



Integration of Sustainability Risk into the Investment Process

Research note 01-23

Obligo integrates relevant sustainability risks in all aspects of investment strategies and organization, including investment analyses and decisions, investment advice, risk management and governance processes. This document aims to provide a comprehensive overview of Obligo's sustainability risk integration approach in the investment process in line with Article 6 of Regulation (EU) 2019/2088, using Obligo Nordic Climate Impact Fund III (ONCIF3) as an example. First, we go through the Sustainable Finance Disclosure Regulation (SFDR) definitions of sustainability risks and factors and put it into the context of the regulatory framework. Second, we outline our processes for identifying sustainability risks, from climate-related (physical and transition risks) to other sustainability risks, all of which we consider the potential financial impact on our portfolio. The Sustainability Accounting Standards Board (SASB) materiality finder and UN Sustainable Development Goals (UN SDGs) are tools we use to identify material risks. Third, we describe our investment due diligence process and explain how we manage sustainability risk. Finally, we set out how we report on sustainability risk to our investors.

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1. Introduction

Sustainability risk is defined by the SFDR as an “environmental, social or governance event or condition, that if it occurs could cause an actual or potential material negative impact on the value of the investment”¹.

Sustainability factors mean “environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters”.

We must identify relevant Environmental, Social and Governance (ESG) risks and determine which of them are material to investments in different time horizons, material meaning information that is important to the issue at hand. Thus, when considering sustainability risk and adverse impacts on sustainability factors, the concept of double materiality comes into play. This concept describes that it is not just climate-related impacts on the company that are material, but also impacts of a company on the climate, society, and any other dimension of sustainability².



¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32019R2088>

² <https://www.lse.ac.uk/granthaminstitute/news/double-materiality-what-is-it-and-why-does-it-matter/>

2. Regulatory framework

Commission Delegated Regulation (EU) 2021/1255

Legislative measures requiring integration of sustainability factors and sustainability risks into Alternative Investment Fund Managers Directive (AIFMD) regimes apply from 1 August 2022. Compliance with these requirements is assessed within each AIFM's existing risk management and government framework and should be aligned with the AIFM's analysis for compliance with disclosures under the SFDR.³ The Delegated Acts seek to integrate sustainability issues and considerations into the EU legislative regime AIFMD 2011/61/EU. Commission Delegated Regulation (EU) 2021/1255 is an amendment of Delegated Regulation (EU) 231/2013 and imposes obligations on AIFMs to:

- Integrate sustainability risks in the management of AIFs
- Include in their conflicts of interest procedures a consideration of any conflicts that may arise as a result of the integration of sustainability risks
- Take into account:
 - o sustainability risks
 - o if relevant, the principal adverse impacts of investment decisions on sustainability factors, as part of the due diligence in the selection and ongoing monitoring of investments
- Capture details of procedures to manage sustainability risks in the risk management policy

Regulation (EU) 2019/2088

Article 3: Transparency of sustainability risk policies

- Details the transparency of sustainability risk policies in relation to reducing sustainability risk
- Obligo is required to publish information about policies regarding our integration of sustainability risks in the investment decision-making process as well as in our investment advice

We integrate ESG-related threats and opportunities (sustainability risk) into all our active investment strategies within Infrastructure investments but not within Private Equity investments. Based on ESG research, we adjust, for example, future earnings, future write-downs of the assets' values and/or change the risk premium that we require in our investment calculations.

We also work actively with companies that we believe should or have the potential to reduce their sustainability risk. In this way, we can assist companies in reducing their sustainability risk, concurrently reducing the risk in our investments. If the sustainability risk is perceived to be too great and/or the companies are not willing to adjust their sustainability risk exposure, Obligo will refrain from investing in such companies.

Article 4: Transparency of adverse sustainability impacts at entity level

- Financial market participants are required to indicate whether they consider the adverse impacts of investment decisions on sustainability factors at entity level

³<https://www.algoodbody.com/insights-publications/aif-and-ucits-integration-of-sustainability-risks-and-factors>

- And, if so, to disclose certain related information in accordance with the requirements of the Regulatory Technical Standards (“RTS”) providing a detailed specification for the content, methodology and presentation of the information required to be disclosed

Obligo Investment Management has a long-standing commitment to active stewardship, including the consideration of ESG issues, in relation to its investments and maintains processes aligned with this commitment across its investment strategies. Further, Obligo Investment Management is committed to developing its investment processes to maintain best practices as they evolve across the industry for investment in the asset classes that we invest in.

At the present time, Obligo Investment Management does not, when making investment decisions, consider the adverse impacts of decisions on sustainability factors within the meaning of Article 4 of the SFDR as we consider that the information reported to us in relation to the portfolios to which we provide services does not enable us to do so. Obligo Investment Management will keep its position in this respect under review as reporting practices develop. We may adopt the Article 4 framework in the future if we consider that to be practical and appropriate to do so, including being able to meet the requirements of the RTS.

Article 6: Transparency of the integration of sustainability risks

Obligo must include descriptions of the following in pre-contractual disclosures:

- The manner in which sustainability risks are integrated into investment decisions
- The results of the assessment of the likely impacts of sustainability risks on the returns of the financial products they make available

3. Sustainability risk identification

Sustainability risks can be climate-related, or related to environmental, social and governance factors. These risks vary across asset classes, sectors, and geographies as well as across time horizons. Obligo uses various tools, policies, and procedures for the identification process and then these sustainability risks are subject to governance, due diligence, and risk management for evaluation. We perform a materiality analysis based on the SASB materiality finder as part of the review of potential risks.

Global temperature has risen more than 1°C compared to pre-industrial levels, currently on a 4°C warming trajectory by the year 2100. Climate change will create investment winners and losers and have a significant impact on investor's portfolio return and risk in the future. The whole value chain will be affected and prepared investors will be at the forefront to handle climate risks.

Climate-related risks

Climate-related risks are risks related to the transition to a low-carbon economy and the physical impacts of climate change as defined by the Taskforce on Climate-related Financial Disclosures (SFDR). We consider climate-related risks as financially material for all our investment strategies, as underscored by our commitment to the TCFD recommendations and the Paris Agreement temperature goal. Obligo seeks to take a forward-looking approach by utilizing different Intergovernmental Panel on Climate Change (IPCC) climate scenarios for analyses.

As a starting point, we look at the risks of the targeted sectors and assets we consider as potential investment opportunities. The geography of assets determines which risks and opportunities it may face. Some assets may benefit as weather patterns change, while others could experience a reduction in operations and productivity. Likewise, some regulation and other transition risks could benefit certain assets while harming others.

Physical risks

First, we examine the physical risks that may impact each asset type or subsector. Physical risks can be divided into two categories: acute and chronic. Acute risks are those that are event-driven, including the increased severity of extreme weather events such as cyclones, hurricanes, and floods while chronic risks refer to longer-term shifts in climate patterns (e.g., sustained higher temperatures) that may cause sea level rise or chronic heat waves. The chronic physical risks can be divided into several categories including temperature, precipitation, wind, sea level and atmospheric pressure.

	TEMPERATURE	WIND	WATER	SOLID MASS
CHRONIC	Changing temperature (air, freshwater, marine water) Heat stress Temperature variability Permafrost thawing	Changing wind patterns	Changing precipitation patterns & types Precipitation or hydrological variability Ocean acidification/saline intrusion Sea level rise/ water stress	Coastal erosion Soil degradation Soil erosion Solifluction
ACUTE	Heat wave Cold wave/frost Wildfire	Cyclone, hurricane, typhoon Storm (including blizzards, dust & sandstorms) Tornado	Drought Heavy precipitation (rain, hail, snow/ice) Flood (coastal, fluvial, pluvial, ground water, glacial lake outburst)	Avalanche Landslide Subsidence

For Obligo Nordic Climate Impact Fund III (ONCIF3), as an Article-9 fund under the SFDR, we assess the physical climate risks that are material to each investment from those listed in the table below, by performing a robust climate risk and vulnerability assessment, in order to do no significant harm (DNSH) to climate change adaptation.

Physical risks may have financial implications for Obligo such as direct damage to assets, and indirect impacts from supply chain disruption. Financial performance may also be affected by changes in water availability, sourcing and quality, food security, and extreme temperature changes affecting organization's premises, operations, supply chain, transport needs, and employee safety.

Transition risks

Transition risks can have just as large of an impact on operations as physical risks, particularly as we are at a pivotal point in the journey to Net-Zero and increasingly governments and regulatory bodies are under pressure to enable the transition. Policy actions around climate change continue to evolve and their objectives generally fall into two categories—policy actions that attempt to constrain actions that contribute to the adverse effects of climate change or policy actions that seek to promote adaptation to climate change. Another important risk is litigation or legal risk. As the value of loss and damage arising from climate change grows, litigation risk is also likely to increase. Transition risks can be broken down into four categories - policy and legal, technology, market, and reputation. These are further explained below.



POLICY & LEGAL

- Increased pricing of GHG emissions
- Enhanced emissions reporting obligations
- Mandates on & regulation of existing products & services
- Exposure to litigation



TECHNOLOGY

- Substitution of existing products and services with lower emissions options
- Unsuccessful investment in new technologies
- Costs to transition to lower emissions technology



MARKET

- Changing consumer behavior
- Uncertainty in market signals
- Increased cost of raw materials



REPUTATION

- Shifts in consumer preferences
- Stigmatization of sector
- Increased stakeholder concern or negative stakeholder feedback

An important pillar of Obligo's investment strategy is the focus on climate change and as part of our commitment to sustainability, Obligo is a signatory of the UN Principles for Responsible Investment (UNPRI), a member of the Norwegian Forum for Sustainable Investments (NORSIF) and a supporter of the TCFD. This means that we are not negatively exposed to transition risks concerning reporting obligations or reputational risk, as we are ahead of the curve in many of these aspects. ONCIF3 is an article 9 fund, therefore the underlying assets are considered sustainable investments and eligible under the EU Taxonomy, so will typically benefit from policy responses and regulation. However, in the case of a forceful policy response from the authorities to climate change, we will still bear some financial costs of complying to new regulation.

While transition risk impacts can vary within asset types (e.g., asset carbon intensity, local geography, competitive positioning), the purpose of this initial assessment was to identify where there may be material financial risk across asset types. Enterprise risk management sees risks within each asset-type crucial for a comprehensive assessment of the investment portfolio.

Other sustainability risks

There is significant data and information available surrounding climate-related risks, however other environmental factors (such as air pollution, water pollution, scarcity of fresh water, biodiversity loss

and deforestation), social issues and governance practices may also present risks to the value of investments and are identified on an asset-by-asset basis. Sustainability risks are often related to other risk categories or may be a factor to their materiality, therefore it is important to take an integrated view on sustainability risk management. Some examples of these categories are market, liquidity, operational and data availability risk. We identify other sustainability risks through the lens of our framework for assessing the potential financial impact of sustainability risks.

Potential impact of sustainability risks on financial return

In line with point 1(b) of Article 6 of the SFDR regulation, we assess the likely impacts of sustainability risks on the returns of financial products. First, we identify risks related to sustainability factors under the categories of climate and environment, social and employee, respect for human rights, and governance. Then we consider the potential impact on fund value as if the fund was 100% exposed to each risk on a scale of low to high. Following, we determine the fund's actual weighted exposure to each risk and the corresponding potential impact on value, using the same scale. Lastly, we make comments to justify our choices, explain the impact of each risk and define actions we can take going forward to reduce exposure. The full framework can be found in the appendix.



Sustainability risk indicators	No. of Indicators	Potential Impact	Impact Fund Value	Comments	Reason for reduced impact on fund value
Climate and environment					
Greenhouse gas emissions	3			Investment in companies that are exposed to construction- and transportation of goods (i.e. solar panels and wind turbines) from China and other Asian countries	Will be a limited part of the Fund's portfolio. No greenhouse gas emissions are expected from equipment when set in production
Biodiversity	1			Investments in solar parks and wind farms may have negative effects on biodiversity on the land they are occupying	Low share of investments exposed to indicator
Emissions to water	1			Investments in companies subject to negative emissions to water	No Fund exposure to this indicator is expected
Hazardous waste	1			Main potential exposure to hazardous waste is expected to be related to scrapping of used solar panels and wind turbines	Solar panels and wind turbines are expected to be recycled after end of usage. Recycling has the potential of generating income for the fund
Social and employee, respect for human rights					
Social and employee matters	9			Investments in companies subject to crime, corruption, and poor gender balance	Low share of investments in companies exposed to indicators. High focus on improving potential negative issues from the Fund's Manager
Governance					
Violation of copyright and local regulations	1			Investments in companies exposed to violations of copyrights and various local regulations	Low share of investments in companies exposed to indicator. Will be a focus area for the Fund's Manager
Poor IT security and cyber risk	1			Investments companies subject to poor IT security and exposed to cyber risk	Low share of investments in companies exposed to indicator. High focus on IT security from the Fund's Manager
Greenwashing at portfolio companies	1			Investments in portfolio companies that are involved with greenwashing	The fund will perform ESG dd before investments. Close follow-up of ESG issues during investment period
ESG covenants in bank/bond loan agreements	1			Exposure will depend on level of leverage at portfolio companies and potential buyers	The Fund will not enter into loan arrangements with ESG covenants that the Fund's Manager does not expect to be fulfilled
Total impact fund value					
Total Impact	19			Total negative impact of sustainability risks on fund value is estimated to SEK 146 million	A combination of low share of companies exposed to indicators and high focus from the Fund's Manager on avoiding/improving negative ESG issues

For example, for the indicator "GHG emissions", if our fund was 100% exposed to this risk, meaning all our investments emitted significant GHG emissions, then the potential impact on the value of the fund would be high, up to 20% of fund value. However, we expect all of our investments under ONCIF III to have zero emissions, given that the majority of them are located in Nordic countries which have

a very high percentage of renewable energy production, therefore we have low exposure to this sustainability risk. Some GHG emissions may occur in the development phase (e.g. in construction or transportation) particularly goods imported from countries outside of Europe.

Tools, policies and procedures for the identification process

Investment due diligence and sustainability risk management frameworks are the basis for identifying and evaluating potential sustainability risks for our investment portfolios. Once identified and determined material to the investment, sustainability risks and relevant mitigation are integrated in the investment and risk management processes. In parallel, we regularly conduct a company wide risk assessment to confirm all risks have been properly identified and prioritized, together with the materiality analysis. The sustainability component of Obligo's risk appetite is related to the Do No Significant Harm (DNSH) principle, focused on reducing carbon emissions and contributing to climate change mitigation.

SASB Materiality Finder

Based on the targeted industry sectors in ONCIF III, we identified material topics to our investments within the categories of environment, social capital, human capital, business model & innovation, and leadership & governance.

ENVIRONMENT	- GHG emissions - Energy resource planning - Air quality - Water management - Energy management in manufacturing - Water management in manufacturing - Hazardous waste management - Ecological impacts of project development - Environmental footprint of operations
SOCIAL CAPITAL	- Energy affordability - Data privacy - Data security - Driver working conditions - Transparent information & fair advice for customers
HUMAN CAPITAL	- Workplace health & safety - Employee diversity & inclusion
BUSINESS MODEL & INNOVATION	- End use efficiency & demand - Product efficiency - Management of energy infrastructure, integration & related regulations - Product end of life management - Materials sourcing - Environmental impacts of feedstock production - Lifecycle emissions balance - Materials efficiency - Ecological impacts of project development - Incorporation of ESG factors in investment management & advisory
LEADERSHIP & GOVERNANCE	- Grid resiliency - Management of legal & regulatory environment - Operational safety, emergency preparedness and response - Competitive behavior - Managing systemic risk from technology disruptions - Accident & safety management - Business ethics

Alignment with UN SDGs

Mapping our investments against the relevant SDGs and underlying targets, enables us to identify material sustainability factors and risks as well as measure our commitment and impact. It helps us communicate how we create value and reduce climate risk for our investors.

Target SDGs



4. Investment due diligence

The due diligence processes ensure that investment decisions are carried out to comply with the objectives, investment strategy, and risk appetite.

Screening

Obligo has developed checklists for the different asset-classes to screen for high-level sustainability factors to identify potential concerns. The checklist includes issues such as:

- Environmental impact
- Litigation
- ISO certification
- Community involvement projects
- Reputational risks
- Corruption related incidents
- Code of business ethics

Obligo has established an exclusion list for high level checks and will not invest in companies contributing to or responsible for:

- Serious or systematic human rights violations
- Violations of international law
- Severe environmental damage
- Unacceptable greenhouse gas emissions
- Corruption

Investment deep dive

Obligo follows a structured process to evaluate sustainability factors, exposure to potential sustainability risks, management of risks and opportunities and benchmarking through PRI. Obligo uses various tools for the ESG analysis:

- Due diligence-questionnaires
- Obligo's Risk and Return Mapping Model
- Corporate Sustainability Assessment (CSA)
- Management meetings
- Site visits
- Tailored ESG meetings with external managers
- EU Taxonomy & SFDR
- UN Sustainable Development Goals (SDG)
- Taskforce for Climate-related Financial Disclosures (TCFD)
- Use of industry standard ESG due diligence questions from PRI and ILPA
- Enhanced due diligence processes in case of uncertainty or red flags

Investment decision

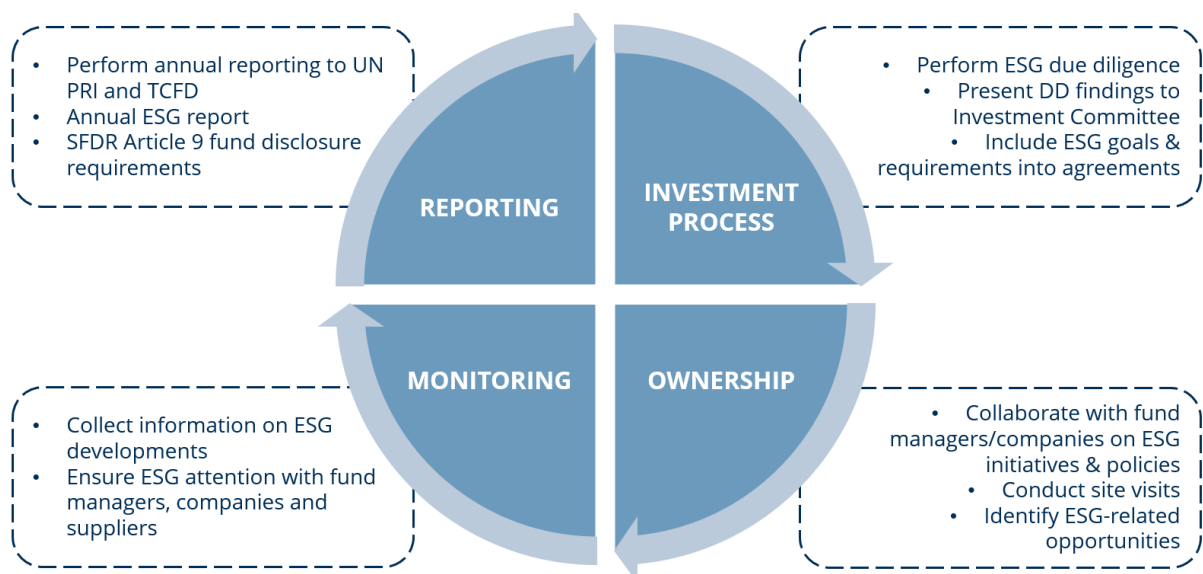
The investment team includes sustainability factor consideration and risk analysis as standard practice in discussions with the investment committee (IC) or external investor. The IC discusses underlying ESG assumptions, approach, findings, and quality assurance procedures. Unresolved issues are

analyzed further and where necessary, external expertise is sought. All investment decisions have to be aligned to ESG policies, investment mandate and strategy.

Investment agreement

Obligo shares ESG objectives, policies, and practices with portfolio company and/or external manager with the expectation that Obligo's norms and values are adhered to. Obligo will share templates from existing industry toolkits with the expectations to integrate ESG clauses into investment agreement. Obligo seeks formal commitment from portfolio company or external manager by incorporating sustainability factors into the deal documents or through side letters.

Obligo's goal is to be a leading sustainable investment manager. Hence Obligo will formulate an ESG roadmap with a 3-5-year horizon for external managers or portfolio companies seeking to improve their ESG practices.



5. Sustainability risk management

Governance

Obligo sets out procedures for the assessment of material sustainability, the risk and compliance department are formally responsible for identifying, assessing, and managing sustainability risks together with the ESG team. The management team annually assess the sustainability factors and risks and work out a road map for managing developments. In our investment process we relate sustainability risk to market, operational and financial risk, and the possible consequences on cash flow and valuation. Obligo ensures that we retain the necessary resources and expertise for the effective integration and management of sustainability risks.

Responsible Investment Policy

The Responsible Investment Policy is approved by Obligo's board of directors. The CIO is the owner of the policy and is responsible for the policy being implemented. The CIO is responsible for ensuring that the policy is integrated in all investment analysis and decision-making processes. Obligo sets expectations for its asset managers and portfolio companies. Obligo's specific requirements and processes on how to manage sustainability factors and risks are set out in our ESG guidelines. The guidelines shall apply to all our investments including external fund managers.

Integrating sustainability risk

The integration of sustainability risks is part of the total risk assessment of the investments for funds under management and is hence included in all risk references in the policy. In addition, we do internal research on climate related risks and opportunities based on experience, discussions with different types of groups, external advisors, and external managers.

Engagement

As an organization, we address relevant categories of climate-change risks including policy and legal, technology, market, and reputation, as well as physical risks, including acute and chronic risks. We place a great importance on engaging with policymakers for a more sustainable financial system, including engaging with policymakers directly as well as being members of third-party organizations that engage with policymakers. We engage with financial regulators on regulatory topics regarding ESG integration, stewardship, and disclosure.

6. Sustainability risk reporting

Obligo performs quarterly periodic reporting and follow up discussions with external managers, portfolio companies and service providers. Reporting is based on agreed monitoring parameters and indicators, dependent upon sector and geographical exposure. External managers and portfolio companies provide the necessary ESG disclosures for Obligo to comply with its reporting requirements to PRI and the SFDR. ESG reporting on sustainability factors and risks will be published in a separate ESG report, as well as integrated into annual reports.

Commitments

As signatories of the UN Principles for Responsible Investment (PRI), we report on responsible investment activities annually. Obligo scored as a top performer (A+) in the UN PRI assessment. Obligo is a supporter of the Taskforce for Climate-related Financial Disclosures, meaning we report in line with the recommendations on the four pillars: governance, strategy, risk management, metrics, and targets.

Principal Adverse Impacts

Obligo uses environmental, social and governance data for screening and engagement purposes on an entity level, but it will now be developed on a product level to screen for principal adverse sustainability impacts for Obligo Nordic Climate Impact Fund III (ONCIF3). In general, Obligo considers principal adverse impacts on sustainability factors in our infrastructure investments through the use of exclusions, active ownership, and quantitative research. We exclude companies that violate international standards or that produce/distribute products with negative characteristics. We use quantitative analysis to monitor the portfolio's total exposure, including carbon-intensive sectors. We use active ownership to influence companies for improvement. For ONCIF3, we will report on the fourteen mandatory principle adverse impact (PAI) indicators when the fund is fully invested. These are:

1. GHG emissions
2. Carbon footprint
3. GHG intensity of investee companies
4. Exposure to companies active in the fossil fuel sector
5. Share of non-renewable energy consumption and production
6. Energy consumption intensity per high impact climate sector
7. Activities negatively affecting biodiversity sensitive areas
8. Emissions to water
9. Hazardous waste and radioactive waste ratio
10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises
12. Unadjusted gender pay gap
13. Board gender diversity
14. Exposure to controversial weapons (antipersonnel mines, cluster munitions, chemical weapons, and biological weapons)

7. Conclusion

Obligo systematically works to improve sustainability measures to the benefit of the whole value chain, from investors and employees to suppliers and the local community. As part of our DNA, a sustainability focus and ESG commitment improves our ability to make profitable investments. Integrating policies to measure, manage and mitigate sustainability risk is therefore an essential part of our sustainable investing approach. Obligo's goal is to contribute to climate change mitigation through reducing GHG emissions. Our strategy is to reduce exposure to assets with significant climate and transition risk, and invest in low-carbon, energy efficient climate adaptation opportunities.

Appendix

Exhibit 1: Financial Impact of ESG indicators for Obligo Nordic Climate Impact Fund III

Expected AUM is SEK 1.5bn

INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEE COMPANIES			NET RISK		
No.	Risks related to the adverse sustainability indicators	Metric	Potential Impact on Fund Value if 100% Exposure	Fund's weighted Exposure	Potential Impact Fund Value
Climate and other environment-related indicators					
1	Greenhouse gas emissions/Carbon footprint	GHG emissions Carbon footprint GHG intensity of investee companies	High 15-20%	Low 0-10%	NOK 13 mill
2	Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	High 15-20%	Zero 0%	NOK 0 mill
3	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	High 15-20%	Zero 0%	NOK 0 mill
4	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	Medium low 5-10%	Medium low 10-30%	NOK 23 mill
5	Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average	Medium high 10-15%	Zero 0%	NOK 0 mill
6	Hazardous waste ratio	Tonnes of hazardous waste generated by investee companies per million EUR invested, expressed as a weighted average	Medium low 5-10%	Medium low 10-30%	NOK 23 mill

INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEE COMPANIES		COMMENTS AND ACTIONS	REFERENCE
No.	Risks related to the adverse sustainability indicators		1. ESA - Final Report on draft Regulatory Technical Standards, 2 February 2021
Climate and other environment-related indicators			
1	Greenhouse gas emissions/Carbon footprint	Solar panels and wind turbines may be produced with the use of non-renewable energy. When solar panels and wind turbines are set in production, no greenhouse gas emissions are expected.	No. 1, 2 and 3 combined ESA Technical Standards Included in Luminar's Sustainability Report
2	Exposure to companies active in the fossil fuel sector	No Fund exposure is expected.	No. 4 ESA Technical Standards
3	Share of non-renewable energy consumption and production	No Fund exposure is expected.	No. 5 ESA Technical Standards
4	Activities negatively affecting biodiversity-sensitive areas	Investments in solar parks and wind farms may have negative effects on biodiversity. It is expected that a limited number of solar parks and wind farms may be exposed for negative biodiversity issues within the Fund's expected geography of these investments.	No. 7 ESA Technical Standards Included in Luminar's Sustainability Report
5	Emissions to water	No Fund exposure is expected.	No. 8 ESA Technical Standards
6	Hazardous waste ratio	The Fund Manager does not have knowledge about potential hazardous waste caused by the production of solar panels and wind turbines. However, it is expected that scrapped solar panels and wind turbines that have been used in energy production will be recycled without generating hazardous waste. Recycling of solar panels and wind turbines have the potential of generating income rather than costs for the Fund.	No. 9 ESA Technical Standards

INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEE COMPANIES			NET RISK		
No.	Risks related to the adverse sustainability indicators	Metric	Potential Impact on Fund Value if 100% Exposure	Fund's weighted Exposure	Potential Impact Fund Value
Social and employee, respect for human rights, anti-corruption and anti-bribery matters					
7	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	High 15-20%	Low 0-10%	NOK 13 mill
8	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 or grievance /complaints handling mechanisms to address violations	Medium low 5-10%	Low 0-10%	NOK 6 mill
9	Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	Medium high 10-15%	Low 0-10%	NOK 9 mill
10	Poor board/founder gender diversity	Average ratio of female to male board members/founders in investee companies	Medium low 5-10%	Low 0-10%	NOK 6 mill
11	Poor employee gender balance		Medium low 5-10%	Low 0-10%	NOK 6 mill
12	Lack of supplier code of conduct		Medium low 5-10%	Low 0-10%	NOK 6 mill
13	Insufficient whistleblower protection		Medium high 10-15%	Low 0-10%	NOK 9 mill
14	Excessive CEO pay ratio		Medium low 5-10%	Low 0-10%	NOK 6 mill
15	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	High 15-20%	Zero 0%	NOK 0 mill

INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEE COMPANIES		COMMENTS AND ACTIONS	REFERENCE
No.	Risks related to the adverse sustainability indicators		1. ESA - Final Report on draft Regulatory Technical Standards, 2 February 2021
Social and employee, respect for human rights, anti-corruption and anti-bribery matters			
7	Violations of UN GC principles & OECD Guidelines for MNEs	Crime and corruption risk. Main risk expected to be related to production of goods in third-party countries. Obligo has an exclusion list for high level checks to avoid this risk. Our code of conduct is aligned to the UN GC principles and OECD guideline and relates to persons who provide services to Obligo, in this context the partners of this investment.	No. 10 ESA Technical Standards
8	Lack of processes & compliance mechanisms to monitor compliance with UN GC principles and OECD Guidelines	Exposure toward companies with insufficient processes and policies are expected to be related to companies involved with production of goods in third-party countries. The Fund Manager will take an active approach to ensure that portfolio companies have sufficient policies and routines within this area.	No. 11 ESA Technical Standards
9	Unadjusted gender pay gap	It is expected that the Fund will invest in portfolio companies with relatively few employees, and where the level of unadjusted gender pay gap will be low. The Fund Manager will take an active approach to ensure that portfolio companies will correct any unadjusted gender pay gaps.	No. 12 ESA Technical Standards
10	Poor board/founder gender diversity	The Fund Manager will encourage good gender balance at board level at portfolio companies and will work actively to improve gender balance during ownership period.	No. 13 ESA Technical Standards Included in Luminar's Sustainability Report
11	Poor employee gender balance	May be higher early in the investment life cycle. The Fund Manager will work actively during the ownership period to improve any poor gender balances.	From ESG workshop
12	Lack of supplier code of conduct	The Fund is expected to invest in Nordic portfolio companies where sufficient supplier code of conduct is expected to be the norm. However, portfolio companies may have an exposure towards companies without sufficient supplier code of conduct, particularly among suppliers in third-party countries.	From ESG workshop
13	Insufficient whistleblower protection	Is a legal requirement in the countries where the Fund expects to invest. The Fund Manager will have a particular focus on this issue.	From ESG workshop
14	Excessive CEO pay ratio	The Fund will invest in smaller companies where excessive CEO pay is expected to be of minor exposure. The Fund Manager will work actively to reduce any incidences of excessive CEO pay ratio.	From ESG workshop
15	Exposure to controversial weapons	No Fund exposure is expected.	No. 14 ESA Technical Standards

INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEES COMPANIES			NET RISK		
No.	Risks related to the adverse sustainability indicators	Metric	Potential Impact on Fund Value if 100% Exposure	Fund's weighted Exposure	Potential Impact Fund Value
Governance related indicators					
16	Violation of copyright, violation of local legislation (i.e. Über)		Medium high 10-15%	Low 0-10%	NOK 9 mill
17	Poor IT security, cyber risk		Medium low 5-10%	Low 0-10%	NOK 6 mill
18	Greenwashing at portfolio companies		High 15-20%	Low 0-10%	NOK 13 mill
19	ESG covenants in bank/bond loan agreements		Low 0-5%	Zero 0%	NOK 0 mill

INDICATORS APPLICABLE TO INVESTMENTS IN INVESTEES COMPANIES		COMMENTS AND ACTIONS	REFERENCE
No.	Risks related to the adverse sustainability indicators		1. ESA - Final Report on draft Regulatory Technical Standards, 2 February 2021
Governance related indicators			
16	Violation of copyright, violation of local legislation	May occur, but the Fund Manager will have a particular focus to ensure that portfolio companies operates according to legislation.	From ESG workshop
17	Poor IT security, cyber risk	The Fund Manager will work actively to ensure sufficient IT security in portfolio companies. The Fund will not exit an investment in a period where the portfolio company is subject to a cyber attack.	From ESG workshop
18	Greenwashing at portfolio companies	The Fund Manager will perform ESG due diligences before investments. The Fund Manager will also follow-up the portfolio companies on ESG related issues on an ongoing basis, including periodic reporting on ESG issues/indicators.	From ESG workshop
19	ESG covenants in bank/bond loan agreements	Applies for both the Fund and potential buyers of portfolio companies. The Fund will not enter into loan arrangements with ESG covenants that the Fund Manager does not expect to be fulfilled.	From ESG workshop

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