

# Sustainability Risk Policy

## Version Control

Version	Date	Updated by	Description of change
1	28/11/2022	R Barker	First version ready for publication

# Sustainability Risk Policy

## 1. Definitions

The terms ‘**Environmental, Social and Governance (ESG)**’ and ‘**Sustainability**’ are used interchangeably within this Policy, while acknowledging that ‘ESG’ typically encompasses a broader set of factors than those traditionally referred to as ‘Sustainable’.

When used in this Policy, ‘**Counteract**’ means any and all of (i) Counteract Partners Ltd (in its capacity as investment adviser to the Manager and “Manager” for the purposes of this Policy shall mean MJ Hudson Fund Services Guernsey Limited, insofar as it remains appointed as the manager of the investment fund Counteract One LP as well as any other future funds or, where relevant, any other person appointed as manager in place of MJ Hudson Fund Services Guernsey Limited), (ii) Counteract One GP LLP, the general partner of Counteract One LP and (iii) Counteract One LP, the investment fund.

The following definitions from the EU Sustainable Finance Disclosure Regulations (SFDR) framework are used and paraphrased below:

- **Sustainability Factors:** This means environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.
- **Sustainable Investment:** This is an investment in an economic activity which:
  - contributes either to an environmental objective or a social objective;
  - does not significantly harm<sup>1</sup> any environmental or social objectives; and
  - the investee company follows good governance practices.
- **Sustainability Risk:** This is an environmental, social or governance event or condition which, if it occurs, could cause a material negative impact on the value of an investment.

## 2. Overview

Counteract believes that the integration of Sustainability Risk considerations in the investment process is an important part of risk management. Sustainability Risks include (but are not limited to) the following:

- Operational risks such as impacts of environmental events on operations.
- Governance risks such as inadequate management oversights of sustainability risks.
- Regulatory risks such as violations of ESG-related laws and regulations.

Given the Fund’s focus on GHG removals, Counteract more specifically considers climate change related risks and has integrated the main considerations within the Task Force on Climate-related Financial Disclosures (TCFD) into its approach of evaluating Sustainability Risks in its investment processes.

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<sup>1</sup> Article 25 of Regulation (EU) 2020/852 (the Taxonomy or Framework Regulation) amends the SFDR to include additional detail on what “do not significantly harm” means in practice.

### 3. Integration of Sustainability Risks in the Investment Process

The Fund invests in early-stage growth companies focused on GHG removals. These companies are at the seed and pre-seed stage of investment (usually defined as a micro enterprise). As such the availability of company information related to Sustainability Risks is limited and the impact of Sustainability Risks at the point of investment is limited.

However, Sustainability Risks are more likely to arise as investee companies develop GHG-related projects, products and services at meaningful commercial and operational scale.

The nature of the Sustainability Risks are assessed as an integral part of Counteract's investment process, as outlined below:

#### **Investment Opportunity Screening**

As part of Counteract's pre-due diligence screening, and in line with Counteract's ESG & Sustainability Policy, potential investment opportunities are screened against Counteract's Exclusion List<sup>2</sup>. This identifies and consequently avoids any investment that is currently, or likely to in the future, generate revenues from excluded industries, products or services. Counteract will also reject any investment opportunity if a company is operationally or financially linked to a country, company or persons registered on relevant sanctions lists.

Through this negative screening exercise, Counteract aims to filter out potential investments that do not fit with Counteract's values or are likely to be subject to significant Sustainability Risks and significant adverse impacts on Sustainability Factors.

#### **Due Diligence and Investment Decision-making**

Counteract undertakes a comprehensive due diligence process for each potential investment. Within the due diligence on ESG and Sustainability Factors, Counteract evaluates whether there are any red flags (e.g. unacceptable Sustainability Risks or significant adverse impacts on Sustainability Factors ) that should prevent Counteract from proceeding with the potential investment.

Through this process, Counteract identifies key Sustainability Risks (and opportunities) and defines any potentially appropriate mitigating actions.

As part of the due diligence process, the investment team must complete a pre-designed Investment Committee document template for submission to the Investment Committee. The template includes three sections<sup>3</sup> which require the investment team to consider and assess actual and potential Sustainability Risks associated with each potential investment opportunity.

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<sup>2</sup> The Exclusion List is maintained in Appendix 3 of Counteract's ESG & Sustainability Policy and is reproduced here.

<sup>3</sup> The three sections relate specifically to "Climate related risks (TCFD), Other sustainability risks, and ILO minimum safeguards.

The sustainability risks detailed in the completed Investment Committee paper, in turn, are considered by the Investment Committee as a central part of making an investment decision.

### **Asset Management**

As part of ongoing engagement with investee companies, Counteract challenges and supports investee companies to enhance and further develop their management of ESG & Sustainability Factors (including mitigating Sustainability Risks). This includes developing appropriate processes and procedures, policies, reporting and disclosures. Where relevant and appropriate, action plans to manage and mitigate Sustainability Risks are encouraged and progress against these plans monitored.

### **Training**

As part of training and personal development, all members of the investment team are expected to understand the nature of Sustainability Risks as part of their roles. Indeed, all team members are provided with training on TCFD/climate related risks in relation to Counteract's investment activities.

### **Reporting**

As part of Counteract's annual reporting to its Fund investors, Counteract provides a Sustainability Report which will include, inter alia, consideration of and commentary on any material Sustainability Risks at both the individual investee company level as well as the Fund level.

## **4. Review**

This Policy will be reviewed and evaluated as required by the board of Counteract Partners Ltd, but no less frequently than every 24 months.

Counteract Partners Ltd

Date: 07/12/2022