January 2023

# East Capital Group's ESG Policy

*Working for Positive Change*

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# Context and scope: responsible investing

Sustainability and ESG are core elements of East Capital Group's vision of working for positive change. A key part of this vision is achieved through our investment activities, which fully integrate ESG and sustainability aspects, defined as responsible investing.

East Capital Group has been committed to responsible investing since it was founded in 1997. Our ESG journey started with engagement and dialogue with companies and market participants. In 2007, we implemented sector exclusion criteria. In 2010, we introduced controversy screening. In 2012, we became a signatory of the UN PRI. In 2016 we rolled out our proprietary ESG scorecards. In 2019, we became a supporter of the Task Force on Climate-Related Financial Disclosures (TCFD) and joined Climate Action 100+. In 2020, we joined the Institutional Investors Group on Climate Change. In 2021 we became SASB Alliance User Member (now ISSB), joined the Finance Sector Deforestation Action (FSDA), United Nations Global Compact, and Net Zero Asset Manager initiative (Espiria). In 2022 we joined the Investor Policy Dialogue on Deforestation (IPDD) and Advance, the PRI stewardship initiative where institutional investors work together to take action on human rights and social issues.

Based on sound Nordic values, East Capital Group's investment strategies display the following three characteristics that define our role as owners:

- We are *long-term*. We see beyond the short-term gain and look for long-term investment value.
- We are *active*. Face-to-face involvement through company and site visits help us make better-informed investment decisions and we constructively engage on issues that are important to us as owners.
- We are *responsible*. Our fundamental bottom-up research process addresses and integrates investment risks and opportunities associated with relevant and material environmental, social and corporate governance factors.

This ESG Policy aims to guide all strategies ("Strategies") managed by companies in the East Capital Group ("East Capital Group"), including public equity funds, mandates, and real estate funds. The Policy describes the framework under which we operate and the methodologies and tools we use to integrate and work with ESG-related issues. As relevant in our public equity strategies, the Policy also specifies how we shall act when exercising the ownership rights in the companies held by these strategies on behalf of our clients, the investors, and how we integrate shareholder engagement in our investment processes, as well as how we exercise voting rights. Our ESG approach related to real estate investments is defined in an Appendix to this Policy.

**Our Four Pillars**

All East Capital Group's strategies follow an ESG framework consisting of Four Pillars, which are described in more details in the sections below. These are:

- Pillar 1: Negative Sector Exclusion
- Pillar 2: Controversy (Norms-Based) Analysis
- Pillar 3: Proprietary ESG Analysis
- Pillar 4: Active Ownership

# **Pillar 1:** Sector Exclusion

Pillar 1 defines which activities are excluded from East Capital Group's strategies, due to their negative ethical, environmental, or societal impact.

## Scope

Sector exclusions are applicable to all East Capital Group's strategies. The exclusions apply on a fund level, to both long and short positions within the equity portfolios, fixed income instruments as well as tenants and/or assets in our real estate operation.

## Evaluation and monitoring

Upon new investment, the investment teams shall ensure that the new holding is compliant with the exclusion criteria for the portfolio to which the new holding is added. The check is done by filling in the exclusion compliance table in the Red Flag Analysis. In cases of doubt about compliance with the exclusion criteria, the investment teams shall consult the ESG team.

Portfolios are annually reviewed by the investment management teams to confirm compliance with the exclusion criteria. This review is based on information that has been publicly disclosed by issuers as well as any other relevant information that may have come to the investment management teams' attention at the time of the review. If an issuer's type or scope of operations is unclear or difficult to define in relation to the exclusion criteria, the investment teams may recommend further screening by external sector experts. Any breach of the exclusion framework is logged by the ESG team to the East Capital Group's incident database.

In order to be classified as a sustainable investment as defined in Article 2(17) of Regulation (EU) 2019/2088 (the Sustainable Finance Disclosure Regulation)[1], investments must be compliant with our exclusion criteria.

More information about our sector exclusions is provided in our Negative Screening Policy, which is found as an Appendix to this Policy.

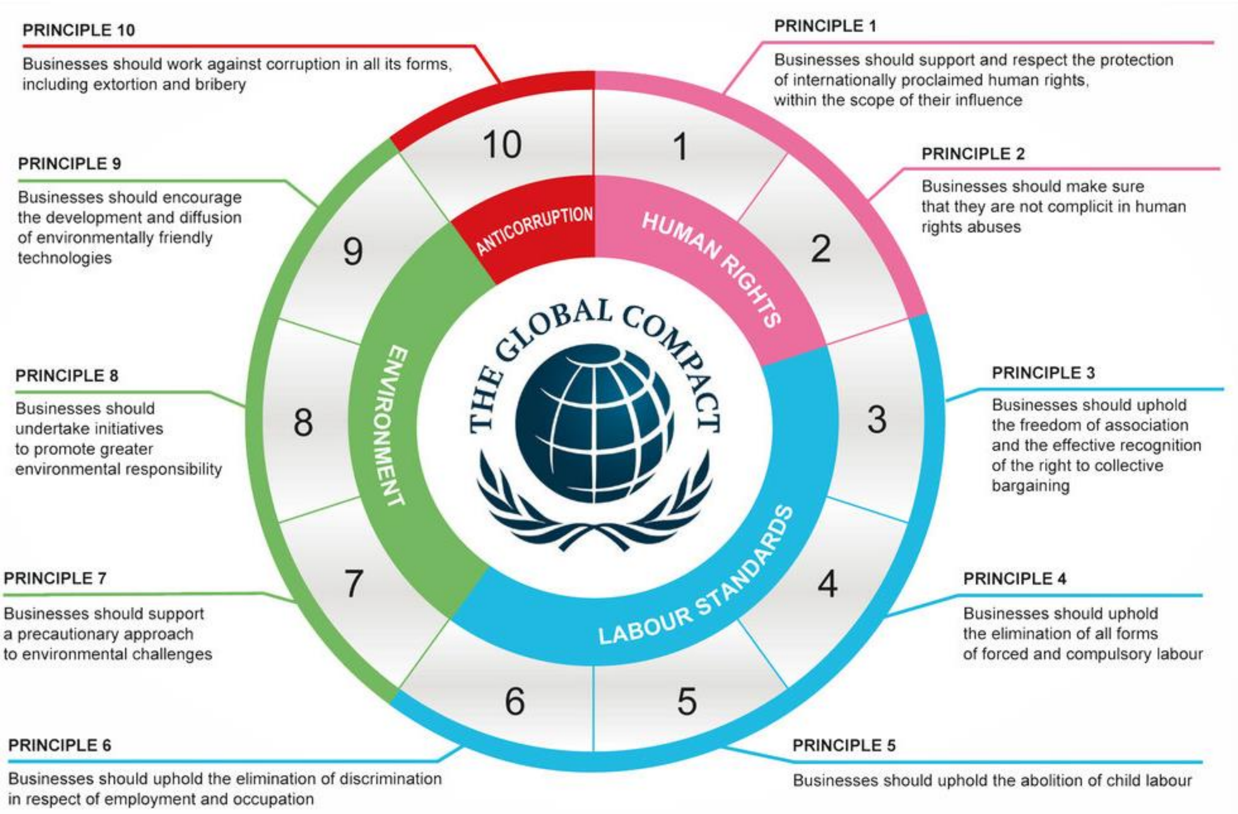
[1] According to Article 2(17) of the SFDR, "sustainable investment" means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance.

# Sector exclusions: Overview

| **SFDR** **Classification** | **Brand** | **Sub-Funds** | **Excluded Sectors** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | ***Unconventional Weapons*** | ***Conventional Weapons*** | ***Tobacco*** | ***Adult Entertainment*** | ***Gambling*** | ***Fossil Fuels*** | ***Alcohol*** |
| *Article 6* | Adrigo | Adrigo Small & Midcap L/S | 0% | X | X | X | X | | X |
| *Article 6* | East Capital Real Estate | ECRE IV | 0% | X | X | X | X | | |
| *Article 8* | East Capital | Balkans, China A Shares, Eastern Europe, Global Frontier Markets, New Europe, Multi-Strategi (MS), Russia | 0% | X | X | X | X | | X (Only MS) |
| *Article 9* | East Capital | Global Emerging Markets Sustainable | 0% | X | X | X | X | X | X |
| *Article 8* | Espiria | 30, 60, 90, Global, Nordic Corporate Bond | 0% | X | X | X | X | X | X |
| *Article 9* | Espiria | SDG Solutions | 0% | X | X | X | X | X | X |

# **Pillar 2:** Controversy (norms-based) Analysis

Pillar 2 is about assessing companies in terms of compliance with international norms, standards and underlying conventions. The norms-based analysis is based on the Ten Principles of the UN Global Compact**.** Assessments are underpinned by references to the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, as well as their underlying conventions (see Picture below). This Analysis is also used to consider relevant principal adverse impact (PAI) indicators related to human rights violations. In the Analysis, companies are classified in three categories – Non-Compliant, Watchlist, or Compliant. These categories are further described below.




## Scope

The controversy analysis is applicable to all East Capital Group strategies. The controversy analysis applies to both long and short positions within the equity portfolios, fixed income instruments as well as tenants and/or assets in our real estate operation.

## Methodology, evaluation and monitoring

Upon new investment, the investment teams shall check and confirm the status of the new holding in regard to norms and controversies. Fund portfolios are also quarterly checked by the ESG Team which highlights any company on the Watchlist or assessed as Non-Compliant. This review is based on information provided by Sustainalytics' Global Standard Screening (GSS), information that has been publicly disclosed by issuers, as well as any other relevant information that may have come to the investment management teams' attention at the time of the review.

According to GSS, a company is assessed as *Non-Compliant* with the UN Global Compact principles when it is deemed to be causing or contributing to severe or systemic and/or systematic violations of international norms. Companies assessed as Non-Compliant include those that are directly associated with issues causing severe, irreversible impacts that affect stakeholders and/or the environment and interfere with the enjoyment of rights and/or impose a clear cost on society. Companies displaying inadequate responses to address or remediate the issues at hand, including attempts to conceal their wrongdoing and/or involvement, are also assessed as Non-Compliant. In addition, GSS assesses companies that facilitate third parties in human rights violations as Non-Compliant.

A company is assessed as *Watchlist* if it is determined to be at risk of contributing to severe and/or systematic violations of international norms and standards. In particular, when a company is deemed to be:

- Causing or contributing to severe negative impacts (harm) to stakeholders and/or the environment, but for which not all requirements for a Non-Compliant status could be established (e.g., company accountability cannot be confirmed).

- Accountable for negative impacts, but there is insufficient information to determine that the company is violating international norms.

- Linked to a violation of international norms, but the negative impacts are not severe enough to warrant a Non-Compliant status, or the negative impacts are still remediable.

- Improving its policies and programmes to prevent a reoccurrence, having been assessed previously as Non-Compliant, and further monitoring is required due to pending resolutions or remediation efforts.

A list of Non-Compliant and Watchlist holdings is provided to the investment teams during their meetings on a quarterly basis and to the quarterly Board meetings.

## Approach

As a general rule, East Capital Group's strategies will not invest into new holdings which are deemed Non-Compliant, and they will divest from Non-Compliant companies if the breach is based on events that occurred after the time of first investment (or information about the events has been made available thereafter) and the company is not deemed by East Capital Group as having taken or taking adequate measures.

Reports of controversies and violations will be used as input to initiate a dialogue with the company, on our own or together with other investors, in order to request and encourage that the company improves. While breaches occur rarely, holdings which are Non-Compliant could be companies for which we believe we have both a possibility and a duty to engage with, in order to request improvements starting from disclosure of the violations, accountability about the incident and remediation measures. If we deem our ability to impact as insufficient or if engagement does not bring any improvement, the holding will however be divested.

Espiria SDG Solutions, East Capital Global Emerging Markets Sustainable and East Capital Global Frontier Markets will not hold any company which is Non-Compliant.

In order to be classified as a sustainable investment according to Article 2(17) of the SFDR, the investment must not be assessed as Non-Compliant in the norms-based screening.

# **Pillar 3:** Proprietary ESG Analysis

Pillar 3 encompasses our various ESG analysis methods which we have integrated into our investment processes.

## Scope

ESG integration is applicable to all East Capital Group's strategies. ESG integration applies to both long and short positions within the equity portfolios, fixed income instruments as well as tenants and/or assets in our real estate operation.

## Tools and methods

East Capital Group manages assets in several asset classes with ESG integration tools adapted to respective asset class and market. The following methodologies and tools are being used for each brand (see next section for methodology descriptions). The tools used in our real estate operation are further described in Appendix 5 of this Policy.

**Adrigo (Nordic S/L Small Caps)**

- Red Flag Analysis for all holdings (both long and short positions), with consideration of principal adverse impact (PAI) indicators

**East Capital (Emerging and Frontier Market Equities)**

- Red Flag Analysis for all holdings, with consideration of PAI indicators
- ESG Scorecard for the top 10 largest absolute holdings, and for all KAPs[2] for all Funds. The ESG Scorecard also has an SDG Module
- Three-Step-Test for Sustainable Investments according to the SFDR
- For East Capital Global Emerging Markets Sustainable (GEMS), the Scorecard coverage is 100%. This Fund also uses an SDG Value Chain Assessment (VCA) Tool, and has a Climate Dashboard

**East Capital Real Estate (real assets, i.e., properties)**

- Red Flag Analysis, with consideration of PAI indicators specific for the real estate sector
- ESG Scorecard
- BREAAM Questionnaire

**Espiria (developed markets equities and fixed income)**

- Red Flag Analysis, with consideration of PAI indicators
- Espiria Quality and Sustainability Score (EQSS)

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[2] KAPs: Key Active Positions, defined as specific level of overweight versus benchmark index; the actual level is defined for each strategy.

- Three-Step-Test for Sustainable Investments according to the SFDR
- For Espiria SDG Solutions, Espiria Impact Assessment (EIA) to measure contribution to the UN SDGs

## Methodology

ESG proprietary tools guide us in our assessment of relevant and material ESG risks and opportunities. The analyses are conducted by analysts, portfolio managers and portfolio advisors, supported by the ESG Team.

**The Red Flag Analysis**

The Red Flag Analysis is prepared prior to investment. This Analysis consists of a set of questions which we deem to be crucial to consider for ensuring that investments do not cause significant harm. The questions are related to corporate governance, ethics, and corruption, and also covers international norms and standards, as well as severe and/or systematic environmental or social controversies. We have introduced one question specifically addressing the Principal Adverse Impact (PAI) indicators, which are outlined in Annex I of Regulation (EU) 2019/2088. In order to assess this, we use data from external service providers that compares the PAI Indicators for each company with a range of peer companies. Not all PAI Indicators are available for each company, but we make best efforts in order to ensure there are no unacceptably high risks of causing significant harm.

**ESG Scorecards**

Analysts and portfolio managers fill in an ESG Scorecard for each holding in the Fund. The Scorecard contains over 50 questions related to E, S and G, and covers several sustainability indicators that are used to measure the attainment of the sustainable investment objective, including, among others but not limited to:

- key corporate governance indicators such as, among others, capital allocation, board composition, auditor tenure, management structures, corruption, cyber security, remuneration of staff and tax compliance.

- disclosure according to relevant standards and support for key initiatives such as the Task Force on Climate-related Financial Disclosures (TCFD), CDP, the Sustainability Accounting Standards Board (SASB), the UN Global Compact and the Science Based Targets initiative (SBTi),

- understanding and management of environmental and social risks and opportunities, including sustainability competence at board level, relevant policies, and how ESG and sustainability risks are addressed in the value chain,

- support for labour and human rights, and

- contribution, through revenue exposure, to the UN's Sustainable Development Goals (SDGs)

The ESG Scorecard structures our review of relevant and material ESG risks and opportunities. By filling in and regularly updating the Scorecards, we ensure that the entire investment team integrates relevant and material sustainability related risks and opportunities in their fundamental analysis, ensuring holistic assessments of company quality as well as attainment of the Fund's sustainable investment objective.

**EQSS**

For all our Espiria Strategies, we have implemented a proprietary sustainability integrated framework, the Espiria Quality & Sustainability Score (EQSS), to assess the quality and sustainability profile of each company. The EQSS framework consists of five segments, Leadership, Market Growth & Opportunities, Business Strength &

Resilience, Fundamentals and Sustainability, where each segment has multiple sub-topics that are scored 1 to 5. A higher (better) score will support a higher portfolio weight, all else equal.

**Other tools**

We have introduced specific, additional ESG integration tools for our two strategies that are classified as Article 9 Funds under the SFDR (i.e., have sustainable investments as their objective). These Funds are East Capital Global Emerging Markets Sustainable (GEMS) and Espiria SDG Solutions. The additional tools are outlined in the Fund-specific SFDR website disclosures (available on the website), and in the Funds' pre-contractual product templates (available as annexes to the Prospectus).

## Evaluation and Monitoring

Portfolio coverage in terms of Red Flag Analysis, ESG Scorecard including SDG modules and other tools as specified is monitored regularly for all brands. Coverage is discussed with the investment teams and presented to the Investment Committee on a quarterly basis. Portfolio coverage results are also presented quarterly to the Board. There are no strict minimum thresholds in terms of ESG scoring; rather, it is used as an input to risk appetite. Our ESG scores are also used as part of ensuring that all investments follow minimum social and environmental safeguards.

The following guidelines apply to Espiria and East Capital strategies:

- Maximum 2 Red Flags for Key Active Positions.
- Maximum 3 Red Flags for other positions (also applicable for Adrigo)

For East Capital, these ESG Scorecard guidelines also apply to Funds classified as Article 8:

- Minimum overall ESG score of 70 for Key Active Positions – unless specific reason to accept higher ESG risk is warranted, accepted and documented for so-called "ESG laggards".
- Minimum overall ESG score of 60 for other positions – unless specific reason to accept higher ESG risk is warranted, accepted and documented for so-called "ESG laggards".

For Funds classified as Article 9, all investments must be classified as sustainable in the Three-Step-Test.

ESG laggards and rationales why we hold them are documented and presented to the Investment Committee meetings and to the Board on a quarterly basis. On these meetings, the proportions of investments classified as sustainable for each Fund will also be presented (see section below).

## The Three-Step-Test

To be classified as a sustainable investment, i.e., an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices, as outlined in Article 2(17) of Regulation (EU) 2019/2088, a company must satisfy all of the following criteria:

| **East Capital Group's Three-Step-Test for Sustainable Investments** | |
|---|---|
| *Step 1:*<br><br>*Contribution to E and/or S* | ≥60% score in the E and S sections of the ESG scorecard, which includes sustainability indicators and other information related to E and S objectives *(East Capital)*<br><br>OR<br><br>Companies which contribute to one or several of the UN SDGs in their offering of products, services, and technologies as measured by the Espiria Impact Assessment, OR Sustainability Linked Bonds *(Espiria)* |
| *Step 2:*<br><br>*No significant harm to E or S* | No Red Flag related to environmental or social issues<br><br>AND<br><br>Compliant in controversy (norms-based) screening and in sector-based screening |
| *Step 3:*<br><br>*Good governance practices* | ≥60% score in the G section of the ESG scorecard, which includes questions related to sound management structures, employee relations, remuneration of staff and tax compliance<br><br>AND<br><br>No more than 2 Red Flags related to governance issues |

# **Pillar 4:** Active Ownership

## Approach

East Capital Group's engagement process consists of four steps:

- *Identify:* proactively based on issues or areas of improvements identified in our proprietary ESG tools or reactively via norms-based screening, current events, or invitation from other stakeholders.
- *Assess:* engagements are prioritised based on our ability to influence a company and add value as well as taking into consideration portfolio weighting. We prioritise our engagements in our largest holdings in any strategy as well as in Key Active Positions (East Capital) and holdings where we have a higher ownership (Espiria, Adrigo).
- *Engage:* directly with either the management team, the board or other shareholders through on-the-ground meetings with companies, letters, phone calls, emails, campaigns, shareholders resolutions, and voting at AGMs and EGMs.
- *Monitor/report:* internally and externally (see section below).

East Capital Group has enacted an *Active Ownership Policy*. See Appendix 2.

## Evaluation and monitoring

Engagements are logged and monitored using a third-party software (Esgaia). Proxy voting takes place using an external platform (ISS). Engagement activities form part of the annual evaluation process of the investment teams.

Reports about voting and engagement are provided to the investment committee meetings and to board meetings. Voting and engagement data is part of the annual Sustainable Investment Report, the annual PRI reporting, and the annual follow-up disclosures under the SFDR.

# Other Policies and Disclosures

## Climate Change

Climate change is an extraordinary challenge faced by our generation and future generations. The scope and size of threats it poses to our societies with multiple environmental and social critical dimensions, combined with the global nature of the issue make it a key priority within the sustainable development goals which 193 countries pledged to reach by 2030 in Paris in 2015. The impact of climate change is already and will increasingly be felt by the financial sector, in the wake of climate adaptation and climate change mitigation requirements. This impact implies risks and opportunities for companies, for asset managers and ultimate beneficial owners alike, which we believe must be properly assessed and managed.

The financial sector at large, and the world of investment management in particular, has been part of the problem when financing sectors and companies whose impact is not compatible and conducive to sustainable practices and development.

East Capital Group has enacted a specific *Climate Change Policy*. See Appendix 3.

## Biodiversity

We believe that the diversity of life on earth is critical to the quality and resilience of our global ecosystems. Current trends in biodiversity loss are undermining progress towards 80% of the assessed targets of the United Nations Sustainable Development Goals (UN SDGs) including those related to hunger, poverty, health, cities, climate, and water. The impact of the loss of biodiversity will increasingly be felt by corporates and by the financial sector. This impact implies risks and opportunities for companies, for asset managers and ultimate beneficial owners alike, which we believe must be properly assessed and managed.

It is fair to say that the financial sector at large, and the world of investment management in particular, has been part of the problem when financing sectors and companies whose impact is not compatible and conducive to sustainable practices and development.

East Capital Group has enacted a specific *Biodiversity Policy*. See Appendix 4.

## The SFDR

East Capital Group follows the ESG disclosure requirements under Regulation (EU) 2019/2088 (the Sustainable Finance Disclosure Regulation, SFDR), and other relevant regulations and guidance aimed to increase transparency of sustainability-related disclosures in the finance sector. Our reporting under the SFDR includes the following disclosures:

- *The Pre-Contractual Product Templates* for all Funds classified as Article 8 or 9 are published as Appendices to the Prospectuses.
- *The Follow-Up Product Templates* will be published as Appendices to the Annual Reports.
- *The SFDR Website Information* for all Funds classified as Article 6, 8 or 9 are published on the websites.
- *The East Capital Group Statement on Principal Adverse Impact Indicators* will be published on the websites in due time and in accordance with regulatory requirements.

These disclosures contain information on the attainment of sustainable investment objectives and/or the promotion of environmental and social characteristics, methodologies for ensuring no significant harm, minimum proportions of sustainable investments, and more sustainability related information.

# Responsibility

Responsible for design and implementation of the ESG policy: Chief Sustainability Officer.
Responsible for monitoring of implementation: CEO of East Capital Group.
Responsible for annual review: Board of Directors of East Capital Holding.

# Distribution

The ESG Policy, including all Appendices, is available on the East Capital, Espiria, Adrigo, and ECRE websites.

# **Appendix 1:** Negative Screening Policy

## 1. Sector-Based Screening

1.1. Scope

The following methodology and exclusion criteria apply to public equity funds within the East Capital Group.

**1.1.1. Adrigo**

Adrigo excludes weapons, tobacco products, adult entertainment, gambling, and alcohol.

**1.1.2. East Capital**

East Capital excludes weapons, tobacco, adult entertainment, and gambling. The methodology and exclusion criteria also apply to segregated accounts unless agreed otherwise in an investment management agreement.

In addition to the sectors mentioned, East Capital Global Emerging Markets Sustainable and East Capital Multi-Strategi also exclude fossil fuels and alcohol.

**1.1.3. Espiria**

Espiria excludes weapons, tobacco, adult entertainment, gambling, fossil fuels, and alcohol.

1.2. Screening methodology

Upon new investment, the investment teams shall ensure that the new holding is compliant with the exclusion criteria for the portfolio to which the holding is added. The check is done by filling in the exclusion compliance table in the Red Flag Analysis. In cases of doubt about compliance with the exclusion criteria, the investment teams shall consult the ESG team.

Portfolios are annually reviewed by the investment management teams to confirm compliance with the exclusion criteria. The portfolios are also screened quarterly; the results are reported to the Board and to the Investment Committee.

Reviews are based on information that has been publicly disclosed by issuers as well as any other relevant information that may have come to the investment management teams' attention at the time of the review. If an issuer's type or scope of operations is unclear or difficult to define in relation to the exclusion criteria, the investment teams may recommend further screening by external sector experts.

Any breach of the exclusion framework is logged by the ESG team to the East Capital Group's incident database.

1.3. Excluded sectors

**1.3.1. Weapons**

Investments shall not be made in any company known to generate over 5% of its revenues from manufacturing and/or selling products or services to any type of whole or key parts of conventional weapon systems. In addition, no investments shall be made in any company known to generate over 5% of its revenues from producing firearms or arms ammunition to civilian customers nor in any company known to generate over 5% of its revenues from selling, distributing and/or marketing weapons.

Furthermore, no investment shall be made in any company known to be involved in the production, sale or distribution of inhumane weapons such as Cluster munitions, Anti-Personnel Landmines, ABC-weapons and Nuclear Weapons. The following Conventions and Treaties are considered:

- The Convention on Cluster Munitions, 2008
- The Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on Their Destruction, 1997
- The Chemical Weapons Convention, 1993
- The UN Convention on Certain Conventional Weapons, 1981
- The Biological and Toxin Weapons Convention, 1972
- The Additional Protocol (I) to the Geneva Convention, relating to the Protection of Victims of International Armed Conflicts, 1977
- The Treaty on the Non-Proliferation of Nuclear Weapons, 1968
- The Geneva Convention (III) on Prisoners of War, 1949

### 1.3.2. Tobacco

Investments shall not be made in any company known to generate over 5% of its revenues from manufacturing tobacco, recreational cannabis, electronic cigarettes or specific components to such products, nor in any company known to generate over 50% of its revenues from selling, distributing and/or marketing such products.

### 1.3.3. Adult Entertainment (pornography)

Investments shall not be made in any company known to generate over 5% of its revenues producing, selling, distributing or marketing adult entertainment services and products.

### 1.3.4. Gambling

Investments shall not be made in any company known to generate over 5% of its revenues producing, selling, distributing or marketing commercial gambling services and products.

### 1.3.5. Fossil Fuels

Investments shall not be made in any company known to generate over 5% of its of revenues from producing, selling and/or distributing coal products.

Investments shall not be made in any company known to generate over 5% of its revenues from the extraction of oil and/or gas, nor in any company known to generate over 50% of its revenues from selling and/or distributing oil and/or gas.

Investments shall not be made in any company known to generate over 50% of its revenues from providing goods and services for the extraction of coal, oil and/or gas.

#### 1.3.5.1. EU Taxonomy Exception

Exceptions to the exclusion criteria in section 1.3.5. may be made for investments in economic activities related to gas, provided that the activities are classified as environmentally sustainable activities or as transitional activities according to the EU Taxonomy Regulation.

The EU Taxonomy is a classification system laid down in Regulation (EU) 2020/852, establishing a list of environmentally sustainable economic activities. Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance. To comply with the EU Taxonomy, the criteria for fossil gas include limitations on emissions and switching to fully renewable power or low-carbon fuels by the end of 2035.

#### 1.3.6. Alcohol

Investments shall not be made in any company known to generate over 5% of its revenues from manufacturing alcoholic beverages nor in any company known to generate over 50% of its revenue from selling, distributing and/or marketing alcoholic beverages.

### 1.4. Exclusions overview

| **SFDR Classification** | **Brand** | **Sub-Funds** | **Excluded Sectors** | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | *Unconventional (Controversial) Weapons* | *Conventional Weapons* | *Tobacco* | *Adult Entertainment* | *Gambling* | *Fossil Fuels* | *Alcohol* |
| **Article 6** | Adrigo | Adrigo Small & Midcap L/S | 0% | X | X | X | X | | X |
| **Article 8** | East Capital | Balkans, China A Shares, Eastern Europe, Global Frontier Markets, New Europe, Russia | 0% | X | X | X | X | | |
| **Article 8** | East Capital | Multi-Strategi | 0% | X | X | X | X | X | X |
| **Article 9** | East Capital | Global Emerging Markets Sustainable | 0% | X | X | X | X | X | X |
| **Article 8** | Espiria | 30, 60, 90, Global | 0% | X | X | X | X | X | X |
| **Article 9** | Espiria | SDG Solutions | 0% | X | X | X | X | X | X |

## 2. Norms-based Screening

### 2.1. Scope

Companies and portfolios within the East Capital Group are screened to ensure compliance with international norms, standards and underlying conventions, with regard to human rights, labour rights, the environment and business ethics. The analysis is primarily based on Sustainalytics' Global Standards Screening (GSS).

GSS assesses companies' compliance with the UN Global Compact (UNGC) principles. It identifies companies that fail to meet established expectations for responsible business conduct. The nature and scope of (alleged) violations of norms and their impact on stakeholders are the starting point of a GSS assessment. GSS analyses norms and standards that are enshrined in the UNGC, the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises (OECD MNE Guidelines) and the United Nations Guiding Principles on Business and Human Rights (UNGPs), as well as their underlying conventions and treaties.

GSS assessments reference relevant OECD MNE Guidelines (chapters), UNGPs and their underlying conventions and treaties. The UNGC and OECD MNE Guidelines are complementary standards based on broad international consensus. The UNGPs also form an integral part of the OECD MNE Guidelines. An overview of International Norms and Standards in GSS Scope is available on Sustainalytics website, linked to here.

## 2.2. Methodology

Sustainalytics' screening is done in a six-step procedure, which includes daily news and incident screening as well as continuous further research from external sources and the company's own research database. The assessment status is divided into three categories: Non-Compliant, Watchlist and Compliant.

According to GSS, a company is assessed as *Non-Compliant* with the UN Global Compact principles when it is deemed to be:

- Causing or contributing to severe or systemic and/or systematic violations of international norms.
- Directly associated with issues causing severe, irreversible impacts that affect stakeholders and/or the environment and interfere with the enjoyment of rights and/or impose a clear cost on society.
- Displaying inadequate responses to address or remediate the issues at hand, including attempts to conceal their wrongdoing and/or involvement.
- Facilitating third parties in human rights violations.

A company is assessed as *Watchlist* when it is deemed to be:

- Causing or contributing to severe negative impacts (harm) to stakeholders and/or the environment, but for which not all requirements for a Non-compliant status could be established (e.g., company accountability cannot be confirmed).
- Accountable for negative impacts, but there is insufficient information to determine that the company is violating international norms.
- Linked to a violation of international norms, but the negative impacts are not severe enough to warrant a Non-Compliant status, or the negative impacts are still remediable.
- Improving its policies and programmes to prevent a reoccurrence, having been assessed previously as Non-Compliant, and further monitoring is required due to pending resolutions or remediation efforts.

A company is assessed as *Compliant* when there are no indications of severe violations of commonly accepted international norms related to human rights, labour rights, the environment and business ethics.

A full description of the GSS Methodology is available on Sustainalytics' website, linked to here.

2.3. Approach

As a general rule, East Capital Group's strategies will not invest into new holdings which are deemed Non-Compliant, and they will divest from Non-Compliant companies if the breach is based on events that occurred after the time of first investment (or information about the events has been made available thereafter) and the company is not deemed as having taken or taking adequate measures.

Reports of controversies and violations will be used as input to initiate a dialogue with the company, on our own or together with other investors, in order to request and encourage the company to improve. While breaches occur rarely, holdings which are Non-Compliant could be companies for which we believe we have both a possibility and a duty to engage with, in order to request improvements starting from disclosure of the violations, accountability about the incident and remediation measures. If we deem our ability to impact as insufficient or if engagement does not bring any improvement, the holding will however be divested.

Espiria SDG Solutions, East Capital Global Emerging Markets Sustainable and East Capital Global Frontier Markets will not hold any company which is Non-Compliant. All portfolios are annually reviewed to confirm compliance with international norms, standards and underlying conventions. The portfolios are also screened quarterly; the results are reported to the Board and to the Investment Committee.

## 3. Responsibility

Responsible for design and implementation of this policy: Chief Sustainability Officer

Responsible for monitoring of implementation: CEO of East Capital Group

Responsible for annual review: Board of Directors of East Capital Holding

## 4. Distribution

Internal and external distribution.

# **Appendix 2:** East Capital Group Active Ownership – Voting and Engagement Policy

### 1. Background

The Active Ownership policy is meant to guide all strategies managed by companies in the East Capital Group (”East Capital Group”), including public equity funds, mandates, and real estate funds (when and if relevant). The policy specifies how we shall act when exercising the ownership rights in the companies held by these strategies on behalf of our clients, the investors. Additionally, the policy describes how we integrate shareholder engagement in our investment processes, as well as how we exercise voting rights.

### 2. Overall aim

East Capital Group’s overarching goal is to create long-term superior risk-adjusted investment returns in the funds and portfolios that we manage. In our role as owners, the overriding principle is to act in the best interest of our investors.

### 3. East Capital Group as owner

East Capital Group includes several fund management brands, which investment strategies have characteristics that define our role as owners:

**We are long-term.** We see beyond the short-term gain and look for long-term investment value

**We are active.** Dialogue with companies helps us make better-informed investment decisions and we constructively engage on issues that are important to us as owners

**We are responsible.** Our research process addresses and integrates investment risks and opportunities associated with relevant and material environmental, social, and corporate governance factors

### 4. What we stand for

We consider good corporate governance as well as environmentally and socially responsible behavior as essential in managing a company with the aim of maximizing long-term shareholder value.

We are signatories to the United Nations Principles of Responsible Investment (PRI) and to the United Nations Global Compact. We agree with and support internationally recognized norms, conventions and standards such as those set out in the United Nations Global Compact and the OECD Principles for Corporate Governance and Multinational Enterprises.

### 5. Investing in what makes sense for the long term

Our investment philosophy is based on a belief that companies with long-term and sustainable growth prospects outperform. Conversely, we do not invest in certain sectors such as tobacco, weapons, gambling and pornography (and other sectors in certain strategies) as we do not believe they offer our clients attractive prospects of long-term returns. The obvious negative social or environmental impact of these sectors, and the significant costs they generate for society, have convinced us that they do not make for appealing long-term investments.

### 6. Issues we address as owners

*Equitable treatment of all shareholders*

Companies' corporate governance framework should ensure the equitable treatment of all shareholders, including minority and foreign shareholders.

*Compliance with international conventions and norms*

We expect companies to conduct business in a manner which is in line with well-established and generally agreed international conventions and norms, such as the UN Global Compact's ten principles on human rights, labor standards, environment and anti-corruption, based on the prerequisite that companies have a responsibility to comply with these norms even if they are not legally bound to. Where such a breach is confirmed, we either initiate a dialogue with the company or exclude it from the funds' universe. We do not invest in companies with severe or systematic ESG controversies where active shareholder engagement is deemed to have limited effect.

*Insider trading*

We firmly believe that clear insider trading policies contribute to good corporate governance and to enhance investor confidence. We therefore encourage listed portfolio companies to adopt appropriate policies and routines that are consistent with rules and best practice on established and mature financial markets.

*Conflicts of interest*

East Capital Group has adopted guidelines and instructions with the objective to identify and handle actual and potential conflicts of interest.

Members of boards and key executives in portfolio companies should be required to disclose to the board of directors whether they, directly or indirectly, have material interest in any transaction or matter directly affecting the company.

All situations representing conflicts of interests shall be handled in accordance with the Conflicts of interest policy, the Voting Guidelines and any other internal Policy or instruction related to the handling of such conflicts.

*Board of Directors*

Regardless if a portfolio company is listed or unlisted, we encourage companies to appoint a board of directors that represents an appropriate and diverse range of competencies and backgrounds to enable it to effectively carry out its duties. Board members should be selected based on skill, integrity and the ability to devote a sufficient amount of time to its work. Companies should explain and justify board nominations to the shareholders. Nomination and/or Governance Committees should ensure that boards are diversified from various perspectives where gender diversity is one component we consider.

We also strive to influence companies to ensure that an appropriate ratio of the board of directors/supervisory board is independent in relation to the company and its executive management. The essence of independence is that directors should have a proven ability to exercise objective judgment in making decisions that are in the best interests of all shareholders. Independence is to be determined by a general assessment of factors that could influence the individual's independence in relation to the company or its executive management.

East Capital Group's employees shall generally not hold board positions in listed portfolio companies. The work of the board regularly provides access to insider information which would prohibit us from freely buying and selling the company's shares which could accrue to the disadvantage of our clients. Any board position held by an East

Capital Group's representative must be evaluated and validated on a case-by-case basis and must comply with relevant laws, regulations and guidelines such as, e.g., black-out periods. Under no circumstances shall our interests prevail over our clients' interests, if any conflicts of interest arise.

Given our own limitations to holding board positions in listed companies, we prefer to actively nominate or endorse independent directors that are not employees of the East Capital Group. In the event that we are asked to participate in the nominating process, our approach is to identify board members with high integrity and the kind of abilities that will contribute to promoting the company's growth and development. We expect board members to work in support of good corporate governance and in the best interest of all shareholders.

*Shareholders' meetings*

The majority of the companies in which we invest are limited liability companies, where the ultimate decision-making body is the shareholders' meeting. The resolutions passed by shareholders' meetings are important to the company's ability to grow, develop and thereby generate profits for its shareholders. We also believe that there are certain issues, such as incentive programmes, that should be approved by a shareholders' meeting even when it is not required by local legislation or general market principles.

Given the importance of shareholders' meetings in the general governance of any company, we advocate good meeting practices. These include publishing the meeting notice in ample time before the meeting as well as making complete proposals and materials for each of the items to be considered at the meeting available to all shareholders as far in advance of the meeting as possible. Good meeting practice also includes making minutes from the meetings available to shareholders.

*Management*

Management quality is a key feature of good corporate governance standards. Boards should seek to align the interests of management with the interests of shareholders through compensation arrangements which are linked to long term company goals' achievement (including sustainability, social and environmental objectives) and are suitable to attract, retain and motivate management teams. Risks for conflicts of interests and related parties' transactions are critically assessed. Furthermore, we consider strategy, financial and non-financial performance and risk as priority topics in our assessment, monitoring and engagement work with management and boards.

*Capital issues*

Shareholders should have the ability to participate in or influence the fundamental decisions that affect long term corporate viability. As such we would support a company's request for limited increase in authorized shares if it is justified by a sound business reason which is clearly disclosed. We monitor capital expenditure programs and encourage companies to have appropriate and transparent levels. We also encourage companies to have a clearly disclosed, adequate and diligently implemented dividend policy.

*Communication and disclosure practices*

All shareholders should be notified timely, accurately and equally on material matters regarding the company, including the financial situation, performance, ownership and governance of the company.

We place value in investor relations that are responsive, informed and professional. This includes providing all corporate communication channels in English or other major language and offering shareholders sufficient access to management and other relevant company representatives in a timely manner.

*Reporting and auditing*

An annual audit should be conducted by an independent, competent and qualified auditor.

We encourage companies to adopt IFRS reporting standards. External auditors shall be qualified and competent and avoid any actual or appearance of conflict of interest or undue influence of management. We object to appointment of audit firms whose tenure is excessive (more than 7-10 years) or not disclosed.

We encourage portfolio companies to report on material, environmental and social risks and opportunities and how these might impact the business. Strategies for managing these risks and opportunities should also be communicated. To facilitate comparison between companies, and to be able to track development over time, we encourage companies to adopt well-known sustainability reporting frameworks (SASB, GRI) and to also participate in or support global initiatives and standards, such as the UNGC, CDP, TCFD and SBTi.

We also encourage portfolio companies to integrate – when relevant to their strategies – the UN Sustainable Development Goals and report on their efforts to contribute to the Agenda 2030 for Sustainable Development.

*Environmental risks and opportunities*

We expect the management teams and boards of our portfolio companies to identify and assess how their business affects and is affected by longer term global environmental challenges, such as climate change related to physical- and transition risk, water and resource scarcity, biodiversity loss and the potential implications on the company's operations and long-term strategy. Disclosure and management of this impact in line with the TCFD recommendations is strongly encouraged, specifically in companies operating in sectors which are large GHG emitters. We also encourage companies to understand how they potentially can contribute to providing solutions to these challenges.

We use company meetings and visits, as well as dialogue with management and board directors to raise and discuss environmental risks and opportunities that are relevant to the company and its sector.

*Social risks and opportunities*

We promote sound labor and human rights practices and expect all portfolio companies to provide adequate solutions for human health and safety in their operations. We also expect companies to address these issues in their supply chain through a comprehensive, transparent and responsible supply chain management program.

We use company meetings and visits, as well as dialogue with management and board directors to raise and discuss social risks and opportunities that are relevant to the company and its sector.

*Unethical business practices*

We believe that unethical business practices often go along with poor corporate governance and short-termism, making these companies less attractive investments. As owners, we expect portfolio companies to have a zero-tolerance statement against unethical or illegal business practices, including bribery, corruption and aggressive tax evasion, supported by a publicly explained system and process, including whistleblowing function.

We use company meetings and visits, as well as dialogue with management and board directors to raise and discuss unethical business practices.

## 7. Engaging with portfolio companies

When we have identified relevant areas of improvement on specific ESG issues or if we believe that a portfolio company has not met our expectations as owners, we will evaluate if it is suitable for us as investors to initiate an engagement process where we seek to encourage and influence the company to make necessary improvements.

We aim to be constructive and supportive in our dialogue with the companies. Our experience has shown that engaging with the company, either directly or collectively with other owners, usually generates greater positive effects as opposed to immediately exiting our investment. If the company does not respond in an adequate manner or undertake the necessary changes, however, we may ultimately decide to divest our holding in the company.

Engagement activities are communicated in relevant forums and reports where applicable and in client due diligence requests.

Engagement with companies on climate change issues is guided by East Capital Group Climate Change Position (Appendix 7 of the ESG Policy).

## 8. Proxy voting

Exercising our voting rights at shareholders' meetings is one important way for us to communicate our views to companies and their management. However, given that our portfolios often are highly diversified comprising mainly minority stakes in a large number of markets, we seldom participate directly in the shareholders' meetings. More often, we vote by proxy or issue a power of attorney and voting instructions to someone who can represent us at the meeting.

When exercising our voting rights, we shall act in the interests of the investors, i.e., support the proposals that we deem benefit the investors the most, and will be guided by East Capital Group's Voting Guidelines.

We receive proxy related materials such as notices, agendas and proxy ballots from a range of sources including the issuer, custodians, brokers and other shareholders. We may also use an external proxy voting company that supplies such information as well as executes our voting instructions and keeps record of our voting activity.

In determining whether and how the voting rights related to a meeting shall be exercised, members of the investment team will consider all available information related to the meeting as well as our analysis of the specific company. The team will reach their voting decisions independently and will not delegate decision making to any third party, although they may take third party recommendations into consideration. We may also consult with analysts, brokers, lawyers, other shareholders or other relevant parties in order to reach more informed decisions.

There may be situations in which we are unable to exercise the voting rights or may choose not to exercise the voting rights. This includes, but is not limited to, situations where the notice, ballot or meeting materials are not received at all or in ample time; where the costs and practicalities of voting are determined to be disproportionate to the benefits of voting (for example due to significant legal requirements or the size of the holding being limited); where we are required, but practically unable, to appear in person at the meeting; where exercising the voting rights would result in the imposition of trading or other ownership restrictions which are seen as unbeneficial to the clients; where proxy voting is not offered by the custodian in that particular market or where proxy voting for other reasons is not deemed to be in the best interest of the clients.

Voting decisions, and their justifications, are documented internally. Voting activities are reported to monthly investment committee meetings, quarterly board meetings and in the annual sustainable investment report and annual PRI report.

*Securities lending process*

In the securities lending process, we can choose which counterparties we lend assets to and thus, assess the borrower's adherence to practices including ESG practices. Assets from the borrowers are recalled ten days ahead of the voting deadline.

## 9. Methods of influence

We apply a range of methods to address ESG issues in our portfolio companies:

- Face-to-face discussions with managements and boards in company visits
- Letters addressed to the management of our portfolio companies, highlighting key issues of concern including explicit requests for additional information
- Annual "CIO to CEO Letter" to portfolio holdings in Adrigo, East Capital, Espiria
- "Letter from your new shareholder" upon addition to portfolios (East Capital only)
- Nomination or endorsement of independent board members
- Voting in shareholders' meetings
- Dialogue with companies in conjunction with shareholders' meetings
- Collaboration with other shareholders and investor-led initiatives
- Dialogue with governments, stock exchanges and financial surveillance authorities to advocate improvements in the institutional framework with the purpose of promoting more well-functioning and transparent capital markets
- Providing our clients with various forums for interaction with local portfolio companies

## 10. Engaging with stakeholders

We strive to maintain active relationships with relevant stakeholders such as market institutions, stock exchanges, NGOs, governmental and public bodies that may be helpful for keeping up to date with local legislation and market practice for improving the institutional framework Engagement with stakeholders are logged and documented to quarterly investment committee and board meetings, and in annual reporting.

We also support different forums and initiatives for promotion of good market practice, corporate governance, other responsible practices and other relevant topics that may be in the joint interest of our investors.

East Capital Group is a signatory of the United Nations Principles of Responsible Investment (PRI) and the United Nations Global Compact (UNGC) as well as various other local, regional and global associations and initiatives.

## 11. Responsibility

Responsible for design and implementation of the Active Ownership policy: Chief Sustainability Officer

Responsible for monitoring of implementation: CEO of East Capital Group

Responsible for annual review: Board of Directors of East Capital Holding

## 12. Regulatory and legal requirements

The adoption of an ownership policy (section 6) is recommended by the Swedish Investment Fund Association.

Relevant legal regulations: Article 3g (1) of Directive 2007/36 of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies

**13. Distribution**

Internal and External distribution. The policy shall be available on our websites. Our annual reports shall contain a reference to where the policy can be found.

# **Appendix 3:** East Capital Group Climate Change Policy

**5. Background: Investors' responsibility**

Climate change is an extraordinary challenge faced by our generation and future generations. The scope and size of threats it poses to our societies with multiple environmental and social critical dimensions, combined with the global nature of the issue make it a key priority within the sustainable development goals which 193 countries pledged to reach by 2030 in Paris in 2015.

The impact of climate change is already and will increasingly be felt by the financial sector, in the wake of climate adaptation and climate change mitigation requirements. This impact implies risks and opportunities for companies, for asset managers and ultimate beneficial owners alike, which we believe must be properly assessed and managed.

The financial sector at large, and the world of investment management in particular, has been part of the problem when financing sectors and companies whose impact is not compatible and conducive to sustainable practices and development.

Investors should also be part of the solution, and they can do this in different ways:

(i) as asset allocator and stock selector, to channel investments to, and thereby support, companies which contribute to achieving the 2015 Paris Agreement goals

(ii) as responsible owner, to engage with companies whose strategies are not yet aligned with the Paris goals for the time being, but do have the potential and willingness to set net zero targets.

(iii) stopping or reducing investments in companies whose strategy is misaligned, in case stewardship activities do not work, is a third option.

**6. Our history and approach to Climate Change**

East Capital Group's asset management companies operate globally, with investments in emerging and developed markets, in public equity, fixed income and real estate asset classes. East Capital was founded in 1997 and initially we emphasised governance issues with a specific focus on owners (KYO) and management quality, but environmental issues emerged early as a key topic to address with companies in our emerging and frontier market portfolios, most notably in Russia and in China. Awareness and concerns about environmental issues among our Nordic-dominated investor base provided another stimulus for our investment teams to put climate risks high up on our agenda from the outset.

**7. Our climate framework**

Our climate framework consists of four pillars:

A. We integrate climate risks in our investment analysis
B. We mobilise active ownership efforts
C. We have specific exclusion and negative screening in our portfolios
D. We engage with stakeholders such as regulators and governments

Besides, we minimise our own footprint through the use of goods and water efficiency, reduce air travel and paper consumption, and resort to services that help mitigate emissions. We are a climate neutral company since 2012.

### A. Integration and risk management

Our proprietary framework covers a range of environmental issues including specific climate change's impact and dependency (double materiality) aspects. They form part of the overall East Capital ESG (Environmental, Social and Governance) score that emerging and frontier market companies will get, which we use in our risk management and stock allocation processes. The East Capital ESG scorecard is also used to identify weaknesses in terms of practices and disclosure on specific topics which in turn will become active ownership priorities when/if they are assessed as material risks. We manage climate risks by downgrading ESG scores where relevant, and engage with companies where risks are high.

We have developed a proprietary model to assess transition risk analysis for holdings. We have created two long-term carbon pricing scenarios, one based on a carbon import tax for direct emissions for steel and aluminium exports from 2022 and oil from 2025; and one based in the IEA's Sustainable Development Scenario with much more aggressive increase in carbon pricing as required to achieve a more ambitious climate goal. The model generates two specific impacts: impact to EBITDA from 2020-2050 and implied equity valuation using a DCF approach. Numbers are subsequently aggregated to understand a total “climate value at risk”.

When developing and using proprietary analytical tools, the issue of low disclosure from issuers becomes acute. A main limitation to assess carbon pricing impact is the lack of reliable self-reported emissions data. This in turn has become a priority in terms of engagement with portfolio holdings.

### B. Active ownership

In order to encourage portfolio companies to better disclose their environmental impact, set targets to reduce it and actively work to reach these targets, we use a range of active ownership tools including engagement, either individual or collaborative, voting and nomination.

#### *B1. Individual direct engagement*

Climate is a key topic for engagement with companies and especially in our emerging and frontier markets portfolios. Like all other engagement topics, priorities arise based on our proprietary analytical framework (Red Flag analysis, ESG score including a momentum score, SDG module and transition risk analysis), which identifies ESG weaknesses and determines which area we will focus on with each of our portfolio holdings. On average, around 40% of engagements executed by East Capital team cover environmental topics and mostly climate topics, such as climate governance, disclosure and reduction of greenhouse gas emissions, integration of carbon tax or carbon costs in companies' strategies, controversies related to environmental damage and setting of environmental KPIs for management teams of our portfolio holdings with material environmental risks.

#### *B2. Collaborative direct engagement*

We have always been keen and willing to cooperate with peer investors on ESG matters. Climate issues are by nature complex and require cooperation among shareholders. Over the years, the following major initiatives have been pursued:

- **Climate Action 100+:** in 2019 we became a signatory of Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. We were co-lead investors in three Russian companies: Gazprom, Lukoil and Nornickel. Engagement work has been suspended since the start of Russia's invasion of Ukraine.

- **IIGCC** (Institutional Investors Group on Climate Change): since 2020 we are a member of the IIGCC, the leading European membership body for investor collaboration on climate change. We chair the IIGCC Russia Working Group that coordinates the CA100+ engagements in Russia. The Russia working group has been suspended since the start of Russia's invasion of Ukraine.

- **CDP**: in 2014 we became a signatory supporter of CDP, a not-for-profit organisation which aim is to push listed companies to disclose their environmental impact. CDP is the disclosure standard we promote in our "Letter from a new shareholder" addressed to the CEOs and Chair of new holdings in our emerging and frontier market portfolios, as well as in dialogue with companies. It is also one of the criteria assessed in the East Capital ESG Scorecard and Espiria's EQSS. Our annual "CIO to CEO Letter" addressed to our holdings has been referring to CDP or to SBTi (Science Based Target Initiative). East Capital Group is a participant in the annual NDC (non-disclosure campaign) since 2019 and in the annual SBTi campaign (since 2020), both organised and coordinated by CDP.

- **TCFD**: in 2019 we became a supporter of the Task Force on Climate-related Financial Disclosures. TCFD is the framework for consistent climate-related financial risk disclosure which we promote in our dialogue with companies and in our Letters to management and chairman. It is also the framework of reference of Climate Action 100+.

- **Russia Climate Governance Initiative** (formerly Chapter Zero Russia) and **Poland Climate Governance Initiative**: we are among the supporters of this World Economic Forum backed initiative which aim is to educate board directors in climate risks. The Russia Chapter was launched in 2020 (and was suspended in 2022 following the start of Russia's invasion of Ukraine), the Poland Chapter was launched in 2021.

***B3. Voting***

We use voting rights to support our active ownership in general and in particular related to climate as we will push for companies to take adequate steps to improve the quality of governance in relation to greenhouse gas (GHG) emissions or risks and opportunities related to the transition into a low-carbon economy.

In 2020 we introduced clearer voting guidelines and new routines to document the justification of all voting decisions, which we use for our internal reporting needs. Decision to vote against are communicated to portfolio holdings when part of an engagement. In 2021, we aligned our voting guidelines to support our stance regarding the environmental UN Sustainable Development Goals according to the following:

We will generally vote against:

- Proposals and disclosures which are not in line with the TCFD recommendations in companies with material climate risks

- Proposals that fail to deliver the improved disclosure and/or governance of material environmental risks which we or other shareholders have been involved in promoting through engagement, including policies and initiatives to protect the environment and biodiversity in line with internationally recognized best practice standards and frameworks

***B4. Nomination***

We encourage all portfolio companies to appoint a board of directors that represents an appropriate and diverse range of competencies and backgrounds to enable it to effectively carry out its duties. In companies where climate change is a material risk, we will actively support nomination of directors with understanding of and expertise in climate related issues.

### C. Climate-related screening and exclusion

We screen our portfolios for potential controversies in terms of allegations of breach of international norms, standards and underlying conventions including environmental controversies, using an external research provider. Holdings are categorised as compliant, watchlist, non-compliant (defined as causing or contributing to severe or systemic and/or systematic violations of international norms). While most of our strategies would exclude companies which are deemed non-compliant to international norms and conventions, for any company deemed non-compliant to remain in the portfolio, targeted engagement efforts must be put in place to address the breach.

Most East Capital Group's strategies do not invest in fossil fuel producers. In fact, the only region where we hold significant investments in companies deriving revenues from fossil fuel is in Russia and Eastern Europe. In Russia, we had long standing relationships with the companies and hence significant potential to influence the companies to improve their climate governance and ultimately reduce emissions. These engagements have been suspended in 2022 due to the war.

We will typically not hold long term positions in large greenhouse gas emitters (usually extractive or utilities companies) unless:

1. We have a constructive dialogue with them on climate (see B1).
2. We believe we can continue to positively influence them to improve their climate governance and strategy and ultimately reduce emissions.
3. We believe they will eventually be capable of achieving a Paris-aligned strategy.

### D. Engagement with stakeholders

As a company working for positive change, we participate in policy work through direct dialogue with authorities and policymakers and as an active participant in several associations and initiatives such as the UN PRI, SWESIF (Sweden's Sustainable Investment Forum), SISD (Swedish Investors for Sustainable Development) and GISD (Global Investors for Sustainable Development), the IIGCC and UNGC. Over the years we have joined calls for actions coordinated by the Investor Agenda such as the letter sent to the European Commission, addressed to Vice-President Timmermans and Commissioner Simson, on the development of a robust methane policy as part of the implementation of the Green Deal (IIGCC) and the Global Investor Statements to Governments on the Climate Crisis (IIGCC).

## 8. Reporting and disclosure

Climate analysis, climate commitment and climate actions are reported in the ESG & Sustainability reports which are presented to the quarterly board meetings, giving the Board regular and comprehensive updates to monitor and oversee the progress made on climate-related issues. They are also reported to the PRI and included in the Sustainable Investment Report on an annual basis.

As a GRESB member, East Capital Real Estate applies GRESB framework to the assessment, management and reporting of climate related risks to our real estate investments.

Climate footprint analysis reports, which are either done through internal research or outsourced to an external service provider, are presented to the Board and to the investment teams. Key metrics used are EBITDA at risk, Value at risk, carbon footprint of companies and portfolio, total carbon emissions, carbon intensity and weighted average carbon intensity. We provide disclosures on emissions risks to clients and partners upon request.

**9. Future development and priorities**

We are strongly supportive of the Net Zero Asset Managers Initiative. Espiria committed to NZAM in November 2021, and we plan to commit formally in the coming years for all our strategies. This work will require to establish clear metrics for emissions intensity reduction over time.

In 2022, we completed the first TCFD-aligned report for East Capital Group as part of our Sustainability Disclosure and implemented the transition risk analysis for more portfolios. We filed in our NZAM targets for Espiria and set a risk reporting framework with data-driven dashboards to monitor climate risks.

In 2023, we endeavour to:

- Further integrate physical risks in our analysis and portfolio management
- Link KPIs and remuneration to climate-related activities for the Management Group and for the investment teams; the goal is to link KPIs and remuneration to climate-related targets in the future
- Set priorities and targets to align our portfolios with the objectives of the Paris Agreement, including active ownership practices

**10. Contact for climate issues**

East Capital Group's Chief Sustainability Officer.

**11. Responsibility**

Responsible for design and implementation of this policy: Chief Sustainability Officer

Responsible for monitoring of implementation: CEO of East Capital Group

Responsible for annual review: Board of Directors of East Capital Holding

**12. Distribution**

Internal and external distribution.

# **Appendix 4:** East Capital Group and Alquity Joint Biodiversity Policy

1. **Background: Investors' responsibility**

We believe that the diversity of life on earth is critical to the quality and resilience of our global ecosystem. Current trends in biodiversity loss are undermining progress towards 80% of the assessed targets of the UN SDGs including those related to hunger, poverty, health, cities, climate, and water. [3]

The impact of the loss of biodiversity will increasingly be felt by corporates and by the financial sector. This impact implies risks and opportunities for companies, for asset managers and ultimate beneficial owners alike, which we believe must be properly assessed and managed.

It is fair to say that the financial sector at large, and the world of investment management in particular, has been part of the problem when financing sectors and companies whose impact is not compatible and conducive to sustainable practices and development.

Investors should be part of the solution, and they can do this in different ways:

- Channeling investments to, and thereby supporting, companies which contribute to maintaining or restoring biodiversity
- Engaging with companies whose strategies and practices contribute to the loss of biodiversity
- Exiting investments in poorly behaving firms or where stewardship activities do not work.

2. **Our nature framework**

Just as portfolio diversification reduces risk and uncertainty, biodiversity does the same for natural assets that all economies rely on for sustainable growth. As responsible long-term investors, we want to make a positive contribution towards the slowing and eventual reversal of biodiversity loss. To achieve this, we undertake to integrate biodiversity loss considerations into our investment selection and stewardship activities through our nature framework, which consists of four main dimensions:

A. Integration of biodiversity risks into our investment analysis

B. Mobilising stewardship efforts

C. Exclusion and negative screening in our portfolios

D. Engaging with wider stakeholders including regulators and governments

[3] IPBES (2019) The Global Assessment Report on Biodiversity and Ecosystem Services.

**A: Integration of biodiversity risks into our investment analysis**

Our proprietary frameworks cover a range of environmental issues including biodiversity impact and dependency (double materiality) aspects. They form part of the overall ESG (Environmental, Social and Governance) score that companies will get, which we use in our risk management and stock allocation processes. The proprietary analysis is also used to identify weaknesses in terms of practices and disclosure on specific topics which in turn will become active ownership priorities when/if they are assessed as material risks. We manage these risks by downgrading ESG scores - where relevant - and engage with companies where risks are high.

We will explore how to incorporate the cost of biodiversity loss into our valuation methodologies. We will particularly consider investments in sectors and companies that are contributing to biodiversity recovery or loss mitigation through their products and services, where applicable. We have identified the following sectors where we believe there is a material impact on biodiversity loss and where such a loss will have a material impact on the company's financial performance:

- Extractives & Minerals Processing,
- Food and Beverage,
- Infrastructure,
- Energy (renewable and alternative),
- Transportation.

When developing and using proprietary analytical tools, the issue of low disclosure from issuers becomes acute. A main limitation to assess biodiversity risk is the lack of reliable self-reported data. This in turn has become a priority in terms of engagement.

For companies whose operations or supply chain may include deforestation, resource extraction, intensive agriculture, pollution and significant GHG emissions, we will prioritise investments in those that have disclosed action plans to mitigate biodiversity loss or are working towards this goal.

**B: Mobilising stewardship efforts**

As all business operations have some impact on our natural environment, we will engage directly or through industry collaborations to encourage consideration of and mitigation of biodiversity loss in strategic plans.

In order to encourage portfolio companies to better disclose their impact on nature and biodiversity, set targets and actively work to reach these targets, we will use a range of active ownership tools including engagement, either individual or collaborative, voting and nomination.

***B1. Individual direct engagement***

Biodiversity is a topic for engagement with companies and specially in our emerging and frontier markets portfolios. Like other engagement topics, they often arise based on our proprietary analytical framework, which identifies ESG weaknesses and determines which area we will focus on with each of our portfolio holdings.

***B2. Collaborative direct engagement***

Biodiversity issues are by nature complex and need to be addressed at sector or even regional levels in addition to directly with holdings. We commit to work cooperatively with peers and other investors to drive collaborative engagement on biodiversity issues.

### *B3. Voting*

We use voting rights to support our active ownership in general and in particular related to biodiversity and nature as we will push for companies to take adequate steps to improve the quality of governance in relation to their environmental footprint.

### *B4. Nomination*

We encourage all portfolio companies to appoint a board of directors that represents an appropriate and diverse range of competencies and backgrounds to enable it to effectively carry out its duties. In companies where biodiversity is a material risk, we will actively support nomination of directors with understanding of and expertise in related issues.

**C: Exclusion and negative screening in our portfolios**

We screen our portfolios for potential controversies in terms of allegations of breach of international norms and conventions including environmental controversies. We do not divest automatically but will engage with companies accused of breaching these conventions.

**D: Engaging with wider stakeholders including regulators and governments**

As active responsible investors, we are members of several associations and participate in numerous initiatives that provide us with a platform to participate in policy engagement. We actively participate in relevant calls for actions organised by these associations.

We strive to maintain active relationships with relevant stakeholders such as market institutions, stock exchanges, NGOs, governmental and public bodies that may be helpful for keeping up to date with local legislation and market practice for improving the institutional framework for reducing biodiversity loss.

## 3. Reporting

We will begin to collect the data and develop the ability to transparently report on the biodiversity footprint of our investment portfolios in accordance with leading industry and regulatory standards as they develop over the coming years.

We will disclose deforestation risk and mitigation activities in portfolios, including due diligence and engagement. We will also publicly report credible progress, in alignment with peers, on the milestones to eliminate forest-risk agricultural commodity-driven deforestation in the underlying holdings in our investment/lending portfolios through successful company engagement, and only provide finance to clients that have met risk-reduction criteria. We will also seek to increase investment in nature-based solutions.

## 4. Conclusion

We believe the above actions will align our activities with the UN Post 2020 Global Diversity Framework and its 2050 vision:

*"By 2050, biodiversity is valued, conserved, restored and wisely used, maintaining ecosystem services, sustaining a healthy planet and delivering benefits essential for all people."*

**5. Contact for biodiversity issues**

East Capital Group's Chief Sustainability Officer.

**6. Responsibility**

Responsible for design and implementation of this policy: Chief Sustainability Officer

Responsible for monitoring of implementation: CEO of East Capital Group

Responsible for annual review: Board of Directors of East Capital Holding

**7. Distribution**

Internal and external distribution. The policy shall be available on our websites and our annual reports shall contain a reference to where the policy can be found.

# **Appendix 5:** East Capital Real Estate's (ECRE) ESG Policy

## 1. Context and scope

Focus on sustainability, as well as environmental, social and governance (ESG) factors is a core element of "Working for Positive Change", the vision and purpose of East Capital Group and its subsidiaries, including East Capital Real Estate. A key part of this vision is achieved through our investment activity, which fully integrates ESG and sustainability.

East Capital Group (ECG) has been committed to responsible investing from when it was founded in 1997. ECG is a signatory and supporter of many associations and initiatives such as the UN PRI since 2012, CDP since 2014, Climate Action 100+ since 2018, the Task Force on Climate-related Financial Disclosures (TCFD) since 2019, the Institutional Investors Group on Climate Change (IIGCC) since 2020, Sustainability Accounting Standards Board (SASB) and Financial Sector Deforestation Action (FSDA) since 2021 and the Investor Policy Dialogue on Deforestation (IPDD) since 2022.

This policy is an appendix to the East Capital Group's ESG policy, which in-depth covers the four pillars of responsible investing of ECG and includes appendices on active ownership, climate change and biodiversity. This document further discusses the responsible investing approach and tools applied by East Capital Real Estate (ECRE), as well as environmental and social considerations when investing in real estate assets.

This policy applies to East Capital Real Estate as an organization, fund manager and real estate owner. We regularly review and update this policy in line with evolving sustainability and ESG priorities and in response to changes in the regulatory framework.

## 2. General approach

East Capital Group's ESG policy is based on the investment philosophy implemented within the group. East Capital Real Estate as a property manager similarly defines itself as:

- long-term: we look for long-term investment value, which we believe is created through improving the sustainability profile of our property portfolio
- active: we directly engage with our counterparties (tenants, suppliers, sellers, buyers) on sustainability
- responsible: we integrate sustainability risks into our investment strategy

All East Capital Group's investment strategies, including East Capital Real Estate, follow an ESG framework, which consists of four pillars:

- Pillar 1: negative sector exclusion
- Pillar 2: controversy (norm-based) analysis
- Pillar 3: proprietary ESG analysis
- Pillar 4: active ownership

This framework is presented in detail in East Capital Group's ESG policy above. East Capital Real Estate's approach to applying the framework in its investment process are described in section 3 below.

East Capital Real Estate sets to make our real estate investments more sustainable. This appendix describes in detail how East Capital Real Estate incorporates ESG issues into the investment analysis and decision-making processes. East Capital Real Estate has been a long-term and responsible property investor since inception in 2005. This policy formulates the values and beliefs under which we have invested since day one, implying consistently evaluating ESG-related risks and opportunities and developing our internal ESG framework.

Responsible investment is the integration of environmental, social and corporate governance considerations into investment management processes and ownership practices. East Capital Real Estate believes that integrating these issues into daily operations positively impacts long-term financial performance. We work towards the following general objectives: more efficient buildings (energy, water, waste profile), reduced carbon emissions, higher employee and tenant well-being and satisfaction, and full compliance with regulations. We believe this approach brings both sustainability-related and financial benefits. East Capital Real Estate believes that ESG issues may present a material risk and therefore ESG analysis must be an integral part of investment decision-making process.

## 3. ESG framework in East Capital Real Estate

### 3.1. Pillar 1: Sector Exclusions (Negative Screening)

East Capital Real Estate believes that integrating environmental, social, and corporate governance considerations into investment management processes and ownership practices positively impacts long-term financial performance. For this reason, we refrain from acquiring properties where the primary property use is in sectors, which we believe have negative environmental, social or ethical implications.

East Capital Real Estate will not invest in commercial properties where the primary or significant use of the property is by tenants known to generate their revenues from manufacturing weapons, manufacturing tobacco, producing, selling, distributing or marketing adult entertainment or gambling services and products.

### 3.2. Pillar 2: Controversy (norms-based) Analysis

Pillar 2 is about assessing companies in terms of compliance with international norms, standards and underlying conventions. The controversy analysis is applicable to all East Capital Group strategies, including tenants in the acquired assets in the real estate operation.

All transaction counterparties of East Capital Real Estate (sellers and buyers of the properties) are checked in the legal due diligence process prior to transaction. The tenants in East Capital Real Estate funds' portfolio are monitored with regards to being on sanctions list or otherwise having encountered legal, regulatory or criminal issues. This review is conducted using the Refinitiv World Check database. Any tenants that are highlighted as possibly at risk are brought to the investment management teams' attention.

### 3.3. Pillar 3: ESG scorecard and Red Flag analysis

Environmental, social and governance (ESG) considerations play a significant part in the investment analysis as well investment management processes. East Capital Real Estate is conducting an ESG materiality assessment for our investments, including identifying material ESG risks and incorporating them into investment decisions. We believe these considerations help us generate superior risk-adjusted returns through reducing operating costs and increasing income, and potentially impacting property valuation.

The main tool used for assessing the sustainability profile of potential new acquisitions is our proprietary ESG scorecard. The ESG scorecard similarly covers all our existing portfolio holdings. Scorecards are reviewed and updated annually. The scorecard serves as a benchmark against peers or market average and as a tool to identify required improvements on an ongoing basis.

The ESG scorecard includes a red flag section with 9 questions which outline the most crucial sustainability related risks. For new acquisitions, the red flag section further includes six questions related to the counterparty in the transaction.

Furthermore, the properties are then assessed in various aspects of relevant sustainability issues, aligned with the UN Sustainable Development Goals. The ESG scorecard incorporates 22 environmental indicators, 14 social indicators and 6 governance indicators such as relating to energy efficiency, water consumption, waste management, accessibility, indoor climate and air quality, noise or light pollution, tenant well-being, tenant profiles, and other relevant topics related to control and oversight.

The ESG scorecard is a useful tool to map the strengths, weaknesses, threats, and opportunities of each property and enables to draw conclusions and suggest improvement actions. The scorecard generates an overall ESG score for the property, where the highest weight (60%) has been given to environmental topics while governance accounts for 20% and social factors for 20%. The total score ranges from 0% - 100%. We would generally not invest in properties with a score below 60% and prefer that new acquisitions have scores in the upper range (80%-100%).

The scorecard setup and more detailed description can be found below in table 1.

**Table 1.** East Capital Real Estate proprietary ESG Scorecard

| | **Aim** | **Area covered** | **Score levels** |
|---|---|---|---|
| Red flag score | Considers the 9 most critical ESG questions in real estate for existing investments and extra 6 (altogether 15) for new acquisitions<br><br>Gives quick ESG overview and understanding<br><br>Helps focus improvement objectives | Focuses on major red flags related to environmental, social and corporate governance issues<br><br>Covers international norms and standards and severe systematic environmental or social controversies | Maximum 2 Red Flags for Standing Investments<br><br>Maximum 3 Red Flags for New Acquisitions<br><br>Higher number of Red Flags is deemed acceptable in case of a specific reason with a clear mitigation pathway |
| ESG scores | 42 questions in total to consider relevant and material ESG risks and opportunities<br><br>Help determine the sustainability profile of each property | Environmental (60%)<br>• Energy efficiency<br>• Water management efficiency<br>• Waste systems sophistication<br>• Resource intensity compared to peers | Score of at least 60% of total 100% for all investments<br><br>Specific insight or reason may allow a lower score (and higher ESG risk) if warranted, accepted, and documented, for example, if we have sufficient evidence and tangible triggers for near-term ESG improvements |

| | | | |
|---|---|---|---|
| | Generate a list of issues to improve the property ESG performance | and / or market averages<br><br>Social (20%)<br>• Infrastructure and access<br>• Tenant health and wellbeing<br><br>Governance (20%)<br>• AML and KYC coverage<br>• Tenant profile and approach to sustainable investing | |

**3.4. Pillar 4. Active property ownership**

East Capital Real Estate shall act as an active, engaged and responsible property owner and landlord. This includes close interaction with various stakeholders for improving the sustainability profile of the property and increasing awareness of sustainability in the real estate sector. We aim to guide the tenants in sustainable building use and have developed ESG related lease criteria in agreements. Besides, we need to ensure the health and wellbeing of occupiers in our building and do this via ESG scorecard assessment, which helps us identify areas of improvements, BREEAM certifications as well as tenant satisfaction surveys. We have a supplier code of conduct in place to ensure our service providers' compliance to standards and regulations. We participate in global benchmarks, various sector events and report to investors and banks in an effort to create more awareness, clarity and comparability between asset managers. We aim to develop our local communities and participate in children and youth support programs. We also ensure that our employees are treated equally and have good working conditions, by enforcing HR policies and conducting employee satisfaction surveys.

## 4. Management of environmental impact of East Capital Real Estate

### 4.1. Energy efficiency

East Capital Real Estate acknowledges the impact property sector with its high energy consumption has on climate change and works towards highly energy-efficient buildings. Real estate assets consume significant amounts of energy, primarily related to heating, ventilating, air conditioning, water heating, lighting and the use of equipment and appliances. We believe that effectively managed energy performance of our assets may incur reduced operating costs, increased and secured tenant demand, higher rents, and occupancy levels, all leading towards higher revenues and higher property values.

We assess the property's energy performance upon acquisition, including but not limited to reviewing the property, its energy rating, and the results of the energy management section in our proprietary ESG scorecard.

We aim to acquire energy efficient buildings that significantly contribute to reaching the carbon neutrality target of our property portfolios.

We also monitor the energy performance of our existing building portfolio, and where feasible, improve it by investing in energy-efficient technologies and optimising operations.

We engage with our tenants on their energy use with the aim to reduce it where possible. East Capital Real Estate has an appendix to the lease agreements dedicated to sustainability, which include clauses on efficient property energy management, sensible energy use, sub-metering of the energy consumption by tenants, and information exchange between the landlord and the tenant on this topic.

Energy profile of the building and the energy efficiency are also an important part of the environmental certifications, and several improvements are initiated in the process of certifying our properties. The environmental certifications are an overarching initiative which helps to position the properties within the target for carbon neutrality.

East Capital Real Estate plans to set targets on energy performance including measures to reach the targets.

**4.2. Renewable energy**

East Capital Real Estate aims to increase the share of renewable energy used across the property portfolio. This will include purchasing renewable fuel, producing renewable energy, and purchasing renewable energy. Renewable energy is defined as energy from sources such as solar, geothermal, wind, hydro and biomass.

We aim to purchase and use renewable electricity to the extent possible across our property portfolio. In certain cases, including situations where the tenant has operational control over the property, this may not be feasible at once, but this will remain an objective and a dialogue will be held with the tenant.

We are also looking for ways to produce renewable energy in our properties. We have initiated processes to install solar panels onto our properties to the extent it is technically possible, in order to cover the buildings' energy needs, partially or wholly.

East Capital Real Estate has set a sustainability target to increase the share of renewable energy used across the portfolio to the maximum extent possible. The target will be monitored and reviewed annually.

**4.3. Water**

Buildings account for significant water use in their operations through water fixtures, equipment, and appliances. East Capital Real Estate aims for efficient water use in its properties.

We track and monitor the water use of the buildings. We aim to reduce water consumption by installing water efficient equipment, such as low flow and water-conserving facilities, and leak detectors throughout the water system where feasible. Water management in the building and water-saving equipment are also an important part of the environmental certifications, and several improvements are initiated in the process of certifying our properties. The environmental certifications are an overarching initiative which helps to position the properties within the sustainability targets.

We engage with our tenants on their water use and cooperate to reduce it where possible. East Capital Real Estate has an appendix to the lease agreements dedicated to sustainability, which includes clauses on efficient water management, sensible water use, sub-metering of the water consumption by tenants, and information exchange between the landlord and the tenant on this topic.

We also investigate the possibility to reuse and recycle water where applicable.

East Capital Real Estate plans to set targets on water performance including measures to reach the targets.

**4.4. Waste**

The property sector as a whole is responsible for significant waste generation in construction and refurbishment processes. Waste is also generated in the daily operations of our tenants in our properties. As East Capital Real Estate does not engage in new construction or material redevelopments we currently monitor and track the waste generation by the tenants only.

East Capital Real Estate aims to reduce the waste amounts in the buildings we manage and ensure a proper waste disposal. Our first goal is to minimize the waste amounts produced in the properties, but also to ensure proper sorting facilities in the properties, to reuse and recycle the waste as much as possible and to minimize the amount of waste sent to landfills.

We engage with our tenants on waste management. Even though we cannot at all times directly influence the waste types and amounts of waste deriving from tenants' operations, we are able to ensure the properties are equipped with appropriate waste sorting facilities.

East Capital Real Estate has an appendix to the lease agreements dedicated to sustainability, which includes clauses on waste management, aligning the efforts to minimize the amount of generated waste. This appendix will be enforced step-by-step upon signing new leases or for lease changes.

East Capital Real Estate plans to set targets on waste management and share of recycling including measures to reach the targets.

**4.5. Environmentally certified buildings**

Environmental certifications are an important tool to manage our environmental impact and guide on important factors in the real assets' sustainability profile.

East Capital Real Estate aims to fully cover its property portfolio with sustainability certifications. We prefer to acquire properties which are certified under a widely known assessment system, such as BREEAM, LEED or similar. If not available from before, and for previously acquired properties, we will proceed with certification ourselves. For properties in the portfolio not previously certified we have chosen to certify the properties under the BREEAM certification system. The targeted minimum BREEAM rating is "Very Good" for all properties, which preferably should be achieved in the first assessment. For office buildings, we aim for a certification at "Excellent" level.

The certifications ensure to the building occupiers that our properties are sustainable and constitute high-quality workplaces. They also ensure our tenants that our properties have low environmental impact and contribute to aligning the sustainability goals with the tenants. Similarly, certifications are an important indicator to investors as well as other stakeholders of our responsible investing principles.

**4.6. Greenhouse gas emissions and climate neutrality**

Climate change is one of the most pressing global issues today. To avoid the worst impacts of climate change, governments, businesses, and society need to commit and work together towards a net zero world. The Paris Agreement, adopted in 2015, is a legally binding agreement to limit the global warming at 1.5°C above pre-industrial levels, which requires greenhouse gas emissions to be reduced by 45% by 2030 compared to 2010 levels and to net zero by 2050. East Capital Group acknowledges the significant transformation required and its ESG policies and targets work towards this goal.

East Capital Group itself is a climate neutral company since 2012.

East Capital Real Estate works to reduce carbon emissions from the buildings and aims towards net zero emission target in 2050 or sooner. We measure our greenhouse gas emissions annually within the GRESB reporting framework, where calculations are done in line with the Greenhouse Gas Protocol recommendations. The areas that we have so far addressed to contribute most to climate mitigation are energy efficiency and renewable energy use. We are taking actions to improve the energy management throughout our property portfolio and engage with tenants and suppliers on this topic.

**4.7. Climate Risk Management**

East Capital Real Estate integrates climate-related risk management process into its operations. Climate-related risks can be divided into two major categories: 1) risk related to the transition to a lower-carbon economy and 2) risks related to the physical impacts of climate change.

Transition risks derive from policy, legal, technology and market changes to address mitigation and adaptation requirement related to climate change. Transition risks may pose varying levels of financial and reputational risks to organizations through changes in regulations and market situation.

Physical climate risks result from climate change and can be either event-driven (acute) or longer-term shifts (chronic) in climate patterns. Physical climate risks may impact buildings by changing the daily operations (for example change in outdoor temperatures or precipitation), create direct physical damage to assets or indirect impacts from supply chain disruption.

East Capital Real Estate considers key physical and transition risks in its ESG scorecard. This is the first assessment of the impact of climate change on the properties. Additionally, East Capital Real Estate further plans for an assessment of risks and opportunities related to the portfolio. This process will include dividing the climate risks into subcategories, assessing the likelihood and the severity of the risk, and pointing out key mitigation measures.

Improving our understanding of existing and future climate-related risks increases our resilience towards these risks and future-proof our funds and properties. Not considering climate risks may result in reputational damages, leasing risks (lower rents, lower attractiveness to tenants), direct impact to cash flows through increased operating costs and lower income, increased depreciation, increase in risk premium, increase of lending costs for the non-compliant, non-certified and non-resilient assets and lower liquidity of the assets.

**5. Responsibility**

Responsible for design and implementation of this policy: Chief Sustainability Officer

Responsible for monitoring of implementation: CEO of East Capital Group

Responsible for annual review: Board of Directors of East Capital Holding

**6. Distribution**

Internal and external distribution.