VAAKA PARTNERS

30 June 2024

Statement on principal adverse impacts of investment decisions on sustainability factors

Financial market participant

Vaaka Partners Oy

Summary

Vaaka Partners Oy ("Vaaka") considers principal adverse impacts of its investment decisions on sustainability factors and monitors them throughout the investment cycle.

This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January to 31 December 2023.

Sustainability factors encompass environmental, social and employee matters, respect for human rights, and issues related to anti-corruption and anti-bribery (Regulation on sustainability-related disclosures (EU) 2019/2088 Article 2 (24)). We believe that by considering sustainability factors during the investment process, we not only reduce the business risks associated with the investments but also enhance the returns of the investments and generate a positive impact on society.

Description of the principal adverse impacts on sustainability factors

At Vaaka, our Principles for Responsible Investment (PRI) guide our investing activities. These principles are founded on the belief that by identifying and actively influencing relevant sustainability factors, we can both minimize sustainability and business risks and create new growth opportunities. We are committed to integrating sustainability factors both when preparing new investment cases and throughout the value creation process.

We assess sector-specific and company-specific material sustainability factors as part of our investment decisions, as well as potential sustainability-related effects that might arise during the value creation phase. The principal adverse sustainability impacts and their materiality are evaluated on a case-by-case basis, and they may vary between companies depending on the industry, the nature of the business and the size of the company.

Further description of the actions taken during the reference period will be provided together with the reporting of principal adverse indicators on sustainability factors.

INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEE COMPANIES

Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
	CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS					
Greenhouse gas emissions	1. GHG emissions	Scope 1 GHG emissions	1562 tCO2e	2076 tCO2e		In 2023, we focused on calculating all GHG emission, incl. Scope 3, in all companies. During 2024, we will analyze the data to plan actions and set targets for 2025.
		Scope 2 GHG emissions	377 tCO22	532 tCO2e		
		Scope 3 GHG emissions	50750 tCO2	n/a		
		Total GHG emissions	52689 tCO22	2608 tCO2e		
	2. Carbon footprint	Carbon footprint	61.57 tCO2e / €M invested	3.96 tCO2e / €M invested		
	3. GHG intensity of investee companies	GHG intensity of investee companies	54.35 tCO2e / €M revenue	3.0 tCO2e/ €M revenue		
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	0 %	0 %		According to Vaaka Partners PRIs' exclusion strategy we apply careful evaluation concerning industries or companies where a heightened exposure to climate risk is identified (e.g., fossil fuel energy).
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	69 %	61 %		We will analyze the data in 2024 and set targets.

Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
	6. Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector	0.09 GWh / €M revenue	0.19 GWh / €M revenue	5/14 companies belong to high impact climate sector.	No actions planned.
Biodiversity	7. Activities negatively affecting biodiversity-sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas	0 %	0 %	No sites or operations located in/near biodiversity sensitive areas.	No actions required.
Water	8. Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	0 tonnes / €M invested	0 tonnes / €M invested		No actions required.
Waste	9. Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average	0.96 tonnes / €M invested	0.93 tonnes / €M invested	1/14 company counts for 95%	No actions planned.

Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
	INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS					
Social and employee matters	10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	0 %	0 %	Most of the companies have formal policies for responsible business conduct across human rights, labour rights, and the environment, but they haven't explicitly declared compliance with UNGC principles and OECD guidelines.	Number of companies have implemented relevant policies.
	11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises	100 %	100 %		
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	13 %	27 %		No actions planned.

Adverse sustainability indicator		Metric	Impact 2023	Impact 2022	Explanation	Actions taken, and actions planned and targets set for the next reference period
	13. Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members	10 %	5 %		Requirement to include female candidates in the recruitment pool has been implemented, and the female-to-male ratio in board has improved. We will continue to drive progress through our board work and guidance.
	14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons	0 %	0 %	Vaaka Partners does not invest in any kind of arms industry.	Compliance with Vaaka Principles for Reponsible Investment. No other actions required.

Other indicators for principal adverse impacts on sustainability factors

In addition to the set of mandatory indicators above, we consider two additional indicators:

"Investments in companies without carbon emission reduction initiatives": This indicator is part of the set of additional indicators related to climate and the environment, as defined in the SFDR (Table 2, indicator 4). We have chosen this indicator to drive awareness and ambition among companies regarding emission reduction initiatives.

"Number of days lost to injuries, accidents, fatalities or illness": This indicator is part of the set of additional indicators related to social and employee matters, respect for human rights, anti-corruption and anti-bribery, as defined in the SFDR (Table 3, indicator 3). We have chosen this indicator because employee engagement is crucial to a company's success and it relates directly to employee wellbeing.

Adverse sustainability indicator		**Metric**	**Impact 2023**	**Impact 2022**	**Explanation**	**Actions taken, and actions planned and targets set for the next reference period**
Emissions	Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement	86 %	85 %	2/14 of companies are SBTi committed, however several companies are driving carbon emission reductions with internally set targets	Vaaka follows the carbon emission reduction targets Following the increased awareness and our sustainability deep-dives, companies are considering the relevant way to commit to carbon emission initiatives.
Social and employee matters	Number of days lost to injuries, accidents, fatalities or illness	Number of workdays lost to injuries, accidents, fatalities or illness of investee companies expressed as a weighted average	4468	6144	The main share of lost working days is related to illness.	Employee and safety policies implemented to strive good development.

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

Vaaka Partners' PRI describes the policies and assessment process used to identify and prioritize the principal adverse sustainability impacts of its investment decisions, as well as the approach to ongoing monitoring. The latest update to the PRI was approved by Vaaka Partners' Board of Directors on April 4, 2022.

During the investment phase, sustainability factors, including principal adverse sustainability impacts, are assessed through i) exclusion criteria, and ii) analyzing sustainability factors at different stages of the investment process.

i) According to Vaaka Partners' PRI, we cannot invest in companies in the gambling, tobacco, adult entertainment, human cloning, or arms industries. Furthermore, we carefully evaluate industries or companies where a heightened exposure to climate risk is identified.

ii) During the investment process, Vaaka utilizes a variety of materials, including company disclosures and other publicly available information, alongside our own analysis, to evaluate the potential principal adverse impacts on sustainability factors for each case. Should any principal adverse sustainability impacts be identified, they are reviewed at every step of the investment process before the case progresses further, Ultimately, these impacts are considered by the Investment Committee. In the due diligence phase, Vaaka either utilizes its own ESG Due Diligence checklist or engages an external advisor to identify potential principal adverse impacts on sustainability factors.

Identified sustainability risks, including principal adverse impacts, can result in the rejection of a potential investment. Conversely, sustainability factors can also strengthen the investment rationale for a particular case, leading to a reduced implied risk level for the investment.

During the value creation phase, sustainability factors are included in each company's 100-day plan. During this period, the board of directors reviews the existing sustainability guidelines and introduces new ones, as necessary. Additionally, the board of directors of each company, together with the management, is required to assess the sustainability matters of the company at least annually. For the key sustainability items, each company needs to establish a clear development plan which includes regular follow-ups.

The lead partner is responsible for the implementation of PRI and consideration of principal adverse impacts on sustainability throughout the entire investment cycle, from the initial case analysis to exit. Additionally, company teams are charged with reporting on sustainability-related matters from their respective companies to the broader Vaaka team.

When preparing for an exit, sustainability development is carefully considered in evaluating an investee company's readiness for exit. The company team ensures that sustainability considerations are integrated into pre-exit planning. This includes incorporating a review of sustainability guidance in the exit information memorandum. Moreover, the company team evaluates the necessity for engaging an ESG advisor or conducting third-party ESG vendor due diligence.

Engagement policies

Vaaka Partners is dedicated to promoting good stewardship through our engagement activities. Our primary objectives for these activities are to support long-term value creation and to mitigate risk. Being an active owner is an important element of Vaaka Partners' investment strategy. We believe that by advocating for better management of sustainability factors in companies, we enhance risk management and improve investment returns, as well as generate a positive impact on society.

References to international standards

Vaaka Partners adheres to the UN Principles of Responsible Investment (PRI) guiding our efforts according to the six principles of responsible investment. Additionally, when assessing sustainability factors, we take into account the UN Global Compact Corporate principles. Our aim is to adopt, support and implement the fundamental values of the principles, which address human rights, labor standards, environmental issues, and anti-corruption.

Historical comparison

In 2023, Vaaka collected and reported data on the principal adverse impacts for the first time, covering the reporting period from January 1 to December 31, 2022. Although we exited two companies and invested in two new ones in 2023, we are able to make some comparisons at the portfolio level between 2022 and 2023. Generally, the data indicates that the impact has moved in the right direction in relation to most of the factors reported..

Scope 1 and 2 greenhouse gas emissions have reduced by 1423 tCO_2e in comparison to the previous reporting period. It should be noted, though, that the amount of total GHG emissions is not comparable as not all companies calculated Scope 3 emissions in 2022.

In 2023, there was a notable decline in energy consumption intensity per high impact climate sector compared to 2022, and the total energy consumption decreased significantly by 25% during the same period.

Board diversity PAI (f/m ratio) rose from 5% in 2022 to 10% in 2023, which indicates good progress, although there is still remains work to do. The board diversity has continued to rise after the reporting period, indicating that the actions taken are taking effect.

Number of days lost to injuries, accidents, fatalities or illness has reduced significantly, by 1676 days.