AVARON

Responsible Investment Policy

1. 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, we believe that environmental, social and corporate governance (hereafter "**ESG**") issues can affect the performance of investment portfolios over time. **Our approach to responsible investment is centred on incorporating ESG criteria into the investment analysis and decision making process, and active ownership through engagement and proxy voting.**

In order to demonstrate commitment to responsible investment, Avaron has been a signatory of the United Nations Principles for Responsible Investment (hereinafter **"Principles"**) (www.unpri.org) since 2011 and following the six guiding principles:

1. Incorporate ESG issues into investment analysis and decision making processes;
2. Be active owners and incorporate ESG issues into its ownership policies and practices;
3. Seek appropriate disclosure on ESG issues by the entities in which we invest in;
4. Promote acceptance and implementation of the Principles within the investment industry;
5. Work together to enhance our effectiveness in implementing the Principles; and
6. Report on our 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 our investment performance, they should over time translate into higher and more consistent overall returns.

Avaron's primary business is providing portfolio management services within Emerging Europe listed equity asset class to professional investors via Avaron managed investment funds and managed accounts. We manage two strategies: for institutional investors Emerging Europe long-only equity strategy (>95% of our AUM) and for high net worth individuals an asset allocation strategy. Our Emerging Europe long-only listed equity strategy investment guidelines also allow investments into regional corporate and sovereign bonds in order to improve the risk-return profile of the portfolios.

This Policy will apply to all Emerging Europe equity and corporate or sovereign fixed income investments considered or made by Avaron for any such portfolio managed by Avaron regardless of the fund or client or their jurisdiction. Where possible, the same principles shall be followed on cash. 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.

2. INVESTMENT APPROACH

Within **Emerging Europe long-only listed equity strategy Avaron focuses on delivering positive risk-adjusted return to our clients** over 5-year period. This is achieved by constructing a portfolio of companies that maximises the aggregate upside to internally set target prices of individual companies in our investment universe taking into account the quality and ESG profile of a company, liquidity of an instrument and where relevant also FX outlook.

Our investment philosophy is based on value investing principles. Over time stock prices tend to over or underreact to market news and thus deviate from fundamental value of a company. In order to take advantage of such occurrences our portfolio construction is fully bottom-up, assessing every investment case on a standalone basis. Our idea generation is proprietary, driven predominantly by upside to internally set fair value targets. We tend to have long term holding periods but our upside oriented investment process also allows us to take advantage of short-term market volatility without losing focus of the underlying fundamental value of the company. We search for well managed companies with leading market positions, identifiable competitive advantage(s) and strong recurring revenue based business models that we understand and are able to model ourselves.

Within our investment process **we put strong emphasis on company quality that is assessed by using an internal Quality Score focusing on management team and business model quality, and financial strength of the company**. Besides conventional financial and non-financial aspects **we have integrated ESG analysis into our investment process** leveraging upon our bottom-up regional expertise with an aim to identify material ESG risks and value creation opportunities. Our investment team has been following vast majority of our current listed equity universe for 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 to build ESG specific know-how within our investment team**.

3. 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

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

Our ESG integration comprises of two levels 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 part of our company quality analysis and enables to assess the ESG performance of companies in our investment universe.

In Avaron **we have internalised the ESG research process**. **We believe that in order to be successful in constructing bottom-up portfolios the Analysts covering the company need to have a comprehensive understanding of the business model including ESG issues.** Thus, in our investment team every Analyst is responsible for carrying out the ESG analysis of each company in his or her coverage list. Investment Managers and Avaron Investment Committee validate the company research including ESG for all new investment ideas. In order to keep up with industry developments and best practices regarding responsible investment two senior persons of the investment team are responsible for implementation support, necessary internal training and Policy recommendations.

3.1. Exclusion principles

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 or countries, or after non-successful engagement process to address discovered infringements of United Nation Global Compact (UNGC) or poor corporate governance practices. Key principles for exclusion are the following:

- **Armament and weapons:** Companies that design, develop, manufacture or overhaul weapons, weapon systems or components.
- **Adult content**: Companies that produce or have the distribution of pornography as their sole business.
- **Tobacco products**: Companies that manufacture or distribute tobacco or alternative smoking products. Exclusion not applicable to retailers unless it is their sole business.
- **Alcohol**: Companies that derive more than 10% of revenue from producing or distributing alcoholic drinks. Exclusion not applicable to retailers unless it is their sole business.
- **Commercial gambling**: Companies that derive more than 10% of revenue from gambling or lottery services.
- **Coal extraction**: Companies that derive more than 20% of revenues from the extraction of any kind of coal including lignite.
- **Coal based energy production**: Companies that derive more than 20% of revenues from coal based energy generation and do not have a transition plan to reduce the share below 20% by 2025.
- **Aggregate sector exposures**:
    - Companies that have exposure to alcohol and gambling as defined above are excluded if derive more than 10% of revenue in aggregate from both activities.
    - Companies that have exposure to coal extraction and coal based energy production as defined above are excluded if derive more than 20% of revenue in aggregate from both activities.
- **ESG Score:** Companies with an ESG Score rating below 2 (for more detail please refer to the Policy section 3.2.).
- **UNGC and corporate governance violations:** Companies where our ESG analysis detects infringements with the UNCG principles that cover human rights, labour, environment and anti-corruption, or significant deficiencies in corporate governance. When such violations are discovered we firstly engage with the company to remedy and improve their practices. Engagements are carried out according to our Engagement Practices described in Section 4. Exclusion is applied only if there are no identifiable improvements regarding the issue by the end of the engagement period.
- **Investments in funds:** Investments into other investment funds are allowed only if the management company is an UNPRI signatory. Investment funds are defined as collective investment undertakings, which shares are offered to the public, the assets are invested in listed securities and other liquid financial assets, and the shares are redeemable within a reasonable time period. Investments into closed-end investment funds or collective investment undertakings that are dealt in on a regulated market are not categorised as investment funds but as securities.
- **Sanctions:** Investments to countries and entities that are listed in applicable international and national sanctions lists are prohibited.

3.2. ESG Score

ESG analysis using an internal ESG Score is carried out as part of the qualitative company analysis. ESG Score assesses company's ESG performance comprising over 90 qualitative and quantitative criteria covering environment, society, supply chain and governance. Each criteria is individually rated on a scale of 1 to 5, higher score indicating better performance. The ratings for E, S and G are calculated separately using differentiated weights for different factors to better prioritize important aspects in each. ESG Score ratings are subject to a full review once per annum, carried out by the Investment Managers and Analysts.

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. We aim to start reporting the carbon footprint of our portfolios, which currently is hindered by the shortcomings in corporate disclosure in Emerging Europe. Thus, one of our engagement priorities is to encourage carbon reporting in the region via collaborative and individual engagements.

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.

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.

The use of ESG Score enables 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 in our investment universe and the rating is assessed against the upside to our fair value target of the company, directly influencing the investment decisions. Based on the ESG Score rating we also make exclusions to our investment universe. Companies with ESG Score below 2 are automatically excluded from our investment universe.

The analysis that is carried out within the ESG Score framework also provides a basis for potential engagement needs. Companies where our investment team detects infringements with the UNCG principles, covering human rights, labour, environment and anti-corruption, or significant deficiencies in corporate governance are subject to engagement or exclusion. When such issues are detected we firstly engage with the company to push for improved practices. Exclusion is applied only if there are no identifiable improvements regarding the issue by the end of the engagement period.

4. ENGAGEMENT AND OWNERSHIP PRACTICES

Engagement is the interaction with investee companies on ESG topics in order to understand the risks and opportunities of each specific investment case, and to use our influence as an investor to encourage companies to improve their practices. We commit to engage with companies in our investment universe driven by our belief that it leads to value creation for our clients. 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.

4.1. Engagement

We take an active approach in communicating our 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. 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. Escalation and means of the engagement activities are decided upon by Investment Managers and Head of Research and Trading, and depend on the specifics of the issue at hand and the company.

In case major deficiencies in current or historical conduct are discovered the Analyst covering the company in coordination with the respective Investment Manager is responsible in assessing the gravity of the issue, namely:

1. temporal proximity (when and for how long has the incident occurred);
2. size (financial costs, land polluted etc. associated with the incident);
3. credibility (allegations, legal action taken etc.);
4. 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.

Our ESG Score also provides a basis for proactive engagements enabling to detect areas where companies could improve existing practices. Building such dialogues in return helps us to better understand the company-specific sustainable development issues.

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 Analyst and/or Investment Manager 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 the following action. If the engagement objectives are not or only partially met a new engagement cycle may be decided upon or the company will be excluded from our investment universe. Engagement process is carried out by respective Analyst and Investment Manager. Engagement results are reported to the Investment Committee that shall decide upon exclusions from the investment universe and necessity for further engagement. All engagement activities undertaken are tracked and recorded in the engagement database.

We recognize that 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.

4.2. 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 Voting Policy that is publicly available at our website.** In principle we aim to vote on all shareholders' meetings where we have the discretion to exercise the voting rights.

5. 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:

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

The list above may be amended from time to time, decided so by the Members of the Management Board of Avaron.

Avaron discloses annually on Responsible Investment topics via UNPRI Reporting Framework and Avaron Sustainability Report. 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 are not by default public. However, at Avaron we have decided to make our Assessment reports public.

Our annual Sustainability Report includes an overview of sustainable practices on company level as well as our responsible investment practices. UNPRI Transparency and Assessment Reports and Avaron Sustainability Report are made public in the Responsible Investment section on our website.

On quarterly basis we report on responsible investment related activities to our clients and potential investors via newsletters or focused responsible investment reports.

The Policy is subject to a periodic review carried out by the Responsible Investment Committee.

Valid from:	15 May 2011
Amended:	22 February 2021
Approved by:	Management Board of AS Avaron Asset Management