

VAAKA PARTNERS OY – PRINCIPLES FOR RESPONSIBLE INVESTMENT

1. What Responsible Investment means for us

The values of Vaaka Partners highlight the integrity and transparency of our operations, the passion we have for growth, and collaboration based on respect for each other. Our values guide us to raise the value of our companies to a new level in a responsible and sustainable way.

For us, responsible investment means a long-term and determined way of working, where we evaluate each company's ESG factors (Environmental, Social and Governance) at different phases of the investment process. During our ownership, we take action to develop the companies to become more sustainable. We believe that by identifying relevant sustainability factors and influencing them actively, both minimizes the sustainability and business risks and creates new growth opportunities. By investing responsibly, we target a better risk-adjusted return of our investments.

The ESG criteria related to our investment's environmental, social and governance factors create a framework for analyzing long-term sustainability risks and opportunities. In our operations, ESG means the following:

Concerning the **Environment (E)**, we take into account matters related to, e.g. climate change, scarcity of resources and water, emissions let into the ground, water and air, and waste management. Possible risks associated with these include climate risk, different penalties, cleanup costs, and indirect costs due to harmed reputation. The environment's deterioration may have a negative impact on economic growth. New technologies and improvement of resource efficiency can bring financial gains – especially from the rising demand for our companies' environmentally friendly products and services.

Concerning the **Social (S)** aspect, we pay attention to, e.g. human rights, ageing and migration of population, and preventing corruption and bribery. On a local level, related issues are employee rights, occupational safety, diversity, equity and inclusion, supply chain management and societal relationships of companies. We believe that our companies succeed when both the employees and clients are satisfied.

Good **Governance (G)** relates to how well an investment is managed from the owner's and other stakeholders' point of view. Good governance inherently includes the demand for transparency of operations, and we want to communicate openly whatever is important to different stakeholders. We ensure that both Vaaka Partners and our companies have appropriately considered the independence and remuneration of the board of directors, follow the rules and principles of corporate law, prevent corruption and bribery and abide by tax legislation.

Vaaka Partners complies with the corporate governance model that directs the work in our companies' board of directors, and aims to provide answers to key questions related to good governance.

Exclusion strategy

Despite the legality, the business of some companies can be exposed to negative impacts such as compensation demands and unfavorable publicity, which cause risks that are hard to predict and evaluate. We avoid investing in companies with this type of risk profile.

We have agreed that we will not invest in companies in the gambling, tobacco, adult entertainment, human cloning, or arms industries. Furthermore, we apply careful evaluation concerning industries or companies where is identified a heightened exposure to climate risk.

2. What we do in practice

We have defined that the procedures of responsible investment and sustainability are a significant part of our own and our companies' operations. Vaaka Partners' own sustainability team supports and guides company teams and monitors that Vaaka acts according to the Principles for Responsible Investment.

Investing in new companies

When preparing new investments, we acknowledge the Principles for Responsible Investment and sustainability factors as a part of the investment process. Sustainability risks are integrated in our investment decisions through exclusion criteria and analyzing sustainability risks at different stages of the investment process. The Case team is responsible for analyzing sustainability at different stages. Sustainability factors are handled when the case moves to the next phase of the investment process, and finally when deciding if the investment is made. Sustainability risks can be significant on their own or have an impact on other risks such as market risks or operational risks or liquidity risks. The integration of sustainability risks is therefore crucial to generate sustainable long-term risk adjusted returns for investors.

During the investment process, we utilize the available materials from multiple sources, and our own analyses to evaluate the main sustainability factors of the case at hand and the quality of sustainability management of companies. In the due diligence phase, we use ESG Due Diligence (DD) checklist or an external advisor to identify the relevant sustainability risks and opportunities. In due diligence assessments, it is key to integrate the relevant sustainability factors as a part of other DD, especially the Commercial DD, assessments.

Sustainability factors can lead to the case at hand being declined if sustainability related risks or other issues are deemed material. Similarly, sustainability factors can also strengthen the investment rationale for the case and thus lead to reduced implied risk level for the investment.

The main sustainability risks and opportunities that arise during the DD process are registered as part of the integration plan, which is handled by the company's management and board of directors.

During the value creation

We consider the Principles for Responsible Investment and sustainability factors actively during the companies' value creation. During the investment process possibly recognized sustainability issues will be taken up already in the integration phase with the management and board of directors, and the chosen actions will be followed through according to the company's governance model. The same process is followed also in the case of other Due Diligence findings.

Sustainability is one of the value-add spearheads to Vaaka companies and the sustainability work is guided by Vaaka's sustainability framework. Sustainability factors are included in each company's 100 day plan, and during that period the relevant board of directors reviews the existing guidelines and introduces new ones as necessary. The Vaaka Partners' corporate governance model contains guidance according to which the companies' board of directors, together with the operational management, is required to assess sustainability matters of the company at least annually. For the key items each portfolio company needs to have a clear development plan with regular follow-up, and the execution and results will be followed systemically.

The company team's Lead partner, who is a member of the company's board of directors as well, focuses on sustainability factors for Vaaka's internal purposes, and also oversees that Vaaka Partners' corporate governance guidelines are followed. The relevant company team is responsible for reporting sustainability related matters to the Vaaka team.

During the exit process

The sustainability development is considered when evaluating the company's exit readiness. Company team ensures that sustainability is integrated in company's pre-exit considerations, and sustainability guidance review is included in exit info memo. Company team also considers the need for ESG advisor or ESG vendor DD made by third party.

3. How to follow the realization of Responsible Investment

We want to share our Principles for Responsible Investment, and the realization of sustainability targets and results clearly and transparently in relevant channels. Vaaka companies' sustainability risks and opportunities change over time and therefore we regularly follow and update how sustainability is achieved. Company teams make quarterly sustainability updates in each fund's quarterly report. Progress update includes the company's approach to sustainability, the strategic projects related to sustainability during the last year, KPIs, and plans going forward.

In addition to quarterly investor reporting, we communicate Vaaka companies' sustainability actions and progress on our website. We publish annually Vaaka Partners' sustainability review containing sustainability update and progress of Vaaka companies and our own sustainability operations. Our Principles for Responsible Investment are available on our website.

The Advisory Committee reviews the Vaaka Partners approach to sustainability annually and the annual investor meeting includes sustainability related update.

4. How we manage Responsible Investment

The Vaaka Partners Principles for Responsible Investment are defined by our sustainability team and approved by Vaaka Partners' board of directors. The board evaluates the guidelines at least once a year to ensure they are up to date. Any changes to the Principles for Responsible Investment must be approved by the board.

We set targets for developing responsible investment annually and follow the progress of the projects over the year. The sustainability team actively guides and monitors the development and progress. In addition, the team follows the practicalities and regulation of sustainability and shares the recent updates to Vaaka team.

National legislation and international norms are the starting point when defining sustainability. Vaaka Partners follows the UN Principles of Responsible Investment (PRI) meaning that we lead our resources according to six principles of responsible investment. We are not UN PRI signatories, but we follow the commitments:

- 1) We will incorporate ESG issues into investment analysis and decision-making processes.
- 2) We will be active owners and incorporate ESG issues into our ownership policies and practices.
- 3) We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- 4) We will promote acceptance and implementation of the Principles within the investment industry.
- 5) We will work together to enhance our effectiveness in implementing the Principles.
- 6) We will each report on our activities and progress towards implementing the Principles.

In respect of sustainability, we consider the UN Global Compact Corporate principles and aim to adopt, support and implement the principles which are related to human rights, occupational principles, environmental issues and anti-corruption.