Sustainability Risk Policy

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TAALERI

Public

Stakeholders

Basic information of the document

Purpose	To describe Taaleri Plc's ("Taaleri") view on different sustainability risks, how they are considered in different businesses and what risk management tools are applied to sustainability risks
Update frequency	According to need (reviewed at least annually)
Approved by and date (original date)	Taaleri Plc's Board of Directors 10 March 2021
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Responsible organisation	Taaleri Plc
Contact person	Karoliina Laine and Siri Markula
Regulation upon which the instruction is based	EU Sustainability-related disclosures in financial services (SFDR) (2019/2088)

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

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Sustainability Risk Policy

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.

Together with our clients and partners, we strive to promote effective investment activities by implementing financially profitable projects with a positive impact on the environment and stakeholders. We want to be the frontrunners in sustainable investing and impact investing. Impact investing refers to investing that, in addition to good financial returns, actively promotes solutions to key sustainability and responsibility issues. We implement impact in practice by offering our clients innovative investment options that promote, for example, climate change adaptation and mitigation, the circular economy, and sustainable development. We consider sustainability risks, sustainability factors, and principal adverse sustainability impacts as part of our operations.

Sustainability risk means an event or circumstance relating to the environment, society, or governance, the occurrence of which might have an actual or potential negative material impact on the value of the Group or the investment products it offers.

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

Principal adverse sustainability impacts are negative impacts on sustainability factors caused by our operations and investment decisions. Taaleri's principal adverse impacts and impacts on sustainability factors are described in the Group's Sustainability Policy and in the AIFM Statement on the Principal Adverse Impacts of Investment Decisions on Sustainability Factors. The principal adverse sustainability impacts are actively considered in the fund products in accordance with Articles 8 and 9 of the SFDR (EU/2019/2088).

Our strategy and measures for sustainable investing are described in the Group Sustainability Policy. Taaleri's Code of Conduct and sustainability principles guide Taaleri and all its businesses. Taaleri's businesses work responsibly and comply with good governance practices and the principles of sustainable investing in all their operations. The implementation of responsibility and sustainability is supported by business-specific policies and guidelines.

The policies and documents mentioned in this section are available at www.taaleri.com/en/corporate-responsibility/document-archive.

Sustainability risks

Sustainability risk means an event or circumstance relating to the environment, society or governance, the occurrence of which may have an actual or potential negative material impact on the value of the Taaleri Group ('Group') or the investment products it offers. Sustainability risks can realise in the short, medium or long term and are assessed throughout the investment cycle and the value chain.

In its own operations, Taaleri strives to minimise the negative impacts of sustainability risks on the Group, its stakeholders and the surrounding society. We examine the market environment from the risk perspective, but especially from the perspective of opportunities. We make our investment decisions based on economic factors, impact potential, sustainability risk assessment, and sustainability assessment (due diligence). Our goal is to offer investment products that aim to promote sustainability and effectiveness, minimise the negative impacts of sustainability risks and principal adverse sustainability impacts, which means 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 the principal adverse sustainability impacts and sustainability risks. 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 Management diversity Remuneration and incentives for managers Monitoring and control of sustainability risks and impacts Compliance

Figure 1. Sustainability factors

The table below presents the possible principal adverse sustainability impacts, sustainability- and climate risks, as well as measures aimed at preventing, mitigating, or remedying these impacts and risks.

Table 1. Principal adverse impacts and sustainability and climate risks of Taaleri

Principal Adverse Sustainability Impacts	Mitigative measures:
• Potential sustainability damage of investees • Sustainability impacts of the value chain and activities in high-risk countries (e.g. human rights) • Climate emissions • Use of natural resources and impacts on biodiversity • Difficult-to-recycle waste (e.g. glass fiber) • Climate and environmental emissions during the construction phase of financed projects and on-site recycling of waste • Building materials • Equality and diversity of workers and industry • Data security • Communication (inadequacy of data on sustainability impacts)	• Comprehensive due diligence investigations, regular audits, and active ownership, including the 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 of 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
Sustainability risks	**Measures:**
• Natural disasters caused by biodiversity loss, scarcity of inputs, and rising prices • Depletion and scarcity of natural resources • Erosion of biodiversity • Rapid development and tightening of regulation, which may make it more difficult to find investments in line with the strategy • Increase in efficiency requirements and other requirements, as well as preventive and corrective measures to reduce emissions and avoid damage • Changes in demand (increased risk of investment in controversial sectors and reputational damage) • Increased pandemics • Ageing of the population and increasing competition for labour • Global mass immigration/emigration • Geopolitical risks • Information security risks in the financial sector	• 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 risks	**Measures:**
Physical 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 a reduction in production Transition risks: • Costs of regulatory tightening, technological advances, market changes, and reputational damage	• Cutting funded emissions and absolute direct emissions and committing to net zero emissions targets by 2050 • Active ownership • Strategic selection of investment targets • Investees' geographical location, materials used, and insurances • Periodic assessment and monitoring of risks • Careful due diligence assessments and reports

• 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	• Careful selection of and high criteria for partnerships and investees • Timely preparation for regulatory changes and securing adequate resources for required work • Geographical and technological diversification • Contractual preparation for exceptional risks, such as time buffers in construction projects, division of responsibility, financial buffers

Principal adverse sustainability impacts

The principal adverse impacts of Taaleri on the environment 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 our 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 operational phases, during production, and the final stage of the life cycle of investments. Natural resources are utilised in building materials and in bioindustry production.

The principal adverse impacts 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.

Principal adverse impacts are assessed using modelled third-party data (Upright platform), surveys conducted by the Group, and data from subcontractors and investee companies. Principal adverse sustainability impacts have been determined through due diligence and materiality analysis. The analysis identifies the key sustainability impacts of the investment sector and investment targets during their life cycle by utilising key sustainability frameworks. On the basis of the analysis, principal sustainability impacts are identified and an action plan to mitigate the impacts is established.

The analysis takes into account the likelihood, impact, severity, and remendability of the impacts. The likelihood of the principal adverse sustainability impacts is assessed on a five-step scale: 1) rare, 2) unlikely, 3) possible, 4) likely and 5) almost certain. Similarly, the severity of the impacts is assessed on a five-step scale: 1) non-significant, 2) minor, 3) moderate, 4) large and 5) significant. The likelihood and severity of the impacts is also assessed on the basis of the interaction between the scores obtained by squaring the severity of the impact. The combined impact produces a classification that determines the principal adverse impacts in three categories: 1) low, 2) medium and 3) high.

The due diligence evaluation draws on the guiding principles on business and human rights of the OECD and the UN in the due diligence process to assess both the environmental impact and the impact on human rights and society. On the basis of these reviews, the principal sustainability impacts are identified and a plan of measures to mitigate the impacts is established. A more detailed description of the due diligence process is described in Taaleri's Sustainability Policy.

Taaleri reduces adverse impacts on the climate by reducing CO_2 emissions in our value chains in accordance with the Paris Agreement in line with our Net Zero Asset Managers initiative (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 traditional fossil-based industrial manufacturing and the use of virgin raw materials. In addition, we assess how to improve the circularity, recyclability, and efficiency of the raw materials used and the waste produced in our construction- and wind- and solar power projects.

In addition, principal adverse sustainability impacts 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 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 principal adverse impacts.

The alternative fund managers are committed not only to reducing their adverse impacts, but also to promoting sustainability factors. Sustainability factors are considered throughout the value chain of investments. The alternative fund managers and the fund products they offer contribute most positively to the following UN Sustainable Development Goals: "7 Affordable and clean energy", "9 Industry, innovation and infrastructure", "11 Sustainable cities and communities", "8 Decent work and economic growth" and "13 Climate action".

Sustainability risks related to the environment

The sustainability risks related to the environment listed in Table 1, relate to environmental degradation and natural disasters and -phenomena. For example, the erosion of biodiversity and depletion of water resources have far-reaching global impacts, which affect all economic activities for example through the scarcity and increase of prices of raw materials and potentially increased tension between countries' international relations. The increases in input prices and the availability of raw materials can affect planned schedules and the realization of our renewable energy and construction projects, as well as the production capacity of the target companies, all of which are reflected in the financial profitability of the investments made.

We look at the environment-related sustainability risks of our investments, but also at the financial opportunities promoting positive impacts, for example through the six environmental objectives of the EU's Sustainable Finance Disclosure Regulation: climate change mitigation, climate change adaptation, the protection of water and marine resources, promotion of a circular economy, pollution prevention and control, and the protection of biodiversity and ecosystems. The identification and consideration of sustainability risks as part of investment decisions is described in the section *Sustainability risk management, monitoring, and reporting*.

Sustainability risks related to society

Sustainability risks related to society mean the direct or indirect 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. Examples of such risks include:

- changes in demand and investor preferences that may affect our reputation and the demand for our fund products;
- unexpected tightening of regulations and requirements;
- the increase and spread of pandemics, with implications, for example on the availability of labour and well-being of employees;
- geopolitical risks and population aging; and
- increasing competition for labour.

Climate-related sustainability risks

Climate-related sustainability risks can be physical or transitional. Physical risks are the common impacts of climate change as extreme weather events become more frequent and the climate gradually changes. Transition risks are the 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 IPCC's forward-looking climate scenarios (RCP 4.5.–8.5.). Table 1 lists the most likely and most serious risks for Taaleri's operations.

Sustainability risk management, monitoring, and reporting

Sustainability risks are managed by assuring compliance with international environmental and social standards, norms, and regulations. We are committed to following the laws, statutes, and official regulations of all countries where we carry out our business. Compliance with laws and responsible and ethical conduct are among the cornerstones of our business. In addition to local laws and regulations, we are committed to observing internationally recognised human rights, as defined in UN Universal Declaration of Human Rights and the core conventions of the International Labour Organisation (ILO). We also comply with other minimum safeguards under the EU's Sustainable Finance Disclosure Regulation.

In addition to international and national standards and norms, investments' sustainability risks are managed by:

- 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-, AIFM-, and Group level;
- carrying out comprehensive ESG due diligence assessments taking into account 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;
- assessing sustainability risks as part of the Group and business segments' annual risk assessments.

Figures 2 and 3 describe 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 investees before the investment decision, monitoring, and tracking of investees operations, 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 impact and remendability. The likelihood of sustainability risks is assessed on a five-step scale: 1) rare, 2) unlikely, 3) possible, 4) likely and 5) almost certain. Similarly, the severity of the risks is assessed on a five-step scale: 1) incidental, 2) minor, 3) moderate, 4) major and 5) extreme. The likelihood and severity of the sustainability risks is also assessed on the basis of the interaction between the scores obtained by squaring the severity of the impact. The combined impact produces a classification that determines the sustainability risks in three categories: 1) low, 2) medium and 3) high.

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 grievance 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 the sustainability and sustainability risk policies of Taaleri's businesses.

Sustainability risks and related opportunities for positive impact are identified in the Taaleri Group's and the business segment's annual risk mapping 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 risk management

Sustainability as part of business strategy

- Sustainability risks and positive impact are an essential part of funds' strategy

Integrated sustainability risk management

- Sustainability risks considered as part of all of the Group's and business segments' 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 good governance practices 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 principal adverse impacts

Figure 2. Sustainability risk management process

1. Planning:

- Identification and documentation of material sustainability risks
- Data collection, measuring sustainability risks and committing to sustainability targets and goals
- 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- and market environment and processes throughout the value chain
- Collection and monitoring of data and information (PAI indicators)
- Measuring performance against set targets
- Monitoring the implementation of operations and processes, available resources and spent costs
- Monitoring reporting requirements

3. Corporate governance:

- Integration of sustainability risks into other policies, processes and risk assessments
- Sustainability due diligence reviews, 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 Sustainability Team is responsible for identifying and documenting the Group's significant sustainability risks, drafting, and updating policies and guidelines, and providing support functions for the monitoring of sustainability risks of the business segments. The Group's Sustainability Team is responsible for the communication and training in regard to sustainability risks and related processes, monitoring the EU sustainable finance reporting obligations (SFDR 2019/2088), and measuring the Group's performance. The Group Risk Officer and the Sustainability Team as well as the persons responsible for the risk management of the businesses are responsible for monitoring and controlling sustainability risks and preparing adaptation plans for said risks. In addition, the Group's Sustainability Team reports on the Group's sustainability risks. Compliance with the reporting requirements is the responsibility of the Group's General Counsel.

The Group's Executive Management Team is responsible for integrating sustainability risks into the development of the Group's strategy and objectives. The Executive Management Team and the legal and risk departments ensure the implementation of risk functions, processes, and sufficient resources. In addition, the Group's Executive Management Team is responsible for 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 segments from a responsibility and sustainability perspective. The designated persons meet regularly in a working group, 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 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 assessments. 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. The Group Risk Officer is responsible for assuring available resources and for monitoring costs. Taaleri's Sustainability Team supports businesses with sustainability risks and implementing their assessment processes.

We are continuously developing our processes and understanding of the sustainability risks associated with our operations. In addition, we monitor the EU's sustainable finance regulation (e.g. Regulations 2019/2088; 2020/852), 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.