Sustainability-related Disclosure: Transparency of the promotion of environmental and social characteristics

PURPOSE

The purpose of this document is to provide information on the promotion of environmental and social characteristics in the KS Livonia Partners Fund II AIF (the “Fund”) according to Article 10 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (“SFDR).

SUMMARY

The Fund does not have a sustainable investment objective, although it promotes environmental and social characteristics. The Fund considers ESG factors in its investment process but does not currently assess all the Principal Adverse Impacts (PAI) defined in EU regulations. This is due to a lack of data availability from small and medium-sized companies in which the fund invests. However, the Fund is committed to implementing PAI indicators and transparency measures in the future.

The Fund actively promotes good governance practices, social and environmental performance, and monitors various metrics to ensure high standards are maintained. It implements an exclusion policy and focuses on climate action, responsible consumption and production, decent work and economic growth, and gender equality in its portfolio companies. Through its Dedicated Investments, the fund aims to contribute to positive environmental impact by addressing areas such as greenhouse gas emissions, freshwater consumption, air and water pollution, biodiversity, solid waste, and resource use. The specific areas of focus depend on the materiality of each portfolio company.

The Fund's investment strategy focuses on small to mid-sized companies in Latvia, Lithuania, and Estonia with growth potential and opportunities for operational value creation. It actively

LIVONIA PARTNERS

manages its portfolio companies to increase value, drive operational efficiency, and make responsible and sustainable decisions. ESG considerations are integrated into all stages of the investment cycle, including evaluation, filtering, sustainability assessment, engagement, and monitoring. The Fund also prioritizes good governance practices, conducting due diligence on companies, and working to improve their governance throughout the holding period by closely monitoring various metrics.

Overall, the Fund aims to invest in companies that promote environmental and social characteristics, but it does not have a primary objective of sustainable investment. It actively works with portfolio companies to enhance transparency, disclosure, and data provision, recognizing the limitations and challenges associated with collecting ESG data from small and medium-sized enterprises. The Fund conducts comprehensive due diligence and engages with companies to address any identified ESG risks and opportunities. It also implements engagement policies during the ownership period to mitigate ESG risks and drive value creation aligned with ESG principles.

A reference benchmark has not been designated to promote the characteristics.

NO SUSTAINABLE INVESTMENT OBJECTIVE

This financial product promotes environmental or social characteristics but does not have as its objective sustainable investment.

While the Fund continues to consider ESG factors in the investment process, it does not currently consider all the Principal Adverse Impacts (PAI) as defined in ANNEX I supplementing the Regulation (EU) 2019/2088 of the European Parliament and of the Council. This is primarily due to the fact that the Fund invests in small and medium-sized companies, and additional data collection is needed as small and medium-sized companies are currently not required to report this data and lack the processes for doing so. Nevertheless, during the holding period, the Fund is committed to implementing principal adverse impact indicators and building processes to provide the required transparency regarding the specified metrics.

The Fund does not invest in companies that are found during ESG DD process to violate the principles which are in accordance with the United Nations Universal Declaration of Human Rights, the International Labor Organization's (ILO) labor standards, the United Nations

Guiding Principles for Business and Human Rights (UNGPs), the United Nations Global Compact (UNGC) and the OECD Guidelines for Multinational Enterprises.

ENVIRONMENTAL OR SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT

The Fund promotes good governance practices, social and environmental performance improvement, and monitors various metrics to ensure that high standards are upkept. ESG considerations are taken throughout all stages of the investment process to ensure the Fund attains environmental and social characteristics.

The Fund ensures these characteristics are promoted by implementing its exclusion policy; working with portfolio companies within the focus areas of selected UN Sustainable Development Goals (SDGs) - climate action, responsible consumption and production, decent work and economic growth, and gender equality; and by pushing companies to make dedicated investments throughout the holding period that reduces their climate and environmental impact ("Dedicated Investments").

SDGs: The fund aims to reduce the negative environmental and social impact by striving to achieve the following goals within Fund's lifetime:

Goal	Related SDGs
80% of companies have set GHG emission reduction targets in accordance with the Science Based Target Initiative (SBTi) methodology and are on track to achieve them	SDG 13 Climate action; SDG 12 Responsible consumption and production
50% of energy used by Fund II companies combined is derived from renewable energy sources	SDG 13 Climate action; SDG 12 Responsible consumption and production

LIVONIA PARTNERS

Goal	Related SDGs
Zero high-consequence[1] work-related injuries	SDG 8 Decent work and economic growth
100% of companies monitoring employee satisfaction	SDG 8 Decent work and economic growth
100% of companies are on track with their gender pay gap reduction commitments	SDG 5 Gender equality
25% representation of the underrepresented gender in companies' boards	SDG 5 Gender equality
100% of companies have a Code of Conduct or a set of ESG Policies that cover material ESG topics	SDG 13 Climate action; SDG 12 Responsible consumption and production; SDG 8 Decent work and economic growth; SDG 5 Gender equality
100% of companies have a Whistleblowing mechanism	SDG 13 Climate action; SDG 12 Responsible consumption and production; SDG 8 Decent work and economic growth; SDG 5 Gender equality

Dedicated Investments aim to contribute to the positive impact or decrease the negative impact within one or more of these environmental sustainability areas:

[1] work-related injury that results in a fatality or in an injury from which the worker cannot, does not, or is not expected to recover fully to pre-injury health status within 6 months (source: gri-403-occupational-health-and-safety-2018.pdf (globalreporting.org))

- Greenhouse Gas (GHG) emissions,
- freshwater consumption,
- air pollution,
- water pollution,
- biodiversity and prevention of nature loss,
- solid waste, and
- resource use (including increased use of circular and renewable materials and energy sources).

The environmental area selection will depend on the materiality of the issues for the respective portfolio companies. Improvements might be within the portfolio company's own operations, as well as the upstream supply chain, downstream supply chain, consumer phase, or end-of-life of a product.

Please find more details on our exclusion policy and how we work within four focus areas in our ESG policy, Sustainability strategy, and the latest update in our 2022 ESG report.

INVESTMENT STRATEGY

The Fund invests in small to mid-sized companies mainly in Latvia, Lithuania, and Estonia with significant growth potential and operational value creation opportunities. The Fund aims to construct a diversified portfolio of investments.

One of the core principles of the Fund's investment strategy is a meaningful positive impact on the environment and society. The Fund focuses on bettering environmental sustainability and lessening the climate footprint of its portfolio.

The Fund applies an active management approach to its portfolio companies to increase value, expand growth ambitions, drive operational efficiency, and implement responsible and sustainable environmental, social, and corporate governance decisions.

The Fund promotes social and environmental characteristics throughout the whole investment cycle, including in the following steps:

- Evaluation of the level of ESG risks and potential issues at the sourcing and industry screening stage;

- Filtering out and exclusion of sectors that do not fit with our principles of responsible investment and our investment strategy;

- Sustainability assessment of an investment target, with its competitive advantages, risks, business model and processes included in considerations in the investment decision process;

- Engagement the company's management and other stakeholders in creating an appropriate and value-creating ESG roadmap based on the assessment and our Sustainability strategy;

- Guiding the portfolio companies to reduce their negative sustainability impact and identify opportunities during the holding period;

- Building timelines with the companies to implement the measurement, identify actions, set targets, and report progress;

- Implementation of the ESG policy and metrics to ensure business sustainability and enhance value creation, with periodic progress report.

Please refer to the Sustainability strategy and ESG policy for further information.

To ensure good governance, the Fund ensures to screen companies during the due diligence process and works on improving the governance of the companies throughout the holding period. This process includes the following steps:

- The companies are screened if there is any record of violations of national or international laws and regulations, and any instances or processes that are in violation of the OECD Guidelines for Multinational Enterprises.
- During the holding period, the companies' policies are reviewed against the best practice recommendations of OECD Guidelines for Multinational Enterprises and the United Nations Global Compact (UNGC). The Fund urges the companies to address and prioritize the identified matter diligently.
- To identify any potential shortcomings in the governance process, the Fund closely monitors various metrics to serve as indicators, including, but not limited to:
    - Amounts of taxes paid

- Accident rates
- Employee satisfaction
- Turnover of the employees
- Number of employees paid below or minimum salary
- Length and number of shifts
- Penalties paid to regulatory authorities
- Ongoing litigations
- Cases relating to employment and industrial relations, environment, information disclosure, bribery, corruption, consumer interests, science and technology, competition, and taxation
- Violations of the principles of OECD Guidelines for Multinational Enterprises

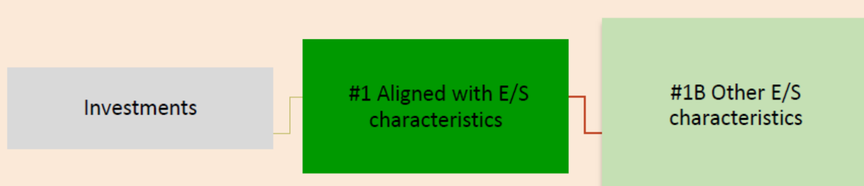
- If any metrics indicate a potential issue, it is promptly addressed by discussing it in the board meeting with the management and taking necessary mitigating actions.

PROPORTION OF INVESTMENTS

From all the investments the Fund will make, close to 100% will be allocated to companies that promote E/S characteristics (#1B in the graph below).

The Fund may invest in companies that may not match the Fund´s ESG criteria in its entirety in the investment stage. In these cases, the companies would still need to have adequate minimum safeguards and the Fund would commit to aiming to influence relevant ESG changes within the holding period and categorize as "#1 Aligned with E/S characteristics.

The Fund does not commit to including but might make investments that qualify as Sustainable Investments.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS

The sustainability indicators used to measure the attainment of the environmental and social characteristics promoted by the Fund are:

- Dedicated investments, €000s
- The percentage of companies on track with reductions of GHG emissions according to their reduction targets set in accordance with the SBTi methodology, %
- Renewable energy, % of total energy
- Total number of high-consequence work-related injuries
- The percentage of companies monitoring employee satisfaction, %
- The percentage of companies on track with their gender pay gap reduction commitments, %
- Board gender diversity, % of underrepresented gender
- The percentage of companies that have a Code of Conduct or ESG policies that cover material topics, %
- The percentage of companies that have whistleblowing mechanisms, %

Furthermore, the Fund reviews any available ESG information before the investment as part of the ESG due diligence process. Throughout the holding period, the Fund implements a collection cycle of the below metrics from the portfolio companies. If any metrics are missing, the Fund works with companies to fill in the gaps in the data collection.

Environment:

- Amount of dedicated investments to make operations and processes more environmentally and climate-friendly
- Environmental strategies, regarding energy efficiency measures, renewable energy, waste minimization, switching to cleaner technology
- GHG emission reduction targets and progress
- Environment-related accidents
- Monitoring of air quality and noise levels in working spaces/factories
- Activities in biodiversity-sensitive areas
- Greenhouse gas emissions (scope 1, 2, 3) and carbon intensity
- Most significant raw materials being used
- Renewable materials
- Switch to more environmentally sustainable raw materials
- Waste volume

- Recycled, reused, resold or used for energy production waste
- Electricity consumption
- Fuel consumption
- Heating consumption
- Production of electricity
- Water Usage
- Recycling of water
- Emissions to water

Social:

- Number of jobs created
- Employee turnover
- Number of employees on minimum salary
- Hours per day and shifts that company/factory is operational
- Breakdown of FTEs by type
- Social improvement strategies, such as occupational health and safety improvements, job creation, social investments (hospitals, schools, etc.)
- Code of conduct
- Human rights violation
- Values and mission of the company
- Employee satisfaction
- Customer satisfaction
- Good relationship with the local community
- Philanthropic donations
- Breakdown of employees by gender
- Board members by gender
- Average gross hourly earnings for male/female employees
- Gender pay gap reduction targets and progress
- Number of different nationalities
- Measures to reduce health and safety risks
- Equipment maintenance and inspection rate
- Work-related accidents, with qualitative information on the accidents

Governance:

- Major certificates and labels the company holds
- Excellence and other awards
- Membership of association
- Penalties paid to regulatory authorities
- Ongoing litigations
- Cases relating to employment and industrial relations, environment, information disclosure, bribery, corruption, consumer interests, science and technology, competition, and taxation

- Existence of any offshore corporate structures
- Whistleblowing policies
- Internal or external audits
- List of policies in ESG fields
- Frequency of preparation of full financial statements
- IFRS reporting
- Amount of taxes paid

To ensure the environmental characteristics promoted by the Fund are not only monitored but also improved, the Fund will exert reasonable efforts within its capacity to ensure all the portfolio companies:

1. conduct GHG emissions inventory analysis;
2. conduct environmental due diligence (where relevant given the specifics of the portfolio company/its business and so agreed in the investment agreement);
3. on the basis of the results of (i)-(ii) - identify specific projects that may qualify as Dedicated Investments ("Identified Potential Projects");
4. from Identified Potential Projects select the projects that are viable and could be reasonably implemented by the investee company within the holding period ("Selected Project(s)"), map out main steps for their implementation and estimate related implementation costs;
5. together with Livonia Partners, set an approximate budget that will be allocated for the implementation of the Selected Project(s) ("Agree Cost Estimate");.
6. Prepare an implementation action plan with reasonable deadlines;
7. Implement the project in accordance with the Agreed Cost Estimate and implementation action plan, and
8. Regularly report to the Fund on the performance progress in accordance with the Livonia Partners reporting rules.

The percentage of the total Fund II commitments shall be calculated on the basis of the total aggregate amount of all the Agreed Cost Estimates for the Selected Projects of all Fund portfolio companies.

METHODOLOGIES

All Dedicated Investments should produce long-term value that generates benefits to the environment. Achievement of the expected result/value shall be measured by the Fund by establishing KPIs for each respective project at its outset and monitored regularly to establish whether improvement of those KPIs has been achieved over time throughout the life of the project.

DATA SOURCES AND PROCESSING

The Fund's initial evaluation and ESG due diligence is based on an internal proprietary analysis that is fed by research, company analysis, interviews with top management, and discussion with experts.

During the holding period, data on the KPIs values, achieved results, and progress is collected directly/provided by the portfolio companies. Livonia Partners engage with the portfolio companies to discuss the data, validated by each of the Portfolio Companies. Data on the KPIs values achieved results, and progress is directly provided by the portfolio companies. GHG emissions data for the first year is calculated by a third party in collaboration with the portfolio company.

Livonia Partners engage with the portfolio companies to discuss the data, but will not conduct due diligence, audit, or other verification of the data provided by the portfolio companies unless it is necessary.

Data calculations are not performed by the Fund based on industry or generalized assumptions. This approach is taken to minimize the risks of making ill-informed decisions and misleading investors. Instead, the Fund collaborates with companies to establish these calculations, allowing them to take ownership of their data and set their own goals.

LIMITATIONS TO METHODOLOGIES AND DATA

The aim of the Dedicated Investments is to ensure that portfolio companies invest in search of and implementation of solutions to make their value chain or any part thereof more sustainable, whilst recognizing, that not all commenced projects may turn out to be successful due to circumstances outside the control of the portfolio company implementing the Dedicated Investment project. In cases where the Dedicated Investment project does not progress as agreed/expected due to circumstances within the control of the respective portfolio company, the Fund shall engage with them in accordance with the engagement policy with the aim to achieve agreed implementation and expected results.

The Fund primarily focuses on working with SMEs. SMEs are currently not required to collect ESG data, resulting in numerous data gaps that need to be addressed. Moreover, the available ESG and sustainability data have inherent limitations, as companies often employ varying methods for similar calculations. To tackle these challenges, the Fund continuously works with portfolio companies to enhance transparency, disclosure, and data provision.

DUE DILIGENCE

The Fund conducts its due diligence on the underlying assets by making an initial assessment (screening) and then deep diving into key identified ESG topics relating to risks and opportunities. The objective of the screening process is to verify compliance with the Fund's policy and basic requirements, identify early key issues that could significantly impact the investment and due diligence process, establish a shared understanding with the company regarding ESG requirements, risks, and opportunities, and enable the planning of ESG due diligence. The objective of the due diligence process is to assess the ESG risks and opportunities associated with the proposed investment, enabling the Investment Committee to make an informed decision considering ESG factors and the company's capacity to address risks and capitalize on opportunities.

The activities in the screening process include:

- Ensuring compliance with the exclusion list, and checking if investments align with applicable lists of excluded/prohibited activities.
- Emphasizing compliance with key governance and business integrity requirements, such as anti-corruption, anti-money laundering, corporate governance, economic sanctions, and whistleblowing.
- Identifying key ESG risks, impacts, and opportunities. This involves assessing if the company engages in prohibited activities according to the fund's ESG policies, evaluating higher-risk sectors or geographies regarding labor, human rights, or environmental concerns, and examining evidence of non-compliance, legal sanctions, corruption, money laundering, bribery, or negative media coverage.

The screening process categorizes the inherent ESG risks and impacts associated with each investment, taking into account factors such as the company's business plan, sector, technology, scale of operations, location, contractors, and supply chain.

The activities in the due diligence process include:

- Assessing the need for ESG consultants and engaging them when necessary.
- Defining the scope of the in-depth ESG due diligence based on preliminary findings.
- Conducting a desk review of ESG documentation.
- Evaluating the company's commitment, capacity, and track record as indicators of its ability to meet expected ESG performance.
- Planning and conducting site visits to confirm or adjust initial ESG assessments and ensure compliance with relevant ESG standards.
- Considering post-investment influence and oversight to ensure the company adheres to the fund's requirements.
- Develop an agreed-upon ESG action plan with specific, measurable, achievable, realistic, and time-bound targets to address identified gaps or areas for improvement.

The comprehensive assessment yields several outputs. These include identifying any "no go" issues or "red flags," gaining a thorough understanding of the key ESG aspects relevant to the investment, categorizing inherent environmental and social risks, and evaluating the company's commitment and capacity to manage ESG. Additionally, actionable ESG plans, a detailed due diligence report, and a concise summary of findings are provided to the investment committee.

ENGAGEMENT POLICIES

Fund's key principles are implemented during the ownership period in the portfolio companies to ensure appropriate ESG risk mitigation and ESG consideration in the decision-making and value creation processes:

1. If any immediate and material ESG risks are identified in the screening or due diligence phase of the investment process, or any time during the holding period, the portfolio company, with the help of Livonia Partners, will come up with mitigation strategies;

2. ESG, with a special focus on climate, sustainable production, and consumption, decent work for all, and gender equality, will be part of value creation for the

companies, with goals or/and specific projects focused on advancing the ESG agenda;

3. All portfolio companies will appoint a person responsible for ESG project management as a point of contact with Livonia Partners and to drive sustainability dialogue within the organization;

4. All portfolio companies will periodically report progress across the material ESG topics, aligned with relevant legislation, and identified by Livonia Partners. In cases where data is not available, the companies will take action to establish a process to acquire the data and establish needed internal processes.

In case of ESG incompliance: if the portfolio company refuses to work to achieve the goals outlined above or if throughout the ownership period, significant ESG breaches are discovered, the company is required to:

- Raise the matter at Board level.
- Where relevant, appoint experts to investigate alleged breaches and recommend actions.
- Remedy the situation with the highest priority.

DESIGNATED REFERENCE BENCHMARK

A reference benchmark has not been designated to promote the characteristics.