Integration of sustainability risks

This statement describes how GRO Capital integrates sustainability risks into the investment decision-making process cf. Article 3 of the Sustainable Finance Disclosure Regulation (SFDR).

The SFDR defines sustainability risk as “an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment”.

Sustainability risks

Our investments are exposed to a number of sustainability risks which could potentially affect the value of our investments. Below, an overview of the key potential risks is provided.

Environmental risks which may cause a potential or actual negative impact on the investment could include transition and physical climate risks. Physical climate risks can potentially negatively impact investments through the direct and indirect effects of climate change. For example, climate change may negatively impact growth in vulnerable geographical locations, as well as resource availability and supply chain operations. Transitional risks include business-related risks that may occur in the transition towards a low-carbon future. Risks may particularly relate to policy and regulatory changes, such as carbon taxes, as well as changes to consumer behaviour and technologies. Further, increasing stakeholder and market expectations may pose reputational risks, which can potentially financially impact our investments.

Other environmental risks can occur in relation to breaches to local and international environmental regulations and frameworks, including legal or reputational consequences from pollution caused by a company, e.g., related to leakages into eco-systems and air-pollution.

Investments may also be exposed to social risks related to inequality and discrimination, poor working conditions, health and safety, and human- and labour rights. Particularly, gender diversity is a key focus area for GRO Capital due to the challenges related to this topic within the B2B software industry. Further, governance risks can arise in relation to exposure to cases of corruption and bribery, unethical tax practices, conflicts of interest, and general unethical business conduct, causing legal or reputational harm.

Integration of sustainability risks into the investment decision-process

GRO believes that an increased focus to integrate sustainability into its investment process is a prerequisite for long-term economic sustainability as well as preservation and increasing the value of investments, which GRO seeks to achieve through good corporate governance and responsible investment practices in the Nordic/North European mid-market technology companies focusing on B2B software that the funds managed by it invests in.

The goal is to appropriately manage the sustainability risks and opportunities related to our investment throughout the investment risk assessment and decision-making process. In doing so, we have developed policies and procedures to ensure that our investments meet the ESG-related principles set out in our Responsible Investment Policy.

To integrate the consideration of sustainability risks in our investment decision-making process, we integrate these considerations into our investment decision framework, following the below procedures:

a) Screening: GRO's investment team will only pursue investments in sectors that fall within the scope of the relevant fund’s investment strategy and ESG principles. Based on factors relevant to each investment, GRO's investment team will perform an initial screening of investments to identify red flags or material risks, which may impact the investment decision;
b) Due diligence: If material risks are identified, GRO's investment team shall arrange for targeted due diligence to be performed on relevant ESG topics to a potential investment, which shall, as relevant in each case, include an assessment of risks relating to: (i) environmental and climate impacts and

compliance, (ii) labour standards, (iii) human rights, (iv) anti-bribery and corruption, and (v) health, safety and environmental standards.

c) Investment decision: GRO Capital's investment team will present findings from the aforementioned process to the Investment Committee. During the final investment decision process, ESG opportunities and risks will be flagged, and recommendations to address relevant ESG risks will be proposed for potential target companies.

d) Investment contracts: GRO's investment team shall, to the extent relevant and possible considering the structure of an investment, seek to ensure that it is either represented in the investee company board or otherwise has access to relevant ESG-related investment information, and that relevant ESG topics are addressed in relevant investment contracts