AVARON ASSET MANAGEMENT

RESPONSIBLE INVESTMENT REPORT
FOR THE YEAR 2021

CONTENTS

MESSAGE FROM THE CEO

2021 ended the same way it started – in the midst of the Covid-19 pandemic. If it has a silver lining, it could be the rapid shift in ethical and social awareness.

Corporates no longer just focus on making returns for shareholders but are taking a more holistic view, where boards and management teams consider the needs and wellness of other key stakeholders, including employees, suppliers, customers and the wider community.

On the global scale climate change remained at the forefront of sustainability challenges with high hopes related to COP26 (Conference of the Parties) summit, hailed as the most important since COP21 in 2015, which produced the Paris Agreement. Unfortunately, the conference was unsatisfactory in delivering the action and commitments needed to reach the Paris Agreement targets. On the positive side, it did raise the global ambition on climate action.

In the asset management industry last year was historical in terms of client demand and inflows to so-called sustainable funds. The AUM of global sustainable funds grew 53% year on year in 2021 reaching $2.74 trillion, supported by close to $600bn inflows. Europe remains the leader in ESG assets accounting for 81% of the global AUM.

2021 will be remembered as a transition year for sustainable funds in Europe as asset managers adjusted to comply with the Sustainable Finance Disclosure Regulation (SFDR). We saw wave of new sustainable offerings launches as well as repurposing existing conventional funds into sustainable ones to meet rising investor demand. This prompted a notable rise in European ESG asset base that expanded from $1.46 to $2.23 trillion.

At Avaron, we are welcoming the introduction of SFDR as it makes disclosure of financial products' performance on ESG issues compulsory for asset managers and should thus mitigate greenwashing. It means that asset managers will not just be able to say their investments are sustainable but will have to show that they are. In order to ensure smooth implementation the second phase of SFDR, which includes reporting on principal adverse impact statement, was delayed till 1 January 2023. Although our existing ESG research framework already allowed easy adjustment to the regulatory requirements, we welcome the additional time till final implementation as ESG disclosure of corporate issuers in Emerging Europe remains our main limitation. Our engagement efforts therefore continue to be focused on advocating for improved disclosure alongside with setting clear policy objectives in terms of ESG issues. **Under the SFDR our flagship Avaron Emerging Europe Fund is categorized Article 8 (light green) or a fund that promotes environmental and social characteristics,** and invests in companies that follow good governance principles.

In 2021 we continued our efforts to raise awareness on best ESG practices and disclosure across our Emerging Europe investment universe. Being stock-pickers who rely on in-house fundamental analysis we keep close contact with management teams of regional issuers, which enables us board level access to push for a change. It is our belief that fundamental research and active engagement with companies are crucial to impactful ownership.

We are glad to see that our engagement efforts are bearing fruit. Our focus area over the past few years has been climate change and there has been a notable improvement in terms of emissions disclosure and commitment to carbon reduction targets across our universe. A good reference point in this regard is the environmental rating that we calculate for all of our holdings and portfolios, which for our Avaron Emerging Europe Fund has risen 20% over the past 3 years to 3.4 in 1-5 scale. Although the rating incorporates a wider array of aspects, climate change is the dominant one. Also, we are proud that regional issuers are recognizing our work and regularly approach us to get feedback on their sustainability practices and reporting.

At Avaron we have an established culture of responsible investing dating back to 2011 when we became a signatory of UNPRI. Annually we get feedback on the quality of our responsible investment related processes via UNPRI Assessment Report that are made public on our webpage. It demonstrates how a signatory has progressed in its implementation of the principles year-on-year and relative to peers. Due to the implementation of a new reporting framework in 2021 UNPRI assessment reports are unfortunately due only by June 2022. However, we hope to keep our above the peer group ratings in all relevant reporting categories, proving that small boutique asset managers like ourselves can care and initiate a positive change in environmental, social and corporate governance aspects in life.

We are proud of our responsible investing process and achievements, and remain committed to the use of best practices for the benefit of our clients, the financial services industry and society at large.

Kristel Kivinurm-Priisalm, CEO
Avaron Asset Management AS

AVARON OVERVIEW

GENERAL INFORMATION

Avaron Asset Management AS (the Company) is a fund management company established in 2007. Avaron holds a license from the Estonian Financial Supervision Authority to manage investment portfolios and funds, and is also a registered Investment Advisor with the US Securities and Exchange Commission. The Company manages UCITS funds, alternative funds and institutional investors' managed accounts. Asset class wise the core focus is on Emerging Europe listed equities.

As of end 2021 Avaron managed 354 million euros, out of which the core long-only Emerging Europe listed equity strategy accounted for 340 million euros. Fixed income investments accounted for 1.5% of the total assets under management (AUM). The Company manages two mutual funds domiciled in Estonia. Avaron Emerging Europe Fund (AUM €40M) is focused solely on Emerging Europe ex-Russia listed equities (UCITS V). Avaron Flexible Strategies Fund (AUM €12M) is an asset allocation fund combining predominantly European listed equities and fixed income but based on the fund prospectus can invest globally (AIF). Avaron also provides sub-investment management services to third party funds and managed accounts. Investment management services to professional investors in the form of third-party funds and managed accounts have been a dominant business line for the Company over the years and accounts now for around 85% of the AUM. The total size of institutional investors' mandates in the end of 2020 was 300 million euros. Besides that Avaron also manages 2 million euros worth of portfolios for high net worth individuals.

GOALS AND VALUES

Our mission is to be the most suitable partner for institutional investors catering for their needs in investing into Emerging Europe listed equity asset class. We seek to offer positive risk weighted long-term return to our clients through value based and responsible investing. To achieve this, we adhere to our bottom-up value focused investment process. Our investment team has a key role in meeting this objective, which is why the Investment Managers and key investment team members are also the Company's shareholders. All three Investment Managers have worked in Avaron since the company's launch in 2007. Our research team, dedicated to the Emerging European region equity analysis, comprises of 10 investment specialists and is one of the largest among our peers.

Avaron has a strong corporate culture where integrity, passion for investing, diligence, flexibility and sustainability is highly valued. Integrity is the foundation of long-lasting success in asset management industry. To build clients' trust we are honest, open, ethical and fair. People trust us to adhere to our word and we are accountable for our actions. Passion for investing is a key characteristic we look for during our employee selection process as we consider it to be essential for self-development and long-lasting job satisfaction. In order to keep excelling one has to have a strong drive. Without it we would lose our competitiveness. Success in investing relies on disciplined, careful and persistent work. Adhering to our well-defined investment process and strategy in long-term enables us to achieve our goals. As a boutique asset management house flexibility, both towards our clients and employees, is something that sets us apart from the competition. We offer tailor-made solutions to our clients and opportunities for personal growth for our employees.

At Avaron we recognise that our business and investment practices have an impact on the environment and society. We are committed to carry out our business activities in a sustainable manner to ensure diverse ecological environment and vibrant cultural, social and economic base for future generations. Our perception of sustainability is of something not being harmful to people, communities, environment or depleting natural resources, and thereby supporting long-term social and ecological balance. As asset managers we also believe that environmental, social and corporate governance issues are important contributors to the long-term performance of investment portfolios. We believe that investing responsibly in quality companies reduces the risk associated with investing and improves our ability to meet the promises made to clients. That is why the concepts of active ownership and engagement, as well as assessing investment risk in all its forms, are fundamental to our investment approach.

INVESTMENT APPROACH

Avaron runs two different investment strategies across its asset base – long-only listed equity strategy, which accounts for over 95% of the AUM, and asset allocation strategy. Both strategies are managed in accordance to value-driven investment philosophy. It is based on a premise that superior long-term results can be achieved by exploiting the judgmental biases and behavioural weaknesses that influence the decisions of market participants. The market tends to overreact to short-term problems that from time to time emerge even for growing and established businesses causing the stocks or bonds of these companies temporarily to go out of favour. In such situations it becomes possible to acquire stocks or bonds at prices that ignore the intrinsic value of the instruments.

Portfolio construction is based on picking stand-alone investment ideas, thus fully bottom up. Idea generation is proprietary, driven by the in-house fundamental research. Our Emerging Europe investment universe includes 230 issuers, which are under close observation of our investment team. Engaging with and monitoring investee companies is an essential element of our investment strategy. Not a single investment is made without prior direct contact with the management team. We regularly follow up with companies we are invested in via management conference calls and on-site meetings. We have integrated ESG analysis into our investment process as we recognise that companies must exhibit good corporate governance and address environmental and social factors in order to flourish and survive in the long-term.

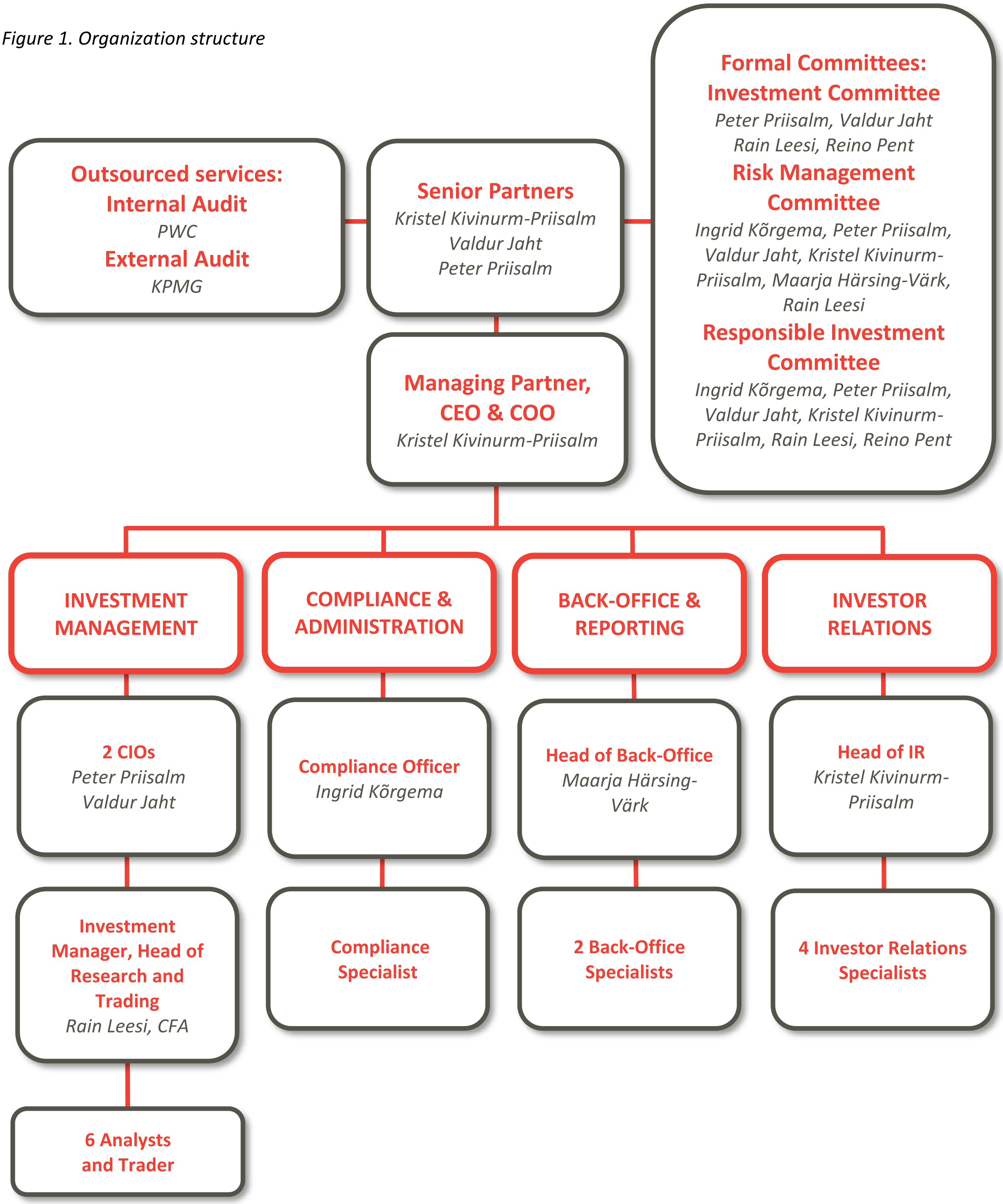
OWNERSHIP AND MANAGEMENT STRUCTURE

Avaron is an independent, fully employee-owned fund management company. Beneficial owners of the Company are its founding partners Kristel Kivinurm-Priisalm (CEO), Valdur Jaht (CIO & Chair of Responsible Investments) and Peter Priisalm (CIO) which each own via their holding companies one third of OÜ Avaron Partners that is with 82.41% shareholding the core owner of the Company. The rest of the Company is owned by its long-term senior research team – Rain Leesi (Investment Manager & Head of Research, 6.85%), Piotr Jurga (Senior Analyst, 5.86%) and Reino Pent (Senior Analyst, ESG Specialist 4.88%).

Avaron's Supervisory Board consists of Peter Priisalm (Chairman, CIO), Maris Jaht and Priit Sander. Mr. Sander is an independent Supervisory Board member and has no other function in Avaron. On daily basis Mr. Sander serves as an Associate Professor in finance at Tartu University. The Management Board consists of Kristel Kivinurm-Priisalm (CEO) and Valdur Jaht (CIO). The Company is audited by KPMG and internal audit is carried out by PwC. Compliance and risk management functions are internalised and carried out by the Company's Chief Compliance Officer Ingrid Kõrgema.

Avaron functions as a partnership, which is being managed by the three partners: Kristel Kivinurm-Priisalm, Valdur Jaht and Peter Priisalm. Kristel Kivinurm-Priisalm is responsible for general management, investor relationship management and operations management. Valdur Jaht and Peter Priisalm are the Company's Investment Managers, who are responsible for the investments made by the funds and managed accounts as well as the smooth running of the investment team's work.

Figure 1. Organization structure



RESPONSIBLE INVESTING

Since 2011 Avaron follows responsible investment (RI) practices and is a signatory of UN Principles for Responsible Investment (UNPRI). As an institutional investor, Avaron has a duty to act in the best long-term interests of its beneficiaries. In this fiduciary role, we believe that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes and over time.

Our responsible investment process is founded on three pillars: in-depth ESG security analysis, active company engagement, and active proxy voting.

Given our main aim of generating alpha to our clients via stock picking it is important to have ESG analysis integrated into our investment process. When making investment decisions our in-depth knowledge of listed companies is considered as a key ingredient in delivering strong returns to clients. Our investment team has been following vast majority of our current listed equity universe for more than a decade, which serves as an important strength in assessing the companies' future potential. In order to have an extensive knowledge base of the companies in our universe we have taken a strategic decision not to outsource ESG analysis to third party providers but rather build ESG know-how in-house by adding ESG specific layer within our research process.

Active engagement with the companies we invest in allows us to monitor changes in management processes, remuneration and social and environmental issues. By taking a proactive approach to our engagement, we can work with the companies we invest in to increase the sustainability of their businesses over time.

In Avaron we believe that the stock returns are primarily driven by the underlying fundamental potential of companies, while ESG issues may add to or subtract from it. Thus, the ESG layer in our investment process serves as a risk management tool to detect possible important risks related to ESG. While the ESG factors considered mainly aim to reduce investment risk, Avaron also recognizes that applying these principles may better align investors with the broader objectives of society. Improved ESG practices should help to create an environment of higher standards of business conduct, increased market efficiency, sustainable environmental management, and thus ultimately a more cohesive and fairer society. Even though such indirect benefits may not contribute immediately to Avaron's investment performance, these should over time translate into higher and more consistent overall returns.

INTEGRATION

In Avaron we seek to integrate the consideration and thoughtful management of ESG issues into the investment process by undertaking ESG analysis on all prospective and existing investments. Within our investment process the ESG analysis is carried out as part of the qualitative company analysis. Our ESG integration comprises two layers to ensure that relevant issues are consistently taken into account when making investment decisions:

1. In order to avoid financing companies that are engaged in activities with clear negative impact on people and environment we apply exclusion principles.
2. In-depth analysis of ESG criteria using an internally developed ESG Score that is a part of our company quality analysis and enables to assess the ESG performance of companies in our investment universe.

Exclusion is used as a tool to ensure no investments are made into activities that have a clear negative impact on people or the environment. It is applied outright for involvement in certain sectors (e.g. adult content, alcohol, armaments, gambling, tobacco) or after non-successful engagement process to address discovered infringements of United Nation Global Compact (UNGC) or poor corporate governance practices.

As of end 2021 our internal Emerging Europe coverage list included 233 issuers. Based on exclusion principles we had 54 companies in our restricted list reflecting the direct impact of RI Policy implementation. This figure does not include companies that are restricted due applicable international or national sanctions but includes sector-based exclusions alongside with exclusions based on poor ESG practices.

Exclusions based on type	
Environmental	12
Social	4
Governance	38

Excluded companies by country	
Russia	29
Turkey	9
Poland	7
Romania	5
Hungary	2
Greece	2

End-2018 we implemented our internally developed ESG analysis tool called ESG Score instead of a generic UNGC based check with an aim to get a quantifiable outcome for measuring the ESG performance of companies in our coverage universe. ESG Score assesses companies' ESG profile comprising 90+ aspects across the three letters. All of these are individually assessed and assigned a score on a 1 to 5 scale, higher score indicating better performance.

The E rating comprises different environmental aspects with a focus on climate change including carbon footprint and its reduction policy, eco-efficiency and resource efficiency and waste management. The S rating comprises social and supply chain related aspects including human rights, labour rights and conditions, health and safety, treatment of customers and community, diversity, data privacy and cyber security. The G rating evaluates corporate governance related aspects including board composition and independence, transparency and accountability, shareholder rights, business ethics, anti-bribery and corruption measures, and governance related to sustainable management.

ESG score in investment process: Ignitis (Lithuania)

In December 2021 we launched a position in Lithuanian utility Ignitis, a state-owned distribution network operator (DSO) covering more than 90% of the country's electricity grid and gas pipeline network. Ignitis derives about 2/3rd of its EBITDA from the regulated DSO operations, which allows stable cash flow generation as well as supports the investments into renewable energy (RES). The latter is expected to reach 4GW by 2030, underpinning close to 10% EBITDA CAGR in RES. Current RES portfolio consists of mainly hydro-related capacities but the pipeline includes larger offshore wind park projects as well as smaller onshore wind parks and solar parks. Longer-term growth of the RES business of Ignitis is supported by the currently dominant fossil fuel based energy capacities.

At the time of entry, we had around 25% upside to our fair value target. After evaluating the company's quality, ESG score and liquidity metrics in combination with the target price we decided to make an investment. Although the upside was lower compared to the portfolio average of around 35%, Ignitis stood out with its ESG score that was almost 20% above the portfolio average. We were willing to accept somewhat lower upside in exchange for a quality business with strong ESG profile. Based on our ESG score Ignitis ranked 3rd as of year-end among the companies we own with 4.02 rating.

ESG Score enables us to assess various ESG related risks and opportunities, rank companies in our investment universe and guides our investment decision making process alongside with the company Quality Score, an in-house tool to gauge the overall quality of the company from management team and business model perspective. Via ESG Score the ESG considerations are embedded into the analysis process of each individual company and the rating is assessed against the upside to our fair value target of the company when considering an investment. We do not make any exclusions based purely on the low ESG rating but it enables to detect potential issues to engage upon. ESG Score ratings are subject to a full review once per annum carried out by the Investment Managers and Analysts.

In the final ESG Score the three letters have equal weights and the rating is adjusted for ESG related controversies (negative) and other specific issues (positive or negative), which are not reflected in the scorecard but are deemed important to be taken into account when assessing the overall profile of the company. These adjustments are taken into account when having occurred over the past 5 years. To exemplify, the aggregate ESG score of Avaron Emerging European Fund at the end of 2021 stood at 3.38, with the controversy adjustment factor accounting for 0.09 reduction in the rating. Without it the portfolio's rating would have been 1.9% higher.

In 2021 we detected new controversies in relation to two companies that we owned at the time – Turkish food retailers BIM and Migros. Late October, the Turkish Competition Board released the results of its investigation and levied heavy fines on four listed food retailers and unlisted A101 as well as the food supplier Solvano. The Board concluded that the retailers have colluded in fixing prices via suppliers, shared sensitive price information and product campaigns among themselves and breached relevant competition law. The Board imposed TL958mil (€86mil) fine on BIM, representing 1.7% of revenues, 19% of EBITDA and 37% of net earnings of 2020. Migros was hit with a fine of TL518mil (€47mil), accounting for 1.8% of revenues and 23% of EBITDA. There is a 25% reduction in the fine amount if the companies pay over the next one month. Both companies announced that they deny the charges and will take legal action to defend themselves. After assessing the arguments of the Board and the companies, we decided not to actuate the controversy adjustment as the reasoned decision of the Board was not yet published nor delivered to the companies, making it impossible to assess whether it was duly substantiated or not. Unrelatedly, we exited both positions before the year-end. Till then the official reasoning was not yet published.

To illustrate how the ESG quality of our portfolios has changed over since the implementation of the ESG rating system in 2018, we can give the example of Avaron Emerging Europe Fund. The aggregate ESG score of the Fund has improved over the years by 6% to 3.38. Part of the positive change can be attributed to the rise in ESG quality of the portfolio due to the changes made as the rating system is integrated into investment decision-making. However, improved ESG performance and disclosure among regional issuers has been also visible and an important contributor. Best ranking names in our portfolios as of year-end were Hungarian Magyar Telekom (4.13), bottling company Coca-Cola Hellenic (4.04) and Lithuanian utility Ignitis (4.02). Lowest ranking names were Czech energy producer CEZ (2.61), Hungarian integrated oil & gas company MOL (2.88) and Greek refinery Motor Oil (2.92) given their high environmental risk profile.

Looking at the subcomponent level the aggregate ratings of Avaron Emerging Europe fund have improved across all three letters but most notably of E and S. Aggregate E rating of the Fund has improved 20% since end-2018 to 3.39, while S rating is up 14% at 3.55. G rating that used to be the highest compared to E and S when we implemented the ESG score has been more stable though also marginally improving. End-2021 G rating of the Fund portfolio companies was up 3% vs. end-2018 at 3.48. We are especially happy to see the improvement in regards to environmental issues, since Emerging Europe issuers lagged on this issue as most lacked climate change and resource efficiency driven corporate policies and related practices. This is a topic on which we have been engaging with our portfolio companies for several years already, raising their awareness and requesting improvements.

ACTIVE OWNERSHIP

Engagement

One way Avaron manages and protects the value of its clients' investments is via being an active owner, exercising the shareholder rights and engaging with managements of the listed companies. We take an active approach in communicating our ESG views to companies and seeking improvements where there are deficiencies 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. norm infringements), 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 our ESG analysis with the ESG Score 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 in order to thrive towards better ESG awareness and policies. A dialogue with the company is maintained over an extended period if necessary. Escalation and means of the engagement activities are decided upon by the investment team and depend on the specifics of the issue at hand and the company. Actions may include communications through the company's brokers, direct engagement with the management board or joint intervention with other shareholders, and where appropriate, voting against board proposals.

Meetings with company executive and non-executive board members are one of the key ingredients of our investment process. Besides the upside to our internal target prices the portfolio construction is also driven by companies' quality for which we have developed specific rating tools – Quality Score and ESG Score. Such qualitative assessment can only be done by combining publicly available information with meetings with company representatives. During these meetings we have also the opportunity to bring forward our concerns on ESG issues and ask for proper further corrective actions from the company. Due to the pandemic in 2020-21 we have been very much resorted to communication via digital channels alongside with the rest of the industry.

Engagement success: Titan Cement (Greece)
An example of where we have achieved significant positive results via long-term engagement on environmental topics is Greek cement producer Titan. It has been one of our core holdings across almost all portfolios. Given inherent high level of carbon emissions of cement production we approached the company back in 2018 requesting improved disclosure and setting carbon reduction targets. We continued to follow up on the topic on regular basis, also targeting the company as lead investors within the scope of a few CDP Non-Discloser Campaigns. For 2020 Titan started to report on the CDP platform and by now the company has committed to 2050 net-zero with 2030 mid-term reduction targets validated by the Science Based Targets Initiative. Furthermore, we have also engaged with them on water disclosure, also stemming from its industry specifics. As a result Titan has started to disclose its water footprint on the CDP platform. In December 2021, the company was recognized by CDP as a global climate leader for its transparency, climate actions and transition to a net zero carbon economy. With an A- score, it was ranked in the top 15% of publicly disclosing companies globally, being one of only five cement sector companies out of 27 to achieve this level.

Our ESG Score also provides a basis for proactive engagements enabling to detect areas where companies could improve existing practices. Based on the ratings data for our portfolio companies over the past two years we have detected that integrating climate change issues into corporate strategy and related disclosure is one major area where improvements should be sought. In this respect we are glad to report that the situation has started to improve in an accelerated manner. At the end of 2021 67% of Avaron Emerging Europe Fund holdings reported Scope 1 and 2 emissions data, while a year ago that proportion stood below 50%.

In 2021 we continued to engage with selective portfolio companies on environmental topics. We engaged individually with 3 companies on climate change and with 8 as lead investors within the scope of CDP Non-Disclosure Campaign. In addition, we conducted a broader themed engagement effort on gender pay gap across all of our portfolio companies. No reactive engagements were launched related to controversies discovered.

On carbon reporting and reduction targets we launched engagements with 3 portfolio companies – Croatian hotel operator Arena Hospitality, Slovenian bank NLB and Polish bank Pekao. Up until then Arena and NLB had been reporting very limited subset of emissions data, while Pekao had not disclosed any data. During the discussions with the management teams Arena confirmed that they have emissions accounting system in place and plan to issue more comprehensive disclosure including reduction targets together with 2021 annual report. Also, the company is preparing a specific sustainability report with significantly improved disclosure on several other ESG topics. NLB similarly stated that the emissions accounting system is in place and first disclosure including Scope 3 will be published in Q1 2022 within their 2nd sustainability report.

Pekao introduced us their very recent ESG strategy and confirmed that in 2022 the bank will release Scope 1-2 data and starting from 2023 will start calculating Scope 3 emissions. It aims to gradually reduce exposure to high-carbon activities, while increasing exposure to green project financing. 2020 will be used as a reference point as of which the share of financing of high-carbon activities stood at 1.3% of assets. Pekao plans to introduce emissions offsetting activities in 2023 to move towards Scope 1-2 neutrality by 2030.

Gender pay gap engagement was launched in Q4 as the unadjusted gender pay gap is one of the mandatory indicators to be reported under the Sustainable Finance Disclosure regulation (SFRD) that will come into effect starting from 2023. We screened our portfolios to establish the availability of pay gap data and how severe issue this is in our region. Out of the 54 companies that we held in our Emerging Europe listed equity portfolios at that time only 17 publicly reported gender pay gap data. For these 17 names the average unadjusted pay gap stood at 9%. The highest gap was reported by Polish bank PKO, which very prudently included the whole management remuneration package in the calculation and this elevated the gap to 36%. On the other end of the spectrum is

Romanian integrated oil & gas company Petrom with a negative gap of 22%. This to some extent is due to the combination of less than 25% female employees and high weight of women in managerial positions.

Leading collaborative engagements: 2021 CDP Non-Discloser Campaign

In 2021 for the fourth consecutive year we took part in the CDP Non-Discloser Campaign to encourage companies in our investment universe to improve their sustainability disclosure via CDP platform. Once again we took the lead investor role in engaging with a number of our portfolio companies. While in the previous years the focal point of the engagements led by us has been climate change, then in 2021 we also engaged with several companies on deforestation and water topics. We sent out official letters to the management and investor relations teams of 8 companies we hold in our portfolios and in most cases followed up via 1:1 communication.

Dialogues with these select companies reflected the overall situation in Emerging Europe related to sustainability reporting – there is no clear uniform standard for reporting, thus issuers, especially smaller ones have been hesitant to invest resources into developing relevant disclosure systems. Climate change remains the main focus, while awareness on deforestation and water related data disclosure is increasing. On climate change we engaged with 7 companies and it resulted in 1 submitting their emissions report to CDP. On deforestation we engaged with 1 company but without immediate success. On water management we engaged with 3 companies resulting in one of them submitting water disclosure report to CDP.

With respect to the 37 companies that did not have gender pay gap information available we sent engagement letters briefly introducing the topic and requesting them to disclose the data or at least consider start disclosing in their upcoming reports since this is one of the indicators that European institutional investors will need to start disclosing under SFDR. We are glad to report that 5 companies promptly provided the data, while many reacted positively and indicated willingness to widen their disclosure practices in the future. However, a few companies also stated that they are fulfilling current regulatory requirements for disclosure or that the topic is not relevant according to their materiality analysis and as such they are not planning to include gender pay gap in their relevant report. We plan to follow up with the non-reporting issuers in 2022.

Our engagement objectives for 2022 are twofold. Firstly, we shall continue the climate change related efforts as there are still some companies in our portfolios that do not disclose emissions but the focal point will rather shift from disclosure to setting reduction targets. So far only a few of our holdings have set specific targets in that regard.

Secondly, we will focus on the necessary data availability stemming from the SFDR requirements. Although, the main set of mandatory indicators is also climate change heavy, there are other environmental and social indicators where the disclosure needs improvement.

Voting

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 in Avaron's Voting Policy.

Starting from 2018 we have committed to systematically exercise our voting rights on all shareholder meetings. Voting rights in Avaron are exercised internally i.e. our investment team reviews the agendas of shareholder meetings of the companies we are invested in. Voting proposals are put forth by the Analysts that cover the companies, approved by Investment Managers and then forwarded to our global custodian or directly sent to the companies.

In 2021 we voted in 88% shareholders' meetings of the companies we own in all portfolios for which we hold the discretion to exercise voting rights. This compares to 92% and 89% participation rate in 2020 and 2019, respectively. On less than 1% of agenda points we voted against the management proposals and on 2% we abstained. According to our Voting Policy we communicate the reasoning behind "Against" votes to the companies. Starting from 2019 we are disclosing all our voting details for our publicly sellable funds, which are available in the Responsible Investment section on our website.

Voting activity	2014	2015	2016	2017	2018	2019	2020	2021
Meetings voted	8	20	13	16	67	69	60	80
Resolutions	65	210	94	158	656	641	665	903
For	54	183	91	119	578	598	593	877
Against	11	17	2	19	55	12	7	4
Abstained	0	10	1	20	23	31	35	22

COLLABORATION AND INDUSTRY INVOLVEMENT

Since 2011 Avaron is a signatory of UN Principles for Responsible Investment (UNPRI) that enables us to stay up to date on industry developments, offers a chance to implement new best practices in the industry and collaborate with other institutional investors and asset owners. We recognize that in many instances joint action by institutional investors has the potential to be more effective than acting alone. Thus, every year we participate or support select collaborative initiatives that overlap with our beliefs or needs. In 2021 we supported the following initiatives:

i. Global investor statement in support of an effective, fair and equitable global response to COVID-19;
ii. 2021 Global Investor Statement to Governments on the Climate Crisis;
iii. Investor Statement on Human Rights and Business Activities in Myanmar;
iv. Investor Statement on Strategic Lawsuits Against Public Participation;

v. World Climate Foundation initiative on net zero Nordic and Baltic commitments for COP 26.

Also, we continued our participation in the following collaborations:

i. Climate Action 100+ that is an investor initiative launched in December 2017 to engage with 167 global companies that have significant greenhouse gas emissions or are critical to the net-zero emissions transition and to meeting the objectives of the Paris Agreement. As of 2021 signatory assets under management totalled $65 trillion. Since 2018 we hold a supporting role in the collaboration.

ii. 2021 CDP Non-Discloser Campaign is aimed at increasing corporate transparency on climate change, deforestation and water security. The campaign focuses on companies that had never responded or had not responded to the CDP questionnaire in recent years.

We continue as a signatory of the CDP as it is one of the largest investor collaborations globally with combined $110+ trillion in assets, aiming to improve climate change, water usage and deforestation related disclosure, and related risk management of publicly traded companies. We plan to take part in the 2022 Non-Discloser Campaign targeting companies in our investment universe as it directly supports our climate change related efforts.

Besides climate change related collaborations we remain supporters of the Tobacco-Free Finance Pledge, which we signed in 2018 as it aligns our long-term approach of limited financing of tobacco companies.

GOVERNANCE AND REPORTING

Avaron Responsible Investment Committee has oversight of, and responsibility for, all responsible investment related issues including but not limited to development of relevant policies and steering policy implementation. The Committee is made up of senior staff members and is chaired by Executive Board Member and co-CIO Valdur Jaht. The Committee and its Chair have ultimate responsibility to ensure efficiency, compliance and ownership of responsible investment practices in Avaron. Current list of Committee members is:

Name	Role
Valdur Jaht	Co-CIO, Chair of the Committee
Peter Priisalm	Co-CIO
Kristel Kivinurm-Priisalm	CEO/COO
Rain Leesi	Investment Manager, Head of Research
Reino Pent	Senior Analyst, Responsible Investment Specialist
Ingrid Kõrgema	Compliance Officer

Avaron discloses annually on responsible investment issues via UNPRI Reporting Framework and a stand-alone Responsible Investment Report (formerly Sustainability Report). On quarterly basis we disclose on responsible investment related activities to our clients via our newsletter.

UNPRI Reporting Framework provides Transparency and Assessment Reports. Transparency Report shows signatory's responses to the Reporting Framework and is made publicly available on the PRI website. Assessment Report demonstrates how a signatory has progressed in its implementation of the principles year-on-year and relative to peers, and is not by default public. However, at Avaron we have decided to make our Assessment reports public on our webpage. Due to the implementation of a new reporting framework UNPRI 2021 assessment reports are unfortunately due only by June 2022. Also, the Transparency Reports have not yet being provided. In 2020 Avaron scored above the peer group median in all relevant reporting categories: A+ in Strategy and Governance (median A), A+ in Listed Equity – Incorporation (median A) and A in Listed Equity – Active Ownership (median B).

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