

A misty forest of evergreen trees with sunlight filtering through the canopy. The scene is serene and atmospheric, with soft light rays creating a sense of depth and tranquility. The trees are dark green and silhouetted against the lighter, hazy background.

BaltCap Sustainability Framework

BaltCap

Contents

Introduction	2
1. Sustainable Investment Approach.....	3
1.1. BaltCap values.....	3
1.2. BaltCap ESG standards.....	3
1.2.1. Environmental considerations	3
1.2.2. Social considerations	4
1.2.3. Governance.....	4
1.3. BaltCap’s sustainability commitments	5
1.3.1. United Nations Principles for Responsible Investment	5
1.3.2. United Nation Sustainable Development Goals	6
2. Sustainability risk, investment, and reporting policies.....	7
2.1. Integration of sustainability risks	7
2.2. Delivering on fund specific sustainability promises.....	7
2.2.1. E&S promoting funds (SFDR art. 8).....	7
2.2.2. Funds with the sustainable investment goal (SFDR art. 9)	8
2.3. Reporting and website disclosures.....	8
2.3.1. Reporting at the entity level	8
2.3.2. Reporting at the product level.....	8
2.3.3. Website disclosures	8
2.4. PAI statement.....	8
2.5. Sustainability governance structure.....	9
2.6. Remuneration	9

Introduction

BaltCap is a private equity investor operating in the Nordic and Baltic countries as well as in Poland. Our goal is to create long-term value for our investors, the companies and properties in which we invest, and the communities where we live and work. We are committed to building sustainable businesses and investing in companies that help create a better future in which we all would like to live.

Our high-level sustainability promise is to create a positive impact with every investment we make. This means we strive to improve our companies’ and properties’ performance regarding environmental impact, social issues, and governance practices through active ownership.

To keep this promise, we have developed BaltCap’s Sustainability Framework (hereinafter the “Framework”) which sets forth the main pillars that enable BaltCap to build sustainable businesses responsibly and transparently.

The Framework builds on the core value system of BaltCap and integrates the expectations of our investors and other stakeholders, regulatory requirements, and also the best market practices promoted by international organizations and trade associations. The first part of the Framework describes our high-level principles and commitments to responsible investment and sustainability. The second part describes the methodology and procedures used to comply with all the applicable sustainability laws and regulations. It also gives insight into how we intend to deliver on our sustainability-related promises.

This framework covers all funds and fund managers within BaltCap group, subject to more detailed regulation as may be applicable to specific fund strategies. BaltCap AS as the parent company of BaltCap group entities is committed to follow the principles described within this framework and shall ensure the proper application throughout its group entities.

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The framework is reviewed annually and amended on needs bases.

1. Sustainable Investment Approach

Being the largest private equity fund manager in the Baltics gives us a unique position to impact the growth and strategic development of numerous influential companies in our region and beyond. This also gives us an opportunity to make a difference in a sustainability context.

Our sustainable investment approach builds on BaltCap's core values, our environmental, social and governance (ESG) investment standards, and our commitment to international and global frameworks embracing sustainability, as explained in further detail below.

1.1. BaltCap values

BaltCap aims to build local companies into international business champions. We are attracted to companies that seek to evolve and develop, those with the potential to benefit society. For us as active owners, building businesses is a joint effort that we carry out with our portfolio companies' management teams. With each management, we seek a good cultural fit and shared value system that includes BaltCap core values:

Entrepreneurial mindset boldly seeking sustainable business opportunities.

Professional approach with respect for others and a desire to continuously learn and improve.

Performance focus to deliver and achieve best-of-class results.

Accountability to keep the promises we make to our investors, our clients, our communities, and ourselves **today and in the long-term**.

Based on these core values, BaltCap together with its portfolio companies has formulated the Code of Responsible Behavior (<https://www.baltcap.com/company/responsibility/esg-code-of-responsible-behaviour/>). It defines the principles we and our portfolio companies commit to uphold in our daily business. This code is not intended to be a definitive list of "do's and don'ts" but rather a guide to becoming more sustainable.

The Code embraces five aspects of responsible behavior that our people are expected to follow:

- Be honest and ethical;
- Keep your house in order and apply good governance principles;
- Care about people;
- Encourage collaboration for a more advanced society; and
- Respect the natural environment.

1.2. BaltCap ESG standards

BaltCap is dedicated to fostering sustainable practices across all types of business activities. We are convinced that our engagement in ESG matters is a prerequisite for the sustainable performance and attractiveness of our portfolio companies and for reducing the overall exposure to risk.

BaltCap ESG standards are the main environmental, social and governance topics that we consider in our investments both in the early stage of screening and sourcing and when promoting sustainable business solutions and practices in our portfolio companies.

Prior to each investment we conduct comprehensive ESG assessment of target companies and investments, with a particular focus on material ESG aspects. We carefully consider these findings in our investment decisions throughout the investment and value creation process. BaltCap is also committed to provide its portfolio companies the tools they need to achieve sustainability-focused goals most relevant to each company.

1.2.1. Environmental considerations

BaltCap recognizes that businesses have a crucial role in decreasing the overall negative impact from human activity on environment. We aim all our investments contribute to providing solutions to environmental problems, irrespective of the size of their own environmental footprint. We aim to ensure that all our investments duly address the most urgent global issues of climate warming, depletion of natural resources and biodiversity loss.

The main environmental topics considered in our investments (not limited to):

- Greenhouse gas emissions and climate impact;
- General energy efficiency;
- Circular business practices;
- Waste and water management;
- Air and water pollution;
- Biodiversity and land use, risks of deforestation;
- Breaches of international standards and conventions on environment.

We support our portfolio companies to strive beyond compliance with environmental regulations, for example by:

- Supporting CO₂ footprint calculation and setting 1.5°C aligned carbon reduction targets and timeframes for each portfolio company.
- Promoting value creation activities contributing to energy efficiency, circularity and decarbonization.
- Promoting the launch of innovative products and services aimed at decreasing the general environmental footprint.
- Limiting the use of non-renewable and scarce natural resources and avoiding adverse impacts on biological diversity.

1.2.2. Social considerations

At BaltCap we believe in smart economic growth that can be achieved through meaningful jobs, equitable and fulfilling working environments, innovation and open dialogue with diverse stakeholder groups, including the public sector. Therefore, we are committed to creating smart jobs and nurturing fruitful relations with employees, consumers, and communities at large.

The main social topics considered in our investments (not limited to):

- Creation of new jobs;
- Employee engagement and satisfaction;
- Occupational health and safety;
- Diversity, equity and inclusion in the workplace (DE&I);
- Product/service safety and transparency;
- Data security and privacy;
- Stakeholder engagement practices;
- Breaches of international standards and conventions on human and employee rights as well as national health, safety and worker protection regulations.

We support our portfolio companies to strive beyond compliance with social regulations, for example by:

- Supporting the creation of fulfilling working environment with clear career paths and development opportunities.
- Promoting equal opportunities in employment practices and procedures.
- Promoting positive engagement of key stakeholders.

1.2.3. Governance

BaltCap strives to increase the value of portfolio companies through improved governance structures and management practices. We believe diverse and transparent governing bodies that integrate the sustainability agenda in companies' overall strategic plan are key aspects of developing accountable businesses.

The main governance topics considered in our investments (not limited to):

- Set-up and transparency of governance structure,
- Business ethics, mechanisms for refraining from bribery and corruption,
- Compliance with applicable laws and regulations,
- Responsibility for auditing and transparent tax planning,
- Diversity of governing bodies and management teams,
- Integration of ESG topics to general management practices,
- Breaches of international standards and conventions concerning good governance practices.

We are committed to sustainable governance and strive beyond compliance, for example by:

- Enforcing sound management structures and transparent remuneration practices linked to environmental and social factors in line with the companies' own objectives.
- Promoting women's participation in leadership positions and raising awareness on gender pay gap.
- Supporting portfolio companies with integrating material ESG topics to company development and action plans.

BaltCap promotes the use of best corporate governance practices in its own operations and in its portfolio companies. We have established an investment committee that applies high due diligence standards to potential investee companies, including ESG due diligence, to ensure that sustainability aspects are considered alike and are correctly implemented at the company level. After the investment is made, the committee conducts ongoing monitoring of investee companies, with a particular focus on appropriate disclosures of ESG-related information as outlined in the PRIs below.

1.3. BaltCap's sustainability commitments

BaltCap is an active member of Invest Europe. We abide by Invest Europe's Professional Standards of the private equity industry that shape our values and govern our relationships with our investors and portfolio companies. We take responsibility for ensuring that appropriate corporate governance standards prevail in all our portfolio companies, in line with the OECD Corporate Governance Principles.

BaltCap's commitment to responsible and sustainable investment strongly relies on adhering to the core principles of United Nations Principles for Responsible Investment and also on considering the Sustainable Development Goals. Both commitments are explained in more detail below.

1.3.1. United Nations Principles for Responsible Investment

We have aligned our internal processes with the United Nations Principles for Responsible Investment (UNPRI) that is the world's leading proponent of responsible investment.

BaltCap acknowledges the impact of investments on ESG factors and commits to making a positive contribution to the development of a sustainable global financial system by:

- Incorporating ESG into investment decisions and ownership structures;
- Promoting good governance, integrity, and accountability;
- Encouraging the adoption of the principles for responsible investments (PRIs) and collaborating on their implementation; and
- Addressing obstacles to a sustainable financial system that lie in market practices, structures, and regulatory environments.

BaltCap recognizes its duty to act in the best long-term interests of our stakeholders and believes that applying PRIs can better align our investment decisions with the broader objectives of society. For this reason, we have made the guiding code of the six PRIs outlined below a standard practice across all areas of our business.

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

In BaltCap, ESG issues are an integral part of the investment process. ESG criteria are integrated from deal sourcing and deal screening to the due diligence process and investment decision making in both majority and minority investments.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

BaltCap takes an active role as a shareholder in each portfolio company and participates in strategic decision-making through board or council membership. Aligning the interests of key stakeholders, i.e., investors and other shareholders of portfolio companies, employees, customers, and communities, is crucial to BaltCap. Our ownership practices are based on our values and are in line with responsible business conduct.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

BaltCap strongly believes in the importance of ESG disclosures as a means of promoting transparency and combating greenwashing in our value chain. As a responsible investor, we engage all our portfolio companies in ESG data monitoring and reporting process through an annual questionnaire. Based on the responses, we comply BaltCap annual ESG report that is publicly disclosed on the BaltCap homepage.

Principle 4: We will promote acceptance and implementation of the PRIs within the investment industry.

In addition to PRI engagement, BaltCap is a member of Invest Europe, the association representing Europe's private equity, venture capital, and infrastructure sectors, as well as their investors.

Principle 5: We will work together to enhance our effectiveness in implementing the PRIs.

At BaltCap, we take the lead on collaborative initiatives to promote responsible investment practices and collectively address ESG issues. We engage in various forms of education on sustainability-related topics and provide training to our team, our portfolio companies, and other stakeholders.

Principle 6: We will each report on our activities and progress towards implementing the PRIs.

In line with the transparency principle, reporting is an integral part of BaltCap's investment policy. BaltCap's annual ESG report serves the purpose of making our collective contribution to sustainable development available to the public.

1.3.2. United Nation Sustainable Development Goals

BaltCap recognises that building a sustainable future is a global issue that requires concerted efforts from both public and private actors. Hence, we have aligned our investment activities with the UN Sustainable Development Goals, SDGs, which provide a framework for addressing the most urgent social and environmental challenges worldwide. We believe the 17 interlinked global goals serve as a common language to guide private and public players towards a more sustainable future.

At BaltCap, we have identified four central SDG themes where we feel we can contribute the most to global sustainability issues. As a private equity firm, our focus areas encompass:

- Gender equality (SDG 5)
- Decent work & economic growth (SDG 8)
- Climate action (SDG 13)
- Peace, justice & strong institutions (SDG 16)

BaltCap funds and portfolio companies may identify additional SDGs relevant to specific companies and assets.

As part of our commitment to the global sustainability agenda, we gradually seek improvement in related entity level KPIs. BaltCap discloses the dynamics of the entity level KPIs in its annual ESG report.



Graphic 1: 17 Sustainable Development Goals

2. Sustainability risk, investment, and reporting policies

2.1. Integration of sustainability risks

BaltCap seeks to ensure the integration of material ESG risk factors into our investment activities in line with the principle of “double-materiality”. We understand sustainability risks as environmental, social, or governance events or conditions that, if they occur, could have an actual or a potential material adverse effect on the value of the investment and/or assets, the financial condition, operational results, or reputation of BaltCap. BaltCap sees ESG as a matter of forward-looking strategic positioning rather than a backward-looking compliance consideration. Therefore, ex-ante screening is an essential tool for identifying and understanding various sustainability-related risks. Appropriate due diligence procedures ensure that each investment complies with applicable national law as well as environmental and social regulations enforced by the European Union.

BaltCap integrates sustainability risk considerations into the investment decision-making process as follows:

- Sectoral exclusion lists are used to exclude the most controversial and harmful industries from our investment universe. These are the industries that inherently entail serious sustainability risks which cannot effectively be mitigated, only avoided.
- Exclusion lists are fund specific, but in general we do not invest in companies engaged in arms manufacturing, manufacture of tobacco, hard spirits, gambling, human cloning and genetically modified organisms. Also, we do not get involved in hostile bids.
- Negative screening – potential investment cases are screened against BaltCap’s values and specific fund’s investment promise (included in the pre-contractual notification and LPA). If the monitored case is not a fit, it is not taken further in the investment process.
- After monitoring against exclusion lists and conducting negative screening, remaining sustainability risks are identified, and their likelihood of occurrence and severity are assessed based on both the general ESG DD questionnaire and ESG materiality analysis that is conducted to highlight and focus on risks that are more relevant to the specific sector where the potential target company operates.
- Measures are determined to eliminate or mitigate the identified sustainability risk or, if the risk is deemed too severe or the potential investment does not, despite applying the available risk mitigation measures, match the specific fund’s ESG risk profile, a decision is made not to proceed with the investment; and

- Identified sustainability risks, together with the associated risk mitigation action plan, are presented to the fund’s investment committee, which makes the formal investment decision.
- Proposed actions to mitigate the sustainability risks identified during the DD proceedings will be an integral part of the 100-day plan of portfolio companies.

BaltCap has implemented materiality-based tools and where needed, engages outside consultants to identify and define relevant ESG risks and sustainability areas for each portfolio company. The use of the new tools is intended to support our portfolio companies in setting ESG targets and to make ESG risk management more business relevant. A more detailed approach to managing sustainability risks is set out in our Sustainability Risk Policy, which outlines procedures and responsibilities for risk identification, evaluation, decision making, and ex-post controls.

2.2. Delivering on fund specific sustainability promises

BaltCap aims to be completely transparent on the processes and means used to achieve sustainability-related targets set in regard to our fund products and to periodically report back to our investors on the progress or the lack thereof. Depending on whether the value offering of the specific BaltCap fund lies with promoting chosen E&S aspects or making sustainable investments, the process differs in order to encompass the varying targets, but it builds on the following set of actions and principles:

2.2.1. E&S promoting funds (SFDR art. 8)

- We outline the fund-level promoting aspects as well as corresponding key performance indicators (KPIs) in the fund’s LPA and pre-contractual notification document.
- We explicitly state whether we are going to measure principal adverse impacts on sustainability factors (“PAI”) at the fund level and, if so, how we propose to consider these in the investment decision process, either as part of the do-no-significant-harm (DNSH) test or by setting a target value for any chosen PAI indicators or by using the PAI indicators to select which cases will be escalated for further actions.
- We will conduct a materiality analysis on each individual investment made from the fund, mapping not only risks but also opportunities for positive impact, based on which we will set more specific targets and KPIs for each individual portfolio company, in addition to more generic fund-based goals or more specific goals within the fund level sustainability themes.

- We will set up a reporting process with the portfolio company to gather data on the applicable KPIs, using a common reporting platform across the whole portfolio to ensure that the same methodology is applied in respect of each individual portfolio company, enabling us to aggregate the gathered data and compile reports encompassing the whole fund.
- We shall use periodic reporting templates provided in SFDR RTS to give our investors information on the progress within the fund and separate portfolio companies.

2.2.2. Funds with the sustainable investment goal (SFDR art. 9)

- We shall establish within the fund LPA and pre-contractual notification document a clear sustainable investment objective in percentage terms, which will represent our minimum commitment to sustainable investment;
- We will disclose in a straightforward way the methodology and/or regulatory framework we will apply to determine whether the economic activity the fund is investing in is considered sustainable.
- Where reasonable, we shall make use of the EU taxonomy regulation and align our investments with the taxonomy by investing in economic activities for which the technical screening criteria have been issued and by abiding by these criteria.
- If the fund considers making investments in “turnaround” cases or potential targets that at the time of investment cannot be considered sustainable under the taxonomy, we may use the sustainable investment definition and test provided under SFDR by setting meaningful individual targets (in accordance with and following the specific fund’s sustainability theme) and seeing that the investment does not cause significant harm to any other social or environmental objectives and by applying good corporate governance practices or other minimum social safeguards, as deemed applicable.
- Data gathering and reporting will follow the same logic as with article 8 funds, but specific article 9 reporting templates will be used.

2.3. Reporting and website disclosures

2.3.1. Reporting at the entity level

BaltCap has published annual portfolio-wide Environmental, Social, and Governance Reports since 2011, which serve as proof of our long-standing commitment to responsible investment and portfolio-wide ESG integration. These reports describe our group level initiatives and sustainability exercises, which we conduct throughout all of our funds and funds’ portfolio companies. These reports are made available to the

public, not only to our investors, with the view of promoting a sustainable mindset and with the intention to lead by example. The ESG reports can be found on our website (<https://www.baltcap.com/company/responsibility/esg-reports/>).

2.3.2. Reporting at the product level

Product level reporting depends on the individual sustainability ambitions of the fund in question, and it consists of pre-contractual, periodic, and *ad hoc* reporting.

2.3.3. Website disclosures

BaltCap discloses on its webpage summary information on each of its fund’s sustainability approaches and ambitions in accordance with the applicable regulation. However, considering the fact that none of the BaltCap group funds are offered to the public, we limit the scope of information made available *via* our webpage to the necessary extent so that we comply with both the sustainability as well as the marketing of private funds rules.

2.4. PAI statement

BaltCap recognizes that sustainability factors can have both a direct and indirect impact on the return and cost structure of investments. We strive to integrate sustainability considerations into our core business to create a strong culture that promotes environmentally and socially responsible practices at both BaltCap and our portfolio companies. In that effort, we recognize the importance of adopting common sustainability terminology, frameworks, and methodologies with our peers, to converge the varying proprietary approaches so as to provide comparability to ourselves and our clients. Considering common PAI indicators is a step in that direction. We have taken the approach of gradually expanding the list of PAIs that we measure across all of our funds’ portfolios.

BaltCap does not, however, currently consider the adverse impacts of our investment decisions on sustainability factors in full, as defined by Article 4 of the EU Sustainable Finance Disclosure Regulation (SFDR). In our view, we do not currently have the means to obtain or measure all the data that would need to be reported under the SFDR or to do so systematically, consistently, and at a reasonable cost across all of our funds’ portfolios. This is partly because small and medium size companies are generally not required to report this data and may not currently do so. We will continue to monitor the situation and will re-evaluate our approach whenever more data becomes available, for example due to regulatory initiatives such as Corporate Sustainability Reporting Directive. As soon as we start considering the adverse sustainability impacts of our investment decisions on sustainability factors in full, we shall disclose the relevant information to investors and on our website.

The above said does not mean that we may not measure and use PAI indicators at fund level, in which case we will disclose this in accordance with article 7 of the SFDR.

2.5. Sustainability governance structure

Sustainability considerations form a big part of who we are and what we do as a fund manager, so managing sustainability risks and delivering on our sustainability promises starts with each of our team member and is not just the responsibility of management board(s) or dedicated sustainability specialists. The general values and entity-level goals of BaltCap have been determined by all of our team members together, and so it is for each individual team member to act according to those common values, regardless of the specific functions and duties carried out daily.

High-level oversight and the highest formal responsibility for holding up and delivering on our sustainability-related undertakings lie with BaltCap's Management Board.

As said above, managing sustainability risks is the general duty of each of our team members, regardless of whether the specific person acts more in the role of a risk taker, i.e., first level of defense, or as a risk officer or manager. It is, however, the risk manager's role to provide help and guidance to the team on how to apply all of our respective internal policies and assure that investment directors integrate the sustainability risk considerations in investment recommendations and that investment committees review and take these into account when making the final investment decision and deciding on the ongoing monitoring arrangements and action plans.

2.6. Remuneration

BaltCap's remuneration practices are designed to assure that employees are rewarded for maintaining a culture which is aligned with stakeholder interests. Remuneration practices shall motivate employees to achieve individual and corporate performance targets that deliver long-term sustainable results, enhance the customer experience, comply with legal and regulatory requirements, promote sound and effective risk management - including sustainability risks - and avoid conflicts of interest.

BaltCap's compensation structure allows taking sustainability risks into account in the variable remuneration of key personnel who make investment decisions and/or provide investment advice. The variable components of remuneration and other benefits are determined by individual employee performance. Performance evaluations consider both financial metrics and qualitative performance criteria. These non-financial factors may include, for example, non-compliance with effective risk management and regulatory requirements, unethical or other behaviors inconsistent with BaltCap's values, but also an individual's contribution to ESG-related efforts, also based on the sustainability targets and characteristics of the underlying fund to which the efforts of the individual team member are related to. More specific guidelines and evaluation methods are set out in BaltCap's Remuneration Policy.