ICELAKE

Integration of Sustainability risk

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1. INTRODUCTION

Regulation 2019/2088 of the European Union on sustainability-related disclosures in the financial sector (‘the SFDR’) obligates financial market participants (FMPs) to provide transparency on sustainability-related issues. These issues include the integration of sustainability risks, how remuneration policies are consistent with integration of these risks, and consideration of principal adverse impacts.

This document addresses Article 3 of the SFDR on Transparency of remuneration in relation to the integration of sustainability risks:

> *Financial market participants shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process.*

Other information disclosed in pursuance of the SFDR, and IceLake’s approach to integration of environmental, social and governance (ESG) factors in general, can be found on the IceLake website.

2. SUSTAINABILITY RISKS

IceLake considers and integrates sustainability risks through its entire investment cycle, adhering to the recommendations of the Task Force on Climate-Related Disclosures (TCFD). The TCFD framework recommends describing the approach to climate risks covering the elements of governance, strategy, risk management processes and metrics and targets, and is in this case also applied to social and governance risks.

2.1 GOVERNANCE

To ensure ownership of identifying and acting on sustainability risks, the entire IceLake team carries responsibility to flag sustainability risks arising at investee companies. However, to ensure centralised responsibility and oversight, IceLake’s Head of Finance is end-responsible for all processes related identifying, monitoring and mitigating sustainability risks.

2.2 STRATEGY

When identifying sustainability risks, IceLake Capital considers environmental, social and governance (ESG) risks. Sustainability risks are approached from a double materiality standpoint, where both outward adverse impact risks and inward business risks are considered.

2.2.1 Outward adverse impact risks

IceLake Capital strives to limit adverse impacts on ESG factors for all its investments. To do so, a proprietary ESG framework is used whereby ESG risks are measured on material themes, mapped across the following ESG categories: climate and energy, material circularity, ecosystem impact, employee well-being, customer impact, corporate citizenship, corporate governance, supply chain management, and ESG-related business resilience. Next to considering tailored material themes per investee company, adverse impacts on climate change and equal opportunities are considered and measured for all investments (see ‘2.4 Metrics and targets’).

2.2.2 Inward business risks – transition and physical risks

As part of inward business risks, IceLake Capital considers both transition risks, risks arising from the economic transition towards a more sustainable society, as physical risks, environmental risks arising from acute or chronic climate events.

As for transition risks, IceLake Capital considers the following risk drivers:

- Regulatory developments – risks that arise from changing regulations related to increasing governmental interventions in the interest of sustainable outcomes (e.g. more stringent reporting guidelines for businesses)
- Commercial developments – risks that arise from altered customer sentiments, as consumer preferences shift to an increasing consideration of sustainable impacts of products and services (e.g. reputational damage)
- Technological developments – risks that arise from accelerated costs as a result of the implementation of technologies favourable to sustainable outcomes (e.g. rising energy costs as a result of the transition towards sustainable energy sources)

As for physical risks, the likelihood of financial impact of extreme weather events as a result of climate change is assessed in a similar way based on geographical exposure of the investee companies.

2.3 RISK MANAGEMENT

To identify, monitor, and mitigate sustainability risks, several safeguards are integrated into various stages of the investment cycle:

- **Selection** – When selecting investments, a list of exclusion criteria is applied (see 'IceLake Capital ESG Policy')
- **Screening** – For all investments, an ESG due diligence is executed, enabling early identification of sustainability risks and providing a benchmark assessment
- **Value creation** – through the holding period, there is a continuous engagement on mitigation strategies of sustainability risks and opportunities
- **Exit** – to provide transparency to potential buyers about sustainability risks and opportunities, an ESG vendor due diligence is conducted where considered relevant

Throughout all stages, risk levels for both transition risks and physical risks are measured qualitatively by assigning risk levels low (L), medium (M) or high (H), based on the estimated likelihood of financial impact. These assessments inform decision making on mitigation strategies to lower risks to an acceptable level.

2.4 METRICS AND TARGETS

To ensure the effective execution of our sustainability risk strategy and approach, the fund will use several indicators.

When measuring and monitoring ESG risks, the following metrics are used:

- Portfolio-wide GHG emissions (tCO_2e)
- Portfolio-wide gender pay gap (%)
- Company specific indicators

Additionally, the effectiveness of risk management processes is monitored through the following metrics:

- Investments made consistent with exclusion criteria (%)
- Investments made with unmanageable ESG risks (%)
- Share of companies assessed with and applying the ESG framework (%)