

# WEBSITE DISCLOSURE

Collateral Good Ventures Fashion I

*Commercial name: Collateral Good Sustainable Textile & Fashion I*

December 2023



## SUMMARY

Collateral Good Ventures Fashion I SCSp – RAIF (the "Fund") is managed by Collateral Good Management S.à r.l. ("Collateral Good"). Collateral Good is an impact fund manager with the overall vision to actively support the transformation towards sustainable industry systems.

The Fund's main investment focus is to speed up the world's transition to a more sustainable fashion industry.

**The Fund is classified as an Article 9 Fund under the Sustainable Finance Disclosure Regulation ("SFDR") and allocates 95% of its assets to sustainable investments that are not classified as sustainable under the EU taxonomy. The remaining 5% represents cash held as ancillary liquidity.**

In addition, the Fund considers Principal Adverse Impacts ("PAI") of investment decisions and will report on the PAI indicators annually.

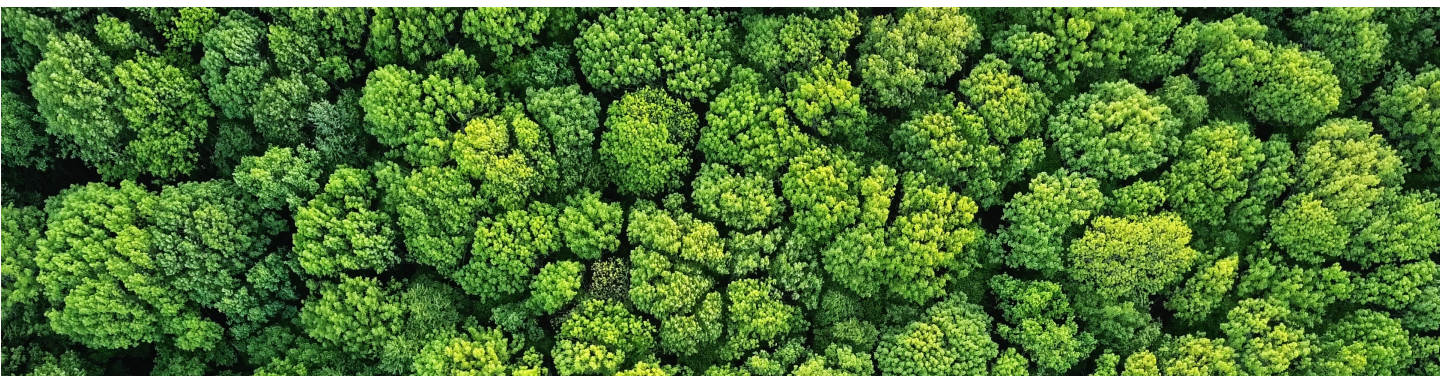
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## NO SIGNIFICANT HARM TO THE SUSTAINABLE INVESTMENT OBJECTIVE

**As part of Collateral Good's pre-investment assessment, a Do No Significant Harm ("DNSH") assessment on the Principal Adverse Impacts ("PAI") of investment decisions is conducted.**

This evaluation is done by assessing a potential investee company's impact on the 14 mandatory PAI indicators set out in Table 1, indicator 14 in Table 2, and Indicator 4 in Table 3 in Annex 1 of the EU Commission's Regulatory Technical Standard ("RTS"), supplementing the Regulation (EU) 2019/2088. If any additional indicators from Tables 2 and 3 are deemed material, these are also included in the assessment. In addition, policies and procedures to assess compliance with material areas of the Organization for Economic Co-Operation and Development ("OECD") guidelines are verified as part of the "Good Governance" assessment by using a red-yellow-green scale. This is supplemented with an analysis of the investee company's alignment with the UN Guiding Principles for Business and Human Rights ("UNGP") for taxonomy-eligible cases.



## THE SUSTAINABLE INVESTMENT OBJECTIVE OF THE FINANCIAL PRODUCT

Based on the focus area of the Fund being sustainable fashion, its overall sustainable investment objectives can be summarised as follows:



**Climate change mitigation:** Reducing CO<sub>2</sub>e-emissions from avoided, reduced, or revalorised textile waste, novel textile raw materials that are more sustainable than the alternative, or any other GHG-mitigating technological innovation along the fashion supply chain. This is measured in tons of CO<sub>2</sub>e avoided.



**Transition to a circular economy:** Preventing, re-using, and upcycling textile waste. This is measured in tons of waste avoided.

The impact KPIs have been identified based on an assessment of being relevant for all Portfolio Companies of the Fund. They can be supplemented with further portfolio company-specific impact KPIs, with m<sup>3</sup> of water reduced or avoided being a relevant example. In addition, further KPIs relating to portfolio companies' social impact may be added by the Fund in the future, particularly upon the addition of such social KPIs to the EU SFDR taxonomy.



## INVESTMENT STRATEGY

**Compliance with the Fund's sustainable investment objective is verified by assessing the potential investee company's substantial contribution, DNSH and Good Governance at the pre-investment phase.** Substantial contribution is verified as knock-out criteria, based on the potential investee company's fit with Collateral Good's impact focus and its potential to contribute to the Fund's impact Key Performance Indicators ("KPIs"). The assessment is done qualitatively and supplemented with quantitative assessments, where possible.

The Fund primarily invests in early-stage companies, with a preference for pre-seed to series A investments, and focuses on sustainable investments with an environmental objective that is not taxonomy aligned. While the Fund does not want to limit its investments to companies with economic activities defined under the EU taxonomy, the Fund hypothesises that even companies eligible as sustainable under the EU taxonomy likely do not live up to the documentation requirements set forth in the EU taxonomy due to the commonly low maturity level at the time of the initial investment by Collateral Good.

**However, despite its 0% allocation to taxonomy-aligned activities and as a matter of good practice, the Fund wishes to only invest in cases that are eligible as sustainable under the EU taxonomy if the technology is assessed against the technical requirements of the EU Taxonomy's relevant economic activity for Substantial Contribution, DNSH and Good Governance.**

To ensure Good Governance, an evaluation of sound management structures, employee relations, staff remuneration, and tax compliance is always performed and supplemented with other material topics defined by the OECD guidelines, if relevant. Furthermore, due to the Fund's investment focus on relatively immature companies, Good Governance is assessed by reviewing 1) if the potential investee company has a policy in place and, if not, 2) if the potential investee company can demonstrate sound management practices within the area assessed. Therefore, documentation of Good Governance practices is a key focus area for Collateral Good during ownership.

## PROPORTION OF INVESTMENTS

**The Fund allocates 95% of its assets to sustainable investments with an environmental objective that is not taxonomy-aligned. The remaining 5% represents cash held as ancillary liquidity, meaning that 100% of investments will be allocated to portfolio companies with a sustainable objective.**

As a matter of good practice and without affecting the Fund's 0% allocation to taxonomy-aligned activities, documentation of alignment with the EU taxonomy, including third-party verification, is a key focus area for eligible cases during ownership and is subject to Collateral Good's ownership requirement for Portfolio Companies if the last financing round with Collateral Good participation was larger than 1 million EUR.

## MONITORING OF SUSTAINABLE INVESTMENT OBJECTIVE

Collateral Good is an active owner committed to supporting portfolio companies in their impact and sustainability efforts. Collateral Good's ownership requirements are communicated to the portfolio companies during the pre-investment phase. These are subject to the maturity level of the individual portfolio companies as defined by the size of the latest financing round in which Collateral Good has participated. Furthermore, the requirements are implemented in waves during Collateral Good's ownership. The ownership requirements are built into the Shareholder Agreement ("SHA") and include the following:

Size of financing round below 1 million EUR:

- Development of Lifecycle Assessments** ("LCAs") for relevant products and/or services using the EU's Product Environmental Footprint ("PEF") methodology
- Reporting on the defined impact KPIs** of the Fund on an annual basis



Tons of CO<sub>2</sub>e  
avoided or reduced



Tons of waste  
avoided or reduced

Additional requirements if the size of the financing round is 1 to 5 million EUR:

- Reporting on the 14 mandatory and the two selected voluntary PAI indicators<sup>1</sup>** on an annual basis
- Development of policies and/or Codes of Conduct** in material areas, if not already in place
- Documentation of taxonomy alignment** (for eligible activities only)<sup>2</sup>

Additional requirements if the size of the financing round is above 5 million EUR:

- Annual sustainability reporting** of targets, efforts, and achievements

<sup>1</sup> 14 mandatory plus 2 voluntary indicators (tons of non-recycled waste generated and lack of supplier code of conduct)

<sup>2</sup> As a matter of good practice and without affecting the Fund's 0% allocation to taxonomy-aligned activities

## METHODOLOGIES

**As part of the ownership requirements, portfolio companies must perform a third-party verified LCA following the PEF methodology<sup>3</sup> defined by the EU**, which should be benchmarked against a comparative LCA of the most relevant market alternative to the provided product and/or service solution. This will cover the impact of the portfolio company's product and/or service on 16 environmental parameters (including CO2e-emissions) throughout the entire life cycle. The comparison to the market alternative will quantify the impact of the provided product and/or service solutions and calculate the portfolio company's impact KPIs. **As the avoided waste indicator is not directly addressed as one of the 16 parameters, an additional case-based calculation distinguishes between waste type, waste prevention and upcycling.**



## DATA SOURCES AND PROCESSING

**As data availability in Collateral Good's investment space is generally limited, Collateral Good always conducts a qualitative assessment supplemented with quantitative data if available.** During ownership, portfolio companies are expected to improve documentation by developing an LCA, policies and procedures for DNSH and Good Governance, collecting data on the PAI indicators, and documenting taxonomy alignment (if eligible)<sup>4</sup>.

Portfolio Company reporting of data on the PAI indicators is a Collateral Good ownership requirement for portfolio companies with a financing round of above 1 million EUR in the latest financing round in which Collateral Good has invested. For less mature portfolio companies<sup>5</sup>, data is estimated by Collateral Good. For portfolio companies acquired shortly before the reporting deadline, data may also be estimated by Collateral Good in the first reporting year, depending on the availability of resources on the portfolio company level.

<sup>3</sup> Annex 1. Product Environmental Footprint Method. Accessed on December 8th 2022.

<sup>4</sup> As a matter of good practice and without affecting the Fund's 0% allocation to taxonomy-aligned activities

<sup>5</sup> Defined as the latest financing round (in which Collateral Good has invested) being below 1 million EUR

## LIMITATIONS ON METHODOLOGIES AND DATA

Due to the primarily low maturity level of portfolio companies at the time of investment, Collateral Good invests to the best of its knowledge and believes that the investee company complies with the requirement of being a sustainable investment based on the available data and documentation. However, in case the portfolio company, contrary to prior expectations, will not be able to comply with Collateral Good's definition of a sustainable investment during ownership, the portfolio company will be subject to Collateral Good's engagement policy.



## DUE DILIGENCE

Collateral Good always thoroughly screens substantial contribution, DNSH, Good Governance, and sustainability risks at the pre-investment phase. This is done by assessing the investee company's contribution and fit with Collateral Good's focus areas and impact KPIs, serving as knock-out criteria for the investment. Impact and mitigating actions on the PAI indicators and sustainability risks, as well as policies and management practices within the OECD guideline areas, are assessed using a red-yellow-green scale. In the case of red flags<sup>6</sup>, Collateral Good will only proceed with the investment if the red flag can be solved prior to closing. If any yellow flags are discovered, the respective correction will be a key focus area after closing.

**For cases with a financing round above 1 million EUR, Collateral Good's internal assessment is always supplemented with an external ESG due diligence to substantiate compliance with substantial contribution, DNSH, Good Governance and sustainability risks. For taxonomy-eligible cases, Collateral Good always performs an external ESG due diligence regardless of the round size, which in those cases includes an assessment of the technology against the technical screening criteria of the relevant economic activity in the EU Taxonomy. This is done as a matter of good practice and does not affect the Fund's asset allocation to 0% taxonomy-aligned activities.**

<sup>6</sup> A red flag is defined as an incident or practice that is deemed so deficient that there is a great likelihood of breaches or misalignment with Collateral Good's definition of a sustainable investment

## ENGAGEMENT POLICIES

Collateral Good is an active owner who supports its portfolio companies in their sustainability efforts during ownership. In case a portfolio company does not meet Collateral Good's expectations of being a sustainable investment during ownership, such portfolio company has to fulfil the requirements for the classification of a sustainable investment within 24 months. If the portfolio company continues to be non-compliant with the requirements, Collateral Good will make its best effort to sell off the investment. If such a sale transaction does not succeed, Collateral Good will not re-invest in subsequent financing rounds.



### ATTAINMENT OF THE SUSTAINABLE INVESTMENT OBJECTIVE

Collateral Good uses impact KPIs to measure and track the overall sustainability contribution of the Fund annually, based on the portfolio companies' reporting on the Fund's impact KPIs. Due to Collateral Good's preferred investment stage, a relevant reference index to measure the attainment of the sustainable investment objective has not been identified. As the Fund's overall mission is to support the transformation towards a sustainable fashion system, with one of the impact focus areas being CO2 emissions avoided, Collateral Good invests in solutions that support achieving the goals and targets set forth in the Paris Agreement<sup>7</sup>.

<sup>7</sup> The Paris Agreement is an international treaty on climate change adopted in 2015