After having invested, we:

- report periodically, at least annually, on the most relevant SDG(s) impact of portfolio companies and enhanced insights and/or progress made towards those
- report periodically, at least annually, on ESG risks of portfolio companies and progress on the efforts towards their mitigation
- manage portfolio companies in alignment with our ESG commitments
- raise ESG principles as a point of attention and focus within the board of directors

Reference is made to the ESG Policy of the management company Capricorn Partners for a more detailed description of how sustainability factors and sustainability risks are considered and integrated into the investment process.

Regarding governance factors: with each CSCF investment a set of transparent rules and principles is agreed (laid down in a full set of legal documents including the shareholders' agreement and articles of association), defining the rights, responsibilities and expectations of management, board and shareholders of the portfolio company. We always aim to be represented at the board level and we ask that the financial audit is done by an external independent auditor in order to verify the correct and transparent reporting by the portfolio company. We encourage the appointment of an independent chairperson of the board of directors. Through our representation in the board of directors, we ensure and bear joint responsibility that all necessary permits are in place for proper and legitimate company operations as well as good corporate and social governance, such as sound management structures, fair treatment of employees and other stakeholders, appropriate remuneration and tax compliance.

**Proportion of investments**

CSCF intends to allocate the majority of its portfolio to investments that are aligned with the social and/or environmental characteristics the Fund promotes.

**Monitoring of environmental or social characteristics**

Environmental and social characteristics are part of the elements being monitored for each portfolio company on an ongoing basis.

The UN SDGs that were identified at the moment of initial investment are reviewed periodically – at least annually – in order to determine whether the claims of addressing the indicated UN SDG(s) remain valid and in view of any progressing insights obtained with the progress made through the portfolio company's activities.

The task of monitoring and reporting on the ESG commitments is assigned to the investment managers dedicated to the specific portfolio companies. Whenever the investment manager deems necessary, ESG is discussed during the regular investment team meetings and at least annually for the preparation of the Annual Responsible Investment report.

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Reference is made to the ESG Policy of Capricorn Partners for a more detailed description of the way how sustainability factors and sustainability risks are considered and integrated into the monitoring of the environmental or social characteristics.

**Methodologies**

For CSCF there is not one uniform methodology to measure the attainment of environmental or social characteristics. Instead, an ad hoc approach is taken, depending on the activities of the portfolio company and often coordinated with co-investors who also have reporting requirements. Methodological criteria are not necessarily established in advance but are typically agreed post-investment. CSCF invests in companies that provide products or services for cleaner or more efficient use of the earth's natural resources, such as energy, water, air and raw materials. Companies can operate in areas such as renewable energy, energy efficiency, waste-to-value and new materials. We look at the potential CO2 and/or other greenhouse gas emission reduction these innovations can bring about. Here, among other things, we prefer companies that use electricity instead of natural gas for the synthesis of chemicals. In addition, certain start-ups are working to refine the use of CO2 as a chemical building block. Emitted CO2 is then captured and reused so that it does not enter into the atmosphere. Where meaningful, we report the reduced CO2 emissions for these portfolio companies. During the pre-commercial phase of companies in our portfolio, the pursuit of a reduction of CO2 emissions is primarily a qualitative objective, with technologies under development aimed at the greatest realistically achievable CO2 reduction. The actual quantitative impact only becomes meaningful when volumes (of the product) are sold and CO2 emission reductions thus go hand in hand with increasing revenues. In the latter case we will ask the portfolio company to compare the CO2 impact of their alternative technology to the product or process that existed before they created the new product or process. This allows us to determine the net impact achieved.

**Data sources and processing**

Capricorn Partners relies mainly on their own inquiries (as we are represented in the board of directors) and on information it receives from the company itself. This may be compared to information available in the public domain.

**Limitations to methodologies and data**

Due to the nature of (relatively early stage and small) private portfolio companies, there is often a lack of available data and very limited resources to collect such data. Hence Capricorn Partners cannot commit to always measure and monitor its ESG actions through quantification of the key impacts. To mitigate these possible limitations, Capricorn Partners continuously encourages and investigates together with the portfolio companies how, where possible, to quantify and measure ESG benefits and contributions to the UN SDGs.

**Due diligence**

In its due diligence process, Capricorn Partners analyses ESG and sustainability factors of any prospective portfolio company, both in terms of positive impact and with regard to potential negative impact, as both positive and potential negative elements are considered with the investment decision. Taking into account the particular transaction and investment circumstances, such as the geographical location, the size and stage of the target company, Capricorn Partners derives the relevant ESG topics from best practices such as the ESG_VC Measurement Framework and the ESG Due Diligence Questionnaire of Invest Europe, and includes these in our diligence of the target companies. Rather than using such questionnaires as a ‘tick-the-box’ exercise taking stock of which policies, stakeholder surveys, trainings etc. the company already has in place or not, our due diligence typically takes place as a dialogue with the company’s management, thereby building on the opportunity to help these relatively early-stage companies increase their awareness of ESG matters and gauge management’s dedication to ‘good business practices.’ This is part of how Capricorn Partners interprets its role to promote and advance ESG factors in its investment activities.

The outcome of the due diligence on ESG factors may lead to acceptance of the identified risks, with improvement actions that are agreed upon in partnership with the management, the board and the co-shareholders of any new portfolio company and are followed up post-investment, where relevant and based on considerations of materiality. If the identified risks are deemed unacceptable or non-curable, they will lead to a decision not to invest.

Also, the Ten Principles of the UN Global Compact, the UN Principles for Responsible Investment (the “PRI Principles”) and the UN Sustainable Development Goals play a significant role in the due diligence process.

Reference is made to the ESG Policy of Capricorn Partners for a more detailed description of the way sustainability factors and sustainability risks are considered and integrated into the due diligence procedure.

**Engagement policies**

Capricorn Partners is a signatory to the PRI Principles. This entails amongst others that Capricorn Partners annually reports to investors on the ESG engagement. Capricorn Partners reports on the qualitative and, where relevant and taking into account the size and activities of portfolio companies, quantitative progress on ESG factors in our portfolio companies. The fund manager also promotes the acceptance and implementation of the PRI principles within the investment industry and participate in conferences, networks and information platforms to share information.

**Designated reference benchmark**

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the financial product.

Last updated on 31 March 2023.