

Dasos Sustainable Forest and Wood III AIF - Principles for responsible investment

Key terminology

Dasos Sustainable Forest and Wood III AIF (hereinafter "the Fund")	Business ID 3179137-8 Address:Itämerentori 2, FI-00180 Helsinki, Finland (And all related entities within the Fund.)
Dasos Capital Oy (hereinafter "Dasos")	Alternative Investment Fund Manager, portfolio manager
ESG	ESG refers to Environmental (E), Social (S), and Governance (G) factors.
Principal Adverse Impacts	Principal adverse sustainability impacts refer to any direct or indirect adverse impacts of investments that result in negative effects on sustainability factors such as the environment, the society, or social factors.
Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (SFDR)	The Fund promotes, among other characteristics, environmental or social characteristics, or a combination of those characteristics in accordance with Article 8 .
Sustainability Factor	Sustainability factors refer to environmental, social, and employee matters, such as human rights advancement, anti-corruption, and anti-bribery matters.
Sustainability Risk	Sustainability risks refer to environmental, social, or governance events or conditions that, if realized, could cause an actual or a potential material negative impact on the value of an investment. The occurrence of sustainability risks may impact the performance of individual investments, which in turn impacts fund returns.
The Board	The Board of Directors of Dasos Capital Oy

Scope of the Dasos Principles for Responsible Investments

The Fund wants to offer its clients the opportunity to make responsible and profitable investments and to increase its clients' wealth in a responsible and sustainable way based on international good practices and consistent with policies and regulations governing sustainable finance. Responsible investment is at the core of Fund's investment rationale, value creation, risk management, monitoring, and reporting. The Fund promotes sustainability as management objective and systematically integrates environmental, social and governance (ESG) issues into its portfolio management; ESG/Sustainability theme is addressed in 100% of the portfolio. The objective of investment activities is to attain optimal returns both in the long and short term, at the individual risk level selected by each client while also ensuring environmental and social sustainability including alignment with the goals of the Paris Climate Agreement.

The Fund promotes environmental and social characteristics by making investment in forest assets including forestland, structured and executed in order to enhance

- their economic and financial profitability;
- the forest area and wood volume under management plans and forest certification to verify sustainability;
- their positive impact on climate change;
- high-value biodiversity protection; and
- social benefit spill overs.

The Principles for Responsible Investment define Fund's approach to responsible investment and outlines how Dasos integrates environmental, social, and governance (ESG) considerations into its investment management activities, and sets forth the principles, procedures and methods the Fund adheres to. The principles describe how Dasos follows the EU "do no significant harm" (DNSH) principle and assesses principal adverse impacts on sustainability factors as part of their investment processes and portfolio management. These principles are reflected both at the corporate level and at the level of investment execution and cover the entire investment cycle as well as monitoring, reporting and general disclosure for all the Fund investments.

These principles apply to all entities within the Fund. Based on the need, the statement of responsible investment principles, will be updated from time to time. The practical implementation of these principles

Dasos Sustainable Forest and Wood III AIF - Principles for responsible investment

is integrated in the appropriate documents and operational processes of Dasos which acts as the portfolio and alternative investment fund manager of the Fund.

The Board of Directors of Dasos Capital Oy has adopted these Principles for Responsible Investment as of 25 May 2023.

Allocation of responsibilities

The allocation of responsibilities related to enhancement of sustainability of investment operations uses governance structures that enable appropriate decision-making, oversight, and management of risk and conflicts of interest. The identified roles and responsibilities cover the following functions and positions:

- the Board, Chief Executive Officer (CEO), Investment Committee and Management team;
- internal control (compliance) and risk management; and
- internal and external ESG, legal and technical experts.

The Board, CEO, the Investment Committee, and the Management team at broad, exercise oversight over ESG policies and guidance and frameworks for the management of sustainability-related risks and opportunities. They have explicitly recognized the role forestry in addressing climate change challenges and the importance of biodiversity and Natural Capital at broad to inform their strategic decision-making and asset management. The CEO exercises oversight of planning and execution of responsible investment/sustainability policies as well as Dasos fund level reporting. The CEO and the Management Team engage with beneficiaries to understand how their preferences are evolving regarding e.g., climate change and biodiversity, including increasing climate-change related impact monitoring and reporting needs and compliance with EU regulations on sustainable finance and ESG disclosure.

Each Investment Director has operational oversight/accountability for ensuring sustainability of investments under their responsibility. Sustainability related investment opportunities and risks, including Principal Adverse Impacts, are part of the environmental and social screening/assessment in the investment due diligence process and an integrated part of forest asset management and value creation.

The Investment Committee reviews all investment and divestment proposals, also against ESG policies and ESG related risks. Any investment or divestment proposal which falls within the Forest Investment Policy of the Fund, may be approved by the Investment Committee if it is satisfied with the proposal.

Adequate staff and other resources are to be identified for sustainability work including the development of practices and guidance, execution, and reporting. External services providers are used regularly in carbon impact monitoring and assessment of sustainability of forest management in accordance with internationally approved standards and principles. Forest certification is conducted by independent third-party accredited assessors.

Policies and principles for responsible investment and addressing principal adverse sustainability impacts

Sustainability has been integrated in the investment activities, and investment decisions consider how environmental and social responsibility, as well as good governance materialize in the investment objects and how the investments promote responsibility goals. As part of its responsible investment processes, Dasos integrates the consideration of sustainability factors, sustainability risks, and principal adverse impacts in its investment activities and portfolio management. These principles are applied in portfolio management both in the active investments made by the Fund, and in discretionary asset management. Dasos operating practices can be summarised in the following:

- (1) analysis and integration of sustainability factors in investment decisions,
- (2) analysis of principal adverse sustainability impacts;
- (3) exclusion from investment objects; and
- (4) active ownership, stewardship, and engagement.

The Dasos investment philosophy is based on protecting, conserving, and enhancing Natural Capital, i.e., the environmental stock or resources of Earth that provide goods, flows and ecological services required to support life. Dasos applies the following Natural Capital fundamentals:

- increasing forest volumes and forest cover;
- enhancing biodiversity;
- removing and stocking of atmospheric carbon in forest stand;
- production of sustainable timber to replace fossils-based materials.

Dasos and the Fund strive in all its activities, in the long term, to minimise the negative impacts of the investments, increase the positive impacts of the investments on the environment, society, and good governance, and promote sustainable operating practices. Dasos and the Fund adhere to sustainability principles and governance practices, which build on the following principles and action:

- **Commitment to international policies, framework and standards and ESG-related initiatives**
 - Dasos is committed to contributing to the Un Sustainable Development Goals (SDGs). In its activities, Dasos seeks to promote the attainment of selected the United Nations Sustainable Development Goals (SDGs especially those related to SDG 15 Life on land (sustainable forestry, biodiversity conservation), but also sustainable production and consumption (SDG 12), SDG 13 Climate Action, and SDG 7 on Affordable and Clean Energy
 - Dasos is committed to following the United Nations Principles for Responsible Investment (UN PRI) since 2011. Dasos continuously develops its operations in accordance with these principles and reports on its operations to UN PRI annually. Dasos Capital is a signatory of UN's Principles of Responsible Investment (UNPRI) and Finance for Biodiversity Pledge,
 - Dasos is committed to contributing to the objectives of the Paris Climate Change Agreement on climate change to reduce global greenhouse gas emissions and improve transparency of carbon reporting. Dasos is the supporter of the Task Force on Climate-related Financial Disclosures (TCFD) to improve and increase reporting of climate-related financial information.
 - The Fund is guided by the International Finance Corporation's (IFC) Performance Standards on Environmental and Social Sustainability, the European Union's (EU) environmental policies, and the Equator Principles.
 - Dasos expects respect for human rights, anti-corruption measures, and environmental factors as defined in the United Nations Global Compact corporate responsibility initiative, OECD's operating guidelines for multinational enterprises, the UN Guiding Principles on Business and Human Rights, and the ILO Core Conventions on principles and rights at work. Dasos seeks to actively identify human rights impacts of its activities in accordance with the UN Guiding Principles on Business and Human Rights.
 - Dasos does not accept corruption and requires an active approach towards anti-corruption and the transparency of operations. The Fund abides by the legislation of Finland, which includes all international anti-corruption instruments (incl. the United Nations Convention against Corruption and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions).
 - Dasos expects its investment objects and business partners to act in accordance with international practices, norms, and conventions, including International Finance Corporation's Environmental and Social Performance Standard, where applicable.
- **Developing and adopting Dasos own sustainability/ESG policies, principles, and practices**
 - Dasos has adopted a comprehensive **Forest Investment Policy** which requires investments to be environmentally friendly and sustainable. The Forest Investment Policy incorporates ESG-related principles as well as forest-specific environmental and social policies and guidelines, including screening investments against social and environmental criteria. According to the Forest Investment Policy, all forest assets managed by Dasos must comply with international or internationally accepted national standards for sustainable forest management. According to the Forest Investment Policy, 100% all forest assets are to be certified independently as sustainably managed complying with internationally approved sustainability standards which cover environmental, social, and economic indicators.

- **Independent verification of sustainability of forest management.** Dasos adheres to international sustainability standards based on the Forest Stewardship Council (FSC®) and/or Programme for the Endorsement of Forest Certification (PEFC®) principles, criteria, and indicators of sustainability. Independent third-party audits are used regularly to assess and disclose sustainability performance. Information on related indicators is available on the FSC and PEFC web sites.
- **ESG principles and forest investments.** Dasos strives for profitable investments that are built on best practice ESG frameworks – including implementation of risk management systems that account for ESG risks and opportunities – and the delivery of positive ESG impacts. ESG planning, execution, monitoring, and reporting are integral parts of the investment cycle.
- **Sustainability risk and due-diligence.** Dasos Risk Management Principles document (Dasos 2021) refers explicitly to climate change risks under the risk category “Inherent risks related to timberland investments” and requires that risks need to be identified, quantified, and integrated into cash-flow models and asset valuation. Screening during the investment DD process helps to identify material ESG issues concerning the assets, which vary asset by asset and can influence returns, or, for example, reputational risk. In the Dasos approach, all costs needed to address potential gaps in meeting the international sustainability standards and potential reductions in harvested volumes to meet biodiversity conservation objectives are incorporated in the asset operation costs and revenue flows. Dasos seeks to consider the risks and opportunities caused by climate change in its investment activities.
- **ESG Reporting.** Our policy is to communicate openly about the environmental and social impacts, such as carbon footprint of our operations Dasos monitors and assesses the sustainability risks of its investments, their principal adverse impacts, and the attainment of the sustainability goals. Reporting on Sustainable Development Goals (SDGs) is an integral part of Dasos sustainability strategy. Dasos SDG reporting framework focuses on six SDGs and eleven social, economic, and environmental indicators, based on materiality assessment. This report is prepared annually. Dasos reports on the climate risks of its activities and investments in accordance with the Task Force on Climate-Related Financial Disclosures (TCFD) initiative.
- **Regular studies to improve the quality of ESG management and risk and opportunity analysis.** Dasos also conducts studies that help to assess forest-related climate impacts (negative and positive) and risks as well as investment opportunities. Dasos has completed three such studies in the last three years: one on Climate Change and Timberland Investment, second on Wood Buildings and Real Estate Impact Investing, and third one analysing the contribution of forest assets to the delivery of environmental services applying a Natural Capital Accounting Framework.
- **Participation in national sustainability-oriented platforms.** Dasos seeks to promote responsible operating practices within the financial industry and in its investments. As part of this work, Dasos participates in joint initiatives and organizations that promote the management of sustainability risks and responsible investment. Dasos engages in the following associations and organizations: Finland’s Sustainable Investment Forum (FINSIF) and the Finnish Venture Capital Association.
- **Responsible tax policy.** Dasos is committed to act in accordance with tax laws and regulations and has a rejective attitude towards actions seeking, instead of commercial objectives, the obtaining of tax benefits that contravene the purpose of the law. Dasos does not engage in aggressive tax planning which aims at avoiding reporting obligations or which seeks to anonymize the true beneficiary of the income. The investments are made in compliance with the tax policy of each host country, through the application of international tax rules. In case there is no clear guidance in the tax laws, Dasos follows the principles of caution and transparency of taxation.

The policies and analyses to identify and prioritise principal adverse impacts (PAI). According to the EU Sustainable Finance Disclosure Regulation (SFDR), Principal Adverse Impacts (PAIs) refer to direct or indirect adverse impacts of an investment decision or investment advice on the environment, the society, or social factors. The identification and prioritization of the PAIs is conducted at two levels:

- first, at the corporate level by conducting materiality assessments built around the SDG framework and the framework of the Task Force on Climate-Related Financial Disclosures (TCFD); and
- second, by integrating the ESG and PAI analysis in the routine investment decision-making across all the stages of the investment cycle.

The purpose of Dasos sustainability factors analysis is to recognize material environmental, social, and good governance risks of investment objects that may impact their returns in the short or long term, and to identify their principal adverse impacts (PAIs). Investment decisions incorporate the information generated in the analysis of sustainability risks and principal adverse impacts, as well as the potential of the investment in promoting sustainability factors. PAIs are analysed in connection with sustainability risks and as part of due diligence processes prior to making investment decisions and monitored during the investment period. Dasos approach to analysing PAIs is risk based.

The investment process is guided by ESG principles and forest-sector specific environmental and social responsibility policies and guidelines. ESG matters are considered from deal flow identification and due-diligence (DD) stage to investment decision-making, value creation and exit. Exit plan needs to be prepared, including also securing that ESG matters are in a good shape. This is not just about avoiding/mitigating negative environmental and social impacts but also about value creation and improving the attractiveness of the asset at the time of exit.

Materiality assessment to identify most critical potential environmental and social impact/ PAIs. Dasos has conducted - using a service provider and combining internal responsible investment and sustainable forestry expertise and experience and expertise - an SDG target and indicator materiality assessment. The materiality assessment identified the most significant links, considering the nature of Dasos forest investment, between the investments and potential impact on SDGs.

This analysis guided Dasos to focus on monitoring impacts 6 SDGs and related 11 indicators, which are reported annually. Out of the 6 the following are most important: SDG 15 Life on Land (targets related to sustainable forest management area, biodiversity habitat conservation areas), SDG 12 Ensure sustainable consumption and production patterns (sustainable wood production for the market), SDG 13 Climate Action (incl. carbon mitigation), and SDG 7 on Affordable and Clean Energy (substitution of fossil energy with renewable energy). Dasos bespoke reporting framework is aligned with the Global Impact Investing Network (GIIN) IRIS metric catalogue (<https://iris.thegiin.org/metrics>) and GRI <https://www.globalreporting.org/resource/library/Linking-GRI-and-IRIS.pdf>.

Impacts on climate. Dasos is a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD). Dasos has conducted an assessment using the TCFD framework - cutting across all funds and assets it manages- to enhance the understanding of the material financial impacts of climate-related risks and opportunities related to forest-based real asset investment. (<https://assets.bbhub.io/company/sites/60/2021/10/FINAL-2017-TCFD-Report.pdf>). Risks related to the transition to a lower-carbon economy, and risks related to the physical impacts of climate change were assessed asset by asset and then at the Fund level. The potential financial impacts of transition and physical risks were identified.

It is essential to note here that sustainable forestry investments differ from all other investment categories or sectors, because of the important role they have in providing climate services. i.e., instead of being sources of carbon emissions they can act as valuable (forest) carbon sinks (negative emissions).

At present, Dasos uses metrics related to GHGs (CO₂) and forest cover. These are seen as most relevant and material from climate impacts perspective considering both the Dasos forestland investment risks and opportunities. The metrics and targets used to assess and monitor relevant/material climate-change related risks and opportunities are consistent with the TCFD recommendations and EC Sustainable Finance Disclosure Regulation (SFDR) indicators. They also describe contribution of Dasos investments to those UN SDGs, related directly and indirectly to climate change. Dasos carbon footprint is reported as part of the annual SDG report as well as in a separate Dasos carbon impact report for each fund.

The adopted metrics are fully aligned with the IPCC carbon accounting methodology. In terms of accounting for carbon impacts, Dasos approach is advanced since it covers both the carbon footprint and handprint. It is aligned with the recommended TCFD GHG emissions metrics and covers Scope 1 and Scope 2 emissions and even most (not all) Scope 3 emissions focusing on the entire value-chain. Dasos has adopted a system-wide approach to forest carbon accounting by asset and at portfolio level. The system accounts separately for changes in carbon stock and emissions by:

- carbon stored above-the-ground biomass;
- carbon stored under soil;
- carbon stored in harvested wood products (including substitution effects)
- emissions due to silvicultural operations and harvesting; and emissions due to transport.

Dasos uses an independent third party to conduct carbon impact analysis of its investments. The Dasos forest carbon accounting methodology¹ follows the good practices in estimating forest carbon emissions and removals which currently rely heavily on the IPCC Guidelines for National GHG Accounting (2006, and Refinement from 2019). Modelling of the biomass and soil carbon stock growth meets the general requirements of the highest level of accuracy (Tier 3). Similarly, the emissions along the supply chain are estimated in general according to the IPCC practice of combining activity data with relevant emission factors (IPCC, 2006).

Models used for standing stock analysis and growth modelling are based on published peer-reviewed scientific articles. Tree growth is modelled with 'Motti' models, developed by the Natural Resource Institute of Finland (LUKE). Carbon storage in the standing stock biomass and undergrowth is calculated with biomass models within the SIMO-software. Carbon stored in organic forest soils (peatlands) is based on literature review. Carbon decomposition and the resulting flow of carbon dioxide from soils back to atmosphere is modelled with the Yasso15-model on mineral soils.

Impacts on biodiversity-sensitive areas and forest certification as a verification tool. The Fund invests in asset classes which relate to timberland, forest and wood products, wood processing, natural capital or other real assets. The Fund only invests in forestland that has been legally designated as production forests; there are no investments or operation in area which have been dedicated solely for protecting/conserving valuable biodiversity. According to the Forest Investment Policy, all forest assets are to be certified independently as sustainably managed based on Forest Stewardship Council (FSC®) and/or Programme for the Endorsement of Forest Certification (PEFC®).

Forest certification is a key tool in measuring independently, based on audits, investment's sustainability performance and adding value to the asset. It provides a platform and framework for planning, implementing, and monitoring ESG at a project (investment) level. Dasos is committed to have 100% of its forest assets certified as sustainably managed in the context of climate-smart-forestry, which entails also conserving identified high-conservation value forests. Forestry investments are in a unique position because internationally agreed "metrics" exist for assessing sustainability (FSC, PEFC) and there is a recognised system and capacity for independent third-party assessments. In future, it is expected that forest certification can also provide independent third-party verification of carbon impacts. Dasos pro-actively tries to bring more forests under independently verified sustainable forest management through requiring certification, and even going for double certification (both PEFC and FSC). The area under independently verified sustainability certification is reported annually.

PAIs and Fund investments

- 1 GHG (CO₂) emissions and indicator 2 Carbon footprint are at the core of Fund's annual climate impact management, monitoring, and reporting system. The forest management system, with focus on sustainable wood production, also aims at delivering positive impacts on climate change (carbon stocks and sinks, and indirectly, replacement of fossils-based products and energy). This carbon benefit analysis is consistent with the EU technical screening criteria for contributing substantially to climate change mitigation.

¹ AFRY 2022. Forest carbon analysis methodology and assumptions: Calculation of carbon storages in tree biomass, soil, and harvested wood products including assessment of substitution effect from wood use.

Dasos Sustainable Forest and Wood III AIF - Principles for responsible investment

- Indicator 3 GHG intensity of investee companies is considered as immaterial since Dasos invests in forest assets, not in companies. Also, this indicator does not work when the investments are carbon sinks and not sources of carbon emissions.
- Indicator 4 Exposures to companies active in the fossil fuel sector, Indicator 5 Share of non-renewable energy consumption and production, and indicator 6 Energy consumption intensity per high impact climate sector are also considered as immaterial as there are only investments in forest-based real assets through holding companies.

The independent regular forest certification audits cover 100% of the invested assets and following indicators:

- 7. Activities negatively affecting biodiversity-sensitive areas (see earlier discussion)
- 8. Emissions to water
- 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
- 9 Hazardous waste ratio will be 0% as no hazardous waste will be generated by investee companies as the only generated waste will be biological waste.
- 12 Unadjusted gender pay gap is considered as immaterial, as investee companies are forest holding companies and as such have no employees.
- 14 Exposure to controversial weapons, it is ensured that there is no such exposure as investments are only made in forest holding companies which are not involved in the manufacture or selling of controversial weapons.

Exclusion

Dasos has excluded certain industries from its investment objects on ethical grounds. All investment activities adhere to a general exclusion list applicable to all investments:

- companies involved in the manufacturing and sales of controversial weapons (landmines, cluster bombs, depleted uranium, and biological and chemical weapons), as well as companies participating in the development and production of nuclear weapon programs; and
- companies whose principal line of business is tobacco, weapons, coal production, gambling, or adult entertainment.

The Fund avoids investments in forest assets, whose management would entail cooperation with companies involved in violations of international norms and conventions (at least the UN Global Compact and OECD guidelines for multinational companies) in relation to the environment, human rights, labour practices, and business ethics. This issue is addressed during the due diligence and the Investment Committee and the Board ensure that there is no breach e.g. of the UN Global Compact Principles and OECD guidelines for multinational companies.

Active engagement and service providers

The goal is to promote sustainable development of the investments in line with the principles of responsible investment, climate principles, and best international practices. The investment companies follow good governance practices in accordance with the Forest Investment Policy.

Contractors are used for forest management and harvest operations. Dasos applies ESG principles and the principle of DNSH in the management of all its assets and this applies also to the work carried out by contractors. Dasos requires compliance with all applicable laws and regulations related to ESG issues in investments it manages: cooperating partners, external service providers involved with the management of individual forest assets are expected to meet this requirement. Compliance must include adherence to environmental and labour regulations, anti-corruption, and anti-bribery.

Each Investment Director is responsible, for monitoring and ensuring that the Forest Investment Policy, and related ESG principles, are being followed. He/she is to follow that the hired forest service management company (FSMC) adheres to local and relevant international legislation as well as the

principles of sustainable forest management necessary for obtaining forest certification. The Investment Director monitors that asset is certified in a timely manner and approves the certification system and certifying organisation.

Dasos only works with reputable and reliable partners and service providers. Already at the due diligence stage, attention is paid to the capacity of forest management service providers to adhere to the standards required for forest certification. The contractors used in forest management cooperation must follow the national legislation regarding labour rights, environmental management, and labour safety. If there are serious breaches, the Investment Director is to engage in dialogue to rectify the situation. If no solution is found and the breach is serious, the Board will consider the action to be undertaken on account of the breach in question. The objective of the engagement measures is to correct the breach and to build increasingly responsible business practices.

Reporting

The main principles of Dasos responsibility and sustainability reporting are transparency and openness. Dasos regularly reports on sustainability risks, principal adverse impacts, and results of its responsibility work and continuously develops its reporting practices.

Dasos reports on its operations annually to the UN PRI. Additionally, Dasos reports on climate risks in accordance with the TCFD recommendations. The carbon impact and SDG reports as well as the Principle adverse impacts (PAIs) are included in the Annual report.