Sustainability Risk Policy

February 2025

TAALERI

Basic information of the document

Purpose	To describe Taaleri Plc's ("Taaleri") view on sustainability risks, how they are considered and what risk management measures are applied to them.
Update frequency	According to need (reviewed at least annually)
Approved by and date (original date)	Taaleri Plc's Board of Directors 12 February 2025 (10 March 2021)
Effective from	10 March 2021
Responsible organisation	Group Sustainability
Contact person	Karoliina Laine,Taaleri Plc Sustainability Manager Linda Tierala, Taaleri Plc Director, Investor Relations and Communications
Regulation upon which the procedure is based	Not directly based on regulation but will support response to regulatory frameworks such as ones related to the EU Sustainable Finance and Sustainability Reporting, including EU Sustainable Finance Disclosure Regulation (2019/2088) (SFDR) applicable to some Taaleri entities.

Version history

Approved (date)	**Applied as of (date)**	**Changes made**
10 March 2021	10 March 2021	Policy created
17 December 2022	17 December 2022	Update: specification of process descriptions, definition and description of sustainability risks
14 December 2023	14 December 2023	Update: Updated and refined on the basis of the updated strategy, terminology and modus operandi.
12 February 2025	12 February 2025	Update: Updated and refined on the basis of the updated terminology and modus operandi e.g. related to disclosure structure and governance.

Contents

Sustainability risk policy

1. Introduction

1.1. Scope and implementation

The obligations set out in this policy apply to all our activities, unless otherwise indicated and specified.

The policy applies to all Taaleri employees and members of the management and the Board of Directors, as applicable (in line with section *3.3. Roles and responsibilities* below).

Supervisors and sustainability and risk experts support implementing the policy.

1.2. Continuous development and link to other policies

In Taaleri's view, sustainability is an essential factor in the definition and management of the strategy, risk management and the potential for financial returns and value creation. We constantly update our understanding of the sustainability risks associated with our operations and develop our sustainability risk analysis. In addition, we monitor EU regulation on sustainable finance and corporate sustainability, as well as general market developments related to sustainability and best practices and assess how best to integrate sustainability and consideration of sustainability factors into our operations, risk management and disclosures.

This policy is tightly linked to Taaleri's other policies and principles, including Taaleri Plc Sustainability Policy available at www.taaleri.com/en/corporate-responsibility/document-archive.

Taaleri's whistleblowing channel and guidance is available at https://app.falcony.io/taaleri-wb/links/whistleblowing, The Whistleblowing channel can be used to report suspicions of actions that may violate our policy documents, among other concerns.

2. Sustainability risks and their management

2.1. Terminology definitions and examples of risks

Sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential negative impact on the value of the investment (in Taaleri's private asset management business and Group's investment operations and Garantia) or on the value of the insurance liability (in Garantia).[1] Sustainability risks include risks related to climate change and greenwashing.

Climate risks may be divided into two major categories: (1) risks related to the transition to a lower-carbon economy and (2) risks related to the physical impacts of climate change. Transitioning to a lower-carbon economy may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Depending on the nature, speed, and focus of these changes, transition risks may pose varying levels of financial and reputational risk to organizations. Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption. Organizations' financial performance may also be affected by changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting organizations' premises, operations, supply chain, transport needs, and employee safety.[2]

Greenwashing risks may link to a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants.[3]

Other environmental, social and governance event or condition, potentially causing a sustainability risk, may relate to natural or social phenomena and our stakeholders' activities. Such phenomena include environmental degradation, natural disasters, mass immigration/emigration, spread of pandemics, ageing of the population and information security attacks. For example:

- The erosion of biodiversity and depletion of water resources have wide-ranging global impacts, which are reflected in all financial activities, for example in the increase in the price of raw materials and scarcity of inputs, as well as, possibly, in tenser relations between states. The price increases and decreased availability of raw materials, on the other hand, may affect the construction and schedules of investments, as well as the production capacity of the target companies, which may be reflected in the financial profitability of investments.
- Rapid development and tightening of regulation may make it more difficult to find investments in line with our strategy, and require implementing new practices to increase resource efficiency and decrease pollution, thus for example, increase costs,
- Changes in demand and investor preferences may increase investments in controversial industries, cause reputational damage and affect the demand for our fund products.

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1 Definition in line with the one of the EU's Sustainability-related disclosure in the financial services sector, SFDR, and Solvency II regulations (2019, 2021)

2 Definition in line with the one of Task Force on Climate-related Financial Disclosures, TCFD (2017).

3 Definition in line with the one of European Supervisory Authorities, ESAs (2023).

2.2. Management and disclosure description and examples of practices

Sustainability risks are identified in Taaleri Group's and the businesses' annual or more regular risk analysis and as part of the businesses' daily risk management and sustainability work. Sustainability risk management includes identifying and measuring sustainability risks as part of existing functions and services and new products.

Figures 1 and 2 depict Taaleri's sustainability risk management process at the top level and the key measures related to sustainability risk management.

Measures supporting sustainability risks management include:

- active asset/investment management and ownership
- integrating sustainability in strategic planning, risk management, disclosures, agreements and management of portfolios, projects and partnerships
- continuous monitoring of regulation and stakeholder expectations
- maintaining and developing appropriate procedures, policies, information, knowledge, tools and resources
- carrying out comprehensive ESG due diligence of environmental, social and governance aspects, and other quantitative and qualitative analyses, of new investment products and investee companies
- monitoring and auditing performance
- geographical and technological diversification
- climate targets and actions

Sustainability risks are managed through compliance with relevant international sustainability standards, norms and regulations.

- Sustainability risks are identified by utilizing the list of sustainability matters and indicators defined by the EU (regulations 2023/2772, Appendix A, point AR 16, and 2022/1288 Annex I) as well as other potentially material topics identified by Taaleri or external parties assessing Taaleri or relevant industries.
- Risks are assessed and measured on the basis of the likelihood of their realisation, the magnitude of their economic impact and their reparability. Their numerical evaluation and interaction produce a classification which determines the sustainability risks in the categories.
- Climate risks are assessed using the framework recommended by the TCFD for identifying financial risks of climate change and the IPCC's forward-looking climate scenarios (RCP 2.6.–8.5.). Profoundness and review frequency related to using TCFD and climate scenarios differs between Taaleri entities.
- Precautionary principle is followed, meaning that, if an activity or investment decision might cause serious harm to health or the environment, taking measures to protect the environment or health should not be prevented by the fact that there is no complete scientific certainty about the harm.

Business-specific sustainability risk management (incl. monitoring tools and reporting practices) is described in more detail in Taaleri's business-specific disclosures.

Taaleri Plc includes sustainability risk disclosures in its Annual Report.

Sustainability as part of business strategy

- Sustainability risks and opportunities are an essential part of, for example, fund strategy

Integrated sustainability risk management

- Sustainability risks considered as part of all of the Group's and businesses' processes and investments

Sustainability risks as part of project and portfolio management

- Review, monitoring and management of sustainability risks throughout the life-cycle of the operation, e.g. portfolio and the investment

Partner sustainability risk management

- Sustainability risks assessed throughout the value chain
- Commitment of partners to due diligence obligations and Taaleri's principles

Continuity of sustainability risk management and product life-cycle

- Coverage of risk management processes throughout the life-cycle of funds
- During the divestment phase, we commit to providing the information required by the new owner on sustainability risks and impacts

Figure 1. Sustainability risk management process

1. Planning:

- Identification and documentation of significant sustainability risks
- Data collection, measuring and target-linking sustainability risks
- Risks as part of the strategy, long-term plan and budgeting
- Updating of policies, guidelines and management methods

2. Management:

- Creating an understanding of the sustainability risk situation and processes throughout the value chain
- Collection and monitoring of data and information (incl. PAI indicators)
- Measuring performance against set targets
- Monitoring the implementation of activities and processes, available resources and spent costs
- Tracking reporting requirements

3. Corporate governance:

- Integration of sustainability risks into other policies, processes and risk assessments
- Sustainability due diligence review, audits, risk monitoring, control and adaptation plans
- Processing and documentation of any complaints, errors or development proposals
- Reassessment, monitoring and development of relevant sustainability risks and opportunities in the value chain and engagement of partners, for example through agreements

4. Reporting:

- Regular measuring, monitoring and reporting sustainability risks and impacts
- Monitoring the implementation of activities and processes, available resources and spent costs
- Compliance with reporting requirements

Figure 2. Sustainability risk management measures

3.3. Roles and examples of responsibilities

Taaleri Group's sustainability risk management is defined in line with its overall corporate governance model. Taaleri integrates sustainability risks into its overall risk management, and sustainability governance and management. These are described in Taaleri Plc's Corporate Governance Statement, Annual Report and Sustainability Policy, covering the role of each employee and the Board of Directors. The following supplements that information:

- The Executive Management Team members have split sustainability risk related responsibilities among themselves and have appointed managerial and expert roles and functions to support sustainability risk management.
    - For example, experts in the Group's risk, sustainability and legal functions have a role in ensuring identification, monitoring, controlling and reporting sustainability risks. This includes Group-wide regulatory and best-practice monitoring, knowledge sharing, drafting policies, guidelines and internal and external reports, and implementing them or supporting their implementation.

Taaleri subsidiaries follow a similar approach as the Group, considering characteristics of their governance model and operating environment.

- The funds' investment committees, portfolio managers, analysts and risk management function of alternative investment fund managers are responsible for assessing and managing the sustainability risks of investments.
- The businesses' transaction teams are responsible for the due diligence evaluation of investments' sustainability factors, while risk management personnel serve as a control function for sustainability risk processes.
- Portfolio managers are responsible for adjustment measures for the material sustainability risks identified based on risk surveys. In the investee companies of the funds, the management teams of the companies are responsible for the implementation and resourcing of sustainability risk management processes. Portfolio managers support investee companies in their sustainability work as active owners.
- The responsible persons defined by the businesses are responsible for reporting related to the sustainability risks of the funds as part of the fund reporting.
- Business managers are responsible for the implementation of operations and processes.