

## RESPONSIBLE INVESTMENT STATEMENT 2023

### Capricorn Digital Growth Fund

#### 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 a responsible digital transformation. 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 building applications or 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 healthcare and digital 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.

## A clear focus on innovative technologies in Digital Business and Health

**Technology can contribute with digital solutions in a broad range of sectors:** On the one hand, the Capricorn Digital Growth Fund focuses on investment opportunities emerging from turning data into actionable insights in business, using AI, Digital Twin, IoT and data science technologies. The focus is on software, but we are also open to hardware enabled software solutions and selective deeptech opportunities. We target the digital optimization of all business functions across industry sectors covering Industry 4.0, proptech and the digital enterprise. This includes, for example, solutions for smart manufacturing, logistics, energy management, sales & marketing or cybersecurity.

**Technology can contribute to overcome health challenges:** On the other hand, the Capricorn Digital Growth Fund also encourages the development of novel medical technologies, focusing on digital health solutions, which solve the complex medical challenges in front of us. Possible technologies range from AI, digital twin, robotics and more. All the targeted investments are linked to personalized care, which promotes value-based healthcare.

## Our Responsible Investment Framework in Digital and Health

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 Digital Growth investment team at Capricorn Partners. The team is also responsible for applying this framework and will report progress in the form of a yearly responsible investment report towards the shareholders of the Capricorn Digital Growth Fund. 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:

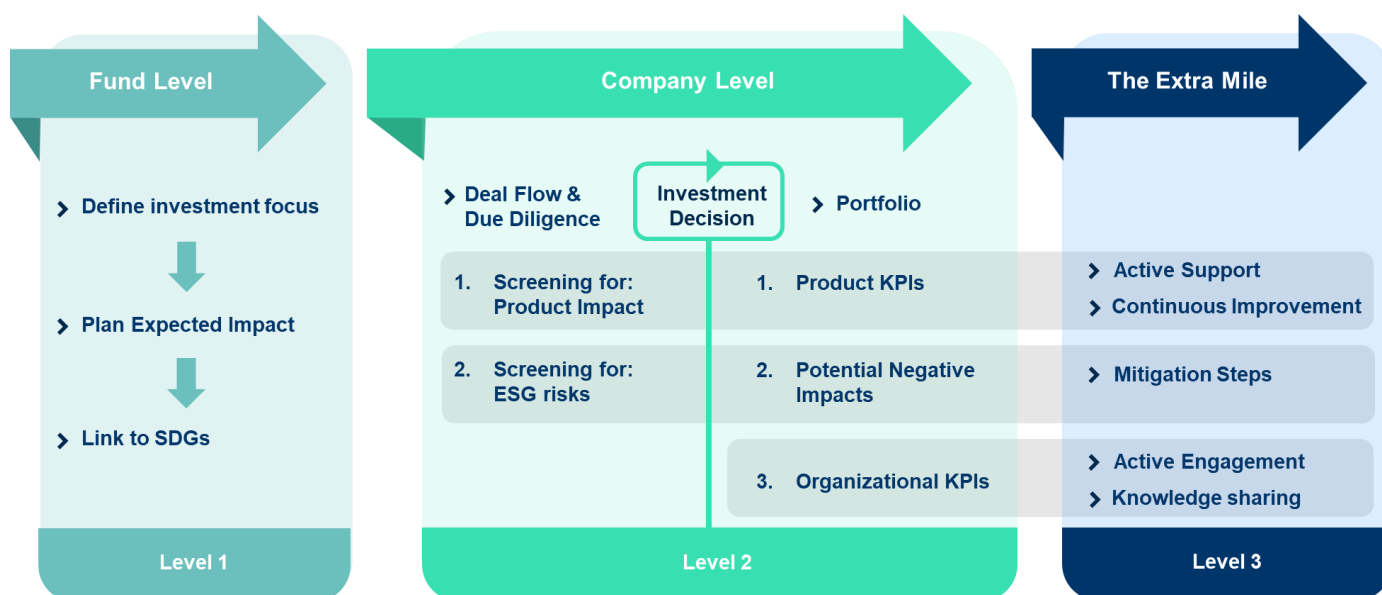


Figure 1: Overview Responsible Investment Framework

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). A responsible AI evaluation is performed if relevant.
- **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

The **Capricorn Digital Growth Fund** has 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 the **Capricorn Digital Growth fund**, we expect portfolio companies to address one or more of the following SDGs:

- *SDG 3: good health and well-being.*
- *SDG 8: decent work and economic growth,*
- *SDG 9: industry, innovation and infrastructure,*
- *SDG 11: sustainable cities and communities,*
- *SDG 12: responsible consumption and production*

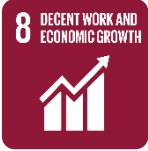



We do not exclude a positive contribution to other SDGs, on the contrary.



Figure 2: SDGs targeted by the Capricorn Digital Growth Fund

## 1.1 Capricorn Digital Growth – Digital Business

The table below summarizes the investment focus and the corresponding expected impact within our **Digital Business** focus:




Investment focus	Expected Impact	SDG focus
<p>Digital solutions that <b>improve Business Processes</b> in the following areas such as:</p> <ul style="list-style-type: none"> <li>Strategic Planning and Performance Management</li> <li>Sales &amp; Marketing</li> <li>Data Science &amp; Operations</li> </ul>	<p>Digital transformation processes should result in <b>decent work and economic growth</b>, leading to, amongst others:</p> <ul style="list-style-type: none"> <li>Better training and development opportunities</li> <li>greater job efficiency and satisfaction</li> <li>Enhanced data management</li> </ul>	
<p>Solutions that <b>optimize industrial processes</b> in the following areas:</p> <ul style="list-style-type: none"> <li>Manufacturing</li> <li>Supply Chain Logistics</li> <li>Quality Control</li> <li>Maintenance</li> </ul>	<p>From our investments in industrial solutions, we expect a positive contribution to <b>innovation</b>, a more <b>efficient industry</b> and more <b>responsible production</b>, thanks to, amongst others:</p> <ul style="list-style-type: none"> <li>Reduced product costs &amp; increased product quality, for example, by automate quality control processes or performing predictive maintenance</li> <li>Enhanced working conditions and collaboration opportunities for engineers, technicians, operators and other industrial professionals</li> <li>More efficient manufacturing processes and supply chain operations leading to a reduction in carbon emission</li> </ul>	
<p>Digital Solutions that <b>guide innovation in specific technology sectors</b>, such as:</p> <ul style="list-style-type: none"> <li>Proptech</li> <li>Insurtech</li> <li>Smart City &amp; Mobility</li> </ul>	<p>From our investment in digital solutions in specific technology sectors, such as proptech and smart city &amp; mobility, we expect a contribution to <b>resilient infrastructure, sustainable cities</b>, and <b>responsible consumption</b> thanks to, amongst others:</p> <ul style="list-style-type: none"> <li>A reduction of energy consumption of buildings by steering HVAC in a data-driven way</li> <li>Steering the energy transition by analyzing grid and energy consumption data</li> <li>A reduction in pollution and an increase in safety thanks to smart waste and traffic management</li> </ul>	
<p><b>Deeptech Solutions</b> that could lead to disruptive innovations, in areas such as:</p> <ul style="list-style-type: none"> <li>High Performance Computing</li> <li>Drones &amp; Robotics</li> </ul>	<p>From deeptech investments, we expect disruptive innovations that can help <b>address some of the most pressing sustainability challenges</b> facing the world today</p>	

In order to avoid investing in digital technologies that could lead to an adverse impact, certain solutions are clearly formulated as not in scope for Capricorn Digital. Examples of excluded solutions include:

- Recreational games
- Social media platforms
- Gambling and offensive weapons

## 1.2 Capricorn Digital Growth – Digital Health

The table below summarizes the investment focus and the corresponding expected impact within our **Digital Health** focus:

Investment focus	Expected Impact	SDG focus
<p>Digital Health investments that enable <b>personalized care &amp; promote value based health</b>.</p> <p>Health tech solutions that focus on:</p> <ul style="list-style-type: none"> <li>Wearables</li> <li>Care Coordination</li> <li>Diagnostic Tools</li> <li>Clinical Decision Support</li> <li>Digital Therapeutics</li> <li>Remote patient monitoring</li> <li>Implant devices &amp; tissues</li> <li>Omics information</li> <li>Drug discovery</li> <li>Decentralized clinical trials</li> <li>Real world data</li> </ul>	<p>The main SDG focus for this fund will be on <b>better health and well-being</b>, more particular:</p> <ul style="list-style-type: none"> <li>Better Prevention</li> <li>Faster Diagnosis</li> <li>Improved monitoring</li> <li>Increased Treatment efficacy and efficiency</li> </ul> <p>In addition to better health and well-being, the fund will seek to invest in solutions that enable a <b>superior outcome versus cost</b> compared to current standards-of-care.</p> <p>Our investments may also have a positive contribution to other factors. Next to clinical benefit, solutions can provide <b>better work conditions and training for clinicians</b> to reduce their current work pressure via:</p> <ul style="list-style-type: none"> <li>Better training via digital tools</li> <li>Better safe use of devices</li> <li>Improved operational tools</li> <li>Improved ergonomics</li> </ul> <p>Since the investments will lead to a better <b>value-based healthcare</b>, we strive to reduce the inequalities in receiving healthcare:</p> <ul style="list-style-type: none"> <li>Every AI algorithm should be non-biased and include an inclusive dataset</li> <li>From remote monitoring to digital diagnosis &amp; therapeutics can help remote patients with inferior access to standard healthcare</li> <li>New medical technologies should increase <b>responsible consumption and production</b></li> </ul>	<p><b>3 GOOD HEALTH AND WELL-BEING</b></p>  <p><b>8 DECENT WORK AND ECONOMIC GROWTH</b></p>  <p><b>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</b></p> 

## 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, and conduct a **Responsible AI Evaluation** where relevant.
- 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:

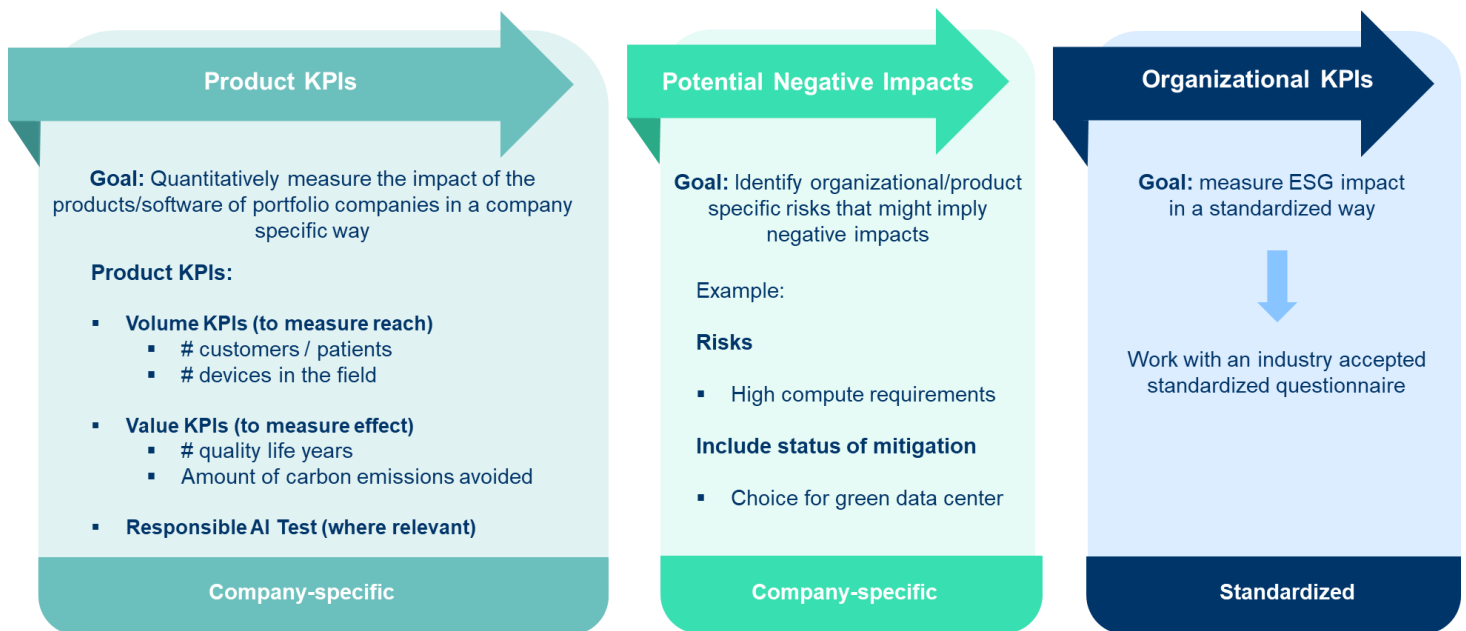


Figure 3: Responsible investment implementation post-investment

## 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, active users, patients, or hospitals that use the solution
- Number of buildings connected to a smart building platform
- Number of manufacturing sites supported

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

- Reduction in time to diagnosis per patient
- Health economics data related to a patient or a hospital
- Tons CO<sub>2</sub> saved thanks to connecting a building to the smart building platform
- Tons CO<sub>2</sub> saved thanks to supporting a manufacturing site

Ahead of the legislation we also conduct a **Responsible AI Test** for our portfolio companies utilizing AI, that quantifies the degree to which a company employs AI in a responsible manner.

The evaluation involves a series of questions aimed at assessing the extent to which a company's use of AI aligns with responsible AI principles derived from existing drafts of AI regulations.



1. Human agency and oversight
2. Technical robustness and safety
3. Privacy and Data governance
4. Transparency
5. Diversity, non-discrimination and fairness
6. Societal and environmental well-being
7. Accountability

Using the provided answers, a quantitative score is derived, enabling benchmarking of the various portfolio companies. Additionally, it will provide recommendations for areas for improvement.

## 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.

Within our Digital Business focus, an important PNI that we encounter is for example the high compute requirement and associated energy consumption of digital solutions. Options to mitigate this PNI include:

- Increase efforts to get insights into compute related energy consumption
- Transition towards a (dark) green data center
- Keep compute requirements in mind throughout the development cycle

Similarly, for within Digital Healthcare focus, a PNI could arise from the lack of security of data resulting in data breaches. To address this concern, a corresponding mitigation action could be:

- Become GDPR & ISO 27001 compliant

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 aim to 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 will 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 'Responsible AI', 'People management & inclusion' and 'Data security & privacy'. 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.

