



PUBLIC TRANSPARENCY REPORT

2023

AS Avaron Asset Management

Generated 15-12-2023

About this report

PRI reporting is the largest global reporting project on responsible investment. It was developed with investors, for investors.

PRI signatories are required to report publicly on their responsible investment activities each year. In turn, they receive a number of outputs, including a public and private Transparency Report.

The public Transparency Reports, which are produced using signatories' reported information, provide accountability and support signatories to have internal discussions about their practices and to discuss these with their clients, beneficiaries, and other stakeholders.

This public Transparency Report is an export of the signatory's responses to the PRI Reporting Framework during the 2023 reporting period. It includes the signatory's responses to core indicators, as well as responses to plus indicators that the signatory has agreed to make public.

In response to signatory feedback, the PRI has not summarised signatories' responses – the information in this document is presented exactly as it was reported.

For each of the indicators in this document, all options selected by the signatory are presented, including links and qualitative responses. In some indicators, all applicable options are included for additional context.

Disclaimers

Responsible investment definitions

Within the PRI Reporting Framework Glossary, we provide definitions for key terms to guide reporting on responsible investment practices in the Reporting Framework. These definitions may differ from those used or proposed by other authorities and regulatory bodies due to evolving industry perspectives and changing legislative landscapes. Users of this report should be aware of these variations, as they may impact interpretations of the information provided.

Data accuracy

This document presents information reported directly by signatories in the 2023 reporting cycle. This information has not been audited by the PRI or any other party acting on its behalf. While this information is believed to be reliable, no representations or warranties are made as to the accuracy of the information presented.

The PRI has taken reasonable action to ensure that data submitted by signatories in the reporting tool is reflected in their official PRI reports accurately. However, it is possible that small data inaccuracies and/or gaps remain, and the PRI shall not be responsible or liable for such inaccuracies and gaps.

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SENIOR LEADERSHIP STATEMENT (SLS)

SENIOR LEADERSHIP STATEMENT

SENIOR LEADERSHIP STATEMENT

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
SLS 1	CORE	N/A	N/A	PUBLIC	Senior Leadership Statement	GENERAL

Section 1. Our commitment

- Why does your organisation engage in responsible investment?
- What is your organisation's overall approach to responsible investment, and what major responsible investment commitment(s) have you made?

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 principles have been an integral part of our investment process since 2011. As a signatory of UN 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 analysis integrated into our investment process.

When making investment decisions our in-depth knowledge of the companies in our universe is considered as a key ingredient in delivering strong sustainable returns to clients.

Our 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. In order 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.

Section 2. Annual overview

- Discuss your organisation's progress during the reporting year on the responsible investment issue you consider most relevant or material to your organisation or its assets.
- Reflect on your performance with respect to your organisation's responsible investment objectives and targets during the reporting year. Details might include, for example, outlining your single most important achievement or describing your general progress on topics such as the following (where applicable):
 - refinement of ESG analysis and incorporation
 - stewardship activities with investees and/or with policymakers
 - collaborative engagements
 - attainment of responsible investment certifications and/or awards

In 2022 the two most important steps forward in our responsible investment commitments and practices were launching our climate change policy statement and overhaul of our internal ESG rating system together with enhancing the integration of the ESG ratings into our issuer fair value estimates.

Climate change has been one of the focus areas of our responsible investment efforts already for some time, though until recently largely concentrated upon the disclosure improvement by Emerging Europe issuers. As the latter has seen significant progress over the past year or two, we have now taken a step forward and 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 2020 baseline. Our core product category is geographically and asset class wise notably constrained, resulting in a narrow investment universe, thus affecting the range of approaches we can implement to deliver on the net-zero commitment. Being bottom-up stock pickers, we rely primarily on the transformation of Emerging Europe issuers towards net-zero. This requires active engagement with the regional issuers but concurrently also with asset owners who have entrusted us to manage their money. To illustrate where our portfolio companies stand at the moment in terms of net-zero commitments, as of end 2022 27% of Avaron Emerging Europe Fund's portfolio was invested into companies that had committed to carbon emission reduction initiatives aimed at aligning with the Paris Agreement.

Last year we refined our internal ESG rating system that is used to assess the ESG performance of issuers in our portfolios to accommodate the recently implemented disclosure requirements under the European Union's Sustainable Finance Disclosure Regulation (SFDR). In July 2022 the European Commission published the final Regulatory Technical Standards (RTS) under the SFDR, including Principal Adverse Impact (PAI) reporting template and indicators, and the mandatory pre-contractual and periodic templates for Article 8 and 9 products.

The RTS applies from 1 January 2023. Under the SFDR Avaron Emerging Europe Fund is categorized Article 8 (light green) or a fund that promotes environmental and social characteristics and invests in companies that follow sound corporate governance principles. Going into 2023 the PAI indicators have been integrated into the ESG rating system and assessed as part of the overall issuer ESG evaluation, which also enables seamless regulatory disclosure.

Since the beginning of 2022 the ESG ratings of issuers have been integrated into their fair value estimates.

Issuers with a rating below 2 in 1-5 scale (i.e. the lowest 25%) are not eligible for investment. Issuers with a rating between 2-5 a fair value adjustment factor is applied in the process of establishing their intrinsic value as the final step in company valuation process. 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.

We see this an important final step in achieving full ESG integration in our investment process.

In regards to our stewardship activities we continued to actively engage with issuers in our portfolios and vote on shareholder meetings. During 2022 we launched 25 individual engagements including themed engagements on gender pay gap and excessive CEO pay topics. In addition, we participated in the CDP Non-Disclosure Campaign targeting 5 regional companies as lead investors. In 2022 we voted in 90% shareholders' meetings of the companies we own in the portfolios for which we hold the discretion to exercise voting rights.

Section 3. Next steps

- What specific steps has your organisation outlined to advance your commitment to responsible investment in the next two years?

Our focus will be on continuing to enhance our ESG integration processes to make the framework more robust. We expect to dedicate significant resources to regulatory requirements and reporting. In the light of our recently published Climate Change Policy Statement we plan to start a multi-year themed engagement with our portfolio companies aimed at increasing the adoption of carbon reduction initiatives and SBTi net-zero targets. To showcase and validate our responsible investment related efforts we plan to apply for LuxFLAG ESG Label for our flagship Avaron Emerging Europe Fund. This would make it the first labelled Emerging Europe focused listed equity fund available to the public.

Section 4. Endorsement

'The Senior Leadership Statement has been prepared and/or reviewed by the undersigned and reflects our organisation-wide commitment and approach to responsible investment'.

Name

Kristel Kivinurm-Priisalm

Position

CEO

Organisation's Name

AS Avaron Asset Management

☒ A

'This endorsement applies only to the Senior Leadership Statement and should not be considered an endorsement of the information reported by the above-mentioned organisation in the various modules of the Reporting Framework. The Senior Leadership Statement serves as a general overview of the above-mentioned organisation's responsible investment approach. The Senior Leadership Statement does not constitute advice and should not be relied upon as such. Further, it is not a substitute for the skill, judgement and experience of any third parties, their management, employees, advisors and/or clients when making investment and other business decisions'.

☐ B

ORGANISATIONAL OVERVIEW (OO)

ORGANISATIONAL INFORMATION

REPORTING YEAR

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 1	CORE	N/A	N/A	PUBLIC	Reporting year	GENERAL

What is the year-end date of the 12-month period you have chosen to report for PRI reporting purposes?

	Date	Month	Year
Year-end date of the 12-month period for PRI reporting purposes:	31	12	2022

SUBSIDIARY INFORMATION

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 2	CORE	N/A	OO 2.1	PUBLIC	Subsidiary information	GENERAL

Does your organisation have subsidiaries?

- ☐ (A) Yes
- ☒ (B) No

ASSETS UNDER MANAGEMENT

ALL ASSET CLASSES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 4	CORE	OO 3	N/A	PUBLIC	All asset classes	GENERAL

What are your total assets under management (AUM) at the end of the reporting year, as indicated in [OO 1]?

USD

(A) AUM of your organisation, including subsidiaries, and excluding the AUM subject to execution, advisory, custody, or research advisory only

US\$ 154,582,113.00

(B) AUM of subsidiaries that are PRI signatories in their own right and excluded from this submission, as indicated in [OO 2.2]

US\$ 0.00

(C) AUM subject to execution, advisory, custody, or research advisory only

US\$ 0.00

ASSET BREAKDOWN

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5	CORE	OO 3	Multiple indicators	PUBLIC	Asset breakdown	GENERAL

Provide a percentage breakdown of your total AUM at the end of the reporting year as indicated in [OO 1].

	(1) Percentage of Internally managed AUM	(2) Percentage of Externally managed AUM
(A) Listed equity	>75%	0%
(B) Fixed income	>0-10%	0%
(C) Private equity	0%	0%
(D) Real estate	0%	0%
(E) Infrastructure	0%	0%
(F) Hedge funds	0%	0%
(G) Forestry	0%	0%
(H) Farmland	0%	0%
(I) Other	>0-10%	0%
(J) Off-balance sheet	0%	0%

(I) Other - (1) Percentage of Internally managed AUM - Specify:

Cash and cash equivalents 7.78%

ASSET BREAKDOWN: INTERNALLY MANAGED LISTED EQUITY

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5.3 LE	CORE	OO 5	Multiple	PUBLIC	Asset breakdown: Internally managed listed equity	GENERAL

Provide a further breakdown of your internally managed listed equity AUM.

(A) Passive equity	0%
(B) Active – quantitative	0%

(C) Active – fundamental >75%

(D) Other strategies 0%

ASSET BREAKDOWN: INTERNALLY MANAGED FIXED INCOME

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 5.3 FI	CORE	OO 5	Multiple	PUBLIC	Asset breakdown: Internally managed fixed income	GENERAL

Provide a further breakdown of your internally managed fixed income AUM.

(A) Passive – SSA 0%

(B) Passive – corporate 0%

(C) Active – SSA 0%

(D) Active – corporate >75%

(E) Securitised 0%

(F) Private debt 0%

GEOGRAPHICAL BREAKDOWN

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 7	CORE	Multiple, see guidance	N/A	PUBLIC	Geographical breakdown	GENERAL

How much of your AUM in each asset class is invested in emerging markets and developing economies?

AUM in Emerging Markets and Developing Economies

(A) Listed equity	(11) >90 to <100%
(C) Fixed income – corporate	(7) >50 to 60%

STEWARDSHIP

STEWARDSHIP

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 8	CORE	Multiple, see guidance	Multiple indicators	PUBLIC	Stewardship	GENERAL

Does your organisation conduct stewardship activities, excluding (proxy) voting, for any of your assets?

	(1) Listed equity - active	(3) Fixed income - active	(11) Other
(A) Yes, through internal staff	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(B) Yes, through service providers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(C) Yes, through external managers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
(D) We do not conduct stewardship	<input type="radio"/>	<input checked="" type="radio"/>	<input checked="" type="radio"/>

STEWARDSHIP: (PROXY) VOTING

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 9	CORE	Multiple, see guidance	Multiple indicators	PUBLIC	Stewardship: (Proxy) voting	GENERAL

Does your organisation conduct (proxy) voting activities for any of your listed equity holdings?

(1) Listed equity - active

(A) Yes, through internal staff	<input checked="" type="checkbox"/>
(B) Yes, through service providers	<input type="checkbox"/>
(C) Yes, through external managers	<input type="checkbox"/>
(D) We do not conduct (proxy) voting	<input type="radio"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 9.1	CORE	OO 9	PGS 10.1, PGS 31	PUBLIC	Stewardship: (Proxy) voting	GENERAL

For each asset class, on what percentage of your listed equity holdings do you have the discretion to vote?

Percentage of your listed equity holdings over which you have the discretion to vote

(A) Listed equity – active	(8) >60 to 70%
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STEWARDSHIP NOT CONDUCTED

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 10	CORE	OO 8, OO 9	N/A	PUBLIC	Stewardship not conducted	2

Describe why your organisation does not currently conduct stewardship and/or (proxy) voting.

Stewardship, excluding (proxy) voting
(C) Fixed income – active

Responsible Investment (RI) Policy implementation in Avaron is strategy dependent. Avaron manages assets in two strategies - Emerging Europe listed equity (91% of AUM) and global asset allocation (9% of AUM). Emerging Europe listed equity strategy portfolios are subject to RI Policy in full including negative screening, ESG integration and stewardship activities. Given the small scale of asset allocation strategy in total AUM, its global scope and high diversification of these portfolios, the RI Policy is applied only partially. Asset allocation strategy portfolios follow a set of exclusion principles (negative screening) without ESG integration. In regard to stewardship activities asset allocation strategy portfolios only carry out voting in shareholder meetings for listed equity holdings.

Fixed income investments account for 5% of total AUM and are highly diversified, in many cases resulting in ticket sizes of the minimum amounts of 100,000-200,000 €/\$. Given the relative immateriality of the asset class in the total AUM as well as almost inexistent engagement leverage with the issuers given the small investment amounts we do not deem carrying out stewardship activities feasible from the resource allocation perspective.

(K) Other

Under "Other" cash and cash equivalents are reported.

ESG INCORPORATION

INTERNALLY MANAGED ASSETS

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 11	CORE	Multiple, see guidance	Multiple indicators	PUBLIC	Internally managed assets	1

For each internally managed asset class, does your organisation incorporate ESG factors into your investment decisions?

	(1) Yes, we incorporate ESG factors into our investment decisions	(2) No, we do not incorporate ESG factors into our investment decisions
(C) Listed equity - active - fundamental	<input checked="" type="radio"/>	<input type="radio"/>
(F) Fixed income - corporate	<input checked="" type="radio"/>	<input type="radio"/>
(V) Other: Cash and cash equivalents 7.78%	<input checked="" type="radio"/>	<input type="radio"/>

ESG IN OTHER ASSET CLASSES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 15	CORE	OO 11, OO 12–14	N/A	PUBLIC	ESG in other asset classes	1

Describe how your organisation incorporates ESG factors into the following asset classes.

Internally managed
(C) Other

Once per annum a CSR assessment is conducted on counterparties Avaron uses for custody services and cash investments. It covers custody service providers of investment portfolios for which Avaron has the discretion to choose the provider. The CSR assessment covers whether the service provider has sustainability integrated into the business strategy, periodic sustainability disclosure, which international standards are being followed and which sustainability or responsible investing related initiatives the service provider is a signatory to.

ESG STRATEGIES

LISTED EQUITY

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 17 LE	CORE	OO 11	OO 17.1 LE, LE 12	PUBLIC	Listed equity	1

Which ESG incorporation approach and/or combination of approaches does your organisation apply to your internally managed active listed equity?

Percentage out of total internally managed active listed equity

(A) Screening alone	>0-10%
(B) Thematic alone	0%
(C) Integration alone	0%
(D) Screening and integration	>75%
(E) Thematic and integration	0%
(F) Screening and thematic	0%
(G) All three approaches combined	0%
(H) None	0%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 17.1 LE	CORE	OO 17 LE	LE 9	PUBLIC	Listed equity	1

What type of screening does your organisation use for your internally managed active listed equity assets where a screening approach is applied?

Percentage coverage out of your total listed equity assets where a screening approach is applied

(A) Positive/best-in-class screening only	0%
(B) Negative screening only	>75%
(C) A combination of screening approaches	0%

FIXED INCOME

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 17 FI	CORE	OO 5.3 FI, OO 11	Multiple, see guidance	PUBLIC	Fixed income	1

Which ESG incorporation approach and/or combination of approaches does your organisation apply to your internally managed active fixed income?

(2) Fixed income - corporate

(A) Screening alone	>75%
(B) Thematic alone	0%
(C) Integration alone	0%
(D) Screening and integration	0%
(E) Thematic and integration	0%
(F) Screening and thematic	0%
(G) All three approaches combined	0%
(H) None	0%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 17.1 FI	CORE	OO 17 FI	N/A	PUBLIC	Fixed income	1

What type of screening does your organisation use for your internally managed active fixed income where a screening approach is applied?

(2) Fixed income - corporate

(A) Positive/best-in-class screening only 0%

(B) Negative screening only >75%

(C) A combination of screening approaches 0%

ESG/SUSTAINABILITY FUNDS AND PRODUCTS

LABELLING AND MARKETING

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 18	CORE	OO 11–14	OO 18.1	PUBLIC	Labelling and marketing	1

Do you explicitly market any of your products and/or funds as ESG and/or sustainable?

- ☐ (A) Yes, we market products and/or funds as ESG and/or sustainable
- ☒ (B) No, we do not offer products or funds explicitly marketed as ESG and/or sustainable
- ☐ (C) Not applicable; we do not offer products or funds

SUMMARY OF REPORTING REQUIREMENTS

SUMMARY OF REPORTING REQUIREMENTS

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 21	CORE	Multiple indicators	Multiple indicators	PUBLIC	Summary of reporting requirements	GENERAL

The following table shows which modules are mandatory or voluntary to report on in the separate PRI asset class modules. Where a module is voluntary, indicate if you wish to report on it.

Applicable modules	(1) Mandatory to report (pre-filled based on previous responses)	(2.1) Voluntary to report. Yes, I want to opt-in to reporting on the module	(2.2) Voluntary to report. No, I want to opt-out of reporting on the module
Policy, Governance and Strategy	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
Confidence Building Measures	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
(C) Listed equity – active – fundamental	<input checked="" type="radio"/>	<input type="radio"/>	<input type="radio"/>
(F) Fixed income – corporate	<input type="radio"/>	<input type="radio"/>	<input checked="" type="radio"/>

SUBMISSION INFORMATION

REPORT DISCLOSURE

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
OO 32	CORE	OO 3, OO 31	N/A	PUBLIC	Report disclosure	GENERAL

How would you like to disclose the detailed percentage figures you reported throughout the Reporting Framework?

- ☐ (A) Publish as absolute numbers
- ☒ (B) Publish as ranges

POLICY, GOVERNANCE AND STRATEGY (PGS)

POLICY

RESPONSIBLE INVESTMENT POLICY ELEMENTS

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 1	CORE	OO 8, OO 9	Multiple indicators	PUBLIC	Responsible investment policy elements	1, 2

Which elements are covered in your formal responsible investment policy(ies)?

- ☒ (A) Overall approach to responsible investment
- ☒ (B) Guidelines on environmental factors
- ☒ (C) Guidelines on social factors
- ☒ (D) Guidelines on governance factors
- ☐ (E) Guidelines on sustainability outcomes
- ☐ (F) Guidelines tailored to the specific asset class(es) we hold
- ☒ (G) Guidelines on exclusions
- ☒ (H) Guidelines on managing conflicts of interest related to responsible investment
- ☒ (I) Stewardship: Guidelines on engagement with investees
- ☐ (J) Stewardship: Guidelines on overall political engagement
- ☐ (K) Stewardship: Guidelines on engagement with other key stakeholders
- ☒ (L) Stewardship: Guidelines on (proxy) voting
- ☐ (M) Other responsible investment elements not listed here
 - ☐ (N) Our organisation does not have a formal responsible investment policy and/or our policy(ies) do not cover any responsible investment elements

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 2	CORE	PGS 1	Multiple, see guidance	PUBLIC	Responsible investment policy elements	1

Does your formal responsible investment policy(ies) include specific guidelines on systematic sustainability issues?

- ☒ (A) Specific guidelines on climate change (may be part of guidelines on environmental factors)
- ☒ (B) Specific guidelines on human rights (may be part of guidelines on social factors)
- ☐ (C) Specific guidelines on other systematic sustainability issues
 - ☐ (D) Our formal responsible investment policy(ies) does not include guidelines on systematic sustainability issues

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 3	CORE	PGS 1, PGS 2	N/A	PUBLIC	Responsible investment policy elements	6

Which elements of your formal responsible investment policy(ies) are publicly available?

☒ **(A) Overall approach to responsible investment**

Add link:

https://avaron.ee/wp-content/uploads/Responsible_Investment_Policy_22.12.2022.pdf

☒ **(B) Guidelines on environmental factors**

Add link:

https://avaron.ee/wp-content/uploads/Responsible_Investment_Policy_22.12.2022.pdf

☒ **(C) Guidelines on social factors**

Add link:

https://avaron.ee/wp-content/uploads/Responsible_Investment_Policy_22.12.2022.pdf

☒ **(D) Guidelines on governance factors**

Add link:

https://avaron.ee/wp-content/uploads/Responsible_Investment_Policy_22.12.2022.pdf

☒ **(F) Specific guidelines on climate change (may be part of guidelines on environmental factors)**

Add link:

https://avaron.com/wp-content/uploads/Climate_Change_Policy_Statement_22.12.2022.pdf

☒ **(G) Specific guidelines on human rights (may be part of guidelines on social factors)**

Add link:

https://avaron.ee/wp-content/uploads/Responsible_Investment_Policy_22.12.2022.pdf

☒ **(J) Guidelines on exclusions**

Add link:

https://avaron.ee/wp-content/uploads/Responsible_Investment_Policy_22.12.2022.pdf

☐ **(K) Guidelines on managing conflicts of interest related to responsible investment**

☒ **(L) Stewardship: Guidelines on engagement with investees**

Add link:

https://avaron.ee/wp-content/uploads/Responsible_Investment_Policy_22.12.2022.pdf

☒ **(O) Stewardship: Guidelines on (proxy) voting**

Add link:

https://avaron.com/wp-content/uploads/Exercise_of_voting_rights_strategy.pdf

☐ **(Q) No elements of our formal responsible investment policy(ies) are publicly available**

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 4	PLUS	PGS 1	N/A	PUBLIC	Responsible investment policy elements	1 – 6

Does your formal responsible investment policy(ies) identify a link between your responsible investment activities and your fiduciary duties or equivalent obligations?

☒ **(A) Yes**

Elaborate:

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 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.

☐ **(B) No**

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 5	CORE	PGS 1	N/A	PUBLIC	Responsible investment policy elements	2

Which elements are covered in your organisation's policy(ies) or guidelines on stewardship?

- ☒ **(A) Overall stewardship objectives**
- ☒ **(B) Prioritisation of specific ESG factors to be advanced via stewardship activities**
- ☐ (C) Criteria used by our organisation to prioritise the investees, policy makers, key stakeholders, or other entities on which to focus our stewardship efforts
- ☒ **(D) How different stewardship tools and activities are used across the organisation**
- ☒ **(E) Approach to escalation in stewardship**
- ☒ **(F) Approach to collaboration in stewardship**
- ☒ **(G) Conflicts of interest related to stewardship**
- ☒ **(H) How stewardship efforts and results are communicated across the organisation to feed into investment decision-making and vice versa**
- ☐ (I) Other
- ☐ (J) None of the above elements is captured in our policy(ies) or guidelines on stewardship

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 6	CORE	PGS 1	N/A	PUBLIC	Responsible investment policy elements	2

Does your policy on (proxy) voting include voting principles and/or guidelines on specific ESG factors?

- ☐ (A) Yes, it includes voting principles and/or guidelines on specific environmental factors
- ☒ (B) Yes, it includes voting principles and/or guidelines on specific social factors
- ☒ (C) Yes, it includes voting principles and/or guidelines on specific governance factors
- ☐ (D) Our policy on (proxy) voting does not include voting principles or guidelines on specific ESG factors

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 7	CORE	OO 9	N/A	PUBLIC	Responsible investment policy elements	2

Does your organisation have a policy that states how (proxy) voting is addressed in your securities lending programme?

- ☐ (A) We have a publicly available policy to address (proxy) voting in our securities lending programme
- ☐ (B) We have a policy to address (proxy) voting in our securities lending programme, but it is not publicly available
- ☐ (C) We rely on the policy of our external service provider(s)
- ☐ (D) We do not have a policy to address (proxy) voting in our securities lending programme
- ☒ (E) Not applicable; we do not have a securities lending programme

RESPONSIBLE INVESTMENT POLICY COVERAGE

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 8	CORE	PGS 1	N/A	PUBLIC	Responsible investment policy coverage	1

What percentage of your total AUM is covered by the below elements of your responsible investment policy(ies)?

Combined AUM coverage of all policy elements

(A) Overall approach to responsible investment
 (B) Guidelines on environmental factors
 (C) Guidelines on social factors
 (D) Guidelines on governance factors

(6) >90% to <100%

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 9	CORE	PGS 2	N/A	PUBLIC	Responsible investment policy coverage	1

What proportion of your AUM is covered by your formal policies or guidelines on climate change, human rights, or other systematic sustainability issues?

AUM coverage

(A) Specific guidelines on climate change
 (2) for a majority of our AUM

(B) Specific guidelines on human rights
 (2) for a majority of our AUM

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 10	CORE	OO 8, OO 9, PGS 1	N/A	PUBLIC	Responsible investment policy coverage	2

Per asset class, what percentage of your AUM is covered by your policy(ies) or guidelines on stewardship with investees?

☒ (A) Listed equity

- (1) Percentage of AUM covered
- (1) >0% to 10%
 - (2) >10% to 20%
 - (3) >20% to 30%
 - (4) >30% to 40%
 - (5) >40% to 50%
 - (6) >50% to 60%
 - (7) >60% to 70%
 - (8) >70% to 80%

- (9) >80% to 90%
- (10) >90% to <100%
- (11) 100%

(2) If your AUM coverage is below 100%, explain why: (Voluntary)

Responsible Investment (RI) Policy implementation in Avaron is strategy dependent. Avaron manages assets in two strategies - Emerging Europe listed equity (91% of AUM) and global asset allocation (9% of AUM). Emerging Europe listed equity strategy portfolios are subject to RI Policy in full including negative screening, ESG integration and stewardship activities. Given the small scale of asset allocation strategy in total AUM, its global scope and high diversification of these portfolios, the RI Policy is applied only partially. Asset allocation strategy portfolios follow a set of exclusion principles (negative screening) without ESG integration. In regard to stewardship activities asset allocation strategy portfolios only carry out voting in shareholder meetings for listed equity holdings.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 10.1	CORE	OO 9.1, PGS 1	N/A	PUBLIC	Responsible investment policy coverage	2

What percentage of your listed equity holdings is covered by your guidelines on (proxy) voting?

☒ (A) **Actively managed listed equity**

(1) Percentage of your listed equity holdings over which you have the discretion to vote

- (1) >0% to 10%
- (2) >10% to 20%
- (3) >20% to 30%
- (4) >30% to 40%
- (5) >40% to 50%
- (6) >50% to 60%
- (7) >60% to 70%
- (8) >70% to 80%
- (9) >80% to 90%
- (10) >90% to <100%
- (11) 100%

GOVERNANCE

ROLES AND RESPONSIBILITIES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 11	CORE	N/A	Multiple indicators	PUBLIC	Roles and responsibilities	1

Which senior level body(ies) or role(s) in your organisation have formal oversight over and accountability for responsible investment?

- ☒ (A) Board members, trustees, or equivalent
☒ (B) Senior executive-level staff, or equivalent

Specify:

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 Mr. Valdur Jaht.

- ☒ (C) Investment committee, or equivalent

Specify:

Avaron Responsible Investment Committee includes all four members of Avaron Investment Committee.

- ☐ (D) Head of department, or equivalent

- ☐ (E) None of the above bodies and roles have oversight over and accountability for responsible investment

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 11.1	CORE	PGS 1, PGS 2, PGS 11	N/A	PUBLIC	Roles and responsibilities	1, 2

Does your organisation's senior level body(ies) or role(s) have formal oversight over and accountability for the elements covered in your responsible investment policy(ies)?

	(1) Board members, trustees, or equivalent	(2) Senior executive-level staff, investment committee, head of department, or equivalent
(A) Overall approach to responsible investment	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) Guidelines on environmental, social and/or governance factors	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) Specific guidelines on climate change (may be part of guidelines on environmental factors)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(E) Specific guidelines on human rights (may be part of guidelines on social factors)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(H) Guidelines on exclusions	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(I) Guidelines on managing conflicts of interest related to responsible investment	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(J) Stewardship: Guidelines on engagement with investees	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(M) Stewardship: Guidelines on (proxy) voting	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(N) This role has no formal oversight over and accountability for any of the above elements covered in our responsible investment policy(ies)	<input type="radio"/>	<input type="radio"/>

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 11.2	CORE	N/A	N/A	PUBLIC	Roles and responsibilities	1 – 6

Does your organisation have governance processes or structures to ensure that your overall political engagement is aligned with your commitment to the principles of PRI, including any political engagement conducted by third parties on your behalf?

- ☐ (A) Yes
- ☐ (B) No
- ☒ (C) Not applicable, our organisation does not conduct any form of political engagement directly or through any third parties

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 12	CORE	N/A	N/A	PUBLIC	Roles and responsibilities	1

In your organisation, which internal or external roles are responsible for implementing your approach to responsible investment?

☒ (A) Internal role(s)

Specify:

In Avaron the implementaion responsibility of responsible invesment approach ultimately lies with Avaron executive board but also with CIO, Investment Committee, portfolio managers, invesment analysts and compliance function.

- ☐ (B) External investment managers, service providers, or other external partners or suppliers
- ☐ (C) We do not have any internal or external roles with responsibility for implementing responsible investment

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 13	CORE	PGS 11	N/A	PUBLIC	Roles and responsibilities	1

Does your organisation use responsible investment KPIs to evaluate the performance of your board members, trustees, or equivalent?

- ☐ (A) Yes, we use responsible investment KPIs to evaluate the performance of our board members, trustees, or equivalent
- ☒ (B) No, we do not use responsible investment KPIs to evaluate the performance of our board members, trustees, or equivalent

Explain why: (Voluntary)

At Avaron responsible investment implementation responsibility lies with the executive board with one of the board members in charge of chairing the Responsible Investment Committee. The performance evaluation of said board member includes a qualitative assessment of how responsible investment related responsibilities are fulfilled but does not include specific KPIs.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 14	CORE	PGS 11	N/A	PUBLIC	Roles and responsibilities	1

Does your organisation use responsible investment KPIs to evaluate the performance of your senior executive-level staff (or equivalent), and are these KPIs linked to compensation?

● **(A) Yes, we use responsible investment KPIs to evaluate the performance of our senior executive-level staff (or equivalent)**

Indicate whether these responsible investment KPIs are linked to compensation

● **(1) KPIs are linked to compensation**

- (2) KPIs are not linked to compensation as these roles do not have variable compensation
- (3) KPIs are not linked to compensation even though these roles have variable compensation

Describe: (Voluntary)

Responsible investment implementation (incl. ESG related monitoring and analysis, stewardship activities) is conducted by Avaron investment team (CIOs, portfolio managers, investment analysts). According to Avaron Remuneration Policy the appraisal process for variable pay includes the incorporation of responsible investment principles and compliance with related internal policies. Some of the KPIs that may be used in the appraisal process include but are not limited to: (1) number of ESG related active investment breaches; (2) percentage of shareholder meetings voted; (3) number of engagements carried out; (4) change in portfolios' internal aggregate ESG rating; (5) number of companies with up-to-date internal ESG ratings.

- (B) No, we do not use responsible investment KPIs to evaluate the performance of our senior executive-level staff (or equivalent)

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 15	PLUS	PGS 11	N/A	PUBLIC	Roles and responsibilities	1

What responsible investment competencies do you regularly include in the training of senior-level body(ies) or role(s) in your organisation?

	(1) Board members, trustees or equivalent	(2) Senior executive-level staff, investment committee, head of department or equivalent
(A) Specific competence in climate change mitigation and adaptation	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(B) Specific competence in investors' responsibility to respect human rights	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(C) Specific competence in other systematic sustainability issues	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
(D) The regular training of this senior leadership role does not include any of the above responsible investment competencies	<input type="radio"/>	<input type="radio"/>

EXTERNAL REPORTING AND DISCLOSURES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 16	CORE	N/A	N/A	PUBLIC	External reporting and disclosures	6

What elements are included in your regular reporting to clients and/or beneficiaries for the majority of your AUM?

- ☒ (A) Any changes in policies related to responsible investment
- ☒ (B) Any changes in governance or oversight related to responsible investment
- ☒ (C) Stewardship-related commitments
- ☒ (D) Progress towards stewardship-related commitments
- ☒ (E) Climate-related commitments
- ☒ (F) Progress towards climate-related commitments
- ☒ (G) Human rights-related commitments
- ☒ (H) Progress towards human rights-related commitments
- ☒ (I) Commitments to other systematic sustainability issues
- ☒ (J) Progress towards commitments on other systematic sustainability issues
- ☐ (K) We do not include any of these elements in our regular reporting to clients and/or beneficiaries for the majority of our AUM

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 17	CORE	N/A	N/A	PUBLIC	External reporting and disclosures	6

During the reporting year, did your organisation publicly disclose climate-related information in line with the Task Force on Climate-Related Financial Disclosures' (TCFD) recommendations?

- ☐ (A) Yes, including all governance-related recommended disclosures
- ☐ (B) Yes, including all strategy-related recommended disclosures
- ☐ (C) Yes, including all risk management-related recommended disclosures
- ☐ (D) Yes, including all applicable metrics and targets-related recommended disclosures

☒ **(E) None of the above**

Explain why: (Voluntary)

In 2022 Avaron published its inaugural public Climate Change Policy Statement setting relevant mid and long-term emissions related ambitions together with the strategy how to move towards the attainment of the said targets. Avaron does publicly support TCFD and is working towards releasing first TCFD aligned disclosures in 2024.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 18	PLUS	N/A	N/A	PUBLIC	External reporting and disclosures	6

During the reporting year, to which international responsible investment standards, frameworks, or regulations did your organisation report?

☒ **(A) Disclosures against the European Union's Sustainable Finance Disclosure Regulation (SFDR)**

Link to example of public disclosures

https://avaron.com/wp-content/uploads/2023.01.02_Sustainability-related_disclosures_Avaron_Emerging_Europe_Fund.pdf

- ☐ (B) Disclosures against the European Union's Taxonomy
- ☐ (C) Disclosures against the CFA's ESG Disclosures Standard
- ☐ (D) Disclosures against other international standards, frameworks or regulations
- ☐ (E) Disclosures against other international standards, frameworks or regulations
- ☐ (F) Disclosures against other international standards, frameworks or regulations
- ☐ (G) Disclosures against other international standards, frameworks or regulations

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 19	CORE	N/A	N/A	PUBLIC	External reporting and disclosures	6

During the reporting year, did your organisation publicly disclose its membership in and support for trade associations, think tanks or similar bodies that conduct any form of political engagement?

☒ (A) Yes, we publicly disclosed our membership in and support for trade associations, think tanks, or similar bodies that conduct any form of political engagement

Add link(s):

https://avaron.com/wp-content/uploads/Avaron_Sustainability_Report_2021.pdf

☐ (B) No, we did not publicly disclose our membership in and support for trade associations, think tanks, or similar bodies that conduct any form of political engagement

☐ (C) Not applicable, we were not members in or supporters of any trade associations, think tanks, or similar bodies that conduct any form of political engagement during the reporting year

STRATEGY

CAPITAL ALLOCATION

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 20	CORE	N/A	N/A	PUBLIC	Capital allocation	1

Which elements do your organisation-level exclusions cover?

☒ (A) Exclusions based on our organisation's values or beliefs regarding particular sectors, products or services

☐ (B) Exclusions based on our organisation's values or beliefs regarding particular regions or countries

☒ (C) Exclusions based on minimum standards of business practice aligned with international norms such as the OECD Guidelines for Multinational Enterprises, the International Bill of Human Rights, UN Security Council sanctions or the UN Global Compact

☐ (D) Exclusions based on our organisation's climate change commitments

☐ (E) Other elements

☐ (F) Not applicable; our organisation does not have any organisation-level exclusions

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 21	CORE	N/A	N/A	PUBLIC	Capital allocation	1

How does your responsible investment approach influence your strategic asset allocation process?

- ☐ (A) We incorporate ESG factors into our assessment of expected asset class risks and returns
- ☐ (B) We incorporate climate change–related risks and opportunities into our assessment of expected asset class risks and returns
- ☐ (C) We incorporate human rights–related risks and opportunities into our assessment of expected asset class risks and returns
- ☐ (D) We incorporate risks and opportunities related to other systematic sustainability issues into our assessment of expected asset class risks and returns
- ☐ (E) We do not incorporate ESG factors, climate change, human rights or other systematic sustainability issues into our assessment of expected asset class risks and returns
- ☒ (F) Not applicable; we do not have a strategic asset allocation process

STEWARDSHIP: OVERALL STEWARDSHIP STRATEGY

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 22	CORE	OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

For the majority of AUM within each asset class, which of the following best describes your primary stewardship objective?

(1) Listed equity

(A) Maximise our portfolio-level risk-adjusted returns. In doing so, we seek to address any risks to overall portfolio performance caused by individual investees' contribution to systematic sustainability issues.



(B) Maximise our individual investments' risk-adjusted returns. In doing so, we do not seek to address any risks to overall portfolio performance caused by individual investees' contribution to systematic sustainability issues.



Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 23	PLUS	OO 5, OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

How does your organisation, or the external service providers or external managers acting on your behalf, prioritise the investees or other entities on which to focus its stewardship efforts?

Engagement needs are identified based on: (1) regular issuer controversy monitoring; (2) norms-based screening or (3) ESG analysis of issuers using Avaron's internal ESG rating system. Prioritisation is decided by Avaron investment team and is dependent on the severity and acuteness of the issue at hand.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 24	CORE	OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

Which of the following best describes your organisation's default position, or the position of the external service providers or external managers acting on your behalf, concerning collaborative stewardship efforts?

- ☒ (A) We recognise the value of collective action, and as a result, we prioritise collaborative stewardship efforts wherever possible
- ☐ (B) We collaborate on a case-by-case basis
- ☐ (C) Other
- ☐ (D) We do not join collaborative stewardship efforts

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 24.1	PLUS	OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

Elaborate on your organisation's default position on collaborative stewardship, or the position of the external service providers or external investment managers acting on your behalf, including any other details on your overall approach to collaboration.

We recognize that joint action together with other stakeholders has the potential to be more effective than acting alone. Thus, Avaron in most cases prioritizes participation in collaborative engagements targeting issuers in our investment universe (Emerging Europe). Unfortunately, collaborative engagements in our geographical niche are not common, hence whenever possible we have taken a lead investor role if the engagement targets an issuer, we are invested in. For example, since 2018 we have participated in the annual CDP Non-Disclosure Campaign as lead investors targeting companies within our Emerging Europe listed equity strategy portfolios.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 25	PLUS	OO 5, OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

Rank the channels that are most important for your organisation in achieving its stewardship objectives.

- ☒ (A) Internal resources, e.g. stewardship team, investment team, ESG team, or staff

Select from the list:

☒ 1

☐ 3
 ☐ 4
 ☐ 5
- ☐ (B) External investment managers, third-party operators and/or external property managers, if applicable
- ☐ (C) External paid specialist stewardship services (e.g. engagement overlay services or, in private markets, sustainability consultants) excluding investment managers, real assets third-party operators, or external property managers
- ☐ (D) Informal or unstructured collaborations with investors or other entities
- ☒ (E) Formal collaborative engagements, e.g. PRI-coordinated collaborative engagements, Climate Action 100+, or similar

Select from the list:

☒ 2

☐ 3
 ☐ 4
 ☐ 5
- ☐ (F) We do not use any of these channels

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 27	PLUS	OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

How are your organisation’s stewardship activities linked to your investment decision making, and vice versa?

At Avaron, all stewardship activities are carried out internally by the investment team. Portfolio manager together with the respective analyst covering the company will decide on engagement needs, objective(s) and timeline, and carry out the engagement. All information related to engagements is stored in internal database accessible for the whole investment team. All portfolio managers in Avaron are members of the Investment Committee that ultimately decides upon whether to invest or divest specific companies, ensuring that the results of stewardship activities get taken into account in investment decision-making. Shareholder meeting agendas are analyzed by the investment team following which the instructions for votes are given by portfolio managers.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 28	PLUS	OO 8, OO 9	N/A	PUBLIC	Stewardship: Overall stewardship strategy	2

If relevant, provide any further details on your organisation's overall stewardship strategy.

Active ownership principles are laid out in Avaron Responsible Investment Policy and Voting Policy. Conflicts of interest situations, also within the scope of stewardship activities, are governed by Avaron Internal Policy. All active ownership activities are carried out internally by our investment team.

At Avaron, we are committed to be active owners driven by the belief that it leads to long-term value creation for our clients. Main stewardship tools used are reactive and proactive engagements and voting on shareholder meetings. Reactive engagements are focused on companies that are involved in serious breaches of international standards. The United Nations Global Compact Principles are considered as a general reference framework to define cases of concerns. We use internal ESG research tool to identify red flags across portfolios.

Proactive engagements are undertaken on specific issues related to the business strategy and/or sustainability risks and opportunities that may have a positive or substantial impact the value of the company. These engagements with corporate management are conducted with the goal of collecting more information and influencing corporate practices to trigger better performance in the long term. The identification of proactive engagement opportunities relies on internal ESG research tool.

In terms of voting, we aim to vote on all shareholder meetings and communicate our votes to corporate management whenever we vote against or abstain management proposals.

STEWARDSHIP: (PROXY) VOTING

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 29	CORE	OO 9, PGS 1	N/A	PUBLIC	Stewardship: (Proxy) voting	2

When you use external service providers to give recommendations, how do you ensure those recommendations are consistent with your organisation's (proxy) voting policy?

☐ (A) Before voting is executed, we review external service providers' voting recommendations for controversial and high-profile votes

- ☐ (B) Before voting is executed, we review external service providers' voting recommendations where the application of our voting policy is unclear
- ☐ (C) We ensure consistency with our voting policy by reviewing external service providers' voting recommendations only after voting has been executed
- ☐ (D) We do not review external service providers' voting recommendations
- ☒ (E) Not applicable; we do not use external service providers to give voting recommendations

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 30	CORE	OO 9	N/A	PUBLIC	Stewardship: (Proxy) voting	2

How is voting addressed in your securities lending programme?

- ☐ (A) We recall all securities for voting on all ballot items
- ☐ (B) When a vote is deemed important according to pre-established criteria (e.g. high stake in the company), we recall all our securities for voting
- ☐ (C) Other
- ☐ (D) We do not recall our securities for voting purposes
- ☒ (E) Not applicable; we do not have a securities lending programme

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 31	CORE	OO 9.1	N/A	PUBLIC	Stewardship: (Proxy) voting	2

For the majority of votes cast over which you have discretion to vote, which of the following best describes your decision making approach regarding shareholder resolutions (or that of your external service provider(s) if decision making is delegated to them)?

- ☒ (A) We vote in favour of resolutions expected to advance progress on our stewardship priorities, including affirming a company's good practice or prior commitment
- ☐ (B) We vote in favour of resolutions expected to advance progress on our stewardship priorities, but only if the investee company has not already publicly committed to the action(s) requested in the proposal
- ☐ (C) We vote in favour of shareholder resolutions only as an escalation measure
- ☐ (D) We vote in favour of the investee company management's recommendations by default
- ☐ (E) Not applicable; we do not vote on shareholder resolutions

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 32	CORE	OO 9	N/A	PUBLIC	Stewardship: (Proxy) voting	2

During the reporting year, how did your organisation, or your external service provider(s), pre-declare voting intentions prior to voting in annual general meetings (AGMs) or extraordinary general meetings (EGMs)?

- ☐ (A) We pre-declared our voting intentions publicly through the PRI's vote declaration system on the Resolution Database
- ☐ (B) We pre-declared our voting intentions publicly by other means, e.g. through our website
- ☒ (C) **We privately communicated our voting decision to investee companies prior to the AGM/EGM**
- ☐ (D) We did not privately or publicly communicate our voting intentions prior to the AGM/EGM
- ☐ (E) Not applicable; we did not cast any (proxy) votes during the reporting year

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 33	CORE	OO 9	PGS 33.1	PUBLIC	Stewardship: (Proxy) voting	2

After voting has taken place, do you publicly disclose your (proxy) voting decisions or those made on your behalf by your external service provider(s), company by company and in a central source?

● (A) **Yes, for all (proxy) votes**

Add link(s):

https://avaron.ee/wp-content/uploads/Voting_Avaron_funds.xlsx

- ☐ (B) Yes, for the majority of (proxy) votes
- ☐ (C) Yes, for a minority of (proxy) votes
- ☐ (D) No, we do not publicly report our (proxy) voting decisions company-by-company and in a central source

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 33.1	CORE	PGS 33	N/A	PUBLIC	Stewardship: (Proxy) voting	2

In the majority of cases, how soon after an investee's annual general meeting (AGM) or extraordinary general meeting (EGM) do you publish your voting decisions?

- ☐ (A) Within one month of the AGM/EGM
- (B) **Within three months of the AGM/EGM**
- ☐ (C) Within six months of the AGM/EGM
- ☐ (D) Within one year of the AGM/EGM
- ☐ (E) More than one year after the AGM/EGM

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 34	CORE	OO 9	N/A	PUBLIC	Stewardship: (Proxy) voting	2

After voting has taken place, did your organisation, and/or the external service provider(s) acting on your behalf, communicate the rationale for your voting decisions during the reporting year?

	(1) In cases where we abstained or voted against management recommendations	(2) In cases where we voted against an ESG-related shareholder resolution
(A) Yes, we publicly disclosed the rationale		
(B) Yes, we privately communicated the rationale to the company	(1) for all votes	
(C) We did not publicly or privately communicate the rationale, or we did not track this information	<input type="radio"/>	<input type="radio"/>
(D) Not applicable; we did not abstain or vote against management recommendations or ESG-related shareholder resolutions during the reporting year	<input type="radio"/>	<input checked="" type="radio"/>

(D) Not applicable; we did not abstain or vote against management recommendations or ESG-related shareholder resolutions during the reporting year - Explain why:

We did not vote against ESG-related shareholder resolutions during the reporting year.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 35	PLUS	OO 9	N/A	PUBLIC	Stewardship: (Proxy) voting	2

How does your organisation ensure vote confirmation, i.e. that your votes have been cast and counted correctly?

We cast our votes electronically either through ProxyEdge voting platform or global custodian that provide confirmation when votes are cast. We do not carry out follow-ups at the issuer issuer level to validate our votes.

STEWARDSHIP: ESCALATION

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 36	CORE	OO 8, OO 9	N/A	PUBLIC	Stewardship: Escalation	2

For your listed equity holdings, what escalation measures did your organisation, or the external investment managers or service providers acting on your behalf, use in the past three years?

(1) Listed equity

(A) Joining or broadening an existing collaborative engagement or creating a new one	<input type="checkbox"/>
(B) Filing, co-filing, and/or submitting a shareholder resolution or proposal	<input type="checkbox"/>
(C) Publicly engaging the entity, e.g. signing an open letter	<input type="checkbox"/>
(D) Voting against the re-election of one or more board directors	<input checked="" type="checkbox"/>
(E) Voting against the chair of the board of directors, or equivalent, e.g. lead independent director	<input type="checkbox"/>
(F) Divesting	<input checked="" type="checkbox"/>
(G) Litigation	<input type="checkbox"/>
(H) Other	<input type="checkbox"/>

(l) In the past three years, we did not use any of the above escalation measures for our listed equity holdings

o

STEWARDSHIP: ENGAGEMENT WITH POLICY MAKERS

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 39	CORE	OO 8, OO 9	PGS 39.1, PGS 39.2	PUBLIC	Stewardship: Engagement with policy makers	2

Did your organisation, or the external investment managers or service providers acting on your behalf, engage with policy makers as part of your responsible investment approach during the reporting year?

- ☐ (A) Yes, we engaged with policy makers directly
- ☐ (B) Yes, we engaged with policy makers through the leadership of or active participation in working groups or collaborative initiatives, including via the PRI
- ☒ (C) Yes, we were members of, supported, or were in another way affiliated with third party organisations, including trade associations and non-profit organisations, that engage with policy makers, excluding the PRI
- ☐ (D) We did not engage with policy makers directly or indirectly during the reporting year beyond our membership in the PRI

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 39.1	CORE	PGS 39	N/A	PUBLIC	Stewardship: Engagement with policy makers	2

During the reporting year, what methods did you, or the external investment managers or service providers acting on your behalf, use to engage with policy makers as part of your responsible investment approach?

- ☒ (A) We participated in 'sign-on' letters
- ☐ (B) We responded to policy consultations
- ☐ (C) We provided technical input via government- or regulator-backed working groups
- ☐ (D) We engaged policy makers on our own initiative
- ☐ (E) Other methods

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 39.2	CORE	PGS 39	N/A	PUBLIC	Stewardship: Engagement with policy makers	2

During the reporting year, did your organisation publicly disclose details of your engagement with policy makers conducted as part of your responsible investment approach, including through external investment managers or service providers?

☒ (A) We publicly disclosed all our policy positions

Add link(s):

https://avaron.com/wp-content/uploads/Avoron_Sustainability_Report_2021.pdf

☐ (B) We publicly disclosed details of our engagements with policy makers

☐ (C) No, we did not publicly disclose details of our engagement with policy makers conducted as part of our responsible investment approach during the reporting year

STEWARDSHIP: EXAMPLES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 40	PLUS	OO 8, OO 9	N/A	PUBLIC	Stewardship: Examples	2

Provide examples of stewardship activities that you conducted individually or collaboratively during the reporting year that contributed to desired changes in the investees, policy makers or other entities with which you interacted.

(A) Example 1:

Title of stewardship activity:

Climate change and water security

(1) Led by

☒ (1) Internally led

☐ (2) External service provider led

☐ (3) Led by an external investment manager, real assets third-party operator and/or external property manager

(2) Primary focus of stewardship activity

☒ (1) Environmental factors

☐ (2) Social factors

☐ (3) Governance factors

(3) Asset class(es)

☒ (1) Listed equity

☐ (2) Fixed income

☐ (3) Private equity

☐ (4) Real estate

☐ (5) Infrastructure

☐ (6) Hedge funds

☐ (7) Forestry

☐ (8) Farmland

☐ (9) Other

(4) Description of the activity and what was achieved. For collaborative activities, provide detail on your individual contribution.

Led the collaborative engagement within the scope of CDP 2022 Non-Disclosure Campaign targeting our portfolio company Motor Oil Hellas (Greece). Sent a formal letter to the company on behalf of the supporting investor group following which the company started to climate change and water security disclosure on CDP platform.

(B) Example 2:

Title of stewardship activity:

Gender pay gap

(1) Led by

- ☒ (1) **Internally led**
- ☐ (2) External service provider led
- ☐ (3) Led by an external investment manager, real assets third-party operator and/or external property manager

(2) Primary focus of stewardship activity

- ☐ (1) Environmental factors
- ☒ (2) **Social factors**
- ☐ (3) Governance factors

(3) Asset class(es)

- ☒ (1) **Listed equity**
- ☐ (2) Fixed income
- ☐ (3) Private equity
- ☐ (4) Real estate
- ☐ (5) Infrastructure
- ☐ (6) Hedge funds
- ☐ (7) Forestry
- ☐ (8) Farmland
- ☐ (9) Other

(4) Description of the activity and what was achieved. For collaborative activities, provide detail on your individual contribution.

Engaged with Epsilon Net (Greece) on the subject of improving disclosure on gender pay gap. The company provided the pay gap data and committed to public disclosure in their next sustainability report.

(C) Example 3:

Title of stewardship activity:

Embezzlement case

(1) Led by

- ☒ (1) **Internally led**
- ☐ (2) External service provider led
- ☐ (3) Led by an external investment manager, real assets third-party operator and/or external property manager

(2) Primary focus of stewardship activity

- ☐ (1) Environmental factors
- ☐ (2) Social factors
- ☒ (3) **Governance factors**

(3) Asset class(es)

- ☒ (1) **Listed equity**
- ☐ (2) Fixed income
- ☐ (3) Private equity
- ☐ (4) Real estate
- ☐ (5) Infrastructure
- ☐ (6) Hedge funds
- ☐ (7) Forestry
- ☐ (8) Farmland
- ☐ (9) Other

(4) Description of the activity and what was achieved. For collaborative activities, provide detail on your individual contribution.

Our regular controversy monitoring of our portfolio holdings discovered an embezzlement incident (€4.75mil) in the pension fund arm BRD Pensii Private (49% ownership) of bank BRD-GSG (Romania) by its CEO and associate staff. We engaged with the bank to inquire on the amount of financial damages and remedies taken. The CEO of the BRD Pensii Private and three non-executive board members consequently resigned and were fined by the local FSA.

BRD-GSG confirmed to us that the holdings of participants in the Pillar 2 and 3 pension funds, as well as their assets, which are held, according to the law, with a custodian bank and are segregated by law from the management company's own funds, were not affected.

Following the incident BRD Pensii Private has taken the following corrective measures: (1) capital increase of RON 20mil (€4mil) to ensure the liquidity and capitalization of the company; (2) RON 4mil (€810,000) credit line from the shareholders that was recently reimbursed; and (3) a 3-month remediation plan that was carried out from July to September 2022, implementing new controls, redefining operational processes within departments and reorganizing teams to ensure better governance.

In our assessment the financial implications of the incident were immaterial to BRD-GSG and proper remedies had been taken.

(D) Example 4:

Title of stewardship activity:

(1) Led by

- (1) Internally led
- (2) External service provider led
- (3) Led by an external investment manager, real assets third-party operator and/or external property manager

(2) Primary focus of stewardship activity

- ☐ (1) Environmental factors
- ☐ (2) Social factors
- ☐ (3) Governance factors

(3) Asset class(es)

- ☐ (1) Listed equity
- ☐ (2) Fixed income
- ☐ (3) Private equity
- ☐ (4) Real estate
- ☐ (5) Infrastructure
- ☐ (6) Hedge funds
- ☐ (7) Forestry
- ☐ (8) Farmland
- ☐ (9) Other

(4) Description of the activity and what was achieved. For collaborative activities, provide detail on your individual contribution.

(E) Example 5:

Title of stewardship activity:

(1) Led by

- (1) Internally led
- (2) External service provider led
- (3) Led by an external investment manager, real assets third-party operator and/or external property manager

(2) Primary focus of stewardship activity

- ☐ (1) Environmental factors
- ☐ (2) Social factors
- ☐ (3) Governance factors

- (3) Asset class(es)
- ☐ (1) Listed equity
 - ☐ (2) Fixed income
 - ☐ (3) Private equity
 - ☐ (4) Real estate
 - ☐ (5) Infrastructure
 - ☐ (6) Hedge funds
 - ☐ (7) Forestry
 - ☐ (8) Farmland
 - ☐ (9) Other

(4) Description of the activity and what was achieved. For collaborative activities, provide detail on your individual contribution.

CLIMATE CHANGE

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 41	CORE	N/A	PGS 41.1	PUBLIC	Climate change	General

Has your organisation identified climate-related risks and opportunities affecting your investments?

☒ (A) Yes, within our standard planning horizon

Specify the risks and opportunities identified and your relevant standard planning horizon:

Avaron investment strategies are predominantly listed equity focused (95% of total AUM) with only a small share (5% of total AUM) invested in fixed income. Our climate-related risk assessment focuses on evaluating income risk and financing risk. Income risk entails analysis of potential revenue losses and OPEX and/or CAPEX increase. Financing risk entails the potential impact on cost of capital and ability to access funds. In case of credit institutions climate-related income risks may materialise via increased impairments of lending portfolios, reduced value of assets used as collateral and additional capital reserves requirements.

We have identified the following sectors and/or assets that are at risk of being stranded: (1) fossil fuel (coal; crude oil, gas) industry; (2) energy generation (coal-based generation, nuclear); (3) automotive sector (fossil fuel vehicles); (4) tourism (assets subject to physical risks); (5) agriculture (meat, fish and dairy production assets); (6) forestry; (7) real estate (energy inefficient buildings); (8) consumer goods (reputational damages to brands). Direct physical climate risk assessment focuses on real estate assets that are essential for company's cash flow generation. Special attention is given to insurance sector. Indirect physical climate risk assessment focuses on potential impact on company's cash flow generation from supply chain (disruptions or increased input costs), change in competitive environment, regulatory changes. The following sectors and/or assets have been identified that are likely to benefit under a range of climate scenarios: (1) renewable energy; (2) electric vehicles; (3) circular economy companies.

☐ (B) Yes, beyond our standard planning horizon

- ☐ (C) No, we have not identified climate-related risks and/or opportunities affecting our investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 41.1	CORE	PGS 41	N/A	PUBLIC	Climate change	General

Does your organisation integrate climate-related risks and opportunities affecting your investments in its overall investment strategy, financial planning and (if relevant) products?

● **(A) Yes, our overall investment strategy, financial planning and (if relevant) products integrate climate-related risks and opportunities**

Describe how climate-related risks and opportunities have affected or are expected to affect your investment strategy, financial planning and (if relevant) products:

Our bottom-up and value focused investment process prescribes detailed fundamental analysis of each business model we invest in including the consideration of long-terms factors such as climate change. Climate-change related issues are taken into account in three different stages of company analysis. Our investment process comprises of three main phases: (1) screening of the investment universe; (2) quality analysis of the business model; (3) valuation of the business. In the screening phase among other criteria we use climate change related exclusion principles established in our Responsible Investment Policy. As of now we exclude all companies that derive more than 20% of their revenues in coal mining and coal based energy production. Exception is made to the latter if the company has presented a transition plan to reduce coal based generation below 20% of revenues by 2025.

In the quality analysis phase we firstly assess climate change risks from the long-term perspective to establish whether any material risks that would significantly change the value of the business exist. Following that the climate change related issues are assessed within the ESG rating methodology. At Avaron, we have developed a proprietary tool to store information, analyse, screen, score and monitor companies from an ESG standpoint.

The ESG rating assesses companies' ESG profile comprising ca. 120 aspects across the three letters. All of these are individually assessed and assigned a score on a 1 to 5 scale, higher score indicating better performance. Via the ESG rating the ESG considerations including climate-related risks are embedded into the analysis process of each individual company and the rating is integrated into the fair value estimate. Issuers with a rating below 2 on 1-5 scale 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. Additionally, in valuation phase material climate change risks that may impact the company's financials within our forecast horizon are taken into account.

In 2022 we launched our inaugural Climate Change Policy Statement setting a long-term commitment for our core Emerging Europe ex-Russia listed equity strategy to have net-zero emission investments by 2050 and to achieve 50% portfolio carbon footprint reduction by 2030 from 2020 level.

- (B) No, our organisation has not yet integrated climate-related risks and opportunities into its investment strategy, financial planning and (if relevant) products

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 42	PLUS	N/A	N/A	PUBLIC	Climate change	General

Which sectors are covered by your organisation's strategy addressing high-emitting sectors?

☒ **(A) Coal**

Describe your strategy:

Companies that generate more than 20% of revenues from the extraction of any kind of coal including lignite are excluded from the investment universe.

Companies that generate more than 20% of revenues from coal-based energy production are excluded from the investment universe. Exclusion is not applicable to companies that have set net-zero ambitions in accordance with Science-Based Targets Initiative (SBTi) Net-Zero Standard.

☐ (B) Gas

☐ (C) Oil

☒ **(D) Utilities**

Describe your strategy:

Companies that generate more than 20% of revenues from coal-based energy production are excluded from the investment universe. Exclusion is not applicable to companies that have set net-zero ambitions in accordance with Science-Based Targets Initiative (SBTi) Net-Zero Standard.

☐ (E) Cement

☐ (F) Steel

☐ (G) Aviation

☐ (H) Heavy duty road

☐ (I) Light duty road

☐ (J) Shipping

☐ (K) Aluminium

☐ (L) Agriculture, forestry, fishery

☐ (M) Chemicals

☐ (N) Construction and buildings

☐ (O) Textile and leather

☐ (P) Water

☒ **(Q) Other**

Specify:

Besides coal and coal based energy production we have not sector specific strategies outlined; however, we have set out a commitment towards net-zero portfolios by 2050.

Describe your strategy:

According to our Climate Change Policy Statement we aim to have net-zero emission investments by 2050 in our core Emerging Europe ex-Russia listed equity strategy portfolios and achieve 50% carbon footprint reduction by 2030 from 2020 level.

- (R) We do not have a strategy addressing high-emitting sectors

Provide a link(s) to your strategy(ies), if available

https://avaron.ee/wp-content/uploads/Responsible_Investment_Policy_22.12.2022.pdf

https://avaron.com/wp-content/uploads/Climate_Change_Policy_Statement_22.12.2022.pdf

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 43	CORE	N/A	N/A	PUBLIC	Climate change	General

Has your organisation assessed the resilience of its investment strategy in different climate scenarios, including one in which the average temperature rise is held to below 2 degrees Celsius (preferably to 1.5 degrees Celsius) above pre-industrial levels?

- ☐ (A) Yes, using the Inevitable Policy Response Forecast Policy Scenario (FPS) or Required Policy Scenario (RPS)
- ☐ (B) Yes, using the One Earth Climate Model scenario
- ☐ (C) Yes, using the International Energy Agency (IEA) Net Zero scenario
- ☐ (D) Yes, using other scenarios
- ☒ (E) No, we have not assessed the resilience of our investment strategy in different climate scenarios, including one that holds temperature rise to below 2 degrees

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 44	CORE	N/A	N/A	PUBLIC	Climate change	General

Does your organisation have a process to identify, assess, and manage the climate-related risks (potentially) affecting your investments?

- ☒ (A) Yes, we have a process to identify and assess climate-related risks
 - (1) Describe your process

On the organization level climate-related risks are identified and assessed within the general risk management framework. Where applicable climate risks are incorporated into traditional risks. Given the specifics of Avaron business model and investment approach (boutique Emerging Europe listed equity asset manager with a fully bottom-up portfolio construction process) the predominant climate-related risks to Avaron's business stem from the individual security selection. Therefore, the process is focused on identifying and assessing climate-related risks on individual security level.

We factor climate-related risks into our investment process via ESG analysis using internal ESG rating system, where within the scope of E rating climate-related metrics of each of our portfolio holding are assessed. Within the ESG rating system the following aspects are assessed: (1) whether the company has a climate change policy; (2) whether it discloses emissions data; (3) whether it has emissions reduction policy; (4) whether it has set SBTi net-zero targets; (5) emissions trends over the past years; (6) exposure to fossil fuels sector; (7) commitment to fossil fuel divestment/reduction; (8) renewable energy usage; (9) waste reduction and recycling; (10) usage of green certified properties.

- (2) Describe how this process is integrated into your overall risk management

According to Avaron Risk Management Policy the Executive Board is responsible for approving general risk management principles for Avaron and updating such principles regularly, taking into account changes in Avaron's activities the Company's internal structure, products and services offered, and the external environment. The Board has established Risk Management Committee that is in charge of identifying, assessing and managing relevant risks including climate-related.

- ☒ (B) Yes, we have a process to manage climate-related risks
 - (1) Describe your process

Our climate-related risk management process is focused on mitigating these risks on single security and portfolio level given that Avaron's business model specifics described above.

On portfolio level we have: (1) limited investments into coal extraction and coal-based energy generation; (2) set a long-term commitment for our core Emerging Europe ex-Russia listed equity strategy to have net-zero emission investments by 2050 and to achieve 50% portfolio carbon footprint reduction by 2030 from 2020 level.

On single security level we manage climate-related risks via using the internal ESG rating system that includes climate-related risk assessment within the scope of environmental evaluation and which is linked to the internal final fair value estimate of the issuer.

Climate change has been identified as a focal theme of our engagement plan for the upcoming years with an aim to nudge companies into our portfolios to commit to Paris Aligned carbon reduction targets.

(2) Describe how this process is integrated into your overall risk management

Please refer to (A) section (2).

- (C) No, we do not have any processes to identify, assess, or manage the climate-related risks affecting our investments

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 45	CORE	N/A	N/A	PUBLIC	Climate change	General

During the reporting year, which of the following climate risk metrics or variables affecting your investments did your organisation use and disclose?

- ☐ (A) Exposure to physical risk
- ☐ (B) Exposure to transition risk
- ☐ (C) Internal carbon price
- ☐ (D) Total carbon emissions
- ☐ (E) Weighted average carbon intensity
- ☐ (F) Avoided emissions
- ☐ (G) Implied Temperature Rise (ITR)
- ☐ (H) Non-ITR measure of portfolio alignment with UNFCCC Paris Agreement goals
- ☐ (I) Proportion of assets or other business activities aligned with climate-related opportunities
- ☐ (J) Other metrics or variables
- ☒ **(K) Our organisation did not use or disclose any climate risk metrics or variables affecting our investments during the reporting year**

Explain why: (Voluntary)

Avaron published its inaugural Climate Change Policy Statement during the reporting year that outlines related metrics that shall be published from 2023 onwards.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 46	CORE	N/A	N/A	PUBLIC	Climate change	General

During the reporting year, did your organisation disclose its Scope 1, Scope 2, and/or Scope 3 greenhouse gas emissions?

- ☐ (A) Scope 1 emissions
- ☐ (B) Scope 2 emissions
- ☐ (C) Scope 3 emissions (including financed emissions)
- ☒ **(D) Our organisation did not disclose its Scope 1, Scope 2, or Scope 3 greenhouse gas emissions during the reporting year**

SUSTAINABILITY OUTCOMES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
PGS 47	CORE	N/A	Multiple indicators	PUBLIC	Sustainability outcomes	1, 2

Has your organisation identified the intended and unintended sustainability outcomes connected to its investment activities?

- ☐ (A) Yes, we have identified one or more specific sustainability outcomes connected to our investment activities
 - ☒ **(B) No, we have not yet identified the sustainability outcomes connected to any of our investment activities**
- Explain why:

We are in a process of mapping our portfolios to SDGs.

LISTED EQUITY (LE)

OVERALL APPROACH

MATERIALITY ANALYSIS

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 1	CORE	OO 21	N/A	PUBLIC	Materiality analysis	1

Does your organisation have a formal investment process to identify and incorporate material ESG factors across your listed equity strategies?

(3) Active - fundamental

(A) Yes, our investment process incorporates material governance factors

(1) for all of our AUM

(B) Yes, our investment process incorporates material environmental and social factors

(1) for all of our AUM

(C) Yes, our investment process incorporates material ESG factors beyond our organisation's average investment holding period

(D) No, we do not have a formal process. Our investment professionals identify material ESG factors at their discretion

○

(E) No, we do not have a formal or informal process to identify and incorporate material ESG factors

○

MONITORING ESG TRENDS

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 2	CORE	OO 21	N/A	PUBLIC	Monitoring ESG trends	1

Does your organisation have a formal process for monitoring and reviewing the implications of changing ESG trends across your listed equity strategies?

(3) Active - fundamental

(A) Yes, we have a formal process that includes scenario analyses

(B) Yes, we have a formal process, but it does not include scenario analyses

(1) for all of our AUM

(C) We do not have a formal process for our listed equity strategies; our investment professionals monitor how ESG trends vary over time at their discretion

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(D) We do not monitor and review the implications of changing ESG trends on our listed equity strategies

o

(B) Yes, we have a formal process but it does not include scenario analysis - Specify: (Voluntary)

Compliance and legal functions are responsible for regular monitoring of changes in the ESG-related regulatory environment.

PRE-INVESTMENT

ESG INCORPORATION IN RESEARCH

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 3	CORE	OO 21	N/A	PUBLIC	ESG incorporation in research	1

How does your financial analysis and equity valuation or security rating process incorporate material ESG risks?

(2) Active - fundamental

(A) We incorporate material governance-related risks into our financial analysis and equity valuation or security rating process

(1) in all cases

(B) We incorporate material environmental and social risks into our financial analysis and equity valuation or security rating process

(1) in all cases

(C) We incorporate material environmental and social risks related to companies' supply chains into our financial analysis and equity valuation or security rating process

(1) in all cases

(D) We do not incorporate material ESG risks into our financial analysis, equity valuation or security rating processes

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Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 4	CORE	OO 21	N/A	PUBLIC	ESG incorporation in research	1

What information do you incorporate when you assess the ESG performance of companies in your financial analysis, benchmark selection and/or portfolio construction process?

(3) Active - fundamental

(A) We incorporate qualitative and/or quantitative information on current performance across a range of material ESG factors

(1) in all cases

(B) We incorporate qualitative and/or quantitative information on historical performance across a range of material ESG factors

(1) in all cases

(C) We incorporate qualitative and/or quantitative information on material ESG factors that may impact or influence future corporate revenues and/or profitability

(1) in all cases

(D) We incorporate qualitative and/or quantitative information enabling current, historical and/or future performance comparison within a selected peer group across a range of material ESG factors

(E) We do not incorporate qualitative or quantitative information on material ESG factors when assessing the ESG performance of companies in our financial analysis, equity investment or portfolio construction process

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ESG INCORPORATION IN PORTFOLIO CONSTRUCTION

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 5	PLUS	OO 21	N/A	PUBLIC	ESG incorporation in portfolio construction	1

Provide an example of how you incorporated ESG factors into your equity selection and research process during the reporting year.

ESG 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.

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; adult content; tobacco; alcohol; gambling and lottery; coal extraction; coal based energy. 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.

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 a detailed overview of exclusion principles please refer to Avaron Responsible Investment Policy.

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 rating 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 ratings are subject to a full review once per annum, carried out by the investment team. In the ESG Score the three letters have equal 1/3 weights.

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.

ESG rating enables us 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 and ensures that ESG considerations are embedded into the analysis process of each individual company.

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.

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 6	CORE	OO 21	N/A	PUBLIC	ESG incorporation in portfolio construction	1

How do material ESG factors contribute to your stock selection, portfolio construction and/or benchmark selection process?

(3) Active - fundamental

(A) Material ESG factors contribute to the selection of individual assets and/or sector weightings within our portfolio construction and/or benchmark selection process

(1) for all of our AUM

(B) Material ESG factors contribute to the portfolio weighting of individual assets within our portfolio construction and/or benchmark selection process

(1) for all of our AUM

(C) Material ESG factors contribute to the country or region weighting of assets within our portfolio construction and/or benchmark selection process

(D) Other ways material ESG factors contribute to your portfolio construction and/or benchmark selection process

(E) Our stock selection, portfolio construction or benchmark selection process does not include the incorporation of material ESG factors

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POST-INVESTMENT

ESG RISK MANAGEMENT

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 9	CORE	OO 17.1 LE, OO 21	N/A	PUBLIC	ESG risk management	1

What compliance processes do you have in place to ensure that your listed equity assets subject to negative exclusionary screens meet the screening criteria?

- ☒ (A) We have internal compliance procedures that ensure all funds or portfolios that are subject to negative exclusionary screening have pre-trade checks
- ☐ (B) We have an external committee that oversees the screening implementation process for all funds or portfolios that are subject to negative exclusionary screening
- ☐ (C) We have an independent internal committee that oversees the screening implementation process for all funds or portfolios that are subject to negative exclusionary screening
- ☐ (D) We do not have compliance processes in place to ensure that we meet our stated negative exclusionary screens

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 10	CORE	OO 21	N/A	PUBLIC	ESG risk management	1

For the majority of your listed equity assets, do you have a formal process to identify and incorporate material ESG risks and ESG incidents into your risk management process?

(2) Active - fundamental

(A) Yes, our formal process includes reviews of quantitative and/or qualitative information on material ESG risks and ESG incidents and their implications for individual listed equity holdings



(B) Yes, our formal process includes reviews of quantitative and/or qualitative information on material ESG risks and ESG incidents and their implications for other listed equity holdings exposed to similar risks and/or incidents



(C) Yes, our formal process includes reviews of quantitative and/or qualitative information on material ESG risks and ESG incidents and their implications for our stewardship activities



(D) Yes, our formal process includes ad hoc reviews of quantitative and/or qualitative information on severe ESG incidents



(E) We do not have a formal process to identify and incorporate material ESG risks and ESG incidents into our risk management process; our investment professionals identify and incorporate material ESG risks and ESG incidents at their discretion



(F) We do not have a formal process to identify and incorporate material ESG risks and ESG incidents into our risk management process

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PERFORMANCE MONITORING

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 11	PLUS	OO 21	N/A	PUBLIC	Performance monitoring	1

Provide an example of how the incorporation of ESG factors in your listed equity valuation or portfolio construction affected the realised returns of those assets.

We track the volatility of stock returns of companies that have been excluded from our investment universe and compare it to the volatility of our portfolio returns. Over the years it has become evident that the returns of excluded companies are significantly more volatile and event driven compared to the performance of our portfolios. For example, Avaron Emerging Europe Fund 3 and 5-year volatility is 15% and 13% compared to 30% of the equal-weighted portfolio of excluded companies for both periods.

DISCLOSURE OF ESG SCREENS

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
LE 12	CORE	OO 17 LE, OO 21	N/A	PUBLIC	Disclosure of ESG screens	6

For all your listed equity assets subject to ESG screens, how do you ensure that clients understand ESG screens and their implications?

- ☒ (A) We share a list of ESG screens
- ☒ (B) We share any changes in ESG screens
- ☒ (C) We explain any implications of ESG screens, such as their deviation from a benchmark or impact on sector weightings
- ☐ (D) We do not share the above information for all our listed equity assets subject to ESG screens

CONFIDENCE-BUILDING MEASURES (CBM)

CONFIDENCE-BUILDING MEASURES

APPROACH TO CONFIDENCE-BUILDING MEASURES

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
CBM 1	CORE	N/A	Multiple indicators	PUBLIC	Approach to confidence-building measures	6

How did your organisation verify the information submitted in your PRI report this reporting year?

- ☐ (A) We conducted independent third-party assurance of selected processes and/or data related to the responsible investment processes reported in our PRI report, which resulted in a formal assurance conclusion
- ☐ (B) We conducted a third-party readiness review and are making changes to our internal controls or governance processes to be able to conduct independent third-party assurance next year
- ☐ (C) We conducted an internal audit of selected processes and/or data related to the responsible investment processes reported in our PRI report
- ☒ (D) Our board, trustees (or equivalent), senior executive-level staff (or equivalent), and/or investment committee (or equivalent) signed off on our PRI report
- ☐ (E) We conducted an external ESG audit of our holdings to verify that our funds comply with our responsible investment policy
- ☐ (F) We conducted an external ESG audit of our holdings as part of risk management, engagement identification or investment decision-making
- ☒ (G) Our responses in selected sections and/or the entirety of our PRI report were internally reviewed before submission to the PRI
- ☐ (H) We did not verify the information submitted in our PRI report this reporting year

INTERNAL REVIEW

Indicator	Type of indicator	Dependent on	Gateway to	Disclosure	Subsection	PRI Principle
CBM 6	CORE	CBM 1	N/A	PUBLIC	Internal review	6

Who in your organisation reviewed the responses submitted in your PRI report this year?

- ☒ (A) Board, trustees, or equivalent
 - Sections of PRI report reviewed
 - ☒ (1) the entire report
 - ☐ (2) selected sections of the report
- ☒ (B) Senior executive-level staff, investment committee, head of department, or equivalent
 - Sections of PRI report reviewed
 - ☒ (1) the entire report
 - ☐ (2) selected sections of the report

- (C) None of the above internal roles reviewed selected sections or the entirety of the responses submitted in our PRI report this year