

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 2022.

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 is published by 30 June 2023, and continuously on an annual basis. This information will cover the period of 1 January until 31 December of the preceding year. Information on impact compared to previous year will be reported by 30 June 2024, and continuously on an annual basis.

Table 1

Indicators applicable to investments in investee companies							
Adverse sustainability indicator	Metric	Impact [year n] ²	Impact [year n-1] ³	Explanation ⁴	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	8,955	NA	90% portfolio coverage 17% estimated data	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.	
		Scope 2 GHG emissions	877	NA	90% portfolio coverage 17% estimated data		
		Scope 3 GHG emissions ⁵	NA	NA			
		Total GHG emissions ⁶	10,021	NA	95% portfolio coverage 17% estimated data		
	2. Carbon footprint	Carbon footprint	299.1	NA	95% portfolio coverage 17% estimated data		The Fund uses exclusion, engagement and integration as the main tools to progress towards emission related goals. Exclusion principles applied:
	3. GHG intensity of investee companies	GHG intensity of investee companies	290.7	NA	95% portfolio coverage 17% estimated data		
	4. Exposure to companies active in the fossil fuel sector	Share of investments in companies active in the fossil fuel sector	15.4%	NA			
	5. Share of non-renewable energy consumption and production	Share of non-renewable energy consumption and non-renewable	89% consumption	NA	52% portfolio coverage for consumption of which 9pp estimated		
			93%				

² This information covers the period of 1 January until 31 December of the preceding year.

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 Information on impact compared to previous year will be reported by 30 June 2024, and continuously on an annual basis.

⁴ Explanation of difference in impact reported will be published by 30 June 2023, and continuously on an annual basis.

⁵ Scope 3 emissions will be reported for the period of 1 January until 31 December 2023 by 30 June 2024, and continuously on an annual basis.

⁶ Total emissions include Scope 1 and 2.

		energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources	production		30% portfolio coverage for production of which 0% estimated	<ol style="list-style-type: none"> 1) The Fund does not invest in companies that generate more than 20% of revenues from the extraction of any kind of coal including lignite. From 2030 this revenue threshold shall be 10%. 2) The Fund does not invest in companies that generate more than 20% of revenues from coal-based energy production. The Exclusion is not applicable to companies that have set net-zero ambitions in accordance with Science-Based Targets Initiative (SBTi) Net-Zero Standard that implies full phaseout of coal-based generation by 2030. <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</p>
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	1.087	NA	54% of portfolio invested in high impact sectors of which 9pp data not available; no estimated data used	

						<p>commit to SBTi validated reduction objectives and report against recognized frameworks such as CDP and TCFD.</p> <p>Integration: Climate change related indicators (emissions disclosure and intensity, reduction targets and trends, net-zero 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.</p>
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%	NA		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,	0.059	NA	19% portfolio coverage, no estimated data used	Emissions to water is assessed within the scope of the issuer ESG rating under environmental indicators.

		expressed as a weighted average				
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	4.025	NA	85% portfolio coverage 32% estimated data	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						
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	5.7%	NA	Anti-competition fine imposed on Allegro (POL). Anti-competition allegations related to banks BRD-GSG (ROM) and Santander Bank Polska.	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. Actions taken: 1) Allegro: The incident was recorded in the controversy adjustment section of the ESG rating, lowering the rating 2) BRD-GSG: Launched an engagement with the company to establish their position on the matter. Recorded the incident in

						<p>the controversy adjustment section of the ESG rating, lowering the rating.</p> <p>3) Santander PL: Recorded the incident in the controversy adjustment section of the ESG rating, lowering the rating. Will wait for the final decision from the anti-monopoly office and then decide on further action.</p>
	<p>11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises</p>	<p>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</p>	<p>21%</p>	<p>NA</p>	<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 	

					<p>human rights in general.</p> <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>	
	12. Unadjusted gender pay gap	Average unadjusted gender pay gap of investee companies	8%	NA	76% portfolio coverage 8% estimated data	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	26%	NA		<p>Board gender diversity is assessed within the scope of issuer ESG rating under governance board related indicators focusing on:</p> <ol style="list-style-type: none"> 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%	NA		The Fund follows exclusion principles set fourth in Avaron Responsible Investment Policy that restrict any investments in issuers that that are involved in design, development, production, distribution or overhaul of weapons, weapon systems or components.

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	NA	NA	NA	Not applicable given the investment universe of the Fund.

		manufacture of fossil fuels				
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 n]	Impact [year n-1]	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	27%	NA		Please refer to Table 1 greenhouse gas emissions section.
Water, waste and material emissions	6. Water usage and recycling	1. Average amount of water consumed by the investee companies (in cubic meters) per million EUR of revenue of investee companies 2. Weighted average percentage of water recycled and reused by investee companies	1. 4,672 2. 41%	NA	1. 72% portfolio coverage incl. 9% estimated 2. 23% portfolio coverage, no estimated data	Water usage and recycling is assessed within the scope of issuer ESG rating under environmental indicators: 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 n]	Impact [year n-1]	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)	33.3	NA	74% portfolio coverage incl. 1% estimated	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	NA		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	12%	NA		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 and third-party providers such as Refinitiv and Bloomberg, specialist providers (e.g. CDP) 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 Refinitiv that is complemented by issuer reporting and CDP.

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 Refinitiv 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 Refinitiv or internal research processes.

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 predominantly from Refinitiv or Bloomberg and complemented with data from internal research processes.

6. HISTORICAL COMPARISON

A historical comparison of the period reported on with the previous reported period will be made as of 2024.