



Avaron Responsible Investment Policy

PURPOSE AND SCOPE

This Responsible Investment Policy (hereafter “**Policy**”) defines Avaron Asset Management’s (hereafter “**Avaron**”) commitment to responsible investing, detailing the approach that is followed in managing its investments. As an institutional investor, Avaron has a duty to act in the best long-term interests of its beneficiaries. In this fiduciary role, Avaron believes that environmental, social and corporate governance (hereafter “**ESG**”) issues can affect the performance of investment portfolios to varying degrees across companies, sectors, regions, asset classes, and over time.

In order to demonstrate its commitment to responsible investment, Avaron has been the signatory of the United Nations Principles for Responsible Investment since 2011 and follows the underlying conduct code. Therefore, where consistent with its fiduciary responsibilities, Avaron does the following:

- i. Incorporated ESG issues into investment analysis and decision-making processes.
- ii. Will be an active owner and incorporate ESG issues into its ownership policies and practices.
- iii. Seek appropriate disclosure on ESG issues by the entities in which it invests.
- iv. Promote acceptance and implementation of the Principles within the investment industry.
- v. Work towards enhancing the effectiveness in implementing the Principles.
- vi. Report on its activities and progress towards implementing the Principles.

At Avaron, we recognize 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, they should over time translate into higher and more consistent overall returns.

As a value-driven bottom-up asset manager that puts a strong emphasis on company quality in its investment process Avaron commits to using ESG considerations in addition to the conventional financial and non-financial criteria. The analysis of ESG issues will be integrated into our investment decision-making and ownership practices with an aim to identify material ESG risks and value creation opportunities.

This Policy will apply to all equity and corporate fixed income investments considered or made by Avaron for the portfolios under management regardless of the client or jurisdiction. Our investment professionals including Analysts that research and rate the quality and value of the assets, and Investment Managers that take investment decisions, in collaboration with the compliance team are responsible for ensuring that ESG issues are taken into account during the investment process on a consistent basis.

IMPLEMENTATION

Avaron will seek to integrate the consideration and thoughtful management of ESG issues into its investment process by undertaking ESG due diligence on all prospective and existing investments. We aim to ensure that our Investment Managers and Investment Analysts understand:

- i. to which ESG risks and opportunities the investment is exposed to;
- ii. how material the ESG issues are for the business, taking into account the industry and individual company exposure;
- iii. how are ESG risks managed and what is the likelihood of these risks materializing;
- iv. what kind of impact the ESG issues are likely to have on the value, earnings and future prospects of the investment.

Avaron has built two ESG layers into its investment process aiming to ensure that ESG issues are consistently taken into account when making investment decisions:

- i. **Sector and/or country exclusion** in order to not exceed acceptable levels of involvement in sectors considered to be controversial such as weapons, alcohol, tobacco, gambling, adult content and coal, and activities in oppressive regimes.
- ii. **Compliance check of investee companies** with the main principles laid out in the United Nations Global Compact for social and environmental criteria, and separately with governance criteria set in-house.

Exclusionary sector/country screening

Negative screening based on sectors and countries determines that Avaron will avoid investing in equity or fixed income instruments issued by companies which:

- i. Design, develop, manufacture and/or overhaul military weapons and/or weapons-delivery systems (i.e. jet fighters, battleships, armoured personnel carriers etc.);
- ii. Produce and distribute adult content;
- iii. Derive 10% or more of revenues or operating profit from gaming and lottery;
- iv. Derive 10% or more of revenues or operating profit from production and sale of alcoholic beverages;
- v. Derive 10% or more of revenues or operating profit from production and sale of tobacco products;
- vi. Derive 30% or more of revenues or operating profit from mining thermal coal and/or generating electricity from thermal coal;
- vii. Derive 10% or more of revenues or operating profit from operations related to or taking place in oppressive regimes.

The list of oppressive regimes is based on the latest Economist Intelligence Unit Democracy Index, which measures the state of democracy in 167 countries. The Index comprises 60 indicators covering five different categories: electoral process and pluralism, functioning of the government, political participation, political culture and civil liberties, ranking the countries on a scale of 0 to 10. Oppressive regimes have been defined as countries that fall into the lowest quintile of the index i.e. score 2.0 or below.

Additional country-based investment restrictions may be set by the Avaron Investment Committee based on the European Union sanctions within the framework of the Common Foreign and Security Policy (CFSP) and the list of sanctioned countries of the UN Security Council. In case of discretionary mandates from non-EU clients Avaron will follow the sanctions list of respective non-EU countries and make exclusion decisions based on that in collaboration with the client. The sanctions lists of the relevant organizations are followed on an ongoing basis to keep the exclusion list up-to-date at all times.

ESG compliance check

ESG compliance check of companies in Avaron investment universe is based on the UN Global Compact Ten Principles and International Corporate Governance Network Corporate Governance Principles. The UN Global Compact asks companies to embrace, support and enact, within their sphere of influence, a set of core values in the areas of human rights, labour standards, the environment and anti-corruption, while corporate governance issues are addressed based on the ICGN Corporate Governance Principles bearing in mind the possible local differences in the prevailing conduct code.

Avaron has developed the following checklist of ESG criteria that each company must pass in order to be eligible for investment into its equity or fixed income instruments:

- i. Abuses of international or local environmental norms and protocols;
- ii. Activities to promote environmental responsibility and implementation of sustainable technologies;
- iii. Abuses of human rights;
- iv. Cases of child labour and forced labour usage;
- v. Issues relating to the safety of working environment and products;
- vi. Cases of discrimination in respect of employment and occupation;
- vii. Freedom of association and recognition of the right to collective bargaining;
- viii. Cases of corruption, extortion and bribery;
- ix. ESG management: existing formal code of business conduct, ESG policy and reporting framework;
- x. Accounting risks: adequate financial disclosure, track record of frauds and irregularities, external auditor's independence;
- xi. Communication: proper access to the executive and non-executive board members by financial investors;
- xii. Protection of minority shareholder interests: track of honouring minority shareholder rights, independent members in the non-executive board;
- xiii. Exercise of minority shareholder rights: one share - one vote rule, vote limitation, existence of poison pills.

Main aim of this norm based company due diligence is to filter out the ones that have significantly and repeatedly breached any of the key criteria. Assessment of compliance with the set criteria is carried out at least on quarterly basis as part of the regular company analysis via company reporting, management interviews, third party check-ups and news flow monitoring. Avaron's investment process prescribes maintaining regular dialogue with the companies we invest in, allowing constant monitoring of corporate responsibility and governance.

In case major deficiencies in current or historical conduct are discovered by our investment team, we follow the engage or exclude path. After a breach has been detected our investment team is responsible in assessing the gravity of the issue, namely:

- i. temporal proximity (when and for how long has the incident occurred);
- ii. size (financial costs, land polluted etc. associated with the incident);
- iii. credibility (allegations, legal action taken etc.);
- iv. repetitiveness (is the incident a one-off incident or it is evidence of systematic failings over a period of time).

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.

Dependent on the company's response Avaron's Investment Committee will decide upon whether to exclude the company from our internal investment universe or not. Official exclusion list of Avaron's investment universe based on our ESG approach is kept and updated on regular basis.

Data on the ESG issues is recorded in the Excel files of companies. Each company in Avaron's investment universe has a dedicated ESG datasheet in the Excel file that includes the negative screen based on sector and country exposures, and the ESG norm based screen.

ENGAGEMENT AND OWNERSHIP PRACTICES

Avaron commits to engage with listed companies in its investment universe to promote proper ESG practices driven by belief that it leads to value creation for Avaron's clients. Engagement may take several forms including direct dialogue with the executive management, formal correspondence with addressed to the board of directors or supervisory board and exercising shareholder's rights on the general assembly.

Avaron takes an active approach to communicating its ESG views to companies and seeking improvements where there are shortcomings in performance, or a company has failed to apply appropriate standards, or to provide adequate disclosure. Following an ESG compliance check that uncovers undesirable practices, or in reaction to a specific ESG related event, engagement actions are undertaken to obtain, within a predetermined timeframe, specific and measurable changes on the part of issuers. Engagement is always the preferable option over exclusion in order to thrive towards better ESG awareness and policies. Escalation and means of the engagement activities are decided by the investment team and depend on the specifics of the issue at hand and the company.

Engagement process comprises three main phases: planning, dialogue and assessment. The aim in the planning phase is to define the scope, timeline and the types of actions that will be undertaken to achieve the desired outcome. In the dialogue phase our investment team reaches out to the targeted company, communicates the concerns and desired course of action, and monitors the developments within the set timeframe. Assessment phase is to determine the outcome of the engagement and decide upon following action. If the engagement objectives are not or only partially met a new engagement cycle may be decided on or the company will be excluded from our investment universe. All engagement activities undertaken are tracked and recorded in a database that is available for our clients upon request.

Avaron recognizes that in some instances joint action by 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 Avaron’s voting policy have been set in Avaron’s Exercise of Voting Rights Strategy that is publicly available at Avaron’s website.

REPORTING AND REVIEW

Avaron will publicly report on the ESG related activities and progress on annual basis via annual Socially Responsible Investment Report and mandatory UN PRI reporting framework. On quarterly basis Avaron features a selective overview of responsible investment activities on its monthly investor newsletter.

The Policy will be reviewed at least once per annum or more frequently should circumstances require it.

Valid from:	15 May 2011
Amended:	11 May 2016
Approved by:	Management Board of AS Avaron Asset Management