Passion Capital

ESG policy

Introduction

Our investors place money with us to generate returns for them, but not at any cost. We recognise our responsibilities, as stewards of capital provided by others, to put it to work in the best early-stage digital technology companies.

Beyond the moral imperative for ESG (environment, society and governance) issues, research[1] shows a correlation between a strong ESG agenda and financial success in companies. We also applaud the fact that ESG issues are now high up the agenda for stakeholders at every level impacting our own success: for prospective limited partners considering whether to invest in Passion Capital; for other funds and strategic investors looking to co-invest in or acquire our portfolio companies; for prospective employees of our portfolio companies and for the consumers or businesses that those companies serve.

The purpose of this policy is to set out (i) our core beliefs and (ii) our current targets for integrating ESG principles into our business at both the fund level and at the portfolio level. Sarah Stafford, our General Counsel, is responsible for the execution of this policy and for keeping ESG issues on the agenda across our operations. Malin Posern is the partner with ESG responsibility for our pre-2023 vintage funds and we intend that Will Orde will take responsibility for our post-2023 vintage funds. This policy will continue to evolve over time. This is our marker for where we are in financial year 2023/24, now in our third year of having an ESG policy, and where we're aiming to be.

The big ESG picture

Our core belief:

The best performing companies are those that recognise the importance of ESG issues as they scale and grow. Fortunately for Passion Capital, our companies tend to have open-minded and curious founders who are aware of ESG issues. As active investors, we are in a prime position to be able to nurture that awareness and influence the future direction of many of these exciting companies.

Targets for Passion Capital:

1. We are a signatory to EDCI (the ESG Data Convergence Initiative) and we will start reporting data for ourselves and our Fund I companies starting with the calendar year ending 31 December 2023. (We have taken the decision to start with Fund I and we will look to build on that in coming years).
2. Our next venture capital fund (expected to be called Passion Capital IV LP) will be aligned to Article 8 SFDR, meaning that it will be a fund that promotes environmental and/or social characteristics and good governance. We will mandate all portfolio companies in our future funds to submit annual ESG data based on the EDCI reporting template, and we will report and disclose our ESG metrics in accordance with Article 8 requirements.

[1] For example NYU Stern/ Rockefeller Asset Management: ESG and Financial Performance (Feb 2021); BlackRock: Lifting financial performance by investing in women (Nov 2023)

3. We will continue to include an ESG summary for our LPs for all of our seed funds in our quarterly reports.
4. Passion Capital will continue to hold itself to the same or higher standards than those that we expect of our portfolio companies. To help meet this target we have an employee handbook for Passion Capital which states our commitment to ESG values and states that behaviour which is inconsistent with those values will be sanctioned.

5. We will continue to include ESG analysis in our pitch screening, in our due diligence and in our follow-on assessments. The lead analyst, General Counsel and ESG partner lead on each of these respectively and share and compare notes for consistency.

6. We will continue to create an ESG file for each portfolio company at the point of investment, tracked through each follow-on round in which we participate or debate whether to participate in.
    - We will continue to share this with the relevant portfolio company for their reference.
    - This will form the basis of an ESG summary that we could share with future potential investors, partners or acquirers of that company to help in their due diligence in what will undoubtedly be an area of increasing focus.

Targets for our portfolio:

1. For Fund I companies, we will work with them to secure relevant data to make an ESG data submission to EDCI in respect of the year ending 31 December 2023. It isn't feasible to ask all of our 80+ portfolio companies to report from a standing start, so in 2023/24 we are starting with Fund I which represents our most mature companies. We will assess our success after April 2024. One large challenge for us is that ESG reporting is not something that we asked for at the time of investment for Fund I, Fund II or Fund III companies which could limit our ability to obtain this data. However, we are optimistic that a majority of Fund I companies will already have the data and we will use our best efforts to encourage those that do not.

2. We aim to ensure that our portfolio companies comply with all relevant laws and regulations relating to ESG issues.
    - Non-compliance with laws pre-investment will be addressed in the legal documents, as a post-investment follow up or as a deal-breaker, depending upon the seriousness of the breach. This will be reflected in the ESG summary for that company and follow-ups will be diarised.
    - Once companies are in the Passion Capital portfolio, non-compliance is not ignored. We use our influence to ensure that our companies comply with relevant laws.

3. As an active (albeit minority) investor, we offer our expertise in strategy, communications, people management and financial reporting to set companies on the right ESG track from the outset.
    - We already by default have each of our partners attend the initial board meetings following our first investment, so that the founders can see the breadth of experience that we can offer and feel confident that they can reach out to tap into that expertise as and when they need it.
    - We will continue to add ESG issues to our suggested agenda for those early board meetings.

- Where pre-funding diligence raised particular ESG risks, we will aim to keep those on the board agendas and raised until resolved satisfactorily.

Environment

Our core belief:

There is no Planet B. We recognise that the Earth is our most valuable resource, and yet recent human activity has damaged the future prospects of humans and most other living species on the planet. We are guided by science, and the urgent need to minimise global warming and to mitigate the effects of unavoided global warming.

Targets at Passion Capital:

1. We will continue to carry out an annual mapping exercise to assess the carbon impact of our head office operations and create a roadmap to reduce our emissions to the lowest practical level in the shortest practical timeframe.
    - We will continue to engage with a third-party consultancy to validate our annual mapping exercise.
    - We will continue to avoid unnecessary business travel and to celebrate avoided emissions-heavy travel such as flights.
    - Through the EDCI reporting, we will work with our Fund I portfolio to provide data on our scope 3 (their scope 1 and 2) emissions.

2. We will continue to offset our scope 1, 2 and (Fund I) 3 emissions using highly traceable and regarded schemes (being Running Tide in 2022 and a combination of Running Tide and other projects for 2023).

3. We remain willing to sponsor at least one member of our team to obtain a qualification in ESG investing (although this has not yet happened).

4. We will not invest directly or indirectly in extractive industries unless those investments are aimed at reducing the carbon impact of those industries.
    - We do not currently hold any investments in businesses operating in extractive industries or directly supporting extractive industries.
    - For the Passion Capital fund that is currently making primary investments (Fund III), we do not intend to amend the Fund III investment policy to make this explicit, but we do not consider such investments.
    - For future Passion Capital funds, we will make this commitment explicit as part of our commitment to align with Article 8 SFDR.

5. We believe in the value of technology to accelerate progress towards net zero and we will continue to look favourably on such business opportunities.

Targets for our portfolio:

1. As mentioned above, through the EDCI reporting, we will work with our Fund I portfolio to provide data on their scope 1 and 2 emissions. We will look to expand this work to our other seed funds in the future.

2. We will encourage our portfolio to use renewable energy:
    - We will include renewable energy as part of the ESG file that we share with the company and will review at follow-ons.
    - As an investor in technology companies, our portfolio's carbon footprint is heaviest in energy usage, so switching to clean energy, at the outset of their growth journey,

would lower the portfolio carbon footprint. With the falling costs of renewables, this is no longer a controversial discussion.

3. We will encourage our portfolio to manage e-waste (that is, tech hardware). E-waste is a growing problem and managing it should be on the agenda for our companies. We will look to share resources and good practice with our portfolio.
4. We will encourage our portfolio to set their own climate goals. Many of our founders are ahead of us in terms of climate ambition. Encouraging them to set climate goals is no longer an unusual request. For now, our stipulation is only that climate is on the board agenda: the level of ambition of their goals and the speed of implementation we leave to our founders. We believe that this is appropriate given the early stage of the businesses in which we invest.

Social

Our core belief:

Our portfolio companies each exist to improve the human experience. Having social awareness, being diverse, being in touch with consumers is good for business. Our small team at Passion Capital already embodies diversity in several forms including gender and ethnicity. We're proud that these indicators have been deciding factors for our founders when selecting us as their investment partner.

Targets at Passion Capital:

1. We will not invest in certain activities that are objectionable to some of our investors. Certain of our Fund III side letters prohibit investments that contravene the law or accepted standards of moral or ethical behaviour and we will be guided by the reasonable requests of our cornerstone investors to include explicit restrictions on unacceptable classes of investments in our future fund LPAs.

2. We will use our network and contacts to encourage diversity in the venture capital world.
   - At the senior level, the European VC scene is dominated by white males from City-backgrounds. We have always pushed against that stereotype.
   - We will restart our internship programme to give enthusiastic and academically bright young people a glimpse into the VC world and we will now start anonymously noting the inferred gender (aiming for 50% target on this measure), ethnicity, sexuality, social class, neuro status and health conditions and impairments of our interns.
   - We will actively seek capital for future funds and co-investment opportunities from female angel investors and non-traditional sources of funds (subject always to compliance with our KYC/AML and regulatory responsibilities) so that the stakeholders in our portfolio also reflect a more diverse world.
   - In our CRM system, we take note of inferred ethnicity and gender of the members of the founder teams for those founders that we meet in person or by video call (whether or not we offer) so that we have data we can use in the future to analyse trends and to challenge ourselves regarding unconscious bias.
   - We will continue to ask our founders to complete:
      i. an anonymous diversity tracker immediately after we initially invest. Due to GDPR rules, this is optional only, but this data helps us track gender, ethnicity and sexuality of our founders; and
      ii. a gender split tracker as part of our quarterly financial reporting requests so that we track gender diversity in our portfolio as teams grow.

3. Social impact is included in each ESG file so that it is a point that we consider when making investments.

4. We will continue to arrange one annual Passion team charity day, and our team will continue to encourage generosity when giving to worthy causes that we choose to support.

Targets for our portfolio:

1. We will continue to encourage good HR practices in our portfolio.
    - Early-stage companies often do not have basic HR policies or procedures. We help influence that through (i) our existing commitment to pay for a UK EMI option scheme to be put in place for each of our portfolio companies; and (ii) our referral of our founders to cost-effective and reputable law firms. We will also create an ESG pack to give to founders when we share our ESG file with them, and in that we will include our commitment to helping them implement practices that avoid burn out. (We have not yet achieved this but it remains on our radar).
    - We will continue to encourage our portfolio companies to use sound employment contracts when hiring and to put in place an employee handbook as soon as practicable.
    - We will encourage progressive carer and family leave policies.

2. We will continue to encourage diversity in our portfolio.
    - We will encourage our portfolio companies to include diversity as a factor in hiring decisions, especially for senior hires, by having diversity as a standing annual item on board agendas (where we have a board seat) until companies have reached a size where they have a dedicated HR function (at which point we would expect diversity to be built into recruitment processes). Initially we would expect diversity to encompass gender and ethnic diversity as a minimum, over time expanding to social class, neuro and health conditions and impairments.
    - We will encourage our founders to seek diversity at board level. Where our partners are represented on the board of our portfolio companies, those partners may already be bringing diverse experience to our boards.
    - Our Fund I companies will be asked to report certain diversity metrics through the EDCI annual ESG reporting exercise.

3. We will encourage our portfolio companies to take the possibility of sexual and other types of harassment seriously. We will produce a template code of conduct for sexual harassment in the workplace (reflecting our own policy) which we will share with our founders and encourage them to adopt or to incorporate into their employee handbooks or other policies. (We have not yet achieved this but it remains on our radar.)

4. We will continue to encourage data security and privacy to be taken seriously by our portfolio. Our portfolio comprises mainly technology companies and so the issues of data security and privacy need to be taken seriously from the outset, before commercialisation and before signing up customers. Technology businesses that have a poor reputation on these issues will fail. Assessment of their position and requirements re. data security will form part of our due diligence pre-investment and will remain on the agenda for companies for which this is essential.

5. We encourage mental health to be taken seriously by our portfolio.
    - In our portfolio we have Spill App (an online coordinator of mental health therapy) and Fertifa (wellbeing support and clinical patient advice for fertility and family-forming and overall reproductive health journeys) as great examples of tech-for-

good (mental health and wellbeing). We will continue to normalise discussions around mental health and wellbeing for our founders and for their teams.
  - We consider that one of our "active investor" roles is checking in on founders and helping them to manage their mental health. Many founders find the experience of leading to be an isolating one. We commit to supporting the mental wellness of our founders, through open dialogue, engagement with our alumni and other founders and our focus on mental health.

Governance

Our core belief:

Our founders provide the ideas and leadership to their team. We provide the capital and mentoring to set them on the best road to maturity and success. Governance encompasses our mentoring work and how we help our companies towards maturity. Our role and influence typically decreases as new investors lead future funding rounds, but at the pre-seed and seed stage we often have a good level of influence as companies set up their initial governance structures and priorities. As outlined, the best companies will be those that recognise the importance of ESG issues as they mature and grow.

Targets at Passion Capital:

1. We will have a clear strategy for our own governance issues.
   - We will finalise our operations manual in a single document in plain English so that roles are clear and expertise is not lost when team members move on.
   - We will continue to encourage an open atmosphere of feedback and participation and lack of hierarchy in the team.

2. We will continue to encourage our team members to be the best they can be.
   - Although we are a very small operation, we have promoted members of our team internally, and will look to try to continue to do so.
   - Where practical and proportionate, we are also committed to allowing our team members to work flexibly so that they can find the balance that they need with other life commitments.
3. The ESG partners will be responsible for ensuring that their fellow investment partners and anyone else who represents Passion on portfolio company boards is keeping ESG issues on the agenda, including where appropriate helping companies to formulate targets and reviewing them, as set out further below.

Targets for our portfolio:

1. Each portfolio company to continue to be encouraged to have a non-founder director on its board from as early as possible after the time of Passion's first investment.
   - Where we lead the round and take a mid-teens percentage interest, we usually take a board seat at the time of our investment or secure the right to appoint a director. It is important to us to be active investors, both to seek to maximise the value from the funds that we have invested and to steer and mentor our founders as best we can, including in terms of maturity of governance thinking appropriate to the stage of their business.
   - Where we do not lead the round and/or our ownership percentage is low, it may not be appropriate for us to take a board seat, but we will encourage

the founders to bring in a non-founder director as soon as sensible after our initial investment.

2. Where we take a board seat, our seasoned partners steer our companies to think ahead on governance issues to pre-empt reputation-damaging situations. We help them with their company strategy, communications and board agendas. We use our influence to push for policies to be established on subjects such as anti-bribery, privacy and AML/KYC when and where appropriate.

3. Each portfolio company will be connected by Passion Capital to relevant governance specialists.
    - We can, and do, steer our founders towards our network of trusted service providers in the governance space, such as law firms.
    - We also encourage our founders to share experiences amongst themselves through our 'PassionFounders' email groups and at our networking events.

4. We will ensure that failure is managed properly. Some of our portfolio companies will fail. At that point, it is easy to cut and run, but this is often the hour in which our founders need the most support, to help wind up operations and to manage their staff lawfully and responsibly. Our General Counsel will create a legal and practical guide to winding up a UK business that founders can access. (This hasn't yet happened but is still on the radar). We aim to help our founders to wind up failed businesses solvently.