



# AVARON ASSET MANAGEMENT

**RESPONSIBLE INVESTMENT REPORT  
FOR THE YEAR 2023**

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## MESSAGE FROM THE CEO



2023 was a transformative year for Avaron, marking significant milestones in our journey toward embedding responsible investment principles at the core of our operations. It was

a year shaped not only by our internal achievements but also by global developments that underscored the urgency of sustainable finance.

**One of the most significant accomplishments was our flagship Avaron Emerging Europe Fund attaining the prestigious LuxFLAG ESG Label**, becoming the first regional listed equity fund available to the public to be awarded this recognition. This milestone is a testament to our steadfast commitment to integrating environmental, social, and governance (ESG) principles into our investment process. This label not only enhances the fund's credibility with ethically conscious investors but also positions Avaron as a leader in promoting sustainability within the Emerging Europe investment landscape.

The year also saw progress on our efforts to align with the European Union's Sustainable Finance Disclosure Regulation (SFDR). The regulation has significantly influenced the development of our in-house ESG data platform and issuer analysis capabilities. In June 2023, we **published our first Principal Adverse Impact (PAI) Statement for the Avaron Emerging Europe Fund**, which is

categorized under SFDR Article 8. This reflects our dedication to promoting environmental and social characteristics while maintaining sound corporate governance practices across our investments.

Global climate events and international efforts, such as the discussions at COP28, reaffirmed the importance of accelerating decarbonization efforts. In line with our commitment to achieving net-zero emission investments in our core Emerging Europe listed equity strategy portfolios by 2050 and reducing the portfolio footprint by 50% by 2030 from a 2020 baseline, we initiated our first active step toward these ambitious goals. As bottom-up stock pickers, we depend primarily on the transformation of Emerging Europe issuers towards net-zero, necessitating active engagement with regional issuers. Last year, **we launched our first themed engagement, targeting 18 portfolio companies to address areas such as improving emissions disclosure, defining science-based mid-term (2030) reduction targets, and establishing long-term (2050) net-zero ambitions**. We anticipate this to be a multi-year process due to the uneven climate change-related disclosure and commitments among Emerging Europe issuers. We are committed to driving meaningful transformation through engagement and sustained dialogue.

In 2023, we continued to actively engage with issuers in our portfolios and vote at shareholder meetings. Besides the climate change related engagements, we addressed other ESG issues with 16 portfolio companies and participated in 3 collaborative

engagements, including the CDP Non-Disclosure Campaign. Additionally, we exercised our voting rights at 98% of shareholder meetings for companies within our portfolios. These actions reflect our belief that active ownership is central to driving positive change and fostering transparency among issuers.

Looking ahead, we are committed to deepening our ESG integration processes, ensuring they remain robust and adaptable to evolving regulatory landscapes. **Our priorities for 2024 include continuing the multi-year themed engagement aimed at increasing the adoption of carbon reduction initiatives and Science-Based Targets initiative (SBTi) net-zero goals among portfolio companies.** We also reaffirm our commitment to maintaining the LuxFLAG ESG Label for the Avaron Emerging Europe Fund, further enhancing its value to our investors.

2023 was a year of laying strong foundations amid a rapidly evolving global sustainability agenda. As we reflect on our achievements, we remain resolute in our mission to integrate sustainability into our investment strategies, driving long-term value for our clients and fostering positive impact in the Emerging Europe region. Together, we continue to navigate the challenges and opportunities of responsible investing in an ever-changing world.

*Kristel Kivinurm-Priisalm, CEO  
Avaron Asset Management AS*

## AVARON OVERVIEW

### GENERAL INFORMATION

Avaron Asset Management (hereafter: “Avaron” or “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. Our core activity involves investing the assets of our mutual funds and institutional investor managed accounts into Emerging Europe listed equities. We create additional value to our clients by applying active value investing principles while also adhering to the UN Principles of Responsible Investment.

As of the end 2023 Avaron managed €241 million of investor assets, out of which the core long-only Emerging Europe listed equity strategy accounted for €206 million. The Company manages three mutual funds domiciled in Estonia. Avaron Emerging Europe Fund (AUM €54M) and Avaron Emerging Europe Smaller Companies Fund (AUM €1mil) that was launched at the end of 2022 are focused solely on Emerging Europe ex-Russia listed equities (UCITS V). Avaron Flexible Strategies Fund (AUM €16M) is an asset allocation fund combining predominantly European listed equities and fixed income but based on the fund prospectus can invest globally (AIF). In October 2023, we launched Avaron High Yield Bond Fund to provide investors with the opportunity to invest in high yield corporate bonds in Europe. By the

year end the AUM of this fund stood at €7 million.

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 an important business line for the Company over the years and accounts now for around 64% of the AUM. The total size of institutional investors’ mandates in the end of 2020 was €155 million. Besides that, Avaron also manages €10 million worth of portfolios for high net worth individuals.

The firm employed 15 investment and finance specialists.

### GOALS AND VALUES

Avaron’s mission is to be the most suitable partner for institutional investors catering for their needs in investing into Emerging Europe listed equities. Avaron’s main objective is to offer our investors positive risk weighted long-term return. To achieve this, we adhere to our investment style and process, respectively true stock-picking and fundamental analysis, which deliver bottom up stock picks to the portfolios. Avaron’s investment team has a key role in achieving our objective and this is why the Investment Managers and key employees are also Avaron’s shareholders. The Company’s three Investment Managers have worked at Avaron since its launch in 2007, while the two Senior Analysts joined in 2008 and 2011.

Avaron’s second key objective is to offer its employees opportunities for personal growth. We have invested and continue to invest

considerable resources into our employees. Today our investment team consisting of 8 investment specialists (3 Investment Managers, 2 Senior Analysts, 3 Analysts) is one of the largest teams dedicated to Emerging Europe region stock analysis. We have invested a lot also into support team (Operations & Back-Office) and compliance function over the past ten years, including building up back-up functions inside the teams. The Company has also dedicated significant resources to IT systems to further enhance operational efficiency and improve risk management processes.

Avaron has a strong corporate culture with passion for investing, diligence and flexibility. 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. It also serves as an important driver in our search for attractive investment ideas. Diligence is key to delivering strong investment returns, a measure of quality of our work. In small sized organizations self-motivation and efficiency together with perseverance are important in successfully working towards our goals. Alongside that flexibility, both towards clients and employees, is essential in building mutually beneficial professional relationships. 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 (ESG) 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 3 different investment strategies across its asset base – long-only listed equity strategy, which accounts for over 80% of the AUM, asset allocation strategy and high yield strategy. All strategies are managed in accordance to value-driven investment philosophy with an objective to generate excess return to our clients. 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 around 170 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 to flourish and survive in the long-term.

## **OWNERSHIP AND MANAGEMENT STRUCTURE**

Avaron is fully owned by its employees and the Company has no institutional or outside investors. Beneficial owners of the Company are its founding partners Kristel Kivinurm-Priisalm (CEO), Valdur Jaht (co-CIO & Chair of Responsible Investment Committee) and Peter Priisalm (co-CIO) that each own 24.47% of Avaron via their holding companies. The rest (17.59%) is owned by Avaron's long-term senior research team.

The Company's Supervisory Board consists of Peter Priisalm (Chairman), Maris Jaht and Rain Leesi. Mrs. Jaht, the wife of Valdur Jaht, is not on daily basis active at Avaron. The Management Board consists of Kristel

Kivinurm-Priisalm and Valdur Jaht. The Company and its Estonia domiciled funds are audited by KPMG. Internal audit of the Company and its Estonia domiciled funds is carried out by PwC. Compliance and risk control functions are internalised and are being carried out by an independent employee, the Company's Chief Compliance Officer.

The Company functions as a partnership, which is being managed by the three founding partners: Kristel Kivinurm-Priisalm, Valdur Jaht and Peter Priisalm. Kristel Kivinurm-Priisalm is the Managing Partner of the Company and acts as CEO. She is responsible for general management, investor relations management and operations management. Valdur Jaht and Peter Priisalm are Partners and act as 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.

Avaron has established three committees to guide its business activities and risk management. Investment Committee is the main body to manage and oversee Avaron's investment funds' and managed accounts' investment decision-making and portfolios' risk management. Risk Management Committee performs an oversight function of the risk management, determines the Company's risk appetite and tolerance as well as ensures that risk assessments are performed regularly. Responsible Investment Committee steers the implementation of the Responsible Investment Policy framework within the Company.

## COMMUNITY SUPPORT AND CHARITY

Every year Avaron financially supports initiatives related to youth education and youth sports. In 2023, we supported the education project of the Estonian Cancer Society, within the framework of which young oncologists and haematologists can improve their education and skills abroad. NGO Estonian Cancer Society is an association which goals are aimed at the fight against cancer and its promotion in Estonia.

We encourage our staff to take an active role in the community by giving lectures and speeches at schools, universities, social clubs and foundations on investing, entrepreneurship and on other topics close to their heart. In 2023, four members of our team

inspired elementary and middle school pupils as well as high school students in Tallinn and Tartu, and gave lectures to university students at the University of Tartu.

We also devote our time to improve business and investment environment in Estonia. Avaron is a founder and active member of Estonian Service Industry Association that aims to improve the country's business environment of professional service companies. Avaron's Managing Partner Kristel Kivinurm-Priisalm serves as a member of the association's supervisory board and also acts as a member of the supervisory committee of Nasdaq OMX Tallinn Stock Exchange.



## RESPONSIBLE INVESTING

At Avaron, we see responsible investment as a key element in aligning the objectives of asset owners and managers with the ones of the broader society. We believe it is in our clients' best interests for the companies in which we invest to adopt sound environmental, social and governance (ESG) practices. Such companies are in our view better positioned to mitigate ESG risks and seize the related opportunities in today's rapidly changing world. This also provides a framework for each company to be managed according to the long-term interests of its shareholders and helps to create an environment of higher standards of business conduct, increased market efficiency, sustainable management, and thus ultimately a more cohesive and fairer society. Mindful of our responsibilities to our clients, we act as good, long-term stewards of the investments which we manage on their behalf, as expressed in our responsible investment policy.

Responsible investment approach in Avaron is governed by the Responsible Investment Policy. This Policy will apply to all Emerging Europe listed equity strategy portfolios managed by Avaron unless agreed otherwise. Asset allocation and high yield bond strategy portfolios do not follow the Policy but may implement parts of the Policy.

Responsible investment principles have been an integral part of our investment process since 2011. As a signatory of PRI, CDP and formal supporter of the Financial Stability Board Task Force on Climate-related Financial Disclosures (TCFD), we recognize the value in

being transparent about our responsible investment strategy and sharing publicly what we are doing.

Our mission is to be the most suitable asset manager for institutional investors within the Emerging Europe listed equity asset class. We seek to offer positive risk-adjusted long-term returns to our clients through value based and responsible investing. To achieve this, we adhere to our bottom-up value focused investment process. Given our main aim of generating alpha to our clients via stock picking it is important to have ESG considerations integrated into our investment process.

Avaron investment team has been following vast majority of our current listed equity universe for over 15 years, which serves as an important strength in assessing the companies' future potential. At Avaron, we believe that the stock returns in the long run are driven by the underlying fundamental potential of companies with ESG practices being an inseparable part of company fundamentals. To have an extensive knowledge base of the companies in our investment universe we have taken a strategic decision not to outsource ESG analysis to third party providers but rather build ESG know-how in-house.

Our responsible investment approach is underpinned by two fundamental pillars, each of which plays an important role in achieving sustainability investment objectives: (1) ESG integration; and (2) stewardship activities.

The foundation of our responsible investment approach lies in the thorough and systematic analysis of ESG factors across our investment

portfolios. This involves a deep dive into the sustainability practices, risk exposure, and overall ESG performance of the companies we invest in. This comprehensive assessment helps us identify both the opportunities and risks associated with ESG factors, allowing to make informed investment decisions. By integrating ESG considerations into our investment process, we not only align with responsible investment principles but also enhance our ability to deliver long-term value for our clients.

Active ownership is of high importance because it not only aligns with their fiduciary duty to act in the best interests of their clients but also contributes significantly to long-term investment success. By actively engaging with the companies in which we invest, we can promote positive change, encourage responsible business practices, and mitigate risks associated with ESG issues. This allows us to influence corporate behaviour, enhance shareholder value, and protect clients' investments from potential ESG-related setbacks.

Our commitment to active ownership extends to our participation in the corporate governance process through proxy voting. We take an active stance in voting on all resolutions and initiatives proposed by the companies in our portfolio. This includes voting on matters related to executive compensation, board composition, environmental policies, and social responsibility efforts. Our proxy voting activity is guided by our Voting Policy, and it serves as a powerful tool for reinforcing the importance

of responsible and sustainable practices among the companies we invest in.

Together, these two pillars not only define our responsible investment approach but also reflect our dedication to integrating sustainability considerations into our investment strategies. By conducting comprehensive ESG security analysis, actively engaging with companies, and proactively participating in proxy voting, we strive to generate financial returns while advancing the broader goals of responsible investing.

## 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 strategy involves a two-tiered approach to ensure the continuous consideration of pertinent factors in our investment decision-making process:

1. To avoid financing companies that are engaged in activities with clear negative impact on people and environment we apply exclusion principles.
2. Norms-based screening is used to identify companies in our investment portfolios that are allegedly involved in breaches of international law and norms on environmental protection, human rights, labour standards and anticorruption such as United Nations Global Compact, Universal Declaration

of Human Rights, and ILO's International Labour Standards.

3. Comprehensive analysis of ESG criteria, facilitated by our internally developed issuer ESG rating system. This rating forms an integral part of our company quality analysis and enables us to thoroughly evaluate the ESG performance of companies within our investment universe.

### Exclusions

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 international laws and norms.

As of end 2023, our internal Emerging Europe coverage list included 179 issuers. **Based on exclusion principles we had 32 companies in our restricted list** reflecting the direct impact of Responsible Investment 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	8
Social	12
Governance	11
Controversial jurisdictions	1

#### Excluded companies by country

Turkey	19
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Poland	8
Greece	2
Hungary	2
Czech Republic	1

### 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 anticorruption such as United Nations Global Compact, Universal Declaration of Human Rights, and ILO's International Labour Standards. This 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.

**In 2023, we did not discover any breaches by the companies in our Emerging Europe listed equity strategy portfolios.**

### ESG ratings

**Our proprietary ESG rating system was introduced back in 2018 with an aim to get a quantifiable outcome for measuring the ESG performance of companies in our portfolios and coverage universe.** It comprises a list of environmental (E), social (S) and governance (G) indicators that are individually assessed and assigned a score on a 1 to 5 scale, higher score indicating better performance. For each group of indicators (E, S, and G) an aggregated rating is calculated in accordance with the weights assigned to the indicators. The weights of indicators are not equal but reflect

our understanding of the materiality of different indicators. In the final ESG rating though the three subgroups (E, S and G) have equal weights. As a final step 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 profile of the company. These adjustments are considered when having occurred over the past 5 years.

To exemplify, the aggregate ESG rating (weighted sum of issuer ratings ex-cash) of Avaron Emerging European Fund at the end of 2023 stood at 3.36 with the controversy adjustment factor accounting for 0.06 reduction in the rating. Without it the portfolio's rating would have been 2.0% higher.

Since introduction the ESG ratings system has been a key tool in conducting ESG research for investment decision-making process. It aggregates close to 120 different indicators, both quantitative and qualitative, to capture the ESG profile and performance of companies we invest in. The E rating comprises different environmental aspects with a focus on climate change including carbon footprint and emissions 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.

**The ESG ratings are integrated to the investment decision-making process through the linkage to issuer fair value estimates.**

Issuers with a rating below 2.00 are automatically excluded from our investment universe, while for companies with a rating between 2-5 a fair value adjustment factor is added 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, to the valuation of a company with an ESG rating of 2.00 additional 10% discount is applied, while 10% premium is applied to companies with ESG rating of 5.00. A company with a rating of 3.5 remains unaffected.

Controversy monitoring

Controversy monitoring is carried out for all issuers in our portfolios that are in scope of the Responsible Investment Policy, and forms and integral part of issuer ESG rating assessment process. **In 2023, we detected ESG controversies in relation to 4 portfolio companies. Most severe was an accounting irregularity at Greek software company**

**Epsilon Net**, which is detailed in a separate section below.

Due to adding **Polish energy conglomerate Orlen** into the portfolio at the end of May, we engaged with the company in relation to their latest controversies related to employee injuries and fatalities that occurred in September 2022 and February 2023 with an

aim to get more detailed information on the company's response to these incidents. Both incidents had been recorded in the controversy adjustment of Orlen's ESG rating. In April, news emerged that Romanian integrated oil & gas company OMV Petrom may have potentially evaded contributions of up to €120 million to the Energy Transition

#### **Controversy monitoring and ESG rating integration: Epsilon Net (Greece)**

In September 2023, we identified a new ESG controversy involving the Greek software company Epsilon Net, which constituted 1.6% of our Avaron Emerging Europe Fund. The company issued a statement rectifying its audited 2022 financials, revisiting the implementation of IFRS2 with respect to its stock option plan and the anticipated fair value of the options provided. Consequently, an accrued expense was acknowledged, resulting in a downward adjustment of the 2022 consolidated pre-tax earnings by €5.7 million, settling at €15.7 million. Moreover, due to the stock option plan that spans a duration of 2 years and involves the issuance of 1.6 million new shares (a 3% implied dilution), the company is set to incur costs of €1.9 million in 2023 and €0.4 million in 2024.

In alignment with our ESG approach, this event was classified as an accounting irregularity and documented in our internal ESG rating system under the accounting risks segment within governance topics. Specifically, we evaluate issuers based on financial account restatements stemming from misleading reporting in tandem with audit feedback, whether it be qualified, disclaimed, or adverse. This issue also was treated as a controversy, leading to its documentation in the ESG rating's controversy adjustment segment.

Following the news the stock plunged immediately 30% but consolidated later to around 18% lower compared to the pre-announcement level. During the last week of September, we held a face-to-face meeting with the management to discuss the issue to be able to assess their approach further. According to their clarification, the issue arose from a misinterpretation of IFRS2, given that the option plan details were consistently disclosed. Furthermore, the initial auditor did not highlight any discrepancies, leading the company to presume accurate accounting. The company's audit was handled by one of the largest local auditing firms in the country SOL Crowe.

Our evaluation deemed this incident as critical both in its essence and its ramifications on shareholder value. Nevertheless, considering the governance enhancement measures declared by the company, we have opted to retain Epsilon Net in our portfolios. After our discussion with the management and specific suggestions, the company made public their intention to employ a new auditor and pursue collaboration with a leading international audit firm. They also appointed an independent board member with expertise in finance or governance and will commission an external advisory review of the related internal processes. Due to the incident's gravity, we introduced an added negative adjustment to Epsilon Net's ESG rating. The standard controversy adjustment, in our opinion, did not entirely capture its severe nature. As a result of these changes, including the re-assessment of accounting irregularities score, the default controversy adjustment, and the special adjustment, Epsilon's ESG rating has been revised from 3.02 to 2.39, leading to a 4pp increase in the ESG-related discount to 7% that was applied to company's fair value estimate.



Fund. We contacted the company for further clarifications and recorded the incident in the controversy adjustment of Petrom's ESG rating. The company has challenged the decision of tax authorities, and the dispute is ongoing.

Also, we **reacted to a reported compensation dispute between Romanian Yum brands master franchisee Sphera Group and its former employee** asking further clarifications from the company. By the time of reporting the dispute had already been settled between the parties. Based on the information received from the company it was decided not to record it in controversy adjustment of the Sphera's ESG rating given the dispute was of an ordinary business nature.

## 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 seek improvements where deficiencies in disclosure or performance are identified, or a company has infringed appropriate standards. Engagements may be reactive or proactive. Reactive engagements are company specific and are triggered by a negative ESG event (e.g. norm infringements, controversies), 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 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.

Our ESG rating system 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 3 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 improved in an accelerated manner. For example, at the end of 2023 already 91% of Avaron Emerging Europe Fund holdings reported Scope 1 and 2 emissions data and 85% had committed to either mid-term (2030) or long-term (2050) emission reduction targets to align with Paris Agreement Goals.

To further promote establishing emission reduction targets, especially science-based ones, we conducted a broader themed engagement targeting 18 portfolio companies in 2023. Our discussions addressed areas such as improving emissions disclosure, Scope 3 mainly, defining science-based mid-term (2030) reduction targets, and establishing long-term (2050) net-zero ambitions. In 2022, we set ambitious goals for ourselves, aiming to achieve a net-zero portfolio by 2050 and a 50% reduction in portfolio carbon footprint by 2030. The success of these objectives is intricately linked to the transition efforts undertaken by our portfolio companies, underscoring the importance of active engagement with them.

**We also continued our broad engagement on gender pay gap and CEO excessive pay that we launched in 2022 revisiting the topics with 11 portfolio companies.** We are glad that our engagement efforts on these metrics have been fruitful as by the end of 2023 the share of investments in Avaron Emerging Europe Fund portfolio with available data stood over 90%. The Fund's average gender paygap was 10% and average CEO excessive pay 39.9.

**Four reactive engagements were launched related to controversies discovered,** which were covered in the controversy monitoring section of this report.

remuneration of board members. Regarding gender pay gap we followed up on our last year's effort re-engaging with companies that still have not yet started to publish the data. Altogether we got in contact with 23

#### **Leading collaborative engagements: 2023 CDP Non-Discloser Campaign**

In 2023, for the 6<sup>th</sup> 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. As it has become a tradition, we took the lead investor role in engaging with our portfolio companies. The 2023 campaign targeted 2 issuers on climate change and deforestation topics – Estonian cruise operator Tallink and Turkish airport operator TAV Holding. We sent out official letters to the company management and investor relations and followed up via 1:1 communication.

As result TAV Holding started to disclose on climate change but did not on deforestation as the latter is deemed not relevant in the context of their business model. In case of Tallink the engagement did not yield positive outcome. Tallink remains our portfolio holding and will be targeted again within the scope of 2024 Non-Discloser Campaign.

#### **Our engagement objectives for 2024 are the following. Firstly, we shall continue the climate change related efforts with focus on science-based emission reduction targets.**

This relates to our own climate change ambitions, which were published in 2022. We have set an ambitious target of reaching net-zero emission investments in our core Emerging Europe listed equity strategy portfolios by 2050 and achieving a 50% portfolio footprint reduction by 2030 from 2019 baseline. This requires active engagement with the regional issuers as it largely depends on the emission reduction actions taken by the companies we invest in.

**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 2023 we voted in 98% shareholders' meetings of the companies we own in all portfolios for which we hold the discretion to exercise voting rights.** This compares to 89% and 88% participation rate in 2022 and 2021, respectively. On 0.3% of agenda points we voted against the management proposals and on 1.6% we abstained. On 0.3% of agenda points we voted against shareholder proposals and on 0.7% we abstained. According to our Voting Policy we

communicate the reasoning to the companies when voting against management proposals. 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 against management proposals: Allegro (Poland)**

As part of our proactive stance, we exercise our voting rights against management proposals during shareholder meetings whenever we perceive shortcomings in various business practices that, from our perspective, do not contribute to shareholder value creation. At the Extraordinary General Meeting (EGM) of Allegro on May 5, 2025, we voted against the executive board proposal to extend their authorization to increase share capital by cancelling the preferential rights of existing shareholders to subscribe for the shares.

Consistent with our Voting Policy, we conveyed our rationale to the company before the meeting. Our objective was to underscore concerns regarding the company's capital management practices over the preceding year, which we believed had led to a decline in shareholder value. Specifically, we highlighted that the sizable acquisition of Mall Group, completed in April 2022, has been value destructive, conducted in an untransparent manner and without prior shareholder consent. Consequently, we found it justified to reject the above mentioned management proposal.



Voting activity	2015	2016	2017	2018	2019	2020	2021	2022	2023
Meetings voted	20	13	16	67	69	60	80	70	65
Resolutions	210	94	158	656	641	665	903	810	674
For	183	91	119	578	598	593	877	784	656
Against	17	2	19	55	12	7	4	13	4
Abstained	10	1	20	23	31	35	22	13	15

## COLLABORATION AND INDUSTRY INVOLVEMENT

Since 2011 Avaron is a signatory of UN Principles for Responsible Investment (PRI) 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, and support select collaborative initiatives that overlap with our beliefs or needs. In 2023, we supported [2023-24 CDP Science-Based Targets Campaign](#).

We continue as a signatory of the CDP as it is one of the largest investor collaborations globally with combined \$136 trillion in assets from 746 capital market signatories, aiming to improve climate change, water usage and deforestation related disclosure, and related risk management of publicly traded companies.

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 Kivimurm-Priisalm	CEO
Rain Leesi	Investment Manager, Head of Research
Reino Pent	Senior Analyst
Ingrid Kõrgema	Compliance Officer

Avaron discloses annually on responsible investment issues via PRI Reporting Framework and a stand-alone Responsible Investment 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.

In December 2023, published the 2023 Transparency Report and a summary scorecard of the Assessment Report that can be both accessed on our [website](#). **We reported in 3 modules and according to the assessment scored the following: 68/100 in Policy Governance and Strategy** (median of all reported investment managers was 58/100), **83/100 in Listed Equity – Active Fundamental** (median 71/100), and **80/100 in Confidence Building Measures** (median 80/100).