Responsible Investment Policy

1. PURPOSE AND SCOPE

This Responsible Investment Policy (hereafter "**Policy**") defines Avaron Asset Management's (hereafter "**Avaron**") commitment to responsible investing and sustainability risk integration, detailing the approach that is followed in managing investments. The Policy presents the principles governing how sustainability risks are addressed with the investment decision making process, in keeping with EU regulation 2019/2088 on Sustainable Finance Disclosure Regulation (SFDR).

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 the inclusion of environmental, social, and corporate governance (hereafter "**ESG**") issues can help promote sustainable business practices and can be instrumental in reducing investment risk and enhancing risk-adjusted returns for our clients. **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.**

To demonstrate commitment to responsible investment, Avaron has been a signatory of the United Nations Principles for Responsible Investment (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.
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, we believe, in time they 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 institutional and professional investors via Avaron managed investment funds and managed accounts. We manage two strategies: Emerging Europe long-only equity strategy (>90% of our AUM) for institutional investors and an absolute return driven asset allocation strategy for high-net-worth individuals. Our Emerging Europe long-only listed equity strategy investment guidelines also allow investments into regional corporate and sovereign bonds to improve the risk-return profile of the portfolios.

This Policy will apply to all Europe listed equity strategy portfolios managed by Avaron unless agreed otherwise. Where possible, the same principles shall be followed on credit institutions where the cash is held on behalf of the portfolios. As a minimum, credit institutions where the cash is held are subject to annual sustainability check to assess the level of sustainability integration.

Asset allocation strategy portfolios do not follow the Policy but may implement parts of the Policy dependent on the client preferences and the size of the portfolio.

2. INVESTMENT APPROACH

The investment objective of Emerging Europe long-only listed equity strategy portfolios is to deliver positive active return to our clients over a 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 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. 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 can 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 over a decade, which serves as an important strength in assessing the companies' future potential. 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 and sustainability 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 and sustainability risks and opportunities the investment is exposed to,
2. how material the ESG and sustainability issues are for the business, considering the industry and individual company exposure,
3. how are ESG and sustainability risks managed and what is the likelihood of these risks materializing,
4. what kind of impact the ESG and sustainability issues are likely to have on the value, earnings, and prospects of the investment.

ESG and sustainability considerations are incorporated into the investment process using exclusion, norms-based screening and ESG integration. To avoid financing companies that are engaged in activities with clear negative impact on people and environment we apply exclusion principles to filter out such issuers. Norms-based screening is 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. ESG and sustainability integration entails in-depth analysis of ESG criteria using an internally developed ESG Score that is an integral part of our company fundamental analysis and enables to assess the ESG performance of issuers in our investment universe.

In Avaron ESG research process is internalized. We believe that to be successful in constructing bottom-up portfolios the Analysts covering the issuers 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 research for all new investment ideas. The responsibility for implementation, necessary internal training and Policy recommendations lies with Avaron executive board. Adherence to ESG research process in accordance with the Policy is verified by regular internal control checks.

3.1. Exclusion principles

Exclusion is used as a tool to limit investments to activities that have a clear negative impact on people, the environment or issuer stakeholders. It is applied outright for involvement in the following activities:

- **Armament and weapons:** Companies that are involved in design, development, production, distribution or overhaul of weapons, weapon systems or components.
- **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%.
- **Tobacco**: Companies that are involved in production or distribution tobacco or alternative smoking products (e-cigarettes, next-generation tobacco/nicotine products). Exclusion not applicable to general retailers ´if the share of revenue from distribution of tobacco products does not exceed 10%.
- **Alcohol**: Companies that generate more than 10% of revenue from production or distribution of alcoholic drinks.
- **Commercial gambling**: Companies that generate more than 10% of revenue from gambling or lottery services.
- **Coal extraction**: Companies that generate more than 20% of revenues from the extraction of any kind of coal including lignite.
- **Coal based energy**: Companies that generate more than 20% of revenues 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.
- **Aggregate unwanted sector exposures**:
  - Companies that have exposure to alcohol and gambling as defined above are excluded if they generate more than 10% of revenue in total from both activities.
  - Companies that are active in both coal extraction and coal-based energy production as defined above are excluded if they generate more than 20% of revenue in total from both activities.

In addition, exclusion is also used as a tool to avoid investing in issuers that violate international law and norms on environmental protection, human rights, labour standards and anti-corruption or guidelines of corporate governance for listed companies, and where engagement with the issuer has not resulted in positive change. For more detail, please refer to Policy sections 3.2 and 4.

Exclusions are also made based on the internal ESG rating that is assigned to all companies we invest in. The rating is on 1-5 scale and issuers with a rating below 2 are considered to have too high ESG and sustainability risk profile and thus excluded. For more detail on the rating system, please refer to the Policy section 3.3.

3.2. Norms-based screening

Norms-based screening is 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 such as United Nations Global Compact, Universal Declaration of Human Rights, and ILO's International Labour Standards. Companies where our ESG analysis detects violations of the mentioned standards or principles are subject to engagement, quarantine, or exclusion. Internal assessment of the incident is conducted by the investment team, which provides a recommendation to the Investment Committee that decides on actions to be taken.

Engagement with the company to influence change and steer towards improved practices is usually the preferred option, however, in case of severe or repeated incidents exclusion can be applied outright. Engagements are carried out according to our Engagement Practices described in Section 4. Post-engagement exclusion is applied if there are no identifiable improvements by the issuer. A quarantine implies that the holdings of Avaron portfolios in the company concerned may not be increased and a quarantine will in nearly all cases be accompanied by direct engagement with the company. The Investment Committee may also conclude that the issue raised does not merit immediate action, either because it has already been resolved or because it is judged to be minor/immaterial.

3.3. ESG Score

ESG analysis using an internal ESG rating system is carried out as part of the fundamental issuer analysis that our investment process relies on. **ESG Score 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 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, renewable energy usage, water consumption and reduction, waste generation and recycling initiatives, biodiversity and ecosystem preservation practices, and supply chain management from environmental perspective.

The S rating comprises social aspects including human rights, labour rights, employee health and safety, career development and training, diversity, pay equality, employee satisfaction, treatment of customers and community, data privacy and cyber security, business ethics and corruption, and supply chain management from social aspect.

The G rating evaluates corporate governance related aspects including board composition, independence and structure, shareholder rights, financial communication and accounting risks, and governance related to sustainable management.

In the ESG Score the three letters have equal weights of 1/3rd. The rating 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. These adjustments are considered when having occurred over the past 5 years.

Avaron carries out a full monitoring of ESG related controversies impacting the issuers within our investment portfolios drawing upon several sources of external data. Analysing these issues enables us to highlight potential discrepancies between an issuer's statements and its actions, areas of weakness, or new risks. This adds another dimension to our ESG analysis and helps us identify events that could potentially weigh on issuers' market value. Controversies that are very severe can lead to and exclusion from the portfolios after consultation with and approval of Avaron Investment Committee.

ESG Score enables to assess various ESG and sustainability related risks and opportunities and rank companies in our investment universe according to ESG performance. It guides our investment decision making process alongside with the company Quality Score, an in-house tool used to evaluate the overall quality of the company from management team and business model perspective. The use of ESG Score ensures that ESG considerations are embedded into the analysis process of each individual company in our investment universe and investment decision-making process. Companies with ESG Score 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. For example, the valuation of a company with an ESG Score of 2 is discounted by 10%, while the valuation of a company with a rating of 3.5 remains unaffected.

The ESG and sustainability analysis that is carried out using the rating system also provides a basis for company specific engagement needs as it highlights potential shortcomings and areas for improvement.

3.4. Integration of principle adverse impacts

The technical standards of Regulation (EU) 2019/2088 on sustainability related disclosures have defined a series of quantitative environmental and social indicators, known as principal adverse impacts, or PAI. The regulation has specified a list of 16 compulsory indicators to disclose for financial institutions (14 applicable to equity and 2 to sovereign issues). In addition, it is compulsory to disclose at least 1 environmental and 1 social PAI indicators from the list of 46 optional ones.The adverse impacts concerned by these indicators are integrated into the ESG research process mainly using the ESG rating system, while some either via applying exclusion principles or controversy monitoring.

4. ENGAGEMENT AND OWNERSHIP PRACTICES

Engagement is the interaction with investee companies on ESG topics 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., 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 our ESG analysis with the internal 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 relevant Investment Manager 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).

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 internal 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 potential exclusions. 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. We aim to vote on all shareholders' meetings where we have the discretion to exercise the voting rights and disclose all our votes cast.

5. REPORTING

Avaron discloses annually on responsible investment and sustainability topics via UNPRI Reporting Framework and Responsible Investment 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. UNPRI Transparency and Assessment Reports and Avaron Responsible Investment 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 and sustainability letters.

6. CONFLICTS OF INTEREST

Avaron recognises that it is its duty, as an institutional investor, to act in the interests of its clients. Equally, we understand that in the course of our engagement and voting activities, conflicts of interest may arise. Consequently, Avaron has policies in place for the purpose of taking all reasonable steps to prevent conflicts of interests. Where such conflicts cannot be avoided, Avaron will identify, manage and monitor the conflicts and, where appropriate, disclose them to clients to prevent them from adversely affecting the interests of the clients.

7. GOVERNANCE

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	Investment Manager, 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.

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

Valid from:	15 May 2011
Amended:	21 September 2023
Approved by:	Management Board of AS Avaron Asset Management