


sg capital

# Disclosure of information on financial products that promote environmental or social characteristics



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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 Fund I, KS** and how it contributes to environmental or social performance through its activities.

Disclosure of this information is mandatory under Article 10 of the SFDR<sup>1</sup> or the Sustainable Financial Disclosures Regulation and must be published on the website.

## Summary

SG Capital Partners Fund I, KS (the "Fund") is a commercial real estate fund that promotes environmental and social characteristics by investing in the sustainability of buildings. Although the Fund does not have a sustainable investment objective, part of its investments contributes to the environmental objective of mitigating climate change.

The Fund invests following the Fund's Investment and Sustainability Strategies.

The Fund's investment strategy focuses on acquiring existing commercial real estate, certifying it under the BREEAM In-Use Sustainability Certification Scheme and improving the level of certification by investing in the sustainability of the buildings and leasing out the space in these buildings.

The Fund's main sustainability objective is to reduce the carbon dioxide or CO<sub>2</sub> emissions associated with its portfolio of real estate assets. Achieving BREEAM certification is evidence of responsible environmental management and a standard against which the performance and sustainability of properties are measured.

The environmental and social characteristics promoted by the Fund are related to improving the sustainability and environmental accessibility of the real estate assets owned by the Fund – office and warehouse buildings, environmental improvement and social inclusion.

The Fund shall consider the principal adverse impacts of investment decisions on sustainability factors, ensure their management and report on the minimum climate and other climate and environment-related indicators. The impacts and risks of sustainability factors are assessed before investing.

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<sup>1</sup> 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.

The Fund assesses the performance of environmental and social characteristics by evaluating the performance of the indicators set out in the Fund's Sustainability Strategy, as well as indicators of the principal adverse impacts of investment 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 adverse impact management practices in the Fund and its subsidiaries and requires them to be ensured by business partners and clients.

## No sustainable investment objective

The Fund promotes environmental and social characteristics by investing in improving the sustainability of buildings, but it does not have a sustainable investment objective.

The sustainability of the buildings is improved by renovating the Fund's assets - office and warehouse buildings, installing energy-efficient equipment and lighting, improving the operation and energy efficiency of heating and ventilation systems, generating electricity from solar energy, installing charging stations for electric vehicles in the parking lots attached to the buildings, etc. The overall effect is to improve the energy efficiency of buildings, reduce GHG<sup>2</sup> emissions, increase the use of renewable energy and improve environmental accessibility.

Thus, part of the Fund's investments in improving the sustainability of buildings contribute to the environmental objective of mitigating climate change and are classified by the Fund as sustainable investments in accordance with the requirements of Article 2 (17) of the SFDR:

- Ensuring that investments contribute to achieving the sustainable investment goal.
- Putting in place processes that ensure the principles of doing no significant harm.
- implement good governance practices to ensure compliance with minimum standards.

To ensure that the Fund's sustainable investments do not significantly harm any of the sustainable investment objectives, the Fund shall consider the principal adverse impacts on sustainability factors and report on the minimum climate and other environmental performance indicators applicable to real estate investments

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<sup>2</sup> GHG - greenhouse gases

under Regulation (EU) 2022/1288 by publishing a statement on SG Capital's website <https://www.sgcapital.lv/sustainability>.

Accordingly, the minimum climate indicators are:

- link to fossil fuels through real estate assets;
- link to energy-efficient real estate assets.

Additional climate and environment-related indicators that have a negative impact on sustainability and are reported by the Fund include:

- GHG emissions (Scope 1, 2 and 3);
- energy intensity.

The Company annually monitors the impact of the Fund's investment activities on the environment by assessing the extent of adverse effects.

The Fund has carried out a flood risk assessment for its office building assets to assess the potential probability of flooding in the light of future climate projections and to plan its future asset management and mitigation activities accordingly.

To manage the Fund's principal adverse impacts, SG Capital has also developed and implemented several internal regulatory documents applicable to both the Company and the Fund, as follows:

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

The Human Rights and Labour policy requires 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 and stewardship of these investments are aligned with the above international standards, including, among other things, the obligation to do so for the business partners of the subsidiaries or SPVs through which the Fund invests. Consequently, the business partners shall sign a Code of Conduct that will allow the Fund to monitor compliance with the requirements of the Code of Conduct and report on breaches in annual sustainability reports.

## Environmental or social characteristics of the financial product

The environmental and social characteristics promoted by the Fund are related to improving the sustainability and environmental accessibility of the assets owned by the Fund - office and warehouse buildings, environmental improvement and social inclusion.

Improving the sustainability of buildings involves renovating and improving the energy efficiency of buildings to extend their lifetime, reduce energy consumption and GHG emissions from buildings, and introduce alternative energy sources to fossil fuels.

Improving the energy efficiency of the buildings also includes upgrading the heating and ventilation systems and utilities, replacing the hangars with more energy-efficient ones, and installing LED lighting. An essential element is modernising building management systems to allow comprehensive daily monitoring and control of energy consumption. In addition, solar energy generation equipment is installed in buildings or adjacent areas where technically feasible and economically viable.

In addition to improving the sustainability of buildings, the environment around them is also being improved, focusing on people and their well-being. This means improving environmental accessibility, making it easy for people with reduced mobility and families with children and creating outdoor recreational opportunities for employees and other visitors to the surrounding offices. Electric vehicle charging stations are being established in the areas adjacent to the buildings, creating an infrastructure supporting alternative transport means.

## Investment strategy

The Fund invests in line with its commercial real estate strategy<sup>3</sup>, i.e. the Fund's investment strategy focuses on acquiring existing office and retail buildings and logistics centres in or near Riga, certifying them under the BREEAM In-Use Sustainability Certification Scheme and improving the level of certification by investing in improving the sustainability of the buildings and also leasing space in these buildings. Achieving BREEAM certification serves as proof of responsible environmental management and as a standard against measuring properties' performance and sustainability.

Overall, the Fund's investment strategy is conservative, with the key to value creation being the successful acquisition of assets, their efficient management, the creation of added value (improving the sustainability of buildings) and the realisation of assets.

To better implement the Fund's sustainability activities and enhance its environmental and social performance, a Sustainability Strategy was developed for the Fund, setting out sustainability objectives and performance indicators. The Fund's main objective is to reduce the carbon footprint of its portfolio of real estate assets, but there are also other sustainability objectives. In general, the Fund pursues asset management and capital investments that contribute in an economically sound manner to the achievement of the objectives set out in the Fund's Sustainability Strategy.

SG Capital has implemented good governance and negative impact management practices in the Fund and its subsidiaries or SPVs. SG Capital, through its ownership interest in the Fund and its representation on the boards of SPVs, participates in investment decision-making, investment management and control 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 monitors SPVs following the principles set out in the Engagement Policy (see section "Engagement Policy").

The Fund's assets include an office building at 39 Brīvības Street in Riga, the Skanstes City office block at 50 Skanstes Street in Riga and the NORDO logistics complex in Dreiliņi.

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<sup>3</sup> In accordance with the classification of the investment strategy of alternative investment funds set out in Annex IV to Regulation 213/2013.

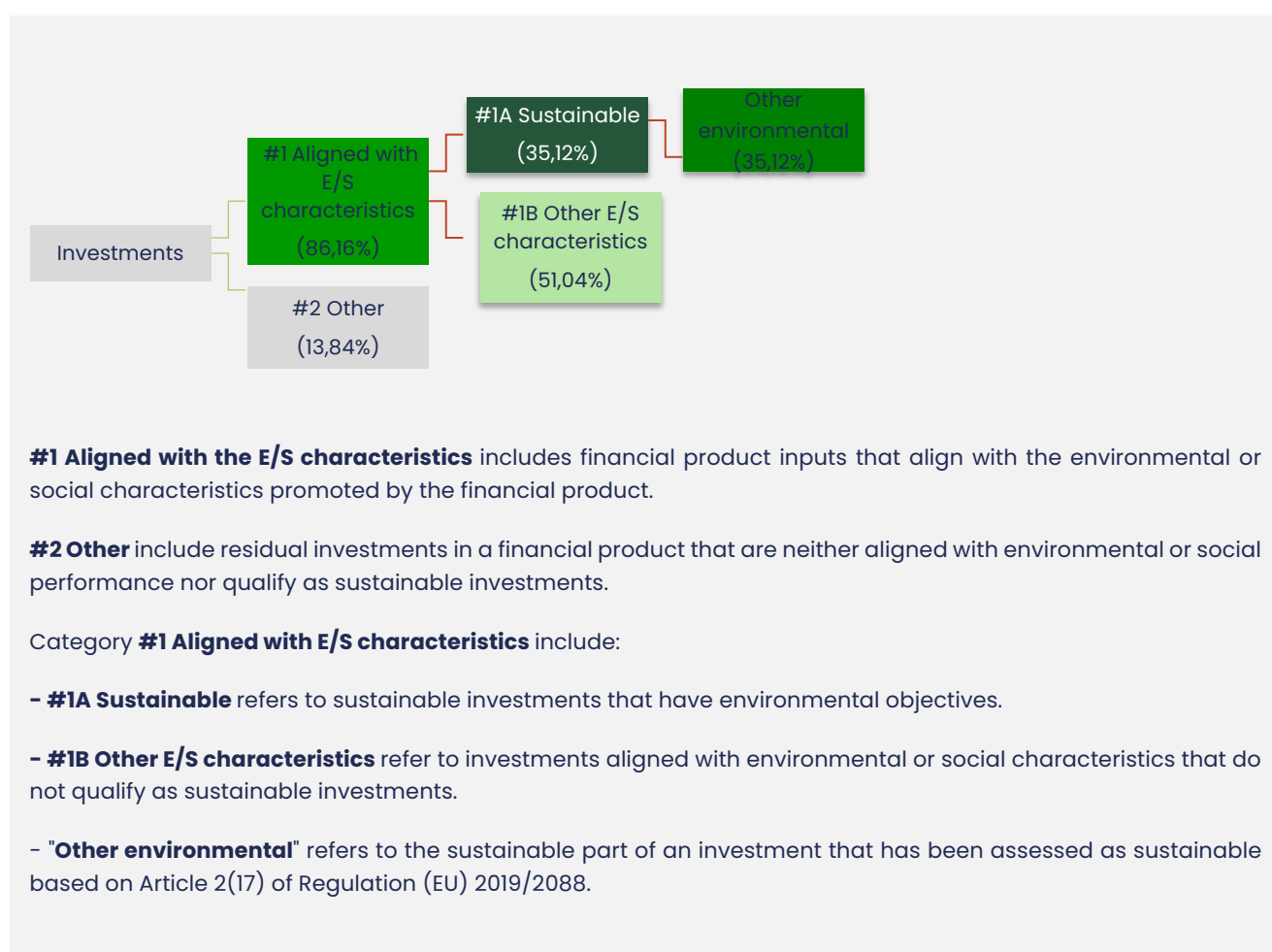
## Proportion of investments

The Fund's investments are primarily concerned with promoting environmental and social characteristics, resulting in improved sustainability of the assets managed by the Fund - office and warehouse buildings.

The Fund has made its investments through its wholly-owned subsidiaries or SPVs.

Although the Fund does not have a sustainable investment objective, some of its investments are classified as sustainable<sup>4</sup>, as they contribute to the environmental objective of mitigating climate change.

In 2023, the breakdown of investments was as follows:



<sup>4</sup> in accordance with the requirements of Article 2(17) of Regulation (EU) 2019/2088.

## Monitoring environmental or social characteristics

Monitoring environmental or social characteristics is based on the targets set out in the Fund's Sustainability Strategy, which measures the extent to which the Fund's sustainability objectives have been met. 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 monitored to assess the Fund's sustainability performance:

- Scope 1, 2 and 3 GHG emissions;
- Energy consumption of office and warehouse buildings;
- The share of electricity from renewable sources;
- Installed renewable energy generation capacity;
- Progress on the implementation of the Code of Conduct;
- Tenant satisfaction scores;
- The volume of green leases;
- BREEAM certification levels for office and warehouse buildings.

To effectively track and monitor the Fund's commitment to reducing the carbon footprint of its portfolio of real estate assets, SG Capital uses the CRREM (Carbon Risk Real Estate Monitor) tool<sup>5</sup>, which allows the calculation of Scope 1 and Scope 2 emissions of the Fund's assets as well as the monitoring of energy consumption. Using the capabilities of the CRREM tool, SG Capital can identify areas for improvement and implement targeted strategies to reduce its carbon footprint further.

The Fund also considers the principal adverse impacts on sustainability factors and, as described under "No sustainable investment objectives", produces and reports data on several climate and environment-related indicators.

SG Capital, the Fund and the SPV have good governance and negative sustainability management practices. Through the Fund's ownership in the SPV, SG Capital directly monitors their implementation in the SPV. In parallel, such requirements are also imposed on business partners and tenants. This is

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<sup>5</sup> <https://www.crrem.eu/tool/>

implemented by signing a Code of Conduct for partners and Green Lease Principles for tenants.

## Monitoring methodologies of environmental or social characteristics

SG Capital assesses the sustainability performance of the Fund annually, including its environmental and social performance, by evaluating the Fund's sustainability performance against the targets defined in the Sustainability Strategy, as described above.

## Data sources and processing

For the Fund to calculate/report on environmental and social characteristics, data is collected and compiled from the accounting and data management systems of the SPV and the Fund, SPV contract registers and documents, the Fund's consolidated annual report, and public databases and registers.

The Fund's Scope 1 and Scope 2 emissions and energy consumption are calculated using the CRREM tool, which inputs data from the above sources.

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 environmental and/or social performance required by the SFDR. The auditors also review this report, but no opinion is expressed.

A third-party service provider shall calculate Scope 3 GHG emissions with the appropriate qualifications and expertise.

Tenant satisfaction scores are measured annually by an anonymous tenant survey at each of the Fund's assets. The questionnaire is designed, and SG Capital collects data in cooperation with the SPV.

## Limitations of 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

In addition, the Fund's Investment and Sustainability Committee monitors the performance of the Fund and the SPVs every quarter, thereby regularly monitoring the performance of financial and non-financial indicators and the integrity of the data.

The GHG Protocol Scope 3 valuation tool was used to calculate GHG 3 emissions in 2022, which approximated Scope 3 emissions based on a monetary value, but this was no longer available in 2024. Therefore, a third-party expert had to be engaged to perform the calculations using similar methods and cost categories. However, the different methodology still makes the 2022 and 2023 GHG Scope 3 emissions data incomparable.

The third-party service provider calculates Scope 3 GHG emissions using the Fund and the SPV data. For the calculation of GHG emissions, the third party shall provide the calculation result, information on the methodology used in the calculation and the emission factors. The Fund actively communicates with the service provider to monitor the work's performance and quality and identify problems promptly.

## Due diligence

Due diligence of the potential investment property (i.e. a real estate property - office or warehouse complex) has been carried out before the acquisition of each asset to obtain as complete information as possible about the investment property, to define the business plan of the investment property, to identify uncertainties or inconsistencies, including by verifying that the information is factual, and to ensure that potential legal, technical, financial, tax and sustainability risks are identified.

In the process of assessing potential investments, 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, and ensuring that investments are not made in controversial sectors or activities that are more likely to generate negative sustainability impacts.

Due diligence on a specific investment object shall only be initiated after the Fund's Investment Committee has adopted a decision approving the feasibility and suitability of the potential transaction for the Fund's Investment Strategy and the initiation of due diligence.

After receiving the results of the due diligence, the Investment Committee decided to invest, taking into account:

- 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".

In turn, after the investments are made, the portfolio of real estate assets is regularly monitored: both the performance of the portfolio (monitored by the Fund's Investment Committee) and the sustainability performance and sustainability impact of the portfolio (monitored by the Fund's Sustainability Committee), taking appropriate decisions to adjust courses of action where necessary if the effects of the investments made are not in line with SG Capital's objectives and policies.

## 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 SPVs following the principles set out in the Engagement Policy. This includes working with the management teams of the Fund, SPVs, and other key stakeholders to manage sustainability issues properly.

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 disinvesting.

## Designated reference benchmark

No reference benchmark has been set for the environmental and social characteristics promoted by the Fund.

### Version history of the document

Version No.	Date	Type	Content of changes
1.0	16.08.2024.	Original version	The Original version was published.
2.0	25.11.2024.	Updated version	A description of good governance practices complements the description of the Investment strategy.