SFDR Handbook

September 2023

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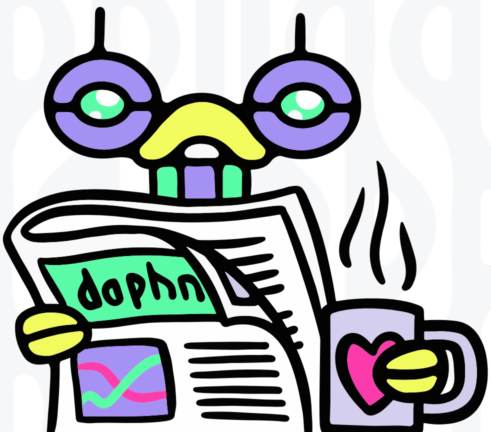


1- Executive Summary

Foreword

daphni created this handbook to help others, especially our LPs and our VC peers, navigate the Sustainable Finance Disclosure Regulation (SFDR). We struggled for months ourselves, and we want to make it easier for others, sharing knowledge is key to tackle climate and social issues.

SFDR is neither easy to implement nor to understand, but we must give it credit for raising important sustainability issues that were previously overlooked by some actors. We hope that this handbook will serve as a valuable resource for funds that are working to comply with SFDR.

The guide is divided into two sections:

1. **Overview of SFDR**: In this section, we dive into the texts published by the regulation and its main concepts.
2. **In practice:** This section provides a step-by-step guide to assist VC funds in completing SFDR templates for their funds. We found it difficult to find this information for beginners elsewhere, so we wanted to provide it here.

Please note that this guide is based on daphni's interpretation of the SFDR regulations. Some points may not represent a market consensus, as many practices are not consistent between the various players. Additionally, there are still numerous parts and articles of the regulation that we consider as open to interpretation.

General principles

SFDR (Sustainable Finance Disclosure Regulation) is a transparency regulation on sustainability and ESG reporting. It was not intended for product/fund labeling for marketing purposes, as most of the funds have been using it until now.

The regulation highlights the principle of **double materiality**, which means that companies must consider both the impact of the environment on themselves (the risks) and their own impact on the environment and ESG factors (the externalities).

SFDR and the EU Taxonomy are intrinsically linked, but the EU Taxonomy is a complex subject that deserves its own guide. However, you will find mentions of the Taxonomy throughout this guide, and you can learn more about it here.

The Sustainable Finance Disclosure Regulation (SFDR) has two levels:

- Level 1 defines the broad definitions and requirements.

- Level 2 provides the technical details on enforcement

SFDR Level 1 Regulation (published on 12/09/2019):

- Requires asset managers to implement and publish on their websites three policies: a sustainability risk policy, a declaration on the principal adverse sustainability impacts (PAIs) of investment decisions on sustainability factors, and the integration of sustainability factor in remuneration policy.
- Introduces a broad definition of what a sustainable investment should be in Article 2(17) of the regulation.
- Introduces the concept of Principal Adverse Impacts (PAIs) which are specific indicators designed to measure the negative impacts (externalities) of financial investments. They cover the environmental, social, and governance (ESG) aspects of sustainability.
- Mandatory classification of investment vehicles as Article 6, Article 8 or Article 9
  - **Article 6 fund:** None to minimal ESG disclosure.
  - **Article 8 fund:** Promotes environmental (E) and/or social (S) characteristics without having a sustainable investment objective.
    - **Article 8+** is not a real SFDR category, but rather an Article 8 fund that has decided to establish a minimum percentage of sustainable investment in its portfolio.
  - **Article 9 fund:** Has a sustainable investment objective. An Article 9 fund should be composed 100% of sustainable investments, as defined by its proprietary framework.
- Introduces new reporting requirements at the vehicle level: pre-contractual document, periodic reports (annually), and information on sustainability on the website.

SFDR Level 2 Regulation (published on 22/07/2022) provides technical standards for applying the SFDR framework, called Regulatory Technical Standards (RTS).

- Asset managers must establish a declaration on whether or not they consider PAIs at the entity level (for all of their funds), at specific fund level, or on both levels. If they consider PAIs at the entity level, they must implement a specific reporting template, which should be available on their website.
  - PAIs are the most significant negative impacts of investment decisions on the environment (externalities), social and personnel issues, respect for human rights, and the fight against corruption.
- **Article 8/9 funds:** Asset managers must implement pre-contractual and periodic annexes/templates in accordance to their classification, and meet specific requirements for each section.
- Funds must publish a certain amount of information on sustainability on their website, including their methodology and data.

Evolution of the regulation:

The European Commission has launched a consultation on the regulation on September 14, 2023. The consultation, which closes on December 15, 2023, is part of a wider effort to improve the European framework for sustainable finance.

The consultation is divided into four parts:

1. The current provisions of SFDR
2. Interaction with other texts of the regulatory framework on sustainable finance
3. Possible changes regarding transparency provisions for financial market participants (entity reporting)
4. Possible changes regarding transparency provisions for financial products (product reporting)

The European Commission's consultation on the Sustainable Finance Disclosure Regulation (SFDR) is a welcome step towards addressing the lack of clarity around the Article 8 and Article 9 classifications. The current system has been misused as a marketing label, leading to concerns about greenwashing and making it difficult for investors to compare products.

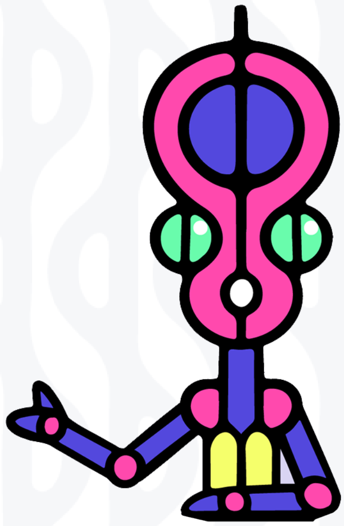
The Commission is considering two potential strategies:

- Developing more clarity on how Articles 8 and 9 are defined.
- Creating new types of investment categories that could see the classifications disappear from the framework completely. This would mean developing a more precise EU-level product categorisation system.

The consultation will also assess market views on how the SFDR has been implemented and how it interacts with other elements of the European sustainable finance framework. In addition, the Commission is seeking feedback on the following questions:

> **Although the timeframe for the revision of SFDR is unknown, the European Commission's consultation on this topic suggests that it is serious about making changes.**

2- SFDR Overview



The Sustainable Finance Disclosure Regulation (SFDR) introduces new transparency requirements for financial entities and financial products, including funds. This regulation requires financial entities to disclose how they consider extra-financial criteria in their investment decisions. The following content reflects our interpretation of the regulation and daphni's vision on how to comply with and tackle its requirements.

a. SFDR Regulation - level 1

The Sustainable Finance Disclosure Regulation (SFDR), published on December 12, 2019, introduced a number of requirements for financial market participants (FMPs). SFDR Level 1 sets out the key principles of the regulation, which will be further defined in technical standards (RTS) on how to apply them.

This section summarizes the key SFDR Level 1 requirements and articles that are relevant and material to Venture Capital funds (VCs). Articles that are not mentioned are not considered to be material for SFDR comprehension and application by VCs.

- **Article 1:** Explanation of the main topic of SFDR
- **Article 2:** Article 2 of the SFDR defines the terms used in the regulation, including the most important one 2(17), which is the broad definition of a "sustainable investment":
    - A sustainable investment is an investment in an economic activity that contributes to an environmental, a social objective, or an investment in human capital or economically or socially disadvantaged communities, and the investment should not significantly harm any of those objectives and that the investee companies follow good governance practices
- **Article 3:** Asset Managers must disclose, on their website, how they integrate sustainability risks into their investment decisions. This includes disclosing their policies and procedures for identifying, assessing, and managing sustainability risks.
- **Article 4:** Declaration of consideration of principal adverse impacts (PAI) **at the asset manager level (not at the fund level here)** in investment decisions on sustainability factors to be published (detailed content is specified in the RTS later in this handbook). Asset managers must declare whether they consider PAIs in their investment decisions
- **Article 5:** Consideration of sustainability risks in the remuneration policy and to be published on its website.

- **Article 6:** Introduction to the classification of funds under SFDR. Article 6 funds are a category of funds that do not promote environmental, social, and governance (ESG) or sustainability characteristics. They are the most basic type of fund under the Sustainable Finance Disclosure Regulation (SFDR). Asset managers must disclose information about sustainability risks in the pre-contractual documents of Article 6 funds, but they are not required to publish annual sustainability reports. This means that Article 6 funds have light sustainability disclosure requirements compared to other types of funds, such as Article 8 and Article 9 funds.
- **Article 7:** Disclosure of PAIs at financial products level (i.e., funds). This disclosure must include whether the asset manager considers PAIs in its fund investment policy.
- **Article 8:** Article 8 funds are funds that promote environmental or social characteristics. Asset managers must disclose information about how they promote these characteristics in the pre-contractual and periodic documents of Article 8 funds. They must also publish an annual periodic report following EU template.
- **Article 9:** Article 9 funds are funds that have sustainable (environmental or social) investment objectives. Asset managers must disclose information about how they define and intend to achieve these objectives in the pre-contractual and periodic documents of Article 9 funds. They must also publish a periodic annual report, which is more demanding than the report required for Article 8 funds.
- **Article 11:** Mandatory publication of extra-financial annual reports for funds Article 8 and Article 9
- **Article 10, 12 & 13:** Mandatory publication of certain information, on the website, related to SFDR. This information must be published in a separate section of the website entitled **"Sustainability Information"** and placed **in the same part of the website as other information relating to the FIA/mandate, including commercial communications.** Most of this information is taken from pre-contractual and periodic documents. Those information have to stay up to date on the website.

b. Regulatory Technical Standards (RTS) - level 2

SFDR Level 2 Regulation (published on 22/07/2022) provides technical standards for applying the SFDR framework, called Regulatory Technical Standards (RTS). The RTS can be thought of as the "how" of SFDR, while the Level 1 requirements are the "what."

This section summarizes the key SFDR Level 2 requirements and articles that are relevant and material to Venture Capital funds (VCs). Articles that are not mentioned are not considered to be material for SFDR comprehension and application by VCs.

- **Article 1: Definitions**

- **Article 2: General principles.** Information for SFDR should be free of charges and websites should be updated with the latest information.

- **Article 3: Reference benchmark for funds**

- **Article 4: Statement on the consideration of PAIs at the AM level.** Asset managers must publish a statement on their website declaring whether they consider PAIs at the AM level. If they do consider PAIs at the AM level, the statement must include:

  - Their specific policy on hierarchizing and collecting PAIs.
  - A description of the PAIs they consider.
  - A summary of their engagement policies.

By June 30 of each year, asset managers must publish Annex I of the SFDR.

- **Article 5-10: Completing Annex 1 of the SFDR**

It must include the following information:

  - A description of the asset manager's approach to considering PAIs in its investment decision-making process.
  - A list of the PAIs that the asset manager considers most relevant to its investment strategy, and how it prioritizes them.
  - A description of how the asset manager collects and analyzes information on PAIs.
  - A description of how the asset manager integrates PAIs into its investment decision-making process.
  - A description of how the asset manager monitors and measures the PAIs of its investment portfolio.

- **Article 12: Statement on not considering PAIs at the AM level.** If an asset manager does not consider PAIs at the AM level, it must publish a statement on its website explaining why. The statement must also explain whether it intends to consider PAIs in the future, and if so, when.

- **Article 14: Pre-contractual information for Article 8 funds.** The pre-contractual information for Article 8 products must comply with Annex II of the SFDR. The asset manager must also state whether it intends to make sustainable investments, or simply promotes ESG factors without making sustainable investments.

- **Article 15: Taxonomy-related information in the pre-contractual document for Article 8 funds.**

  - The document must describe whether the information has been audited by third parties or certified auditors, and if so, by whom.
  - The document must state whether the information was provided by the company itself, third parties, or both.
  - The document must specify whether the turnover, capital expenditures (capex), or operating expenditures (opex) metric was used for taxonomy alignment, and explain why this metric is the most appropriate.

- Article 16: Investment in socially sustainable investments. The document must disclose the minimum share of investment in socially sustainable investments.

- Article 17: Calculation rules for taxonomy-aligned activities for Article 8 funds. The following information must be used to complete the formula for investments of the financial product in environmentally sustainable economic activities:

- (2a) If possible, use the key performance indicators (KPIs) disclosed by the investee company.
- (2b) If a company does not fall within the scope of the Non-Financial Reporting Directive (NFRD) or the Corporate Sustainability Reporting Directive (CSRD), it is allowed to use third-party providers. Otherwise, the information must be obtained from the investee company itself.
- (3) For investment in corporates, use turnover as the KPI for alignment.
- (4) For investment in financial institutions, you can use capex or opex.
- (5) Remove sovereign investments.

- Article 18: Pre-contractual information for Article 9 funds. The pre-contractual information for Article 9 products must comply with Annex II of the SFDR.

- Article 19: Taxonomy-related information in the pre-contractual document for Article 9 funds. This includes the same information as in Article 15, as well as additional information related to Article 9 compliance.

- Articles 23-36: Website disclosure requirements for Article 8 funds

- Articles 37-49: Website disclosure requirements for Article 9 funds

- Articles 50-57: Periodic Report information for Article 8 funds. The Periodic Report information for Article 8 funds must comply with Annex IV of the RTS of SFDR.

- Articles 58-63: Periodic Report information for Article 9 funds. The Periodic Report information for Article 9 funds must comply with Annex V of the RTS of SFDR.

- Article 64: Historical comparisons for periodic reports for Articles 8 and 9 funds. This information must go back up to five years (after SFDR has been implemented for five years) and provide figures per € invested for comparability. It is also important to specify whether the figures have been audited.

c. Definition of a "sustainable investment"

One of the key terms introduced by the Sustainable Finance Disclosure Regulation (SFDR) is the concept of a sustainable investment. Funds, that want to be classified as Article 9 funds or Article 8 with a minimum of sustainable investment, must define what a sustainable investment is in their own terms and develop a framework to assess whether each investment opportunity is sustainable.

Each management company can define its own sustainable investment framework, but it must meet the following three requirements for each investment:

1. Meet the definition of Article 2(17) of SFDR and highlight a methodology or indicators that demonstrate the contribution to a social or environmental sustainable investment objective for each investment.

2. DNSH principle (Do Not Significantly Harm): The investment must not cause significant harm to another environmental or social objective. This principle must be demonstrated by either quantitative indicators, such as principal adverse impacts (PAIs), or proprietary scoring, or qualitative indicators/analyses specific to the investment. The investment must also comply with minimum guarantees: such as the OECD guidelines on multinational enterprises.

3. Respect good governance principles: The investment must be made in a company with good governance practices, such as compliance with international standards on human rights and labor rights. Three main axes are often highlighted:

- Healthy management structures
- Relationship with personnel
- Personnel remuneration
- Compliance with tax obligation

> **It is important to note that an Asset Manager can create its own framework to define the concept of sustainable investment (as long as it respects the 3 blocks above), but it must adopt a same definition for all its investment vehicles.**

d. Principal Adverse Impacts (PAI)

Principal Adverse Impacts (PAIs) are specific indicators defined by the Sustainable Finance Disclosure Regulation (SFDR) to measure the negative impacts (externalities) of financial investments. For VCs, there are 14 mandatory PAIs for investments in corporates (in the opposite of sovereign and real estate) and around 30 optional ones. They cover the environmental, social, and governance (ESG) aspects of sustainability.

The PAIs can be taken into account at two independent levels:
- **Article 4:** Declaration of consideration of principal adverse impacts (PAI) **at the asset manager level (not at the fund level here)** in investment decisions on sustainability factors to be published (detailed content is specified in the RTS later in this handbook). Asset managers must declare whether they consider PAIs in their investment decisions
- **Article 7:** Disclosure of PAIs at financial products level (i.e., funds). This disclosure must include whether the asset manager considers PAIs in its investment policy for the fund.

In addition to the 2 articles above, PAIs can also be used to:
- Communicate on compliance with the Do No Significant Harm (DNSH) principle for sustainable investments.
- Measure the achievement of environmental (E) or social (S) characteristics (Article 8 funds) and the impact related to sustainability (Article 9 funds).

Important note: Any positive value for a PAI is potentially harmful. For example, a high greenhouse gas emissions intensity PAI indicates that the investment is having a negative impact on the environment.

e. Funds article 8 vs article 9

As a reminder:
- **Article 6 funds** are financial products that do not promote ESG characteristics or have sustainable investment objectives. Article 6 fund managers must disclose information about sustainability risks in the pre-contractual documents of their funds, but they are not required to publish annual sustainability reports.
- **Article 8 funds** are financial products that promote environmental (E) and/or social (S) characteristics without having a sustainable investment objective. Article 8 fund managers must comply with the rules regarding ESG information disclosure for investors linked to their classification.

- Article 9 funds are financial products that have a sustainable investment objective. Article 9 fund managers must also comply with the rules regarding ESG information disclosure for investors linked to their classification.

We will not go into detail about Article 6 funds in this article, as their requirements are largely covered by the explanation of Article 8 funds. Additionally, most newly created funds are Article 8 or Article 9 funds, rather than Article 6 funds.

Article 8 funds key characteristics:

- Not required to be composed of sustainable investments: Article 8 funds can have a 0% target for sustainable investments.
- Not required to have investments aligned with the European Taxonomy: Article 8 funds can also have a 0% target for investments aligned with the taxonomy.
- Must disclose whether they consider principal adverse impacts (PAIs) in their due diligence: PAIs are negative externalities that can have a significant impact on sustainability factors. Article 8 funds must disclose whether they consider PAIs in their due diligence and assess their materiality.
- Must complete Annexes II and IV of the SFDR RTS: The SFDR RTS are technical standards that provide more detail on the SFDR requirements.

Extra-financial reporting requirements for an article 8

- Pre-contractual documentation : The pre-contractual documentation for Article 8 funds must disclose the fund's methodologies, indicators, and alignment targets for ESG and sustainability. This information is detailed in Annex II of the SFDR RTS. The pre-contractual documentation for Article 8 funds must include a minimum commitment to taxonomy alignment and a minimum commitment to sustainable investments, which could be 0%, however those commitments are biding.

- Periodic reports: Article 8 funds must publish annual periodic reports that provide detailed information on the fund's ESG and sustainability performance at the level of the fund/investment product. This information is detailed in Annex IV of the SFDR RTS. The periodic reports must also explain the evolution of PAIs from year to year and the actions taken to reduce them, of course this is relevant only if PAIs are taken into account at the fund level.

What about 8+?

Article 8+ funds are not a proper category under SFDR. They are simply Article 8 funds that have decided to establish a minimum percentage of sustainable investments in their portfolios. However, once a fund commits to a minimum sustainable investment, it must establish a robust framework for defining what falls under the sustainable investment category. This framework must be consistent with the definition of sustainable investment provided in Article 2(17) of the SFDR.

Article 9 funds:

- As Article 9 funds are financial products that have a sustainable investment objective, they must be composed of 100% sustainable investments (exception made for liquidity and derivatives), according to the definition of the management company and its proprietary framework. This has been clarified in the recent EU Q&A.

- The French financial markets regulator, the AMF, requires Article 9 funds to have a minimum alignment with the European Taxonomy.

- Article 9 fund managers may rely on the taxonomy to justify some of their sustainable investments. As investments that are aligned with the taxonomy are considered to be sustainable under the SFDR. However, they must also demonstrate that their investments do not harm other elements of the taxonomy.

- In addition to the requirements for Article 8 funds, Article 9 fund managers must also analyze principal adverse impacts (PAIs) to calculate compliance with the DNSH and assess their materiality.

- The documentation for Article 9 funds is more detailed than for Article 8 funds.

Reporting requirements for an article 9 fund:

- **Pre-contractual documentation:** The pre-contractual documentation for Article 9 funds must disclose the fund's methodologies, indicators, and alignment targets for ESG and sustainability. This information is detailed in Annex III of the SFDR RTS. The pre-contractual documentation is intended for future investors.

Specifically, the pre-contractual documentation must:

- Define the fund's sustainability objectives and how they will be tracked, including which KPIs will be used.
- Specify the sustainable investment framework that the fund uses.
- Set a minimum commitment to Taxonomy alignment and a minimum commitment to other sustainable objectives.

Periodic reports: Article 9 funds must publish annual periodic reports that provide detailed information on the fund's ESG and sustainability performance at the level of the fund/investment product. This information is detailed in Annex V of the SFDR RTS.

Specifically, the periodic reports must include the following information:

- Metrics/indicators to demonstrate that the initial sustainability objective set during the previous year has been achieved.
- Year-to-year evolution of PAI indicators (mandatory).
- Alignment of the portfolio with the taxonomy as of December 31st, as well as the percentage of alignment compared to what was initially planned in the pre-contractual documentation.
- Percentage of sustainable investments (this should be 100%, according to the rules seen previously).
- A record of the DNSH analysis and proof that it has been satisfied.
    - Define sustainability objectives and how to track them, including which KPIs to use.
    - Specify the sustainable investment framework used.

In this section, we have reviewed the main concepts and requirements introduced by the SFDR regulation. This is important to understand what is required and why compliance is important. In the second part of this handbook, we will discuss how to comply, with an operational step-by-step guide.

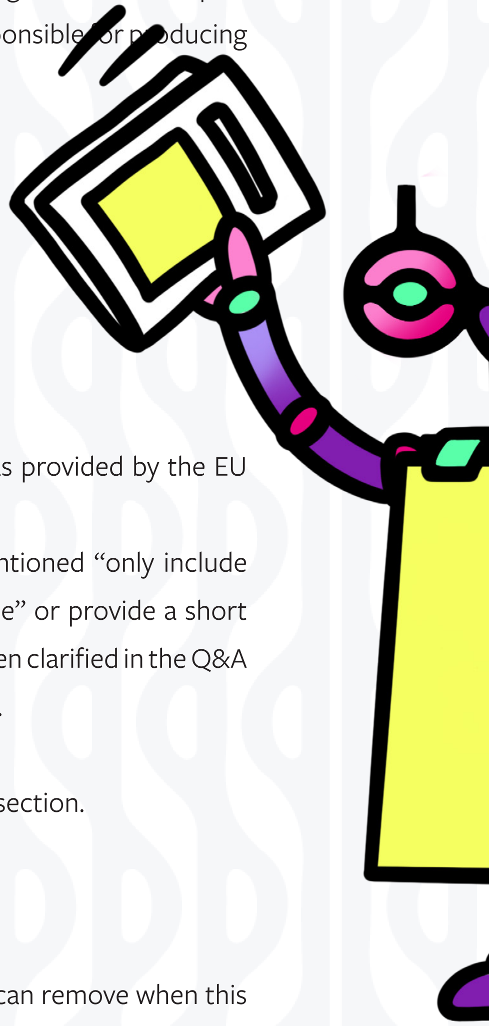
3- In practice: a step-by-step guide

We created this step-by-step section to help funds, especially VC our peer funds, complete SFDR templates, as we were struggling ourselves for months.. We hope you will find it useful

Please note that any information you include or assert must be properly documented and readily available in case of an audit or regulatory inquiry. The information presented below is subject to our interpretation.

If you have read SFDR level 1 and the RTS level 2, you have noticed that numerous articles of SFDR are interdependent and systematically refer to other articles of the same regulation

Apart from the Annex I, Annex II and IV and III and V go in pairs. Anything written in the pre-contractual annex must be reported in your periodic report. You will be responsible for producing the information and providing an explanation as well.



Here are some general comments on this step-by-step guide:

- The RTS cover all the points related to fulfilling all the Annex.
- We recommend to use the templates with the same format and fonts as provided by the EU commission.
- Do not remove any parts that do not concern your fund if it's not mentioned "only include if.... Instead, add a comment below stating "Not concerned / not applicable" or provide a short explanation of why you are not concerned with that particular part. It has been clarified in the Q&A with the ESAs that we can remove the sections that are not deemed relevant.
- You can remove all the comments in red while submitting your documents.
- in [XX] you will find the main article of the Level 1 Regulation related to this section.
- in [XX] you'll find the main article of the Taxonomy related to this section.
- in [XX] you'll find the main article of the RTS related this section.
- in **XXX**, you can find the official text copied from the template of SFDR.
- in [XXX], you can find the official comment from the regulator that you can remove when this part is filled.
- in "XXX" you can find an example of text that you could add.

a. PAI Report Entity Level

Annex I of the SFDR Regulation: Requirements for the statement on the consideration of principal adverse impacts of investment decisions on sustainability factors.

The completion of Annex I of the SFDR Regulation regarding PAIs depends on how you fall under Article 4. As a reminder, for VC funds, there are 14 mandatory PAIs for investments in corporates (as opposed to sovereign and real estate), and around 30 optional ones. These PAIs cover the environmental, social, and governance (ESG) aspects of sustainability.

Article 4: Declaration of consideration of principal adverse impacts (PAI) **at the asset manager level (not at the fund level here)** in investment decisions on sustainability factors to be published. Asset managers must declare whether they consider PAIs in their investment decisions. It must be made available to investors in a clear and concise manner.

- **Actors > 500 employees:** Asset Managers must publish a report on the mandatory PAIs, with two additional PAIs of their choice. They must also publish a hierarchy of these PAIs according to their materiality.
- **Actors < 500 employees:** can comply with the PAI disclosure requirements by "comply or explain." This means that they can explain why they are not considering PAIs in their investment decisions. If the management company decides to take the PAIs into account at the entity level, it must publish additional reporting (Annex I SFDR).

For entity that falls under Article 4, we recommend to adopt a clear strategy, such as :

1. **Disclose your approach to considering PAIs on your website.** This should be done in a clear and concise manner.
2. **Identify and hierarchize the PAIs that are most relevant to your VC fund's investment strategy.** This will depend on the types of companies you invest in and the sectors in which they operate. A materiality assessment is really helpful to assess in priority the most relevant PAIs.
3. **Develop a sustainability policy and strategy to address article 4.** This should set out your VC fund's commitment to sustainability and how you will consider PAIs in your investment decisions. Remember that annex I, is the mirror of the declaration you made on your website.
4. **Develop a process for considering PAIs in your investment decision-making process.** This should include how you will collect information about the PAIs of potential investments, how you will assess the risks and impacts of PAIs, and how you will make decisions about whether to invest.

5. Monitor and measure the PAIs of your investment portfolio. This will help you to track your progress and to identify any areas where you need to improve. You could do it with proprietary tools or using external providers.

6. Publish the PAIs in Annex I of the SFDR Regulation. The commission has set a template that you must follow. The formulas and details about each PAI are detailed in the Regulatory Technical Standards (RTS). The Q&A document also provides additional guidance on PAI consideration.

Here are some additional tips for completing Annex I of the SFDR regulation and the PAIs disclosure:

- Be specific about how you consider PAIs in your investment decision-making process. Don't just say that you consider PAIs - explain how you do it.
- Be transparent about the limitations of your approach. No one is perfect, and it is important to be honest about where you need to improve.
- Be engaging. The PAIs disclosure should be written in a way that is easy for investors to understand.
- Be up-to-date. The SFDR regulation is still new, and best practices are still evolving. Make sure to keep your PAIs disclosure up-to-date with the latest guidance.

By following these steps, VC funds can meet the requirements of Annex I of the SFDR regulation and provide investors with clear and concise information about how they consider PAIs in their investment decision-making process.

b. Pre-contractual documentation for an article 8 fund

You will find below the pre-contractual documentation to be completed for an article 8 fund. This documentation must be presented to the LPs prior to subscription and must be enclosed with the other fund documents.

Annex II

Product Name : Name of the fund
Legal entity identifier: ISIN of the fund or LEI if available
[Article 14] [Article 8] [Article 6]

To start with, you have two main choices:
1. Intend to make sustainable investments. This means committing your fund to investing a minimum proportion of its portfolio in sustainable investments.
2. Do not intend to make sustainable investments. This means that you can still make sustainable investments, but they have not been defined as a strategy.

If you choose the first option, you are legally committed to respecting the minimum sustainable investment requirement and can be sanctioned by the local regulator if you fail to do so.
To indicate that your fund intends to make sustainable investments, tick the box "It promotes environmental/social (E/S) characteristics and although it does not have sustainable investment as its objective, it will have a minimum proportion of ____% sustainable investment".

- Choose from the three available choices the ones that match your strategy. You can choose one, two, or three options, but the minimum sustainable investment cannot be 0.
- You must also fill in the "___%" with your minimum target of investments considered to be sustainable. This is the percentage of your portfolio that will be deemed sustainable according to your proprietary investment framework. If you have a minimum sustainable investment target of more than 0%, your fund will fall into the category commonly referred to as **Article 8+**. This is not a category actually defined by the regulations, but it was created by industry players to show that they are more committed than a simple Article 8 fund, which does not have a minimum sustainable investment portion.

If you choose the second option, tick the box "It promotes E/S characteristics, but will not make sustainable investments".
We recommend that you develop a sustainable investment framework to classify your investments, even if you do not intend to make sustainable investments. This will help you to better understand and manage the environmental and social impacts of your investments.

[Article 14] [Article 8] [Article 6]

What environmental and/or social characteristics are promoted by this financial product? [indicate the environmental and/or social characteristics promoted by the financial product and whether a reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the financial product]

This section provides an overview of the ESG characteristics that the fund is promoting. While the regulation does not require specific KPIs or indicators at this stage, it is important to convey a sense of how the fund intends to approach ESG. This typically involves mentioning that ESG factors are taken into consideration in the investment strategy, with a focus on specific environmental or social issues that align with the investment thesis.

It is important to distinguish between promoting ESG and contributing to sustainable objectives. The former involves considering ESG factors and reporting some KPIs, while the latter is a more complex and comprehensive approach to sustainable investment.

The approach to ESG integration should reflect the investment philosophy and framework of the fund. For example, the fund might prioritize investments that support biodiversity conservation and climate change mitigation or adaptation on the environmental pillar. On the social pillar, the focus could be on diversity, inclusion, parity, and other relevant issues.

As the ESAs point out, it is not possible to promote a reduction in carbon emissions as an ESG characteristic, but rather as a sustainable objective.

If the fund follows a reference index, this should be specified. In the case of a VC fund, where there is no reference index available, the following text can be added: "No reference index has been designated for the purpose of attaining the environmental or social characteristics promoted by the financial product."

What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?

In this section, you should indicate the specific ESG indicators and their definitions that you will monitor for your fund. These indicators must be actively monitored and reported in your annual periodic reports throughout the life of your fund. They are crucial in assessing the promotion of ESG characteristics as described in the previous section.

The indicators can be specific and proprietary to your fund or more generally used by the industry. Below are some examples to help you choose your indicators:

- **Carbon footprint:** CO_2 emissions in absolute or intensity and % of coverage —> used to measure climate impact and promotion of environmental characteristics.
- **Contribution to the SDGs using a proprietary scoring:** used to measure environmental and social characteristics
- **Proprietary ESG scoring:** a composite score that measures your fund's ESG performance across a range of criteria
- **Scoring/KPI provided by a data provider:** a score or KPI that is calculated by a third-party data provider
- **Parity for the social pillar:** the percentage of women in senior management positions
- **Independent board member %:** the percentage of independent board members
- **Alignment to Taxonomy:** the percentage of your fund's investments that are aligned with the EU Taxonomy for Sustainable Activities

We recommend selecting a maximum of three ESG KPIs to keep it simple. If you follow more ESG KPIs, which you should, you do not have to mention them here. We advise you to carefully choose your indicators in this section.

[Article 14] [Article 8] [Article 6] [Article 6] [Article 9]

What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives? [include, for financial products that make sustainable investments, a description of the objectives and how the sustainable investments contribute to the sustainable investment objective. For the financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852, list the environmental objectives set out in Article 9 of that Regulation to which the sustainable investment underlying the financial product contributes]

This section introduces your proprietary framework for sustainable investment. This is where all the hard work you have done on SFDR comes into play!!

The objectives are a reference of the **first pillar** of the definition of sustainable investment of the SFDR Regulation, which requires to be aligned to Article 2(17) . To assess whether your investment is sustainable, consider the differentiation between promoting and contributing to a sustainable objective and include a verbatim quote. Additionally, this will reflect the boxes you choose to keep in the decision tree later in this document.

Your objectives can be broad or narrow, depending on the indicators you use. This part is only required if you qualify as an 8+ fund, since you ticked a minimum of sustainable investment. As a reminder, a "sustainable investment" is core to the philosophy of SFDR. The EU commission clarified that you can build your own framework, with your own metrics.

Here are some examples of objectives that you may want to consider:

- Monitor taxonomy alignment and eligibility

- Consider other environmental positive impacts that are not considered aligned with the Taxonomy (because it is very restrictive) but that you consider to have a positive impact and externalities

- SDGs contribution on E and S
- Proprietary impact scoring

Your framework should help you assess if your investment contributes to a sustainable objective of Taxonomy, SFDR, or both.

It is mandatory to add a target or threshold to your scoring to assess the positive contribution to your objectives:

- For example, a positive score of your proprietary impact assessment tool could mean that it is positively contributing to SDGs goals broadly.
- If you focus on climate, reducing the carbon footprint is regulated, and the objectives with carbon emissions reduction are well defined in the regulation
- Taxonomy alignment is a good measurement to add to your pillar of sustainable investment framework, pursuing part of your sustainable investments target, and mentioning the Taxonomy DNSH.
- Other indicators and their targets could include the number of portfolio companies that are aligned with the Paris Agreement.

We recommend including a caveat regarding the methodologies used, especially the proprietary ones, as they may evolve and be impacted by changes in regulation such as the Taxonomy and SFDR. Furthermore, according to RTS SFDR article 22 to 49, part of your framework, particularly regarding data and methodology, should be published on your website.

How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective? [include a description for the financial product that partially intends to make sustainable investments]

This section is required if you ticked a minimum of sustainable investments in the first section. This section aims to ensure that you meet the DNSH requirement for your sustainable investments. This is the **second pillar** of your sustainable investment framework.

We recommend that you describe the process used to analyze DNSH. If you are using Principal Adverse Impacts (PAIs) to assess part of the DNSH (which you should), you will have to explain how in the next subsection of the template, so you do not need to be too specific in this part.

Some examples of DNSH analysis processes include:

- **Conducting a quantitative assessment using some PAIs** and assessing their materiality.
- **Conducting a quantitative assessment using proprietary methods**, such as evaluating negative impacts on the SDGs or exceeding thresholds for other proprietary scoring systems.
- **Conducting a quantitative assessment DNSH**. However, we do not recommend relying solely on qualitative criteria for your methodology, but they could be interesting add-ons.

Screening for controversy is not enough to assess the DNSH, as the ESAs have pointed out.

We recommend standardizing the DNSH part of your framework as much as possible, as this can save you time. In our understanding, considering PAIs for the DNSH is a must. A combination of PAIs and an internal quantitative or qualitative review is, in our opinion, the best approach.

[Article 14] [Article 8] [Article 7]

How have the indicators for adverse impacts on sustainability factors been taken into account? [include an explanation of how the indicators for adverse impacts in Table 1 of Annex I and any relevant indicators in Tables 2 and 3 of Annex I , are taken into account]

[Same section articles 8 & 9] This subsection discusses the consideration of PAIs for DNSH purpose, without considering them at the fund or entity level. Considering PAIs is the most challenging part for asset managers, as they can be considered for different purposes under the SFDR regulation.

The process of considering PAIs for DNSH should begin with a materiality assessment for each PAI. VC funds invest in small ventures that may not have data on each PAI, as they may not all be relevant to their activities. Following this materiality assessment, a quantitative assessment of the PAIs should be conducted according to the definition established by the EU Commission. This assessment should be done before the final investment decision to evaluate the sustainability of the investment.

We recommend that VC firms operating in early-stage ventures calculate the PAIs for their portfolio companies as much as possible, as they may not have the necessary knowledge or time to do so themselves.

How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details

[Same section articles 8 & 9] In this section, you have to explain how your investment strategy aligns with international guidelines on social and governance standards, which is typically included in the investment strategy.

This is the **third pillar** of your sustainable investment framework.

- While having an exclusion list can provide some protection against the risks highlighted by the regulation, it is not sufficient. You must also demonstrate that you are conducting active analyses or due diligence to address this matter.
- During due diligence, conducting in-depth legal and HR analyses would address this concern.

[Article 11]

Does this financial product consider principal adverse impacts on sustainability factors? [if the financial product considers principal adverse impacts on sustainability factors, include a clear and reasoned explanation of how it considers principal adverse impacts on sustainability factors. Indicate where, in the information to be disclosed pursuant to Article 11(2) of Regulation (EU) 2019/2088, the information on principal adverse impacts on sustainability factors is available]

Tick “Yes” or “No”. If “Yes”, explain how. This is different from the consideration of principal adverse impacts (PAI) in the DNSH part of your sustainable investment framework, you can only take into account some PAI adapted to your investment sector to respond to the DNSH part. In this section, if you tick “Yes”, you will have to consider PAIs for all of you investments.
In addition, you must provide the following information regarding the consideration of PAI for your fund:

- **Where the information is available ?** With respect to Article 11(2) of SFDR, this should be attached to the annual report of the fund.
- **Which PAIs are being assessed?** We recommend mentioning the 14 mandatory PAIs linked to investments in companies. We don’t know how the regulation will evolve, however there are greater chances, that they reinforce the disclosures of PAIs. Hence, it is better to be prepared to disclose more than what is required today. Even if you have hard time to collect them all
- **Similar to the section on PAI in sustainable investment, you can introduce a materiality assessment.** As we operate in the field of VC, we know that some PAIs are not relevant to some portfolio companies. In this case, before demanding that an entrepreneur comply with a certain PAI related to emissions or water for a SAS business, assess if it’s relevant to ask them. If it’s not, you can put “0”. We consider that all social PAIs are relevant to any portfolio companies.

What investment strategy does this financial product follow? [provide a description of the investment strategy and indicate how the strategy is implemented in the investment process on a continuous basis]

[Same section articles 8 & 9] This section provides a brief overview of the investment strategy that your fund is pursuing. It covers not only ESG, but also the sectors or types of startups being targeted, as well as the series/maturity in which investments are made.
Additionally, this section explains how to ensure the continuous application of the strategy and ESG components, including how ESG is embedded into the investment process.
Here are a few examples:
- ESG questionnaires
- Usage of providers
- Quarterly and annual reports

What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?

[Same section articles 8 & 9] Binding elements are constraints that you have added within the bylaws of the fund, your internal investment policy, or your investment strategy:
Examples of binding elements include:
- Exclusion lists
- Proprietary scoring thresholds
- Investment strategy constraints

What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy? [include an indication of the rate, where there is a commitment to reduce the scope of investments by a minimum rate]

It is not mandatory to have a committed rate for the product; if there isn't one, you could add the following text: "We do not have any committed rate applied to the product and assess the potential of each investment."

However, if you can assess this number using some historical data on your pipeline and rejections due to ESG, you could add a percentage based on the historical pipeline. This is not binding, so we advise against making commitments in this section. Your future pipeline could be 100% sustainable, who knows? This information is typically useful for listed funds that apply a threshold on the 20% worst-in-class companies and to respect the french "ISR Label".

What is the policy to assess good governance practices of the investee companies?

[include a short description of the policy to assess good governance practices of the investee companies]

In this section, you should demonstrate how your investment process allows you to assess good governance practices of the investee company. This means assessing good governance during both the due diligence phase and while the investment is in your portfolio.

This may overlap with the section on **pillar three** of sustainable investment that we detailed earlier.

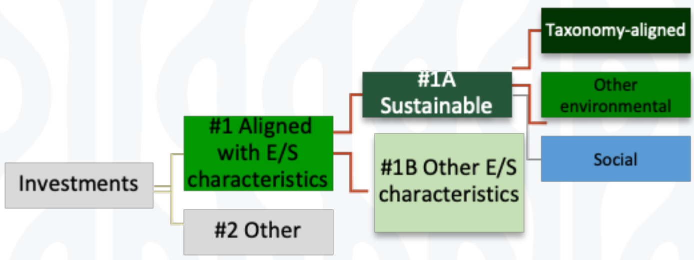
- Certain exclusion policies may allow you to avoid some investments with poor governance practices.
- During due diligence, you can assess good governance by conducting in-depth legal and HR analysis. This is part of the good governance analysis and may overlap with the DNSH section, although it applies to 100% of your underlying investments in comparison to the DNSH section. We advise to have the same policy for both.
- Your policy on engagement and voting is also important.
- If you invest in equity, you may have a seat on the board and be able to assess good governance and any controversies that may arise through participating in general assembly and boards. This could be also part of your engagement and voting policy.

[Article 15] [Article 6] [Article 3]

What is the asset allocation planned for this financial product? [include a narrative explanation of the investments of the financial product, including the minimum proportion of the investments of the financial product used to meet the environmental or social characteristics promoted by the financial product in accordance with the binding elements of the investment strategy, including the minimum proportion of sustainable investments of the financial product where that financial products commits to making sustainable investments, and the purpose of the remaining proportion of the investments, including a description of any minimum environmental or social safeguards]

In this section, you need to define the broad allocation of funds in terms of equity, convertible, or other financial instruments. You don't need to be too precise, as you want to allow for some flexibility in your allocation and broad percentages of distribution.
You have two options here:
- 100% of your investments are covered by ESG analysis and ESG is a crucial aspect of your strategy, you can have 100% aligned with E/S. This means that you are taking into consideration ESG for all of your investments and that you will monitor some indicators. In this case, you should have 0% remaining in category #2 Other. However, as liquidity and derivatives are hard to assess in terms of ESG, you might have less than 100%.
- If you have a portion of your assets that are not intended to be aligned, you must explain why and their purpose.
Your minimum percentage of sustainable investment should be the same as in the beginning of the template.

On the right-hand side tree, only add the box that fits within your strategy and allocation. Additionally, include the minimum percentage for each box that you choose to select. This also applies to the sustainable option, if you intend to have a consequent liquidity pocket.



How does the use of derivatives attain the environmental or social characteristics promoted by the financial product? [for financial products that use derivatives as defined in Article 2(1), point (29), of Regulation (EU) No 600/2014 to attain the environmental or social characteristics they promote, describe how the use of those derivatives meets those characteristics]

[Same section articles 8 & 9] Since most VC funds do not use derivatives to pursue their investment strategy, we recommend using the following statement: "[Name of the fund] does not use derivatives as an underlying asset."

[Article 15] [Article 17] [Article 6] [Article 3]

To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy? [include a section for the financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852 and include the graphical representation referred to in Article 15(1), point (a), of this Regulation, the description referred to in Article 15(1), point (b), of this Regulation, a clear explanation as referred to in Article 15(1), point (c), of this Regulation, a narrative explanation as referred to in Article 15(1), point (d), of this Regulation and the information referred to in Article 15(2) and (3) of this Regulation]

You must replicate exactly the same charts as in the template provided by the EU commission. As VC funds, we do not invest in sovereigns, hence, we will have twice the same charts. Even if it does not make much sense, we recommend including both graphs, as both are present in the template.
In this section, you should specify the minimum percentage of the fund allocation that you commit to sustainable investments with an environmental objective aligned with the EU Taxonomy. For an 8+ fund, we recommend to have this minimum >0% (could be only 1%), for a classical 8 fund, you should add 0%. Taxonomy-alignment of investments of the financial product is a commitment which should be met at all times.
This section also requires a narrative description of what is encompassed in the boxes of the previous tree.
You are supposed to calculate MV * % of alignment of each underlying company through a breakdown of economic activities of your portfolio companies. The formula for the total alignment of your portfolio that you are supposed to use is: Sum Prod (Share of alignment of each portfolio companies x Entreprise Value of investment at 31/12) / Total EV of portfolio companies at 31/12.
As a VC fund, MV can be tricky to use. If an investment outperforms the others (as is intended in VC), it could shift your ratio in an unwanted direction. The best approach would be to report investments at cost, but the regulation specifies using market value, which is not at all relevant for a VC fund. This may be adapted in the future (hopefully).
We interpret the minimum as binding and and you must reach it by any means to avoid any future sanctions that may arise from the local regulator. Taxonomy alignment will probably be the focus of future inquiries by the regulator in the coming years.

Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy?

[Same section articles 8 & 9] If you are not using the latest template (17/02/2023), which includes the amendment made by the EU commission regarding the treatment of nuclear energy and fossil gas, this section will not appear. In this case, you should retrieve the latest template. Answer this question by ticking "Yes" or "No".

If you are investing in nuclear or fossil gas, or intend to add them as a minimum, please include them in the graphs. However, since taxonomy-aligned fossil gas and taxonomy-aligned nuclear are very rare and complicated to obtain, we recommend answering no and not adding them to the template.

[Article 15] [Article 6] [Article 16]

What is the minimum share of investments in transitional and enabling activities?
[include section for the financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852]

In this section, you should include the minimum investment required for enabling and transitional activities. Both of these terms are defined below.

- **Enabling activities** allow other activities to make a substantial contribution to one or more of the Taxonomy's six objectives. However, enabling activities cannot lead to a 'lock-in' of assets which would undermine long-term environmental goals. They must also have a substantial positive environmental impact over the activity's lifecycle.
- **Transitional activities** must contribute to climate change mitigation and a pathway to keeping global warming in line with Paris Agreement commitments. They only qualify as such when the following criteria are met:
    - There are no technologically or economically feasible low-carbon alternatives.
    - Green House Gas emission levels correspond to the best performance in the sector or industry.
    - The activity does not lead to carbon lock-in or hamper the development and deployment of low-carbon alternatives.

As a reminder, the six objectives of the taxonomy are:

(a) climate change mitigation;
(b) climate change adaptation;
(c) the sustainable use and protection of water and marine resources;
(d) the transition to a circular economy;
(e) pollution prevention and control;
(f) the protection and restoration of biodiversity and ecosystems.

Note that the minimum you specify here is binding, and you must reach it by any means to avoid any future sanctions that may arise from the local regulator.

Since enabling and transitional activities are a subpart of taxonomy-aligned investments, we recommend setting the minimum for taxonomy alignment instead of a specific percentage here. This will give you more flexibility in your investment strategy and allow you to take advantage of opportunities as they arise.

[Article 15] [Article 6]

What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy? [include section only for the financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852 where the financial product invests in economic activities that are not environmentally sustainable economic activities and explain why the financial product invests in sustainable investments with an environmental objective in economic activities that are not Taxonomy-aligned]

[Same section articles 8 & 9] In this section, you should specify the minimum percentage of the fund allocation that you commit to sustainable investments with an environmental objective that does not align with the taxonomy alignment definition. This section requires a narrative description of why funds are allocated in this way, whereas in the two sections above, only the what was answered.

Make sure that the total minimum amounts across all sections are consistent with the amount indicated at the beginning of the document. Remember that this minimum is binding and must be reached to avoid potential sanctions from the local regulator.

[Article 16]

What is the minimum share of socially sustainable investments? [include section only where the financial product includes sustainable investments with a social objective]

If you ticked the box for "socially sustainable investments" in the first section of the pre-contractual document, please specify the minimum share of fund allocation that you commit to socially sustainable investments here. If you are unsure about the minimum allocation, we recommend adding 0% to play it safe.

If you did not tick the box for "socially sustainable investments" in the first section of the pre-contractual document, you can remove this section.

What investments are included under "#2 Other", what is their purpose and are there any minimum environmental or social safeguards?

This section should contain information about investments that fall under the "#2 Other" category. This category usually only includes liquidity or derivatives, if you invest in those assets consistently. However, VC funds typically use drawdowns, so this section may not be completed. If you are a VC fund dedicated to retail, you might have a larger liquidity pocket requirement, hence this could make sense to add some narrative about liquidity.

If you invest in any of those assets, it is important to ensure that you still assess a minimum ESG evaluation, hence the "safeguards" of those investments. You can do this through an exclusion list or other means. It is possible for your fund to not be concerned by this category if your liquidities are marginal.

Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes? [include section where an index has been designated as a reference benchmark for the purpose of attaining the environmental or social characteristics promoted by the financial product and indicate where the methodology used for the calculation of the designated index can be found]

[Same section articles 8 & 9] Since VC funds do not have an index as a specific benchmark, you can simply write "the fund does not follow any index or reference benchmark" and remove the following subsections.

How does the reference benchmark take into account sustainability factors in a way that is continuously aligned with the sustainable investment objective?

How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?

How does the designated index differ from a relevant broad market index?

Where can the methodology used for the calculation of the designated index be found?

[Article 23 - Article 36]

Where can I find more product specific information online?
More product-specific information can be found on the website [include a hyperlink to the website referred to in Article 23 of this Regulation]'

[Same section articles 8 & 9] In this section, please include a hyperlink to your website and the section where you addressed Article 23 to 36 of the Regulatory Technical Standards (RTS) of the Sustainable Finance Disclosure Regulation (SFDR).

c. Pre-contractual documentation for an article 9 fund

You will find below the pre-contractual documentation to be completed for an article 9 fund. This documentation must be presented to the LPs prior to subscription and must be enclosed with the other fund documents.

Annex III

Product Name : Name of the fund
Legal entity identifier: ISIN of the fund or LEI if available

[Article 18] [Article 9] [Article 6]

To start with, keep in mind that an Article 9 fund should solely invest in sustainable investments (with 100% of investments being sustainable, except for liquidity and derivatives). First, tick "Yes" for "Does this financial product have a sustainable investment objective?"

You have three main choices for your sustainable investments:

- Set a minimum of sustainable investment with an environmental objective

- Option 1: EU Taxonomy aligned
- Option 2: Other activities not aligned with the EU Taxonomy but that you consider sustainable towards the environment.

- Set a minimum of sustainable investment with a social objective (which is rare)

- Set a minimum of both environmental and social objectives

You must also fill in the __% with your minimum target of investments considered sustainable for each part (depending on which is concerned). As a recommendation, and for credibility, the minimum allocation for both social and environmental objectives should be at least 50%, if unsure. Otherwise you could allocate more towards the environment. This is based on the expected investments of the product, which will become a binding commitment towards the investor.

This is a legally binding commitment, and you can be sanctioned by the local regulator for failing to meet it. However, you can set lower minimums for each category to maintain flexibility in your allocation between them.

By following these guidelines, you can ensure that your Article 9 fund meets all of the necessary requirements.

[Article 18] [Article 9] [Article 6] [Article 5] [Article 9]

What is the sustainable investment objective of this financial product? [indicate the investment objective pursued by the financial product, describe how the sustainable investments contribute to a sustainable investment objective and indicate whether a reference benchmark has been designated for the purpose of attaining the sustainable investment objective. For financial products referred to in Article 5 , first paragraph, of Regulation (EU) 2020/852, in respect of sustainable investments with environmental objectives, list the environmental objectives set out in Article 9 of that Regulation to which the sustainable investment underlying the financial product contributes. For financial products referred to in Article 9(3) of Regulation (EU) 2019/2088, indicate that the financial product has the objective of reducing carbon emissions and explain that the reference benchmark qualifies as an EU Climate Transition Benchmark or an EU Paris-aligned Benchmark under Title III, Chapter 3a, of Regulation (EU) 2016/1011 and indicate where the methodology used for the calculation of that benchmark can be found. Where no EU Climate Transition Benchmark or EU Paris-aligned Benchmark as qualified in accordance with Regulation (EU) 2016/1011 is available, describe that fact, how the continued effort of attaining the objective of reducing carbon emissions is ensured in view of achieving the objectives of the Paris Agreement and the extent to which the financial product complies with the methodological requirements set out in Commission Delegated Regulation (EU) 2020/1818]

The sustainable objectives of the SFDR Regulation serve as a reference for defining a sustainable investment under Article 2(17). Your fund should define sustainable objectives, which can be social, environmental, or both. They can even be more specific, such as being aligned with the environmental objectives of the taxonomy. However, ff you mention the taxonomy, you must list all the objectives that you intend to pursue.

Introducing the **first pillar** of your proprietary sustainable investment framework here. This is where the hard work you have done on SFDR comes into play! Remember, your goal is to have 100% of your investments fall under your sustainable investment framework to qualify as an article 9 fund. (In reality, this could be 90% if you need to have subsequent investments in derivatives or liquidity.)

The objectives can be broad or narrow, depending on the indicators you use. You can mention that you intend to invest in taxonomy-aligned activities. Additionally, you can consider other environmental or social positive impacts that are not considered aligned with the Taxonomy but are considered to have a positive impact on positive externalities. Provide some details here. Article 9(3)applies if reduction of emissions is an objective.

It is also important to specify whether the product follows a reference index. In the case of a VC fund, where there is no reference index available, the following text can be added: “No reference index has been designated for the purpose of attaining the environmental or social characteristics promoted by the financial product.”

What sustainability indicators are used to measure the attainment of the sustainable investment objective of this financial product?

In this section, you should specify the sustainable indicators and their definitions that you will use to assess the positive contribution of your investments towards the objectives defined in the previous section. The EU commission allows you to create your own framework and indicators, rather than following a pre-defined list of ESG indicators, as long as they clearly allow you to assess the positive contribution to your sustainable objectives. These indicators must be actively monitored and reported in your annual periodic reports throughout the life of your fund.

It is mandatory to add a target or threshold to your scoring to assess the positive contribution to your objectives. Some examples of sustainable indicators include:

- **Proprietary impact assessment tools** to assess positive environmental or social impacts, or both
- **A proprietary tool to assess positive contributions to SDGs**
- **Taxonomy alignment**
- **Carbon footprint reduction objectives for climate-focused investments**, as defined in the regulation within Article 9(3)
- For VC, **temperature alignment scores** may be too complicated to assess, as such we do not recommend them for early ventures funds
- **Other proprietary indicators or scoring** with a robust methodology could also be used

We recommend including a caveat regarding the methodologies used, especially the proprietary ones, as they may evolve and be impacted by changes in regulation such as the Taxonomy and SFDR. Furthermore, according to RTS SFDR article 22 to 49, part of your framework, particularly regarding data and methodology, should be published on your website.

To keep it simple, we suggest selecting a maximum of 2/3 sustainable indicators, including taxonomy alignment, depending on how your sustainable investment framework has been created. If you are following additional ESG KPIs, you do not need to mention them in this section.

How do sustainable investments not cause significant harm to any environmental or social sustainable investment objective?

This section aims to ensure that you meet the DNSH requirement for your sustainable investments. Specifically, for an Article 9 fund, the DNSH must be calculated for each investment, as you are expected to invest solely in sustainable investments. This is the **second pillar** of your sustainable investment framework.

We recommend that you describe your DNSH analysis process in the template. If you use PAIs to assess DNSH (which you should), you will explain how in the next subsection, so you don't need to be too specific here.

Here are some examples of DNSH analysis processes:

- **Quantitative assessment using PAIs** after having assessed their materiality
- **Quantitative assessment using proprietary methods**, such as evaluating negative impacts on the SDGs or exceeding thresholds for other proprietary scoring systems
- **Qualitative assessment to assess DNSH** (we do not recommend relying solely on qualitative criteria, but they can be interesting add-ons)

Screening for controversy is not enough to assess the DNSH, as the ESAs have pointed out.

Standardizing the DNSH part of your framework as much as possible can save you time. In our understanding, considering PAIs for the DNSH is a must. We believe that a combination of PAIs and an internal quantitative or qualitative review is the best approach.

[Article 18] [Article 9] [Article 7]

How have the indicators for adverse impacts on sustainability factors been taken into account? [include an explanation of how the indicators for adverse impacts in Table 1 of Annex I and any relevant indicators in Tables 2 and 3 of Annex I , are taken into account]

[Same section articles 8 & 9] This subsection discusses the consideration of PAIs for DNSH purpose, without considering them at the fund or entity level. Considering PAIs is the most challenging part for asset managers, as they can be considered for different purposes under the SFDR regulation.

The process of considering PAIs for DNSH should begin with a materiality assessment for each PAI. VC funds invest in small ventures that may not have data on each PAI, as they may not all be relevant to their activities. Following this materiality assessment, a quantitative assessment of the PAIs should be conducted according to the definition established by the EU Commission. This assessment should be done before the final investment decision to evaluate the sustainability of the investment.

We recommend that VC firms operating in early-stage ventures calculate the PAIs for their portfolio companies as much as possible, as they may not have the necessary knowledge or time to do so themselves.

How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? [include an explanation on the alignment with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights]

[Same section articles 8 & 9] In this section, you have to explain how your investment strategy aligns with international guidelines on social and governance standards, which is typically included in the investment strategy.

This is the **third pillar** of your sustainable investment framework
- While having an exclusion list can provide some protection against the risks highlighted by the regulation, it is not sufficient. You must also demonstrate that you are conducting active analyses or due diligence to address this matter.
- During due diligence, conducting in-depth legal and HR analyses would address this concern.

[Article 11]

Does this financial product consider principal adverse impacts on sustainability factors? [if the financial product considers principal adverse impacts on sustainability factors, include a clear and reasoned explanation of how it considers principal adverse impacts on sustainability factors. Indicate where, in the information to be disclosed pursuant to Article 11(2) of Regulation (EU) 2019/2088, the information on principal adverse impacts on sustainability factors is available]

As an Article 9 fund, you have limited options in this section. Even if the regulatory texts differ from the consideration of principal adverse impacts (PAI) in the DNSH part of your sustainable investment framework, you can only take into account some PAI adapted to your investment sector to respond to the DNSH part. However, the EU Commission recommends considering PAI for an Article 9 fund. You must detail whether you use proxies or not.

In addition, you must provide the following information regarding the consideration of PAI for your fund:

- Where is the information available ? With respect to Article 11(2) of SFDR, this should be attached to the annual report of the fund.

- Which PAIs are being assessed? We recommend here mentioning the 14 mandatory PAIs linked to investments in companies. We don't know how the regulation will evolve, however there are greater chances, that they reinforce the disclosures of PAIs. Hence, it is better to be prepared to disclose more than what is required today. Even if you have hard time to collect them all

- Similar to the section on PAI in sustainable investment, you can introduce a materiality assessment. As we operate in the field of VC, we know that some PAIs are not relevant to some portfolio companies. In this case, before demanding that an entrepreneur comply with a certain PAI related to emissions or water for a SAS business, assess if it's relevant to ask them. If it's not, you can put "0". We consider that all social PAIs are relevant to any portfolio companies.

What investment strategy does this financial product follow? [provide a description of the investment strategy and indicate how the strategy is implemented in the investment process on a continuous basis]

[Same section articles 8 & 9] This section provides a brief overview of the investment strategy that your fund is pursuing. It covers not only ESG, but also the sectors or types of startups being targeted, as well as the series/maturity in which investments are made.
Additionally, this section explains how to ensure the continuous application of the strategy and ESG components, including how ESG is embedded into the investment process.

Here are a few examples:
- ESG questionnaires
- Usage of providers
- Quarterly and annual reports

What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?

[Same section articles 8 & 9] Binding elements are constraints that you have added within the bylaws of the fund, your internal investment policy, or your investment strategy:
Examples of binding elements include:
- Exclusion lists
- Proprietary scoring thresholds
- Investment strategy constraints

What is the policy to assess good governance practices of the investee companies?
[include a short description of the policy to assess good governance practices of the investee companies]

In this section, you should demonstrate how your investment process allows you to assess good governance practices of the investee company. This means assessing good governance during both the due diligence phase and while the investment is in your portfolio.
This may overlap with the section on **pillar three** of sustainable investment that we detailed earlier.
- Certain exclusion policies may allow you to avoid some investments with poor governance practices.
- During due diligence, you can assess good governance by conducting in-depth legal and HR analysis. This is part of the good governance analysis and may overlap with the DNSH section, although it applies to 100% of your underlying investments in comparison to the DNSH section. We advise to have the same policy for both.
- Your policy on engagement and voting is also important.
- If you invest in equity, you may have a seat on the board and be able to assess good governance and any controversies that may arise through participating in general assembly and boards. This could be also part of your engagement and voting policy.

[Article 19] [Article 15] [Article 6] [Article 3]

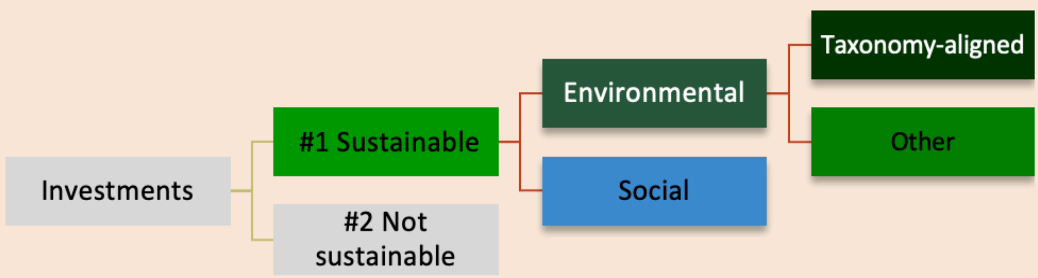
What is the asset allocation and the minimum share of sustainable investments?
[include a narrative explanation of the investments of the financial product including the minimum proportion of the investments of the financial product used to meet the sustainable investment objective in accordance with the binding elements of the investment strategy]

In this section, you need to define the broad allocation of funds in terms of equity, convertible, or other financial instruments. You do not need to be too precise, as this will allow for some flexibility in your allocation and broad percentages of distribution.

If you have a substantial liquidity pocket, 100% or 90% of your assets under management (AUM) can be sustainable investments in an Article 9 fund. However, you must still add the minimum share of sustainable investments that you will have within your portfolio. This is different from the minimum you put in the first section of the pre-contractual document, as it is a global minimum. Additionally, your sustainable investments must align with the definition of Article 2(17) of SFDR.

On below tree, only add the box that fits within your strategy and allocation. Additionally, include the minimum percentage for each box that you choose to select. This also applies to the sustainable option, if you intend to have a consequent liquidity pocket.

[Include only relevant boxes, remove irrelevant ones for the financial product]



#1 Sustainable covers sustainable investments with environmental or social objectives.

#2 Not sustainable includes investments which do not qualify as sustainable investments.

How does the use of derivatives attain the environmental or social characteristics promoted by the financial product? [for financial products that use derivatives as defined in Article 2(1), point (29), of Regulation (EU) No 600/2014 to attain the environmental or social characteristics they promote, describe how the use of those derivatives meets those characteristics]

[Same section articles 8 & 9] Since most VC funds do not use derivatives to pursue their investment strategy, we recommend using the following statement: "[Name of the fund] does not use derivatives as an underlying asset."

[Article 19] [Article 15] [Article 17] [Article 5]

To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy? [include the section for financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852 and include the graphical representation referred to in Article 19(1), point (a), of this Regulation, the description referred to in Article 19(1), point (b), of this Regulation, the clear explanation referred to in Article 19(1), point (c), of this Regulation, the narrative explanation referred to in Article 19(1), point (d), of this Regulation]

You must replicate exactly the same charts as in the template provided by the EU commission. As VC players, we do not invest in sovereigns, hence, we will have twice the same charts. Even if it does not make much sense, we recommend including both graphs, as both are present in the template.

In this section, you should specify the minimum percentage of the fund allocation that you commit to sustainable investments with an environmental objective aligned with the EU Taxonomy. As seen with the latest AMF position paper on SFDR, we recommend for article 9 fund to have this minimum >0% and even 10% if possible. Taxonomy-alignment of investments of the financial product is a commitment which should be met at all times.

This section also requires a narrative description of what is encompassed in the other boxes of the tree.

You are supposed to calculate MV * % of alignment of each underlying company through a breakdown of economic activities of your portfolio companies. The formula for the total alignment of your portfolio that you are suppose to use: Sum Prod (Share of alignment of each portfolio companies x Entreprise Value of investment at 31/12) / Total EV of portfolio companies at 31/12.

As a VC fund, MV can be tricky to use. If an investment outperforms the others (as is intended in VC), it could shift your ratio in an unwanted direction. The best approach would be to report investments at cost, but the regulation specifies using market value, which is not at all relevant for a VC fund. This may be adapted in the future (hopefully).

We interpret the minimum as binding and and you must reach it by any means to avoid any future sanctions that may arise from the local regulator. Taxonomy alignment will probably be the focus of future inquiries by the regulator in the coming years

Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy ?

[Same section articles 8 & 9] If you are not using the latest template (17/02/2023), which includes the amendment made by the EU commission regarding the treatment of nuclear energy and fossil gas, this section will not appear. In this case, you should retrieve the latest template.

Answer this question by ticking "Yes" or "No".

If you are investing in nuclear or fossil gas, or intend to add them as a minimum, please include them in the graphs. However, since taxonomy-aligned fossil gas and taxonomy-aligned nuclear are very rare and complicated to obtain, we recommend removing them and not adding them to the template.

[Article 19] [Article 15] [Article 5] [Article 16]

What is the minimum share of investments in transitional and enabling activities?
[include section for the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852]

In this section, you should include the minimum investment required for enabling and transitional activities, both are defined bellow. Since this is a subpart of Taxonomy-aligned investments, we recommend setting the minimum for taxonomy alignment instead of a specific percentage here.

- **Enabling activities** allow other activities to make a substantial contribution to one or more of the Taxonomy's six objectives. However, enabling activities cannot lead to a 'lock-in' of assets which would undermine long-term environmental goals. They must also have a substantial positive environmental impact over the activity's lifecycle.
- **Transitional activities** must contribute to climate change mitigation and a pathway to keeping global warming in line with Paris Agreement commitments. They only qualify as such when the following criteria are met:
    - There are no technologically or economically feasible low-carbon alternatives.
    - Green House Gas emission levels correspond to the best performance in the sector or industry.
    - The activity does not lead to carbon lock-in or hamper the development and deployment of low-carbon alternatives.

As a reminder the 6 objectives of the taxonomy are:
(a) climate change mitigation;
(b) climate change adaptation;
(c) the sustainable use and protection of water and marine resources;
(d) the transition to a circular economy;
(e) pollution prevention and control;
(f) the protection and restoration of biodiversity and ecosystems.

Note that the minimum you specify here is binding, and you must reach it by any means to avoid any future sanctions that may arise from the local regulator.

Since enabling and transitional activities are a subpart of taxonomy-aligned investments, we recommend setting the minimum for taxonomy alignment instead of a specific percentage here. This will give you more flexibility in your investment strategy and allow you to take advantage of opportunities as they arise.

[Article 19] [Article 15] [Article 5]

What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy? [include section only for the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852 where the financial product invests in environmental economic activities that are not environmentally sustainable economic activities and explain why the financial product invests in sustainable investments with an environmental objective in economic activities that are not Taxonomy-aligned]

[Same section articles 8 & 9] In this section, you should specify the minimum percentage of the fund allocation that you commit to sustainable investments with an environmental objective that does not align with the taxonomy alignment definition. This section requires a narrative description of why funds are allocated in this way, whereas in the two sections above, only the what was answered.

This section is a repetition of your proprietary definition of a sustainable investment with an environmental objective, which was previously discussed as your pillar one of a sustainable investment.

Make sure that the total minimum amounts across all sections are consistent with the amount indicated at the beginning of the document. Remember that this minimum is binding and must be reached to avoid potential sanctions from the local regulator.

[Article 19] [Article 15]

What is the minimum share of sustainable investments with a social objective? [include section only where the financial product includes sustainable investments with a social objective]

If you have committed to making sustainable investments with a social objective in the first section of the pre-contractual document, you must specify the minimum share of fund allocation that you commit to in this section. This minimum is binding and must be reached to avoid potential sanctions from the local regulator.

What investments are included under "#2 Not sustainable", what is their purpose and are there any minimum environmental or social safeguards? [describe the purpose of the remaining proportion of the investments of the financial product, including a description of any minimum environmental or social safeguards, how their proportion and use does not affect the delivery of the sustainable investment objective on a continuous basis and whether those investments are used for hedging or relate to cash held as ancillary liquidity]

This section should contain information about investments that fall under "#2 Not Sustainable" category. Usually, this category only includes liquidity or derivatives, if you invest in those assets consistently. For VC funds, since we use drawdowns, this section might not be completed. However, if you are a VC fund dedicated to retail, you might have a larger liquidity pocket requirement, hence this could make sense to add some narrative about liquidity.

If you invest in any of those assets, it's important to ensure that you still assess a minimum ESG evaluation, hence the "safeguards" of those investments. You can do this through an exclusion list or other means. It is possible for your fund to not be concerned by this category as your liquidities are marginal.

Is a specific index designated as a reference benchmark to meet the sustainable investment objective? [include section only for the financial products referred to in Article 9(1) of Regulation (EU) 2019/2088 and indicate where the methodology used for the calculation of the designated index can be found]

[Same section articles 8 & 9] Since VC funds do not have an index as a specific benchmark, you can simply say no and remove the following subsections sections.

How does the reference benchmark take into account sustainability factors in a way that is continuously aligned with the sustainable investment objective?

How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?

How does the designated index differ from a relevant broad market index?

Where can the methodology used for the calculation of the designated index be found?

[Article 23] [Article 49]

Where can I find more product specific information online?
More product-specific information can be found on the website [include a hyperlink to the website referred to in Article 23 of this Regulation]'

[Same section articles 8 & 9] In this section, please include a hyperlink to your website and the section where you addressed article 37 to 49 of the Regulatory Technical Standards (RTS) of the Sustainable Finance Disclosure Regulation (SFDR).

d. Periodic reporting for an article 8

You will find below the periodic reporting to be completed for an article 8 fund. This report must be attached to the fund's annual report and must be provided by the 30th of June following the end of the financial year.

Annex IV

Product Name : Name of the fund
Legal entity identifier: ISIN of the fund or LEI if available

[Article 51] [Article 11] [Article 6] [Article 9]

To what extent were the environmental and/or social characteristics promoted by this financial product met? [list the environmental and/or social characteristics promoted by the financial product. For the financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852, in respect of sustainable investments with environmental objectives, list the environmental objectives set out in Article 9 of that Regulation to which the sustainable investment underlying the financial product contributed. For financial products that made sustainable investments with social objectives, list the social objectives]

This section mirrors the first section completed in the pre-contractual document for your Article 8 fund. You should first give a quick reminder of the ESG characteristics that were promoted by this financial product. You have here to list the characteristics, not the indicators.

We advise against adding ESG characteristics that were not mentioned in the first section of your pre-contractual document. You should replicate exactly the same structure and add a narrative on how those characteristics were met.

- **How did the sustainability indicators perform?**

In this section, you should refer to the sustainability indicators mentioned in your pre-contractual document.
We recommend following a maximum of three sustainability indicators, even though you may report more (and likely do so). This is because it is easier to define and monitor a smaller number of indicators, especially in legal documentation such as SFDR Periodic Reporting and pre-contractual documentation.

- **...and compared to previous periods?** [include for financial products where at least one previous periodic report was provided]

[Same section articles 8 & 9] If this is your first periodic report, you may skip this section. Otherwise, you must compare your current report to the previous ones, up to five periods if possible (as required by Article 64 of the RTS).

- **What were the objectives of the sustainable investments that the financial product partially made and how did the sustainable investment contribute to such objectives?** [include for financial products that made sustainable investments, where not included in the reply to the above question, describe the objectives. Describe how the sustainable investments contributed to the sustainable investment objective. For the financial products referred to in Article 6, first paragraph, of Regulation (EU) 2020/852, list the environmental objectives set out in Article 9 of that Regulation to which the sustainable investment underlying the financial product contributed]

In this section, you should begin by reiterating the sustainable objectives described in your pre-contract documentation. Next, you should explain how your sustainable investments contribute to these objectives, highlighting any variations or progress. It is not necessary to indicate the proportion of sustainable investments here.

In your pre-contractual document, you defined several sustainability indicators that are useful for assessing the positive impact of your sustainable investments within your framework. It's important to note that these are sustainability indicators used to evaluate the sustainability of your investment, not the indicators used to assess the ESG promotion of the fund, which were mentioned earlier.

- **How did the sustainable investments that the financial product partially made not cause significant harm to any environmental or social sustainable investment objective?** [include where the financial product includes sustainable investments]

If you have not made any sustainable investments, you may skip this section. However, even if you have not set minimum requirements for sustainable investments, but did make some through your internal proprietary framework, you must complete this section. This is a reference to the **second pillar** of your sustainable investment framework. The regulation, as in the pre-contractual documents asks for a broad definition.

In the two subsections below, you must justify the way you perform the analysis of DNSH and minimum safeguards, hence, “pillar 2 & 3 of your sustainable investment framework”. This section is essentially a repetition of what you have written in your pre-contractual documents.   have actually carried out your DNSH for all sustainable investments, and you have to describe how ? and by whom ?

For example:
- We carried out a materiality assessment of the PAIs and evaluated each of the relevant ones
- We have also carried out a qualitative assessment of sustainability
- We carried out a review of the contribution to the SDGs using our proprietary tool, and none of the investments scored below 0.

- **How were the indicators for adverse impacts on sustainability factors taken into account?**

[Same section articles 8 & 9] In this section, as mentioned above, you should reproduce your pre-contract documentation and provide an operational explanation of what was been done with the PAI to respect the DNSH. For instance, that you performed a materiality assessment on PAI before investment for all sustainable investments and then conducted a quantitative assessment for each.
From our perspective, there is no need to add quantitative data here, as long as you have justified your approach. However, be prepared to provide details in the event of a regulatory enquiry. PAIs data will be required at a later section.

- **Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details**

[Same section articles 8 & 9] In this section, you need to provide justification as to whether the process outlined in the pre-contractual documentation was followed with regards to the third pillar of your sustainable investment framework. You should provide details on how the analysis was conducted.

How did this financial product consider principal adverse impacts on sustainability factors? [include section if the financial product considered principal adverse impacts on sustainability factors]

[Same section articles 8 & 9] In this section, you need to explain how you considered PAIs if you stated in the pre-contractual document that you would. If you made such a statement, you were expected to consider PAIs for your entire fund and all your investments. This would be where a table with all the indicators that you have chosen to follow have to be reported. As good practice, highlighted multiple times by the ESAs, it is recommended for funds to disclose the portion of PAIs that are calculated directly from investee's data or by using proxies. It is also recommended to add the proportion of the total AUM of the funds covered by each PAI.

[Article 52]

What were the top investments of this financial product?

[Same section articles 8 & 9] To fill the table below, please provide one of the following information depending on your situation:

- Provide details on the 15 largest investments made during the reporting period, including the sector, % of your portfolio, and the country of HQ if they represent less than 50% of the total investments made.
- Disclose at least 50% of the total investment amount made during the reporting period, including the sector, % of your portfolio, and the country of HQ.

Largest investments	Sector	% Assets	Country

[Article 55]

What was the proportion of sustainability-related investments?

In this section, you can either include a table with a detailed breakdown of the proportion or provide a narrative that includes the percentage of your portfolio that falls within your sustainable framework by the end of the reporting period. If you have listed environmental objectives in your pre-contractual documentation, you must break down your investments by all of the environmental objectives of the taxonomy. If an activity contributes to more than one objective, choose the objective to which the activity contributes most or that is better aligned with the environmental or social objective of the fund.

Additionally, it is required to mention whether the data was reviewed by a third party or audited, and provide the names of the third parties/auditors if applicable.

[Article 53]

- **What was the asset allocation?**

In this section, use the same tree as in the pre-contractual document and add the actual allocation at the end of the reporting period. The boxes should be the same as those reported in the pre-contractual document, but with the percentages changed, as we are not focused on the minimums here.

[Article 54]

- **In which economic sectors were the investments made?** [include information referred to in Article 54 of this Regulation]

This section should detail the sectoral breakdown of all investments made during the reporting period, with a focus on the fossil fuel sector.

[Article 51] [Article 6]

To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy? [include section for the financial products referred to in Article 6 , first paragraph, of Regulation (EU) 2020/852 and include information in accordance with Article 51 of this Regulation]

This section should include the specific bar charts as defined in the template provided by the EU, with the categories filled in accordance with your pre-contractual documentation. Since VCs mainly invest in companies that are not required to comply with NFRD/CSRD, the turnover KPI should be used to determine taxonomy alignment.

- **Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy?** Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objective - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

[Same section articles 8 & 9] In this section, indicate whether you have invested in fossil energy or nuclear energy that complies with the EU Taxonomy, consistent with your pre-contractual documentation.

- **What was the share of investments made in transitional and enabling activities?** [include a breakdown of the proportions of investments during the reference period]

[Same section articles 8 & 9] This section requires a report on the proportion of investment made in transitional and enabling activities, broken down by category, relative to the total investment made by the fund during the reporting period.

- **How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?** [include where at least one previous periodic report was provided]

[Same section articles 8 & 9] If this is your first periodic report, you can skip this section and add the following text: "Comparable information cannot be provided as this is the first reference period."

However, if you have at least one previous reporting period, you must compare it with the current reporting period. As stated in Article 64 of the RTS, you must mention up to five previous periods throughout the life of the fund.

[Article 51] [Article 55] [Article 6]

What was the share of sustainable investments with an environmental objective not aligned with the EU Taxonomy? [include section only for the financial products referred to in Article 6, first subparagraph, of Regulation (EU) 2020/852 where the financial product included sustainable investments with an environmental objective that invested in economic activities that are not environmentally sustainable economic activities, and explain why the financial product invested in economic activities that were not Taxonomy-aligned]

[Same section articles 8 & 9] In this section, specify the percentage of your total fund allocated to sustainable investments with an environmental objective that do not align with the EU Taxonomy definition. Provide a narrative description explaining why funds were allocated in this manner, as there may be several reasons.

This section is a repetition of your proprietary definition of a sustainable investment with an environmental objective, which was previously discussed as the first pillar of your sustainable investment framework.

[Article 56]

What was the share of socially sustainable investments? [include only where the financial product included sustainable investments with a social objective]

In this section, indicate the percentage of your total investments allocated to socially sustainable investments, if any. If you intended to make socially sustainable investments aligned with social objectives but have not made any yet, indicate 0%. If the fund did not intend to make any socially sustainable investments, indicate "not applicable."

What investments were included under "other", what was their purpose and were there any minimum environmental or social safeguards?

This section should contain qualitative and quantitative information about investments falling under the "#2 Other" category. We recommend including only liquidity and derivatives that are not covered by ESG. However, even liquidity could be subject to ESG analysis and requirements, which may result in a 0% share of "#2 Other".

What actions have been taken to meet the environmental and/or social characteristics during the reference period? [list the actions taken within in the period covered by the periodic report to meet the environmental or social characteristics promoted by the financial product, including shareholder engagement as referred to in Article 3g of Directive 2007/36/EC and any other engagement relating to the environmental or social characteristics promoted by the financial product]

In this section, you should highlight everything you have done to support your portfolio companies, including any ESG-related voting and engagement actions you may have taken during the period. You could also discuss how you engage with your stakeholder community to meet the ESG characteristics.

This could include shifts in your deal flow analysis, strengthening of your ESG process, or other actions taken to promote ESG.

How did this financial product perform compared to the reference benchmark? [include section where an index has been designated as a reference benchmark for the purpose of attaining the environmental or social characteristics promoted by the financial product and indicate where the methodology used for the calculation of the designated index can be found]

Since VC funds do not have an index as a specific benchmark, you can simply write "the fund does not follow any index or reference benchmark" and remove the following subsections

- **How does the reference benchmark differ from a broad market index?**
- **How did this financial product perform with regard to the sustainability indicators to determine the alignment of the reference benchmark with the environmental or social characteristics promoted?**
- **How did this financial product perform compared with the reference benchmark?**
- **How did this financial product perform compared with the broad market index?**

e. Periodic reporting for an article 9

You will find below the periodic reporting to be completed for an article 9 fund. This report must be attached to the fund's annual report and must be provided by the 30th of June following the end of the financial year.

Annex V

Product Name : Name of the fund
Legal entity identifier: ISIN of the fund or LEI if available

[Article 58] [Article 59] [Article 11] [Article 5] [Article 9]

To what extent was the sustainable investment objective of this financial product met? [list the sustainable investment objective of this financial product, and describe how the sustainable investments contributed to the sustainable investment objective. For the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852, in respect of sustainable investments with environmental objectives, indicate to which environmental objectives set out in Article 9 of Regulation (EU) 2020/852 to the investment underlying the financial product contributed to. For the financial products referred to in Article 9(3) of Regulation (EU) 2019/2088, indicate how the objective of a reduction in carbon emissions was aligned with the Paris Agreement]

This section mirrors the first section completed in the pre-contractual document for your fund Article 9. You should first give a quick reminder of the sustainable objectives that were mentioned by this financial product. If you did indicate that you would pursue EU Taxonomy objectives, you have to list the specific taxonomy objectives, as well as if its in enabling and transitional activities. The regulation requires you to list the objectives, not the sustainability indicators that will come into play later on. You also have to indicate how you respect the DNSH and minimum safeguards analysis of the Taxonomy regarding your past investments. An investment can contribute to one or more environmental objective of the Taxonomy.

We advise against adding objectives that were not mentioned in the first section of your pre-contractual document. Add a narrative on how those characteristics were met. If decided to opt for carbon reduction as an objective you have to refer to the SFDR article 9.

Next, you should explain how your sustainable investments contribute to these objectives, highlighting any variations or progress from the previous sections. It is not necessary to indicate the proportion of sustainable investments here.

- **How did the sustainability indicators perform?I**

In this section, you need to refer to the indicators mentioned in your pre-contractual document and add quantitative data bout them.
We recommended following a maximum of three sustainability indicators, even though you may report more (and likely do so). This is because it is easier to define and monitor a smaller number of indicators than too many, especially in legal documentation such as SFDR Periodic Reporting and pre-contractual documentation.

- **... and compared to previous periods?** [include for financial products where at least one previous periodic report was provided]

[Same section articles 8 & 9] If you are submitting your first periodic report, you can skip this section. However, if you have submitted at least one report before, you need to include a comparison with the previous reporting periods. As stated in Article 64 of the RTS, you should mention up to five previous periods of time.

- **How did the sustainable investments not cause significant harm to any sustainable investment objective?**

This section aims to ensure that you met the DNSH requirement for your sustainable investments, specifically for an Article 9 fund where you are expected to invest solely in sustainable investments. This is a reference to the **second pillar** of your sustainable investment framework. The regulation, as in the pre-contractual documents asks for a broad definition.

In the two subsections below, you must justify the way you perform the analysis of DNSH and minimum safeguards, hence, “pillar 2 & 3 of your sustainable investment framework”. This section is essentially a repetition of what you have written in your pre-contractual documents. That have actually carried out your DNSH for all sustainable investments, and you have to describe how ? and by whom ?

Therefore, Article 9 SFDR financial products that are partly taxonomy-aligned should disclose how taxonomy-aligned investments do not significantly harm environmental or social objectives by taking into account the indicators on principal adverse impacts, in addition to complying with the technical screening criteria in the Delegated Acts for the Taxonomy Regulation.

For example:
- We carried out a materiality assessment of the PAIs and evaluated each of the relevant ones
- We have also carried out a qualitative assessment of sustainability
- We carried out a review of the contribution to the SDGs using our proprietary tool, and none of the investments scored below. 0

- **How were the indicators for adverse impacts on sustainability factors taken into account?**

[Same section articles 8 & 9] In this section, as mentioned above, you should reproduce your pre-contract documentation and provide an operational explanation of what was been done with the PAI to respect the DNSH. For instance, that you performed a materiality assessment on PAI before investment for all sustainable investments and then conducted a quantitative assessment for each.

From our perspective, there is no need to add quantitative data here, as long as you have justified your approach. However, be prepared to provide details in the event of a regulatory enquiry. PAIs data will be required at a later section.

- **Were sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details**

[Same section articles 8 & 9] In this section, you need to provide justification as to whether the process outlined in the pre-contractual documentation was followed with regards to the third pillar of your sustainable investment framework. You should provide details on how the analysis was conducted.

How did this financial product consider principal adverse impacts on sustainability factors? [include section if the financial product considered principal adverse impacts on sustainability factors]

[Same section articles 8 & 9] In this section, you need to explain how you considered PAIs if you stated in the pre-contractual document that you would. If you made such a statement, you were expected to consider PAIs for your entire fund and all your investments. This would be where a table with all the indicators that you have chosen to follow have to be reported. As good practice, highlighted multiple times by the ESAs, it is recommended for funds to disclose the portion of PAIs that are calculated directly from investee's data or by using proxies. It is also recommended to add the proportion of the total AUM of the funds covered by each PAI.

[Article 60]

What were the top investments of this financial product?

[Same section articles 8 & 9] To fill the table below, please provide one of the following information depending on your situation:

- Provide details on the 15 largest investments made during the reporting period, including the sector, % of your portfolio, and the country of HQ if they represent less than 50% of the total investments made.
- Disclose at least 50% of the total investment amount made during the reporting period, including the sector, % of your portfolio, and the country of HQ.

Largest investments	Sector	% Assets	Country

[Article 61] [Article 62]

What was the proportion of sustainability-related investments?

In this section, you can either include a table with a detailed breakdown of the proportion or provide a narrative that includes the percentage of your portfolio that falls within your sustainable framework by the end of the reporting period. If you have listed several environmental objectives in your pre-contractual documentation, then the investments must be broken down by all of the environmental objectives of the taxonomy. Remember, that your goal is to have 100% of your investments fall under your sustainable investment framework to qualify as an article 9 fund. (In reality, this could be 90% if you need to have subsequent investments in derivatives or liquidity.) If an activity contributes to more than one objective, choose the objective to which the activity contributes most or that is better aligned with the environmental or social objective of the fund.

Additionally, it is required to mention whether the data was reviewed by a third party or audited, and provide the names of the third parties/auditors if applicable.

- **What was the asset allocation?**

In this section, use the same tree as in the pre-contractual document and add the actual allocation at the end of the reporting period. The boxes should be the same as those reported in the pre-contractual document, but with the percentages changed, as we are not focused on the minimums here.

- **In which economic sectors were the investments made?** [include information referred to in Article Article 61(c) of this Regulation]

This section should detail the sectoral breakdown of all investments made during the reporting period, with a focus on the fossil fuel sector.

[Article 62] [Article 5]

To what extent were the sustainable investments with an environmental objective aligned with the EU Taxonomy? [include section for the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852 and include information in accordance with Article 62 of this Regulation]

This section should include the specific bar charts as defined in the template provided by the EU, with the categories filled in accordance with your pre-contractual documentation. Since VCs mainly invest in companies that are not required to comply with NFRD/CSRD, the turnover KPI should be used to determine taxonomy alignment. For Taxonomy compliance, you really need to explain where the data comes from. The EU commission really insisted on the fact that including a text saying that we don't have the data wasn't enough.

- **Did the financial product invest in fossil gas and/or nuclear energy related activities complying with the EU Taxonomy [1]?** [1] Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change ("climate change mitigation") and do not significantly harm any EU Taxonomy objective - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

[Same section articles 8 & 9] In this section, indicate whether you have invested in fossil energy or nuclear energy that complies with the EU Taxonomy, consistent with your pre-contractual documentation.

- **What was the share of investments made in transitional and enabling activities?** [include a breakdown of the proportions of investments during the reference period]

[Same section articles 8 & 9] This section requires a report on the proportion of investment made in transitional and enabling activities, broken down by category, relative to the total investment made by the fund during the reporting period.

- **How did the percentage of investments that were aligned with the EU Taxonomy compare with previous reference periods?** [include where at least one previous periodic report was provided]

[Same section articles 8 & 9] If this is your first periodic report, you can skip this section and add the following text: "Comparable information cannot be provided as this is the first reference period."
However, if you have at least one previous reporting period, you must compare it with the current reporting period. As stated in Article 64 of the RTS, you must mention up to five previous periods throughout the life of the fund.

[Article 61] [Article 62] [Article 5]

What was the share of sustainable investments with an environmental objective not aligned with the EU Taxonomy? [include only for the financial products referred to in Article 5, first paragraph, of Regulation (EU) 2020/852 where the financial product included investments with an environmental objective that invested in economic activities that are not environmentally sustainable economic activities and explain why the financial product invested in economic activities that were not taxonomy-aligned]

[Same section articles 8 & 9] In this section, specify the percentage of your total fund allocated to sustainable investments with an environmental objective that do not align with the EU Taxonomy definition. Provide a narrative description explaining why funds were allocated in this manner, as there may be several reasons.

This section is a repetition of your proprietary definition of a sustainable investment with an environmental objective, which was previously discussed as the first pillar of your sustainable investment framework.

What was the share of socially sustainable investments? [include only where the financial product included sustainable investments with a social objective]

In this section, indicate the percentage of your total investments allocated to socially sustainable investments, if any. If you intended to make socially sustainable investments aligned with social objectives but have not made any yet, indicate 0%. If the fund did not intend to make any socially sustainable investments, indicate "not applicable."

What investments were included under "not sustainable", what was their purpose and were there any minimum environmental or social safeguards?

This section should contain qualitative and quantitative information about investments falling under the "#2 Not Sustainable" category. We recommend including only liquidity and derivatives.

What actions have been taken to attain the sustainable investment objective during the reference period? [list the actions taken within the period covered by the periodic report to attain the sustainable investment objective of the financial product, including shareholder engagement as referred to in Article 3g of Directive 2007/36/EC and any other engagement relating to the sustainable investment objective]

In this section, you should highlight everything you have done to support your portfolio companies, including any ESG-related voting and engagement actions you may have taken during the reporting period. You can also discuss how you are engaging with your stakeholders to address the sustainable objectives.

This may also include changes to your investment policy with the strengthening of your ESG process or other actions taken to promote ESG.

How did this financial product perform compared to the reference sustainable benchmark? [[include section only for the financial products referred to in Article 9(1) of Regulation (EU) 2019/2088 and indicate where the methodology used for the calculation of the designated index can be found]

Since VC funds do not have an index as a specific benchmark, you can simply write "the fund does not follow any index or reference benchmark" and remove the following subsections.

- **How does the reference benchmark differ from a broad market index?**
- **How did this financial product perform with regard to the sustainability indicators to determine the alignment of the reference benchmark with the sustainable investment objective?**
- **How did this financial product perform compared with the reference benchmark?**
- **How did this financial product perform compared with the broad market index?**

4- Conclusion

Thank you for sticking with us until the end! Congratulations, you have made it!

We hope this SFDR Handbook for VCs has helped you gain a better understanding of SFDR and will assist you in its implementation. As mentioned before, SFDR is not easy to implement or understand, but it deserves credit for bringing attention to important sustainability issues that were previously overlooked by some asset managers and investors.

We will regularly update this guide to stay up to date with regulatory developments from the EU commissions.

Please feel free to provide any feedback or comments to damien@daphni.com or contact@daphni.com.

5- Disclaimer

This Handbook been produced by daphni. This Handbook is of a general nature, and is not intended to constitute legal or other professional advice and should not be treated as such. Please note that its content is based on daphni's interpretation of the SFDR regulations. Some points may not represent a market consensus, as many practices are not consistent between the various players. Additionally, there are still numerous parts and articles of the regulation that we consider as open to interpretation, and the regulation remains subject to further developments. We urge all readers to seek appropriate legal or other relevant advice before making any decision, taking any action or refraining from taking any action in respect of the matters covered by this Handbook.

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Nothing contained in and accompanying this communication shall be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation to purchase any financial instruments.

6- EU legal texts

EU Taxonomy regulation

SFDR Regulation level 1

RTS level 2 (25/07/2022)

Amendment of RTS (17/02/2023)

Q&A SFDR Consolidated, 17 May 2023

Q&A SFDR 17 November 2022

SFDR Consultation (14/09/2023)