ESG POLICY

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I. Introduction

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The ESG policy describes Capricorn Partners' **global approach to responsible investment and to implementing environmental, social and governance (ESG)** considerations in the investment businesses of the funds it is managing and in its own operations.

Capricorn Partners implements an **integrated investment approach** which concentrates on systematically combining financial considerations with environmental, social and governance information to guide its investment decisions. In addition to the traditional and mechanical exclusion approach, the integrated approach is holistic, pro-active and involves additional topics of due diligence and follow-up, which require new levels of expertise, data availability and reporting.

Beyond Capricorn Partners' commitment to integrate **ESG factors and responsible investment risks and opportunities** into the selection of the investment strategies of the different funds, they are also embedded into the investment processes, in the due diligence of target portfolio companies and in the active ownership and coaching of the portfolio companies. In its due diligence process Capricorn Partners analyses both positive and significant adverse ESG and sustainability factors of any prospective portfolio company as these might have a deciding impact on its investment decision.

All funds managed by Capricorn Partners are subject to 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 (the "SFDR") and are classified as either (i) funds promoting environmental or social characteristics within the meaning of article 8 of the SFDR, (ii) funds having sustainable investments as their objective within the meaning of article 9 of the SFDR or (iii) funds that do not integrate sustainability into their investment process, as understood within the meaning of article 6 of the SFDR. This **classification** impacts the level of pre-contractual information provided for in the funds' prospectuses or information memoranda and in the periodic reporting of the concerned funds. Each fund's classification is made available on the website of the relevant fund.

We also strive to implement ESG and sustainability principles within our **own company** Capricorn Partners.

In addition, Capricorn Partners commits to **report** in the yearly annual reports of the funds it manages on the integration of ESG factors in the investment business as set forth in the governing documents of the concerned funds, in the SFDR and, in general, in accordance with the standard practices of a fully licenced alternative investment fund manager ("AIFM").

This policy will be reviewed as many times as deemed appropriate considering the rapidly evolving regulatory framework and at least once per year.

II. ESG standards and regulatory drivers

We adhere to **the Ten Principles of the UN Global Compact** and the **UN Principles for Responsible Investment** (the "PRI Principles").

More specifically for the private equity industry, we use the **ESG Due Diligence Guidance for Private Equity Investment Teams and their Portfolio Companies**.

Furthermore, we support the **UN Sustainable Development Goals** (the "UN SDGs") and we fully adhere to and comply with the relevant requirements under the **SFDR.**

2.1. The Ten Principles of the United Nations Global Compact.

By incorporating the Ten Principles of the UN Global Compact into its own policies and procedures and establishing a culture of integrity based on the same principles into its portfolio companies, Capricorn Partners not only upholds its basic responsibilities to people and planet but also sets the stage for long-term success. Capricorn Partners itself and its portfolio companies will at least meet the following fundamental responsibilities in the areas of human rights, labor, environment, and anti-corruption.

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and

Principle 2: make sure that they are not complicit in human rights abuses.

Labour

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;

Principle 4: the elimination of all forms of forced and compulsory labor;

Principle 5: the effective abolition of child labor; and

Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;

Principle 8: undertake initiatives to promote greater environmental responsibility; and

Principle 9: encourage the development and diffusion of environmentally friendly technologies.

Anti-Corruption

Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.

2.2. The Six Principles for Responsible Investment

In 2020 Capricorn Partners became a signatory to the UN PRI and promised to adhere to the following six principles of PRI Investing (the “Principles”):

1. **We will incorporate ESG issues and risk factors into our investment analysis, due diligence and decision-making process.** We are committed to ensure that in our investment policies, in the due diligence, in our investment decision process and in the monitoring of the investments of our funds, ESG factors are taken into account.
2. **We will be active owners and incorporate ESG issues into our ownership policies and practices.** We develop a responsible ownership by taking, where we can, a board seat in the private portfolio companies and by exercising voting rights in accordance with our Voting Policy as set forth in this Policy. Good corporate governance is key to creating lasting value and we promote and protect shareholder rights consistent with long-term ESG considerations of good governance.
3. **We will seek appropriate disclosure and reporting on ESG issues by the companies in which we invest.** We will report annually on the ESG issues and our ESG engagement towards our investors and, considering the size and business stage of the portfolio companies and the requirements of the fund documentation, report on qualitative and were possible on quantitative progress of the ESG factors in the portfolio companies.
4. **We will promote acceptance and implementation of the principles within the investment industry.** During five years (until 2023) Capricorn Partners has been an active member of Professional Standards Committee of Invest Europe promoting ESG investment principles by its members via different ways, such as the development of standard documents and guidelines (the ESG due diligence questionnaire, the ESG Reporting Guidelines, the Climate Change Guide or tools for benchmarking ESG integration). Being represented in the board of directors of the Belgian Venture Capital and Private Equity Association (“BVA”) and in its ESG subcommittee, Capricorn Partners supports regulatory or policy developments and actions that enable correct implementation of the Principles among the members of the BVA.
5. **We will work together to enhance our effectiveness in implementing the principles.** We support and participate in conferences, networks and information platforms to share tools, pool resources and information as a source of learning.
6. **We will report on our activities and progress towards implementing the principles.** Capricorn Partners reports in the annual reports of all its funds under management on the implementation of ESG factors within the investment practices of the respective funds. For Quest for Growth, Quest Management SICAV (with sub-funds Quest Cleantech Fund and Quest+) and FFG-Cleantech II, an ESG report is included in the annual report. For the Capricorn Sustainable Chemistry Fund and the Capricorn Digital Growth Fund respectively a dedicated Responsible Investment Report is produced, endorsed by the board of directors of both funds and provided to all the shareholders. In addition thereto, the required periodic disclosures in accordance with the Regulatory Technical Standards of the SFDR-legislation are produced. .

Committing to the PRI and its 6 principles (covering in particular ESG integration, active ownership and transparency) is supporting Capricorn Partners’ ambitions to strengthen, deepen and expand ESG integration to the core of its operations.

2.3. The GP ESG Due Diligence Guide

This Guidance, developed by Invest Europe provides a recommendation of good practices available for GP’s to support them in identifying material ESG risks and opportunities during pre-investment screening and in addressing these during the ownership period. This Guidance also refers to the Invest Europe’s

Professional Standards Handbook which may be consulted on the website of Invest Europe. The Guidance has been a starting point for integrating ESG-related practices in Capricorn's investment activities, whereby Capricorn's approach has further evolved as new practices have become available, such as the Invest Europe ESG Reporting Guidelines between GP and LPs..

2.4. The UN Sustainable Development Goals

Considering the investment scope of each specific fund, Capricorn Partners strives for each of its investments to contribute to one or more of the Sustainable Development Goals which were developed by the United Nations to end poverty, protect the planet and bring prosperity to all by 2030, whilst avoiding other factors that might have a major negative impact:

2.5. The sustainable Finance Disclosure Regulation (SFDR)

Capricorn Partners is subject to the provisions included in the SFDR and the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investments and amending Regulation (EU) 2019/2088 (the "EU Taxonomy") and accepts these Regulations as key structural frameworks for the definition and implementation of its ESG Policy.

III. ESG Investment approach

3.1. Thematic approach and Investment Strategy of the Funds under Management

In choosing the investment strategy of its different funds under management, Capricorn Partners has chosen areas that promote or have a positive contribution to people and planet and serve several UN SDGs.

- **Quest for Growth**, considered to promote environmental and/or social characteristics as an **article 8 fund** under SFDR, invests in the 3 following themes:
  a) "Digital", through digital technology companies in areas such as data processing, connectivity and automation.
  b) "Cleantech" through cleantech companies which deliver products or services for a cleaner or more efficient use of earth's natural resources.
  c) "Health", through healthcare companies that provide solutions to solve health problems.

- **Capricorn Health-tech Fund**, launched in 2010, invested in innovative companies that focus on the prevention, diagnosis and treatment of diseases or can contribute to a better human health. This fund was no longer in fundraising modus at the time when the SFDR entered into force, and it had taken all its initial participations before March 2021. Although we consider this fund as promoting environmental and/or social characteristics in accordance with our ESG-Policy, we do not claim to be an article 8 fund within the meaning of the SFDR.

- **Capricorn ICT Arkiv**, launched in 2012, invested in innovative companies active in the ICT sector with a particular focus on digital healthcare, Big Data and related technologies. This fund was no longer in fundraising modus at the time when the SFDR entered into force and it had taken all its initial participations before March 2021. Although we consider this fund as promoting environmental and/or social characteristics in accordance with our ESG-Policy, we do not claim to be an article 8 fund within the meaning of the SFDR.

- Its successor fund, **Capricorn Digital Growth fund**, launched in 2019, invests in data driven companies, focussing on the growing number of opportunities emerging from the conversion of data to actionable insights. It is considered to promote environmental and/or social characteristics within the meaning of **article 8 fund** of the SFDR.

- **CSCF**, launched in 2016, invests in enabling technology-based growth companies active in the business of bio-based and/or sustainable chemistry including the development of alternative feedstock, 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 and fibres. Although this fund was no longer in fundraising mode at the time when the SFDR entered into force, we consider it to promote environmental and/or social characteristics within the meaning of **article 8** of the SFDR.

- **Quest Cleantech Fund** (sub-fund of Quest Management SICAV, for which Capricorn Partners is the investment manager) invests in quoted companies that deliver products or services for a cleaner or more efficient use of earth's natural resources. At least one third of each of the portfolio companies' activities, measured by revenues, profits or sum-of-the-parts, must correspond to the investment areas of the fund (as described in the prospectus). The portfolio's weighted average of activities, measured by revenues, profits or sum-of-the-parts of the portfolio companies, corresponding to the investment areas of the fund is targeted to be more than 75%. The reduction rate (by number of issuers) resulting from the application of its different sustainability strategies is more than 90%: the initial investment universe ("investable universe") of stocks listed in developed markets of more than 10,000 stocks is reduced to a thematic investment universe ("ESG screened universe") for the sub-fund of approximately 400 stocks. Quest Cleantech Fund promotes environmental and/or social characteristics and is considered an **article 8 fund** under the SFDR. The fund will have a minimum proportion of 51% of sustainable investments with an environmental objective. As such it can be referred to as a so-called article 8+ fund. **FFG-Cleantech-II** (sub-fund of FFG SICAV), for which Funds for Good is the distribution coordinator and Capricorn Partners is the investment manager, operates with the same thematic approach, SFDR classification and investment strategy as Quest Cleantech Fund.

- **Quest+** (sub-fund of Quest Management SICAV, for which Capricorn Partners is the investment manager) invests in future-oriented themes with a positive contribution to people and the planet. At least 50% of each of the portfolio companies' activities, measured by revenues, profits or sum-of-the-parts, must correspond to one or more of the following investment areas of the fund:

  a) "Digital", through digital technology companies in areas such as data processing, connectivity and automation.
  b) "Cleantech" through cleantech companies which deliver products or services for a cleaner or more efficient use of earth's natural resources.
  c) "Health", through healthcare companies that provide solutions to solve health problems.
  d) "Well-being", through companies providing products and services related to safety and comfort, leisure and human development.

  The portfolio's weighted average of activities, measured by revenues, profits or sum-of-the-parts of the portfolio companies, corresponding to the investment areas of the fund is targeted to be more than 75%. The reduction rate (by number of issuers) resulting from the application of its different sustainability strategies is more than two thirds: the initial investment universe ("investable universe") of stocks listed in Europe of more than 5,000 stocks is reduced to a thematic investment universe ("ESG screened universe") for the sub-fund of approximately 1,500 stocks. Quest+ promotes environmental and/or social characteristics and is considered an **article 8 fund** under the SFDR.

- **Capricorn Fusion China Fund,** launched in 2019, investing in companies with an Asian link, is a mainstream fund and does not claim to promote environmental and/or social characteristics within the meaning of article 8 of the SFDR. Nevertheless, ESG risk factors are considered in the due diligence process and all the decisions and reporting are made in accordance with this ESG policy. It is accordingly considered an article 6 fund under the SFDR.

- **Capricorn Industrial Biotech Fund**, launched in 2022, invests in the early stage of Industrial Biotech innovative companies. This Fund is an **article 9 fund** in accordance with SFDR as it has sustainable investment as its objective, aiming to contribute to one or more of the environmental objectives of climate change mitigation, climate change adaptation and the transition to a circular economy. In addition thereto, as defined by the SFDR legislation, the portfolio companies do no significantly harm to the environmental objectives, follow good governance practises and the Fund will report on the outcome of the environmental objectives of the investments.

- **Capricorn Health-Tech Fund II ,** launched in 2024, invests in portfolio companies active in the healthtech sector, primarily in medtech and digital health, which aim to develop and commercialize new solutions enabling personalized and value-based healthcare, that have global potential and that can deliver exceptional gains both in efficiency as well as in patient outcomes. The Fund promotes environmental and/or social characteristics and is considered an **article 8 fund** under the SFDR. This Fund is still in fundraising.

We select all our portfolio companies carefully in accordance with the investment strategy of each investment fund and in accordance with the principles and investment guidelines agreed with our investors and set forth (i) in the binding Shareholders' agreements of the specific investment fund or (ii) in the prospectuses of the Quoted funds.

The risk management & compliance team ("RMT") of Capricorn Partners controls whether the funds managed by Capricorn Partners invest in the appropriate companies fulfilling the investment scope of the concerned fund and reports any shortcomings to the investment team immediately and to the board of directors of each of the private equity funds on a quarterly basis. The RMT also detects the potential conflicts of interest that may arise from the integration of sustainability risks in the business of Capricorn, assesses these conflicts of interests in its yearly risk assessment, monitors them via first line procedures and policies and executes second line controls thereupon.

For funds fully consisting of quoted equities (**Quest Cleantech Fund, FFG – Cleantech II and Quest+**) all components of the equity portfolio of the fund shall contribute to the ESG characteristics promoted by the fund or be sustainable investments. In order to avoid conflicts with the ESG character of the product, no derivatives or structured products are used, no investments are made in government issued assets, fixed income assets issued by an SPV or fixed income assets issued by a financial institution except for cash. Ancillary liquid assets limited to bank deposits at sight are held for liquidity purposes only, are not held structurally nor for investment purposes and will typically not exceed 10% of the net asset value of the fund. The fund does not invest in other bank deposits, money market instruments and money market funds. Investments in other UCITS will only be made after formal commitments of underlying managers or look-through analysis regarding the sustainable character of the UCITS. In any case the total of investments in other UCITS will be limited to maximum 10% of the net asset value of the fund. The funds are fully actively managed and do not replicate the composition of any indices.

3.2. Due Diligence, Selection Process and Decision-making

3.2.1. ESG integration for private portfolio companies/venture funds

We conduct an in-depth due diligence on all the target companies. In addition to the common due diligence topics such as management skills and ethics, market, technology/IP, financial, legal and business due diligence it also includes a due diligence on relevant ESG factors.

Taking into account the particular transaction and investment circumstances, such as the geographical location, the size and stage of the target company, we derive the relevant topics from the **ESG Due Diligence Questionnaire** of **Invest Europe** and include 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 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.

In addition thereto, in every new investment we assess which are the most relevant **UN SDGs** being addressed by the business of the new portfolio company. The UN SDGs identified are documented, as well as the qualitative explanation how the portfolio company addresses these SDGs.

Regarding **governance** factors, each investment by a venture fund is accompanied by a set of transparent rules and principles 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 auditor in order to ensure independent and transparent reporting by the portfolio company. We encourage the appointment of an independent chairperson of the board of directors. Through our representation on 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.

For private portfolio companies and venture funds, 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 Sustainability Goals. However, due to the nature of these relatively early stage and small companies, there is often a lack of available data and very limited resources to collect such data on a quantitative basis. Hence Capricorn Partners cannot commit to always measure and monitor its ESG actions through quantitative key performance indicators ("KPIs").

3.2.2. <u>ESG integration for quoted equities</u>

Capricorn Partners integrates **ESG factors** in the portfolio construction and stock selection process for quoted equities. Next to financial criteria such as growth, financial strength and valuation, Capricorn Partners looks at non-financial and ESG criteria during the stock selection process.

Capricorn Partners mainly relies on **internal analysis**, based on the analysis of publications, contacts with analysts and contacts with the company. The analysis is often supported by external sources such as ESG broker research and ESG analysis and information from data providers such as Bloomberg.

The ESG analysis focuses on:

- Environmental characteristics of the company
- Do No Significant Harm criteria and exclusion factors (see 3.3.)
- Good governance practices
- Potential negative impacts

Capricorn Partners regularly analyses **good governance practices** of the portfolio companies, such as:

- Sound management structures
- Employee relations
- Remuneration of staff
- Tax Compliance (and avoiding tax heaven structures)

Specific criteria used to assess these good governance practices include:

- Presence of independent Directors / % of independent directors
- Independent Chairperson of the Nomination Committee
- Global Compact Compliance
- Auditor's opinion
- Board attendance
- Combined CEO / Chair or CEO duality
- One share one vote principle
- Poison pill
- Wage ratio

- Golden parachute
- Long term orientation based on controlling shareholder/family

Board gender diversity levels are monitored (at least) on an annual basis. On a best-effort basis, Capricorn targets for the quoted equity portfolio of each fund to have average weighted board gender diversity of at least 33% of board members of the underrepresented gender.

3.3. Exclusion Factors – Negative Screening

Generally, for all our funds we exclude investments in sectors and activities with major ESG risks. Exclusion factors refer to product-based exclusions, conduct-based exclusions and to specific exclusion lists published for the quoted funds. In addition, venture funds may have specific exclusions as set forth in the related shareholders' agreements or fund documentation.

Exclusion factors may change over time and Capricorn Partners monitors and analyses evolutions and practices related to exclusion categories on an ongoing basis and can update its opinions to include or exclude new categories.

Capricorn Partners can make use of publicly available external sources for exclusions (for quoted equities), such as the Norges Bank Investment Management, PGGM, NN, Stockholm International Peace Research Institute (SIPRI) Arms Industry Database, the Coal Exit List and Global Oil & Gas Exit List from Urgewald, and others. Capricorn Partners can additionally exclude companies where its own internal analysis shows shortcomings on the level of undesired activities or behaviour. In the screening of companies both the activities of the company itself as well as that of its controlled entities, i.e. more than 50% shareholding, are taken in consideration.

3.3.1. Product-based exclusions

Companies involved in harmful activities that could lead to potential negative impacts on sustainability factors, are excluded. These activities are:

- Controversial weapons: This includes the manufacturing of weapons, manufacturing of tailor-made components, using, repairing, selling, distributing, importing or exporting, storing or transporting weapons that are either illegal - as their production and use is prohibited by international legal instruments - or deemed particularly controversial because of their indiscriminate effects and the disproportionate harm they cause. This includes weapons such as cluster munitions, anti-personnel mines, submunitions, inert ammunition and armor containing depleted uranium or any other industrial uranium and weapons of mass destruction such as biological, chemical or nuclear weapons, and weapons containing white phosphorus.
- Production of weapons: Weapons are defined as products or tailor-made components of products that have been designed to injure/kill. We do not target dual-use technologies, but they are not excluded provided that the non-military dual use purpose is the priority application for the investment thesis. Components are considered as part of weapon systems if they are tailor-made components that are developed primarily in order to be integrated into a weapon system. In addition to military weapons, civilian firearms, including manufacturing, wholesale or retail sales of guns, rifles and ammunition, are included in the definition of weapons.
- Coal production. This includes companies involved in the exploration, mining, extraction, transportation, distribution or refining of thermal coal or dedicated equipment or services therefor.
- Nuclear energy production.
- Non-conventional oil & gas production. This includes the extraction of oil shales and oil sands, coalbed methane, extra heavy oil, shale gas, arctic oil, & gas, oil & gas from unconventional production methods such as fracking or ultra deep drilling; as well as dedicated equipment or services therefor.

- Conventional oil & gas production: This includes oil or gas prospection, exploration, extraction, processing/refining and transportation. The companies shall also not be involved exploitation or development of new oil or gas fields or new coal mines.
- Power generation: The funds will not invest in companies with power generation activities based on fossil fuels. The companies shall also not be involved in building any new coal-fired power stations.
- Production and trade of tobacco. This includes production of tobacco, products that contain tobacco, e-cigarettes and wholesale or retail sales of these products.
- Gambling & casinos.
- Adult entertainment.
- Production of alcoholic beverages.

Direct involvement: for the quoted equities, a tolerance threshold of 5% of revenues is accepted for any direct involvement, in general defined as production and wholesale trade of the products generated from the above-mentioned activities. However, a zero tolerance or zero threshold level for exclusion is set forward for the companies with an involvement in controversial weapons and for a direct exposure for cultivation and production of tobacco.. The tolerance maximum threshold is set at 1% of revenues for coal production.

Indirect involvement: Maximum 25% of the activities of a company can be in products or services dedicated to activities listed in the product-based exclusions, such as the delivery of components, delivery of dedicated services or distribution of products.

Minimising ESG risks further, Capricorn Partners typically does not invest in quoted equities in other high impact sectors such as mining, airlines or shipping sectors, in large agriculture companies or in companies considered as top plastic polluters.

Companies shall have a strategy to reduce the potential negative impact of their activities and to increase their activities that make a positive contribution.

3.3.2. Conduct-based exclusions – Normative screening

Capricorn Partners expects all its portfolio companies to adhere to the United Nations Global Compact and other standards and frameworks on business and human rights. Consequently, it excludes companies with undesirable behaviour related to the areas of human rights, labour rights, environmental challenges and responsibilities and anti-corruption. These exclusions also include undesirable behaviour related to areas such as public morals and/or public order, taxation, financial speculation on agricultural commodities, severe environmental damages, biodiversity and water use. Specifically related to biodiversity, Capricorn Partners addresses the issues of deforestation, land grabbing and overfishing, with special care taken with regard to companies in the mining, agriculture, forestry, and fishing sectors.

Capricorn Partners shall verify, based on available information, whether companies are not involved in such controversies or violations of these frameworks. Additionally, there shall be no clear indications of companies' involvement in manufacturing doubt about the potential negative impacts on sustainability factors of their activities (e.g. actively spreading misinformation).

Capricorn Partners' funds will not hold financial instruments issued by government debt or state-owned companies of countries violating the UN Global Compact, or subject to international sanctions, or in countries that are under embargo by the European Union. Although this is not an exclusion criteria per se, countries applying death penalty are closely monitored. Most of such regimes are being found in the list of international sanctions and are therefore excluded.

3.3.3. Assessment of Potential Negative Impacts (PNIs) on investment decisions

For funds under management, Capricorn Partners currently does not consider adverse impacts in the meaning referred to in Article 4(1), point (b), of Regulation (EU) 2019/2088 (of the SFDR). The reason for this is that all portfolio companies in these funds are organisations smaller than 500 FTE – mostly well below

100 FTE – and therefore have limited resources available to collect the data as required to report on the indicators listed in Table 1 of Annex I of mentioned Regulation. Nevertheless, Capricorn Partners does actively screen for and identify potential negative impacts that the investments may have and takes these into account during due diligence, in the investment decisions and in the post-investment follow-up, monitoring and reporting.

3.4. Active Ownership – voting and engagement

3.4.1. Private portfolio companies/venture funds

The investments in private companies of all the funds are actively managed by Capricorn Partners. It considers the personal contact with the management of the portfolio companies to be of utmost importance.

For investments in private companies, in principle, it is a condition of initial investment to be represented on the board of directors of the target portfolio company. The funds mostly invest in companies in their early stages which requires coaching and active guidance starting from the product-market-fit, to developing a profitable business model and successful go-to-market, and then extends with further emphasis on corporate responsibility and good governance as the company matures. As members of the board of a portfolio company and during the personal contacts with its management, we will work in partnership to the effect of implementing a company's corporate responsibility policy, taking ESG-related issues into account and adopting a corporate governance which promotes good governance and ESG practices at all levels of the company's business. However, in scale-ups and more advanced companies we might not be entitled to a board seat, in which case we will seek a board observer status and request regular, comprehensive reporting, including copies of the minutes of board meetings, whilst endeavouring to maintain a personal contact with the leadership and the chairman of the board of the company.

Capricorn Partners shall use its voting rights in all general meetings of the private portfolio companies. The exercise of voting rights is a substantive way of declaring shareholders' intentions and fulfilling our fiduciary responsibilities and to ensure that corporate governance is exercised in an active way in accordance with the investment objectives and policy of the concerned fund.

3.4.2. Quoted equities

Capricorn Partners is an active shareholder investing a significant part of its assets under management in small to medium-sized quoted growth companies in Europe. As such, the investment managers of Capricorn Partners engage with portfolio companies on an ongoing basis during personal contacts with the management to informally discuss and promote ESG-related issues.

Additionally, Capricorn Partners commits to start a formal process of engagement for investments in quoted equities under the following circumstances:

a) When direct or indirect involvement in product based exclusions crosses above the threshold mentioned per exclusion (see 3.3.1.) or in case of clear and severe breach of conduct based exclusions mentioned under 3.3.2, after the fund(s) is (are) already invested in the company
b) When other issues occur related to environmental characteristics of the company, good governance practices or board gender diversity (see 3.2.2) and/or issues related to the voting and the engagement objectives (see 3.4.3) for companies which represent a large part of a fund (> 5%) or companies in which Capricorn Partners in aggregate has a large ownership (> 3%).

The formal process of engagement consists of the following steps for cases mentioned under a):

1) Contact a representative or representatives (IR, management, chairman of the board) of the company for engagement by e-mail on a specific topic

2) In case of non-response in 3 months' time after starting the formal engagement process, full divestment of the stake will be initiated.
3) In case of a response, we will evaluate the response and actions proposed by the company to see if a remediation of the breach is possible within a period of maximum 1 year.
4) If a remediation within a period of 1 year is not envisaged or the remediation is not executed according to plan after 1 year, full divestment of the stake will be initiated.
5) During the entire process, Capricorn Partners will consider to further reduce or fully divest the stake at any time when progress is deemed unsatisfactory.

The formal process of engagement consists of the following steps for cases, mentioned under b):

1) Contact a representative or representatives (IR, management, chairman of the board) of the company for engagement by e-mail on a specific topic.
2) In case of non-response in 3 months' time after starting the formal engagement process, the investment will be reduced to below 5% of the portfolio.
3) In case of a response, we will start a monitoring period to evaluate the response and actions proposed by the company for a period of up to 2 years. This period includes a dialogue on the topic at least once a year.
4) If after 2 years, no significant progress was made by the investee company, Capricorn Partners will reduce the investment below 5% of the portfolio and will extend the monitoring period.
5) During the entire process, Capricorn Partners will consider to further reduce or fully divest the stake at any time when progress is deemed unsatisfactory.

Capricorn Partners will monitor each formal engagement effort. The status can be: Initiated, Ongoing, Closed. The final outcome can be 'With Success', 'Without Success'.

Capricorn Partners will focus its formal engagement efforts on a limited number of companies. Capricorn Partners will principally engage on an individual basis but is open for collaborative engagement, if contacted by another investor.

Capricorn Partners will exercise as much as possible the <u>voting</u> rights attached to the quoted equities in the different funds. For some investments or geographies it may not be in the best interest of the fund and its shareholders to exercise voting rights, for example for efficiency or cost reasons. At a minimum Capricorn is committed to exercise all rights attached to those investments for which the regulatory thresholds for notification have been exceeded. Moreover, for funds with a set minimum proportion of sustainable investments, notably Quest Cleantech Fund and FFG – Cleantech II, Capricorn Partners will target to vote at general meetings of at least half of the portfolio companies.

The status and outcome of the engagement and voting efforts is documented in the ESG factsheet of each portfolio company.

3.4.3. <u>Voting and engagement objectives and priorities</u>

The following topics are among the focus points of Capricorn when engaging and exercising voting rights in portfolio companies:

- <u>Capital Changes</u>

  Capricorn in general only supports or approves changes in the investments' capital structure, if they are not detrimental to the fund and their shareholders. For quoted equities, Capricorn in general objects and will consider to vote against violations of the one share one vote principle or poison pill schemes.

- <u>Governing Bodies</u>

  In the following cases, Capricorn will engage and consider to vote for changes in the governing bodies of the portfolio companies:

  - weak or sharp decline of performance, including non-financial performance measures (such as environmental indicators related to decarbonisation, water use, biodiversity, pollution and waste)
  - significant doubts about the competences of (members of) the governing bodies
  - substantial legal compliance failure or other severe misconduct, including undesirable behaviour related to the areas of human and labour rights, biodiversity, pollution and other environmental issues
  - insufficient board diversity, especially focused on gender diversity and board independence

➢ Remuneration

Capricorn encourages balanced, fair and transparent remuneration policies and will vote against excessive management remuneration proposals and inadequate remuneration reports.

➢ Mergers and Acquisitions

Capricorn will look at mergers and acquisitions on a case-by-case basis. Only if sufficient information is available to the stakeholders of the portfolio company and the process is in line with the interests of the fund, Capricorn will support or vote for a merger or a takeover.

➢ Reporting

If there is a lack of validity of the legally required reports, Capricorn will abstain or vote against the particular agenda items. If the financial statements are not compliant with standard accounting rules, Capricorn will vote against the approval of the annual financial statements.

3.4.4. Procedures

The investment managers responsible for the investment are best placed to exercise the funds' voting rights in the most beneficial way possible for the funds, as they have access to all relevant information. The investment managers are requested to follow this voting policy.

In case the investment manager is planning to adopt the proposals of the management of the portfolio companies in ordinary general shareholders' meetings, the investment manager will prepare the power of attorney to be executed by a member of the executive committee and Capricorn will then vote in favour of the agenda items.

In case the investment manager is planning to abstain from or vote against an agenda item proposed by the management of the portfolio company, or in case the voting refers to meetings where a change of the management of the portfolio company is proposed, the procedure for exercising the voting rights will be as follows:

- for investments in private companies: the responsible investment manager will discuss the voting behaviour in the concerned investing team meeting in the presence of the legal and/or compliance officer and the minutes of the team meeting will reflect the discussion and decision of Capricorn.
- for quoted equities: the investment managers will consult within the team and inform per e-mail the Fund Administration of their voting intentions. Typically, the company will be contacted beforehand by e-mail to explain the intention to abstain or vote against an agenda item or to request additional information such as the company's intentions or plans to improve its performance in the particular agenda item.

Capricorn will prevent or manage any conflicts of interest arising from the exercise of voting rights according to its own Conflict of Interest Policy.

3.5. Monitoring and Reporting

We monitor financial and non-financial performance of our portfolio companies, including the environmental, social and governance related risks and/or opportunities.

We report to our boards quarterly and to our investors at least annually, on ESG integration relating to our funds or to any of the underlying investments in compliance with the SFDR, the shareholders' agreement of each fund and the standards set by the industry or market authorities, such as Invest Europe, the IPEV guidelines or other applicable legislation.

The executive task of monitoring and reporting the ESG integration and 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 ESG report.

Related to voting and engagement, Capricorn will report in the annual report and/or the ESG report of each fund on its relevant engagements activities and how the voting rights of the participations held by the fund were exercised during the year.

The Compliance Officer is tasked with the following responsibilities:

1. Monitoring Tasks:

- Establish and maintain a robust control framework to measure and manage ESG risks, including conflicts of interests relating to the sustainability risk integration.
- Conduct regular assessments of the exposure of the Capricorn Funds to environmental, social, and governance (ESG) risks.
- Review and update the ESG risk assessment methodology to reflect emerging risks and regulatory changes.
- Provide training to the ESG Committee and the whole staff on ESG risk management practices and regulatory requirements.
- Monitor compliance with ESG-related regulations, policies and industry standards, reporting any non-compliance issues to the executive committee.

2. Second Line Controls:

- Perform independent reviews and audits of ESG risk management processes to ensure their effectiveness and adherence to internal policies and external regulations.
- Collaborate with the first line of defense (operational management) to ensure that ESG risks (including ESG conflicts of interest) are identified, assessed, and managed appropriately.
- Report regularly to the Executive Committee and the Board of Directors on the status of ESG risk management, including any significant issues or breaches.
- Ensure that any identified ESG risks are escalated and addressed promptly, with appropriate corrective actions taken to mitigate potential impacts.

IV. Climate statement

Capricorn Partners recognizes that **climate-related risks** present significant challenges to society, the global economy, and the financial markets.

Introduction

Capricorn Partners believes that the global transition towards a lower-carbon economy present both potential risks and opportunities to our investments. The consideration of ESG criteria, including **climate risk**, in our investment due diligence enhances our ability to manage risk and achieve our long-term return objectives.

Investment Approach

Capricorn Partners' investment team conducts research to determine the materiality of risks and opportunities for each sustainable quoted investment. Across our Cleantech investments, consideration of the range of physical risks and transition climate risks (e.g. lower carbon policies and regulations) helps us to effectively assess the long-term sustainability and durability of our investments.

The investment team integrates the consideration of relevant climate-related issues and assesses the materiality of their impact within its investment analysis, considering specific company, sector, and asset class issues.

Material ESG factors, including climate-related risks and opportunities, have always, and continue to be, embedded in our investment criteria as they impact our assessment of the potential economic success of a business and our potential financial return.

Industry Collaborations

We are a member of the United Nations Global Compact and a signatory to the UN-supported Principles for Responsible Investment (PRI). We support the principles and goals of these organizations, including efforts to help society manage the challenges associated with climate-related risks.

Governance

Directly reporting to the Executive Committee, the Capricorn ESG Committee serves as a reflection and coordinating council for Capricorn Partners' sustainability initiatives, overseeing and monitoring our sustainability framework, including the approach to and management of climate-related risks.

At Capricorn Partners the ESG Committee is responsible for monitoring ESG best practices and developments, including the impact of climate-related factors on the portfolios of our funds.

V. Capricorn Partners being a responsible company

Capricorn Partners believes that acting as a responsible company is strongly correlated with being a responsible investor. By operating as a responsible company, Capricorn Partners can lead by example and guide its portfolio companies in responsible entrepreneurship, contributing in this way to sustainable value creation.

Responsibilities

All members of staff at Capricorn are key in this process. Capricorn Partners is fully committed to expanding and disseminating ESG knowledge amongst its staff and as such build, share and practice a company-wide comprehensive ESG strategy. This is done under supervision of Capricorn Partners' Executive Committee..

Coordination and implementation of the ESG strategy is entrusted to **Capricorn Partners' ESG Committee** which is composed of one representative per investment team, the CFO and the Compliance Officer.

The role of the ESG committee is crucial for integrating sustainability into the company's operations. Here are some key responsibilities:

- Ensuring the effective implementation of the ESG Policy and overall ESG objectives in the practise of the different investment teams.
- Acting as a reflection and coordinating council for ESG matters and liaison to the executive committee for new initiatives relating to sustainability.
- Coordinating and ensuring that the ESG reporting for every Fund is effectively done to the external stakeholders of the Funds, in compliance with the related regulations and industry standards.
- Drawing up the initial proposal for the annual ESG Action Plan and monitoring the execution thereof.
- Providing ongoing support on the field to the investment managers of the respective teams on ESG risk management practices and regulatory requirements.

Three pillars – people, ecology & governance

The Capricorn Partners ESG Committee has defined **three building blocks** of the ESG strategy. Capricorn Partners believes that its people are the foundation of the ESG strategy, while the ecological footprint and good governance are as much as key for being a responsible investment company.

People

We invest to **encourage our portfolio companies and its people to realize their business plan**. We motivate our portfolio companies by acting as board member. We share our knowledge with our strategic partners, and we inspire the investors with our investments and endeavor to reward them with returns in line with the risks taken.

The Capricorn Partners team consists of a **good mix** of talent, experience, expertise, professional backgrounds, and age. Capricorn Partners puts all efforts together to promote a culture and work environment that is respectful, sincere and open, and gives everyone the opportunity to show initiative, act autonomously and supports developing necessary skills and mindset. As such, Capricorn Partners looks at diversity in multiple dimensions, not just gender.

We implement our fund management activities on a **top location** in the center of Leuven. Through the various phases of renovation of the classified historic brewery/maltery site, we implemented at each stage the best environmental solutions that are available and permitted by the monument authority, and we created a safe and conductive working environment. However, as people's needs and technologies are evolving there is a constant need to implement sustainable improvements in order to maintain the excellent work environment future proof.

The Capricorn Partners team is as said before **diverse** in gender, age, and nationality, these are the areas on which Capricorn Partners focuses for anti-discrimination support. The company is gender neutral in its recruitment and promotion policies, yet striving to have an equal split of men and women.

By offering **internships**, Capricorn Partners decided to be a stopping place where talented and motivated students and recent graduates can get to know the world of venture capital and listed equity portfolio management. In addition, Capricorn Partners supports initiatives that connect students with the investment teams.

A sustainable **work/life balance** is looked after by allowing staff members the flexibility to work on flexible hours and/or from home, and by having regular informal team events.

A portion of the net profit of Capricorn Partners is **shared with all the staff** on an **equal** basis. Capricorn Partners proactively contributes to the satisfaction and the long-term engagement of staff via carried interest schemes that are broadly offered to all the staff members and carefully follows the standards pertaining to risk alignment, the award process and the pay-out process as specified in the ESMA Guidelines on Sound Remuneration Policies. Reference is made to the Human Resources Policy.

Ecological footprint

The EU has set an objective to become **carbon neutral** by 2050. Capricorn Partners is committed to contribute to supporting the goal of net zero GHG emissions by 2050 and to execute a decarbonisation strategy in the following years.

As venture capital investor we take the challenge in **chemicals and food/feed** industry where alternatives to high green gas emitting options have not yet been widely developed at an industrial scale. Advance green chemistry, the circular economy and carbon-neutrality are key for us. Quest Cleantech Fund invests to a large extent in **European small and mid-caps** by focusing on products and services that provide cleaner or more efficient use of the natural resources.

Capricorn Partners as a **responsible consumer** aims to minimize any burden to the environment caused by its own behaviour. We are consciously aware of our own **CO2 footprint**, through the use of electric cars, airplanestrains, electric bikes, computers and datacenters and the heating, cooling and ventilation of our office building and we encourage initiatives for sustainable reduction. We have introduced a green car policy, a mobility budget including bike and public transportation, a work at home policy and we have installed solar panels on the rooftop.

Capricorn Partners also does this by making small **daily choices**: reduce travel activity, run a paperless office, replace hardware only when needed, eco-reflex in purchase of supplies.

Although the direct impact of these measures might be limited, the indirect impact may be much larger by developing a different **mind-set** for ourselves, and by inspiring others.

Governance

Capricorn Partners conducts the business by **good ethical principles** and follows the **industry best practices**. Capricorn Partners established corporate charters, policies and procedures that must be followed by all members of staff and more particularly a Code of Conduct which must be adhered to upon their onboarding at Capricorn Partners.

Capricorn Partners is a **partnership** structure, while the Executive Committee carries out day-to-day management of the company. The composition of the partnership and Executive Committee reflects the good governance of the company and the desire of the shareholders to assure continuity of the Capricorn Partners business.

Capricorn Partners has at least three **independent directors** among its board members.

Compliance is put at the highest level of corporate governance as the compliance officer is member of the executive committee and board member of Capricorn Partners. Capricorn Partners provides extensively quarterly and annual reporting to its board members and to the investors of the managed funds in a transparent way. In each of the funds there is an alignment of interests between the investors and the management team.

In 2016, Capricorn Partners was one of the first, small asset managers to be granted a full licence by the Belgian Financial Services and Markets Authority ("FSMA") as an AIFM. As such, Capricorn Partners adheres to all the regulatory requirements of Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers (AIFMD), the relevant Belgian Laws and Royal Decrees, the conditions put forward by the FSMA, the SFDR and the guidelines of Invest Europe.

Capricorn Partners actively participates in consultations with **sector peers** via national or European sector associations such as BVA (BE) and Invest Europe, but also invests in maintaining good relations with the **government and regulators.**
