

Integration of sustainability risks in investment process



EU Sustainable Finance Disclosure Regulation

On March 10, 2021, the EU Commission's Sustainable Finance Disclosure Regulation (EU) 2019/2088 (SFDR) entered into force. As an AIFM, Axcel's funds fall under the SFDR and Axcel ensures compliance with this regulation on behalf of its active funds. Axcel is required to provide information to investors with regards to the integration of sustainability risks in investment process, the consideration of adverse sustainability impacts, and the promotion of environmental or social characteristics.

This document addresses Article 3 (1) of the Regulation: "Financial market participants shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process."

Integration of sustainability risks in investment process

Environmental, Social and Governance considerations ("ESG") form an integrated part of the investment process. Sustainability risks are ESG events or conditions, which if these occurred, could cause an actual or potential material negative impact on the value of an investment. Axcel therefore considers these sustainability risks which might cause a negative impact on the value of its investments.

When screening for future investment options, Axcel incorporates relevant ESG factors in the general evaluation criteria. To ensure that the assessment of each potential investment covers all relevant ESG elements, Axcel conducts a thorough ESG due diligence. The due diligence identifies and assesses potential sustainability related risks considering the company's business model, industry, and geographic footprint. Climate related risks and opportunities are assessed using the recommendations from the Taskforce on Climate-related Financial Disclosures (TCFD).

The maturity of the target's response to the identified risks is assessed. The result is a summary of the type and scale of various ESG risks, the maturity of the company in managing the identified risks, the willingness of management to improve performance on ESG matters, and the resulting net risk score.

In addition to identifying and assessing such ESG risks, the ESG due diligence seeks to identify and describe existing and future ESG driven opportunities for the company considering the company's business model, industry, and geographic footprint.

The findings from the ESG due diligence are summarized and included in the investment decision material reviewed by the investment committee.

During ownership, Axcel implements a five-step sustainability programme in portfolio companies to ensure companies identify and manage sustainability related impacts, risks and opportunities.

- i. Embed sustainability in policies and management systems: Axcel requirements include a) Sustainability policy, b) Code of conduct, c) Business relations code of conduct, d) Data privacy policy, e) Whistleblower scheme f) Commitment to the UN Global Compact, g) ESG priorities linked to the UN Sustainable Development Goals.
- ii. Identify and assess ESG impacts, risks and opportunities: building on the analyses conducted during due diligence, companies assess their ESG impacts, risks, and opportunities during the onboarding process to inform sustainability priorities. The double materiality assessment is informed by relevant frameworks including the OECD Guidelines and the UN Guiding Principles, the SASB materiality finder and findings from the TCFD assessment and other relevant sources of input.
- iii. Prioritise topics and define ESG priorities: actions are defined to address material ESG topics that are aligned with the UN Sustainable Development Goals (SDGs).
- iv. Track implementation and results: companies report quarterly on progress on ESG priorities and ESG KPIs aligned with the EU Principal Adverse Impact indicators and the EGS Data Convergence Initiative. Company boards review and approve ESG efforts at a minimum on an annual basis.
- v. Communicate on progress: companies report publicly on progress in line with UN Global Compact requirements and comply with Active Owners Denmark's guidelines on openness and transparency.

For further information regarding Axcel's sustainability practices, visit the Axcel website where further SFDR disclosures are available, as well as Axcel's Sustainability policy and Annual Review & Sustainability Report.

Version history

Version:	Date	Changes
1	1 June 2022	Document published on website.
2	20 February 2026	Additional references added, investment process description and template updated.