

## **SET investment policy: Managing ESG and Impact**

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## Introduction

SET Management B.V. (“SET Ventures”) is a venture capital firm, investing in digital technology companies for a carbon-free energy system.

This document (the “Investment Policy”) explains how we operationalize our aim to be a frontrunner in our market by investing in companies that generate outsized financial returns by creating positive impact on the energy transition, while operating in a sustainable and responsible manner.

We recognize the responsibility that we, as investors, will have in partnership with our portfolio companies. This has two dimensions:

- Firstly, we are convinced that matters relating to the Environment, Social and corporate Governance (“ESG”) can and will impact the financial and impact performance of our investment portfolio. Ever since we started integrating ESG in our operations in 2012, we have assessed our portfolio companies’ ESG performance. Based on that experience we see a strong correlation between sound ESG practices and growth, whereas poor ESG practices can pose a serious business risk. Therefore, we proactively manage ESG to maximize positive impact and minimize risk, by integrating ESG considerations not just into our portfolio engagements, but already in our investment and fund management processes.
- Secondly, we believe that besides good ESG practices, only ambitious targets for environmental impact will lead to measurable positive results in practice. This is why we work with each portfolio company to define measurable KPIs such as tonnes of CO2 emission reductions and monitor and track them continuously. These targets ensure that our portfolio companies grow in a manner that is aligned not just with outstanding financial outcomes for the investors in our fund, but also in a lasting legacy for our planet.

This Investment Policy reflects our commitment to the United Nations Global Compact (UNGC) and the United Nations Principles for Responsible Investment (UNPRI). Furthermore, we respect and apply universally recognized guidelines such as the OECD Guidelines for Multinational Enterprises (OECD) and the United Nations Guiding Principles on Business and Human Rights (UNGPs). We welcome the efforts by the European Union with the Sustainable Finance Disclosure Regulation (“SFDR”) to create a common language to define, act and report on sustainable finance matters.

All SET staff are required to adhere to this policy. The Managing Partners of SET Ventures are responsible for all communication regarding matters related to the publication of this Investment Policy. When applicable, the Managing Partners are responsible for updating the published information, including explanatory information on modifications.

## 1. How we approach ESG

At SET we define ESG as: “a combination of the probability of certain negative and positive occurrences due to the nature and scale of a company’s business activities and the severity of environmental, social and, governance impacts resulting from such an occurrence, as well as its financial, legal and reputational consequences.”

In our ESG assessment we’ve included the following factors, based on the EU Commission documentation on Sustainable Finance as well as topics that we deem material to our portfolio companies. Note that this is a non-exhaustive list that we regularly review and update:

- Environmental: greenhouse gas emissions; air, water and ground pollution; environmental resource management; waste management; biodiversity; climate change mitigation and adaptation; promotion of green technologies, products and services.
- Social: issues of inequality; inclusiveness; labor relations, including pay; investment in human capital and communities; human rights issues; health and safety; responsible supply chains.
- Governance: management structures; employee relations; executive remuneration; anti-bribery and corruption; Good Governance; financial and process control; governance of ESG.

Like ‘traditional’ risks, ESG risks need to be managed adequately to prevent the loss of value of an investment. To properly mitigate the ESG risk of an investment, SET Ventures integrates its ESG risk management process into the overall investment process with event-driven, as well recurring regular review cycles.

### **Before we invest:**

*Initial assessment:* To generate sustainable, long-term returns with our investments we only make investments within the scope of sustainable energy technologies to accelerate the energy transition and to reduce CO<sub>2</sub> emissions. Achieving this objective should do no significant harm to the environment and human life. Activities that harm this objective are excluded, as well as any activity which is deemed illegal under host country laws or regulations or international conventions and agreements. Finally, we do not invest in a company which meets one of the criteria of our exclusion list (see Annex I).

*During due diligence:* During the due diligence phase, first assessment is done by the deal lead as part of the overall investment summary. Afterwards we identify potential ESG risks and ensure Do No Significant Harm with the use of our ESG and Good Governance Checklist, which is a set of questions, based on frameworks put forward by the European Commission, including Principle Adverse Impacts (PAI) and the UN Global Compact. The checklist has to be completed in collaboration with the prospective portfolio company and results and improvement areas will be shared with management. Based on the results of the checklist, the deal manager will either take additional actions, which could include additional ESG risk reviews internally or by external experts or finalize the ESG assessment, including recommendations for improvements, as part of the due diligence.

We assess Good Governance during the due diligence phase based on a set of Governance questions, including board oversight, employee relationships, anti-bribery & corruption, financial & process control, tax control and IT safety & security. Based on the results of the test, we decide if the bar for Good Governance is met and set targets to (further) improve Good Governance standards during our holding period.

Lastly, the ESG performance score and identified improvement areas are included in the ESG section in the Investment Proposal, which must be approved by the General Partners before completion of the investment.

#### **After we invest:**

*Portfolio company engagement:* When we invest, we include an ESG clause in all term sheets and shareholder agreements to legally embed our approach to ESG. These state that management shall make a commitment to improve the company's ESG performance and will regularly report on the progress made with non-financial KPIs related to impact and ESG. In practice, we work together with our portfolio companies to create an annual ESG action plan and set up the desired reporting processes. Progress and measures against the ESG action plan will be reported to the Board.

*Internal ESG monitoring:* Internally, we monitor the ESG performance of our portfolio companies on a quarterly basis, using the ESG Management Toolkit. This allows us to have regular assessments of ESG performance, minimizing unexpected risks and maintaining momentum on improvement.

*Limited partners engagement:* We actively engage with our limited partners on ESG and report on each portfolio company's progress during the quarterly meeting of Limited Partners.

## **2. Creating and Measuring Impact**

Alongside the reduction and management of ESG risks, SET Ventures desires to create positive impact with its investments. Our investments are made in technology companies with the main objective of accelerating the energy transition and we are strongly committed to do only Sustainable Investments following the definition in the EU SFDR. We strongly believe that our portfolio will have measurable impact on key impact KPIs such as the deployment of renewable energy sources and the reduction of CO<sub>2</sub> emissions. Consequently, it is crucial for SET Ventures to identify the possible impact of potential portfolio companies upfront, and set appropriate targets upon an investment, as well as monitor these targets on a continuous basis post-investment.

To translate potential impacts into actual impacts, an impact approach is agreed upon in the due diligence phase with each future portfolio company. This especially involves the following steps:

- Agreement of an overall impact strategy with the company's management
- Alignment on 1-5 environmental impact KPIs that will be part of the company's strategy and specific annual targets to be achieved for each of these KPIs in the first five years post-investment
- Before taking the final investment decision, SET Ventures will present the pre-agreed environmental impact KPIs and associated targets to the Fund IV Investors Advisory Committee for final approval.
- A process of regular tracking and monitoring on a continuous basis for the agreed impact KPIs, and a regular review of progress towards these targets between SET Ventures and the company's management
- Annual reporting on the agreed impact KPIs, including verification of actual achievements by an employee of SET Ventures

SET Ventures will publish summary information on the achievements across its portfolio towards the agreed impact targets in our annual impact report.

### **3. Investment Policy Ownership and Communication**

The SET Ventures Partner Team is ultimately responsible for the development and implementation of this policy. This entails that the SET Ventures Partners periodically review the effectiveness of the activities and adopt adequate measures to optimize procedures where necessary. Also, the SET Ventures Partner Team enables the implementation of the processes by ensuring that the required resources are available to the Deal Owner that is responsible for individual portfolio companies.

Besides, the SET Ventures Partners are responsible for all communication regarding ESG matters to their (potential) investors. For example this entails the inclusion of ESG risk management procedures in the Investment Memorandum and the discussion of ESG matters during investor meetings. Every year, the SET Ventures Partner Team is responsible for the preparation of the Financial Report to the investors. This will include information on ESG risk management procedures and key ESG risks, both in the portfolio and SET Ventures' operations.

The SET Ventures Partners will inform Investors in case of serious incidents or fatalities affecting the portfolio companies, as soon as practicable but preferably within 72 hours of receiving the Incident Report from the portfolio company.

### **4. SET Remuneration Policy**

SET Ventures employees can receive an annual bonus based on objectives determined by the Management Board of SET Ventures that reflect the success of the company along with multiple parameters, including the implementation of the ESG policy. Additionally, the carry of SET Fund IV will be linked to the Environmental Impact achievements of the SET Fund IV Portfolio. For this, an Environmental Impact Multiple (EIM) will be calculated across the portfolio and updated annually, based on the relative performance of each portfolio company against its environmental impact targets in the current year, and weighted by the cumulative investment in each company. Any potential pay-out of carried interest from SET Fund IV will be based on attainment of a certain threshold value of the Portfolio EIM at a minimum.

### **5. Review of the policy**

SET Ventures commits to annually review this policy and closely follow industry best practices and regulatory standards with the aim to embed these in our standards, policies and operations.

### **Annex I: SET Ventures Exclusion List**

SET Ventures will not make any investment in any Company:

- which engages in production or trade of any product or activity deemed illegal under host country laws or regulations or international conventions and agreements;
- which has operations in, or trades with, countries involved in terrorist activities or severe human rights violations;
- which is the subject of a public investigation or legal action based upon a suspected relationship with serious criminal or terrorist activities;
- which is materially and immitigable harmful to the environment and/or human life, via i) the intended use of its products or via ii) its supply chain;
- which is involved in one of the following industries: alcohol, tobacco, gambling and/or weapons.