GND Advisory

SUSTAINABILITY RISK POLICY

Approved by:	GND Advisory Management
Approved on:	April 2022
References to external policies:	EU taxonomy for sustainable activities - Regulation (EU) 2020/852 Complementary Climate Delegated Act (CCDA) Sustainable Finance Disclosure Regulation (SFDR) - Regulation (EU) 2019/2088 Non-Financial Reporting Directive (NFRD) - Directive 2014/95/EU [being replaced by the Corporate Sustainability Reporting Directive (CSRD] Greenhouse Gas Protocol (GHG Protocol) Task Force on Climate-Related Financial Disclosures (TCF) Recommendations
References to internal policies:	Business Code of Conduct Internal Risk Management and Control Plan Risk and Compliance Policy Sustainability Policy Engagement Policy SFDR Disclosure Statement

Contents

1. The Firm

GND Advisory is an autonomous advisory registered in the Republic of Lithuania. The records of GND Advisory are kept at the State Enterprise Centre of Registers.[1] GND Advisory ("GND") and each of its majority-owned subsidiaries (together with GND, the "Firm") conducts its operations in compliance with the EU and Lithuanian Law, Regulations, and its internal Code of Conduct.

2. Purpose of the Sustainability Risk Policy

The purpose of the Sustainability Risk Policy (the “Policy”) is to set and define the governance, framework, and relevant process for identifying, assessing and managing sustainability related risks within GND Advisory.

For the purpose of this Policy, we identify sustainability risk as environmental (incl. climate), social or governance (ESG) related event or condition that, if it occurs, could cause negative material impact on the value of the investment.

The Policy is aligned and integrated within the overall risk management framework in GND Advisory.

The processes and structure of the Policy are in line with the recommendations from Task Force on Climate-related Financial Disclosures (TCFD), with the following core elements that are further describes in the document:

- **Governance –** organization’s governance is set up around sustainability and climate-related risk and opportunities
- **Strategy –** the actual and potential impact of sustainability and climate-related risks and opportunities and embedded within the strategy and risk appetite
- **Risk management –** the processes are being developed to identify, assess and manage sustainability and climate related risks
- **Metrics and targets –** used to assess and manage relevant sustainability and climate related risks and opportunities

3. Roles and responsibilities

Investment Committee makes the final decision about the investment incorporating sustainability related factors and information gathered and evaluated during the due diligence and assessment process.

GND Advisory Management holds strategic view on sustainability related risks and opportunities as well as oversees the following:

- Ensures sustainability related issues are included within the risk appetite
- Ensures potential investment opportunities are aligned with sustainability strategy and risk appetite
- Monitors and evaluates progress against sustainability/ ESG targets

Head of Risk and Compliance holds tactical role in setting processes and developing tools and models for identifying, assessing and monitoring sustainability related risks on the investment and portfolio levels. As well as sets the requirements for consolidating data & reports received from investees into a portfolio level sustainability reporting.

Deal originators (GND Partners) evaluate and selects potential investments according to the approved risk appetite and performs due diligence incl. sustainability questionnaire.

Sustainability Advisors, Operating Partners (GND Partners) periodically evaluate potential and existing portfolio companies (Investees) regarding sustainability metrics and support Investees regarding development and implementation of sustainability transition and value creation plans.

Investees hold operational responsibility to provide relevant information on sustainability issues, as well as set actions to incorporate and/ or improve sustainability related issues within its operation according to the set KPIs & targets. Additionally, investees regularly provide data & reports on sustainability performance.

4. Sustainability Risk, Risk Appetite and Strategy

The Firm does actively promote sustainability factors and does maximize portfolio alignment with sustainability factors and is therefore considered to have an ESG focused investment strategy. Nonetheless, it remains exposed to sustainability risks. Such sustainability risks are integrated into the investment decision making and risk monitoring to the extent that they represent a potential or actual material risk and/or opportunity for the returns. The Firm commits to engage on reducing high-carbon capital expenditure and increasing climate friendly investments by setting the following objectives:

- Have zero investments in coal, oil and gas;
- Reduce the carbon intensity of a portfolio by:
  - Reducing GHG emissions of investee companies by setting targets for the transition to net zero during the investment lifecycle;
  - Investing a portion of portfolio in low carbon, energy efficient and climate resilient assets;
- Align the investment to the EU taxonomy thresholds and conditions during the investment lifetime.

The impacts following the occurrence of a sustainability risk may be numerous and vary depending on the specific risk, region and asset class. In general, where a sustainability risk occurs in respect of an asset, there will be a negative impact on, or entire loss of, its value.

Such assessment of the likely impact must therefore be conducted at sector, portfolio or asset level, as deemed necessary and appropriate.

Identifying and integrating sustainability risks common to the portfolio of assets could prevent the Firm to deploy its investment policy in a timely manner if it had to ensure that each targeted investment would be able to meet its objectives in terms of sustainability and to provide appropriate and reliable data in respect thereto. As a consequence, the Firm will assess the likely impact of such sustainability risks on the returns. The Firm implements a harmonised approach with respect to the integration of environmental (inc. climate), social and governance risks factors that is applicable to the investments as outlines in the Policy.

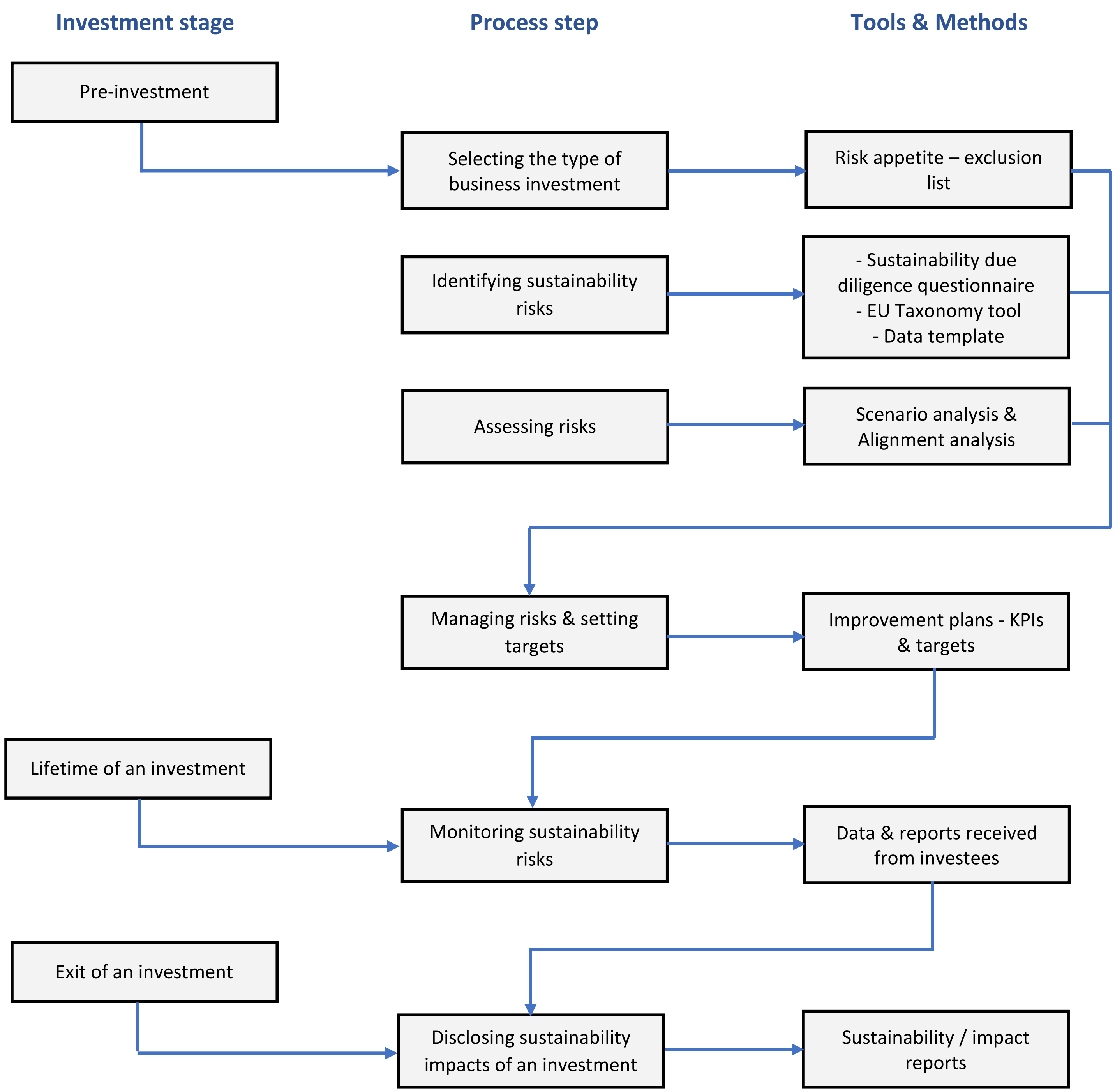
The Firm does take into account the EU criteria for environmentally sustainable economic activities, which are determined by the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, as amended from time to time. Hence, activities that are not covered in the EU Taxonomy may not be consider by the Firm as a potential investment unless significant improvements to its sustainability and climate exposure are assured to be made or by nature, they do no significant harm to the environmental conditions that are outlined in the EU Taxonomy.

Further commitment and principles are described in Sustainability Policy.

5. Investment Sustainability Risk Management Framework

Sustainability risk management framework is part of the overall investment risk management in GND Advisory and in line with management-approved risk appetite and strategy.

The graph below shows the sustainability risk management process during the investment lifecycle: before the investment, during the investment and exit of the investment. There are different process steps defined that allow to identify sustainability risks, as well as assess, manage and report on specific risks.



5.1. Identification of sustainability risks

Sustainability risks we define and categorize in line with The Taxonomy and Disclosure Regulations that refer to the following criteria, activities, and practices in relation to ESG:

- **Environmental:** Climate change; sustainable use and protection of water and marine resources, transition to a circular economy, waste prevention and recycling, pollution prevention control and protection of healthy ecosystems.
- **Social:** Equality, social cohesion, social integration, and labour relations: and

- **Governance:** Sound management structures, employee relations, remuneration of relevant staff and tax compliance.

In order to identify potential sustainability risks related to investee and specific project we use two approaches: bottom-up and top-down. For the former, we use several methods to collect information and nuances about the potential investment and investee:

- **Sustainability due diligence questionnaire** provides a list of questions on policies, processes and reporting of environmental, social and governance aspects related to sustainability. It assists in identifying risks and good practices and regarded as a tool to facilitate assessment whether there may be any significant issues, and opportunities that require either more detailed technical assessment or target setting for improvements. The questionnaire can also help identify relevant ESG factors that may be used to support ESG monitoring and reporting during the lifetime of an investment.
- **EU Taxonomy tool** is used to gather and evaluate technical screening criteria for identifying environmentally sustainable investments according to the taxonomy based on the six environmental conditions: climate mitigation, climate adaptation, water, pollution, circular economy, ecosystems.
- **Environmental data gathering** via a predefined template that is used for environmental risk assessment and scenario analysis, as well as further monitoring and reporting.

The collected information provides an understanding of existing efforts in relation to sustainability and climate objectives of investee. The first two methods give relevant information for the qualitative analysis of social and governance risks (SG) of an investee based on which the assessment and target setting are completed. Whereas to assess environmental factors, we use the provided information in the questionnaire together with the data collected via the third method. For simplicity, in the remaining of the policy we divide the processes and tools used for SG and environmental risks management.

Top-down approach is used to identify environmental risks related to macro, country and sector specific factors. It supports data gathering and completion, which might be limited for certain investee or project. The identified risks generally fall under the following categories:

- **Market and Technology Shifts –** policies and investment to deliver environmentally sustainable, low carbon emissions economy
- **Policy and Legal –** and evolving patchwork of requirements at international, national, and regional level.
- **Reputational –** growing expectations for responsible conduct from stakeholders.
- **Physical risks –** chronic changes and more frequent and severe extremes of climate.

Structured templates need to be created to document identified potential risks arising from both bottom-up and top-down analyses.

5.2. Assessing sustainability risks

In this section, we describe the materiality assessment processes of the identified social and governance and environmental risks.

Assessment of social and governance risks

Exposure and materiality of identified social and governance risks are assessed based on the identified improvement areas through a specific engagement process with companies.

Assessment of environmental risks

The proposed environmental/ climate risk assessment methodology is a blend between top-down and bottom-up modelling for transition and physical risks, which is based on three modules:

- **Scenario analysis** - is expected to inform the metrics and targets used to assess and manage climate-related risks and opportunities.
- **Strategic impact assessment** - top-down impact assessment extrapolates the macro-level scenarios to sectors, regions, or asset classes which are homogenous in their sensitivity to climate risks and assesses how it affects different risk factor pathways.
- **Investee-level calibration** - the bottom-up approach calibration captures project-specific nuances.

A combination of top-down risk mapping and bottom-up analysis of higher-risk sectors, companies and/ or assets can potentially offer the combination of broad coverage, and the depth of analysis needed to have more confidence in quantifying financial impacts where these are most material.

Identify risks

Climate risk assessment approach

Use of quantitative scenario analysis models and qualitative engagement frameworks as decision making tools for risk management

Macro level impact assessment

Forward looking, top-down approach to assess the climate risk exposure through scenario analysis using macro-level factors:

- Assess overall cross-asset alignment with warming scenarios focusing on Sector science-based carbon emissions reduction targets:
  - Transition risk: Sector specific, e.g. energy transition path-ways or carbon pricing scenarios
  - Physical risk: Extreme whether risks heat map across regions
- Measure and quantify exposure to climate risk across asset classes/ sectors e.g. sector exposure or carbon footprints

Investee level calibration

The bottom-up approach captures project-specific nuances to assesses investees' preparedness and climate resilience:

- Consider companies' track record on climate objectives as provided during due diligence
- Analyse and assess risk factor pathways and its financial implications
- Conduct alignment analysis with a 2° scenario outlined in Paris agreement to initiate engagement process
- Set science-based targets and objectives and monitor progress made
- Apply learning process from the scenario analysis to investment decision-making

Engage/ manage and track progress made

Scenario analysis, as with any type of risk analysis, should be subject to regular review and oversight. Once the methodology is developed, analysis can take place on an ongoing basis to monitor change as part of regular risk reporting.

5.3. Metrics and targets for managing sustainability risks

The metrics and targets are used to measure and manage sustainability related risks and opportunities.

Use of metrics for social and governance risks

To manage social and governance risks, qualitative approach through the engagement and dialogue with the investee can be chosen, hence the use of specific metrics is considered optional.

Use of metrics for environmental risks

We divide climate related metrics into three categories: strategic, tactical and operational.

Strategic metrics:

- Taxonomy-aligned exposure: assess and then calculate a share of the portfolio that is EU Taxonomy-aligned, which in other words show an exposure to green versus brown assets held in the portfolio.
- Carbon footprint: also called “financed emissions”—is calculated in tons of CO2 equivalents per million EUR invested (tCO2e/mEUR), which measures the carbon emissions of the investment and portfolio overall.
- (Weighted average) Carbon intensity: puts the total GHG emissions in relation to the total share of revenue. It is expressed in tons of CO2 equivalents per million EUR revenue (tCO2e/mEUR). By introducing revenue, the metric is adjusted for company size and is therefore a measure of how carbon-efficient the portfolio is in producing revenue.

Tactical metrics:

- Impact metrics**:** assess the extent to which investment actions have made positive climate-related outcomes. Examples of such metrics include avoided or reduced GHG emissions and improvements in energy and water consumption, waste.
- Climate scenario analysis: based “carbon budget” idea (i.e. the amount of emissions which can be safely emitted until 2050 to stay below a certain threshold of global warming) that can be allocated to sectors and companies. Based on these assumptions and other reported company-specific data, it is then calculated whether a portfolio’s future emission path is in line with the emission reduction path of the Paris agreement.

Operational metrics:

- Scope 1, 2 and 3 GHG emissions - GHG emissions should be calculated in line with the GHG Protocol methodology to allow for aggregation and comparability. Partnership for Carbon Accounting Framework (PCAF) data is to be used to compare investment emissions to generally accepted industry-specific GHG emissions range.
- Other metrics – often operational metrics require context- specific or in other words, investment specific approach. Hence, we will setup more operational metric relevant for individual projects.

Setting targets

Target are being set on a portfolio and investment levels. The former is described in the ‘Sustainability Risk and Risk Appetite’ section. Whereas on an investment level, after the initial identification and assessment of the sustainability related risk indicators, targets are setup to manage and improve identified conditions. Project specific targets are defined for relevant metrics & thresholds and Do No Significant Harm (DNSH) criteria, as well as other benchmarks. Key factors will be measured and monitored over the lifetime of investment.

Monitoring

Monitoring of climate related risks and metrics are conducted on a regular basis. Data is received from investees in the pre-defined template, which are used for the following:

- Compare actual results of the metrics against the targets and/ or benchmarks and decide on the action plan in case of deviations.
- Aggregate results to the portfolio level and compare the portfolio(s) to the relevant benchmark(s).
- Develop regular reporting to the GND Advisory Management and Partners.

6. Reporting and disclosure of sustainability risk

Sustainability risks are reported regularly and at least annually to the GND Advisory Management and Partners.

Sustainability risk reporting is built on a portfolio level and is aligned with the recommendations from Task Force on Climate-related Financial Disclosures (TCFD), as well as in line with Non-Financial Regulation Disclosures (NFRD) and Sustainable Finance Disclosure Regulation (SFDR) that support definition of the format, metrics and other specification of the report. Reporting shall be based on the following principles:

- Relevance: ensure the management information serves the decision-making to the Firm.
- Completeness: account and report on all activities within the portfolio.
- Accuracy: ensure sufficient accuracy and integrity of the reported information.
- Consistency: use consistent methodologies to allow for meaningful comparisons.
- Transparency: address and disclose all relevant issues, assumptions and references in the factual and coherent manner.

I have read, accept and fully understand the responsibilities detailed under this Sustainability Risk Policy.

I approve this Plan.

Donatas DITKUS

GND Advisory Representative