Sustainability risks and adverse impacts

Version 2.0 / April 2026

This document is a description of Innovation Industries' policies on the integration of sustainability risks and the consideration of adverse impacts on sustainability factors in its decision-making processes and ownership practices.

Innovation Industries has decided not to consider Principal Adverse Sustainability Impacts as defined per article 4 of the SFDR[1], and therefore not to make the disclosures as described in article 6 of the SFDR RTS[2]. The main rationale for this decision is that we feel that the administrative burden and the data challenges related to the collection of the principal adverse impact indicators are not proportional to the small size of both Innovation Industries and its portfolio companies.

However, through its Responsible investment policy, Innovation Industries has made a commitment to invest responsibly. This commitment implies that we consider and actively manage sustainability risks as well as adverse impacts on sustainability factors. Through this process, we seek to avoid significant harm to any sustainable objective, in line with the Do No Significant Harm (DNSH) principle under Article 2 (17) of the SFDR.

The concept materiality helps us define and prioritize the sustainability issues that are most important to our portfolio companies and their stakeholders. We define 'material ESG factors' as those factors that potentially have a substantial impact on a company's ability to create and preserve economic, social and environmental value. This definition ensures that we approach sustainability from two perspectives:

- risks posed by potentially material environmental, social and governance (ESG) issues, including those driven by external developments;
- positive and/or negative impact of our investee companies on ESG factors in their wider environment.

Our ESG management system (see figure 1) is tailored to the needs of and requirements for early stage and growth stage companies. It covers material sustainability risks and foreseen impacts, i.e. the ESG factors that are specifically relevant at these stages of business development. Our approach is detailed through procedures for ESG integration (origination, screening, due diligence and decision-making) and investment monitoring & engagement.

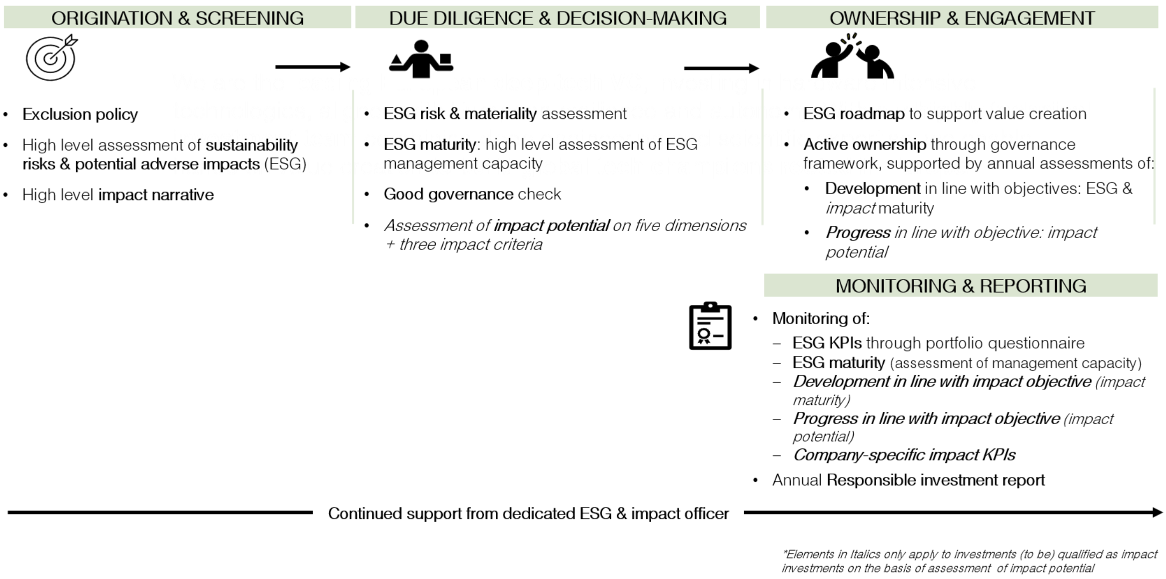

Figure 1. Innovation Industries' ESG Management System

[1] 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
[2] Regulatory Technical Standards issued under the SFDR

Responsible investment strategy

Innovation Industries' investment strategy leads us to invest in companies at a stage where their impact on sustainability factors is still low. It is designed to optimize funds' potential to create sustainable (economic, social and environmental) value by considering sustainability (ESG) factors during investment selection and decision-making. Active and long-term engagement is essential to the realization of this potential. Our approach is formalized through Innovation Industries' Responsible investment policy.

ESG integration

Our procedure for ESG integration shapes how Innovation Industries' commitment to responsible investment is embedded into the practice of investment selection and decision-making.

Origination & screening

Exclusion and positive screening

Through Innovation Industries' Exclusion policy, we exclude a number of industries and activities from our investment portfolio because: *a)*, by definition, they do not comply with international agreements or treaties (i.e. chemical or biological weapons), *b)* they do not comply with our ethical standards, or *c)* they do not fit our responsible investment strategy. The content of this list is openly aligned with the exclusion criteria set by our main investors.

More generally, Innovation Industries excludes companies that are active in sectors or working in technology areas that we consider inherently unsustainable. This means that an investment opportunity where material ESG-related impacts and risks are considered unmanageable, or where leadership is considered uncapable or unwilling to address these, will be rejected.

Innovation Industries also applies sustainability indicators as positive screening criteria. The details of our impact investment strategy are fund specific.

Due diligence

During due diligence on an investment opportunity, we perform two assessments: a) a risk and materiality assessment, and b) a preliminary assessment of ESG management capacity.

Risk & materiality assessments

A sector-based ESG checklist is used as a template for the identification and assessment of material ESG factors. We have developed different templates, each tailored to one of the main sectors within our investment scope. Using the checklist, relevant issues are classified on an industry level as *high risk*, *medium risk* or *low risk*, taking into account the probability that risks will materialize as well as the severity of impact.

Subsequently, issues are classified based on their materiality for the investment opportunity. Materiality is determined by assessing, in light of a company's business model and strategic objectives, possible threats or opportunities associated with ESG factors and related developments, as well as the company's potential impact on these factors

Assessment of ESG management capacity

On the basis of our 'ESG Technology Start-up Maturity Grid' (hereafter *ESG Maturity Grid*), we perform a preliminary, high-level assessment of the extent to which the company has (or is in the process of developing) the capacity to manage ESG-related risks and capitalize on opportunities. Through this proprietary tool we've established a standard for ventures at different stages of development, from seed to full maturity, across specific issue categories. It considers a broad range of aspects, from level of responsiveness amongst management teams to implementation of mitigating measures. At this point, the assessment focuses on establishing confidence within the deal team that material factors can be effectively managed post-deal. Key here is the level of commitment amongst management to do so.

Decision-making

Due diligence can lead to the exclusion of investments that are deemed unsustainable in the long-term (see the section on exclusion). In most cases, the due diligence process does not lead to exclusion based on ESG-criteria, for two reasons:

- Pre-selection takes place during the origination phase, based on a high level assessment of sustainability risks and foreseen impact.
- Foreseen impact is usually still largely unrealized at the time of investment, which provides us with an opportunity to build a sustainable and, hence, resilient company. This approach reinforces the additionality of our investments.

If the deal is continued, the outcome of due diligence provides valuable input for engagement during the post-investment phase.

Investment monitoring & engagement

Our procedure for investment monitoring and engagement shapes how Innovation Industries' commitment to responsible investment is embedded into the practice of active ownership and performance monitoring across the portfolio.

ESG action plan

Through a company-specific post-investment roadmap, we establish the topics that need to be addressed in the short-to-medium term and the actions required to improve an investee company's ESG management capacity. In this way, we mitigate material risks and steer its development towards a sustainable and resilient company.

Active ownership

We apply a standard but flexible governance framework for active ownership, which serves to protect and create value. It specifies roles and responsibilities and establishes the yearly engagement cycle. The framework is designed to mitigate sustainability risks as well as avoid or minimalize adverse impact.

The ESG engagement process is led by the ESG officer, who meets at least annually with a key company contact to discuss relevant developments, provide guidance and gather information to monitor progress. The meeting is also attended by either the partner holding a supervisory board seat or the lead investment manager. If the ESG officer identifies a material ESG factor that is not adequately managed, this is discussed with the partner. Together, they decide on the appropriate course of action, which may be raising the issue at board level.

ESG Maturity Grid

In each of these processes, we use our ESG Maturity Grid. In the first year of the holding period, we use the grid to perform a detailed baseline assessment of a company's *ESG management capacity* within different issue categories. On the basis thereof, we establish the company's level of ESG maturity, which is evaluated in consideration of its development stage. Progress is monitored over time, using the information collected through annual engagement meetings and self-reported company data. Where helpful, we support this process through KPIs, with data being collected through an annual ESG questionnaire. This approach allows us to have an informed understanding of the ESG profile of the company, which supports our engagement activities and provides us with information to report to investors.

The ESG Maturity Grid has two axes: company stage and issue category.

We distinguish six stages of company development:

1. Seed capital
2. Start-up
3. First stage
4. Second stage
5. Small tech company
6. Mature

Early stage (1–2)

Growth stage (2–5)

We distinguish eight issue categories, as depicted in table 1.

ISSUE CATEGORY	KEY BUSINESS FUNCTION(S)	ESG FACTORS
Product design & lifecycle	R&D (product): material input, use phase and end-of-life	GHG emissions; energy efficiency; hazardous materials; resource efficiency; (hazardous) waste management
Environment	R&D (process); production; distribution & logistics; office & facilities management	GHG emissions; energy efficiency; hazardous materials; resource efficiency; (hazardous) waste management
Human capital	Human capital management	Employee attraction & retention; performance management & employee development; mental health & wellbeing; (gender) diversity & inclusion
Occupational health & safety	R&D (process and product); production; sales, installation & after-sales services	Health & safety in the workplace; product safety
Responsible supply chain	Sourcing & supply chain management	Materials sourcing; supply chain management – covering material issues, including human rights
Data privacy & security	Human resource management; customer relationship management; information technology	Collection, retention & use of personal data; data management; cybersecurity
Business ethics	Distribution; human capital management; sourcing & supply chain management; business development; sales	Culture; business conduct (incl. bribery & corruption, conflict of interest and fraud); responsible use / technology ethics
Good governance	Governance & oversight: management & supervisory boards	Structure & processes; remuneration; ESG/sustainability; reporting & oversight

Tabel 1. Issue categories and ESG factors

References to international standards

Innovation industries endorses and has, through the ESG management system, aligned its investment practice with:

- The OECD Guidelines for Multinational Enterprises
- The OECD Due Diligence Guidance for Responsible Business Conduct
- The UN Guiding Principles on Business and Human Rights
- The ten principles of the UN Global Compact

Innovation Industries is signatory of the United Nations Principles for Responsible Investment (UN PRI).