



SIMPACT
VENTURES

IMPACT

MEASUREMENT

METHODOLOGY

Version November 2023

TABLE OF CONTENTS

1	Impact Investing	5
2	Investment philosophy	8
3	Purpose of impact measurement	11
4	SFDR compliance	13
5	Impact definition	16
6	Our approach to impact measurement	19
7	Impact-based incentive model	24
8	Impact data collection and reporting	27

INTRODUCTION

The following document describes the impact measurement and management process during our investments, which is an essential part of our work and allows us to assess and improve our impact.

Simpact is an impact investing venture capital fund that invests in technology-driven impact startups. It invests in new solutions and new business models with the intention of generating social impact alongside financial returns. It looks for impact companies that develop new technologies to solve modern challenges in a sustainable, market-driven way. Impact must be part of the business model: the higher the revenue, the higher the social impact. We believe that the impact a project has on society is the best indicator of its future financial performance, because it represents the degree to which it solves real problems. Our investment philosophy is that technology is the most powerful driver of development, and that for-profit solutions are the most important in enabling sustainable change.

Simpact is strongly committed to its mission and key objectives, and therefore pursues explicit impact objectives in addition to traditional financial objectives. Based on the fundamental principle that what is measured is achieved, because what is measured gets the most attention, we recognise the importance of an effective impact measurement system. This document presents Simpart's impact measurement methodology and reflects its strong commitment to tracking the impact created across its portfolio.

Motivated by a desire to test the viability of innovative technologies and new business models, Simpart introduces elements of impact assessment at every stage of its investment process. All practices implemented are designed to understand what is being achieved with the capital we invest, support a culture of improvement and accountability, and promote impact. Impact metrics track progress towards desired social outcomes. They measure the degree of change since the start of the investment and guide the investment management process. Data tracked over time strengthens the process of building evidence of social returns and supports data-driven decision making.

To put our money where our mouth is, we link incentives to impact targets. We want to hold ourselves accountable for achieving impact goals, so we link our carry interest to the impact KPIs of our portfolio. This means that success is tied not only to financial profit, but also to success in achieving impact goals. Therefore, we will only be rewarded for the impact our portfolio achieves.

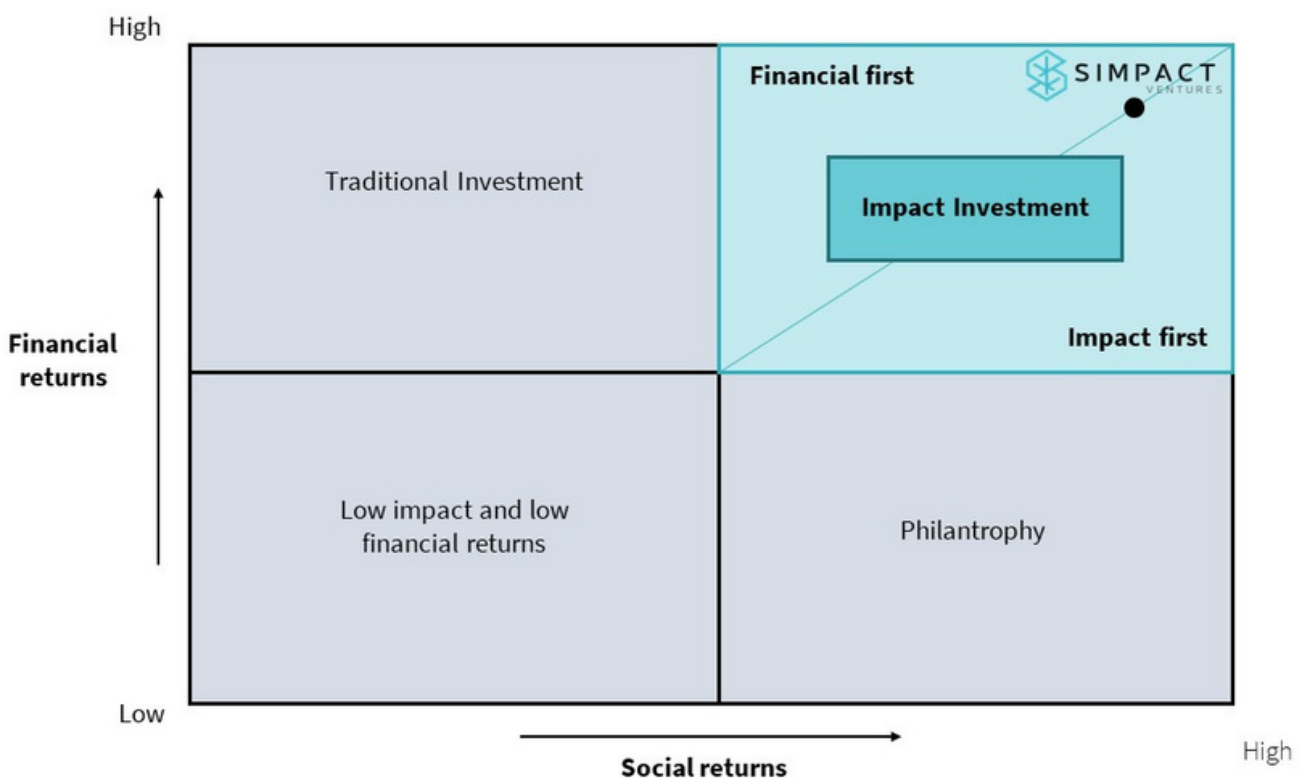
At the same time, we recognise that much more needs to be done to fully understand and accelerate the social and environmental performance of our investments. Accordingly, Simpart is committed to the ongoing development of its impact measurement practices.



IMPACT INVESTING

Impact investing has been developing significant momentum for some time. A new generation of impact companies and a new type of impact funds have emerged. The Global Impact Investing Network defines impact investing as investments made in companies, organisations and funds with the intention of generating social and environmental impact alongside a financial return. The idea builds on and goes beyond the concepts of ethical investing and corporate social responsibility. Impact investing is the act of providing capital to projects with specific business models that deliver financial and social benefits.

Traditionally, the social and environmental sectors have been dominated by governments, public foundations, philanthropists and NGOs. However, new market-based players are gaining significant market share. Impact investors harness the potential of private capital and use economic principles to bring about positive change in social and environmental problems. Impact Investing is situated in between philanthropy and private equity, donations and for-profit investments. It is characterised by the intention to generate both financial and social returns. Accordingly, Simpact defines its identity through the conscious objective of achieving both financial and social value.



Recently, market-based approaches have gained popularity as effective mechanisms for delivering impact at scale. Increasing support from the private sector to the public sector in creating innovative solutions to the world's biggest problems is driving the high growth of the impact investing market. Public authorities, traditionally associated with impact, are unable to provide enough capital to meet all social and environmental needs.

Impact investors invest in social enterprises, providing early stage capital to unproven business models across many different sectors. They are more flexible than mainstream investors, allowing investees to grow and scale at a steady pace. As well as capital, they also provide business advice and mentorship. Impact investing adds value to the economy. By providing patient capital and supporting entrepreneurs, it catalyses the growth of social opportunities that are often undervalued by other financial institutions.

1

INTENTIONALITY

Impact investments make a conscious contribution to social and environmental solutions. This distinguishes them from other strategies such as ESG investing or socially responsible investing (SRI). In this sense, the impact generated by a startup cannot be incidental or alongside to its core business. It must be an intrinsic part of it.

2

FINANCIAL RETURN

Impact investing funds are still venture capital funds - they invest to earn a financial return on capital, which can range from a below-market rate to a risk-adjusted market rate. This distinguishes them from philanthropy or charitable activities.

3

IMPACT MEASUREMENT

Impact investing is characterised by a commitment on the part of the investor and the company to measure and report on the social and environmental results of the investment. As with financial indicators, measurable values are set to be achieved.



INVESTMENT PHILOSOPHY

Simpact provides capital and support to technology-driven impact startups from Poland and other EU countries. It invests in new solutions and new business models with the intention to generate social and environmental impact alongside financial return. We believe that technology is the key driver of development and that only for-profit solutions enable effective and lasting change.

Science and technology are at the heart of all major development advances and have a significant economic impact. Recognising the increasing role of technology in driving societal change, we are committed to fostering sustainable innovation. By providing patient capital, sharing financial risk and supporting new technology-based solutions, we aim to create an enabling environment for future innovation, ultimately leading to economic growth. Technology adds significant value to any area of development, generating progress for people and society. Simpact's goal is to realise and maximise this added value.

At the same time, we believe that only financially self-sustaining business models can create effective and lasting change. Self-interested behaviour, not philanthropy, can create wealth in a sustainable way. For-profit solutions meet human needs, improve efficiency, create jobs and generate economic value.

Innovation through the use of new technologies, unconventional operating methods and modern management approaches enables companies to increase productivity, reduce costs and expand markets. For-profit models are the only mechanisms capable of harnessing opportunities for growth and profitability and building long-term, stable improvement.

We also recognise the enormous potential of business to contribute to social progress. A whole generation of modern entrepreneurs is pioneering new product concepts and viable business models to address social needs and challenges, creating shared value for business and society. We believe that commercial purpose can be aligned with social benefit, while social mission opens up new needs, new markets, new value chain structures and entirely new ways of thinking about business. This increases opportunities for strategic positioning and additional competitive advantage. Our investment philosophy is based on the conviction that financial returns and social contribution are interlinked and, together with the power of innovation, can create economically sustainable, positive impact in the world.

MAKE IMPACT WITH SIMPACT OUR INVESTMENT PHILOSOPHY

WE BELIEVE THAT TECHNOLOGY IS THE STRONGEST DRIVER FOR DEVELOPMENT AND FOR-PROFIT SOLUTIONS ARE THE ONLY SUSTAINABLE ONES ENABLING LASTING CHANGE.

INVESTMENT PHILOSOPHY

Technology is a key driver for development enhancing progress for society



INVESTMENT CRITERIA

TECH - Technology is the source of competitive advantage

Solutions delivered on a for-profit basis are the only sustainable ventures which enable effective and lasting change



PROFIT - Strong business model which proves high scalability

Enterprises incorporating social issues into their core business strategies benefit both society and their own long-term competitiveness



IMPACT - Positive social impact

Simpact relies heavily on its mission and investment philosophy. We invest in technology-driven impact startups that have the potential to solve the challenges of the modern world in a financially sustainable way. We make early stage and growth investments, helping to prove the concept to catalyse further growth and scale impact. Simpact therefore defines its investment objective as a function of three key criteria: technology, profit and impact. When looking for potential investments, it is crucial for us to understand whether the startup is developing an innovative technical solution, whether it has the potential to be scalable and financially sustainable, and whether it has a conscious goal to create a positive impact on society.



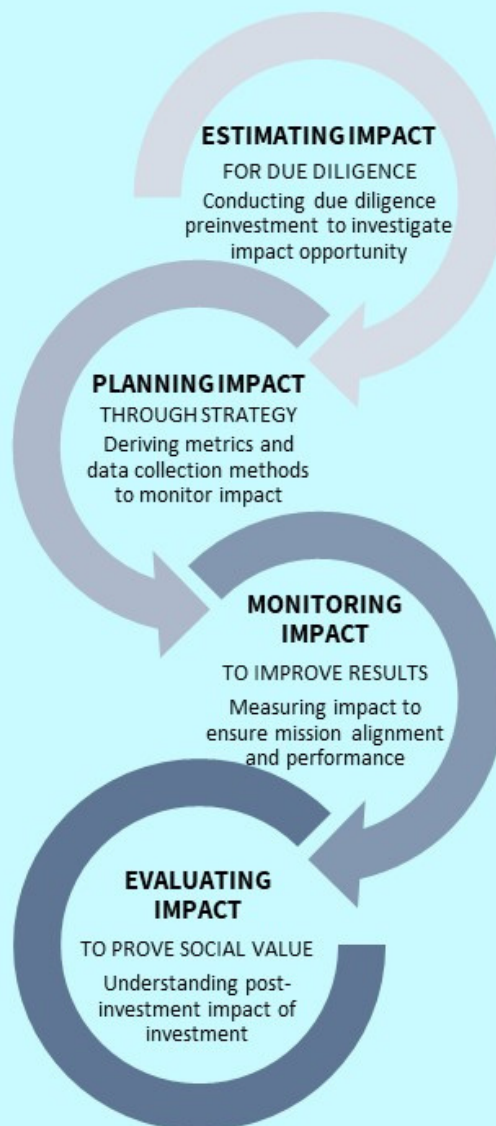
PURPOSE OF IMPACT MEASUREMENT

Impact measurement represents the processes and activities that track the progress of start-ups towards their desired impact goals. These activities include deciding what to measure, collecting and analysing the relevant information, and using the results in decision-making and reporting.

Simpact is implementing a well-defined impact measurement system to place even greater emphasis on impact creation and to better understand the impact generated by our investments. Collecting and analysing impact data helps us to identify end beneficiaries and understand the value of our invested capital for beneficiaries and society as a whole. Measuring impact encourages us to stay true to who we are and why we exist.

On the other hand, it also provides great consumer insights for the startups themselves. Understanding how end users benefit from a product or service and their attitudes towards it provides valuable insights into customer characteristics and demand. Portfolio companies use this information to improve their offering and develop new marketing strategies. Measuring impact requires a closer relationship with our portfolio, which benefits both parties. It creates more opportunities for collaboration. Joint analysis of impact data, followed by discussion and brainstorming, leads to many new ideas. Working together on impact performance is a great learning experience for us and our portfolio companies.

As the first impact investing fund in Poland, Simpact is strongly committed to promoting best practices of impact measurement. Systematic, ongoing collection of empirical data generates evidence of impact and is useful for building the narrative of the entire impact investing ecosystem. By being transparent about how our inputs relate to the impact outcomes achieved, Simpact aims to build a strong case for future players who decide to enter the impact investing sector.





SFDR COMPLIANCE

We are proud to be an Article 9 fund, also known as a 'Dark Green' fund under the Sustainable Finance Disclosure Regulation (SFDR). Dark Green funds have sustainable investment as their goal. SFDR defines “sustainable investment” as a financial product that is invested in economic activity that contributes to an environmental or social objective, not significantly harm any of those objectives, and ensures that the investee company follow good governance. This means that Simpect is committed to the highest standards of investment with a conscientious focus on sustainability. This commitment is not just part of our core strategy - it is embedded in every decision we make and every action we take. For example, we not only screen for potential impact, but also work proactively with ESG screening. Each of our investments is required to meet the SFDR's definition of a 'sustainable investment', which means that:

- **All Simpect investments contribute to an environmental or social objective.**

Each of Simpect investment must meet our definition of impact. We aim to ensure that each investment contributes to solving a serious global social challenge and that the social objective is at the core of the business, in line with the SFDR. Simpect Ventures is primarily focused on social impact. Some of the fund's investments may address both social and environmental objectives.

- **All Simpect investments do not significantly harm any other sustainability objectives.**

SFDR links DNSH to the Principal Adverse Impacts (PAI) indicators, which cover both environmental and social risks. All our investments are screened to ensure they comply with the principle of 'Do No Significant Harm' by assessing a company's performance against the mandatory and other relevant PAI indicators set by SFDR. To limit the negative impact of any potential breach of ESG rules, the Fund monitors portfolio companies on an annual basis to ensure that its investments continue to do no significant harm to sustainable investment objectives




- **All Simpect follow good governance practices or will do so over time.**

Fund assesses alignment with good governance, which requires compliance with international standards of responsible business conduct: The OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights. In the absence of such guidelines, Simpect guides its portfolio companies towards the standards of good governance.

LEADING THE WAY THE FIRST AND ONLY ONE DEEP GREEN FUND

WE ARE THE FIRST VC FUND IN POLAND RECOGNIZED AS AN ARTICLE 9 FUND UNDER THE SFDR REGULATIONS.

THIS HIGHLIGHTS OUR COMMITMENT TO IMPACT INVESTING AND ACKNOWLEDGES OUR EFFORT TO GENERATE BOTH FINANCIAL RETURNS AND IMPACT.

„SUSTAINABLE INVESTMENT” ACCORDING TO SFDR DEFINITION		
Contribution to Environmental or Social objective	Do No Significant Harm	Good Governance
		
Simpact invests in start-ups that generate social impact that has a significant positive effect on a pressing social problem for an underserved target group, thus contributing to the social objective .	As part of our pre-investment analysis and post-investment monitoring, all our investments are screened against the Principle Adverse Impacts (PAI) indicators, which capture both environmental and social risks .	Strong commitment to good governance practices in line with OECD and UN frameworks for responsible business, including sound governance structures, employee relations, remuneration and tax compliance.

Aligning early-stage investment strategies with SFDR requirements presents a unique set of challenges. Much of this complexity stems from the natural uncertainties that come with new regulations - the unforeseen scenarios and evolving interpretations. The ongoing roll-out of guidance from the EU Commission is a testament to this complexity. Nevertheless, we are trying to navigate this as best we can with solutions that stay true to what we believe in: being a supportive ally to founders, while ambitiously striving as an Article 9 fund to deliver real change.

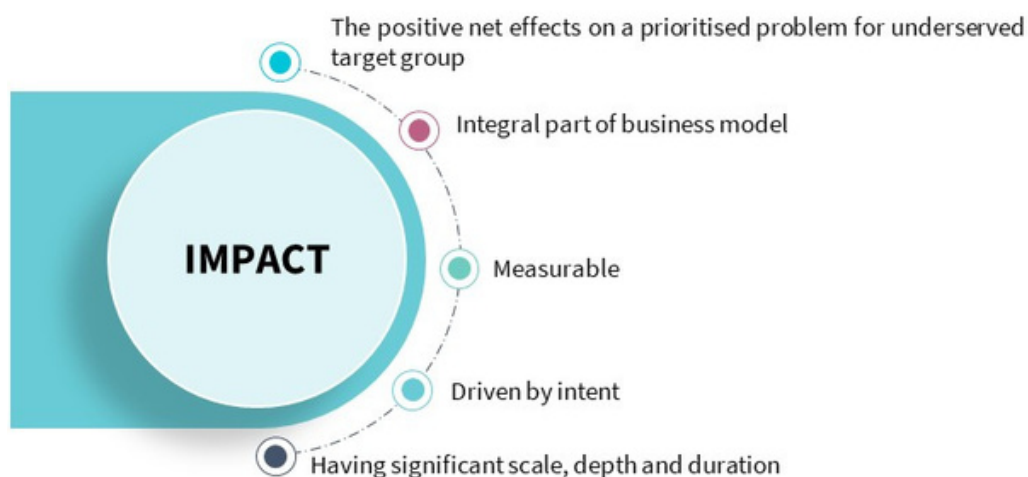


IMPACT DEFINITION

The global economy and our society are changing at an unprecedented rate. We are grappling with issues and problems that will shape our future. Demographic change is by far the most important challenge facing the whole world in the 21st century. It includes rapid population growth, ageing, migration, urbanisation, unemployment and demographic pressure on the environment. The ageing society faces health problems as well as those resulting from longer life expectancy. The diseases of civilisation are affecting more and more people, from children to the elderly. Traditional health care systems are strained and unable to meet emerging needs. Changes related to demographics, migration and paradigm shifts in the labour market, compounded by

problems arising from the educational and digital divide. Poverty, inequality and food insecurity continue to plague the modern world. We face many different problems, but we also have a great opportunity to address these challenges and create solutions that really matter.

Simpact proactively seeks out the best founders with a strong intention to solve the world's biggest problems and the tenacity to work hard until they are solved. Simpact invests in startups that increase diversity, inclusion and opportunities for underserved and disadvantaged groups. We also look for business solutions that eliminate or minimise significant risks that threaten humanity and can have devastating consequences for society.



Simpact invests in impact start-ups that introduce a social business model, i.e. they seek to solve a recurring social problem through the provision of the specific services or products, or they operate traditional business models in a social way so as to enable positive social change. The impact of the start-ups must be built into the product or service offered, the business model or the methods of production or delivery. Business success is therefore largely synonymous with impact success. If the business grows, the impact grows too. Simpact defines social impact as a significant positive effect on a pressing social problem for an underserved target group. This can be achieved in a number of ways, for example:

A

Services or goods which generate a social impact

Company provides services or goods addressed to people in situation of social exclusion, disadvantage, marginalisation, or that are vulnerable (for example migrants integration),

Or

Company provides services or goods to society at large with a preventive purpose that aims to reduce the possibility of damage occurring in the future (e.g. disease prevention, lifelong learning, sustainable development).

B

Methods of production that embody the social impact

The main purpose of the company is to provide employment to people who are excluded, disadvantaged, marginalised or vulnerable, or to integrate them into the labour market in some way.

At Simpact Ventures, we believe that profit and impact are not mutually exclusive goals. In fact, a business model with impact at its core naturally aligns financial success with significant social benefit. Our focus is on identifying companies that have the potential not only to thrive financially, but also to scale their impact to the highest levels. An impact-driven company is characterised by the following attributes:

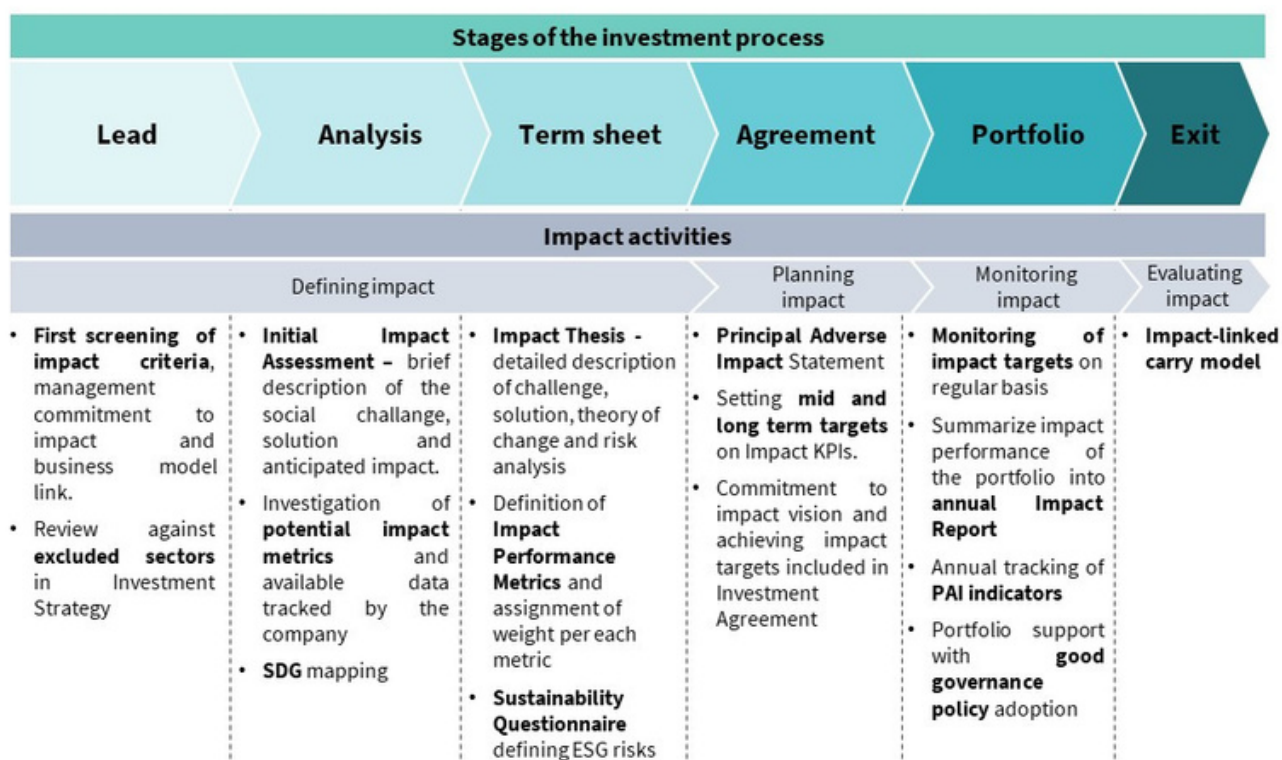
- It tackles some of the world's greatest social challenges.
- Its revenue/scale growth is directly proportional to its impact.
- Impact is so intertwined with the business that removing it would fundamentally alter the company's value proposition.

Companies that resonate with these principles are the ones we recognise as true partners in impact, poised for substantial growth and societal contribution.



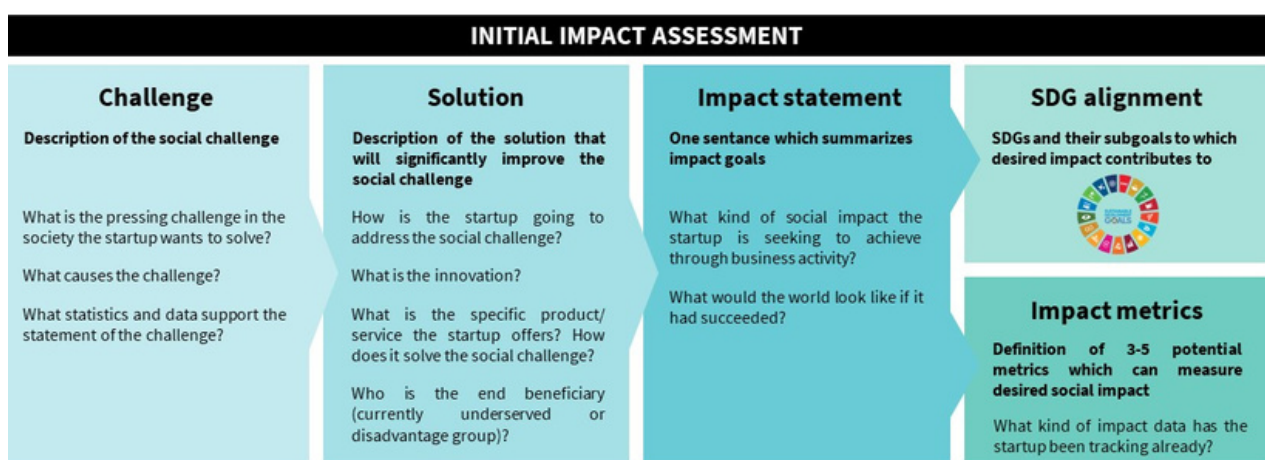
SIMPACT'S APPROACH TO IMPACT MEASUREMENT

Simpact has designed its entire investment process around impact criteria in order to maximize the social return of its portfolio, alongside the financial metrics. At every stage of the process, we aim to assess the startup's potential to deliver impact.

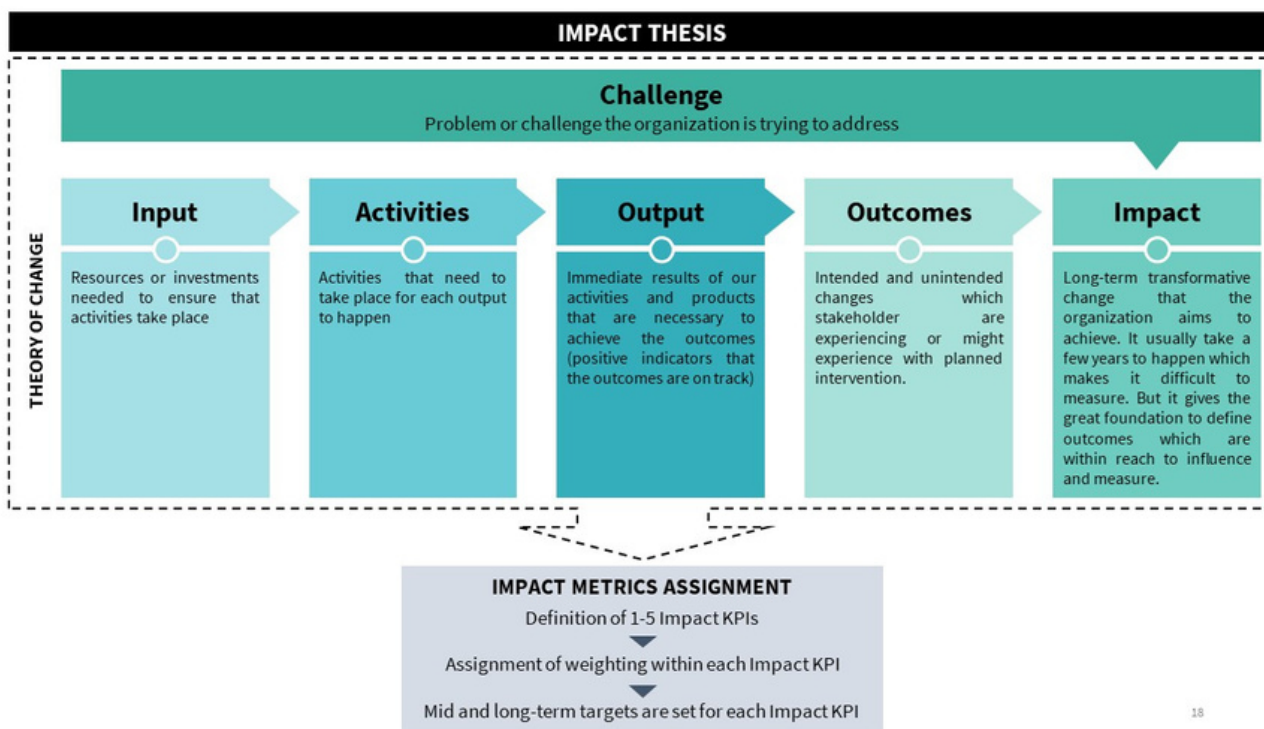


As part of the investment process, Simpart assesses the impact of a potential project. This helps us understand what we can achieve with our capital and prioritise where to invest our resources to achieve the desired impact. During the very first screening, we assess whether a potential investment opportunity fits our investment strategy by checking that it meets our three main criteria: Technology, Profit and Impact. We assess the impact criteria and management's commitment to linking the business model to positive impact. Investments are also screened against any excluded sectors listed in the investment strategy to ensure alignment with Simpart's values and objectives.

As part of the further analysis, we assess the potential for impact using an Initial Impact Assessment. This is a short document that includes a description of the social challenge the startup seeks to solve, an explanation of the innovative solution that will significantly improve the social challenge, a characterisation of the end beneficiary, and a summary of the impact goals the startup seeks to achieve. In addition, the Simpact team works with the founders to identify what kind of impact data the startup is already tracking, what kind of additional data can be collected in the future, and to define some potential metrics that can measure the desired social impact. In addition, a Sustainable Development Goals (SDG) mapping is conducted to align potential investments with broader global goals. The initial impact assessment shows the founders' vision of the desired impact and their attitude towards working on impact goals. Therefore, together with the results of the business and legal analysis, it guides our decision on whether to sign the term sheet and start working on the investment agreement.



While negotiating investment parameters, we work with founders on the Impact Thesis, which is a detailed document that integrates the startup's impact strategy into a single narrative supported by thorough analysis and data. It describes the social challenge in more detail to support the hypothesis that the need exists and to show the extent of the challenge. This is followed by a description of the proposed solution that addresses the social need, identifying the innovation part and explaining how it solves the challenge. As part of the process, we develop a Theory of Change, which is a comprehensive model of how and why a desired social change is expected to occur as a result of the startup's business activity. It defines what impact the startup wants to achieve, identifies different factors that are important in achieving the impact goals, shows how they are all connected and influence each other, and describes the activities and resources needed to achieve the goals. It helps us decide what impact data we need to collect and how to use it to improve results. Once the Theory of Change is well designed, we define relevant metrics that best measure the desired outcomes. We call these impact KPIs. The selection of metrics is based on the IRIS catalogue and Simpact's own design. They must all be relevant to the business and under the control of the founders. We then assign weights within each Impact KPI that reflect the relative importance of each Impact KPI in the overall impact performance of the given startup, solidifying how impact is measured and prioritised. This stage also includes the Sustainability Questionnaire, which is used to define ESG risks and further detail the company's approach to managing environmental, social and governance issues.



Once, Term Sheet is signed, we start negotiating the Investment Agreement and we set mid and long-term targets on Impact KPIs, establishing clear goals for the investment period. Simpect seeks to build a shared vision of future success with the founders of the startup. We believe that a more focused approach to impact measurement will make the process of data collection and reporting more useful to the startup itself. The investment agreement includes a commitment from the founders to the impact vision and to achieving the impact goals.

At the same time, the fund takes into account indicators of adverse impact on sustainability factors by assessing a company's performance against the SFDR's mandatory and other relevant Principle Adverse Impact (PAI) indicators. The PAI indicators, which are monitored pre- and post-investment, include the 14 mandatory indicators and 2 additional indicators, from the environmental and social categories respectively, that we consider most relevant to the portfolio and our sustainable investment objective.

PRINCIPAL ADVERSE IMPACT STATEMENT	
ENVIRONMENTAL	SOCIAL
<p>PAI 1: GHG emissions (scope 1, 2, and 3)</p> <p>PAI 2: Carbon footprint</p> <p>PAI 3: GHG intensity P</p> <p>PAI 4: Activity in the fossil fuel sector</p> <p>PAI 5: Share of non-renewable energy consumption and production</p> <p>PAI 6: Energy consumption intensity per high impact climate sector</p> <p>PAI 7: Activities negatively affecting biodiversity sensitive areas</p> <p>PAI 8: Emissions to water</p> <p>PAI 9: Hazardous waste and radioactive waste ratio</p>	<p>PAI 10: Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises</p> <p>PAI 11: Processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises</p> <p>PAI 12: Unadjusted gender pay gap</p> <p>PAI 13: Board gender diversity</p> <p>PAI 14: Exposure to controversial weapons</p>
<p>PAI 15: Carbon emission reduction initiatives</p>	<p>PAI 16: Human rights policy</p>

Throughout the life of the investment, each portfolio company is required to collect data on impact metrics and provide it to Sim pact on a regular basis. As part of the portfolio management process, Sim pact monitors impact targets alongside financial data to know if the startup's performance is on track. Sim pact analyses the results of all portfolio companies and aggregates them into an annual impact report, providing transparency and accountability. Sim pact calculates the impact multiple, the ratio of the realised value of a given impact KPI at the time of valuation to the target value defined at the time of investment, and discloses it to its Limited Partners at least once a year.

On an annual basis, the fund's portfolio companies are required to provide the data necessary for the fund to determine that its investments continue to have no significant harm on sustainable investment objectives. Investment compliance with PAI indicators is tracked to ensure ongoing alignment with sustainability criteria. This data forms part of the fund's investment monitoring and portfolio management process.

Sim pact conducts annual governance monitoring to ensure that our portfolio companies not only adopt the highest standards of corporate governance, but also maintain them on an ongoing basis. We actively support and guide these companies in implementing effective governance policies and adopting best practices.

Finally, we use an Impact-Linked Carry model, meaning that fund managers' financial compensation is directly linked to the portfolio's impact performance.



IMPACT-BASED INCENTIVE MODEL

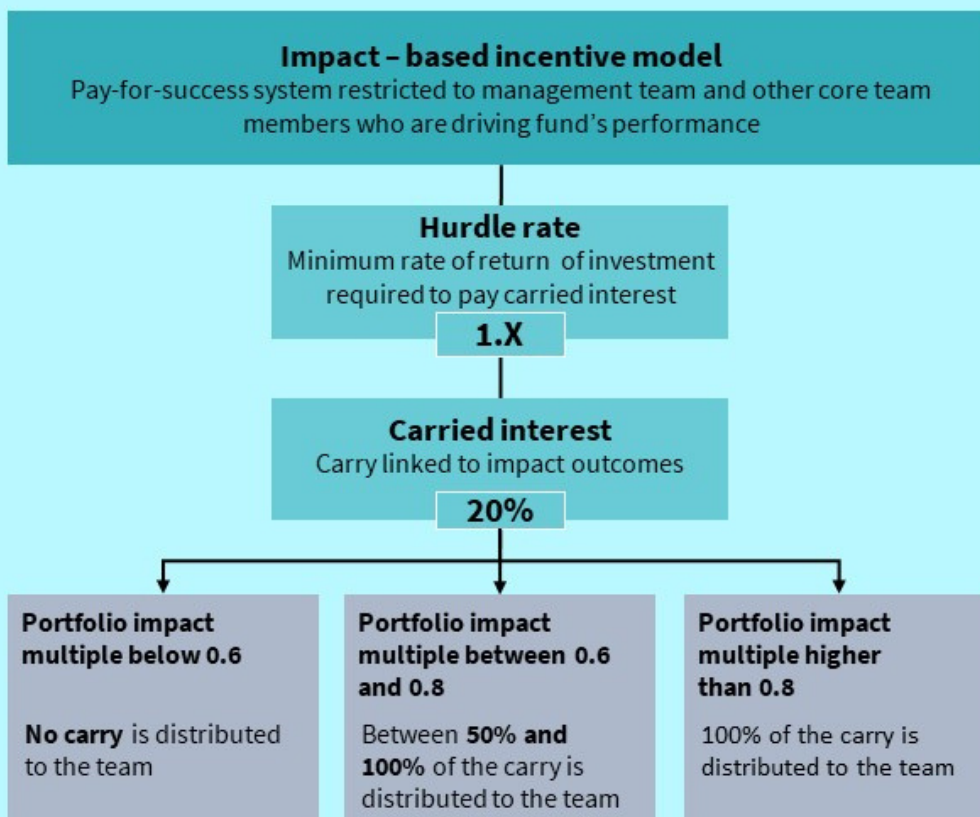
As an impact investment fund we must balance complex set of objectives which are achieving impact in addition to generating financial returns. Therefore, in order to prioritise both the financial and impact objectives of the fund, we have linked the financial remuneration of the fund team to the impact performance of the portfolio and use impact-linked carry. This means that if portfolio companies do not meet their impact targets, the Simpact team is not entitled to the carried interest. This mechanism avoids conflicts of interest and aligns our incentives with impact creation.

The overall portfolio impact multiple is calculated each year to determine the actual impact performance of the fund compared to the target set at the time of investment. The impact multiple per investment is calculated by taking the actual impact achieved against the impact target multiplied by the assigned weight per impact KPI. The portfolio impact multiple is calculated by multiplying each company's impact multiple by its relative investment weight. The fund reports the overall portfolio impact multiple to its investors annually.

ILLUSTRATIVE EXAMPLE

Company	Invested amount (EUR)	Impact metrics	Weighting	Target	Reached impact	Impact KPI multiple	Company impact multiple	Portfolio impact multiple
A	500,000	KPI 1	33.3%	X	x	x/X	33.3% * (x/X)	0.25 * [33.3% * (x/X) + 33.3% * (y/Y) + 33.3% * (z/Z)]
		KPI 2	33.3%	Y	y	y/Y	33.3% * (y/Y) +	
		KPI 3	33.3%	Z	z	z/Z	33.3% * (z/Z)	
B	1,250,000	KPI 1	50%	X	x	x/X	50% * (x/X) +	0.625 * [50% * (x/X) + 50% * (y/Y)]
		KPI 2	50%	Y	y	y/Y	50% * (y/Y)	
C	750,000	KPI 1	50%	X	x	x/X	50% * (x/X) + 20% * (y/Y) + 10% * (z/Z) + 20% * (w/W)	0.375 * [50% * (x/X) + 20% * (y/Y) + 10% * (z/Z) + 20% * (w/W)]
		KPI 2	20%	Y	y	y/Y		
		KPI 3	10%	Z	z	z/Z		
		KPI 4	20%	W	w	w/W		

The fund's overall impact hurdle at exit is a minimum of 60%, while the aim is to reach 100%. The carry is 20% for achieving the financial hurdle and is adjusted according to the achievement of the impact targets. This means that the Simpact team is entitled to up to 20% carried interest above a preferred return, provided that at least 60% of the impact targets are met. If the portfolio impact multiple is less than 60%, the carried interest is transferred to third party foundation, NGO or other social enterprise proposed by the team and approved by the Advisory Board. Maximum carried interest (20%) will be paid if impact targets are achieved to at least 80%.





IMPACT DATA COLLECTION AND REPORTING

Simpact uses impact performance monitoring to track the progress of its portfolio companies towards their impact goals, which involves collecting, sharing, analysing, validating and reporting impact data. The essence of impact monitoring is to analyse progress and learn whether the start-up is working as intended.

The tasks of collecting data on impact KPIs are carried out by our portfolio companies and reported to Simpart on a regular basis. In most cases, the impact performance report is provided quarterly, along with financial and operational data. While this sounds like an accountability process, impact monitoring actually provides data that is very useful for managing operations and making strategic decisions.

Ongoing monitoring of each startup's impact performance keeps us up to date and allows us to make informed decisions about the management of our portfolio. We strive to dig deep into all the data we collect and analyse it to better understand the startups' results and draw conclusions.

At the same time, we recognise that more needs to be done to understand how the use of metrics changes over time, to further address the challenges and limitations of measurement, and to improve the intrinsic business value of collecting impact data. Therefore, we remain open to further improvements and are committed to sharing lessons from our impact measurement practices to contribute to a shared knowledge base across the impact investment sector.

MAKE IMPACT WITH SIMPART

MEMBER OF:

**INVEST
EUROPE**

