

RESPONSIBLE INVESTMENT STATEMENT 2023

Capricorn Cleantech

We are committed investors and support entrepreneurs who create a positive impact

The past years, people have been worried about what the future may hold. A number of challenges crossed our paths: climate change and the corona crisis have presented society with major challenges while an unstable international political landscape led to economic uncertainties. In this context, we have proven to be the right investment partner for our stakeholders, just like it has been for the past decades.

We create both financial return and strategic value for our investors by investing in companies that have a positive impact on society and the environment. Our investment team leverages its scientific and business expertise to help companies grow to the next level. Technology is a differentiating factor in our investment approach. We identify start-ups and scale-ups that offer innovative technology solutions to societal challenges and that have a well-defined go-to-market plan. We are happy to see a strong breeding ground for the Energy, Materials and Food system transitions that our society needs to achieve a low-carbon, circular economy. This leaves us looking ahead with a positive mindset and ambition.

Technology with a purpose - investing where technology impacts most

Our mission is to invest in **companies that are dedicated to enabling technologies that contribute to creating a better society.**

Our leading principles guide our team through our investment cycle, from pre-investment to exit:

- We put the **human interaction first** in our collaboration with portfolio companies. We partner with entrepreneurs and speak their language. How far do the ambitions of the founders go and can we achieve an excellent return on investment and value through strong mutual trust? We communicate transparently and respond to the needs arising from this dialogue.
- As an investor, we look **under the hood of innovative technologies**. Besides, we are keen to discuss go-to-market strategy upfront before we engage in a long-term partnership with the owners of the company. In the early stage of the investment process, we validate the product market fit with potential customers in our network.
- We believe that **purpose-driven companies** have a stronger economic performance. We have experienced this since the early beginnings of Capricorn Partners. That is why we set up funds with cleantech business as investment focus. Our focus lies beyond immediate returns, as we are long-term investors supported by a robust investor community. Above all, we prioritize sustainable financial outcomes as we strive for lasting success.

Leading by example at Capricorn Partners

To guide our team through the practice of sustainability, we have a strong [ESG policy](#) in which we set out formal guidelines, rules, exclusions and our monitoring processes.

At Capricorn Partners, we know our ESG strengths, weaknesses and opportunities. Our aim is to reflect these values when engaging with our portfolio companies. This is translated into a strong focus on good governance, a clear vision on a well-managed and inclusive workplace and the measurement and gradual improvement of relevant environmental objectives.

We prioritize to be compliant with the applicable legislation. We believe in a 'substance over form' approach. Our starting point is a responsible investment strategy, that is translated into the European Sustainable Finance Framework (SFDR) to the extent feasible. As our investments predominantly involve technologies that generate impact in an indirect manner, we currently do not align our investment activities with the EU taxonomy framework. This is because the framework is not yet fully tailored to effectively accommodate such investment types. Nevertheless, we are continuously monitoring further regulatory guidance and the development of market practice in this area.

Capricorn Partners manages the Capricorn Sustainable Chemistry Fund and the Capricorn Industrial biotech fund, respectively a SFDR article 8 fund, targeting chemistry related innovations and a SFDR article 9 fund, focused on industrial biotechnology. In 2023, Capricorn launched the Capricorn Clean Chemistry Fund, a SFDR article 9 fund, building on the investment strategy of the Capricorn Sustainable Chemistry Fund.

A clear focus on innovative technologies in Cleantech

Clean technology represents new sustainable technologies that reduce or eliminate negative ecological impact and that improve the productive and responsible use of natural resources. Clean technology spans many industries, but our focus is built around chemistry related innovation targeting energy transition, materials transition, and food system transition towards net-zero emissions. Each of the transitions will come with its own set of questions and challenges, but chemicals and materials constitute the core of all three. They are omnipresent in our daily lives, from the packaging of the food we eat, to the clothes we wear, to the solar panels we generate green electricity with.

Our Responsible Investment Framework in Cleantech

We believe that our responsible investment framework leads to better exit opportunities. It revolves around advancing sustainable business practices and aligning them with the ESG expectations of potential buyers.

This framework is developed by the Cleantech investment team at Capricorn Partners. The respective team is responsible for applying this framework and will report progress in the form of a yearly responsible investment report towards the shareholders of the Capricorn Cleantech funds. The framework will undergo continuous review, taking into account regulatory changes and feedback from our investors and portfolio companies.

Figure 1 shows an overview of our responsible investment framework:

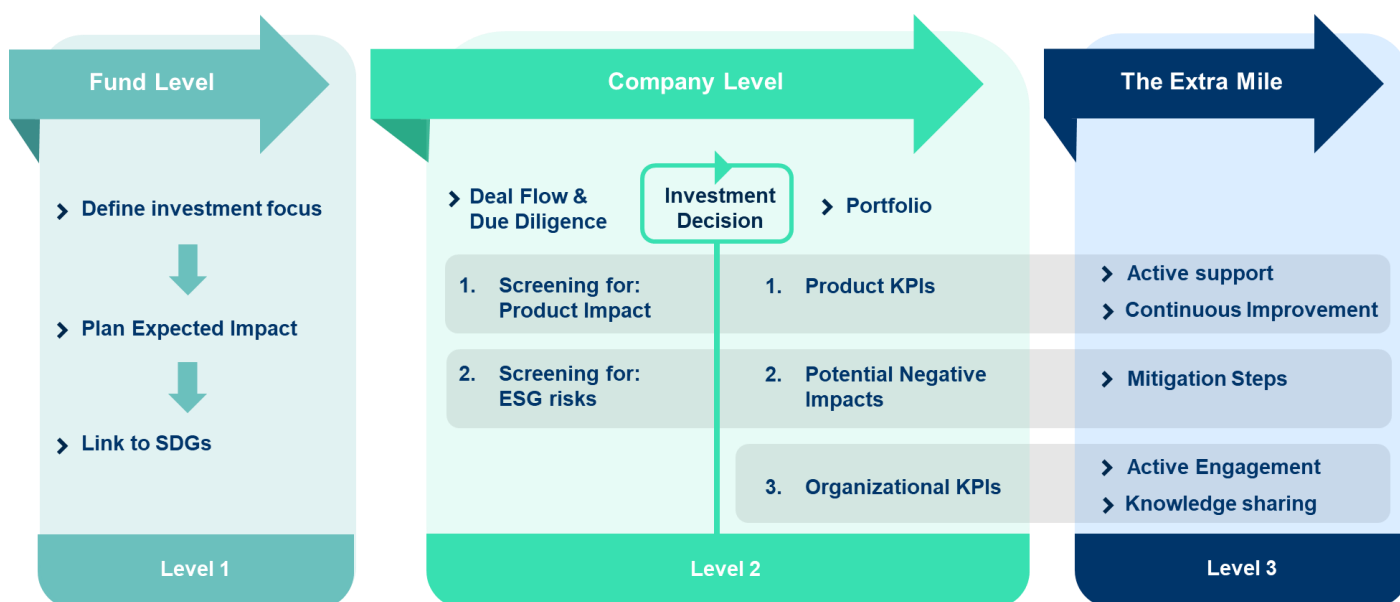


Figure 1: Overview Responsible Investment Framework

The framework is applied on three levels:

1. At the **fund level**, we formulate a fund thesis with a corresponding investment focus, expected impact and SDG alignment.
2. At the **company level**, a company's impact is evaluated both pre-investment, during the deal flow and due diligence phase, as well as post-investment, when it becomes part of the portfolio.
 - 2.1. During the deal flow and due diligence phase, the impact of a company's product or technology as well as the company's ESG risks are evaluated. If a company's product has a negative impact on society or if the company exhibits significant structural ESG risks, it will receive a negative investment decision.
 - 2.2. To monitor the impact of our portfolio companies, we use measurable and actionable impact indicators. We focus on product KPIs, potential negative impact indicators and organizational KPIs.

- The **product KPIs** are company specific and used to measure the expected impact resulting from a company's products or services, and are linked to the relevant UN Sustainable Development Goals (SDGs).
- **Potential negative impacts** are identified and mitigation steps are formulated and monitored.
- The **organizational KPIs** are not company-specific but provide a comprehensive perspective on how a company is governed with regard to ESG aspects.

Figure 3, under section **2. Company Level**, provides a more detailed explanation of our implementation of these KPIs.

3. At Capricorn Partners, we aim to go **the extra mile** when it comes to responsible investment. We serve as a sparring partner for portfolio companies, offering guidance in implementing best practices, establishing product KPIs and developing mitigation strategies to address ESG risks.

1. Fund level

Capricorn Cleantech funds have an investment scope with an expected impact that guides the sourcing of deals and active management of portfolio companies. Based on the established investment and impact focus, a combination of SDGs are identified for which we expect portfolio companies to contribute to.

For **Capricorn Cleantech funds**, we expect portfolio companies to address one or more of the following SDGs:

- *SDG 9: industry, innovation, and infrastructure,*
- *SDG 12: responsible consumption and production*

Other UN SDGs that may be relevant are:

- *SDG 3: good health and well-being.*
- *SDG 8: decent work and economic growth*
- *SDG 13: Climate action*
- *SDG 14: Life below water*
- *SDG 15: Life on land*



We do not exclude a positive contribution to other SDGs, on the contrary.



Figure 2: SDGs targeted by Capricorn Cleantech

1.1 Capricorn Cleantech

The table below summarizes the investment focus and the corresponding expected impact for **Capricorn Cleantech**:

Investment focus	Expected Impact	SDG focus
<p>The energy transition from fossil-based to clean energy sources will include new technologies, chemicals and materials to abate emissions of our current energy system, creating investment opportunities in sectors such as</p> <ul style="list-style-type: none"> Carbon Capture & Storage (CCS), Energy production & storage, New energy carriers such as methanol or hydrogen. <p>The materials transition induces production efficiency, substituting emission-intensive materials and enhancing circularity within the value chain:</p> <ul style="list-style-type: none"> (plastic) waste recycling, biobased molecules through industrial biotechnology, CO₂ as a feedstock for new molecules, composites to reduce energy requirements and materials' carbon footprints. <p>Key solutions to drive the net-zero transition of our food-system will relate to how we manage our land and natural carbon sinks, what we choose to put on our plates and how these foods are produced and processed:</p> <ul style="list-style-type: none"> sustainable fertilizer production, microbial biocontrol or biostimulant products, alternative protein, nutraceuticals 	<p>Positive contribution to innovation, a more efficient industry and more responsible production, thanks to, amongst others:</p> <ul style="list-style-type: none"> Reduced or more efficient use of raw materials, water and/or land; Reduced emission of substances that have been identified to cause climate change; Use of renewable resources and/or the replacement of substances that have been identified as harmful to the environment, human and/or animal health; and Implementation of innovation that contributes to a more future-proof food/agricultural system, and/or enables/facilitates the circular economy. 	 

In order to avoid investing in cleantech technologies that cause harm to any environmental or social sustainable investment objective, each investment decision is evaluated against the general exclusion factors as specified in section 3.3. of Capricorn Partners NV's ESG Policy as well as the exclusion factors and attention areas specifically applicable to our cleantech funds:

- human cloning,
- traditional transport/agriculture/fishery & aquaculture/maritime/coal & steel sectors,
- companies involved in armament related dual use such as chemical products, nuclear applications, bio- or nano-technology, hazardous chemicals,
- animal testing – though this may be necessary for, for example, the development of drugs and pharmaceutical intermediates/products)
- genetically modified organisms (GMOs).

2. Company level

We have introduced responsible investing across all stages of our investment processes, starting from establishing the fund thesis to sourcing deals and active management of our portfolio companies. At a company level, impact is measured and monitored during the different stages of an investment.

In the **deal flow sourcing** and **due diligence stage** we perform a positive and negative screening before we conclude to invest.

- The positive screening includes an assessment of potential investments by explicit mapping to the fund's expected impact and the relevant SDGs.
- The negative screening consists of excluding investments in problem areas and identifying potential ESG risks and possible mitigation steps.

After having invested, we perform the following steps for each company on a yearly basis:

- Measure impact of the company's products using **Product KPIs**, as a combination of Volume & Value KPIs.
- Monitor **Potential Negative Impacts** and identify a corresponding mitigation strategy.
- Use **Organizational KPIs** to measure ESG practices at company level in quantitative and qualitative way.

Figure 3 illustrates our post-investment approach in more detail:

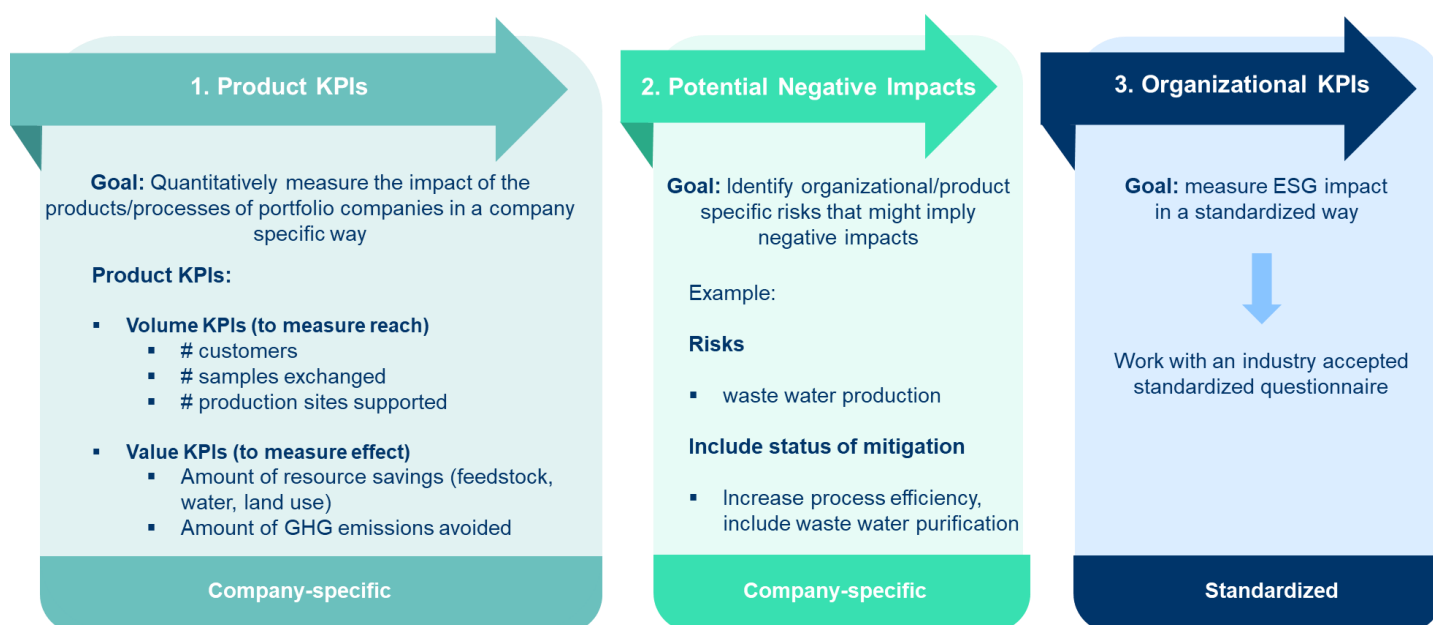


Figure 3: Responsible investment implementation post-investment

2.1 Product KPIs

The product KPIs are the keys to success of the business and will be subject of regular discussion at Board and Management level of the portfolio company.

Product KPIs are split into:

Volume KPIs, that measure the reach of the impact of a company's solution. Examples include:

- Number of customers
- Number of samples being tested
- Number of manufacturing/production sites supported
- Volume produced

Value KPIs, that can be multiplied with the Volume KPIs, in order to calculate total impact. For example:

- GHG emissions savings.
- Resource savings; Reduction of volume of raw materials, Water savings, or land use
- Reduced emission of substances such as PM air pollution reduction, NOx or SOx air pollution reduction
- Energy savings.

2.2 Potential Negative Impacts

When evaluating our portfolio companies, we also assess the **Potential Negative Impacts** (PNIs) that their products and/or services may have. If any PNIs are identified, we actively identify and monitor mitigation efforts. Throughout this process, we consider the entire value chain of the company.

In the case of Capricorn cleantech, an important PNI that we could encounter is for example wastewater discharge and Health, Safety and Environment (HSE) matters. Options to mitigate this PNI include:

- Increase efforts to a more efficient process, reduce process chemicals used and minimize waste water production
- Implement waste water treatment
- Monitor HSE matters and develop a solid HSE strategy

During the investment phase, we aim to monitor the PNIs by quantifying them whenever feasible.

2.3 Organizational KPIs

In addition to measuring the impact generated by the products of our portfolio companies, we also evaluate the impact that stems from the way these companies are governed. To assess this impact, we utilize **Organizational KPIs** that are not specific to individual companies. Instead, we adopt an industry-recognized Environmental, Social, and Governance (ESG) framework to prevent placing excessive reporting burden on our portfolio companies. We expect best effort of the portfolio companies to provide some feedback on a yearly basis, and to allow us to have an ongoing dialogue on ESG matters throughout the year.

By employing the ESG framework, we gather annual data on the following aspects:

- **Environmental factors**, including carbon emissions, initiatives for sustainable travel, and waste recycling policies, for instance.
- **Social factors**, such as workplace diversity, inclusiveness, and staff well-being, among other relevant indicators.
- **Governance factors**, such as board oversight, data governance, cyber security, and corporate policies, amongst others.

Going the extra mile as a responsible investor

As a venture capital firm, our objective is to create a meaningful impact by supporting our portfolio companies throughout their journey to becoming sustainable enterprises. We strive to achieve this by engaging with experts in our extensive network, seeking external expertise, fostering knowledge sharing among our portfolio companies, and, most importantly, leveraging our **three decades of experience in responsible investment**.

Building upon the results of our responsible investment assessment, our vision entails arranging tailor-made workshops that specifically target the areas identified for improvement. Example topics of workshops could be 'People management & inclusion' 'Data security & privacy' and 'HSE strategy'. It is important to note that our approach and plans are flexible, subject to change over time, and adaptable to meet the evolving needs of our portfolio companies.

In addition to our core initiatives, we offer ad hoc support and guidance to portfolio companies seeking to establish targeted policies, such as a Code of Conduct, Climate Plan, Diversity & Inclusion policy, and more. As an engaged investor, we actively advocate for positive change as board members, providing valuable guidance to drive further enhancements aligned with our impact indicators. Furthermore, we diligently monitor the performance of our portfolio companies and foster a culture of open dialogue, enabling collaborative efforts towards continuous improvement.

