

Statement on principal adverse impacts of investment decisions on sustainability factors



1. SUMMARY

Avaron Emerging Europe Fund (Estonia) (“Fund”) (LEI: 5299002W6ED92XBPCX25) considers principal adverse impacts of its investment decisions on sustainability factors. The present statement covers the reference period from 1 January to 31 December 2024.

The Fund considers the mandatory principal adverse impact indicators and 5 voluntary indicators defined by the Sustainable Finance Disclosure Regulation (SFDR)¹ subject to data availability and quality. An explanation of data availability and quality is given for indicators where data is not available for the whole portfolio and/or estimated data is used.

Principal adverse impact assessment and mitigation is carried out in accordance to Avaron Responsible Investment Policy, Climate Change Policy Statement and Voting Policy as part of investment due diligence process and procedures. Principal adverse impact indicators are incorporated into the investment process of the Fund using exclusion, norms-based screening and controversy monitoring, and internal ESG rating system. To avoid financing companies that are engaged in activities with clear negative impact on people and environment exclusion principles are applied to eliminate such issuers from the investment universe. Norms-based screening and controversy monitoring are used to identify companies that are allegedly involved in breaches of international law and norms on environmental protection, human rights, labour standards and anti-corruption. Restricting companies from the investable universe based on negative screening means that they can no longer be influenced to mitigate their adverse impacts. For this reason, where possible, engagement is the preferred option over exclusion. On top of restrictions that are legally required, we restrict companies involved in specific business activities and companies that are deemed to be violating global norms with insufficient remediation.

In security selection the Fund relies on Avaron Asset Management’s (“Avaron”) internal ESG rating system that is an integral part of broader issuer fundamental analysis. The rating system enables to assess the ESG performance of issuers and steers the security selection within the Fund portfolio as it is directly linked to issuer fair value assessment. It assesses issuers’ ESG performance comprising ca 120 qualitative and quantitative criteria covering environment, society, supply chain and governance, including also principal adverse impact indicators.

2. DESCRIPTION OF THE PRINCIPAL ADVERSE IMPACTS ON SUSTAINABILITY FACTORS

The mandatory indicators defined by the SFDR are set out in Table 1 below. These indicators must be considered to ensure that adverse impact on key sustainability factors is taken into consideration. For each of these indicators, we have included information to describe the actions that we have taken and actions that we plan to take/targets set to avoid or reduce the principal adverse impacts.

¹ Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector

Besides the mandatory indicators two additional climate and other environment-related indicators and three additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters are considered. These indicators are set out in Tables 2 and 3 below.

Information on the impact of the Fund investments on these indicators and comparison to previous years are published by 30 June 2025, and continuously on an annual basis. This information will cover the period of 1 January until 31 December of the preceding year.

Table 1

| Indicators applicable to investments in investee companies | | | | | |
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| Adverse sustainability indicator | Metric | Impact [year 2024] ² | Impact [year 2023] ³ | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS | | | | | |
| Greenhouse gas emissions | 1. GHG emissions | Scope 1 GHG emissions | 12,825 tCO ₂ e | 10,612 tCO ₂ e | <p>Reporting year data coverage: 96.6% (2023: 90.7%)</p> <p>Rise in absolute Scope 1 emissions reflects:</p> <p>1) Increased ownership in cement producer Titan International that accounted for 60% of the portfolio Scope 1 emissions. Also, Titan's Scope 1 emissions increased 5% yoy. Titan has committed to net-zero GHG emissions by 2050 aligned with the 1.5 °C pathway, and 2030 targets validated by the SBTi.</p> <p>2) 17% yoy rise in Scope 1 emissions of energy company Orlen Group that accounted for 19% of the portfolio Scope 1 emissions. Orlen has committed net-zero GHG emissions by 2050 backed by a detailed roadmap including 2030 milestones.</p> <p>In accordance to Avaron Climate Change Policy Statement the Fund is committed to have net-zero portfolio by 2050 and to achieve 50% portfolio footprint reduction by 2030 from 2020 baseline. Given that the Fund's investment universe is constrained geographically (focus on Emerging Europe ex-Russia) and asset class wise (focus on listed equity), the delivery on the commitment will predominantly depend on the transformation of Emerging Europe issuers towards net-zero.</p> <p>The Fund uses exclusion, engagement and integration as the main tools to progress towards emission related goals.</p> <p>Exclusion principles applied: The Fund does not invest in companies that generate more than 20% of</p> |

² Impact is calculated and illustrated as the average of impacts on 31 March, 30 June, 30 September and 31 December of each reference period.

³ 2023 reference data for the Fund portfolio has been adjusted to exclude uninvested cash holdings.

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| | | Scope 2 GHG emissions | 1,321 tCO ₂ e | 1,169 tCO ₂ e | <p>Reporting year data coverage: 96.6% (2023: 90.7%)</p> <p>Rise in absolute Scope 2 emissions reflects:</p> <p>1) Increased ownership in cement producer Titan International that accounted for 48% of the portfolio Scope 2 emissions. Also, Titan's Scope 2 emissions increased 7% yoy. Titan has committed to net-zero GHG emissions by 2050 aligned with the 1.5 °C pathway, and 2030 targets validated by the SBTi.</p> <p>2) 11% yoy rise in Scope 2 emissions of energy company Orlen Group that accounted for 13% of the portfolio Scope 2 emissions. Orlen has committed net-zero GHG emissions by 2050 backed by a detailed roadmap including 2030 milestones.</p> | <p>revenues from the extraction of any kind of coal including lignite or from coal-based energy production or from both activities combined. Exclusion is not applicable to companies that have set netzero ambitions in accordance with Science-Based Targets Initiative (SBTi) Net-Zero Standard</p> <p>Engagement approach: Engagement is seen as the most effective way to ensure that Emerging Europe issuers gradually commit to net-zero and implement appropriate transition plans. The objective is to encourage companies to integrate climate risks and opportunities in their long-term business models and enable them to thrive in the transition to a low carbon economy. Avaron Asset Management engages directly and collaboratively with its peers on behalf of the Fund and advocates to commit to SBTi validated reduction objectives and report against recognized frameworks.</p> |
| | | Scope 3 GHG emissions ⁴ | 63,851 tCO ₂ e | 26,463 tCO ₂ e | <p>Reporting year data coverage: 95% (2023: 66.6%)</p> <p>Scope 3 emissions data availability has improved but quality remains inconsistent. For example, some banks have started to report Scope 3 including loan portfolio related emissions but have not provided 2023 reference values. Some banks have not yet started to provide</p> | <p>Integration: Climate change related indicators (emissions disclosure and intensity, reduction targets and trends, net-zero</p> |

⁴ Scope 3 emissions will be reported starting from the period of 1 January until 31 December 2023 by 30 June 2024, and continuously on an annual basis.

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| | | | | | Scope 3 including loan portfolio related emissions. | transition ambition, environmental risk management system and certifications) are integrated to the ESG rating system of issuers that directly feeds into company valuation and is used in the security selection of the Fund. Avaron Asset Management investment team monitors these metrics and engages with the investee companies if necessary. This ensures that climate risks and opportunities are considered in the investment process of the Fund. |
| | | Total GHG emissions ⁵ | 14,161 tCO ₂ e | 11,836 tCO ₂ e | <p>Reporting year data coverage: 97.2% (2023: 91.4%)</p> <p>Rise in absolute Scope 1+2 emissions reflects:</p> <p>1) Increased ownership in cement producer Titan International that accounted for 59% of the portfolio Scope 1+2 emissions. Also, Titan's Scope 1+2 emissions increased 5% yoy. Titan has committed to net-zero GHG emissions by 2050 aligned with the 1.5 °C pathway, and 2030 targets validated by the SBTi.</p> <p>2) 17% yoy rise in Scope 1+2 emissions of energy company Orlen Group that accounted for 18% of the portfolio Scope 1+2 emissions. Orlen has committed net-zero GHG emissions by 2050 backed by a detailed roadmap including 2030 milestones.</p> <p>Without the above mentioned factors Fund's Scope 1+2 emissions decreased yoy.</p> | |
| | 2. Carbon footprint | Carbon footprint ⁶ | 268.8 tCO ₂ e/million € invested | 245.2 tCO ₂ e/million € invested | <p>Reporting year data coverage: 97.2% (2023: 91.4%)</p> <p>Portfolio carbon footprint increased 10% yoy driven by the</p> | |

⁵ Total emissions include Scope 1 and 2 due to inconsistent quality of Scope 3 data.

⁶ Calculated using Scope 1 and 2 emissions due to inconsistent quality of Scope 3 data.

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| | | | | | 18% rise in absolute Scope 1+2 portfolio emissions. | |
| | 3. GHG intensity of investee companies | GHG intensity of investee companies ⁷ | 334.8 tCO2e/million € of owned revenue | 249.2 tCO2e/million € of owned revenue | Reporting year data coverage: 97.2% (2023: 91.4%) Carbon intensity increased 34% yoy due to the combination of higher Scope1+2 absolute emissions and 10% yoy lower revenue of portfolio holdings as energy and banking sector revenue declined on the back of lower crude/gas prices and interest rate environment. | |
| | 4. Exposure to companies active in the fossil fuel sector | Share of investments in companies active in the fossil fuel sector | 18.3% | 15.6% | Higher weight of companies active in fossil fuel sector reflective of portfolio changes. | |
| | 5. 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 | 94% non-renewable energy consumption 91% non-renewable energy production | 92% non-renewable energy consumption 94% non-renewable energy production | Data coverage for non-renewable energy consumption is 71% (2023: 49%) Data coverage for non-renewable energy production is 58% (2023: 38%) For both indicators data coverage has improved but remains limited, not allowing to draw conclusions on trends. | |

⁷ Calculated using Scope1 and 2 emissions due to inconsistent quality of Scope 3 data.

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| | 6. 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 | 1.072 GWh/million of € revenue | 0.852 GWh/million of € revenue | 44% (2023: 53%) of portfolio invested in high impact sectors of which for 10pp (2023: 6pp) data is not available. Higher indicator value affected by the drop in energy sector revenue level due to lower prices. | |
| Biodiversity | 7. 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 | 0% | 0% | | Biodiversity and ecosystem preservation practices are assessed within the scope of the issuer ESG rating under environmental indicators. |
| Water | 8. Emissions to water | Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average | 0.096 tonnes/million € invested | 0.034 tonnes/million € invested | Data coverage: 21% (2023: 24%) Data availability for the indicator is extremely limited and does not allow to draw conclusions on trends. | Emissions to water is assessed within the scope of the issuer ESG rating under environmental indicators. |
| Waste | 9. 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 | 5.535 tonnes/million € invested | 4.615 tonnes/million € invested | Data coverage: 54%, no estimated data used (2023: 87% of which 28pp estimated) Limited data availability and inconsistent quality of reported data do not allow to draw conclusions on trends. | Hazardous and radioactive waste generation is assessed within the scope of the issuer ESG rating under environmental indicators. It has a penalising impact on the score irrespective of the level of waste generated. |
| INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS | | | | | | |

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| Social and employee matters | 10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises | Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises | 19.7% ⁸ | 3.7% ⁹ | <p>Reporting year incidents:</p> <p>1) Orlen Group (Poland) An arrest of a former executive in the company's Swiss subsidiary for alleged fraud.</p> <p>2) OTP Bank (Hungary) was fined by the Hungarian central bank for anti-money laundering (AML) compliance breaches.</p> <p>3) OMV Petrom (Romania) The company is subject to a formal complaint filed with the OECD's National Contact Point by environmental NGOs concerning the Neptun Deep offshore gas project. The complaint alleges non-alignment with climate obligations</p> <p>Separately, OMV Petrom was fined by Moldova's antitrust regulator for collusion and market abuse in fuel distribution.</p> <p>4) Coca-Cola HBC is under investigation in Hungary for potentially misleading environmental claims regarding plastic bottle recyclability. Additional issues include a product recall in Austria and industrial fire incident in their Serbian facility..</p> <p>5) Motor Oil Hellas (Greece) An industrial fire at its Corinth</p> | <p>Issuers in the Fund portfolio are subject to continuous controversy monitoring. Companies where violations have been detected are subject to engagement, quarantine, or exclusion. Internal assessment of the incident is conducted by the investment team of Avaron Asset Management that provides a recommendation to the Investment Committee, which then decides on actions to be taken.</p> <p>Actions taken in relation to incidents that occurred in the reporting year:</p> <ol style="list-style-type: none"> 1) Orlen Group: Incident was recorded in the controversy adjustment section of the ESG rating of Orlen, lowering the rating. 2) OTP Bank: Incident was recorded in the controversy adjustment section of the ESG rating of OTP, lowering the rating. 3) OMV Petrom: Engaged with the company in relation to the antitrust fine as the fine was disputed in court. The |
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⁸ Incidents occurred in the reporting year.

⁹ Incidents occurred in 2023.

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| | | | | | <p>refinery raised concerns over environmental and operational safety practices.</p> <p>6) Furlis (Greece) reported cyber security failure that impacted their e-commerce operations.</p> <p>Incidents in preceding reporting year:</p> <p>1) Fire in Orlen Group's plant in Plock in September 2022 that caused 2 fatalities and hydrogen sulfide poisoning in February 2023 in the same plant that caused 1 fatality.</p> | <p>incident was recorded in the controversy adjustment section of the ESG rating of Petrom, lowering the rating.</p> <p>4) Coca-Cola HBC: Engaged with the company on the issues. All three incidents were recorded in the controversy adjustment section of the ESG rating of Coca-Cola HBC, lowering the rating.</p> <p>5) Motor Oil Hellas: Incident was recorded in the controversy adjustment section of the ESG rating of Motor Oil, lowering the rating.</p> <p>6) Furlis: Engaged with the company. The incident was recorded in the controversy adjustment section of the ESG rating of Furlis, lowering the rating.</p> <p>Actions taken in relation to incidents that occurred in 2023:</p> <p>1) Orlen Group: As the company was added to the Fund portfolio in May 2023 then both incidents were addressed at the same time. An engagement was launched with the</p> |
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| | | | | | | company to assess the mitigative actions taken and potential impact on company's financials. Both incidents were recorded in the controversy adjustment section of the ESG rating of Orlen, lowering the rating. |
| | 11. 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 | 7% | 13% | <p>Indicator is assessed using checks against:</p> <ol style="list-style-type: none"> 1) whether the issuer is UNGC signatory; 2) whether the issuer follows OECD Guidelines; 3) whether the issuer complies with ILO Fundamental Principles and Rights at Work and UN Universal Declaration of Human Rights; and 4) whether the issuer has a policy to ensure the respect of human rights in general. <p>The issuer is considered to have sufficient processes and compliance mechanisms in place if it complies with 2 out of the above 4 criteria.</p> <p>Improvement in the indicator due to rising CSR awareness among Emerging Europe corporates.</p> | |

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| | 12. Unadjusted gender pay gap | Average unadjusted gender pay gap of investee companies | 10% | 10% | Data coverage: 91% (2023: 85%) No change in the indicator, while data availability has risen. | Gender pay gap is assessed within the scope of issuer ESG rating under social indicators. Pay gap of less than 5% is considered to be indicative of fair performance. |
| | 13. Board gender diversity | Average ratio of female to male board members in investee companies, expressed as a percentage of all board members | 28% | 27% | | Board gender diversity is assessed within the scope of issuer ESG rating under governance board related indicators focusing on: 1) whether the issuer has policy in place regarding board gender diversity; and 2) what is the level of female representation. |
| | 14. 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 | 0% | 0% | | The Fund follows exclusion principles set fourth in Avaron Responsible Investment Policy that restrict any investments in issuers that are involved in design, development, production, sales and distribution or overhaul of anti-personnel mines, cluster munitions, chemical, biological weapons, white phosphorus, depleted uranium weapons and nuclear weapons. |
| Indicators applicable to investments in sovereigns and supranationals | | | | | | |

| Adverse sustainability indicator | | Metric | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
|--|---|--|-----------------|-------------------|-------------|--|
| Environmental | 15. GHG intensity | GHG intensity of investee countries | NA | NA | NA | Not applicable given the investment universe of the Fund. |
| Social | 16. Investee countries subject to social violations | Number of investee countries subject to social violations (absolute number and relative number divided by all investee countries), as referred to in international treaties and conventions, United Nations principles and, where applicable, national law | NA | NA | NA | Not applicable given the investment universe of the Fund. |
| Indicators applicable to investments in real estate assets | | | | | | |
| Adverse sustainability indicator | | Metric | Impact [year n] | Impact [year n-1] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| Fossil fuels | 17. Exposure to fossil fuels through real estate assets | Share of investments in real estate assets involved in the extraction, storage, transport or manufacture of fossil fuels | NA | NA | NA | Not applicable given the investment universe of the Fund. |

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| Energy efficiency | 18. Exposure to energy-inefficient real estate assets | Share of investments in energy-inefficient real estate assets | NA | NA | NA | Not applicable given the investment universe of the Fund. |
|-------------------|---|---|----|----|----|---|

Table 2

| Additional climate and other environment-related indicators | | | | | | |
|---|---|--|--|--|--|---|
| Indicators applicable to investments in investee companies | | | | | | |
| Adverse sustainability indicator | | Metric | Impact [year 2023] | Impact [year 2022] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| Emissions | 4. 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 | 9% | 12% | | Please refer to Table 1 greenhouse gas emissions section. |
| Water, waste and material emissions | 6. Water usage and recycling | <p>1. Average amount of water consumed by the investee companies (in cubic meters) per million EUR of revenue of investee companies</p> <p>2. Weighted average percentage of water recycled and reused by investee companies</p> | <p>1. 7,007 m³/million € of revenue</p> <p>2. 50%</p> | <p>1. 5,186 m³/million € of revenue</p> <p>2. 41%</p> | <p>1. Data coverage: 70% (2023: 70%)</p> <p>Although data availability is decent, the inconsistent quality of reported data does not allow to draw conclusions on trends.</p> <p>2. Data coverage: 21% (2023: 18%)</p> <p>Data availability for the indicator is extremely limited and does not allow to draw conclusions on trends.</p> | <p>Water usage and recycling is assessed within the scope of issuer ESG rating under environmental indicators:</p> <ol style="list-style-type: none"> 1) whether the issuer has a water usage reduction/efficiency policies/plans in place; and 2) assessing the trend in the amount of discharged water. |

Table 3

| Additional indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters | | | | | | |
|---|--|--|--------------------|--------------------|---------------------------------|---|
| Indicators applicable to investments in investee companies | | | | | | |
| Adverse sustainability indicator | | Metric | Impact [year 2023] | Impact [year 2022] | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| Social and employee matters | 8. Excessive CEO pay ratio | Average ratio within investee companies of the annual total compensation for the highest compensated individual to the median annual total compensation for all employees (excluding the highest-compensated individual) | 30.5 | 31.2 | Data coverage: 94% (2023: 97%). | Excessive CEO pay ratio is assessed within the scope of issuer ESG rating under social indicators. Pay gap of less than 5x is considered fair. |
| Human rights | 14. 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 | 0 | 0 | | Issuers in the Fund portfolio are subject to continuous controversy monitoring. Exclusion is applied in case of issuers where severe human rights issues or incidents are detected. |
| Anti-corruption and anti-bribery | 15. 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 | 10% | 12% | | The lack of anti-corruption and anti-bribery policies are checked within the scope of issuer ESG rating under social indicators. |

3. DESCRIPTION OF POLICIES TO IDENTIFY AND PRIORITISE PRINCIPAL ADVERSE IMPACTS ON SUSTAINABILITY FACTORS

3.1. Governance

Avaron Asset Management's ("Avaron") approach to assess and mitigate principal adverse impacts is set out in Avaron Responsible Investment Policy, Climate Change Policy Statement and Voting Policy. The review and oversight of responsible investing matters are vested in Responsible Investment Committee (RIC), which operates under the authority of the Management Board of Avaron and is chaired by a Management Board Member. The scope of RIC includes oversight of responsible investing matters in Avaron, setting the overall strategic direction, policy formulation, external representation, product, business growth, investment integration, and setting the exclusion lists. The Committee also oversees the execution of Avaron's ownership rights in investee issuers, including engagement and proxy voting activities. The Committee is composed of senior staff members, including the CEO, and representatives of the investment management and compliance functions.

3.2. Methodology to assess and mitigate principal adverse impacts

The Fund's principle adverse impacts on sustainability are due to the companies it invests in. The Fund considers principal adverse impacts on sustainability factors are those impacts of the investment decisions that result in material negative impacts on environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters such as environment degradation, poor labour practice, and unethical corporate behaviour for example bribery and corruption. When evaluating principal adverse impacts of its investments, the Fund considers the potential for engagement with an issuer to mitigate any adverse impacts on sustainability factors and enhance issuer performance. Avaron's active ownership and long-term investment approach provide a platform for positive influence of investee companies and it is believed that in many instances engagement may prove more impactful than divestment or exclusion. If a material issue is identified in a portfolio company, and engagement is not successful, divestment can be considered.

Principle adverse impacts are assessed and mitigated on a portfolio and issuer level. On the portfolio level thematic engagements are carried out. Current areas of focus include climate change and pay gap topics. Such engagements are undertaken independently and through collaborative initiatives such as CDP Non-Disclosure Campaign.

On an issuer level principal adverse impacts are assessed and mitigated through a combination of tools. These are summarised below:

- 1) ESG ratings and integration: ESG analysis of the companies in the Fund portfolio is carried out using an internal ESG rating system. It assesses company's ESG performance comprising over 100 qualitative and quantitative criteria covering environment, society, supply chain and governance. Each criterion is individually rated on a scale of 1 to 5, higher score indicating better performance. The rating includes selected principal adverse impact indicators. It is adjusted for ESG related controversies (negative) and other specific issues (positive or negative), which are not reflected in the rating system but are deemed important to be considered when assessing the overall ESG profile of the company. ESG rating enables to assess various ESG and sustainability related risks and opportunities and in the Fund's investment universe according to ESG performance and is mandatory for all companies in the Fund portfolio. The use of ESG rating ensures that ESG considerations are embedded into the analysis process of each individual company in the Fund portfolio and investment decision-making process. Companies with ESG rating below 2 are automatically excluded from our investment universe, while for companies with a rating

between 2-5 a fair value adjustment factor as the final step in company valuation process to reflect the ESG performance. The adjustment factor ranges from -10% to +10% and is linearly correlated to the ESG rating.

- 2) Active ownership: Avaron's investment team regularly engage with investee companies to better understand their ESG and sustainability characteristics, principle adverse impacts and where relevant, advocate for enhanced performance on. Avaron has committed to vote on all shareholder meetings on behalf of the Fund to ensure that the interests of Fund investors are always protected.
- 3) Exclusions and controversies: The Fund will not invest in issuers in breach of the principles of the UN Global Compact that are assessed as having severe controversies relating to sustainability issues or that participate in activities that have a clear negative impact on people, the environment or issuer stakeholders. The Fund follows exclusion principles set out in Avaron Responsible Investment Policy that prohibit investments into companies active in armament and weapons, adult content, tobacco and limits investments into companies active in alcohol, gambling, coal extraction and coal based energy production.

3.3. Data sources and constraints

Avaron investment team sources data on principal adverse impacts from issuer reporting, third-party data providers and engagement. Despite significant improvements over the last 5 years, the quality and availability of reported data relating to principle adverse impacts remains limited and can constrain the ability to undertake quantitative analysis of the Fund's principle adverse impacts. This issue can be exacerbated for smaller companies or frontier markets. Avaron attempts to bridge quantitative data gaps through direct or collaborative engagement with issuers, public policy advocacy for enhanced and consistent disclosures, use of specialist data providers, and participation in industry initiatives.

Avaron's ESG rating system includes principal adverse impact indicators providing basis to assess a company's performance based on research and direct company engagement. While this can help narrow the challenge presented by data gaps, it can include subjective assessment of issuer performance and culture, which may be subject to interpretation and error.

4. ENGAGEMENT POLICIES

When evaluating principal adverse impacts of the Fund's investments, Avaron considers the potential for engagement with an issuer to mitigate any adverse impacts on sustainability factors and enhance issuer performance. Engagements on behalf of the Fund are carried out in accordance to Avaron Responsible Investment Policy. Engagement may take several forms including direct dialogue with the executive management, formal correspondence with the board of directors or supervisory board and exercising shareholder's rights on the general assembly.

Avaron takes an active approach in communicating the ESG views to companies and seeking improvements where there are shortcomings in performance, or a company has infringed appropriate standards, or to push for adequate disclosure. Engagements may be reactive or proactive. Reactive engagements are company

specific and are triggered by a negative ESG event (e.g. norms violations), while proactive engagements are preventive in nature and target improvement of ESG practices. Proactive engagements can be also theme specific and undertaken across a group of companies.

Should ESG research with the ESG rating system uncover undesirable practices, or in reaction to a specific ESG related events, reactive engagement actions are undertaken to obtain within a predetermined timeframe specific and measurable changes on the part of the issuers. Engagement is always the preferable option over exclusion to thrive towards better ESG awareness and policies.

Escalation and means of the engagement activities are decided upon by Avaron investment team and depend on the specifics of the issue at hand and the company. Emphasis is placed on the company's response to the incident with favourable consideration for positive and responsible practices taken to ensure that such issues do not occur again. For some controversial activities, in addition to the level of involvement, it is also important to consider how the company approaches and considers its potentially contentious activities. Therefore, the presence (or absence) of relevant and targeted responsible policy that acknowledges the company's involvement in an activity, as well as the existence of systems and practices taken to ensure that it operates in a responsible manner, are important elements in the assessment.

In some instances joint action together with other stakeholders has the potential to be more effective than acting alone. Thus, in certain circumstances Avaron may consider participation in collaborative engagement initiatives.

A key part of being an active owner of listed equities is using voting rights in an informed way at company meetings, including but not limited to shareholder resolutions on ESG performance issues. Key principles of how we exercise our voting rights have been set out in Avaron Voting Policy. Avaron has committed to vote on all shareholder meetings on behalf of the Fund and to publicly disclose all votes cast.

5. REFERENCES TO INTERNATIONAL STANDARDS

5.1. Paris Agreement

Link to sustainability indicators:

Table 1 PAI 1-6: Greenhouse gas emissions

Table 2 PAI 4: Investments in companies without carbon emission reduction initiatives

Methodology and data used:

Avaron Asset Management has taken steps to align its portfolios to the objectives of the Paris Agreement. For the Fund a commitment has been made to reach net-zero portfolio by 2050 and to achieve 50% carbon footprint reduction by 2030 from 2020 baseline. To assess alignment the following indicators for the Fund are calculated and monitored: carbon footprint, GHG intensity, share of investments in fossil fuel sectors and share of investments with SBTi validated reduction targets. The default data source for emissions data is issuer reporting and that is complemented by third-party data providers (e.g. CDP, Science-Based Targets Initiative).

5.2. UN Global Compact, OECD Guidelines for Multinational Enterprises and UN Guiding Principles on Business and Human Rights

Link to sustainability indicators:

Table 1 PAI 10: Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises

Table 1 PAI 11: Lack of processes and compliance mechanisms to monitor compliance with UN Global Compliance principles and OECD Guidelines for Multinational Enterprises

Table 3 PAI 14: Number of identified cases of severe human rights issues and incidents

Table 3 PAI 15: Lack of anti-corruption and anti-bribery policies

Methodology and data used:

United Nations Global Compact, the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles for Business and Human Rights, Responsible Business Conduct and International Labour Organization (ILO) Conventions are used to assess human rights practices of companies to help assess and mitigate principal adverse impacts companies in the Fund portfolio may have on social factors. Screening of the Fund portfolio in regards to potential violations occurs on an ongoing basis. Screening is based primarily on LSEG newsfeed and controversy data but is complemented with numerous other newsfeeds Avaron investment team uses on daily basis.

5.3. Corporate Governance

Link to sustainability indicators:

Table 1 PAI 12: Undadjusted gender pay gap

Table 1 PAI 13: Board gender diversity

Table 2 PAI 8: Excessive CEO pay ratio

Methodology and data used:

In its capacity of shareholder, the Fund is guided by corporate governance standards of relevant countries in Emerging Europe in respect to its investments in the region but as well as ICGN Global Corporate Governance Principles and relevant governance related European Union legislation. Data is derived either from internal research processes or third-party data providers.

5.4. Convention on Cluster Munitions

Link to sustainability indicators:

Table 1 PAI 14: Controversial weapons

Methodology and data used:

The Fund investment universe excludes all companies that are active in design, development, production, distribution or overhaul of weapons, weapon systems or components. Screening is carried out using data from internal research processes and complemented by third-party data providers.

6. HISTORICAL COMPARISON

An explanation of the changes for each indicator between 2023 and 2024 is included in the Explanation column in Table 1, 2 and 3 above.