

sg capital

Disclosure of information on financial products that have sustainable investments as the objective

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SG Capital Partners AIFP SIA

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This document provides information on SG Capital Partners AIFP Ltd ("SG Capital" or the "Company") managed closed-end alternative investment fund **SG Capital Partners Sustainable Forest and Land Fund I, KS** and its sustainable investment objective.

Disclosure of this information is mandatory under Article 10 of the SFDR¹ or the Sustainable Financial Disclosures Regulation and must be published on the website.

Summary

SG Capital Partners Sustainable Forest and Land Fund I, KS (the "Fund") has a sustainable investment or environmental objective of mitigating climate change. The Fund pursues this objective through the acquisition and sustainable management of non-certified forest land.

The Fund invests following the Fund's Investment and Sustainability Strategies and ensures that the forest land it acquires is managed by the FSC²® principles.

The Fund's investment strategy is to acquire mainly forest land in Latvia, with a small part of the portfolio also allocated to agricultural land. The Fund focuses on building a diversified investment portfolio by species, age structures and regions, focusing on maximising the value of the portfolio's investments over the Fund's life cycle.

The impact and sustainability risks of sustainability or ESG factors are assessed before investments are purchased. SG Capital and the Fund shall consider the principal adverse impacts of their investment decisions on sustainability factors and publish a respective statement.

The Fund assesses the performance of the sustainable investment objective by evaluating the achievement of the indicators set out in the Fund's Sustainability Strategy, as well as indicators of the principal adverse impacts of investment

¹ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector.

² 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.

decisions. The Fund shall try its best to ascertain the quality, reliability and accuracy of the data required to calculate the indicators.

SG Capital has implemented good governance and negative impact management practices not only in the Fund and its subsidiary but also by requiring its business partners to ensure them.

No significant harm to the sustainable investment objective

To ensure that the Fund's sustainable investments do not materially harm any of the sustainable investment objectives, the Fund considers the principal adverse impacts on sustainability factors, and SG Capital publishes a statement to this effect on its website <https://www.sgcapiital.lv/sustainability>.

In assessing the materiality of the impact of the Fund's activities, the Fund identifies, monitors and reports annually on the following main adverse impacts:

- GHG³ emissions;
- Exposure to natural hazards;
- Exposure to climate risks;
- Sustainable forest management practices;
- Health and safety;
- Human rights and labour rights violations in the supply chain;
- Forest cover in protected areas.

The Company monitors the impact of the Fund's investment activities on the environment, its resilience to climate risks, biodiversity, human rights, labour rights, and occupational safety by assessing the extent of adverse impacts annually.

SG Capital has also developed and implemented several internal regulatory documents governing the management of principal adverse impacts, which apply to both the Company and the Fund, as follows:

- Engagement policy;

³ GHG - greenhouse gases

- Sustainability Risk management policy;
- ESG Due diligence policy;
- Human Rights and Labour policy;
- Environmental policy;
- Whistleblowing procedure.

The Human Rights and Labour policy obliges the Company and the Fund to comply with international standards of good practice on human rights and labour rights:

- OECD Guidelines for Multinational Enterprises;
- UN Guiding Principles on Business and Human Rights;
- International Labour Organisation Declaration on Fundamental Principles and Rights at Work;
- Universal Declaration of Human Rights.

Sustainable investments and the subsequent management of these investments are aligned with the above international standards, including, inter alia, the obligation to do so for the business partners of the subsidiary or SPV through which the Fund invests. This is implemented by signing a Code of Conduct by the business partner, which will allow the Fund to monitor compliance with the requirements of the Code of Conduct and report on breaches in annual sustainability reports.

Sustainable investment objective of the financial product

The Fund's sustainable investment or environmental objective is to mitigate climate change by ensuring that the forest land acquired by the Fund is managed sustainably by:

- the FSC principles,
- the Fund's Sustainability Strategy,

thus boosting carbon sequestration while supporting biodiversity conservation and rural development.

In 2024, the Fund intends to implement the EU taxonomy requirements for forest management and to ensure compliance with the technical criteria set, thus

implementing forest management that contributes to the environmental objective of mitigating climate change.

While the Fund is implementing compliance with the EU taxonomy, the sustainability of the investments is ensured through investments following the requirements of Article 2(17) of Regulation (EU) 2019/2088:

- Ensuring that investments contribute to achieving the sustainable investment goal.
- Putting in place processes that ensure the principles of non-material harm.
- Implement good governance practices to ensure compliance with minimum standards.

Investment strategy

The Fund acquires uncertified forest land in Latvia; however, it is considering expanding into the Estonian and Lithuanian markets depending on investment opportunities, expected returns, and risks. Part of the portfolio will also be invested in agricultural land, as most forest properties include some agricultural land. The share of agricultural land in the portfolio is expected to be at most 30% of the total investment in the portfolio.

The Fund focuses on building an investment portfolio diversified by species, age structures and regions, focusing on maximising the value of the portfolio's investments over the Fund's life cycle.

The Fund considers all tree species that are characteristic of the region. A typical portfolio would be dominated by spruce, pine, birch, aspen, alder and white alder. Regarding age structure, relatively more attention will be paid to less mature forests, which offer a higher growth rate. The Fund will build and consolidate the forest portfolio from smaller units, thus benefiting from a larger scale at the point of exit.

Acquired forests will be managed following the requirements of the legislation of the Republic of Latvia and the FSC certification requirements to implement sustainable forest management and maximise the forest value.

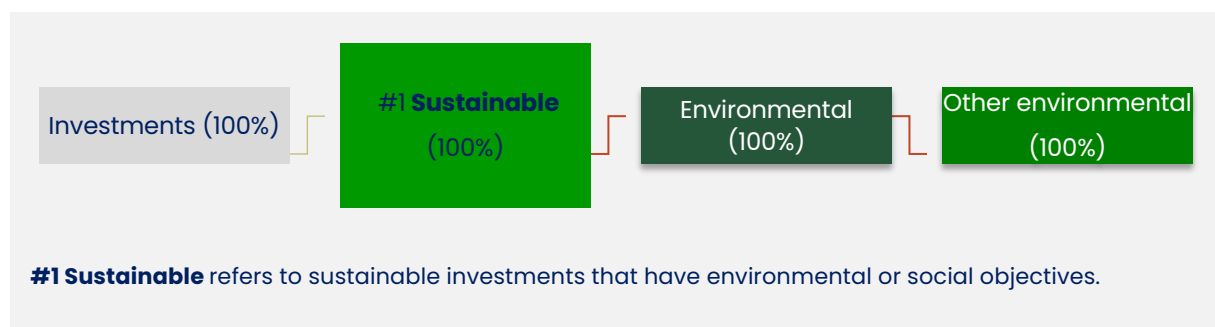
The Fund invests through SG Capital Meža fonds SIA (reg. No 40203395757), a 100% owned special purpose vehicle (SPV), to acquire forest, agricultural and other land properties.

SG Capital is directly involved in the management of the SPV through the Company's representatives on the SPV's Board, thereby providing oversight of the SPV as set out in SG Capital's Engagement Policy, including monitoring the quality of the SPV's governance practices, including concerning the SPV's management and employee remuneration principles, and the SPV's financial and non-financial performance and performance.

Proportion of investments

The Fund has not set a specific target but expects at least 90% of its investments to be sustainable.

In the initial period of operation (until 2025), these will all be sustainable investments in economic activities that are not considered environmentally sustainable, according to the EU taxonomy. These will be mainly investments for the acquisition of forest, agricultural and other land for further sustainable management in line with the Fund's Sustainability Strategy and FSC certification requirements.



Monitoring of sustainable investment objective

SG Capital has developed a Sustainability Strategy for the Fund, which defines the Fund's sustainability goals and key performance indicators. The SG Capital Board and the Fund's Sustainability Committee regularly monitor the Fund's progress in meeting the sustainability indicators. SG Capital discloses this information in its periodic reports as the SFDR requires.

In line with the Fund's Sustainability Strategy, the following indicators are used to assess the degree of achievement of the Sustainable Investment Objective:

- Amount of carbon sequestered;

- GHG emissions;
- Area of marginal land owned by the Fund[1]afforested area (measured as a percentage);
- Amount of FSC-certified forest land acquired by the Fund (measured by percentage);
- The proportion of protected areas that are free from commercial forest management and conserve biodiversity in the total forest land portfolio;
- Financial losses due to incidents caused by natural hazards in forest assets;
- The proportion of strategic partners who have signed the Code of Conduct;
- Compliance with the EU taxonomy;
- Cooperation with local communities (agreements on hunting leases and agricultural land leases);
- Assessment of the principal adverse impacts.

In addition, the Fund is subject to an annual independent FSC audit, which verifies that forest management practices and other requirements meet the FSC certification requirements.

Methodologies

The Fund assesses annually the degree of achievement of the sustainable investment objective by evaluating the performance of the performance indicators defined in the Fund's Sustainability Strategy against the targets defined in the Strategy.

Data sources and processing

For the Fund to calculate/report the performance indicators for the sustainable investment objective, data is collected and compiled from the accounting system of the SPV and the Fund, SPV contract registers and documents, the Fund's consolidated annual report, while specific data on forest assets is obtained from public databases such as the State Forest Service and the LVM Geo system developed, maintained and developed by JSC "Latvijas valsts meži" and used for forest management and forest asset research.

The Fund's consolidated and SPV annual accounts are audited by one of the top 4 international audit firms. The Fund's consolidated report also includes the periodic report on the sustainable investment objective as required by the SFDR. The auditors also review this report, but no opinion is expressed.

A third-party expert with the appropriate qualifications and expertise calculates GHG emissions and carbon sequestration data.

Monitoring the network of protected areas of the Fund and, if necessary, updating of data shall be carried out by a third-party service provider. Any changes to the data relating to the properties in the Fund's portfolio shall be made only with the consent of the Fund.

Limitations to methodologies and data

The Fund's SPV ensures the implementation of the Fund's Sustainability Strategy through appropriate technical, legal and operational measures. Essentially, all data comes from databases and systems managed by the SPV. As SG Capital is directly involved in managing the SPV, there are no restrictions on data extraction. In addition, the Fund's Investment and Sustainability Committee monitors the performance of the Fund and the SPV every quarter, thereby regularly monitoring the performance of financial and non-financial indicators and the integrity of the data.

Third-party service providers perform certain calculations using the Fund or the SPV data. For GHG emissions and carbon sequestered calculations, third parties also provide access to the calculation models so that the Fund can verify and control the calculations made, the assumptions used, the methodology, etc. The Fund also actively communicates with third-party service providers on a daily basis to monitor performance and quality and identify problems in a timely manner.

The following limitations apply to the calculation of GHG emissions:

1) Scope 1 GHG emissions are partly from logging activities carried out by third-party service providers on behalf of the SPV. As each harvest is preceded by a harvest assessment that collects tree stock data, the SPV does not collect data from third parties on the actual tree stock harvested, and emissions from harvesting activities are calculated from tree stock data rather than biomass exported. However, as logging is not an objective of the Fund but is a forest management activity to, inter alia, meet the requirements of the law, and the

amount of logging is small at the start of the Fund, it is not planned to require the collection of biomass exported data at this stage.

2) The GHG Protocol Scope 3 assessment tool was used to calculate the Scope 3 GHG emissions for the first year of the Fund, 2022, but this tool was no longer available in 2024. A third-party expert had to be engaged to perform the calculations using similar methods and expenditure categories, but the different methodology makes the emissions data for 2022 and 2023 incomparable.

Until the Fund has implemented forest management in line with the EU taxonomy, within which the climate risk assessment will be carried out, it is not possible to determine how much of the Fund's forest portfolio could be significantly affected by climate risks. The Fund has identified this indicator as one of the most important indicators of adverse impacts. The Fund expects to carry out a Climate Risk Assessment in 2024, and the amount of the portfolio exposed to climate risk is expected to be available for reporting in 2025.

Due diligence

When acquiring Fund assets, ESG screening is carried out at the pre-acquisition stage, assessing the suitability of a particular investment for the Fund's Investment and Sustainability Strategy, including concerning the Exclusion List (activities that harm sustainability, including human rights abuses) and the Do No Significant Harm principle and minimum safeguard requirements.

If the assessment shows significant negative potential or actual impacts on sustainability, alternative investments are considered, or an avoidance and mitigation plan is developed.

All investment decisions, including considering ESG factors and sustainability risk assessment, are taken by the Fund's Investment Committee.

Engagement policy

SG Capital, through its ownership of the Fund in the SPV and its representation on the SPV Board, participates in investment decision-making and the mitigation, management and control of the principal adverse effects of investment decisions to maximise the investment value of the Fund's assets and achieve the objectives set out in the Funds' Investment and Sustainability Strategies.

SG Capital supervises the SPV following the principles set out in the Engagement Policy. This includes working with the Fund's and the SPV's management team, and other key stakeholders to properly manage sustainability issues.

If any deviations from the original plans or targets are detected in the performance of the SPV, or any risks are identified, including sustainability risks, SG Capital shall instruct the SPV to develop an action plan to address or mitigate the identified non-conformities or risks. If SG Capital is not satisfied with the SPV's proposed action plan, it shall respond to mitigate or manage the relevant risks, which may include withdrawing from the investment in question.

Attainment of the sustainable investment objective

There is no reference benchmark for the Fund's sustainable investment objective.

The Fund does not aim to reduce carbon dioxide emissions. The Fund contributes to carbon sequestration through sustainable forest management following FSC requirements. However, forest management activities also generate GHG emissions, which the Fund cannot altogether avoid, but the carbon sequestered by the forest portfolio fully compensates for this.

Version history of the document

Version No.	Date	Type	Content of changes
1.0	09.08.2024.	Original version	The Original version was published.