pymwymic

Sustainability Approach

PYMWYMIC INVESTMENT MANAGEMENT B.V.

Last reviewed: March 2025

Purpose

This document explains the Pymwymic Investment Management B.V. ('**PIM**', 'the **Manager**') sustainability approach, including sustainability risks, as required in Article 3 of the European Sustainable Finance Disclosure Regulation ('**SFDR**'). As the Manager's approach to sustainability goes beyond Article 3 of the SFDR, this document elaborates how impact is integrated in every step of the investment process as well as portfolio management.

Who we are

Pymwymic is one of the oldest impact investors in Europe. Set up as a co-owned impact investment cooperative of over 200 individuals, families, entrepreneurs and angel investors, the Pymwymic Impact Investing Coöperatief U.A. ('**Pymwymic Coop**') has taken a frontrunner role in the transition towards investing with care for both people and planet since 1994. Together with institutional investors, the Pymwymic Coop launched two impact funds (also referred to as '**Funds**', or '**Sub-Funds**'). The first one, Pymwymic Healthy Ecosystems Impact Fund ('**PymHeif**') has nine portfolio companies building solutions to preserve and restore our ecosystems. The Manager is currently investing through the Healthy Food Systems Impact Fund II ('**PymHfs**'), supporting change making entrepreneurs who are transforming our food system from farm to fork. Both the Sub-Funds and the Coop are managed by the Manager.

Approach to sustainability

By providing risk capital as well as hands-on support to impact portfolio companies that are financially sustainable and scalable, the Manager aims to create a positive socio-economic and environmental impact. The Manager solely invests in Funds that are so-called 'Article 9' as set out by the SFDR and have a sustainable investment objective.

Each investment made by the Manager is carefully screened on sustainability factors. Potential portfolio companies are both screened on their ability to 'drive positive change' as well as 'do no harm' within the investment thesis of the Sub-Fund. The impact methods and approaches as described in this document are similar across all Funds.

Drive positive change

With the Pymwymic Coop being EuSEF[1] approved, it commits to invest solely into positive impact companies. Initiated by PymHeif, followed by its successor PymHfs, the Manager's positive impact focus is on transitioning the global food system. The current food system is the single biggest driver of climate change, the largest consumer of fresh water, the number one cause of observed biodiversity loss and the direct reason for 80% of deforestation. In close cooperation with our partner Wageningen University and Research ('**WUR**') and on the basis of their Food System Approach, an investment thesis was developed to support the transition to a more sustainable food systems. Consequently, the Manager only selects companies that contribute to driving this positive change.

The Manager believes there are four things that are needed to create a more sustainable food system: (1) a food system that is fair for farmers, (2) ensures safe and healthy food, (4) is built on a nature-positive approach towards food production. For each of these outcomes, the Manager has defined a set of KPIs to ensure progress on these targets are being measured.

[1] Regulation (EU) No 346/2013 on European social entrepreneurship funds

Figure 1. Impact strategy of PymHfs

EU Taxonomy contributions

To facilitate sustainable investments, the EU Taxonomy framework has been developed, consisting of environmental as well as social objectives. The aim of the SFDR regulation is to link the sustainable objectives of a fund to the EU Taxonomy. PymHeif and PymHfs both focus predominantly on the agriculture and food systems sector, which has a clear link to the environmental objectives of 'protection and restoration of biodiversity and ecosystems' and 'climate change mitigation'. The Sub-Funds also aim to contribute to the social objectives of 'bettering human health and wellbeing for end-users' and 'inclusive and sustainable communities and societies'.

At this point in time, the Sub-Funds invest in economic activities aiming to meet an objective for which the EU Taxonomy is not yet finalised (i.e., regarding activities meeting the objective of 'protection and restoration of biodiversity and ecosystems') or are not yet part of the finalized topics (i.e., for activities seeking to meet the objective of 'climate change mitigation'). When the EU Taxonomy is not yet available for a Fund's economic activities, the EU Taxonomy regulation has developed an approach to show the sustainable nature of the investments. This entails following a Fund's own impact indicators as well as the Principle Adverse Impact ('**PAI**') indicators, to demonstrate how the sustainable investment objective is achieved.

Do no harm

To assure that investments are aligned with the Manager's values and to minimise potential negative impact, strict screening criteria and an impact risk analysis are applied to potential investments. These steps are designed to ensure that companies are excluded when they significantly harm environmental and/or social objectives and/or do not follow good governance practices.

As the impact screening (both positive and negative) has been embedded throughout the whole process, the Manager believes the likely impact of sustainability risks on the returns of its investments is limited. However, sustainability risks are complex and can occur in a manner that cannot reasonably be anticipated by the Manager, resulting in an unforeseen actual or potential material negative impact on the value of an investment.

Process

The Manager has developed a tailor-made process to ensure an investment opportunity is not only evaluated and managed on its capacity to bring healthy financial returns, but also creates positive environmental and social impact, and avoid sustainability risks. Each year the process is reviewed and improved based on market standards as well as practical day-to-day working experience, resulting in a range of impact tools across the investment process:

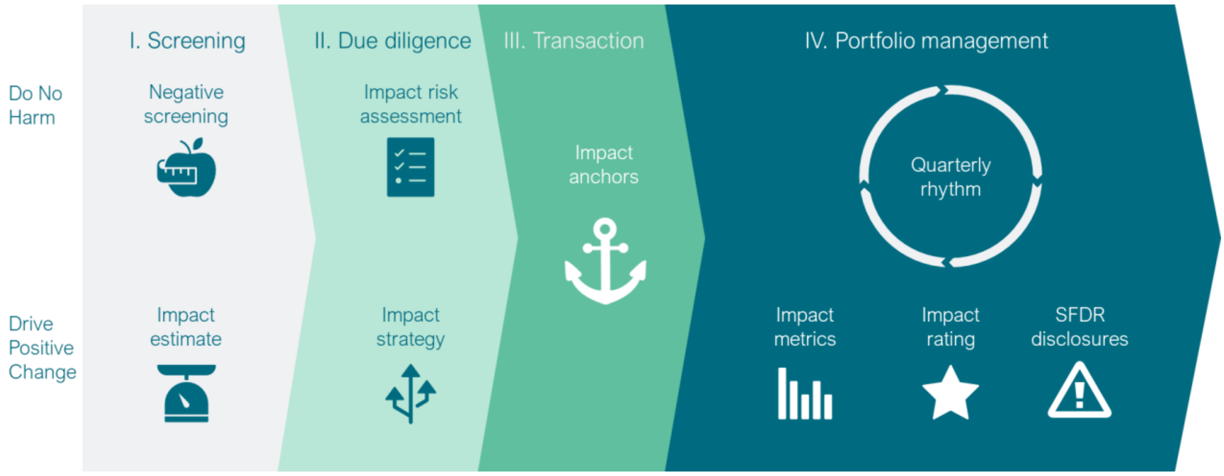


Figure 2. Impact approach throughout the investment process.

I. Screening

The screening is the first phase of the investment process during which a company will be assessed on its business model, financials, market size, team, impact potential/risks and more. This phase consists of two impact screening tools: (i) negative screening and, (ii) impact risk/return radar.

Impact tool used: Negative Screening

The Manager uses the negative screening to exclude companies that are active in certain industries or engage in activities that are not in line with our positive impact approach. Besides complying with EuSEF and UN Global Compact, the Manager screens specifically on the exclusion of:

Trade, production and facilitation of:

1. Illegal economic activities
2. Tobacco
3. Drugs
4. Military armaments
5. Gambling
6. Nuclear power and fossil fuels
7. Genetic manipulation of animal cells and furs
8. Industrial livestock (for slaughter)
9. Adult entertainment (pornography)

Production of:

10. Alcohol

Use and exploitation of:

11. Child labour
12. General human rights violation
13. Women’s rights violation

14. Corruption and money laundering
15. Unequal remuneration
16. Avoidance of taxes
17. Violation of legislation, codes and conventions
18. Animal testing

Do not cause significant harm to:

19. Climate change mitigation
20. Climate change adaptation
21. Sustainable use and protection of water and marine resources
22. Transition to a circular economy
23. Pollution prevention and control
24. Protection and restoration of biodiversity and ecosystems

Impact tool used: Impact Risk/Return Radar

The impact risk/return radar was developed to make an impact estimate of a company and initiate the discussion about impact from the very start of the investment process. By describing and scoring a set of questions related to a company's impact potential ('return') and its risk, a first assessment of the impact can be made (based on the Five Dimensions of Impact as defined by Impact Management Project). Each question is scored on a scale from 0 to 3.

The impact return is estimated by addressing the following five questions:

1. Who. *"Does the company have a positive impact on underserved / vulnerable people?"*. A score of 3, the highest, would indicate that the company primarily impacts underserved people.
2. What. *"How substantial is the impact created by a company?"*. This question considers several factors, such as the extent to which a company's products or services directly solves an impact problem, the degree to which the company offers a one-off solution or rather addresses a systemic change in the industry, and more. The more substantial the impact, the higher the score.
3. How Much. *"How large is the impact created by the company?"*. This question considers the degree to which the number of people the company targets is large as well as the extent to which a company plays an active role to influence the industry they work in. The wider the reach of the impact of the company, the higher the score.
4. Contribution. *"How unique is the impact created by the company?"*. This question considers the degree to which there many (possibly better) alternative solutions or how disruptive its solution is. The highest score (3) will be given to a solution which is unique and disrupts the industry.
5. Additionality. *"To what extent is the capital and our knowledge we provide to this company additional?"*. This question examines our additionality as impact investors and future shareholders of the company based on both the capital and the knowledge we bring to the company. If the Manager's capital and knowledge is additional, the score is 3.

Box 1: Capital additionality

Capital is considered to be additional in case of any of the following circumstances:

- Price: capital provided at lower than market price
- Pledge: guarantee provided to increase access to other sources of capital
- Position: accepting a subordinated position to catalyse capital
- Patience: capital provided for longer terms than normally accepted
- Purpose: flexibility offered in terms of when impact profile of a company has improved

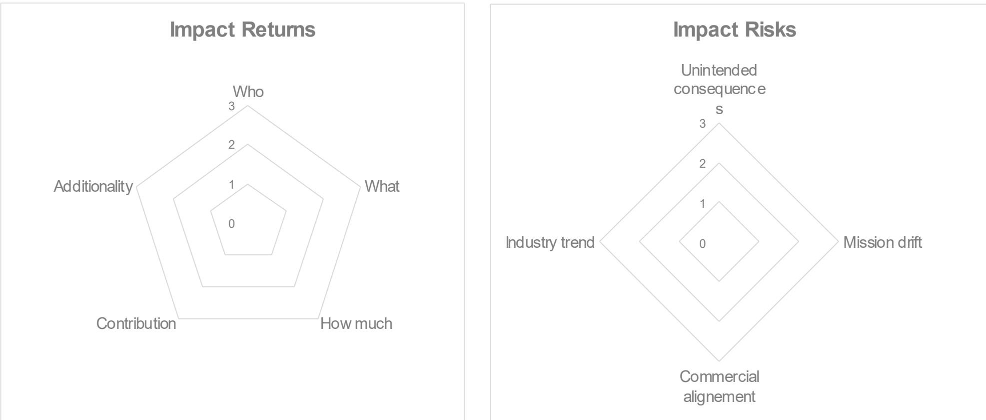
The Impact Risk dimension covers four risk-related questions:

1. Unintended Consequences. *"To which degree might the company's products, solutions or operations may trigger adverse effects?"*. The question relates to the extent to which there are negative externalities arising from the company's operations both considering environmental and

social effects. A high score means a clear risk that company's operations will lead to negative unintended consequences.

2. <u>Mission Drift.</u> "*What is the chance that the company will dilute or disregard its mission in time?*". If there is a clear risk that the target's mission drifts due to lack of management or shareholder commitment, the answer will receive a low score.
3. <u>Commercial Alignment.</u> "*To what extent are the commercial activities and impact performance aligned?*". In case there is high risk that the commercial activities will "push" impact aside due to the lack of alignment, the score will be high. In case the commercial activities are purely impactful and do not compete for resources with impact activities, the score is low.
4. <u>Industry Trend.</u> "*Are industry dynamics in favour of the positive change this company is trying to achieve or is this company going against market standards, practices and industry trends?*". If there is a high risk that the industry trends will make it difficult/impossible for the company to succeed on its impact mission, the question will score 3.

Figure 3 illustrates the impact risk/return radar, a visual representation of the results between 0-3 in the impact risk and return questions. The outcome can be summarised in two percentages and allows the Manager to evaluate the attractiveness of the investment from an impact. The results of the negative screening assessment and risk/return radar analysis are discussed amongst the investment team in a meeting to evaluate whether or not an investment is worth further analysing from an impact perspective.



Impact Return Score
50%

Impact Risk Score
44%

Figure 3. Example of Impact Risk/Return Radar.

II. Due diligence

Once a company passes the screening phase, the Manager continues with due diligence. The due diligence process is a rigorous analysis process involving various aspects such as financial, legal, commercial, technical, and impact performance, to determine whether a company is an attractive investment opportunity. To assess a company's impact, two tools are used during this phase: (i) impact risk assessment and, (ii) impact strategy. Moreover, the Manager learns more about the impact activities of a company which sets the baseline for the impact rating (see section 'Portfolio Management' for more information on this tool).

Impact tool used: impact risk assessment

To assess potential impact risks as well as identify areas where a company could reduce its negative impact, the Manager developed an impact risk assessment. This tool covers the same topics as the PAI indicators as under SFDR. The assessment consists of two sections that are to be filled out by a company:

- A qualitative estimation on sustainability risks in the operations of a company. This includes questions on suppliers, production, product design, operations, team and unintended consequences.
- A checklist to ensure a company is not in violation of specific ESG regulations or principles. This includes questions to confirm reasonable efforts to comply with the UN Global Compact principles.

The Manager will develop a red flag report based on the information collected from the company. In case a flag is raised, the company is questioned and if deemed necessary, mitigation possibilities will be discussed. Moreover, the assessment gives opportunities to identify impact improvement areas that can be followed up with the company post-closing.

Impact tool used: impact strategy

The goal of developing an impact strategy with each new company is to support them to truly embed impact into its day-to-day operations, its governance as well as be able to steer and focus its team in order to realise more impact. To achieve this, the Manager and the company hold several sessions to jointly develop an impact strategy and key performance indicators. To this end, the logic model version for a theory of change is used as a core framework. This logic model sets forward a top down approach and allows a high-level, often conceptual, mission to be translated into concrete and measurable targets which can be used to steer operations and make day-to-day decisions.

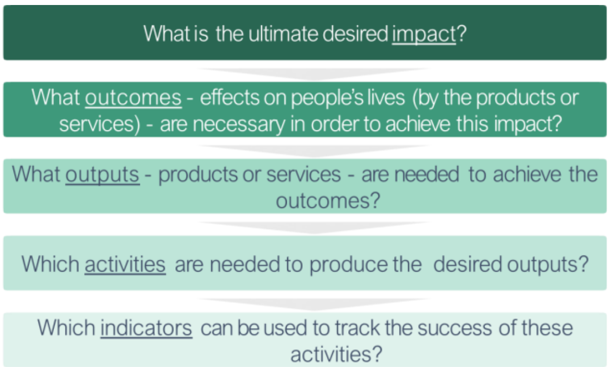


Figure 3. Explanatory figure of the Logic Model.

The development of a theory of change begins with determining the company's <u>impact mission</u>, or in other words, the ultimate impact goal that the company wants to achieve through its solution. The analysis then goes one level deeper to define the <u>outcomes</u>, which are the solutions' effects on people's lives necessary to achieve the desired impact. On the third level, the company will describe the <u>outputs</u>, which are the products / services needed to achieve the outcome(s). Following, the company needs to identify the concrete <u>activities</u> needed to produce those outputs. Ultimately, the company will have identified the key performance indicators ('KPIs').

Once the theory of change has been developed, a company will set targets for each KPI, forecasting four years ahead. Also, the company determines which indicators are of most importance by applying weights to the KPIs. Target setting often ignites further discussion about the quality of KPIs as some indicators may be difficult to make quantifiable or do not measure what is intended. Targets are discussed with the board of the company and approved by the Investment Advisory Board of the respective funds.

Box 2: Food System Plotting

Prior developing a Theory of Change, the Manager will perform a Food System Plotting. This is based on the Food System Approach ('**FSA**'), which was created by WUR in 2019 as a comprehensive framework of the food systems and all its interconnections. The framework describes (i) the different elements in our food system and the relationships between them, and (ii) which transition is required in the entire system to create a sustainable system which is able to feed healthy diets to a growing population without harming people and planet. By performing a Food System Plotting, it supports the Manager as well as a company to better understand its role in the food transition and how it could improve its positive impact while minimizing the potential negative consequences.

III. Transaction

During signing and closing, various investment documents structure the transaction and safeguard the interests of both company and investors. In additional to the standard protection and information rights, the Manager has two tools which support impact anchoring into a company's governance: (i) impact anchor clauses, and (ii) an impact carrot mechanism.

Impact anchors

When closing a transaction, there are various matters the Manager aims to anchor in the legal documentation to ensure long-term safeguarding of impact. During legal documentation negotiations, the Manager uses a standard document 'Impact Anchoring Clauses' that contains draft clauses for each of the anchors for both a Term Sheet ('**TS**'), Investment Agreement ('**IA**') and/or Shareholders Agreement ('**SHA**').

An overview of the impact clauses is listed below:

- Mission. Inclusion of the Target's impact mission in the Articles of Association ('**AoA**'), commitment to impact mission playing an important role in decision making processes in SHA / IA;
- Theory of change + KPI (metrics) + Targets. Setting the Target's KPIs, Targets and theory of change is a condition precedent to close the transaction in the Term Sheet OR have it set as a subsequent condition in the SHA / IA;
- Impact Report. Inclusion of the obligation to report impact actuals against targets quarterly as well as SFDR article 9 requirements annually in SHA / IA;
- Independent Validation of Report. Inclusion of independent validation of the impact report in SHA / IA;
- Board Position. To have a board position to raise / address / influence / participate in the impact matters OR to have a board observer position and impact vote;
- Decisions. Changing the mission and theory of change as reserved matter, and obligation to consider ESG/UN Global Compact principles in business decisions included in SHA / IA;
- Diversity. Inclusion of best efforts to strive towards a 35% rate of diversity (ethnic, culture, gender) in both management and board in SHA;
- Mission Drift Exit. To include the possibility to exit the company if there is impact mission drift (obligation of the company to repurchase shares for the same price);

Impact Carrot

General market practice is that portfolio companies can be rewarded in case of financial (out)performance. However, such mechanisms do not yet exist for impact (out)performance. While most structures to put impact on the agenda are structured as 'sticks' (e.g. second tranche of investment to only be released after impact milestone achieved), the Manager has sought a mechanism that is considered a reward, or a 'carrot' rather than a stick. In this mechanism overperformance of impact targets leads to financial reward of founders and the team, at the expense of the investor. The financial gain can be structured as accelerated vesting of ESOP for senior team / founders, ESOP top-up, release of company-wide bonus or rachet adjustment of the pre-money valuation in favour of founders and team. This mechanism is new in the market and part of Pymwymic's pioneering role in setting new norms for impact investing and has been addressed by Legal Innovations for Sustainable Investments.

IV. Portfolio Management

The goal of portfolio management is to support portfolio companies grow to the next level of maturity while securing and advancing on their impact mission. The Manager aims to add value to a company by introducing them to new markets, spurring strategic discussions, help companies with financial planning, upgrading their governance and reporting, and more. This takes place by portfolio monitoring, board representation and quarterly company analysis.

Similarly, from an impact perspective, the goal of portfolio management is to support a portfolio company to grow their impact results and safeguard their long-term commitment to impact in their organisation. The Manager aims to play a role in supporting companies to fully anchor impact in their daily operations. To achieve, the Manager has an internal rhythm of impact processes (quarterly challenger sessions, one-on-one's with board members) to keep debating, reviewing and improving. This ensures a structured schedule across the year, including multiple touchpoints with portfolio companies as well as regular internal reviews to challenge impact direction and achievement. This enables the Manager to act as a true impact guardian to a company, keeping the impact agenda alive and guiding them to be as impactful as possible. To aid this impact guardian process, three tools are being used: (i) impact KPI reporting, (ii) impact rating, (iii) PAI reporting.

Impact tool used: impact KPI reporting

Each portfolio company reports on a quarterly basis on the progress of its impact targets. Reporting is included in the quarterly reports and discussed during internal quarterly portfolio meetings with the Manager's investment team. In case a portfolio company is behind on realising impact targets, the Manager decides on a course of action to ensure impact realisation. In Q2, an annual impact report is developed, showing the progress which has been made by each portfolio company in realising their impact targets. Annually, the Manager encourages the company to revisit their Theory of Change to judge whether or not improvements are necessary.

Impact tool used: impact rating

The impact rating is the prime tool for the Manager to track its progress how it is embedding impact at the portfolio companies and its role as impact guardian. It consists of over 50 items ordered in five categories (below) which are scored on a four-point scale to give a total score out of 100. This results in a rating from F (lowest) to A+ (highest).

- Results. Measure the performance of a company against its set targets of the impact metrics belonging to its theory of change. This item is very straightforward and fully objective as it is based on a numerical input.
- Strategy. Measures less tangible aspects such as quality of the mission statement, how well metrics can be measured, degree to which the theory of change has advanced since its first iteration, and scope and reach of the strategy (e.g. ambitions to be an industry influencer). Example question: '*Who was the primary penholder and driving force of the theory of change – the company or Pymwymic?*'
- Day-to-day. This is probably the most difficult category to capture in an objective manner. To make it as tangible as possible, the Manager has identified a wide range of practices observed in impact-driven companies which are consider to be truly living and breathing their impact. Such practices

include the degree to which employees of a company can reproduce the impact strategy, the amount of airtime impact gets in board room discussions, or the degree to which impact performance is embedded in HR processes (e.g. remuneration). Example questions: '*How many people are ambassadors / safe guarders of impact and how proactively does the company commit (financial) resources to it?'*

- Governance. Embedding this is done by reviewing the degree to which shareholders are impact orientated as well as which mechanisms are in place to secure impact in a company's legal documentation. Anchors in legal documentation include mission statement, development and review of the impact strategy, inclusion of impact in decision making, impact reporting and various forms of impact 'carrots and sticks'. Example question: '*Does the company have a target rate % for diversity (ethnicity, culture, gender) for both management and their Board?'*
- Footprint of a company. This is largely measured in accordance with the PAI reporting under the SFDR and the degree to which the company is actively working on potential flags and risks. Example question: '*Is the company's negative footprint being actively discussed or is it a low importance item with regards to decision making around e.g. new suppliers?'*

Progressing each portfolio company's individual impact ratings is what we consider as a key reflection of advanced impact imbedding and is how we measure how well we are doing as an impact guardian.

Impact tool used: Principle Adverse Impact reporting

To demonstrate how portfolio companies aim to reduce their negative impact, the PAI framework as outlined by the SFDR is used (see box 3 for an overview of the mandatory PAI indicators). The PAI data is collected from the portfolio companies on an annual basis and reviewed by the Manager to ensure accuracy. Moreover, the PAI framework will be used to demonstrate how portfolio companies progress on the indicators year-on-year, to ensure no investments cause significant negative harm during the investment period. The periodic PAI disclosures of each Sub-Fund can be found on our website.

Box 3: Overview of PAI indicators

Climate and other environment-related indicators:

- Greenhouse Gas emissions (incl. scope 1, scope 2 and scope 3 emissions, carbon footprint)
- Exposure to companies active in the fossil fuel industry
- Energy consumption intensity per high impact climate sector
- Activities negatively affecting biodiversity-sensitive area
- Emissions to water
- Hazardous waste and radioactive waste ratio

Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters:

- Violations of UN Global Compact principles
- Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles
- Unadjusted gender pay gap
- Board gender diversity
- Exposure to controversial weapons

Regulatory reference list

For this document, the following definitions apply:

- **‘SFDR’** – 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, as amended from time to time;

- **‘EU Taxonomy’** – Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, as amended from time to time;

- **‘Sustainable investment’** means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance, as in Article 2 (17) SFDR;

- **‘Sustainability factors’** means environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters, as in Article 2 (24) SFDR;

- **‘Sustainability risk’** means an environmental, social or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investment, as in Article 2 (22) SFDR.

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