

POLICY ON MEASUREMENT AND INTEGRATION OF PRINCIPAL ADVERSE IMPACTS

RESPONSIBILITY:

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| Responsible persons at Lauxera: | Alex Slack (<i>Co-Founding Partner and Co-Head of ESG & Impact</i>) Alix de Benedetti (<i>Head of Investor Relations and Co-Head of ESG & Impact</i>) | Contact Alex Slack, or our general mailbox at contact@lauxera.com |
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PURPOSE:

This policy defines and describes the concept of Principal Adverse Impacts (“PAI’s”), both in general and in the context of Lauxera’s targeted investment subsector: healthtech. It also describes how Lauxera integrates PAI assessment and measurement into its investment activities

HISTORY OF UPDATES:

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| 1 | Aug 30, 2024 | Finalized | Alex Slack | Initial policy |

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1 : CONTEXT, OBJECTIVES, DEFINITIONS, AND APPROACH

1.1. Context and objectives

The Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088, “SFDR” or the “**Regulation**”) entered into force on 10 March 2021.

The Regulation requires fund managers like Lauxera Capital Partners (“**Lauxera**”) to provide information on how the manager integrates sustainability risks, considers adverse sustainability impacts, and where applicable, promotes environmental, social characteristics, and/or sustainable investment as an investment objective.

Lauxera’s ESG and Impact Policy, available at <https://www.lauxera.com/esg>, addresses these points, but it does not specifically address how Lauxera assesses and measures PAIs for each of its managed funds. This document is meant to complement the ESG and Impact Policy in this regard.

1.2. Definitions

Principal Adverse Impact (PAI)

The Regulation defines sustainability factors as environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters. Principal adverse impact (PAI) is generally understood to mean the negative impact, caused by an investment decision or investment advice, on these factors. The Regulation includes a set of specific indicators that can be used to measure an issuer’s or investee company’s negative impact on sustainability factors, to enable identification of the principal adverse impact of investments by financial market participants.

Principal Adverse Impacts refer to the concept that every company, and therefore every investment decision can have significant negative impacts on factors relating to sustainability (environmental, social, as well as governance issues relating specifically to human rights and the fight against corruption and acts of corruption).

Other Definitions

Please refer to Lauxera’s [ESG and Impact Policy](#) for a full list of relevant definitions.

2 : INCOPORATION OF PRINCIPAL ADVERSE IMPACTS

2.1. Incorporation of PAIs by Fund

Lauxera’s managed investment funds differ in their integration of PAI assessment/monitoring. Given contemporary limitations in data collection and industry-wide definitions and standards, Lauxera did not integrate PAI assessment/monitoring in its first fund.

For its second fund, Lauxera Growth II, Lauxera plans to integrate complete PAI assessment/monitoring for at least 50% of its investments, as we continue to anticipate issues with data accuracy and availability given the target company size and maturity of Fund II (~50-100 FTEs at investment entry).

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| Fund Name | Year of First Investment | PAI Considerations |
|-------------------|--------------------------|---|
| Lauxera Growth I | 2021 | <ul style="list-style-type: none"> • Collection of a subset of PAI indicators for 100% of investments • No systematic integration of PAI indicators into investment decisions and ongoing monitoring • No PAI indicator reporting |
| Lauxera Growth II | n/a (expected 2024) | <ul style="list-style-type: none"> • Collection of a subset of PAI indicators for 100% of investments • Collection of all mandatory (+2 voluntary) PAI indicators for at least 50% of investments • Systematic integration of PAI indicators into investment decisions and ongoing monitoring for at least 50% of investments • Complete PAI indicator reporting for at least 50% of the portfolio, with partial PAI indicator reporting for 100% of investments |

2.2. PAI measurement status and methodology by Fund

For each mandatory PAI indicator as well as two voluntary indicators, the table below describes whether each indicator was / will be measured for Lauxera's first two Funds. It also contains detail on the measurement strategy by PAI in the context of Lauxera Growth II, Lauxera's second Fund.

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| | Fund I Integration | | Fund II Integration | | Methodology | Fund II Measurement | | Internal processes informed by the Indicator |
|---|---------------------|--------------------|---------------------|-------------------------------|-----------------------|--|--|--|
| | Investment decision | Ongoing monitoring | Investment decision | Ongoing monitoring | | Detail | | |
| Mandatory PAI's - Environmental | | | | | | | | |
| GHG Gas Emissions - Scope 1 | N | Every other year | Y ¹ | Every other year ² | 3rd party assessment | | | Drive change ³ , controversies |
| GHG Gas Emissions - Scope 2 | N | Every other year | Y ¹ | Every other year ² | 3rd party assessment | | | Drive change, controversies |
| GHG Gas Emissions - Scope 3 | N | Every other year | Y ¹ | Every other year ² | 3rd party assessment | | | Drive change, controversies |
| Carbon Footprint | N | Every other year | Y ¹ | Every other year ² | 3rd party assessment | | | Drive change, controversies |
| GHG intensity of investee companies | N | Every other year | Y ¹ | Every other year ² | 3rd party assessment | | | Due diligence, drive change, controversies |
| Exposure to companies active in the fossil fuel sector | Y | Y | Y | Y | Company questionnaire | NACE code | | Not expected to be material / relevant |
| Share of non-renewable energy consumption and production | N | N | Y | Y | Company questionnaire | Based on available information provided by utilities | | Drive change, controversies |
| Energy consumption intensity per high impact climate sector | N | N | Y | Y | Company questionnaire | Based on available information provided by utilities | | Not expected to be material / relevant |
| Activities negatively affecting biodiversity-sensitive areas | N | N | Y | Y | Company questionnaire | Self-reported exposure to ongoing biodiversity controversies | | Due diligence, Drive change, controversies |
| Emissions to water | N | N | Y | Y | Company questionnaire | Emissions reported under existing regulatory frameworks | | Due diligence, Drive change, controversies |
| Hazardous waste and radioactive waste ratio | N | N | Y | Y | Company questionnaire | Waste reported under existing regulatory frameworks | | Due diligence, Drive change, controversies |
| Mandatory PAI's - Social/Governance | | | | | | | | |
| Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises | N | N | Y | Y | Company questionnaire | | | Due diligence, Drive change, voting, controversies |
| Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises | N | N | Y | Y | Company questionnaire | Existence of (at least) annual review of compliance with these standards | | Due diligence, Drive change, voting, controversies |
| Unadjusted gender pay gap | Y | Y | Y | Y | Company questionnaire | | | Due diligence, Drive change, controversies |
| Board gender diversity | Y | Y | Y | Y | Company questionnaire | | | Due diligence, Voting, Drive change, controversies |
| Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) | Y | Y | Y | Y | Company questionnaire | | | Not expected to be material / relevant |
| Voluntary PAI's | | | | | | | | |
| Investments in companies without workplace accident prevention policies | Y | Y | Y | Y | Company questionnaire | | | Due diligence, Drive change, controversies |
| Lack of grievance/complaints handling mechanism related to employee matters | Y | Y | Y | Y | Company questionnaire | | | Due diligence, Drive change, controversies |

Notes

¹ If determined to be a material risk based on due diligence and/or SASB Materiality Finder

² Every other year with linear interpolation based on revenue and FTEs

³ Drive change refers to Lauxera's ongoing engagement with our companies as influential investors holding governance roles. This procedure is described in Lauxera's ESG and Impact Policy, sec 3.4

3 : PAI REPORTING

3.1. Fund II PAI Reporting

PAI indicator information will be published annually in Lauxera Growth II's annual disclosure reports.

4 : PAI-RELATED PROCEDURES

4.1. PAI integration into investment decisions

Before any final investment decision, Lauxera performs extensive ESG due diligence, which for Fund II will also include a comprehensive assessment of PAI (the “**Baseline PAI Assessment**”) as laid out in section 2.2. This assessment will also address which PAI’s are relevant and material given the investment target’s sector and business model, following the principles for materiality assessment laid out in Lauxera’s ESG and Impact Policy, section 3.3. For Lauxera Growth II assessments, the Lauxera Investment Committee will consider whether the totality of ESG due diligence and PAI information received – including materiality and the indicators themselves – constitutes evidence that the investment “does no significant harm” to any sustainability objective and also follows good governance practices (see ESG and Impact Policy, section 1.3).

Additionally, individual deal teams will also present a “**PAI Monitoring Analysis**” as part of final investment committee materials. This analysis will assess whether current limitations on data availability, the required workload for the target, or other factors may prevent Lauxera from being able to monitor PAI indicators over the life of the investment, as well as the materiality of these indicators.

Negative outcomes from either of these outputs – the Baseline PAI Assessment and the PAI Monitoring Analysis – mean that the investment cannot be counted towards the “sustainable investment” quota (see ESG and Impact Policy, section 1.3), targeted at >50% of investments for Lauxera Growth II.

The Investment Committee, as part of its oversight and risk management duties, will ensure compliance with this quota through the procedure outlined above.

4.2. PAI integration into ongoing monitoring

PAI indicators will be monitored at least annually, according to the methodology set out in section 2.2, above. Circumstances including merger of equals, PAI-linked controversies, and other scenarios may necessitate more frequent monitoring, to be determined by Lauxera’s ESG and Impact Committee.

Lauxera will monitor changes in PAI’s on at least an annual basis as part of its ESG and Impact Committee, attended by all members of the Lauxera investment team. Controversies related to PAI’s – when relevant and material – will be managed inline with Lauxera’s management of ESG-linked controversies which is described in Lauxera’s ESG and Impact Policy, section 3.6.

5 : LIMITATIONS TO METHODOLOGIES AND DATA

5.1. Limitations to methodologies and data

In evaluating and monitoring each investment, Lauxera is in some instances reliant upon information and data which may be incomplete, inaccurate, unavailable, and/or unverifiable. The limitations on the availability and accuracy of PAI indicator data can stem from varying factors, such as a lack of

experience and training at portfolio company managers/employees who supply these data, lack of maturity of data systems and business controls at portfolio companies, differences in interpretation of policies and definitions related to PAI concepts, etc. Lauxera's ESG and Impact team makes significant efforts to ensure the accuracy of PAI data provided both externally from portfolio companies as well as data generated internally – including conducting comparability analyses with previous years, spot-checks, etc.

In addition to potential inaccuracies in data, PAI-linked topics remain a area of active discussion among regulators at both EU- and individual member-state levels, as well as among influential Limited Partners. Changes in standards and methodologies, or re-interpretation of those already existing, occur frequently and can often be inconsistent, requiring Lauxera's managers to use their good judgement in order to ensure compliance.

6 : CONTROLS

6.1. 1st-level

The primary first level controls related to this PAI Policy are laid out in detail in the preceding sections of this document, and are owned by the portfolio managers of Lauxera. Operational risks related to these controls are monitored as per Lauxera's own internal policies and processes, which are documented and validated annually by Lauxera's RCCI.

In accordance with applicable regulations, Lauxera prepares and implements:

- a risk mapping that takes into account the risks associated with each position/AIF holding or AIF under management, and the interaction between their individual risks; and
- relevant risk indicators and a coherent risk mitigation system with the risk profile chosen for the AIFs under management

6.2. 2nd-level

Second-level control is carried out exhaustively in post-trade on the various criteria identified in the control risk mapping, and on all the regulatory obligations related to sustainable finance on a sample basis.

- Post-Trade/Risk Control: Control is carried out by the risk teams with regulatory ratios and internal constraints. Semi-annually, a report on compliance with the constraints is reviewed collegially during Lauxera's Operations committee, including an annual review of PAI's.
- Internal Control: The team in charge of Internal Control (RCCI) and its outsourced compliance consultancy (AGAMA Conseil) is tasked with ensuring the effectiveness of all controls in place to ensure the portfolios' compliance with the PAI-related rules set for their management.