

# Sustainability Policy (ESG)

Version 2.1

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## Version

Version	Date	Changes
1.0	4-01-2021	New Sustainability (ESG) Policy
2.0	10-03-2021	Compliance with SFDR Regulation
2.1	30-06-2022	Clarifications



## Introduction

Urban Impact Ventures (UIV) offers investment opportunities that deliver longer-term financial, environmental, and societal returns. Through its investments UIV supports the role that the financial sector plays in the transition towards a sustainable society. This transition provides new investment opportunities and is necessary to meet current and future human needs. UIV recognises that entities performing well on financially material environmental, social and governance matters have a better financial performance than entities performing less good on these matters.

UIV considers it crucial that its investee companies generate a positive financial return for the investor in addition to a positive contribution to the goals of the 2030 Agenda for Sustainable Development of the United Nations ('the Sustainable Development Goals'/'SDGs'). Through their positive contribution, these companies create measurable, positive impact.

In this policy UIV sets forth its essential investment principles and framework guiding its investment decisions and business operations.

UIV invests in companies that comply with UIV's essential investment principles. This minimum standard is defined by environmental, social and governance (ESG) principles that are fundamental to climate-neutral and sustainable living, good citizenship, good corporate governance, and the fulfilment of our fiduciary duties towards society at large. The principles are agreed upon in international treaties, conventions, and best practices. UIV complies with many of these for its essential investment principles, including, but not limited to:

- UN Global Compact Principles
- UN Guiding Principles on Business & Human Rights
- UN 2030 Agenda for Sustainable Development
- OECD Guidelines for Multinational Enterprises
- Paris Climate Agreement (UNFCCC)
- Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work
- International Bill of Human Rights
- Regulation (EU) 2020/852 of the European Parliament and of the Council

UIV firmly believes that non-compliance to these principles, next to being ethically unjust or socially unacceptable, provides reputational and therefore financial risk to companies and investors.

### UIV essential investment principles:

1. *Compliance with basic human rights and labour rights*

UIV only invests in companies that respect human rights and labour rights.

2. *No involvement in controversial weapons, no production or sale of civilian firearms and no provision of military equipment to military regimes*

UIV does not invest in companies involved in the production, development, sale, or distribution of controversial weapons or related services or components that are essential or specialised, nor in companies holding a stake (and/or voting powers) of 10% or more in another company that is involved in controversial weapons production.

UIV considers weapons controversial if they are forbidden under international law and banned by international conventions or treaties, or if they violate fundamental humanitarian principles when they are used. Such humanitarian principles include the principles of proportionality, which requires the prevention of unnecessary suffering, and distinction, which requires that military and civilian targets are distinguished.

3. *Compliance with international sanctions*

UIV does not invest in companies for which sanctions have been ordained by international organisations acting within the rule of law, such as United Nations and the European Union.

4. *No systematic involvement in fraud, corruption, and tax evasion*

UIV does not invest in companies that are systematically involved in fraud, corruption, or tax evasion. Forms of corruption include bribery, extortion, fraud, collusion, money laundering, embezzlement, illegal political contributions, nepotism, certain facilitation payments, the conscious withholding, falsifying, or twisting information of essential importance to consumers, business relations, shareholders, employees, or other stakeholders.

5. *No significant involvement in products or business doing harm to human (mental) health or animal welfare.*

UIV does not invest in companies with a turnover of 5% or more related to tobacco, pornography, gambling/lottery, or exploitation of animals involving suffering.

6. *No systematic involvement in severe environmental damage.*

UIV will not invest in companies involved in activities that cause serious environmental damage through toxic emissions, hazardous waste, irresponsible waste management, biodiversity loss or the depletion of natural resources. It is crucial that investee companies operate within the planetary boundaries and do not significantly harm any of the environmental objectives set out in the Regulation (EU) 2020/852.

UIV determines upfront whether potential investee companies comply with the essential investment principles. If they do not comply in full, UIV will not invest in them. Such determination is done through due diligence covering typical components such as:

- Adequate internal procedures safeguarding proper governance.
- Mechanisms to combat and prevent fraud, corruption, and tax evasion.
- Mechanisms to encourage feedback to management.
- Regular reporting.
- Integration of ethical standards into the entire value chain.
- Regular attention to environmental and social impact of operations.

## Transparency

UIV believes that transparency and accountability are critical to bringing about a sustainable society. UIV therefore applies maximum transparency to show its investors how their investments are deployed and how they contributed to the identified Sustainable Development Goals. UIV is fully transparent on the holdings in its investment funds.

## Governance

Periodically UIV provides investors with reporting on the execution of its policies including this Sustainability Policy. It has created an internal control framework with dedicated employees working

on risk management and compliance reporting directly to the Managing Partner. In addition, the Fund Advisory Board may challenge and support the Investment Committee with its role in accordance with the Terms of Reference of the Fund Advisory Board.

### Sustainability risks and the Investment process

A sustainability risk is an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment of UIV. In its decision-making UIV pays close attention to all identifiable sustainability risks at each stage of the Investment process.

The sustainability risks can generally be associated with:

Land: the conversion of land for human use, such as deforestation and mining, has a substantial adverse impact on biodiversity and climate change. These impacts increase the risk on social unrest, legal action and reputational damage for companies involved therein.

Hydrocarbons (fossil fuels): Coal, oil and gas dominate the global energy systems. As the shift to renewable energy sources gains traction, more and more stakeholders are limiting their use or even ruling out hydrocarbons from their energy mix. Companies that continue to rely on fossil fuels are at risk of experiencing a negative impact of this transition (increased cost of financing, increased cost of raw materials, etc.). Companies that are able to move away from hydrocarbon fuels through innovation will benefit from this transition.

Water: Climate change will increase scarcity of water for many regions in the future. Scarcity of water will at first affect industries dependent on water (for instance agriculture), but can also lead to a wider societal impact and the economy at large. For water dependent industries, scarcity of water will increase operational and financial risks.

Waste: Improper waste management (emissions, mismanagement of toxic materials) has a substantial impact on our environment. The polluting compounds can have long lasting or even irreversible effects on living organisms and the physical environment. Man-caused issues with water quality can cause health issues and social unrest. A company associated with these practices runs the risk on legal action, financial risk and commercial risk.

Human capital: This concerns labor rights, diversity and an inclusive environment, availability of skilled employee health and safety measures, development and availability of appropriately skilled personnel and diversity and inclusion practices. Insufficient attention to these factors increases operational risks and can lead to legal action, financial risks and subsequent reputational risks.

Social capital: An organization is part of the fabric of society and as such the manner in which its interacts with society is a key driver for risk. Compliance with human rights, sufficient attention to cyber and data security, privacy and product safety is key. Failure to sufficiently take into account social capital, increases reputational risks, legal action and financial and commercial risk.

Integrity: (Perceived) fraud, bribery, tax evasion, failure to comply with rules and regulations or unethical business practices may lead to reputational risks, legal action and commercial risk. This risk is not confined to the company itself, but also to those companies and organizations involved at various stages in its supply chain.

The potential adverse impacts on sustainability factors of the investment decisions of UIV are evaluated continuously and actions for avoidance/mitigation of their realization are executed when necessary.

UIV integrates sustainability risks in its investment process in the following manner:

- **Screening and research:** All investment opportunities are initially assessed for compliance with UIV's essential investment principles, as well as for alignment of their potential positive environmental and/or social impact with UIV's impact thesis, which emphasizes contribution to 5 SDGs that are core to the sustainable urban transformation. Core positive impact is analyzed through a 5-dimensional scoring model, where likelihood of achieving that impact is one of the key considerations. Any negative impact on other environmental and social objectives, stipulated by the UN 2030 Agenda for Sustainable Development, if identified at this stage, is assessed for its materiality and manageability. Should it be considered as unmanageable and largely offsetting the core potential impact of the opportunity, no further investment-related actions shall be taken.
- **Due diligence and investment structuring:** For all investment opportunities receiving a 'green light' approval from UIV's Investment Committee a detailed technical, legal, and financial due diligence procedure is undertaken, where both core and additional positive impacts, and manageable potential material negative impacts are analyzed further in depth. The structuring of a prospective investment involves also, in consultation with the investee management team, the setting of specific targets for the core positive impact, the additional impact sought according to UIV's impact thesis on goals related with climate action and decent work conditions and inclusiveness, as well as for decreasing/mitigating the potential negative impact on other SDGs.
- **Portfolio management and exits (divestments):** At this stage of the Investment process all impacts (core; additional; material negative) are regularly measured and progress on the targets set is tracked through a proprietary developed impact rating system. UIV's impact framework captures all relevant developments as well as adjusts the impact ratings for non-achievement of target(-s) set for reducing the material negative impact (if present). It also allows for aggregation of the individual investee impact results (ratings) on a portfolio (fund) level. Furthermore, the exit strategies and options are always evaluated in a way that puts higher weight on ensuring a lasting effect of the core impact generation capacities of the investees, while also not incurring additional harmful environmental and/or social hazards.

### **Remuneration policy in relation to the integration of sustainability risks**

UIV's mission is centered on the intentional achievement of material net positive impact for the environment and society through investments in transformative businesses within the urban sustainability agenda. Its remuneration policy is fully aligned with this mission and integrates the sustainability risks, and the potential adverse sustainability impacts of the investment decisions through the direct link between UIV's performance fee and the progress achieved on the impact targets (core; additional; material negative), as captured in the overall impact rating of the investment portfolio (fund). Specifically, if the portfolio (fund) impact rating at exit is below certain threshold (7.5 of 10 possible grades) UIV's performance fee will be subject to a malus of up to 50%.

### **Adherence to responsible business conduct codes and standards of reporting**

UIV is a provisional signatory of the Principles for Responsible Investment (PRI) since February 4, 2021.