

## Telos Climate Fund I SComm / CommV

### Pre-contractual Sustainability-related Disclosure<sup>1</sup>

Version: April 2023

#### Summary

The Fund promotes environmental characteristics by providing funding to start-ups and scale-ups that develop climate solutions and bring those solutions to market. Climate solutions are defined as any technology (hardware or software), process or innovative model that contribute, or is a critical enabler, to the Energy Transition and/or a Sustainable Food, Agriculture & Land Use (together, the “**Environmental Characteristics**” or “**E Characteristics**”) with the potential to deliver positive carbon performance. The funding is not invested directly into the companies but is invested via investment funds that select and invest in these companies (the “**Underlying Funds**”).

The Fund will seek for a minimum proportion of 90% of the Investments in Underlying Funds that promote the Environmental Characteristics, in accordance with Article 8 of the SFDR; and a minimum of 10% in Underlying Funds investing in sustainable investments that have an investment objective of climate change mitigation and that themselves are disclosing in line with Article 9 of the SFDR (the “**Sustainable Underlying Funds**”). In this way, the Fund will invest on the basis that these Sustainable Underlying Funds will be contributing to climate change mitigation by accelerating the design, development and investment in environmental solutions.

In line with these Environmental Characteristics, Telos Impact GP SRL / BV in its capacity as manager of the Fund (the “**General Partner**” or “**GP**” or “**Telos**”) will ensure that the Fund does not invest in Underlying Funds that are not signatories to the UN Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)).

Telos will adopt a proactive and thorough investment and management process which comprises of pre-investment screening, due diligence and ongoing asset management, as detailed further in section below.

Due to the fund-of-fund structure of the Fund, Telos is reliant on the decisions taken by each manager of the Underlying Funds in relation to the availability and reliability of data, as well as for the relevant sustainability indicators that each Underlying Fund commits to using. As a result, the relevant sustainability indicators for each Investment of the Fund will be determined on a case-by-cases basis. For indicative purposes, the following sustainability indicators will most likely be used across the majority of the Fund’s Investments, in addition to further sustainability indicators for which the manager of an Underlying Fund may choose to disclose its relevant data to Telos:

- GHG Emissions avoided (tCO<sub>2</sub>e)
- Energy saved (kW/hour or BTUs)
- Waste avoided (tons or metric tons)
- Water saved (liters or m<sup>3</sup>)

In addition, Telos will consider in respect of every Investment the level of integration of the EU Taxonomy in each manager’s investment selection process, and will monitor this level over time for the purpose of tracking their commitment to climate solutions that contribute, or are critical enablers, to the Environmental Characteristics. However, Telos is not currently in a position to

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<sup>1</sup> In accordance with Articles 8 and 10 of Regulation (EU) 2019/2088 of 27 November 2019, the “**Sustainable Finance Disclosure Regulation**” or “**SFDR**”, Telos Climate Fund I (the “**Fund**”) is required to make certain website disclosures regarding the promotion of its Environmental Characteristics (defined in this document).

disclose how and to what extent the Investments underlying the Fund will be in economic activities that qualify as environmentally sustainable economic activities (as defined in Article 3 of the EU Taxonomy). In accordance with the European Commission's Decision Notice of 13 May 2022 (C(2022) 3051), the Fund will be 0% EU Taxonomy-aligned.

A reference benchmark has not been designated for the purpose of attaining the Environmental Characteristics.

### **No sustainable investment objective**

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment. The Fund will partially make sustainable investments.

### **Environmental or social characteristics of the financial product**

The Fund promotes environmental characteristics by providing funding to start-ups and scale-ups that develop climate solutions and bring those solutions to market. Climate solutions are defined as any technology (hardware or software), process or innovative model that contribute, or is a critical enabler, to the Energy Transition and/or a Sustainable Food, Agriculture & Land Use (together, the "**Environmental Characteristics**" or "**E Characteristics**") with the potential to deliver positive carbon performance. The funding is not invested directly into the companies but is invested via investment funds that select and invest in these companies (the "**Underlying Funds**"). The Fund will seek for a minimum proportion of 90% of the Investments in Underlying Funds that promote the Environmental Characteristics, in accordance with Article 8 of the SFDR.

In line with these Environmental Characteristics, Telos will ensure that the Fund does not invest in Underlying Funds that are not signatories to the UN Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)).

The GP will also assess the Underlying Funds based on their level of integration of Regulation (EU) 2020/852 (the "**EU Taxonomy**") in their investment selection process, together with their potential contribution to any of the following United Nations (UN) Sustainable Development Goals (SDGs):

- 6. Clean Water and Sanitation
- 7. Affordable and Clean Energy
- 9. Industry, Innovation and Infrastructure
- 12. Responsible Consumption and Production
- 14. Life Below Water
- 15. Life on Land

A reference benchmark has not been designated for the purpose of attaining the Environmental Characteristics.

### **Sustainable Underlying Funds**

In addition to the Underlying Funds that are disclosing in line with Article 8 of the SFDR, the Fund will invest a minimum proportion of 10% of its assets in Sustainable Underlying Funds. For this purpose, the Fund will target Sustainable Underlying Funds that have climate change mitigation as their investment objective (the "**sustainable investment objective**"). In this way, the Fund will invest on the basis that these Sustainable Underlying Funds will be contributing to climate change mitigation by accelerating the design, development and investment in environmental solutions.

Telos will monitor the Sustainable Underlying Funds at the pre-investment stage and on an ongoing basis in order to ensure that they do not cause significant harm to any environmental or social investment objective.

Prior to any investment, Telos will require a prospective Sustainable Underlying Fund to disclose its performance against all mandatory Principal Adverse Impact indicators and a minimum of 2 voluntary indicators (that the Underlying Fund may determine) as part of the Telos Due Diligence Questionnaire (the “**DD Questionnaire**”). Telos will then review the relevant information provided in the DD Questionnaire in order to apply the “do no significant harm” test to the relevant Sustainable Underlying Funds. In this way, Telos is able to satisfy itself that the investments in the Sustainable Underlying Funds do not cause significant harm to any environmental or social sustainable investment objective.

Following investment, Telos will assess and monitor the mandatory Principal Adverse Impact indicators on an ongoing basis through an annual periodic reporting questionnaire (the “**Annual Questionnaire**”), which all invested Sustainable Underlying Funds will be required to complete. In the same way, Telos will then review the relevant information provided in the Annual Questionnaire, in order to satisfy itself that each Sustainable Underlying Fund does not cause significant harm to any environmental or social sustainable investment objective.

### Investment strategy

As noted above, the Fund will invest in Underlying Funds that are themselves disclosing in line with either Article 8 or Article 9 of the SFDR. Telos will adopt a proactive and thorough investment and management process which comprises of pre-investment screening, due diligence and ongoing asset management, as detailed further below:

- At the sourcing stage, Telos will use its existing network of over 100 climate asset managers in Europe to identify prospective Underlying Funds which may align with the Fund's E Characteristics;
- At the preliminary selection stage, Telos will make a first selection based on a preliminary assessment of each Underlying Fund (including main ESG risks and impact monitoring). This decision will be made by the Pre-Investment Committee, using the pre-Investment Committee template (which includes key selection criteria to establish the Underlying Fund's strategy, track and mission);
- At the due diligence stage, Telos will review each Underlying Fund based on their responses to the DD Questionnaire, relevant information provided by datarooms and through interview with managers of the Underlying Funds;
- At the investment & contracting stage, the Telos Investment Committee will select the relevant Underlying Funds that meet the investment criteria of the Fund. Telos plans that between 3 and 4 Underlying Funds will be selected for investment per year; and
- As part of its ongoing monitoring, Telos will actively monitor its invested Underlying Funds (and their underlying investments) to ensure ongoing compliance and alignment with the Fund's investment criteria. For this purpose, each Underlying Fund will be required to provide to Telos:
  - A completed Annual Questionnaire;
  - Quarterly financial reporting;
  - Annual impact reporting; and

- Regular follow-up calls with the GP (on a case by case basis).

### **Proportion of investments**

Telos will invest a minimum proportion of 90% of the Fund's assets in order to attain the Environmental Characteristics (the Fund's "investable assets"). As a result, a maximum proportion of 10% of the Fund's assets will relate to hedging transactions. The Fund may engage in hedging arrangements only for purposes of hedging currency, interest rate or other specific risks, provided that no such arrangement is entered into for speculative purposes. Given the nature of such arrangements, there are no minimum environmental or social safeguards applied to the hedging arrangements.

### **Sustainable Underlying Funds**

As noted above, the Fund will invest a minimum proportion of 10% of its investable assets in Sustainable Underlying Funds (as defined above).

### **EU Taxonomy-alignment**

Telos will consider the level of integration of the EU Taxonomy in each manager of an Underlying Fund's investment selection process for the purpose of tracking each manager's commitment to climate solutions that contribute, or are critical enablers, to the Environmental Characteristics (see further detail as to the monitoring of Environmental Characteristics in section 6 below). However, Telos is not currently in a position to disclose how and to what extent the investments underlying the Fund will be in economic activities that qualify as environmentally sustainable economic activities (as defined in Article 3 of the EU Taxonomy). In accordance with the European Commission's Decision Notice of 13 May 2022 (C(2022) 3051), the Fund will be 0% EU Taxonomy-aligned.

### **Monitoring of environment or social characteristics**

As noted above, Telos will consider in respect of every investment the level of integration of the EU Taxonomy in each managers' investment selection process, and will monitor this level over time. This will be for the purpose of tracking each manager's commitment to climate solutions that contribute, or are critical enablers, to the Environmental Characteristics.

At the same time, due to the fund-of-fund structure of the Fund, Telos will be reliant on the relevant sustainability indicators that each Underlying Fund commits to using. As a result, the relevant sustainability indicators for each Investment of the Fund will be determined on a case-by-cases basis. For indicative purposes, the following sustainability indicators will most likely be used across the majority of the Fund's Investments, in addition to further sustainability indicators for which the manager of an Underlying Fund may choose to disclose its relevant data to Telos:

- GHG Emissions avoided (tCO<sub>2</sub>e)
- Energy saved (kW/hour or BTUs)
- Waste avoided (tons or metric tons)
- Water saved (liters or m<sup>3</sup>)

### **Methodologies**

Prior to investment in any Underlying Fund (including a Sustainable Underlying Fund), Telos will determine the relevant sustainability indicators selected by the investment manager of each Underlying Fund, and will consider performance against those indicators. This information must be disclosed in the DD Questionnaire (as the pre-investment stage).

Following investment, Telos will require all Underlying Funds (including a Sustainable Underlying Fund) to complete the Annual Questionnaire on an annual basis. The Annual Questionnaire will require investment managers to report the performance of their underlying portfolio against the relevant sustainability indicators.

In addition, as noted in section 3 above, each Sustainable Underlying Fund will also be required to disclose in the DD Questionnaire (at the pre-investment stage) and the Annual Questionnaire (on an ongoing basis): (i) performance against all mandatory Principal Adverse Impact indicators and a minimum of 2 voluntary indicators, and (ii) compliance with the minimum safeguards.

While Telos will consider the mandatory Principal Adverse Impact indicators and a minimum of 2 voluntary indicators in respect of the Sustainable Underlying Funds in order to ensure that they do not cause significant harm to any environmental or social investment objective, the Fund will not consider principal adverse impacts on sustainability factors across the entire portfolio. This is because, due to the fund-of-fund structure of the Fund, Telos is reliant on the approach taken by each manager of the Underlying Funds to principal adverse impact indicators and the relevant sustainability indicators that each Underlying Fund commits to using. As such, Telos cannot commit to the consideration of principal adverse impacts where such information is not available from the Underlying Funds (that are not Sustainable Underlying Funds).

### **Data sources and processing**

Further to methodologies set out section 7 above, Telos will use the data gathered from the Underlying Funds' disclosures within the DD Questionnaire (at the pre-investment stage) and the Annual Questionnaire (on an ongoing basis) in order to monitor the attainment of the Environmental Characteristics and (where applicable) the sustainable investment objective. Telos will engage directly with each Underlying Fund in order to assess whether the relevant manager has implemented appropriate measures and is ensuring data quality.

Where possible, Telos will use third party data in order to measure the performance of the Fund's portfolio. As a result, it may be possible, that a certain proportion of data is estimated by the manager of the Underlying Fund. However, Telos is not able to anticipate what proportion of data that are estimated, due to its reliance on the approach taken by each manager of the Underlying Funds.

### **Limitation to methodologies and data**

As noted above, due to the fund-of-fund structure of the Fund, Telos is reliant on the decisions taken by each manager of the Underlying Funds in relation to the availability and reliability of data.

Telos will strive to ensure that none of these limitations will negatively affect the attainment of the Environmental Characteristics or the sustainable investment objective (as applicable), including through active engagement with each Underlying Fund (where appropriate). In addition, where necessary, Telos will endeavour to take certain corrective measures in respect of any concerns identified during data collection and verification.

### **Due Diligence**

As noted above, as part of the Fund's investment strategy, Telos will review each Underlying Fund based on their responses to the DD Questionnaire, relevant information provided by datarooms and through interview with managers of the Underlying Funds.

If the preliminary selection stage or due diligence stage findings indicate that an Underlying Fund (and/or its underlying investments) is inconsistent with the Fund's expectations in relation to the Environmental Characteristics or, in the case of a Sustainable Underlying Fund does not meet the

criteria under the SFDR (as applicable), then the Telos Investment Committee will not pursue the opportunity further.

As noted above, Telos will ensure that the Fund does not invest in Underlying Funds that are not signatories to the UN Principles for Responsible Investment ([www.unpri.org](http://www.unpri.org)), and will also assess the Underlying Funds based on their level of integration of the EU Taxonomy, together with their potential contribution to the UN SDGs listed above.

### **Engagement policies**

Telos will require each prospective Underlying Fund to disclose what good governance practices are in place in respect of each investment underlying the Underlying Fund. This information must be disclosed in the DD Questionnaire (as the pre-investment stage) and the Annual Questionnaire (on an ongoing basis).

In particular, as part of the DD Questionnaire, Telos will include a tailored list of questions covering the following four dimensions: sound management structures, employee relations, remuneration of staff, and tax and compliance.

Investments will generally, directly, take the form of minority participations in the equity of Underlying Funds. In any event, these investments will be expected to allow the Fund to play an active role in the monitoring of the Underlying Funds in line with the Fund's investment case.

### ***Sustainable Underlying Funds***

In respect of sustainable investments made by the Fund, Telos will require each Sustainable Underlying Fund to disclose the minimum safeguards that are applied in its investments. This information must be disclosed in the DD Questionnaire (as the pre-investment stage) and the Annual Questionnaire (on an ongoing basis). In particular, Telos will assess the implementation of guidelines pre- and post-investment from each Sustainable Underlying Fund on four substantive topics of the minimum safeguards: Human bribery (including workers' rights), bribery / corruption, taxation and fair competition.

### **Designated reference benchmark**

A reference benchmark has not been designated for the purpose of attaining the Environmental Characteristics of the Fund.