General

Tesi (Finnish Industry Investment Ltd) acts as an advisor and as a general partner of the Kasvurahastojen Rahasto funds-of-funds that it manages through its subsidiary Tesi Fund Management Oy (”TFM”). Tesi has four funds-of-funds under management:

- Kasvurahastojen Rahasto Ky (2238036-6), ”KRR I”
- Kasvurahastojen Rahasto II Ky (2592016-1), ”KRR II”
- Kasvurahastojen Rahasto III Ky (2865672-2), ”KRR III”
- Kasvurahastojen Rahasto IV Ky (3114563-2), ”KRR IV”, that are referred to jointly as ”KRR” or ”KRR funds-of-funds”.

Supervised by the Finnish Financial Supervisory Authority, TFM is registered as an alternative fund manager in compliance with the EU’s Alternative Investment Fund Managers Directive (2011/61/EU) and Finland’s Acts and Decrees on Alternative Investment Fund Managers. In line with the fund agreements signed with investors in the KRR funds-of-funds, TFM is committed to following Tesi’s Responsible Investment Principles valid at the time. More information about Tesi’s corporate responsibility in its daily operations is available on Tesi’s website.

The KRR funds-of-funds have not raised any funds since the EU’s Sustainable Finance Disclosure Regulation (“SFDR”) (EU) 2019/2088 entered into force on 10 March 2021.

This SFDR disclosure will be updated as and when the Regulation is amended.

Operating principles regarding sustainability risks

Article 3 of the SFDR requires alternative fund managers to publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making processes. A sustainability risk is an environmental, social or governance (ESG) event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.

Tesi bases its KRR operations on the SFDR requirements in addressing sustainability risks and, to the extent that they apply to fund activities of the KRR funds, on the UN’s Principles for Responsible Investment. For each fund project, Tesi conducts a thorough ESG review of the operations of the portfolio fund manager, which examines the manager’s operating principles regarding sustainability risks. This serves as a central element in assessing whether managers and their portfolio funds are suitable to be included in Tesi’s and KRR’s portfolios. The review covers:

- an assessment of the manager’s responsible investment policy and instructions, including whether the operating principles address sustainability risks in the manager’s investment decision-making processes
- an assessment of how the operating principles regarding sustainability risks are integrated into the manager’s investment operations and how the manager supports and obligates investees in ESG aspects
- an assessment of the scope and level of commitment of the manager’s personnel and the appropriateness of ESG training
- an assessment of ESG metering and reporting at both the manager level and the fund level

From the standpoint of KRR’s investment operations, the main sustainability risks that can be influenced are indirect in relation to the companies in a portfolio created in the KRR funds-of-funds. Any failure of portfolio fund managers to integrate the management of sustainability risks into their own operations, as well as into the investment and management processes relating to investees, significantly increases the risk of sustainability risks not being properly addressed or anticipated in the funds' portfolio companies. The most typical risks that have arisen at the portfolio company level impacting the performance of investments have been social and corporate governance issues.

As Tesi and KRR often work with new and emerging fund managers, KRR might invest in players that at the time of the commitment do not properly or sufficiently address all the factors relating to sustainability risks. Managers are, however, required to bring their operations around ESG to a satisfactory level. KRR may decide not to make an investment if the manager of a potential portfolio fund has neglected to effectively manage sustainability risks and has not shown willingness or been active in rectifying their *modus operandi*.

Adverse impacts of investment decisions on sustainability factors

Article 4 of the SFDR Regulation requires alternative fund managers to publish on their website information about whether or not the principal adverse impacts (PAIs) of investment decisions on sustainability factors are taken into account. Sustainability factors mean aspects related to the environment, society and employees, respect for human rights, and issues relating to the prevention of bribery and corruption. So far Tesi, has not taken into account any adverse impacts on sustainability factors, as referred to in Article 4 of the SFDR, from its investment decisions in its KRR activities because the portfolio funds invest mainly in small, unlisted companies that at this stage do not have the framework for producing data about adverse sustainability impacts.

KRR makes investments primarily in venture capital and private equity funds, and the investees of these funds are not known in advance. Tesi endeavours to manage the adverse impacts of its investment decisions on sustainability factors by ensuring through an ESG review it conducts that the manager of a portfolio fund follows good practices in this respect, and by evaluating the investment strategy of the portfolio fund with regard to adverse impacts in the light of the best information available.

Tesi also tries to commit managers of portfolio funds by contract to following the UN's Principles for Responsible Investment and to preparing responsible investment policies and instructions. As a part of Tesi's active ownership managers are encouraged to integrate these principles into their investment operations when preparing, managing and exiting investments, to actively train their personnel, and to support portfolio companies in this field.

KRR's representatives are active on the advisory boards of their portfolio funds and engage in continuous dialogue with fund managers. Since the portfolio companies of the portfolio funds selected for the KRR funds-of-funds are not known in advance, the actual adverse impacts on sustainability factors of the investment targets selected by portfolio funds' managers cannot be evaluated by Tesi in conjunction with fund investment decisions made in the KRR funds-of-funds. Furthermore, KRR's representatives do not participate in the investment decision-making of KRR's portfolio funds, so KRR has very limited opportunities for influencing the management of sustainability risks other than indirectly through the managers. KRR also has limited opportunities for relinquishing investments in funds or portfolio companies causing adverse sustainability impacts without the consent of managers and other investors in the portfolio funds.

Monitoring sustainability risks and adverse impacts of investment decisions on sustainability factors

Tesi obliges managers to report sustainability risks and adverse sustainability impacts that have occurred. The ESG review of managers conducted for the final fundraising is repeated at least once a year in the management phase of the investment and, if necessary, an action plan to address development targets is drafted together with the managers of the portfolio fund. Any sustainability risks that have occurred and any adverse sustainability impacts identified form part of Tesi's ESG review of the manager's operations and of Tesi's decision-making at the latest when the next fund is raised by the manager. If the situation warrants it, the KRR funds-of-funds will no longer invest in the manager's next fund.

Tesi and its KRR funds-of-funds do not yet at this phase collect the principal adverse impact indicators as per SFDR directly from managers of their portfolio funds or from their portfolio companies. At the same time, however, Tesi utilises data from external service providers to evaluate the impacts on sustainability factors of investees in the KRR portfolios.

Addressing sustainability risks in remuneration

The Finnish state, as Tesi's owner, obliges Tesi to address corporate responsibility in its operations. For this reason, Tesi's Board of Directors requires that a part of Tesi employees' annual variable compensation is linked to the achievement of Tesi's corporate responsibility goals. An essential component of Tesi's corporate responsibility goals is to use active ownership as a tool in its portfolio funds and companies. For KRR's operations, this means support in the continuous development of the corporate responsibility practices of the managers of portfolio funds, so that sustainability risks will be comprehensively addressed in their own operations and in working with portfolio companies. More information about Tesi's corporate responsibility goals and the achievement of them is available in Tesi's Corporate Responsibility Report.

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