BLACKFINCH
VENTURES

Environmental, Social and Governance Policy Document

August 2020

ESG
APPROVED

Blackfinch mark of Environmental, Social, and Governance

Contents

Introduction

At Blackfinch Ventures, we invest in companies that can make a difference in the world. With a commitment to ESG and a technology mandate, we support firms that are breaking new ground. We target early stage companies across sectors with technological potential. These firms are innovating with products that address real-world needs. Many are set to change the way we live and work.

We invest in companies at different stages of development. We're passionate about working with innovative firms as they grow, and co-invest with clients. In this way, we're collectively helping to shape the future UK economy by supporting innovation and helping to create jobs. We're proud to contribute to a positive impact in the world through our investments.

In making investment decisions, we consider the purpose of each business. We're focused on investing in firms that share our views on ESG. We support young, entrepreneurial firms with ESG at their core. We also integrate ESG factors into our internal processes and how we work with firms long term.

As part of Blackfinch Group, Blackfinch Ventures works in alignment with its Group-wide ESG policy. Blackfinch Group maintains a focus on ensuring that any impact on the environment is positive; that social responsibility is always considered; and that the Group, in all its dealings, makes governance a priority.

Purpose of Policy

We manage and advise on investments for the Blackfinch Ventures EIS Portfolios and the Blackfinch Spring VCT. These are an Enterprise Investment Scheme (EIS) and a Venture Capital Trust (VCT). They're government-backed investment vehicles offering investors tax reliefs. The government's aim is to encourage investment in small, growing firms, and offset some of the risks involved.

Tax-efficient and early stage investing is by nature higher risk. We have a strong awareness of our responsibilities to clients focused on these areas. As part of that we set out our ESG policy so that advisers can properly inform their clients. We're also focused on working with entrepreneurs whose views on ESG are aligned with ours. Founders seeking funding can use this policy to get an insight into our processes, and what to expect.

What is ESG?

What is the official definition of ESG?

Over the last few years, ESG has started being used as much to describe how well a business is managed as to explain how sustainable its product or service is. More recently, the mainstream press has been using 'ESG' as a catch-all term for investing with a 'responsible' or 'ethical' screen.

There are no official industry or regulatory standards for comparing these different approaches. However, with ESG now so important, some key definitions for certain factors have been accepted across the industry. We align to these.

Environmental

Investing with consideration for the environment. This includes working to reduce pollution and climate change, and to source sustainable raw materials using clean energy sources. The focus is on how a firm approaches environmental concerns, the ecological impact of its products and its carbon footprint.

Social

Investing with consideration for human rights, equality, diversity and data security. The focus is on how companies are incorporating these. It's also about looking to see if each is actively investing/working towards a healthier and higher quality of life for staff and stakeholders. We also consider whether companies expect the same set of standards and values from their suppliers.

Governance

Investing with consideration for positive employment practices, business ethics and sustainable management. The focus is on how a company builds its management structure and works with all its different stakeholders. How does it approach investor and employee relations? Does the board work with transparency, honesty and integrity? Does this filter down to the rest of the company?

Sustainability

Sustainability is defined as meeting present needs without compromising the ability of future generations to meet their needs. It's subdivided into environmental, social, and economic sustainability. While there's a lot of overlap with ESG, sustainability ensures a long-term focus on issues.

For example, economic sustainability for a business concerns its long-term profitability. That in turn requires resilience and adaptability, creating a need for strong governance.

Our Principles in Assessing ESG

We work to ensure that ESG and sustainability are properly considered in all our work. While we're not an impact fund, we strive to ensure that every portfolio company makes at least a small net positive, sustainable contribution to the world.

In assessing any potential investment or portfolio company, we consider:

1. The central purpose of the business: this must be worthwhile at least in some small way
   An economic benefit is worthwhile. For example, a business-to-business company that saves other businesses money would generally qualify. (This is unless, for example, its customers were mainly in a high-risk sector, e.g. gambling.)
2. What the business does – and plans to do – in pursuit of its purpose
3. How the business is conducted, especially for governance
4. The attitude of the team – the board and especially the founders – and their commitment to ESG

Our considerations extend across the following:

- Taking a long-term, sustainable perspective
- Thinking especially of risks, not just clear outcomes
  Some businesses may have major risks. These will need strong mitigation and governance that can be guaranteed in the long term. They're high-risk businesses.
- Considering impacts in their own right, but also compared to what they displace
  For example, a business may incur some cost in terms of climate change. The business should acknowledge this cost, and work to eliminate or mitigate it as far as reasonably possible. However, is the business then displacing activity that will – or in practice be very likely to – incur a much higher climate cost?
- Checking that any negative ESG issue with an investee company is:
  - Necessary
  - Documented
  - Judged to be outweighed by other benefits
- Looking for benefits and opportunities, not just impacts and risks

Sourcing Deals

In our initial filtering of potential investment opportunities, we discard any business that falls in a non-ESG sector such as gambling. Similarly, if we classify a business as high risk, we only continue if its purpose is consistent with ESG considerations.

In evaluating a business, we identify the main ESG benefits and risks in line with our policy. We consider:

- Standard risks in the sector
- For hardware: the full value chain – including materials, transport, manufacturing, packaging, sales and disposal
- Our perception of founders and the values and culture of the business
- The nature and type of customers, particularly if there are potential pressures for corruption

If there are major material risks, we flag the business as high risk. For any high-risk business we carry out a more detailed assessment. We look at how its risks are being managed. We also consider how they can be managed in the long term. If necessary, we add conditions to the term sheet.

We then document the results in the pre-term sheet summary that we provide to our Investment Committee (IC).

Investment Process

As part of due diligence (DD) on potential investee firms:

1. We make a more detailed assessment of ESG in the business. This includes considering what the business does and plans to do, and the way it conducts itself. We note negative impacts and risks along with benefits and opportunities. We also highlight any areas of concern that we'll need to investigate further. For example, this might include questionable governance.

2. We assess key suppliers for ESG, using information supplied by the company, such as suppliers' codes of conduct.

3. In our interviews with founders and stakeholders, we obtain informal input to:

   - Assess the values and culture of the business
   - Gauge the board and the executive's commitment to ESG (and their track record)
   - Assess the overall team's ability and competence to deliver on that commitment

4. We investigate in detail any areas of material concern

5. We document the results and complete an overall evaluation. We then summarise the findings in a dedicated section of the paper for the IC. We also list relevant risks and their mitigations in the main risk table.

6. If the business is high risk, we obtain evidence to support the current and planned management of its risks

Finally, for high-risk businesses, we ensure that the subscription agreement covers any necessary conditions for managing the associated risks. This includes investor consents.

Portfolio Monitoring

We expect every portfolio company to be committed to ESG. However, we know that the extent to which ESG practices are formalised will depend on the stage of the business. For the smallest companies it's sufficient to have good aims and commitment. Meanwhile we expect more developed organisations to have documented accountabilities and policies.

We aim to give each company the support and assistance of a value-add non-executive director (NED), known as an UltraNED, that we have appointed. This is along with a board observer. Our team works with a focus on the following:

- To ensure there is an annual board report, and log key points including progress
- To verify at that point that the company's approach to ESG is appropriate for its stage
- To provide board counsel consistent with ESG considerations. We also highlight any material new or changed risk. And we consider ESG factors in any pivot or change of strategy.

We also work to have a documented review of the existing portfolio. This includes:

1. An outline assessment of the ESG impacts, risks and opportunities of each current portfolio company
2. An in-depth ESG evaluation of any areas of significant concern. This is equivalent to those in the DD stage for a new investment.
3. Actions feeding into ongoing monitoring

ESG factors are important in preparing for an exit. This is in terms of the impact of an exit on the business, and the expectations of the new owner or investors. We consider:

- How ESG will affect the overall exit strategy. This includes risks and opportunities.
- The likely ESG consequences of any trade offer – positive or negative
- The likely ESG requirements of the exit process and any post-exit reporting (e.g. as with an initial public offering). We always clearly disclose company ESG information during the exit process.

Finally, if a portfolio company fails, we ensure the company is wound up responsibly. This includes:

- Maintaining communication with founders, and as far as possible ensuring employees are kept informed
- Working to provide any payments and settlements, especially to employees, as quickly as possible

Blackfinch Ventures Internal Review

In maintaining its commitment to ESG principles, Blackfinch Group regularly reviews its performance in the following key areas:

- Compliance with the law of the land and in particular but not exclusively relating to the financial services industry
- Acts with honesty and integrity in all its dealings and communications
- Regularly trains its staff in areas including money laundering and data protection and ensures that it adheres to the laws governing bribery and inducement
- Is vigilant in ensuring that none of the investments in any of its portfolios have any involvement with human exploitation or discrimination on the grounds of race, gender or disability
- Employment of staff is non-discriminatory and there is clear evidence of equality and diversity
- Continues to operate with respect for the environment, to ensure sustainability of resources, and to responsibly recycle and reduce waste products wherever possible. Also ensures disposal of any hazardous material is carried out responsibly.
- Management teams, processes and policies reflect transparency, responsibility accountability, equality and probity in all dealings
- Compliance with industry-led ESG guidelines and best practices while having above-standard watermarks in place for environmental, social and governance performance
- In all parts of its investment cycle has a responsible approach to present and future impacts on climate change, the environment, communities, customers and workers

As part of Blackfinch Group, Blackfinch Ventures is committed to evaluating itself. We also look to do this as we would an investee company. We then work to address any issues that arise. We aim to ensure that we're working as sustainably as possible.

Our evaluation covers what we do, the way we do it, and the team involved. It means ensuring and monitoring that:

- All members of the Ventures team and related IC(s) are aware of our ESG and sustainability principles and policy, and are committed to them
- The Ventures team collectively has the level of expertise to assess ESG
- All UltraNEDs are committed to ESG and adhere to our portfolio monitoring policy

Whenever we update our ESG policy, we also review our template legal documents, including warranties and investor consents. This is to check they promote good ESG practice, and don't stipulate anything inappropriate.