

# CLIMATE CHANGE POLICY

Stirling Square Capital Partners



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## Statement of Commitment

Stirling Square Capital Partners LLP, its affiliates, and the funds these affiliates advise (collectively referred to as "Stirling Square" or "the Firm") recognise the urgent need to address critical environmental risks facing our planet. We understand that collective action is crucial to avoid significant adverse effects within our lifetimes. Climate change stands out as one of the key environmental risks, interlinked with numerous dependencies such as the loss of geo-biological diversity, unsustainable resource depletion, population migration, and supply chain disruptions, among others. Human-induced greenhouse gas (GHG) emissions are widely acknowledged as the primary driver of climate change. The latest assessments from the Intergovernmental Panel on Climate Change (IPCC) project a trajectory that surpasses a 1.5-degree Celsius increase before 2030. It is imperative that all members of society take action to mitigate GHG emissions and adapt to unforeseen conditions in the years ahead.

As investors, we recognise that the value of our investments can be significantly impacted, both negatively through risks and positively through new opportunities, in the face of climate change. We firmly believe that it is not only our moral obligation but also our fiduciary duty to actively participate in collective efforts against climate change.

To address these challenges and fulfil our responsibilities, Stirling Square commits to the following climate change policy, integrating environmental considerations into our investment approach and operations. This policy outlines our commitment to mitigating climate risks, identifying sustainable investment opportunities, and driving positive environmental impact alongside financial returns. By embracing this policy, we aim to align our investment practices with the urgent need to combat climate change and contribute to a more sustainable future for all.

## Risks & Opportunities

The risks we currently face encompass both physical and transition challenges.

Physical risks, such as floods, droughts, extreme temperature fluctuations, fires, and melting ice caps, are widely recognized by climate scientists as direct consequences of rising average temperatures. These risks have the potential to directly impact our portfolio facilities, supply chain, and customers.

Transition risks arise from the global effort to decarbonise the world. These risks include policy and legal risks (such as new regulations or legal actions), market risks (such as the effect on pricing of raw materials, demand, and supply), technology risks (such as innovation supporting the shift to a lower-carbon economy), and reputational risks (such as changing stakeholders' perceptions).

However, taking proactive and deliberate actions to minimise these risks can also present opportunities to create additional value for all stakeholders. These opportunities may include improved valuations, new revenue generation, cost decreases, as well as product substitutes and diversification.

## Support of the Paris Agreement and "Net Zero"

We firmly express our support for the UN's Paris Agreement of 2015 on climate change mitigation, adaptation, and finance. This agreement establishes a critical objective to limit the global average temperature increase to well below 2 degrees Celsius above pre-industrial levels, with additional efforts made to keep the increase below 1.5 degrees Celsius.

Moreover, we increasingly endorse the global endeavours aimed at achieving Net Zero GHG emissions. This entails reducing GHG emissions through abatement measures and offsetting any residual emissions that cannot be further reduced. By committing to these ambitious goals, we contribute to the collective efforts to combat climate change and its impacts on a global scale.

## Commitment to TCFD (to be part of the ISSB Standards from 2024)

We are committed to implementing the FSB's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, a framework to report on a party's activity to combat climate change. We have started implementing this framework in our portfolio since 2022.

## Governance

The ultimate responsibility for the climate change-related efforts of Stirling Square lies with the Management Committee of Stirling Square.

The Management Committee has delegated the operational oversight and stewardship to the ESG Committee, which comprises several Stirling Square management committee members.



In our portfolio, the responsibility for the implementation of climate change-related measures lies with the board members and executive teams of each portfolio company.

The Sustainability function at Stirling Square liaises with portfolio companies and supports them in planning, implementing, and reporting their climate change-related efforts.

### Approach to Addressing Climate Change in the Management Company (GP)

We believe in leading by example and shall implement several initiatives.

#### Awareness, Change in Habits, and Reporting

We are committed to raising awareness of our communities, within Stirling Square and across our portfolio, about Climate Change and how our personal consumption and lifestyle habits impact Climate Change. We endeavour to create incentives for, and strive to measure, changes in habits having positive impacts on Climate Change.

We include a discussion of climate change topics in our annual Sustainability Report.

#### Office

We operate from offices with high sustainability specifications, e.g., with 100% of electricity certified from renewable sources, timber products from managed sustainable sources, and other long-life natural, recyclable materials.

#### Energy Use

The main sources of our energy consumption are our office Heating Ventilation and Air Conditioning ("HVAC") and Information Technology ("IT"). Whilst our HVAC is optimised for efficient performance, the IT energy spend has been improved by shifting on-site servers into the cloud.

#### Travel and Commute

Our work requires frequent travel within and outside Europe. Whilst we cannot eliminate air travel entirely, we endeavour to minimise travel whenever possible and substitute it with video conferencing.

Furthermore, we shall require our travel agents to present us with more carbon-efficient alternatives when selecting flights.

We will continue motivating our employees to use public transportation and bicycles and to avoid personal vehicles with high GHG emissions for commuting to work.

#### Reduction of Waste

We are committed to reducing our waste generation. We have eliminated the purchasing of plastic water bottles by installing water fountains. We have vastly reduced the user of paper by introducing tablet devices and encouraging less printing. We will continue to look for further ways of waste reduction.

#### Carbon Reduction Plan

Stirling Square has completed and disclosed its annual carbon footprint since 2019 and is in the process of defining a carbon reduction plan covering all its activities.

### Approach to Addressing Climate Change in the Portfolio

Although the impact of climate change in most cases is beyond the investment period for our current portfolio, we see it as our role as long-term focused shareholders to constantly initiate and improve the pursuit of climate strategies. The evaluation of climate change-related risks and opportunities is integrated into the entire lifecycle of an investment at Stirling Square.

#### Pre-Investment

During the due diligence inquiry phase, we evaluate the physical risks of a potential investment with reference to standardised indices (e.g., WorldRiskReport and ThinkHazard!) for the main locations of a company under consideration.

Transition risks are evaluated based on the potential investment sector and industry of operations to identify critical exposures of the company's value chain including supply chain, operations and products and services provided.

#### Post-Investment

After a business becomes part of our portfolio, it enters our Sustainability Engagement Programme and we will deepen the high-level analysis kicked off in the previous stage including but not limited to:



1. **Climate change governance:** ensure that the portfolio company puts in place adequate governance for decarbonisation and climate action during ownership, e.g., carbon accountability, climate change policy, integration in board reporting and annual sustainability reporting.
2. **Materiality assessment for the portfolio:** as investors in different industries and geographies, we recognise that not all companies face identical risks and thus should not be forced to adopt the same action plans. Together with specialised 3<sup>rd</sup> parties as required, we perform materiality analysis to identify which companies are most susceptible to specific risks.
3. **Key risks assessment:** granular “deep dives” on specific risks are conducted following the materiality assessment phase.
4. **Scenario Planning:** to provide a quantification of risks and devise the best course of action to address them, portfolio companies are required to conduct scenario planning exercises on the applicable physical and transition risks with the involvement of 3<sup>rd</sup> party advisers where necessary.
5. **Development of Upsides:** as an integral part of the review of risks, our companies develop a view on reasonable and achievable upsides and attempt to quantify them.
6. **Action Plans:** the review of risks and upsides should result in the development of detailed action plans with specific timelines, goals, measures, accountable leaders and allocation of resources.
7. **Monitoring and Reporting on Key Metrics and Action Plans:** the board of each company is the main forum to monitor the progress of a company's climate action plan. In addition, the Sustainability function engages with portfolio companies to regularly monitor and report on their progress as part of the annual Sustainability Engagement Programme.

#### **Promoting Net Zero Strategies**

Notwithstanding our customised approach to anchoring climate action in the portfolio, we will strive to motivate our companies to orderly conduct carbon emission measurements, implement carbon reduction initiatives and offset any residual emissions that cannot be further reduced.

We will work with our companies to set robust decarbonisation plans with quantified targets including SBTi (Science Based Targets Initiative) or similar frameworks and identify the best ways to achieve “Net Zero” status.

#### **Community Engagement**

In recognition of the fact that climate change is a complex topic that requires collective action, Stirling Square is an active member of the Initiative Climat International (ICI) and proudly holds signatory status with the UN PRI, the UN Global Compact, the IFRS Sustainability Alliance, and the ESG Data Convergence Initiative.

Stirling Square ESG Committee

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