# Sustainability Policy

Version: 6/2023

[1] Image: ©Pixel-Shot - stock.adobe.com

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## Summary

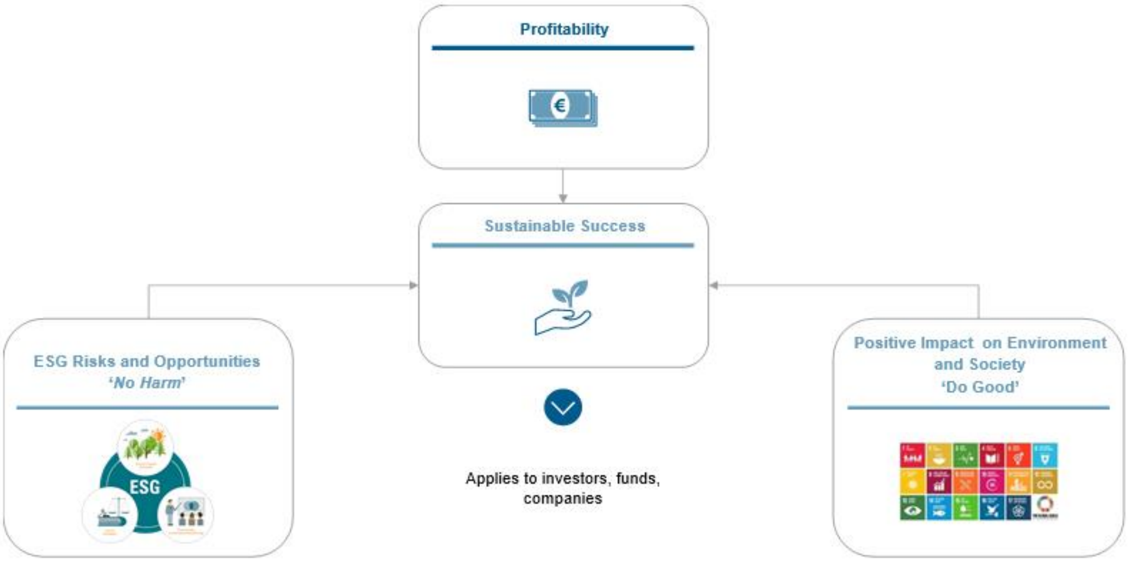
### I. Significance of Sustainability for KfW Capital

Transitioning to a sustainable society is the key challenge of our time. In the coming years and decades, this transformation will require ongoing and extensive investment, innovation and continuous further developments. For the global financial system, entrepreneurial action and social responsibility are inseparable in order to accompany this transformation[2].

As a responsible investor and part of KfW Group, KfW Capital is committed to this global task and supports the sustainability objectives of KfW Group and the German Federal Government as well as the United Nations' 2030 Agenda with its Sustainable Development Goals (SDGs).

KfW Capital acknowledges its responsibility to pursue a comprehensive approach to integrating sustainability in two functions:
in its investments and within the company itself.

**Understanding of Sustainability**
*- Brundtland Commission (1987)*:
'Sustainable development seeks to meet the needs of the present without compromising the ability of future generations to meet their own needs.'
Sustainability is often described using the Triple Bottom Line approach, under which the traditional economic bottom line is supplemented by a social and ecological bottom line (see Elkington, 1997).




### II. KfW Capital as a Sustainable Investor

As a venture capital fund investor, KfW Capital follows the sustainability definition of the UN Global Compact: *'Corporate sustainability is a company's delivery of long-term value in financial, environmental, social and ethical terms'*. In other words, social and environmental aspects also play a key role besides the economic dimension and help ensure that companies remain profitable in the long term and capable of achieving sustained success.
The non-economic aspects of sustainability are typically assessed on the basis of three categories: environmental (E), social (S) and governance (G) or ESG in short.

KfW Capital is convinced that the identification of major ESG risks and opportunities as well as their management constitute key elements for the enduring success of companies. Possible negative effects that result from companies and their activities, in particular, must be taken into consideration in the interest of appropriate risk management as they can have a substantial impact on the value of a company and, thus, the investor's risk-return profile and reputation.

Furthermore, KfW Capital aspires to capture the impacts caused by portfolio companies on the basis of suitable indicators and to report them both internally and externally in order to create more transparency in the market

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[2] See also: https://www.kfw.de/nachhaltigkeit/Dokumente/Nachhaltigkeit/Nachhaltigkeitsleitbild-en.pdf

and, in this way, contribute to sustainable development in the meaning of the 2030 Agenda and the Sustainable Development Goals (SDGs).

Furthermore, KfW Capital is committed to the UN Principles for Responsible Investment (UNPRI).

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

## III. KfW Capital as a Sustainable Company

KfW Capital has also incorporated sustainability in its own corporate governance. This includes the respectful treatment of its employees, compliance with the Corporate Governance Code, close integration of the Compliance Department, in-house environmental protection and further measures aimed at ensuring its employees' well-being and further development. KfW Capital is convinced that incorporating these aspects in its own company has a positive impact on its own business and that the company thereby sets a good example for funds and start-ups to follow. The individual measures are listed in Section – Sustainable Company.

# Sustainable Investment | How KfW Capital Integrates Sustainability as a Venture Capital Fund Investor into the Investment Process

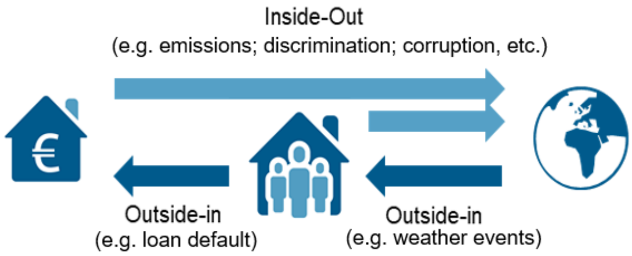
The business purpose of KfW Capital is to expand and further develop the sustainable supply of venture and growth capital for innovative, tech-oriented companies in Germany through investments in venture capital (VC) and venture debt funds.

KfW Capital regards sustainability as the interplay of multiple factors that contribute to making portfolio companies successful on a sustained and long-term basis. The expected profitability of the investments is assessed in a due diligence process described in other documentation. This chapter focuses on the integration of ESG criteria and impact indicators.

As the focus of KfW Capital's investments lies exclusively on European and German funds and the portfolio companies have a corresponding geographic focus, risks such as those that present themselves in developing and emerging economies, (for example, such as child labour or environmental destruction from raw materials extraction), play a secondary role in the assessment of ESG risks. The early stage in the business life cycle of the vast majority of the portfolio companies additionally reduces the risk exposure. Nevertheless, KfW Capital aspires to put the portfolio companies on a path towards sustainable development by setting criteria for the VC funds and offering them support.

# I. Managing ESG Risks and Opportunities: 'No Harm'

The assessment of ESG aspects generally distinguishes between two perspectives: The outside-in perspective looks at events in the environmental, social and governance areas, the occurrence of which can have significant actual or potential negative effects on the value of a company. The inside-out perspective, for its part, examines possible (negative) effects of a company on the areas mentioned. This aspect is not necessarily limited to the preservation of financial value.

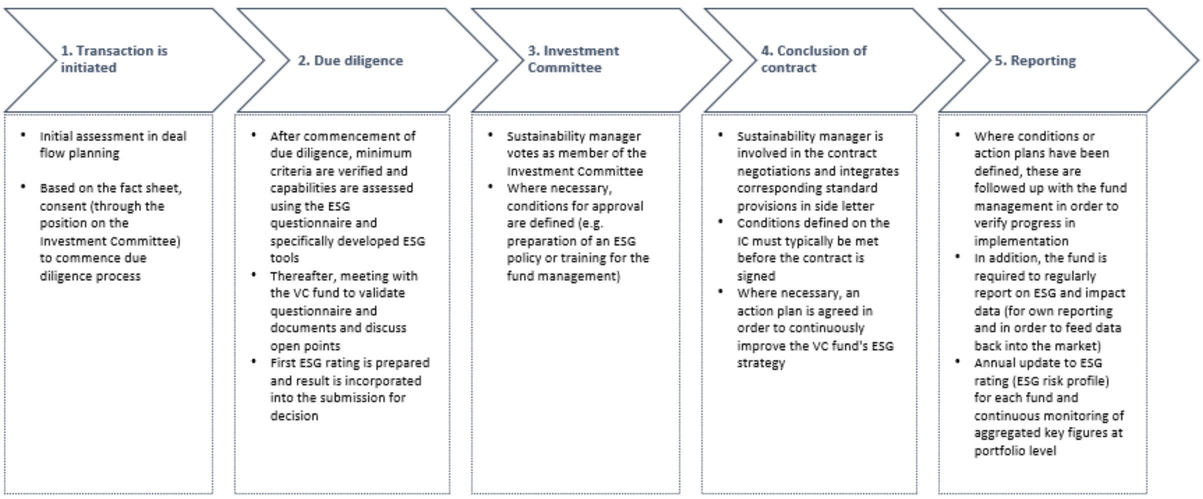



Last but not least, inside-out effects can impact a company's reputation and thus, in turn, become an outside-in risk by reducing its value. ESG risks and impacts must be considered here in the same way as the usual financial risks. KfW Capital regards addressing sustainability risks and impacts as well as sustainable corporate governance as a key factor for long-term success – for both the VC funds and the indirectly financed portfolio companies.

That is why KfW Capital examines **ESG aspects** both when making a decision to invest in a VC fund and in its subsequent monitoring. This comprises both checking the investment project against the exclusion list and thoroughly assessing all ESG criteria as part of (pre-)due diligence. It also includes preparing an E&S Action Plan for the VC funds (where a need has been identified) and reporting on and monitoring companies in the portfolio, as well as regular dialogue with the funds on that basis (engagement). The introduction of the ESG risk profile that has been developed specifically within KfW Group is planned for the second quarter of 2023. It assigns an ESG score to each VC fund that can also be broken down into its components (E, S and G). The risk managers assign ESG scores on the basis of an ESG risk profile, both in new business and later on a case-by-case basis as part of portfolio management, where their assignment will be linked to the regular scoring and rating update.

The sustainability assessment process is described below.

## Operationalisation of the ESG strategy in the Investment Process



## Initiating a Transaction: The Investment Management and Investment Committee conduct a First Assessment of the VC Fund

If KfW Capital considers investing in a VC fund, it checks the general compatibility with the portfolio guidelines and criteria for inclusion in the deal pipeline and sends a fact sheet to the Investment Committee members. Among other things, this fact sheet contains an initial assessment relating to essential ESG themes such as the classification of the fund in accordance with the Sustainable Finance Disclosure Regulation (SFDR) and the number of female or non-binary partners. If the Investment Committee approves the start of general due diligence, these aspects are closely examined as part of the sustainability due diligence.

## Sustainability Due Diligence

Sustainability due diligence is conducted using an ESG questionnaire that covers the following areas:

> **Exclusion List**
> The exclusion list contains the activities and areas in which KfW Capital does not invest as a matter of principle. It is contractually agreed in the side letter.

### Minimum Criteria

The first step is to ensure that the VC fund does not contravene any of the criteria of KfW Capital's exclusion list (see annex), which is based on the exclusion list applicable throughout KfW Group. The fund must also have a formal sustainability/ESG policy that is of satisfactory quality and accessible to all employees. If the VC fund does not yet have a sustainability/ESG policy at the time of the due diligence, or if its policy does not meet the requirements, the Investment Committee will issue a recommendation for the investment with the proviso that such policy must be implemented before the contract is signed.

### ESG Capabilities

As part of the due diligence, KfW Capital assesses the target funds using a standardised ESG questionnaire on the basis of what is known as an 'ESG Capabilities House' (see annex). The questionnaire comprises, among other things, the questions recommended by the UNPRI for limited partners in the venture capital market. In many cases the VC fund has a blind pool or at best a partial portfolio at the time of commitment. A fund investor like KfW Capital must therefore analyse the capabilities and processes of the VC fund in order to gain an impression as to whether and how the fund has appropriately implemented an ESG management strategy and associated processes taking into account its size and strategy.

### ESG Heatmap

KfW Capital also assesses the relevance of environmental, social and governance risks of the VC fund's investment strategy. This involves identifying and estimating the nature and scope of negative impacts and risks that may possibly arise from an investment in a particular sector (environmental/social impacts) and potentials for mitigating these effects (referred to as mitigants). To this end, KfW Capital has developed an ESG heat map (see annex) with external support to enable the materiality of the risk to be assessed on the basis of the specific VC strategy. It is applicable at both fund and portfolio company level.

### Sustainability Assessment in the Documentation

As soon as the completed ESG questionnaire and further information such as the disclosures required by the SFDR or the ESG policy have been presented in full, KfW Capital checks the plausibility of the entries and documents. An important element of this is the personal conversation with the fund managers, in which open points are clarified and the specific implementation of the investment processes and internal sustainability are discussed. The aspect of diversity within the fund and in the portfolio also plays a key role here.

The Sustainability Management Committee then issues a written assessment. The assessment covers both the size and the strategy of the fund (for example, a large later-stage fund can be expected to be on a more advanced level than a younger seed fund). The next step is consultation with the responsible Investment and Risk Management Committee. The Risk Management Committee incorporates an assessment of ESG risks into the submission for decision on the investment, while the Investment Management Committee incorporates the fundamental compliance with the minimum criteria as well as the ESG management capabilities, ESG risks and opportunities and the impact orientation of the investment into the detailed due diligence report.

## Sustainability Managers on the Investment Committee

The fund is presented to the (Pre-)Investment Committee. One of the permanent members of this body is a member of the Sustainability Management Committee, who is in charge of assessing the strategy and ensuring compliance with ESG minimum standards. Covenants that must be met even before signing the contract (such as the existence of an ESG policy or an ESG questionnaire) are proposed as and where necessary. Furthermore, the Sustainability Management Committee may also propose an action plan to address potentials for improvement that have been identified as being significant (see next chapter as well as the Role of the Sustainability Manager).

## Subscription Process and Action Plan

Prior to subscription, the Sustainability Management Committee must confirm that all requirements that need to be met before entering into the contract are fully in place. Existing requirements on ESG risk management (including the exclusion list and receipt of the ESG policy) and regular reporting are set forth in the side letter.

Where further development is still needed, the steps discussed with the fund management are laid down in the form of an Action Plan.

The action plan is either incorporated in the side letter to the contract or communicated informally by email depending on the progress of the fund and the materiality of the issue.

### Additional Requirements for Impact Funds

As impact funds measure the achievement of their objectives on the basis of the effects of their investments, KfW Capital also applies a higher minimum standard at the basis - the ESG criteria. Therefore, an 'impact sun' was incorporated into the general ESG capabilities assessment which shines on the house when the basic prerequisites for impact funds are met, that is, none of the questions in the impact section were answered with 'Level 1' (lowest level).

## Reporting

Alongside periodic needs-based dialogue, the agreed action plans and the degree of goal achievement, in particular, are discussed after conclusion of the contract. An additional detailed ESG and impact report is presented once a year, beginning with the reporting date 31 December 2022. This report covers both the level of the fund and the level of the portfolio companies.

In a first step, KfW Capital seeks to gain an impression of a report's realistic level of ambition and must initially assume that the dataset in the VC/start-up ecosystem is incomplete. The initial data collection is the starting point for subsequent fully electronic ESG reporting, which is to be done once the technical requirements have been met. At content level the reporting will comprise not only data on the carbon footprint, resource consumption, gender distribution and other sustainability-relevant aspects but also the requirements of the Sustainable Finance Disclosure Regulation (SFDR).

As part of the ecosystem development, KfW Capital also plans to feed the ESG and impact data collected and the insights gained from them back to the funds through benchmarking, etc. KfW Capital plans to publish an annual sustainability report from 2024 that will contain more detailed and portfolio-specific data and information in addition to the sustainability report of KfW Group.

## Guidance and Engagement

KfW Capital is committed to the UN Principles for Responsible Investing, bases its actions on these principles and, through engagement, wants to systematically raise the profile of sustainability as a topic for the target funds and establish market standards.

To achieve this, it systematically addresses minimum criteria and risks (based on the Heatmap and Capabilities) in the course of the investment process. KfW Capital also sees it as its responsibility to familiarise the VC funds with sustainability, ESG and impact and to pass on relevant knowledge. KfW Capital's Sustainability Management Committee and the Investment and Risk Management Committees are available for regular talks and knowledge sharing around these topics.

As part of the further development of the VC ecosystem, KfW Capital in 2021 published a joint study with BCG that explores the extent to which VC funds and start-ups have already integrated sustainability into their strategy and operational activities. It also collaborated on the preparation of an ESG training course for VC funds (in cooperation with VentureESG and the BMW Foundation Herbert Quandt), which will be offered regularly from 2023. KfW Capital will continue contributing to this with content and organisational input.

KfW Capital also maintains dialogue with VentureESG and other organisations on a range of research projects (for example on human rights and the responsibility of limited partners in the venture capital market) and participates regularly in panels and university lectures. Additionally, KfW Capital aims to highlight the importance of the issues of diversity and inclusion. To this end, in 2022 the KfW Capital Award was issued for the first time, among other things for Best Female Investor, and the KfW Capital VC Academy was initiated, which addressed topics such as opportunities through greater diversity in the VC market. Regular events around these topics will be held in the future.

### Exit: Evaluating the Sustainability of the Investment

There are plans to conduct a formative evaluation of the fund and possibly also at the level of the portfolio companies throughout the entire investment period of the fund. As funds have only been systematically assessed as part of sustainability due diligence since 2021 and data will not be available until 2023, a methodology is not yet in place.

## II. Sustainability Governance and Responsibilities

### Role of the Sustainability Manager

The sustainability manager is responsible for the content of the process and is involved in the operational assessment of the fund. In the due diligence process the sustainability manager verifies a fund's ESG policy and the completed ESG questionnaire as well as the associated documents for plausibility. On this basis they issue an assessment that is provided to both the investment manager and the risk manager. The assessment is used as a basis for setting requirements or preparing an action plan which is also closely coordinated with the sustainability manager.

Before placing its final signature on the subscription documents, the investment manager must ask the sustainability manager to reaffirm that the agreed sustainability measures have been implemented or incorporated into the contract. The sustainability manager is also tasked with ensuring that the criteria, processes and documentation are regularly updated.

Beyond the investment process, the sustainability manager is responsible for implementing and further developing the sustainability strategy. This includes coordinating all internal documents, events, projects and linkages with the topics of sustainability, ESG and impact. The responsibility also extends to the content of internal and external communication, training and measures relating to business sustainability.

### Role of the Risk Manager and Risk Controller

The risk manager is closely involved in the ESG process and prepares the risk assessment. They contribute an assessment to the submission on the basis of the ESG questionnaire, which has previously been verified for plausibility. In the future, they will also be responsible for the technical introduction as well as the case-specific and regular completion of the ESG risk profile.

ESG risks will also be successively integrated into the risk controlling processes. More broadly, addressing sustainability risks is an ancillary condition in KfW Capital's risk-bearing capacity concept. ESG risks are already included in risk identification through the risk inventory and are subsequently addressed at different points in the risk strategy. In 2021, risk reporting was expanded by adding a continued description of the status of implementation of ESG aspects (ESG Policy and classification in accordance with the SFDR) in the fund portfolio and changing quarterly ESG scenarios with risk classification (with scenarios to be prepared by the sustainability managers and assessed by the risk managers).

It is planned to further advance the close involvement of the risk manager and risk controller up to 2024 by including ESG risks in a holistic approach at group level and on a stand-alone level.

## Role of the Investment Manager

The investment manager is the primary contact in the investment process and incorporates an assessment of the fund in the due diligence report on the basis of the assessment completed by the sustainability manager. In addition, the investment manager is responsible for addressing ESG issues openly and early in the investment process. They are also tasked with monitoring the further development of the fund as an advisor and/or Advisory Board member even after the investment decision.

## Role of the Management Board

The Management Board regards sustainability as an important theme at KfW Capital and is responsible for the general sustainability strategy, processes and incentive systems for operational sustainability (see section Sustainable Company) and in the investment process (see section Sustainable Investment). It is an important internal and external communication channel and makes the necessary strategic decisions.

## III. Beyond ESG: Impact on the Environment and Society: 'Do Good'

KfW Capital not only applies ESG criteria but goes one step further in the context of KfW-wide impact management: It aims to measure the impact on the environment, society and the business community in order to lay the groundwork for effective impact management.

As THE transformative and digital promotional bank, KfW is committed to systematically identifying the economic, ecological and social impacts of its financing and promotional activities, presenting them in a transparent manner for the whole group, and developing appropriate management input to achieve greater effectiveness. At the core of this impact management system are measurable and comparable impact indicators. The impact data collected using these indicators gives transparent information to the public and stakeholders and provides KfW Group with important findings for the continuous development of its financing operations. With its indicators, the impact management system covers all three sustainability dimensions (economic, ecological and social) and is guided by the 2030 Agenda of the United Nations with its 17 Sustainable Development Goals (SDGs).

### Theory of Change

KfW's understanding of impact with respect to sustainable development is derived from a theoretical impact model known as 'theory of change'. The fundamental idea of theory of change is to describe the process of an intervention from the means deployed up to the intended change and from there to develop corresponding areas of impact and indicators. Accordingly, the theory of change established by KfW describes the correlations between the KfW funds deployed (input), the customer and partner activities co-financed with these funds (activity), their results (output) and the intended development effects (outcome) and, finally, the improvement to the economic, ecological and social living conditions (impact). For KfW Capital, the 'theory of change' presents itself as follows:

**KfW Capital's input:** At the heart of its activities is the provision of equity for VC funds. Beyond direct financing, KfW Capital contributes to further developing the German and European VC ecosystem and best practices (for example with respect to contractual conditions or ESG).

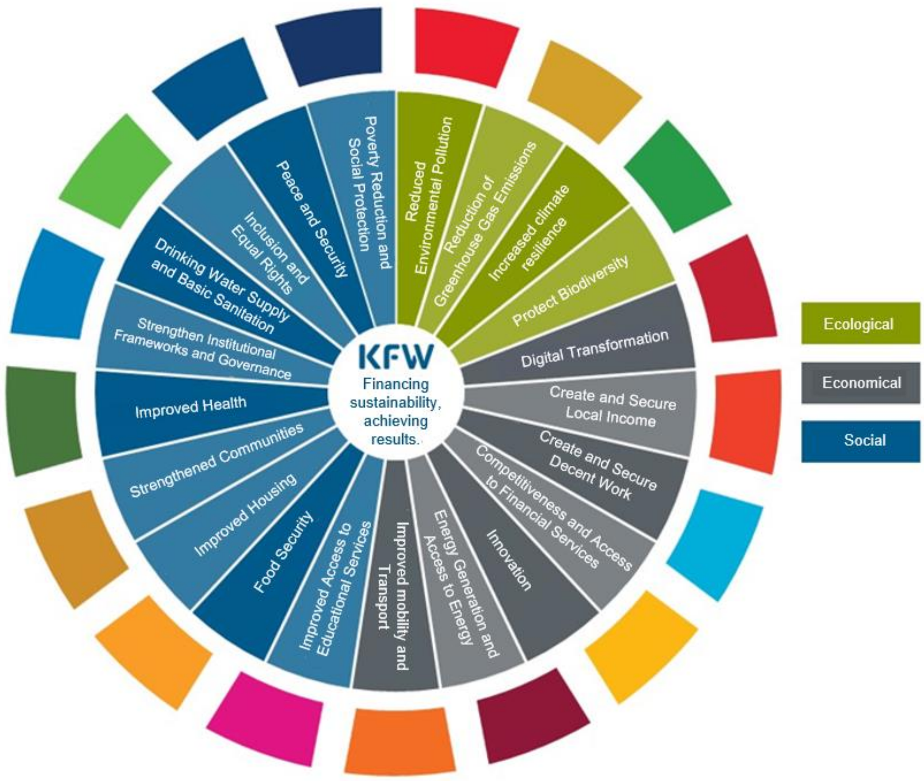
**VC funds' activity:** With these input instruments, KfW Capital supports VC and venture debt funds. It initiates and supports investments in start-ups in a targeted manner in line with specific promotional conditions and in compliance with ESG requirements and standards.

**Output of the VC funds and portfolio companies**: These activities bring about measurable results in VC funds and their portfolio companies, such as active ESG management at the fund level and business growth at the level of the portfolio companies.

**Outcome for society, nature or the economy:** The outcome refers to the development and transformation effects resulting from the VC funds' and portfolio companies' use of the output. These include, for example, fair and secure employment growth, innovation and digitalisation as well as climate action and environmental protection.

**Impact on improving living conditions:** Finally, KfW Capital's impact refers to the structural changes for society in terms of sustainable development, i.e., the improvement of economic, social and ecological living conditions achieved by the outcomes in Germany, Europe and around the world. Examples include competitiveness and future viability, income and food security.

Under this theory of change, key strategic impact categories to which KfW Group contributes or wishes to contribute in order to improve living conditions around the world were also defined. The definition of the impact categories structures the broad and diverse promotional activities of the KfW Group for the purpose of systematic recording and efficient management. KfW's impact categories cover all 17 Sustainable Development Goals of the United Nations (in accordance with KfW's self-image as a transformative promotional bank). The following overview of the impact categories illustrates the current status of the continuously developed impact categories including exemplary customer activities supported by KfW:




## KfW Capital's Impact Categories

As KfW Capital was founded with the mandate to invest in German and European venture capital and venture debt funds and thereby improve the supply of capital for innovative, technology-oriented start-ups and fast-growth companies, the **key impact categories derived from its strategy** are:

- **Competitiveness and access to financial services**
- **Innovation**
- **Digital transformation**

These contribute primarily to SDG 8 'Decent work and economic growth' and SDG 9 'Industry, innovation and infrastructure'.

In addition, financing from KfW Capital also makes a contribution to further impact categories, which we will be able to quantify in the future using collected data:

- Reduced environmental pollution
- Reduced greenhouse gas emissions
- Increased climate change resilience
- Improved health
- Food security (access to healthy foods)
- Improved mobility and transport
- Gender justice

Some of the data for the group-wide impact management is captured by KfW Capital itself, other data is acquired from the ESG and impact reporting of the portfolio funds. The aggregate impact of KfW Group is summarised in an annual impact assessment. In the future, KfW Capital will continue reporting about the impacts achieved in its own sustainability report as well.

# Sustainable Company | How does KfW Capital Incorporate Sustainability within its Business?

## I. Sustainable Employer

Diversity and equal career development opportunities for all employees are a matter of course for KfW Capital. No employee may be discriminated against on grounds of gender, origin, ethnicity, religious beliefs, world view, disability, age or sexuality. Relevant principles are defined in the company's Diversity Policy. KfW Capital is also a signatory to the German Diversity Charter and collaborates with external experts in order to promote an inclusive and diverse working environment.

The respectful treatment of all its employees is very important to KfW Capital. The success and future viability of a company depend on qualified and motivated employees. KfW Capital creates a healthy and attractive working environment and positions itself in the growing competition for skilled workers and young talent through various measures (for example, by providing an annual RMV ticket, an employee restaurant, fresh fruit, flu vaccines and grants for occupational glasses for screen work).

It offers its employees an attractive and healthy working environment and a fair remuneration system with a company pension plan and private and occupational accident insurance. In addition, KfW Capital supports its employees by providing a wide range of ongoing personal and professional development opportunities. It is also committed to balancing work and family life, for example through flexible working hours, part-time and home working arrangements. KfW Capital intends to soon establish further measures aimed at balancing work and family life (such as child day-care and nursery at KfW's own in-house day-care centre).

## II. Corporate Governance and Compliance

KfW Capital performs all its functions in accordance with its bylaws and procedural rules, applicable law and prudential regulations. This explicitly includes compliance with statutory regulations and provisions that apply to ecological, social and economic matters as well as to the prevention of money laundering, terrorism financing, corruption, fraud, violations of privacy laws, insider regulations and embargo provisions.

KfW Capital complies with the 'Public Corporate Governance Code' (PCGC) adopted by the German Federal Government on 16 September 2020. It supplements the legal provisions on the management and supervision of companies in which the Federal Government has a holding through additional standards for good and responsible corporate governance. KfW Capital publishes a Corporate Governance Report for each preceding business year. Moreover, KfW Capital is subject to the European Regulation (EU) 2019/2033 (Investment Firm Regulation – IFR) and, pursuant to Article 53, is required to disclose information on environmental, social and governance risks (ESG risks). The information was disclosed for the first time in its 2022 disclosure report.

The group-wide Code of Conduct and the KfW Capital Compliance Policy form the basis for ethically correct conduct within the company. Furthermore, the code of conduct for the Management Board of KfW Capital regulates the acceptance of gifts, honorary positions and extracontractual activities, among other things. Furthermore, all employees participate in regular training on compliance-related topics.

## III. In-House Environmental Protection

The business operations of KfW Capital have been largely climate-neutral since the 2020 financial year. Under the 'Prevent, Reduce, Offset' approach, the aim is, first and foremost, to prevent emissions, to systematically and consistently reduce the quantity of unavoidable $CO_2$ emissions, and to offset the unavoidable emissions with compensation projects through the Group. To achieve this, all emissions from energy consumption and business trips are offset through KfW by corresponding quantities of emissions certificates.

KfW Capital's in-house environmental protection measures therefore comprise improvements to energy efficiency (e.g., more efficient use of electricity, heating and air conditioning) and resource consumption (e.g., reduction in paper consumption and avoidance of plastic waste, for example by providing water dispensers). In addition, KfW Capital buys certified green electricity. KfW Capital also takes into account environmental and climate aspects in business trips, for example by avoiding business trips where possible through the use of video or telephone conferencing and by giving preference to resource-efficient transport. In addition, KfW Capital provides its employees with an annual ticket for public transportation.

It uses exclusively recycled paper with the 'Blue Angel' ecolabel. All externally printed publications are carbon-neutral. All relevant carbon emissions generated during a printing process are calculated, reported and compensated with emissions reduction certificates.

## IV. Procurement

As a public-sector contracting authority, KfW Capital is required to request Europe-wide tenders for procurement contracts that exceed certain threshold values. Such tenders follow principles regarding transparency, non-discrimination and competition. As far as admissible under public procurement law, KfW Capital includes social and ecological requirements in its contract conditions for Europe-wide tenders. In this way, KfW Capital ensures fair competition and procurement conditions that are in line with the market and economy.

As part of KfW Group, KfW Capital also pursues the goal of incorporating sustainability requirements in all its procurements. Among other things, it understands this to mean, among other things, respect for human rights and compliance with labour and social law regulations, environmental protection and climate action targets and the sustainable management of natural resources. The German Supply Chain Due Diligence Act (LkSG) which entered into force on 1 January 2023 requires KfW and its subsidiaries to appropriately perform human rights and environmental due diligence in its supply chains. The sustainability requirements apply to all contractual partners of KfW Group who perform services subject to procurement procedures for KfW or any of its affiliated companies.

## V. Remuneration Policy

KfW Capital has a Remuneration Policy[3] that applies to all employees of the company and ensures equitable interests between all stakeholders. This policy is designed to support the implementation of KfW Capital's business and risk strategy as well as its corporate values and long-term goals. The principles contained in it strengthen, among other things, an adequate risk culture (including addressing potential and actual conflicts of interest) and compliance with regulatory and procedural requirements.

The remuneration of KfW Capital's employees is composed of a fixed and a variable component (short and long-term). The performance and bonus management in the framework of its remuneration policy was developed with the primary aim of enabling effective management of risks and opportunities:

- The performance assessment takes into account the fulfilment of extensive risk management requirements and the inclusion of all types of risk, including sustainability risks.
- In some cases, individual bonus-relevant targets around the topic of sustainability are set in order to strengthen the further development and integration of sustainability within the company (particularly with respect to sustainability managers and the Board of Management).

[3] Publication planned for Q3 2023

## Annex

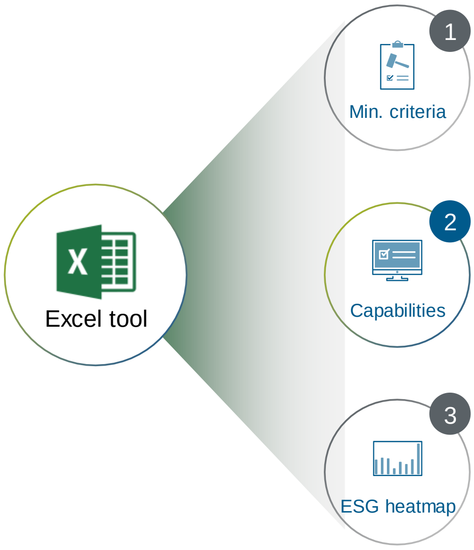
# Tools for the Implementation of the Processes

## Tool 1: ESG Questionnaire

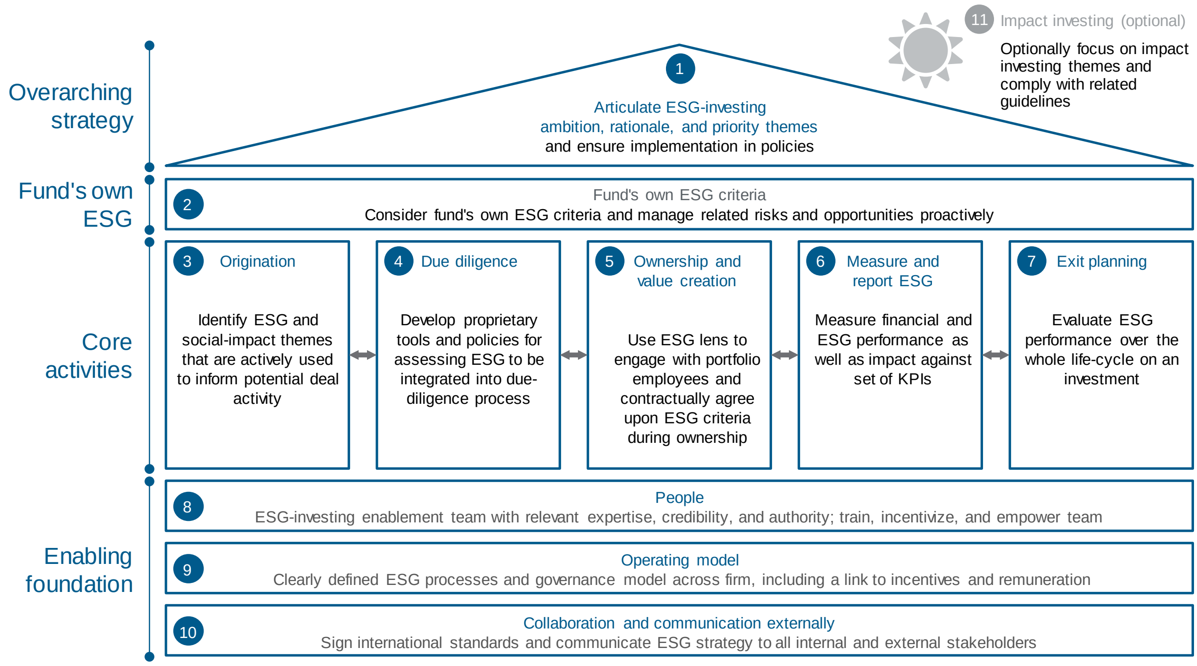
The ESG Due Diligence Questionnaire is composed of three parts:

The first element is the **exclusion list of activities** in which VC funds are not allowed to invest.

The second element is referred to as the **ESG Capabilities House**; it enables KfW Capital to systematically evaluate a fund's ESG approach, strategy, processes and capabilities. To this end, the funds complete a standardised questionnaire; each question offers four possible answers that describe the current state of ESG capabilities. The respondents choose the description that most closely reflects their current level. The assessment is performed by applying a particular colour to the ESG Capabilities House, which subsequently also serves as a basis for assessment by the investment managers, risk managers and sustainability managers.




The questionnaire deliberately sets high levels of ambition so that the responding fund can obtain inspiration and set itself further development goals. The aim is to obtain a detailed picture of the fund's current capabilities of integrating ESG aspects into its investment processes and decisions and thereby ensuring that the portfolio companies fulfil certain standards in this regard. This also allows an assessment of the extent to which the VC fund itself takes ESG issues into account in its own organisation. The questionnaire also contains questions that go beyond the specific ESG criteria in order to assess societal, ecological and economic effects (the impact) generated by the fund and its portfolio companies.



The third element is the **ESG Heatmap**. It enables potential ESG weaknesses to be identified in start-ups and funds. Based on the three 'lenses' – the type of innovation, the stage and the exit market industry of the start-up – the ESG Heatmap indicates key ESG criteria that have a high probability of adversely impacting a start-up's multidimensional performance capability. It also provides an indication as to the areas in which the company itself can have an adverse impact. This method provides the necessary flexibility for identifying key issues in a heterogeneous portfolio of start-up companies.