



Sustainability-related disclosures

Avaron Emerging Europe Fund

A. SUMMARY

The Fund invests in Emerging Europe listed equity asset class, employing a value-oriented, bottom-up, fundamental research driven strategy with an objective to outperform Emerging Europe ex-Russia benchmark index on risk-adjusted basis over 5-year period. Rigorous fundamental analysis is utilised to identify companies that are trading at a discount to their estimated intrinsic value. Environmental, social and governance (ESG) issues and stewardship activities are believed to be material to delivering positive active return over the long-term. Therefore, ESG analysis of companies is integrated into the investment process with an aim to identify material ESG risks and value creation opportunities. The Fund follows exclusion principles and norms-based screening to avoid financing issuers that are engaged in activities with clear negative impact on people and environment. All companies in the Fund portfolio undergo proprietary ESG analysis and are assigned ESG performance ratings that are considered in portfolio construction. The Fund promotes environmental or social characteristics but does not have as its objective sustainable investment. The Fund has not defined a benchmark with regards of attaining the sustainability characteristics. Promoting environmental or social characteristics is attained through negative and norms-based screening, and ESG integration. 100% of the Fund's non-cash holdings subject to ESG research and are assigned ESG ratings that reflect their ESG performance. Issuer fair value estimates are adjusted in accordance with the ESG ratings to take the ESG performance into account in investment decision making process. ESG research process is internalized and relies on public data that is available in issuer reports or via data service providers. Only reported data is used in ESG assessments. In addition to screening and ESG integration, the Fund seeks to influence investee companies' and issuers' sustainability practices through engagement and actively exercising shareholder rights.

B. NO SUSTAINABLE INVESTMENT OBJECTIVE

The Fund promotes environmental or social characteristics but does not have as its objective sustainable investment.

C. ENVIRONMENTAL OR SOCIAL CHARACTERISTICS OF THE FINANCIAL PRODUCT

The Fund is invested in accordance with Avaron Responsible Investment Policy and favours investments into corporates with sound environmental, social and governance practices, while limiting exposure to issuers active in weapons, adult content, tobacco, alcohol, gambling, coal mining and coal-based energy generation. The Fund follows relevant international sanctions to avoid exposure to controversial jurisdictions, and recommendations to combat money laundering and terrorist financing. The Fund seeks to influence investee companies' and issuers' sustainability practices through engagement and actively exercising shareholder rights.

D. INVESTMENT STRATEGY

The Fund invests in Emerging Europe listed equity asset class with an objective to outperform Emerging Europe ex-Russia benchmark index on risk-adjusted basis over 5-year period. This is achieved by constructing a portfolio

of companies that optimizes the aggregate upside to internally set target prices of individual companies in our investment universe considering the quality and ESG profile of an issuer, liquidity of the underlying security and where relevant also currency outlook. Issuer specific ESG analysis is integrated into investment process and ensures that environmental, social and governance characteristics are taken into consideration in investment decision-making process.

Negative screening is used as a tool to ensure no investments are made into activities that have a clear negative impact on people or the environment. The Fund does not invest in:

- i. Weapons: Companies that are involved in production, development, sale, distribution or overhaul of weapons, weapon systems or components.
- ii. Adult content: Companies that are involved in production, publication, printing or distribution of newspapers or magazines or films or videos classified as pornographic. Exclusion is not applicable to general retailers if the share of revenue from distribution of adult content does not exceed 10%.
- iii. Tobacco: Companies are involved in production or distribution of tobacco or alternative smoking products (e-cigarettes, next-generation tobacco/nicotine products). Exclusion is not applicable to general retailers. Exclusion is not applicable to general retailers if the share of revenue from distribution of tobacco products does not exceed 10%.
- iv. Alcohol: Companies that generate more than 10% of revenue from production or distribution of alcoholic drinks.
- v. Commercial gambling: Companies that generate more than 10% of revenue from gambling or lottery services.
- vi. Coal mining: Companies that generate more than 20% of revenue from the extraction of any kind of coal.
- vii. Coal-based energy: Companies that generate more than 20% of revenue from coal-based energy production. Exclusion is not applicable to companies that have set net-zero ambitions in accordance with Science-Based Targets Initiative (SBTi) Net-Zero Standard.

The Fund investments undergo norms-based screening to detect compliance with relevant international sanctions (incl., United Nations, European Union, Organisation for Security and Cooperation in Europe), Financial Action Task Force Recommendations, UN Global Compact, Universal Declaration of Human Rights, and ILO's International Labour Standards.

The Fund favours investments in companies that demonstrate sound sustainability practices. This is attained by using proprietary ESG rating that considers 31 environmental, 42 social and supply chain, 50 governance indicators, and has an overlay considering ESG related controversies. The rating scale is 1-5. All companies that score below 2 are excluded, while for companies with a rating between 2-5 a pre-defined adjustment factor is applied in estimating company's fair value to reflect ESG performance.

E. PROPORTION OF INVESTMENTS

To meet the environmental or social characteristics promoted 100% of the Fund's non-cash investments are expected to be in issuers aligned with the ESG strategy.

F. MONITORING OF ENVIRONMENTAL OR SOCIAL CHARACTERISTICS

Securities in the Fund are subject to negative and norms-based screening and ESG analysis using proprietary ESG rating system. Fund investments are selected from pre-approved internal investment universe of eligible issuers

that have undergone ESG screening by Avaron's investment team in compliance with the negative screening principles. A separate ESG exclusion list is established alongside.

Each issuer in the Fund must have a proprietary ESG rating in place, ensuring that environmental, social and governance factors are reflected in the final investment decision. ESG research process that entails the assessment of 120+ environmental, social and governance characteristics also includes norms-based screening. In Avaron the ESG research process is internalised. Each Analyst is responsible for carrying out the ESG analysis of all companies under his/her responsibility. Investment Managers and Avaron Investment Committee validate the company research including ESG rating for all new investments to be included in the Fund portfolio. ESG ratings are reviewed at least once a year in line with the annual sustainability reporting cycle of issuers. Compliance function carries out monthly checks to ensure timeliness and existence of ESG research for all Fund non-cash investments.

Avaron Analysts and Investment Managers are responsible for regular monitoring of issuer specific reporting and news to detect possible controversies or deterioration in ESG metrics used in the rating system and reviewing ESG ratings of issuers in the Fund. Should controversies (e.g., infringements of UN Global Compact principles or shareholder rights) be detected the issuer becomes subject to engagement or exclusion. In case of serious violations or severe damages the issuer is excluded from the investment universe. Otherwise, engagement is the preferred option push for improved practices. Exclusion is thereafter applied only if there are no identifiable improvements regarding the issue by the end of the engagement period.

G. METHODOLOGIES FOR ENVIRONMENTAL OR SOCIAL CHARACTERISTICS

The attainment of the environmental or social characteristics promoted by the Fund are measured as followed. Sound sustainability practices is measured by the Fund's ESG rating. Within the rating system several quantitative environmental and social metrics are assessed e.g., carbon footprint, carbon intensity, renewable energy usage, amount of discharged water, percentage of waste recycled, CEO salary gap, gender pay gap, employee turnover, employee satisfaction, workplace fatalities and injuries, customer satisfaction. Reduction of involvement in controversial activities and jurisdictions is measured by the number of companies restricted because of exclusions.

H. DATA SOURCES AND PROCESSING

Proprietary ESG rating system is the primary ESG research tool in Avaron. For the data sources Avaron investment team will mainly rely on issuer reporting, Bloomberg, Refinitiv and CDP data platforms, and monitoring of articles and news. Investment team takes an active part in processing ESG data. Primary data source is issuer reporting. Data gathered from third-party sources is used to, amongst other things, understand what each indicator measures, how these have evolved over time and what factors may be the most relevant to certain industries or companies. This data is then incorporated into proprietary research process alongside with issuer reporting and engagement. Data quality is enhanced using varied data sources and company management engagement. By default, estimated data is not used in internal ESG research.

I. LIMITATIONS TO METHODOLOGIES AND DATA

Limitations on methodologies and ESG data include the lack of consistency, reliability, comparability, and quality of the data available. This is driven by issues including, but not limited to lack of standardised and timely reporting by issuers, different estimation models for unreported data, and difficult to quantify factors and unverified or unaudited information. These limitations are addressed using varied data sources, company

engagement to understand data at source, and reliance on internal research and analysis using third party data as complementary information.

J. DUE DILIGENCE

During its investment process Avaron is conducting a due diligence process on the underlying issuers in the Fund. Sustainability risks are assessed at the pre-investment stage and on an ongoing basis. Pre-investment due diligence assessment aims to identify and avoid issuers having a high probability of a potential sustainability risk impacting future returns. This is attained by combining negative screening with the requirement of conducting ESG research before adding the prospective issuer into the portfolio. Thereby, the potential impact of sustainability risks on returns are significantly decreased at the outset.

Ongoing assessment: Where there is a marked deterioration in sustainability of a business, evidenced both by quantitative factors such as a decline in ESG rating and factors such as negative perceptions over a business' operating practices Avaron seeks to engage with the business' management, and if unsatisfactory, potentially exit from the investment.

Adherence to ESG research process in accordance with Avaron Responsible Investment Policy is verified by regular internal control checks.

K. ENGAGEMENT POLICIES

Avaron operates active voting and engagement policies. The voting participation target is 100% of all possible votes of issuers in the Fund. An engagement plan is established to identify engagements with companies in which we are invested that show poor management of ESG related risks, where Avaron has identified a specific theme, or where a specific impact or investigation of a controversy is required.

L. REFERENCE BENCHMARK

The Fund has not defined a benchmark with regards of attaining the sustainability characteristics.