

***Principles on Sustainability Risks and Adverse Impacts on
Sustainability Factors***

Armada Credit Partners Oy

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Amendment log

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1. Introduction

As a licensed alternative investment fund manager ("AIFM"), Armada is committed to complying with the regulation (EU) 2019/2088 on sustainability related disclosures in the financial services sector (hereinafter "SFDR")¹, and it has therefore adopted these principles on sustainability risks and principal adverse impacts to set out guidelines for the integration of sustainability risks in its investment decision-making process and the consideration of principal adverse impacts in accordance with the said regulation.

This document uses terms such as sustainability factors, sustainability risks, and principal adverse impacts of investment decisions on sustainability factors. In this document and according to the SFDR and Commission Delegated Regulation (EU) 2022/1288 supplementing the SFDR (hereinafter "SFDR RTS") the terms above shall have the following meaning:

Sustainability factors (also referred as ESG factor) refer to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

Sustainability risk (also referred as ESG risk) - means 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.

Principal adverse impacts means those impacts of investment decisions that result in negative effects on sustainability factors. The principal adverse impacts are measured using the sustainability indicators that are listed in the SFDR RTS.

This document defines the sustainability risks that are recognized in Armada's processes and describes the general process on how these risks are considered. In addition, the alignment of Armada's remuneration policy with sustainability risks is also addressed.

As a financing provider, Armada believes that responsible investing is an important aspect both when evaluating new potential investments and when managing the existing ones and when controlling investment risks and returns in the short- and long-term. ESG factors are integrated into the investment analysis and decision-making process, portfolio management practices as well as communication and reporting through Armada's proprietary analysis and tools which are supported by external service providers. More information on responsible investing is available in Armada's responsible investment policy which describes Armada's objectives and overall approach to responsible investment. The principles set out in this document are considered in the investment decision-making process together with the responsible investment policy.

At Armada, the board has the overall responsibility over sustainability risk and principal adverse impact considerations. At the operational level, the ESG committee, comprising of representatives from representatives of the defense lines further integrates ESG into different functions. Each member of the investment team is responsible for overseeing the implementation of the sustainability risk and principal adverse impact policy in their daily work.

2. Integration of sustainability risks into investment decision-making

Armada considers sustainability risks and opportunities in its investment decisions, including their impact on investment returns. Understanding sustainability risks and their impact on both the portfolio company and the Fund performance, as well as for Armada Credit Partners, next to the prevailing

¹ Including Commission Delegated Regulation (EU) 2022/1288 supplementing the SFDR.

economic environment and outlook, is in the core of Armada Credit Partners' investment decision-making.

Armada has identified key sustainability related risks covering environmental, social and governance aspects. This means the consideration of environmental risks including climate risks, non-compliance with international standards, and lack of sufficient governance practices including risk management of investment targets. These sustainability risks are taken into account in the investment decision making process including conducting due diligence, *inter alia*, by examining and monitoring the practices, lines of business and governance of the investee companies with regard to sustainability risks. Armada has created an ESG due diligence tool to support the evaluation. ESG due diligence of investment targets as well as identification and monitoring of material sustainability (ESG) risks in its investee companies make part of Armada's investment process.

The sustainability risk process can be summarised as follows:

1. At the investment screening stage, certain sectors are excluded at the outset based on a pre-agreed exclusion criterion. Armada follows the exclusion list provided in its Responsible Investment policy in force at the time of investment [LINK]. Armada will not invest for example in companies that have involvement in illegal or non-ethical activities (such as activities illegal under laws and regulations and certain specific sectors such as producers of distilled alcohol, tobacco producers, weapons, and gambling, or fossil fuel-based energy production and related activities) and fossil fuel producers.
Armada also excludes companies that do not fit its investment standards including e.g. companies that are in violation with international norms (UN Global Conduct) or whose majority of the business relates to high CO2-emitting activities.
2. If the potential investment passes the initial screening, an ESG DD screening assessment is completed for new investment to ensure that relevant ESG risks are elaborated and addressed in ESG due diligence as the deal proceeds. In the initial screening, ESG risks include material aspects of environmental, social and governance aspects such as working conditions, climate risks and good governance factors. In addition, compliance with the employment laws, existence of work related accidents and violations of human rights are examples from social risks. For governance, Armada considers for example existence of code of conduct, anti-bribery and anti-corruption and anti-money laundering policies, existence of quality management systems.
3. In the ESG due diligence process Armada evaluates whether the investment has material ESG risks or opportunities. In assessing material ESG topics Armada will take into account among other things the relevant sector, the investee company's position within its sector of the investee company and its geographical location.
4. Active dialogue is maintained with investee companies and third-party experts during full due diligence stage of the transaction in order to further address previously identified and potentially new ESG risks and opportunities.
5. Active quarterly monitoring of ESG risks is conducted after an investment has been made. Armada cooperates with the main owners of portfolio companies to obtain information on sustainability risks and principal adverse impacts, supported by third party ESG data.

Hence, sustainability risks are considered by available means when assessing investment targets, and in particular their long-term return potential as a whole. The assessment also draws attention to the management of the investee company, its operations and the impact of its products and services on the environment, as referred to in principal adverse impacts section of this policy ("3. Integration of

principal adverse impacts considerations"). In addition, the investee companies' social and governance risks are assessed under applicable local and international standards.

After identifying the sustainability risks as described above, Armada considers whether the investment is sustainably and financially feasible. Armada has also adopted measures for situations where it considers after the due diligence process that the sustainability risks are unacceptably high. If material ESG risks arise, which cannot be adequately mitigated by e.g. means of negotiations or developing investee company's approach to ESG or relevant contract clauses, Armada will reject the transaction. However, Armada always seeks, through open dialogue with the management of the investee company and with other stakeholders, to influence management in situations where material sustainability risks in the operations of the target company have been identified. In Armada's view, active dialogue with investee companies will have a wider impact on developing matters into a positive direction. In, certain situations, where the company has unacceptable sustainability risks and is not open for a change even after discussions, Armada may seek refinancing of its loans in the investee company.

Armada's sustainability risks are overall considered to be low, as Armada follows a strict exclusion criteria and has a clear process for analysing sustainability risks of investment targets at the due diligence phase. Sustainability risks are typically low with portfolio companies, implying a similarly low sustainability risk at the fund level. Overall, sustainability risks are considered to be manageable at Armada level. Some recognized sustainability risks relate to regulation and potential tightening of regulation standards post investment, climate change impacts in selected cases (e.g. beef used in a restaurant investment) and waste management in medical sector investments.

In the coming years, Armada plans to further develop the assessment regarding how the sustainability risks impact Armada's business to cover future regulatory requirements.

3. Integration of principal adverse impacts considerations

Summary

Armada has considered adverse sustainability impacts of its investment decisions on sustainability factors since 1st of January 2023. Link to the principal adverse impact statement in accordance with the SFDR article 4(1)(a) and its regulatory technical standards Annex I can be found at <https://armadacredit.com/esg/>.

The activities of the portfolio companies can cause adverse impacts on the environment and society. These include, for example, carbon emissions and human rights violations. The consideration of sustainability factors in the investment decision-making and due diligence processes can realize benefits that may increase the resilience of the real economy and the stability of the financial system. In so doing, it can ultimately impact on the risk-return of investments.

Principal adverse impacts

Armada takes necessary preparations to gather, monitor and report the adverse sustainability indicators listed below:

Adverse sustainability indicator		Metrics
CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
Greenhouse gas emissions	GHG emissions	Scope 1
		Scope 2
		Scope 3
		Total
	Carbon footprint	Carbon footprint
	GHG intensity of investee companies	GHG intensity of investee companies
	Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector
	Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources
	Energy consumption intensity per high impact climate sector	Energy consumption in GWh per million EUR of revenue of investee companies, per high impact climate sector
Biodiversity	Activities negatively affecting biodiversity sensitive areas	Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas
Water	Emissions to water	Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average
Waste	Hazardous waste and radioactive waste ratio	Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average
INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS		
Social and employee matters	Violations of UN Global Compact principles and Organisation for Economic Cooperation and	Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises

	Development (OECD) Guidelines for Multinational Enterprises	
	Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises	Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance /complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises
	Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies
	Board gender diversity	Average ratio of female to male board members in investee companies, expressed as a percentage of all board members
	Exposure to controversial weapons (anti - personnel mines, cluster munitions, chemical weapons and biological weapons)	Share of investments in investee companies involved in the manufacture or selling of controversial weapons
ADDITIONAL CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS		
Emissions	Investments in companies without carbon emission reduction initiatives	Share of investments in investee companies without carbon emission reduction initiatives aimed at aligning with the Paris Agreement
ADDITIONAL INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS		
Social and employee matters	Lack of a supplier code of conduct	Share of investments in investee companies without any supplier code of conduct (against unsafe working conditions, precarious work, child labour and forced labour)
Human rights	Number of identified cases of severe human rights issues and incidents	Number of cases of severe human rights issues and incidents connected to investee companies on a weighted average basis
	Lack of a human rights policy	Share of investments in entities without a human rights policy.
Anti-corruption and anti-bribery	Lack of anti-corruption and anti-bribery policies	Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption.

Identifying and prioritizing of principal adverse impacts

In addition to the mandatory sustainability factors, Armada has selected the additional indicators based on Armada's own targets and based on the investment strategy of Armada's fund.

For environmental indicators Armada has chosen to monitor investments in companies without carbon emission reduction initiatives under emissions based on indicator's materiality to Armada's own climate targets. This indicator is relevant because climate change is one of the gravest challenges companies face, and Armada is committed to aligning with the Paris Agreement². Evaluating emissions allows Armada to assess the greenhouse gas (GHG) reduction potential of target companies, ensuring alignment with both regulatory expectations and Armada's internal climate goals. Emissions data also provides a measurable and comparable basis for tracking progress toward decarbonization, which is central to the fund's long-term investment strategy.

For the additional social indicators Armada has chosen four sustainability indicators before establishing the fund, based on the planned investment strategy and based on relevance to Armada's investee companies as follows:

Lack of supplier code of conduct under social and employee matters. This indicator is relevant because Armada expects its investee companies to uphold responsible business practices throughout their supply chains. A supplier code of conduct is meant for that labor rights, environmental standards, and ethical practices are respected beyond the company's direct operations. This aligns with Armada's commitment to good corporate governance and responsible value chain management.

Moreover, this indicator supports the social objectives promoted by Armada Fund VI, which include adherence to international norms such as the UN Global Compact principles and the OECD Guidelines for Multinational Enterprises. By requiring a supplier code of conduct, the Fund encourages investee companies to extend these standards across their supply chains, thereby reducing the risk of social and human rights violations and reinforcing the Fund's broader sustainability goals. This approach also complements the Fund's pricing incentive mechanism, which ties financial terms to the achievement of defined ESG targets, including those related to social responsibility.

Number of identified cases of severe human rights issues and incidents and lack of human rights policy under human rights. This indicator is critical to ensure that investee companies proactively identify, prevent, and address human rights risks. It reflects Armada's adherence to international norms and its responsibility to avoid complicity in human rights violations. A formal human rights policy demonstrates a company's commitment to ethical operations and stakeholder respect, which is essential for long-term value creation. It also supports the objectives set by Armada Fund VI by promoting alignment with international norms, such as the UN Global Compact principles and the OECD Guidelines for Multinational Enterprises. Furthermore, the Fund has set a target of 0% involvement with violations of international norms, and this indicator serves as a key metric to track progress toward that goal. It also complements the Fund VI's pricing incentive mechanism, which links financial terms to the achievement of ESG targets, thereby encouraging companies to implement and uphold robust human rights policies.

Lack of anti-corruption and anti-bribery policies under anti-corruption and anti-bribery matters. This is relevant because corruption undermines fair competition and investor trust. Armada prioritizes transparency and integrity in its investment decisions. Ensuring that investee companies have robust anti-corruption frameworks supports Armada's governance standards and mitigates reputational and regulatory risks. This indicator is also closely aligned with the objectives of Armada Fund VI. By

² [https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:22016A1019\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:22016A1019(01))

monitoring the presence or absence of anti-corruption and anti-bribery policies, Armada can assess whether investee companies are equipped to prevent unethical practices and uphold good governance.

In the investment decision making process Armada seeks to understand all the economically relevant sustainability risks as well as the opportunities associated with possible investment targets. This also applies to adverse sustainability impacts. In principle, Armada aims to form an idea of how these adverse sustainability impacts affect the profitability and future prospects of an investment target, while taking into account the asset class and investment horizon.

Armada utilizes the adverse sustainability indicators listed in the previous table and more detailed ESG analysis to identify sustainability risks and adverse sustainability impacts in the investment decision making process. In practice, this means following and completing pre-determined ESG templates of Armada's ESG due diligence tool and updating principal adverse sustainability indicator matrix, together with data from an external service provider. As a result, possible principal adverse sustainability impacts are identified. These tools support Armada in considering the industry specific materiality of sustainability factors of investment targets.

Further, to identify, prioritize and to assess the principal adverse sustainability impacts Armada utilizes data from company specific due diligence reports and from dedicated service providers related to adverse sustainability impacts in different industries and operations. Additionally, Armada monitors technological development to reduce principal adverse impacts. However, primarily, Armada evaluates publicly reported information and information received in connection with meetings with the investee companies and other stakeholders. Armada also subscribes to the net impact and PAI indicators data provided by an external service provider.

Engagement

Armada engages with investee companies, together with main owners, to actively identify, manage and mitigate principal adverse impacts such as environmental and social impacts. When Armada has the ability to influence the management of the investee company through board operations, open discussions on principal adverse impacts are held. Therefore, Armada seeks through open dialogue with the financial sponsor, where applicable, and the management of the investee company, as appropriate, to influence investee company behaviour and situations where material principal adverse impacts in the operations of the target company have been identified. Armada believes that active dialogue with investee companies and their owners will have a wider impact on developing matters into a positive direction. However, certain situations, where the investment would have unacceptable adverse impacts on sustainability factors, Armada may seek refinancing of its loans in the investee company. Such instances are decided on a case-by-case basis.

References to international standards

Armada's Responsible Investment Policy sets out the minimum standards that are defined by environmental and social principles fundamental for good corporate governance. Armada's way of considering adverse impacts as well as the Responsible Investment Policy are based on international conventions and best practice guidelines, including the Principles for Responsible Investment (PRI).

4. Transparency of remuneration policies in relation to the integration of sustainability risks

Armada has a remuneration policy that is consistent with the consideration of sustainability risks and promotes sound and effective risk management. Armada does not encourage excessive risk-taking, which would conflict with the risk profile of managed investment products, including sustainability risks. Armada believes that taking into account sustainability risks and the principal adverse impacts in its investment activities is critical to the long-term success of Armada.

The remuneration structure at Armada therefore includes measures to ensure that the consideration of sustainability risks and adverse impacts is properly considered when rewarding the staff concerned. Armada's remuneration policy further emphasizes taking into account ESG risks and promoting them as a condition for varied remuneration.

5. Review of the Principles and approval

At Armada, sustainability risks and principal adverse impacts are reviewed and discussed regularly in the investment team and investment committee and ESG committee meetings. Any decision to deviate from this policy must be made jointly by two managing partners.

Armada's principles on sustainability risks and principal adverse impacts will be reviewed yearly and amended as appropriate.

Armada's Principles on Sustainability Risks and Principal Adverse Impacts are approved by the board of Armada. The policy owner is the managing director of Armada.

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