

NATO Innovation Fund SCSp SICAV-SIF - NATO Sub-Fund 1

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Sustainability related disclosures required for Article 8 funds under the EU Disclosure Regulation

I. Summary

NATO Innovation Fund SCSp SICAV-SIF – NATO Sub-Fund 1 (the "**Sub-Fund**") was established on 28 July 2023 under Luxembourg law as an investment company with variable capital – specialised investment fund (*société d'investissement à capital variable – fonds d'investissement spécialisé*) in the form of a special limited partnership (*société en commandite spéciale*). The Sub-Fund is authorised and supervised by the Luxembourg supervisory authority, the *Commission de Surveillance du Secteur Financier* (the "**CSSF**"). NATO Innovation Fund GP S.à r.l., a limited liability company incorporated under Luxembourg law, is the unlimited managing partner (*associé commandit gérant*) of the Sub-Fund (the "**General Partner**"). The Sub-Fund will invest, directly and indirectly, in start-ups developing Emerging and Disruptive Technologies (EDTs) primarily geared for commercial markets that also have potential defence and security applications and which fit under one or more of NATO's defined EDTs. The Sub-Fund will prioritise investments in start-ups accelerated by the NATO Defence Innovation Accelerator for the North Atlantic.

The Sub-Fund and the General Partner are exempt from the scope of the the Luxembourg law of 12 July 2013 on alternative investment fund managers implementing the Directive, as amended (the "**2013 Law**") pursuant to article 2(2)c) thereof. As a result, the General Partner is not a "financial market participant" for the purposes of Article 2 of the Regulation (EU) 2019/2088 of the European Parliament of the Council of 27 November 2019 on sustainability-related disclosure requirements in the financial services sector, as amended (the "**Disclosure Regulation**"). The General Partner has voluntarily opted to make disclosures pursuant to Article 8 of the Disclosure Regulation in respect of the Sub-Fund.

The environmental and social characteristics promoted by the Sub-Fund are: (i) promoting a diverse and inclusive work environment within the portfolio companies ("direct investments") and fund managers of the other venture capital funds ("indirect investment") in which the Sub-Fund is invested; (2) promoting environmental and social characteristics at suppliers, vendors and and partners of portfolio companies and of fund managers of the Sub-Fund's indirect investments; (3) reducing the carbon footprint of portfolio companies and of fund managers of the Sub-Fund's indirect investments; (4) upscaling low-carbon and green energy technologies; (5) research and development of emerging

technologies in connection with greenhouse gas emissions reduction; (6) development of climate change adaptation technologies; (7) reduced investment in infrastructure related to fracking facilities and tar sands facilities; (8) reduced investment in thermal coal mining; and (9) reduced investment into businesses which promote alcohol, gambling, or pornography. No reference benchmark has been designated for the purposes of attaining the environmental and social characteristics promoted by the Sub-Fund.

The Sub-Fund's attainment of the promoted environmental and social characteristics will be monitored, based on the following indicators: (1) the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that (a) have a diversity and inclusion policy in place; and (b) at time of investment, had no diversity and inclusion policy in place, but created such policy and accompanying program within 12 months of the Sub-Fund's initial investment; (2) the average ratio of female to male board members at portfolio companies and the average ratio of female to male board members at underlying portfolio companies of the Sub-Fund's indirect investments, expressed as a percentage of all board members; (3) the percentage of portfolio companies and the percentage of underlying portfolio companies of fund managers of the Sub-Fund's indirect investments (a) that have executive teams across more than one ethnicity or race, or a minority ethnicity or race executive team; (b) that have a policy against discrimination, harassment, and victimization in place; (c) that, at the time of the Sub-Fund's investment, had no policy against discrimination, harassment, and victimization in place, but created such policy and accompanying program within 12 months of the Sub-Fund's initial investment; (d) where the difference in pay between female and male executives as well as the difference in pay between ethnic executives and non-ethnic executives is less than 10% for similar positions and responsibilities; (e) that have a benefit policy supporting new parents in place; and (f) that, at the time of the Sub-Fund's investment, had no benefit policy supporting new parents in place, but created such policy within 12 months of the Sub-Fund's initial investment; (4) the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that require environmental and social policies and programs for their suppliers, vendors, and partners; (5) the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that (a) have a carbon offsetting programme or carbon footprint policy in place; and (b) at the time of the Sub-Fund's investment, had no carbon offsetting programme or carbon footprint policy in place, but created such program or policy within 24 months of the Sub-Fund's initial investment; (6) (a) the number of potential portfolio company investments evaluated that promote the upscaling of low-carbon and green energy technologies; and (b) the number of potential fund investments evaluated seeking to invest into underlying portfolio companies that upscale low-carbon and green energy technologies; (7) (a) the number of potential portfolio company investments evaluated that promote research and development of emerging technologies in connection with greenhouse gas emissions reduction; and (b) the number of potential fund investments evaluated seeking to invest into underlying portfolio companies that promote research and development of emerging technologies in connection with greenhouse gas emissions reduction; (8) (a) the number of potential portfolio company investments evaluated that promote the development of climate change adaptation technologies; and (b) the number of potential fund investments evaluated seeking to invest into underlying portfolio companies that

promote the development of climate change adaption technologies; (9) the percentage of the Sub-Fund's direct investments and indirect investments into infrastructure related to (a) fracking facilities and facilities involved in tar sands, portfolio companies; and (b) mining thermal coal; and (10) the percentage of the Sub-Fund's direct investments and indirect investments in businesses which promote alcohol, gambling, or pornography..

In order to attain the promoted environmental and social characteristics, the Sub-Fund implements relevant selection and exclusion criteria during the sourcing phase and the investment manager seeks to appoint a Head of ESG to establish sourcing strategies, an internal training program, promoting ongoing improvement, monitoring strategies and the provision of training and engagement strategies with portfolio companies. The Sub-Fund's due diligence process includes the assessment of an investment opportunity's good governance practices in line with relevant Sustainability Accounting Standards Board governance factors. Throughout investment holding, continuous monitoring of portfolio companies' governance factors will take place, with the designated Head of ESG overseeing governance practices. Additionally, a training will be developed to support continuous improvement efforts.

A minimum of 51 % of the Sub-Fund's investments will be invested in direct investments and indirect investments that are used to attain the environmental and social characteristics promoted by the Sub-Fund.

The Sub-Fund does not commit to making "sustainable investments" as defined in the Disclosure Regulation and expects to be 0% aligned with the EU Taxonomy.

II. No sustainable investment objective

This financial product promotes environmental and social characteristics, but does not have as its objective sustainable investment.

III. Environmental or social characteristics of the financial product

The Sub-Fund seeks to invest into portfolio companies ("direct investments") and other venture capital funds ("indirect investments"). The environmental and social characteristics promoted by the Sub-Fund are:

- 1) promoting a diverse and inclusive work environment of portfolio companies and of fund managers of the Sub-Fund's indirect investments, including through promotion of equal treatment of employees, prevention of discrimination, harassment or victimisation, and promotion of parental support policies;
- 2) promoting environmental and social characteristics at suppliers, vendors, and partners of portfolio companies and of fund managers of the Sub-Fund's indirect investments;
- 3) reducing the carbon footprint of portfolio companies and of fund managers of the Sub-Fund's indirect investments, including through waste management and eco-efficiency;

- 4) upscaling low-carbon and green energy technologies (e.g., hydrogen or battery technologies);
- 5) research and development of emerging technologies in connection with greenhouse gas emissions reduction (e.g., sustainable aviation fuels and carbon-negative base oils, electrification, etc);
- 6) development of climate change adaption technologies (including early warning systems);
- 7) reduced investment into infrastructure related to fracking facilities and facilities involved in tar sands;
- 8) reduced investment into infrastructure related to mining thermal coal; and
- 9) reduced investment into business which promote alcohol, gambling, or pornography.

No reference benchmark has been designated for the purpose of attaining the environmental and social characteristics promoted by the Sub-Fund.

IV. Investment strategy

(a) the investment strategy used to meet the environmental or social characteristics promoted by the financial product

The Sub-Fund will invest, directly and indirectly, in start-ups developing Emerging and Disruptive Technologies (EDTs) primarily geared for commercial markets that also have potential defence and security applications and which fit under one or more of NATO's defined EDTs. The Sub-Fund will prioritise investments in start-ups accelerated by the NATO Defence Innovation Accelerator for the North Atlantic. The Sub-Fund will ensure a balanced geographic diversity of its investments across the nations and regions of its Participating Allies.

On a best efforts basis, the Sub-Fund will seek to invest into portfolio companies and funds where the investment manager determines in good faith and according to the principles outlined by the Head of ESG, that such portfolio companies and funds' executives and leadership promote some or all of the environmental and social characteristics outlined above; and/or expressed the intent and willingness to dedicate resources to creating, promoting, and improving such environmental and social characteristics as they apply to the relevant business.

In connection with the Sub-Fund's promotion of the environmental and social characteristics detailed above, the Sub-Fund will apply on a best-efforts basis binding exclusion criteria. In particular, the Sub-Fund will not make investments:

- a. that work directly against the promoted environmental and social characteristics, as determined by the investment manager in good faith and according to the principles outlined by the Head of ESG;
- b. into infrastructure related to fracking facilities and facilities involved in tar sands;
- c. into infrastructure related to mining thermal coal; and

- d. promoting alcohol, gambling, or pornography;

provided, that in respect of the exclusions set out in sub-paragraphs (b), (c) and (d) above, where the Sub-Fund's direct or indirect investment in such activities would be less than 5% of the Sub-Fund's aggregate investment in the relevant direct or indirect investment, such investments may not be prohibited.

The investment manager seeks to appoint a Head of ESG to create and implement adequate sourcing strategies for the selection and exclusion criteria described above; and to create and implement a training programme for Sub-Fund employees to encourage continuous improvement.

Further information on the implementation of the Sub-Fund's investment strategy is set out below in the sections headed "Due Diligence", "Monitoring of environmental or social characteristics" and "Engagement Policies".

(b) the policy to assess good governance practices of the investee companies, including with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

During the due diligence process, the Sub-Fund will assess investment opportunities in line with the applicable governance factors of the Sustainability Accounting Standards Board when applicable.

During the period during which an investment is held by the Sub-Fund and prior to its divestment, the Sub-Fund will monitor portfolio companies on an ongoing, best-efforts basis as appropriate regarding governance factors.

The investment manager seeks to appoint a Head of ESG to create and implement adequate governance practices; and to create and implement a training or education programme for portfolio companies and funds, to encourage continuous improvement.

V. Proportion of investments

The Sub-Fund will comply with the diversification requirements set out in CSSF Circular 07/309.

In addition, the Sub-Fund will ensure its direct and indirect investments are geographically diverse across the nations and regions of its Participating Allies. The Sub-Fund's indirect investments will be made in funds that: (a) allocate at least 70% of their investments, by value of investments, in countries that are Participating Allies; and (b) do not target investments in, or have fund co-investors from, any adversaries or competitors. In addition, the Sub-Fund's exposure through indirect investments to countries that are not Allies will: (i) be limited to nations that are NATO Partners; and (ii) not, in aggregate, exceed 15% of Commitments allocated by the Sub-Fund to Indirect Investments (provided, that such percentage diversification requirements apply from the time when the Sub-Fund is fully committed to the Sub-Fund's Investments and will be calculated by reference to the acquisition cost of such investments).

In accordance with the binding elements of the Sub-Fund's investment strategy, as described above, a minimum of 51 % of the Sub-Fund's investments will be invested in direct investments and indirect investments that are used to attain the environmental and social characteristics promoted by the Sub-Fund. Such allocation to be assessed on the basis of the acquisition costs of the Sub-Fund's investments and to apply from the third anniversary of the first investment of the Sub-Fund until the end of the Investment Period.

The remaining portion of the investments of the Sub-Fund may be held in indirect investments which do not attain the environmental or social characteristics promoted by the Sub-Fund, and cash, money market funds, other temporary investments and other similar financial products. Minimum environmental and/or social safeguards are not expected to apply to such assets.

VI. Monitoring of environmental or social characteristics

The investment manager seeks to appoint a Head of ESG to create and implement adequate monitoring strategies for the promoted environmental and social characteristics; and to create and implement a training programme for Sub-Fund employees to encourage continuous improvement.

For investments where the Sub-Fund furnishes the investment term sheet, the Sub-Fund will seek to add monitoring and reporting metrics of the promoted characteristics to such term sheet or in a side-letter agreement.

The Sub-Fund will monitor, on a best-effort basis, attainment of the promoted characteristics on an annual basis through regular questionnaires and discussions with the portfolio companies and funds in the Sub-Fund's capacity as investor, board member, board observer, and partner and confidante.

VII. Methodologies

To measure the Sub-Fund's attainment of the environmental and social characteristics set out above, the Sub-Fund will measure the following indicators:

1. In respect of the Sub-Fund's promotion of diverse and inclusive work environments of portfolio companies:
 - a. the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that have a diversity and inclusion policy in place;
 - b. the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that, at time of investment, had no diversity and inclusion policy in place, but created such policy and accompanying program within 12 months of the Sub-Fund's initial investment;

- c. the average ratio of female to male board members at portfolio companies and the average ratio of female to male board members at underlying portfolio companies of the Sub-Fund's indirect investments, expressed as a percentage of all board members;
 - d. the percentage of portfolio companies and the percentage of underlying portfolio companies of fund managers of the Sub-Fund's indirect investments that have executive teams across more than one ethnicity or race, or a minority ethnicity or race executive team;
 - e. the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that have a policy against discrimination, harassment, and victimization in place;
 - f. the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that, at the time of the Sub-Fund's investment, had no policy against discrimination, harassment, and victimization in place, but created such policy and accompanying program within 12 months of the Sub-Fund's initial investment;
 - g. the percentage of portfolio companies and the percentage of underlying portfolio companies of the Sub-Fund's indirect investments where the difference in pay between female and male executives as well as the difference in pay between ethnic executives and non-ethnic executives is less than 10% for similar positions and responsibilities;
 - h. the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that have a benefit policy supporting new parents in place; and
 - i. the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that, at the time of the Sub-Fund's investment, had no benefit policy supporting new parents in place, but created such policy within 12 months of the Sub-Fund's initial investment.
2. In respect of the Sub-Fund's promotion of environmental and social characteristics at suppliers, vendors, and partners of portfolio companies and of fund managers of the Sub-Fund's indirect investments, the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that require environmental and social policies and programs for their suppliers, vendors, and partners.

3. In respect of the Sub-Fund's promotion of a reduction in the carbon footprint of portfolio companies and of fund managers of the Sub-Fund's indirect investments:
 - a. a. the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that have a carbon offsetting programme or carbon footprint policy in place; and
 - b. b. the percentage of portfolio companies and the percentage of fund managers of the Sub-Fund's indirect investments that, at the time of the Sub-Fund's investment, had no carbon offsetting programme or carbon footprint policy in place, but created such program or policy within 24 months of the Sub-Fund's initial investment.
4. In respect of the Sub-Fund's promotion of the upscaling of low-carbon and green energy technologies:
 - a. the number of potential portfolio company investments evaluated that promote the upscaling of low-carbon and green energy technologies; and
 - b. the number of potential fund investments evaluated seeking to invest into underlying portfolio companies that upscale low-carbon and green energy technologies.
5. In respect of the Sub-Fund's promotion of research and development of emerging technologies in connection with greenhouse gas emissions reduction:
 - a. the number of potential portfolio company investments evaluated that promote research and development of emerging technologies in connection with greenhouse gas emissions reduction; and
 - b. the number of potential fund investments evaluated seeking to invest into underlying portfolio companies that promote research and development of emerging technologies in connection with greenhouse gas emissions reduction.
6. In respect of the Sub-Fund's promotion of the development of climate change adaption technologies:
 - a. the number of potential portfolio company investments evaluated that promote the development of climate change adaption technologies; and
 - b. the number of potential fund investments evaluated seeking to invest into underlying portfolio companies that promote the development of climate change adaption technologies.

7. The percentage of the Sub-Fund's direct investments and indirect investments into infrastructure related to fracking facilities and facilities involved in tar sands, portfolio companies;
8. The percentage of the Sub-Fund's direct investments and indirect investments into infrastructure related to mining thermal coal; and
9. The percentage of the Sub-Fund's direct investments and indirect investments in businesses which promote alcohol, gambling, or pornography.

VIII. Data sources and processing

(a) the data sources used to attain each of the environmental or social characteristics promoted by the financial product;

The data used to attain each of the environmental or social characteristics is provided by the investee companies and investee investment funds. The data sources are for that reason the investee funds and companies itself. The companies and investment funds can make use of external data sources. Those data sources can vary between investee companies and investment funds.

(b) the measures taken to ensure data quality;

Where available, data will be used that is being audited and/or that is being assessed by an independent third party.

(c) how data are processed;

The data will be processed via standard office tooling. This process is not automatized. The data will be gathered as part of the due diligence process, will be captured manually and will be updated after each investment. A 4-eyes principle applies to the record keeping process..

(d) the proportion of data that are estimated.

It is unclear yet which proportion of the data will be estimated. Collecting and assessing the investee company- and investee fund data used to attain each of the environmental or social characteristics is part of the investment due diligence process.

Aim is to invest in investee company and funds that have this data available. It is however possible that the data is not (yet) available and/or that investee companies or funds make use of estimated data. A reasonable estimate of this proportion cannot yet be provided. This will be updated after a number of representative investments have been made.

IX. Limitations to methodologies and data

(a) any limitations to the methodologies referred to in Article 24, point (g), and to the data sources referred to in Article 24, point (h);

The most important limitations to the methodologies applied are:

- Data will not always be available and it could be the case that data needs to be estimated. Data availability is an issue for the entire market. The Sub-Fund tries to do its utmost to gather all data needed.
- The data used is provided by the company or investee funds itself. Not all data is validated by independent third parties. This could lead to biases in the data.
- Part of the indicators is related to the presence of policies. Having a policy in place does not necessarily mean that the policy is being applied as specified and/or that the issue that the policy aims to address is sufficiently mitigated by the policy.
- Not all investments that have been evaluated will lead to actual investments. The indicators referring to the number of potential fund investments evaluated could for that reason be overly optimistic.

(b) how such limitations do not affect how the environmental or social characteristics promoted by the financial product are met.

The limitations described in the previous section are wellknown to the management team and the following mitigating actions have been installed:

- The Sub-Fund will do its utmost to gather all data needed. Lack of data availability will be taken into account in the due diligence process and investee companies and funds that can't provide sufficient data will be avoided where possible and necessary.
- The data of the companies will be assessed properly and with sufficient diligence with the aim of mitigating potential biases.
- Even though several indicators reflect the presence of policies, the due diligence performed will cover the organization and the implementation of policies as well to identify and where possible avoid selecting investee companies that do not apply their policies or that have ineffective policies in place.
- Even though a number of indicators reflect the number of evaluations and not the actual investments made, the Sub-Fund will strive to actually invest in the areas that it claims to promote.

X. Due diligence

During the sourcing phase, the Sub-Fund seeks to apply the selection and exclusion criteria described in the binding elements of the Sub-Fund's investment strategy above. The investment manager seeks to appoint a Head of ESG to create and implement adequate sourcing strategies for such selection and exclusion criteria; and to create and implement a training programme for Sub-Fund employees to encourage continuous improvement.

During the due diligence process, the Sub-Fund will also assess investment opportunities in line with the applicable governance factors of the Sustainability Accounting Standards Board when applicable. The Sub-Fund invests in accordance with international and sector specific standards and initiatives. Examples include the United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, The UN Guiding Principles for Business and Human Rights (UN GP) and the Principles for Responsible Investment. Investee companies that are in violation of the UN Global Compact Principles and/or the OECD Guidelines for Multinational Enterprises will be avoided where possible.

XI. Engagement policies

The investment manager will engage a Head of ESG, who will be responsible for the provision of appropriate training regarding the promoted environmental and social characteristics to portfolio companies, and engaging with portfolio companies to develop and improve over time appropriate policies in support of the Sub-Fund's attainment of the promoted environmental and social characteristics.

XII. Designated reference benchmark

The Sub-Fund does not invest by reference to an index and does not intend to do so.