

Molten Ventures plc

SFDR – EU Sustainability Disclosures



February 2022

Molten Ventures plc (“we”, “us”, “our”) is required to make a number of pre-contractual disclosures relating to the transparency of the integration of sustainability risks, as prescribed by Articles 6 to 9 of the Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088) (“SFDR”) and Articles 5 to 7 of the Taxonomy Regulation (Regulation (EU) 2020/852), namely:

1. the manner in which sustainability considerations and risks are integrated into investment decisions;
2. the results of the assessment and the likely impacts of sustainability risks on the return of the financial product; and
3. details on whether we have undertaken a principal adverse impact assessment on sustainability factors.

Environmentally Sustainable Economic Activities

Our mission is to empower Europe to invent the future. We want that future to be sustainable, fair and accessible to all. We aim to use our platform in venture capital (VC) to encourage and promote our values and environmental, social and governance (ESG) considerations in developing best-in class technology companies and achieving strong returns for our investors.

We are committed to investing responsibly and embedding environmental, social and governance in everything that we do to accelerate positive change and inspire the next generation of diverse entrepreneurs.

A copy of the Molten Ventures Group Responsible Investment & Sustainability Policy (“ESG & RI Policy”) which sets out full details of our approach to responsible investment and stewardship can be found in the Sustainability section of our website, which is located at <https://investors.moltenventures.com/sustainability>.

Whilst we have integrated sustainability considerations into all stages of our investment process and are committed to a policy of responsible investment through the through the lifecycle of investments, from pre-screening to exit, in accordance with our ESG & RI Policy (further details below), the investments underlying this financial product (i.e., our portfolio of investee companies) do not take into account the EU criteria for environmentally sustainable economic activities.

Further details regarding our investment decision process under our ESG & RI Policy are set out below.

Molten Ventures Responsible Investment Process

Target ESG standards

Our aim is to invest in businesses and entrepreneurs who are committed to changing the world in a positive way by agreeing to embrace the below sustainable practices and standards in their business activities.

We do not demand or expect all of the following Target ESG Standards to be demonstrated at the point of initial investment, but we do ask for a positive commitment by founders and management teams to implement measures that attain (and surpass) our targets during the lifetime of our investment.

1. Recognition of the importance of sustainability and the protection of the natural environment (including in the supply chain) with a commitment to the material reduction and balancing of company-related carbon emissions.
2. Encouraging diversity and inclusion at all levels of the business including at a management level, through policy and direct action, and enforcing a zero tolerance against any form of discrimination.
3. Ensuring that all people involved in the operations of the business, including in the broader supply chain, are treated fairly, with dignity, and with access to safe conditions that encourage healthy working.
4. Entrenching robust structures of corporate governance with identified responsibilities and procedures that are proportionate to the scale of the business and aligned with a leadership culture that is grounded in effective risk management and accountability.
5. Acting with integrity and strong business ethics evidenced through positive engagement with stakeholders in line with all applicable local and international laws, regulations and sector / territory specific standards.
6. Positively addressing customer / client interests, including concerns around privacy, inclusion, health and safety, and marketing.
7. Commitment to the inclusion of a strategic sustainability board agenda item that is discussed at least quarterly.
8. Encouraging transparency and a commitment to monitoring and reporting upon ESG progress within the business.

We strongly believe that the introduction and implementation of the Target ESG Standards stands to benefit the operations and standing of the portfolio company as well as the broader environment/community.

By using these standards we can effectively create a profile of the businesses in which we invest by reference to the nature/location of their operations and workforce, the types of customers/clients they are likely to attract, and the overall quality of management on ESG issues having regard to their commitment, capacity and track record.

Pre-Investment

All prospective portfolio companies in which we consider making a direct investment are initially screened against our Exclusion List and thereafter assessed as part of our ESG due diligence process before a final decision can be taken on the investment.

Exclusion List

Our exclusion list sets out the sectors, businesses and activities in which we will not invest due to having as their objective or direct impact any of the following:

1. Slavery, human trafficking, forced or compulsory labour, or unlawful / harmful child labour.
2. Production or sale of illegal, banned or sanctioned products, or involvement in illegal activities.
3. Activities that compromise endangered or protected wildlife or wildlife products.
4. Production or sale of hazardous chemicals, pesticides and wastes.
5. Mining of fossil fuels.
6. Manufacture, distribution or sale of arms or ammunitions or associated industries which are not systems or services generally regarded as having defensive / non-offensive objectives as their core focus.
7. Manufacture of, or trade in, tobacco or alcohol.
8. Manufacture or sale of pornography.
9. Trade in human body parts or organs.
10. Animal testing.
11. Production or other trade related to unbonded asbestos fibres.

We will also not invest in businesses which are either established in, or have their owners or operations located in countries or territories who are subject to comprehensive sanctions or the sanctions list of the UK, EU, UN, US, or who supply or purchase products, goods or services which are prohibited or restricted by product / sector sanctions applicable to particular countries.

Due Diligence Assessment

All assets are assessed with regard to their sustainability as part of the due diligence process to ensure that the principle of "do no significant harm" is taken into account.

Where an investment is eligible against our exclusion list, we will, during the course of our due diligence process, assess the ESG opportunities, risks and gaps inherent to the business.

We capture our Target ESG Standards in our pre-investment checklists, and employ a risk scoring system to assess compliance with relevant laws in relation to environmental, social, governance, health and safety, bribery and corruption issues by reference to our Target ESG Standards and examination of the following broad range of disciplines:

1. Adoption of stated ESG aims, mapped against the UN Sustainable Development Goals (SDGs).
2. Demonstrable commitment to issues of environmental, social and/or governance.
3. Carbon emissions reduction and carbon balancing activities.
4. Diversity and equal opportunities across the workforce (including at board level) irrespective of ethnicity, gender, disability or background.
5. Staff performance management and levels of turnover.
6. Internal governance measures, including board composition with regular meetings and suitable preparatory processes, internal risk assessment controls, audit processes and grievance / whistleblowing procedures.
7. Existence of suitable internal policies, including anti-bribery and corruption, privacy, and employee-focussed policies (in a codified staff handbook or otherwise).
8. Cybersecurity standards and business resilience strategy.
9. Positive community engagement with clients/customers and stakeholders.
10. Track record of compliance with relevant laws in relation to environmental, social, governance, health and safety, bribery and corruption.

The output of our ESG due diligence process will result in a final score being attributed to the investment opportunity. Specific flags may also be raised in connection with particular identified ESG risks.

ESG Due Diligence Outcomes

The outcome of our ESG due diligence is documented together with the wider investment recommendation materials presented to the Investment Committee in their consideration of the opportunity.

Where low scores are attained, or specific ESG risks are flagged, these are carefully considered, with input from Legal Counsel and/or external advisors as required.

Enhanced ESG screening may be conducted (internally or through outsourced subject matter experts) if deemed appropriate, and the Investment Committee may ask for additional evidence or input from the prospective portfolio company.

In the eventuality that actual material ESG risks are identified, these will be internally presented at our Investment Committee, and a decision will be taken as to how to proceed with the prospective investment. Advice of Legal Counsel will be sought where necessary.

Provided that the ESG risks associated with the investment are deemed to be acceptable, the terms of investment will typically require, amongst other things, a commitment by management to meet our Target ESG Standards and take steps to address any specifically identified risks.

Molten Ventures aims to assist the portfolio company in achieving steps that are proposed to be taken, with the aim of working collaboratively to improve standards and attain the social licence to operate responsibly and sustainably.

Ownership

Following completion of a direct investment, we internally map our ESG status against the UN SDGs (factoring materially thresholds to capture the core nature of the business and its ESG gaps, risks and opportunities) and then work alongside the management team to support and monitor performance against these criteria.

As part of the onboarding process, we will share our high-level due diligence ESG assessment with the management team of the portfolio company and use this to establish a baseline of discussion points that are specific and material to the business. We then aim to collaborate with management to formulate proportionate and company specific ESG metrics and strategies for ongoing monitoring supported by appropriate policy and governance arrangements

The scope of agreed actions and nature of our support will typically evolve as the business grows and matures, but will often take the form of one-to-one interactions, ESG-focused events, networking opportunities and integration into our wider community of companies and investors.

Where agreed, we also provide direct assistance in the form of training or financial commitments toward portfolio carbon balancing exercises during the first and second year of our ownership

Monitoring & Reporting

We monitor portfolio companies' performance on an ongoing basis against our Target ESG Standards, the UN SDGs, and any action plans agreed with management. This may take the form of data monitoring/sharing, as well as anecdotal evidence and periodic reviews to evaluate progress.

Monitoring is intended to capture both positive improvements and material negative incidents or areas for improvement and may be event-driven or periodic at intervals of no less than annually.

The outcome of our monitoring activities are then fed into internal discussions about the portfolio holistically from an ESG perspective, and conversations with portfolio management to agree next steps or remediation actions.

As signatories to the PRI, we report on portfolio company ESG data in aggregate, commencing 2021. We also report annually to our stakeholders on the ESG activities of the Molten Ventures Group and the implementation of this policy.

We also encourage transparency amongst our portfolio companies to disclose their ESG performance against agreed standards/KPIs.

Exit

In the course of an exit from a portfolio company (whether through a business sale, secondary process or IPO), we will aim to capture the nature of ESG progress made through the lifetime of the investment by collation of all historic monitoring and reporting data obtained in the course of the investment.

Our exit report may be made available, with permission, to the prospective vendor, and is separately used to inform an internal moratorium process to articulate any learnings during the course of our holding which we can use to refine our own approach to ESG.

Where data can be of use to the portfolio company, we may agree to work with the management team to help distil this into a coherent narrative of progress supported by the attainment of agreed milestones against our Target ESG Standards and/or other agreed metrics.

Promotion of ESG characteristics

As set out above, we are committed to the analysis of ESG factors as part of our investment decision process, however this is one of a number of considerations in the selection of investments and portfolio company composition.

Our investment objective is to generate capital growth for shareholders by the creation, funding, incubation and development of high-growth technology businesses. As a result, we do not maximise portfolio alignment with sustainability risks as a standalone goal nor do we precisely attribute the impact of ESG factors on fund returns.

Currently no index has been designated as a benchmark for determining sustainability however we may consider doing so in the future.

Principal Adverse Impact Suitability Assessment

Whilst we do assess various adverse impact criteria at the point of making an investment as part of our groupwide ESG & RI Policy (as set out above), at present we do not consider adverse impact reporting of our investment decisions on the express sustainability factors as set out under the SFDR. We have significantly less than 500 employees and do not currently deem it proportionate to our size, nature and scale of our activities to do so.

The SFDR includes metrics which are not directly applicable to our portfolio of investee companies. Nonetheless, we wish to reiterate our commitment to ESG matters and to continue to monitor the regulatory framework as the position settles. We continue to keep our current position on the Principal Adverse Impact regime under SFDR under regular review.
