NIF Responsible Investment Strategy

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Executive Summary

This document lays out the principles that guide the NIF's approach to responsible and sustainable investing.

NIF Investment Manager B.V. (**Investment Manager**) is acting as investment manager of NATO Innovation Fund SCSp SICAV-SIF (**NIF** or the **Fund**). NIF invests in deep tech to secure the future of the Alliance's 1 billion citizens. NIF is a strategic impact and patient capital vehicle to make investments—directly and indirectly—into start-ups developing emerging and disruptive technologies (EDTs) with civilian, defence and security applications.

NIF invests in dual-use technologies that address defence, security and resilience challenges. Sustainability, safety, security, responsible development and deployment, as well as the protection of these technologies are key considerations of the NIF's investment process.

NIF's goal is to unlock the potential of innovative advanced technologies across NATO countries and help foster a vibrant defence, security and resilience ecosystem. The Fund is committed to doing this responsibly, sustainably and safely.

Scope and Responsibility

The first section of this policy relates to NIF's investment activities - due diligence, portfolio engagement and monitoring and reporting. The last section addresses internal fund management.

NIF will review its framework and strategy to reflect any updates or revisions and to incorporate learnings.

SFDR

NIF is classified as an Article 8 fund under the Sustainable Finance Disclosures Regulations (**SFDR**). Sustainability considerations and related risks are incorporated into the Investment Manager's decision-making process with respect to the operation of the Fund. The Investment Manager has implemented a clear policy to outline the sustainability considerations and risks integrated into its investment decision-making process.

In line with its investment policy as described in NIF's documentation, NIF promotes (i) climate security (ii) resilience and responsible use of strategic technology and (iii) transparent and clean supply chains (collectively, the **Promoted Characteristics**). The attainment of the Promoted Characteristics will be, *inter alia*, measured and monitored based on indicators also referred to as Sustainability Factors and Principle Adverse Impacts (PAIs) as defined in NIF's SFDR disclosures.

Sustainability Factors are integrated into the investment analysis and decision-making process. Integrating these considerations contributes to the Investment Manager's process, established to identify investment opportunities and manage risks with respect to the Fund, in line with the broader sustainability approach of the NIF.

The Investment Manager commits to consider the principle adverse impacts of investment decisions on sustainability factors. These risks are considered at all stages of the investment lifecycle. Noting that some of the early-stage investee entities in which the Sub-Fund invests may not have all relevant data, nor always adequate data, the Investment Manager endeavours to report on all mandatory principal adverse sustainability indicators as well as on bespoke indicators. After an investment is made, ongoing monitoring is conducted to track the performance of the investment in terms of both financial returns and Sustainability Factors, including any changes in the sustainability profile of the investment.

The foregoing is to be read collectively with any other sustainable disclosures relating to the Fund, in particular with the pre-contractual disclosures issued in compliance with Article 8 SFDR, detailing how sustainability risks are considered and the statement on Principal Adverse Impacts of investment decisions on sustainability factors, specifying the indicators used to any impact of investment decisions that results in a negative effect on sustainability factors.

Sustainability at a Fund Management Level

NIF is committed to operating its business responsibly and sustainably and recognises the importance of addressing the environmental impacts of its business activities.

NIF is committed to minimising its environmental footprint by implementing best practices for its offices, including energy-efficient measures, reducing waste and water consumption.

With operations and investments in 24 member states, business travel is necessary. NIF seeks to minimise unnecessary travel by encouraging video conference, effective business trip planning to reduce multiple trips, and a preference for train travel when possible.

NIF prioritises suppliers and partners that align with its commitment to sustainability. NIF strives to source products and services responsibly, considering their environmental impact, sourcing practices, and commitment to social responsibility.

NIF's Responsible Investment Strategy

NIF's approach to responsible investing includes five elements that are core considerations for the investment decision and the evaluation and monitoring throughout the entire investment process lifecycle.

Element	Description
Mission Alignment	NIF's mission is to strengthen the defence, security, and resiliency of the NATO Alliance. This includes analysis of if and how companies' dual-use nature could enhance the defence, security, and resiliency of NATO member countries.
Climate security and sustainability	Climate change has severe security and resilience implications and is viewed as a threat multiplier. NIF incorporates climate-related risks and opportunities into the investment process. In addition to the defined EDTs the Fund will seek investing, directly or indirectly, in start-ups that leverage environmentally and energy sustainable technological solutions, as well as start-ups and funds solving climate security challenges either in adaption or mitigation. .
Inclusion	NIF looks favourably upon investment targets that are committed to building inclusive teams and attracting high-quality talent.
Operational Practices	NIF applies a stage-specific approach for each investee company and fund analysing operational practices and processes such as governance, legal and regulatory, supply chain (human rights and environmental considerations), team and working environment and data privacy and security.
Responsible Use	Guided by NATO's Principles of Responsible Use, NIF integrates Responsible Use into its investment process and monitoring.

Responsible Conduct

NIF aligns its operations and investments and acts in accordance with international standards, including: The Principles for Responsible Investment (UNPRI), The UN Global Compact Principle, The OECD Guidelines for Multinational Enterprises, and The UN Guiding Principles on Business and Human Rights.

NIF does not invest directly or indirectly in activities related to:

- Production, trade or other activity which is illegal under the laws or regulations of the local jurisdiction or the jurisdiction in which the activities of such investment are taking place;
- Production or promotion of alcohol, tobacco, gambling, pornography, prostitution, or human trafficking;
- Violations of human rights, human trafficking, modern slavery, anti-corruption or labour laws;

- Fracking, tar sands, mining thermal coal, oil sands and arctic drilling;
- NIF invests in companies guided by NATO's Principles of Responsible Use and does not invest in companies, directly or indirectly, that are involved in the primary activity of the production of or trade of weapons that are prohibited by international law, including cluster bombs (cluster munition), anti-personnel mines, biological weapons, chemical weapons, and nuclear weapons NIF operates in accordance with the Conventional Armed Forces in Europe (CFE) Treaty, The Convention on Cluster Munitions, and the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), the Chemical Weapons Convention, the Biological Weapons Convention.

Climate Security and Sustainability:

Climate change has severe security and resilience implications and is viewed as a 'Threat Multiplier'. The technologies the Fund invests in will need to adapt to the consequences of climate change. Meanwhile, technological advancements can provide solutions to mitigate and adapt the impacts of climate change. The Fund seeks to invest, directly or indirectly, in start-ups that leverage environmentally and energy-sustainable technological solutions and will seek investments in start-ups and funds to solve climate security challenges in adaptation or mitigation.

NIF commits, on a best-efforts basis, to consider and integrate, at every stage of its investment process, with respect to direct and indirect investments, both physical climate risks and transition climate risks:

a. **Physical climate risks** refer to direct physical impacts of climate change, including the potential or actual risks of physical damage and financial losses arising from increased exposure to climate hazards. This covers, for example, damage to property and infrastructure caused by hurricanes, heatwaves, changing sea levels, or a gradual increase in average temperatures, as well as financial losses resulting from disruptions to businesses or supply chains; and

b. **Transition climate risks** cover the indirect impacts of measures and actions taken to mitigate climate change. For example, these risks include: (i) policy and legal risks associated with climate policies and regulations, that restrict environmentally damaging activities or regulate carbon pricing, (ii) technology risks resulting from the development of new technology to support a low-carbon economy, (iii) market risks driven by geopolitical, economic and social changes influencing supply and demand, and (iv) reputational risks from the change in public perceptions.

When acting in its capacity as Investment Manager to the Fund, physical and transition climate risks should be implemented in a way that is proportionate to the Fund's investment strategy and the impact of these on the investee companies. This reflects the Fund's climate-related prohibited investments, namely any investments in activities related to fracking, tar sands, mining thermal coal, oil sands and arctic drilling.

Governance

NIF invests in entities that follow minimum good governance standards[1] and maintain the standards throughout the investment lifecycle.

In addition to performing an initial assessment of companies' governance practices, the Investment Manager aims to monitor adherence to those practices throughout the investment holding period.

NIF seeks to work with entities to continuously improve governance across its portfolio, including identifying opportunities to improve governance promptly from the completion of the investment.

Throughout the entire the investment holding, good governance practices are assessed in terms of commitment to ethical, sustainable, and responsible business operations. Good governance encompasses a broad range of practices, including transparent decision-making processes, effective board oversight, adherence to legal and regulatory requirements, responsible financial management, and the protection of shareholder rights.

The consideration of good governance practices also extends to assessing how an investee entity engages with its stakeholders, including employees, customers, suppliers, and the wider community, both when the investment team selects the investment opportunity and on an ongoing basis when reviewing the existing investments. Investee entities that demonstrate a strong commitment to stakeholder engagement can often prove more resilient and capable of sustainable growth.

Inclusion

NIF is committed to supporting entities with inclusive teams that can help bring together talented people and empower them to do high-quality work that strengthens the technological edge of the Alliance. During the investment process, NIF analyses relevant factors, such as geographical representation, of start-up teams and fund managers and its current hiring practices. The fund monitors each organisation's employee practices, policies and team data through its annual sustainability reporting.

Responsible Use

NIF's investing process is aligned with NATO's Principles of Responsible Use to ensure that the development and application of technologies balance innovation with security and international standards. These principles and guidelines govern the development and use of cutting-edge technologies, as well as the technologies' interactions with society, operators, and individuals to help advance the Alliance's technological edge.

Responsible Use applies to the entire lifecycle of a technology, from design and development to testing use and decommissioning. It aims to build trust between the technology solution, its operators and the public - and ensure interoperability between enabled solutions.

[1] Good Governance considerations include: 1) accurate Financial Statement Reporting, 2) employee relations, 3) anti-bribery and corruption and adherence to the UN Global Compact, 4) board oversight and board diversity, 5) tax compliance, 6) anti-fraud measures, 7) remuneration 8) data security

To ensure compliance with NATO's Principles of Responsible Use, NIF has developed a comprehensive framework for evaluating the design and application of technologies. For the complete list of The Principles for Responsible Use, refer to Appendix 2.

NIF acknowledges that given the pace of technological innovation, there will be a constant evolution of seen and unforeseen risks related to responsible use and will update its responsible use framework – in collaboration with NATO – to accommodate for these risks. In addition, NIF engages with external experts in government, industry, academia, military, and international law to ensure the highest standards of practice.

NIF's Responsible Use Approach and Framework

NIF's approach to responsible use applies to the entire investment lifecycle, including due diligence, risk mitigation, portfolio monitoring and reporting. The objective is to ensure the development of technologies that are trustworthy to both operators and the public.

Below is an overview of NIF's Responsible Use Framework:

	Evaluation Criteria	**Description**
1	Strategic alignment	Considerations include potential adoption pathways, capacity building, financial success, and dual-use applications
2	Criticality of Capability	Analyse whether the technology has the potential to solve critical transatlantic defence and security challenges.
3	Leadership and Governance	Evaluate the leadership mindset and governance structure to determine culture and procedures for accountability, safety, security, ethical practices and compliance.
4	Risk Assessment	Identify and analyse potential risks and/or potential harm to stakeholders; and potential mitigations
5	NATO's Principles of Responsible Use	Assess the company, its business strategy, and technology in accordance with NATO's Principles of Responsible Use for AI, Autonomy, Biotechnology, and Human Enhancement, as well as relevant international law and humanitarian law.

Furthermore, NIF aligns with the guiding principles of the High Contracting Parties to the Convention on Prohibitions or Restrictions on the Use of Certain Conventional Weapons, Which May be Deemed to be Excessively Injurious or to Have Indiscriminate Effects (CCW). These guiding principles affirm that international humanitarian law continues to apply fully to all weapons systems, including the potential development and use of Lethal Autonomous Weapon Systems (LAWS), and that the CCW offers an appropriate framework for dealing with the issue of emerging technologies in the area of LAWS.

Portfolio Monitoring and Reporting

NIF monitors sustainability risks and progress and will report on them on an annual basis in accordance with SFDR.

NIF will seek to align its processes with the International Sustainability Standards Board (**ISSB**) in coming years as the replacement to the TCFD and aligned with international best practices associated to assess climate-related risks and opportunities. The Fund conducts annual reviews on responsible use and includes them in annual reporting, focusing on the company's and technology's development to ensure compliance with applicable PRUs, the EU AI act, international law and standards to monitor identified risks.

Portfolio Engagement

NIF supports and engages with portfolio companies and funds in identifying key sustainability and responsible use topics and jointly NIF and the portfolio company develop an action plan in relation to these. NIF provides strategic guidance on best practices, facilitating access to specialised resources, and working closely with management teams to integrate best practices into companies' operations.

Appendix 1: Definitions

Responsible Investment: According to UN Principles for Responsible Investment (UNPRI) "responsible investment involves considering environmental, social and governance (ESG) issues when making investment decisions and influencing companies or assets (known as active ownership or stewardship)." NIF adopts this definition in its entirety for the purposes of this policy.

ESG: Refers to an organisation's processes, i.e. how a company integrates environmental, social, and governance-related practices and principles into their business activities.

Impact: Refers to the outcomes (both foreseeable and unforeseeable) of a product or service, i.e. the potential (positive or negative) social or environmental output of a company or technology.

Responsible Use: Refers to design, development, use and decommission of technology with the prioritisation of ethical considerations, sustainability, and societal well-being to mitigate potential risks.

Appendix 2: NATO's Principles of Responsible Use

In NATO's overarching strategy on Emerging Disruptive Technologies (EDTs),[2] Member States recognise that new technologies present risks and opportunities for the Alliance and the broader international community. They agreed to foster the adoption of these technologies and protect their use and acquisition by potential adversaries and competitors. Noting that these technologies present risks, including questions about trust, ethics and the law, Allies agreed to develop Principles of Responsible Use. NATO's EDT Strategies, therefore, outline Principles of Responsible Use to ensure that the development and use of these technologies align with the common values and principles that define the Alliance and how it operates and are in accordance with international law In addition, NATO's innovation agenda emphasises the importance of the Alliance's green transition and solving climate security challenges.

To date, NATO has developed Principles of Responsible Use (PRUs) and is building relevant frameworks for several EDTs—AI, autonomous technologies, biotechnologies, and human enhancement (BHE) technologies. NATO's PRUs for AI apply to Autonomous Systems, and the AI PRUs apply to AI-enabled BHE technologies. Furthermore, although NATO's Quantum Strategy does not contain PRUs, NATO Allies nonetheless commit to developing quantum responsibly.

The Data and Artificial Intelligence Review Board (**DARB**) is a forum for Allies and the focal point for NATO's efforts to govern responsible development and use of AI by helping operationalise PRUs.[3] The DARB was established with the following aims:

- Building Trust – with the publics, innovators and operational end users – as well as within the international community to steer responsible defence innovation efforts in accordance with NATO values, norms, and international law;
- Guiding Responsible AI (RAI) Adoption – by translating PRUs into user-friendly RAI standards and best practices that offer the NATO Enterprise and Allies a common

[2] "Foster and Protect: NATO's Coherent Implementation Strategy on Emerging and Disruptive Technologies." Endorsed in February 2021 by NATO Defence Ministers

[3] NATO's Data and Artificial Intelligence Review Board

baseline to help create quality controls, mitigate risks and adopt trustworthy and interoperable AI systems and

- Acting as a Forum – for Allies and the NATO Enterprise to share best practices and exchange views.

The PRUs apply to the entire technology lifecycle, including, but not limited to, the design, development, testing, acquisition, implementation, use assessment, and decommission phases.

Below details the Principles of Responsible Use from relevant NATO EDT Strategies and have been agreed upon by the Allies.

Artificial Intelligence (AI) in Defence[4]

I. **Lawfulness:** AI applications will be developed and used in accordance with national and international law, including international humanitarian law and human rights law, as applicable.
II. **Responsibility and Accountability:** AI applications will be developed and used with appropriate levels of judgment and care; clear human responsibility shall apply in order to ensure accountability.
III. **Explainability and Traceability:** AI applications will be appropriately understandable and transparent, including review methodologies, sources, and procedures. This includes verification, assessment and validation mechanisms at either a NATO and/or national level.
IV. **Reliability:** AI applications will have explicit, well-defined use cases. The safety, security, and robustness of such capabilities will be subject to testing and assurance within those use cases across their entire life cycle, including through established NATO and/or national certification procedures.
V. **Governability:** AI applications will be developed and used according to their intended functions and will allow for appropriate human-machine interaction; the ability to detect and avoid unintended consequences; and the ability to take steps, such as disengagement or deactivation of systems, when such systems demonstrate unintended behaviour.
VI. **Bias Mitigation:** Proactive steps will be taken to minimise any unintended bias in the development and use of AI applications and in data sets.[5]

Biotechnology and Human Enhancement Technologies (BHE):

I. **Lawfulness:** BHE will be developed and used in accordance with national and international law, including International Humanitarian Law and Human Rights Law, as applicable.
II. **Responsibility and Accountability:** BHE will be developed and used with appropriate levels of judgment and care; clear human responsibility will apply in order to ensure accountability.

[4] Also applicable to Autonomous Systems.
[5] Summary of the NATO Artificial Intelligence Strategy

III. **Safety and Security:** BHE technologies will only be used if they have passed stringent safety procedures, which may include testing and/or trials, meeting applicable standards and/or have otherwise been demonstrated to the best of scientific knowledge to be safe and effective for human use and the environment.

IV. **Human Agency:** Individuals are not deprived of their sense of judgment and freedom of conscience so that they retain their innate human dignity.

V. **Informed Consent:** Human enhancement technologies made available for NATO personnel will only be used with explicit and informed consent, in line with military health best practices and respect for persons.

VI. **Sustainability:** BHE technologies will be assessed for potential impact on the environment.[6]

Additionally, reversibility, invasiveness, and heritability are essential considerations when assessing the risk of human enhancement technologies. BHE affects men and women differently; NATO's approach considers a gender and equality perspective in BHE development and deployment. Furthermore, responsible use of BHE encompasses promoting and developing technologies that support NATO's military personnel's physical, social, and psychological wellbeing.

Quantum Technologies:

While quantum technologies have less explicit ethical implications than other EDTs, Allies have nonetheless committed to approaching Quantum technologies responsibly. NATO's Quantum Strategy[7] defines the primary responsible considerations for quantum technologies as:

- Data privacy and security
- Anticipation of international norms development
- Sustainability

[6] Summary of NATO's Biotechnology and Human Enhancement Technologies Strategy
[7] Summary of NATO's Quantum Technologies Strategy