Sustainability Risk Policy

December 2023

TAALERI

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Basic information of the document

Purpose	To describe publicly Taaleri Plc's ("Taaleri") view on different sustainability risks, how they are considered in different business units and what risk management tools are applied to sustainability risks. Also includes a description of Taaleri's principal adverse impacts on sustainability factors and their management.
Update frequency	According to need (reviewed at least annually)
Approved by and date (original date)	Taaleri Plc's Board of Directors 14 December 2023 (10 March 2021)
Effective from	10 March 2021
Responsible organisation	Taaleri Plc Taaleri's ESG Committee, Executive Management Team and Audit Committee discuss the Sustainability Risk Policy and its updates before the Board's approval.
Contact person	Karoliina Laine
Regulation upon which the procedure is based	EU Sustainable Finance Disclosure Regulation (2019/2088) (SFDR)

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.

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Sustainability risk policy

1. Introduction

In Taaleri's view, sustainability and responsibility are essential factors in the definition and management of the strategy, risk management and the potential for financial returns and value creation, and will continue to be so in the future. The purpose of this policy is to describe the sustainability risks identified by Taaleri in its operations and our approach to assessing and considering them, in particular in response to the EU Sustainable Finance Disclosure Regulation (2019/2088) (SFDR). We have also included in the document a description of the principal adverse impacts (PAI) on sustainability factors and their management. We consider sustainability risks, sustainability factors and PAIs as part of our operations and report on them.

Sustainability risk refers to an event or circumstance relating to the environment, society or governance, the occurrence of which might have an actual or potential material negative impact on the value of the Group or the investment products it offers. Sustainability risks can be realised in the short, medium or long term and are assessed throughout the investment cycle and the value chain.

Sustainability factors refer to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

PAIs are negative impacts on sustainability factors caused by our operations and investment decisions.

This Sustainability Risk Policy, together with Taaleri's Sustainability Policy, Taaleri's Code of Conduct and the Group's Annual Report, also partly meets the general obligations of the Task Force on Climate-related Financial Disclosures (TCFD) and the Taskforce on Nature-related Financial Disclosures (TNFD) frameworks. Taaleri's business units also publish their own communications on these topics.

In addition to sustainability risks, we also look at the financial opportunities of our investments to promote positive impacts, for example through the six environmental objectives of the EU's Sustainable Finance Disclosure Regulation: climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems..

Taaleri's Code of Conduct, Sustainability Policy and Sustainability Risk Policy guide the entire Taaleri Group and all its businesses. The implementation of sustainability and responsibility is supported by business-specific policies and principles. For example, our alternative investment fund managers (AIFMs) and funds publish Statements on principal adverse impacts of investment decisions on sustainability factors. The public Group and business-level disclosures mentioned in this section are available at www.taaleri.com/en/corporate-responsibility/document-archive and the disclosures of the funds on fund-specific sites, which can be accessed at https://www.taaleri.com/en/private-equity-funds.

Taaleri's whistleblowing channel is located on an external service provider's website at https://app.falcony.io/taaleri-wb/links/whistleblowing, which is also linked on Taaleri's website at https://www.taaleri.com/en/corporate-responsibility/governance/governance. The Whistleblowing channel can be used to report, for example, suspicions of actions against our policy documents.

2. Sustainability risks and their management

In its own operations, Taaleri strives to minimise the negative impacts of sustainability risks on the Group, its stakeholders and surrounding society. We examine the market environment from the risk perspective, but also and especially from the perspective of opportunities. We make our investment decisions based on economic factors, impact potential, sustainability risk assessment and due diligence. Our goal is to offer investment products that aim to promote sustainable development and impact, minimise the negative impacts of sustainability risks and PAIs, which refer to negative impacts on sustainability factors caused by our operations and investment decisions.

Sustainability factors related to the environment, society and governance are considered in the assessment of sustainability risks and PAIs. Examples of these sustainability factors are listed in Figure 1 below.

THE ENVIRONMENT (E)	SOCIETY (S)	GOVERNANCE (G)
Climate change and global warming Extreme weather phenomena Sustainable use of natural resources Biodiversity Environmental wellbeing Pollution and contamination Habitats and organisms Recycling and recyclability	Data security Diversity and equality Product safety Employee wellbeing Human rights Child labour Workers' rights	Ethics Transparency Corruption and bribery Management diversity Remuneration and incentives for managers Monitoring and control of sustainability risks and impacts Compliance

Figure 1. Sustainability factors

The tables below present the potential PAIs of Taaleri's operations (Table 2), and sustainability risks (Table 1), as well as measures aimed at preventing, mitigating or remedying these impacts and risks (Tables 1 and 2). The identification and consideration of sustainability risks as part of investment decisions is described below.

Table 1. The sustainability risks of Taaleri and related key measures.

Sustainability risks	Measures
The environment and society	
• Disasters caused by biodiversity loss, scarcity of inputs and the economic impacts of inflation • Scarcity of natural resources, unsustainable use, biodiversity loss and the resulting economic impact • Rapid development and tightening of regulation, which may make it more difficult to find investments in line with the strategy and, for example, increase costs • Increased efficiency requirements and other requirements, as well as costs of preventive and corrective measures to reduce emissions and avoid damage • Changes in demand and investor preferences that may increase the risk of investments in controversial industries, cause reputational damage and affect the demand for our fund products • Increase and spread of pandemics, which have implications, for example, for the availability of labour and wellbeing of employees • Ageing of the population and increasing competition for labour • Geopolitical risks, global mass immigration/emigration and their impact on, for example, supply chains and the price of raw materials and energy • Information security attacks on the financial sector, the costs of preventing and managing them, and any indirect financial impact	• Active ownership and engagement • Strategic selection of investees and compliance with, assessment and updating of the negative screening criteria and other principles of sustainable investing • Investees' geographical location, materials used and insurance policies • Periodic assessment and monitoring of risks • Due diligence investigations and 'do no significant harm' (DNSH) assessment • Careful selection of and high criteria for partnerships and investees • Fund products that promote sustainability factors and make sustainable investments • Active cooperation and communication with stakeholders • Monitoring regulation and compliance • Flexible work arrangements and competitive salaries, inclusive and diverse workplace culture • Staff training and information
Climate change	
Physical climate risks (acute and chronic) • Acute and chronic damage and accidents caused by weather conditions, resulting in a reduction in the assets to be invested, an increase in the cost of capital and operating costs, and indirect impacts caused by reduced production Transition risks related to climate change: • Costs of tightening regulation, technological advances, market changes and reputational damage • Increased costs due to increased price of greenhouse gas emissions and improved reporting • Improved regulation of the products and services offered • Failed investment in new technologies • Uncertainties in the market signals and changing preferences, as well as the availability of raw materials and price increases	• Cutting funded emissions and domestic direct emissions and committing to net zero emissions targets by 2050 • Active ownership • Strategic selection of investees • Investees' geographical location, materials used and insurance policies • Periodic assessment and monitoring of risks • Careful due diligence assessments and reports • Careful selection of and high criteria for partnerships and investees • Timely preparation for regulatory changes and securing preparedness resources • Geographical and technological diversification • Contractual preparation for exceptional risks, such as time buffers in construction projects, division of responsibility, financial buffers

Environmental sustainability risks relate to environmental degradation and to natural disasters and phenomena. 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 is reflected in the financial profitability of investments.

Sustainability risks related to society refer to the direct or indirect economic impacts of stakeholder activities or social phenomena on Taaleri's operations. Our key stakeholders include personnel, clients, subcontractors, local communities, non-governmental organisations, governing bodies, regulators and the media.

Climate-related sustainability risks can be physical or transitional. Physical risks include the common impacts of climate change as extreme weather events become more frequent and the climate gradually changes. Transition risks are risks that arise in the transition towards a lower-carbon and environmentally sustainable economy. Transition risks can be related to, for example, climate or environmental policy decisions, technological developments, or changes in market confidence and demand patterns. Climate risks were 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.).

Sustainability risks are managed through compliance with international environmental and social standards, norms and regulations, as described in Taaleri's Code of Conduct and Sustainability Policy. Other ways in which investment sustainability risks are managed:

- integrating sustainability as a key part of the company's strategy, risk management, agreements and management of portfolios, projects and partnerships;
- continuous monitoring of regulation and stakeholder expectations;
- maintaining and updating appropriate procedures, policies and processes at the fund, alternative fund manager and Group level;
- carrying out comprehensive ESG due diligence of environmental, social and governance aspects of new investment products and investee companies and monitoring and auditing performance;
- various quantitative and qualitative analyses;
- maintaining appropriate tools, information and processes on the sustainability impacts of the investees and collecting data to report on them; and
- assessing sustainability risks as part of the Group's and businesses' annual risk assessments.

Figures 2 and 3 depict Taaleri's sustainability risk management process at the top level and the key measures related to sustainability risk management.

Sustainability risk management is integrated into all of the Group's operations, and risks are assessed throughout the operations' life-cycle. Sustainability risk management starts with identifying and measuring sustainability risks as part of existing functions and services and new fund products. The main means of assessing sustainability risks are different analyses and surveys of investments before making an investment decision, monitoring and tracking of investments, training, drafting of guidelines, active ownership and engagement of our investees, clients, stakeholders and partners.

Risks are assessed and measured on the basis of the likelihood of their realisation, the magnitude of their economic impact and their reparability. The likelihood and severity of sustainability risks are assessed on a five-point scale and on the basis of these interactions. The interaction produces a classification which determines the sustainability risks in the categories.

In the management and administration phase, risks are monitored, data is collected and functions are audited. Where necessary, we develop adaptation plans to mitigate, eliminate or remedy risks. Reporting on sustainability risks is an essential part of transparent stakeholder communication. Reporting takes into account the requirements of regulation and our clients, as well as reports made through various whistleblowing and complaint channels. Reporting is an essential part of transparency, and we are constantly working to improve reporting on the sustainability factors and sustainability risks of investments. Business-specific sustainability risk management and monitoring tools and reporting practices are described in more detail in Taaleri's business-specific communications.

Sustainability risks and related opportunities for positive impact are identified in the Taaleri Group's and the businesses' annual risk analysis and as part of the businesses' daily risk management and sustainability work. Each employee is responsible, through his or her own actions and work, for compliance with the guidelines and policies that have been established. Employee rewards consider the extent to which the individual's performance has met or complied with established policies and guidelines on sustainability principles and risks, as well as specific sustainability goals.

Sustainability as part of business strategy

- Sustainability risks and positive impact 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 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 PAIs

Figure 2. 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 (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:

- Sustainability risk reporting and monitoring as part of quarterly and investor reporting
- Reporting of complaints, errors and development proposals
- 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 3. Sustainability risk management measures

The Group's ESG Team is responsible for identifying and documenting the Group's significant sustainability risks, drafting and updating policies and guidelines, and providing sustainability risks support function for the businesses. The Group's ESG Team is responsible for communicating and providing training on the sustainability risk situations and processes, monitoring the EU's sustainability disclosure obligations and measuring the Group's performance. The Group's Risk Manager, the ESG Team and any other the persons responsible for the risk management of the businesses are responsible for monitoring and controlling sustainability risks and for preparing adaptation plans for said risks. In addition, the Group's ESG Team reports on the Group's sustainability risks. Compliance with the reporting requirements is the responsibility of the Group General Counsel.

The Group's Executive Management Team is responsible for integrating sustainability risks into the Group's strategy and objectives. The Executive Management Team and the legal and risk departments ensure the implementation of risk functions and processes and sufficient resources. In addition, the Group's Executive Management Team is responsible for, for example, compliance with Taaleri's Code of Conduct.

Each business also has designated individuals who are involved in the development of the Group and the business from a responsibility and sustainability perspective. The designated persons meet regularly in a working group (ESG Committee), which reports on progress and development proposals to the Executive Management Team.

The funds' investment committees, portfolio managers, analysts and the risk management function of alternative investment fund managers are responsible for assessing and managing the sustainability risks of investments. The transaction teams of businesses 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 on the basis of 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 on the sustainability risks of the funds as part of the fund reporting.

Business managers are responsible for the implementation of operations and processes. Taaleri's ESG Team supports businesses with sustainability risks and the implementation of their assessment processes.

We constantly update our understanding of the sustainability risks associated with our operations and develop our sustainability risk analysis. In addition, we monitor the EU regulation of 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 and risk management.

3. Principal adverse impacts on sustainability factors and their management

Table 2. Taaleri's sustainability PAIs and related key measures.

Principal adverse sustainability impacts	Measures
• Potential sustainability damage to investees • Sustainability impacts of the value chain and activities in high-risk countries (such as human rights) • Climate emissions • Use of natural resources and impacts on biodiversity • Difficult-to-recycle waste (such as fibreglass) • Climate and environmental emissions during the construction phase of financed projects and on-site recycling of waste • Building materials • Equality and diversity of employees and industry • Data security • Communications (inadequacy of data on sustainability impacts)	• Comprehensive due diligence investigations, regular audits and active ownership, including incorporation of due diligence observations in investees' shareholder agreements and/or investee planning in a manner that reduces impacts • Discretionary nature of projects in high-risk countries and knowledge and control of the value chain • Measurement and systematic reduction emissions and environmental impacts • Promoting recyclability, material choices and waste management • Commitment of partners to Taaleri's environmental targets and emission reduction initiatives • Strategic materials choices • Equality and non-discrimination initiatives and objectives and their monitoring • Staff training and information

Taaleri's environmental PAIs are due mainly to the energy we use and the commuting of our employees as well as the resources used and the waste and emissions generated by our value chain. Taaleri's financial products use resources or cause adverse environmental impacts mainly through greenhouse gas emissions, waste and the use of natural resources. Most of the greenhouse gas emissions from the financial products are caused during the construction phase of investments, such as wind farms or real estate. Greenhouse gas emissions from the Bioindustry fund's investments are caused by energy, electricity and/or fuels used in production. Waste is generated during the construction, use and operation phases, during production and the final phase of the life-cycle of investments. Natural resources are utilised in building materials and in bioindustry production. The PAIs on human and labour rights stem from the financial sector's gender balance and vulnerability to cyberattacks, the heavy workload, the Group's investments in high-risk countries and the difficulty of monitoring and controlling long value chains.

The PAIs have been assessed using third-party models (Upright), surveys conducted by the Group and data from subcontractors and investee companies. Sustainability PAIs have been determined through due diligence and materiality analysis. The analysis identifies the key sustainability impacts of the invested sector and financial product investments during their life-cycle by utilising key sustainability frameworks. On the basis of the analysis, PAIs are identified and an action plan to mitigate the impacts is established. The analysis takes into account the likelihood, impact, severity and reparability of the impacts. The due diligence assessment draws on the OECD's and the UN's principles concerning the companies' due diligence process (UN Guiding Principles), as part of which both the environmental impact and the impact on human rights and society are assessed. On the basis of these reviews, the PAIs are identified and a plan of measures to mitigate the impacts is established. A more detailed description of the due diligence process is given in Taaleri's Sustainability Policy.

Taaleri reduces its climate PAIs by reducing CO_2 emissions in its value chains in accordance with the Paris Agreement in line with our Net Zero Asset Managers (NZAM) commitment. In addition, Taaleri's alternative fund managers strive to reduce adverse sustainability impacts by focusing our investment activities on renewable energy, circular economy and bioeconomy projects that replace conventional fossil-based industrial manufacturing and the use of virgin raw materials. We also investigate how to improve the recyclability and efficiency of the raw materials used, the construction projects and the waste produced by wind and solar farms.

In addition, PAIs are prevented and reduced through staff training and guidelines and by monitoring their implementation. We continuously invest in the realisation of wellbeing, equality and non-discrimination in our working environment. We also strive to improve our understanding of the value chain and to increase the number of audits to ensure appropriate treatment of people and working conditions. Taaleri continues to develop the measurement of its adverse environmental impacts in order to increase understanding of financed emissions and the sustainability impacts of the value chain and to reduce the PAIs. The AIFMs are committed to not only reducing their adverse impacts, but also promoting sustainability factors. Sustainability factors are considered throughout the value chain of investments.

The PAIs are described in more detail in accordance with the SFDR in our AIFMs' and SFDR Article 9 and 8 funds' Statements on principal adverse impacts of investment decisions on sustainability factors.