

sg capital

Integration of sustainability risks into investment decisions

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SG Capital Partners AIFP SIA

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The Alternative Investment Fund Manager SG Capital Partners AIFP Ltd (hereinafter – SG Capital or the Company), an alternative investment fund manager, manages **SG Capital Partners Sustainable Forest and Land Fund I, KS** (hereinafter – the Fund), which invests in real estate comprising forest land.

In this announcement, SG Capital provides information on integrating of sustainability risks into the Fund's investment decisions in compliance with Article 6 of the Sustainable Financial Disclosures Regulation (SFDR) requirements.

Sustainability risks and their management

SG Capital defines *sustainability risks* as environmental, social or governance events or conditions that, if they occur or are triggered, could have an actual or potential material adverse effect on the value of an investment, in this case, the value of the real estate assets managed by the Fund, which include forest land.

Sustainability risks can arise if a company's or its assets' sustainability impacts are not properly managed. Therefore, SG Capital's interest is to ensure that the sustainability impacts of the Fund's activities and investments are identified and avoided or minimised and controlled.

SG Capital assesses environmental, social and corporate governance or sustainability factors to identify potential material topics of impact.

In collaboration with key internal and external stakeholders, SG Capital then identifies the material topics of impact, the resulting sustainability risks inherent in the Fund's activities, and their potential impact on expected investment returns. This identifies the material topics of impacts and sustainability risks that must be addressed, managed, or mitigated.

For forest real estate activities/investments, the following material topics of impact and associated sustainability risks have been identified:

Material topic	Sustainability risk
1 Climate change adaptation and mitigation	<p>Contribution to climate change due to emissions occurring in forest management, deforestation and other economic activities.</p> <hr/> <p>Intensive forest management/cutting can reduce potential for carbon removals and storage</p>

Material topic	Sustainability risk
	(due to forest growth and soil ecosystem processes) and the potential to combat climate change and biodiversity loss.
2 Forests resilience to hazards	Potential forest fires, droughts, floods, pests and diseases can cause major damage to economy, ecosystems and surrounding communities.
3 Sustainable forest management	<p>Forest management activities can lead to biodiversity loss, deforestation, damage to threatened species or habitats, or limit the potential for ecosystem services.</p> <p>Disruption of hydrological conditions due to maintenance of forest affecting ecosystems.</p> <p>Damage to forest surface and soil by forestry machinery.</p> <p>Loss of organic matter and soil fertility.</p> <p>Land and water pollution due to machinery fuels in the forests.</p> <p>Pollution due to industrial processes to process timber products.</p> <p>Chemical control of forest disease and pest outbreaks can pollute the environment and affect ecosystems and human health.</p> <p>Failure to comply with the law harms local communities and biodiversity.</p> <p>Silviculture: tree species composition can result in lower durability of timber products and increase demand for new products.</p>
4 Supply chain management	<p>Contribution to climate change from upstream and downstream emissions.</p> <p>Violations of workers' rights in the company (e.g. freedom of association or collective bargaining, minimum wage, etc.)</p>

Material topic	Sustainability risk
5 Community	Forest cutting can lead to landscape changes that cause frustration and discomfort for local communities.
6 Health and safety	Unsafe working environment, especially for workers involved in forest management, can lead to injuries and long-term health consequences.

The management of the above sustainability risks is further integrated into the Fund's Sustainability Strategy and Objectives. Regular monitoring of the strategy's objectives allows for minimising the impact and thus mitigating and managing the material risks.

Managing these risks is essential as they affect the value of investments. Successful risk management activities ensure compliance with the FSC¹ certification requirements, which provide a framework for sustainable forest management and the supply of forest products compliant with the market requirements and legislation. Failure to do so may risk the loss of FSC certification and, in line with European Union-level regulation, may result in no right to market forest products. By managing these risks positively, it is possible to increase the value of the investment and continue to develop successfully in the market, demonstrating the Fund's reputation as a responsible forest manager.

The Fund's Sustainability Committee monitors the implementation and delivery of the Fund's Sustainability Strategy and the achievement of the Sustainability Objectives.

The person responsible for implementing the actions required to manage the Fund's sustainability processes shall report regularly to the Fund's Sustainability Committee and to the SG Capital Board on the progress made towards achieving the sustainability objectives and the actions implemented and to be

¹ Forest Stewardship Council® - a forest management certification body certifying that a forest is managed to conserve biodiversity and benefit local people and workers while ensuring it remains economically viable. Read more: <https://fsc.org/en>

Latvia shall comply with the "FSC Interim National Forest Stewardship Standard for Latvia (FSC-STD-LVA-01-2023)" criteria.

An independent auditor audits compliance annually.

implemented. In this way, the Company monitors and controls the implementation of sustainability processes in the Fund.

The Fund's Investment Committee also considers sustainability risks and related issues when making investment decisions in the Fund and subsequently when monitoring the investment portfolio.

Integrating sustainability risks into investment decision-making

When investing in the Fund, sustainability risks are assessed in 2 steps:

1. during the pre-acquisition due diligence and decision-making process (see Figure 1);
2. post-investment, by regularly monitoring the performance of the Fund's investment portfolio and its sustainability impacts, taking appropriate decisions to adjust course of action where necessary if the performance and impact of investments made are not in line with SG Capital's and the Fund's objectives.

In the process of assessing potential investments and monitoring the investments made, SG Capital ensures that the principle of "do no significant harm" is respected, which includes compliance with minimum safeguards as set out in Article 18 of the EU Taxonomy Regulation (Regulation (EU) 2020/852), consideration and management of principal adverse impacts as set out in the SFDR (Regulation (EU) 2019/2088), and ensuring that investments are not made in contentious sectors or activities that are more likely to generate negative impacts on sustainability.

Figure 1. Investment due diligence steps

Investment strategy	Sustainability impact	Compliance assessment	Sustainability risk assessment	Decision making
<ul style="list-style-type: none"> • Alignment with the Sustainability Strategy and its objectives • Compliance with the "Do No Significant Harm" principle • Compliance with the List of Exclusions 	<ul style="list-style-type: none"> • Assessment of the actual and potential sustainability impacts of investments, taking into account the areas of significant impacts and the "do no significant harm" principle 	<ul style="list-style-type: none"> • Compliance with internal and external laws and regulations, international best practice standards 	<ul style="list-style-type: none"> • Assessing the impact of sustainability risks on the value of investments 	<ul style="list-style-type: none"> • Result of the pre-acquisition due diligence • Compliance with the "Do No Significant Harm" principle

The person responsible for the acquisition transaction shall prepare the due diligence information in accordance with the due diligence steps set out in Figure 1 and submit it to the Investment Committee for an investment decision.

After receiving the due diligence information on the investment from the responsible person, the Investment Committee shall decide on the investment, considering the following:

- The Company's strategy and objectives,
- The Fund's Investment Strategy,
- Sustainability strategy,
- the sustainability impact of the investment and a plan to avoid or mitigate it,
- the impact of sustainability risk on the value of the investment,
- the principle of "do no significant harm".

After investments are made, the Funds' Sustainability and Investment Committees monitor the performance and sustainability impact of investments within their respective areas of responsibility.

Version history of the document

Version No.	Date	Type	Content of changes
1.0	25.11.2024.	Original version	The original version was published.