Merito Group's

Sustainability Risk Policy

Document Version History Table

Version	Approved	Effective Date	Summary of Changes Made
1.0	18.06.2025 Board decision No.2025-6-1	18.06.2025.	Initial Version

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1. Purpose

1.1. The purpose of this Sustainability Risk Policy (hereinafter the "Policy") is to outline how fund managers (hereinafter "AIFMs") controlled by Merito Private Equity SIA and Merito Partners SIA, so far as they exercise control and provide services to AIFM (hereinafter "Merito" or "Merito Group"), integrate sustainability risks into the investment decision-making process for the Alternative Investment Funds (hereinafter the "AIFs") they manage. The Policy aims to ensure that sustainability risks are considered in a manner consistent with regulatory requirements, best practices, and other policies of Merito.

1.2. This Policy serves as an overarching framework and applies to all current and future AIFMs of Merito.

1.3. The Merito Group includes the following AIFMs and any additional AIFMs that might be established by Merito in the future:

1.3.1. SIA Merito Management AIFP, registration number 40203412258.

1.3.2. SIA Merito Real Estate Management AIFP, registration number 40203440887.

1.3.3. SIA Merito Private Debt Management AIFP – to be established.

2. Definition of Sustainability Risks

2.1. Sustainability risk means an environmental, social, or governance (hereinafter "ESG") event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

2.2. Sustainability risks may arise from the following ESG factors:

2.2.1. **Environmental factors** are related to the quality and functioning of the natural environment and of natural systems, and include factors such as climate change, biodiversity, energy consumption, pollution and waste management.

For example, an introduction of a carbon tax that may decrease the profitability of carbon-intensive businesses or decrease the competitiveness of their products.

2.2.2. **Social factors** are related to the rights, well-being and interests of people and communities, and include factors such as (in)equality, health, inclusiveness, labour relations, workplace health and safety, human capital and communities.

For example, companies that apply a lower standard of labour rights may face increased costs of compliance in the future.

2.2.3. **Governance factors** cover governance practices, including executive leadership, executive pay, audits, internal controls, tax avoidance, board independence, shareholder rights, corruption and bribery, and also the way in which companies or entities include environmental and social factors in their policies and procedures.

For example, a company involved in bribery scandals could be affected by market pressure and suffer large reputational damage.

2.3. Sustainability factors can give rise to negative financial impacts through a variety of risk drivers that can be categorised as physical risks and transition risks:

2.3.1. **Physical risks** arise from the physical effects of climate change and environmental degradation.

For example, lack of sufficient available freshwater resources to meet water usage demand.

2.3.2. **Transition risks** arise from the uncertainty related to the timing and speed of the process of adjustment to a sustainable economy. Transition risks are categorised as policy risks, legal risks, technology risks, market risks, and reputational risks.

For example, when the choices of consumers and business customers shift towards products and services that are less damaging to the climate.

3. Classification of AIFs

3.1. Merito Group classifies its AIFs in accordance with the three categories under the EU's Sustainable Finance Disclosure Regulation (SFDR):

3.1.1. **Article 9 (Dark Green Funds)**: AIFs that have sustainable investment as their objective.

3.1.2. **Article 8 (Light Green Funds)**: AIFs that promote environmental or social characteristics, provided that the companies in which the investments are made follow good governance practices.

3.1.3. **Article 6**: AIFs where sustainability risks may be integrated into investment decisions, without the fund promoting environmental or social characteristics or having sustainable investment as their objective.

4. Classification Test

4.1. In order to designate either an Article 9 (Dark Green Funds) or an Article 8 (Light Green Funds) category to an AIF, Merito conducts a three-part assessment:

4.1.1. **Level of Ambition**: Assessment whether and to what extent the investment (i) contributes to environmental and/or social objectives or (ii) promotes environmental and/or social characteristics.

4.1.2. **Do No Significant Harm (DNSH)**: When applicable, DNSH test against at least these indicators: GHG emissions, Activities negatively affecting biodiversity-sensitive areas, Emissions to water, Hazardous waste and radioactive waste ratio, Violations of UN Global Compact principles and OECD Guidelines for MNEs on RBC, Unadjusted gender pay gap, Board gender diversity, Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons).

4.1.3. **Good Governance**: Assessment of alignment with good governance practices in respect to at least sound management structures, employee relations, remuneration of staff, tax compliance.

4.2. Data for the assessment is obtained via multiple available sources such as sustainability reports, adverse media coverage, information provided by the management of an investee company and others.

5. Integration of Sustainability Risks in Investment Decision-Making

5.1. Merito acknowledges that sustainability risks can have a material impact on the performance of investments. Therefore, Merito seeks to incorporate sustainability risks into the investment analysis and decision-making process in the following manner:

5.1.1. **Initial Screening**: key persons of the respective AIF will perform both negative and positive screening against the Merito Group Responsible Investment Policy. For the negative screening the business activities of a company will be evaluated against the exclusions list and a potential involvement in Harmful Practices as defined therein. For the positive screening, the alignment with the priority Sustainable Development Goals of Merito will be examined.

5.1.2. **Identification and Assessment**: key persons of the respective AIF will identify and assess potential material sustainability risks relevant to the sector for each investment.

5.1.3. **Due Diligence**: During the due diligence phase, the key persons of the respective AIF will assess how sustainability risks are managed within the companies and assets under consideration for investment. This will include reviewing sustainability reports, if any, and/or requesting additional information to assess both quantitative and qualitative ESG information. If required, external advisors may be involved, e.g., when specific environmental due diligence engagements would be deemed necessary.

5.1.4. **Engagement**: Where appropriate, Merito will engage with portfolio companies and stakeholders to promote better management of sustainability risks. This may include dialogue on ESG performance and advocating for improvements in governance, obtaining the environmental permits, responding to employee grievances etc.

5.1.5. **Monitoring**: After an investment is made, Merito will continuously monitor the sustainability risk profile of each investment. As per the Merito Group Responsible Investment Policy, monitoring includes adverse media coverage, relying on its own observations, and reviewing whistleblowers' reports and other complaints regarding portfolio companies. Ad hoc review may be carried out in cases where material changes in sustainability risks are very likely, for example, when the company decides to enter a high-risk market, change its business model, or significantly expand its operations etc.

5.2. For certain SFDR Article 6 AIFs, sustainability risks could be deemed as not relevant. In such cases, a clear and concise explanation of the reasons therefor will be included in the fund level pre-contractual disclosures. When this is the case, only the initial screening as per Clause 5.1.1. above is conducted for such investments.

6. Interest Rate ESG Ratchet Mechanism

6.1. Merito may introduce an interest rate ESG ratchet (reduction) mechanism for certain AIFs to act as the key monetary element in structuring the cooperation with the portfolio companies on the sustainability agenda.

7. Adverse Impacts of Investment Decisions on Sustainability Factors

7.1. Taking into account the size and the scale of Merito's activities, Merito does not consider any principal adverse impacts of its investment decisions on sustainability factors.

7.2. As the team of Merito grows and additional resources become available, this approach may be reconsidered.

8. Compliance

8.1. Compliance with this Policy and the achievement of the commitments herein is the responsibility of all associates of Merito.

8.2. Oversight of the proper implementation of the Policy is assigned to the Risk Manager.

9. Review

9.1. This Policy will be reviewed and amended as necessary by December 31st of each year to reflect new developments in sustainability risk management and regulatory changes.

10. Training

10.1. Associates of Merito will receive ongoing training on the integration of sustainability risks in the investment process as part of the capacity development activities in a manner described under the Merito Group Responsible Investment Policy.