Sustainable Investment Report 2023

East Capital Group

EAST CAPITAL GROUP

EAST CAPITAL

EAST CAPITAL REAL ESTATE

espiria

ADRIGO

WORKING FOR POSITIVE CHANGE
SINCE 1997

Important information

Cover photo: Aerial panorama over Stockholm, Sweden by John Nilsson (Shutterstock)

Contents

East Capital Group

East Capital Group is a global asset manager based in Sweden since 1997. We offer a range of investment solutions within equities, fixed income securities, real estate and alternatives. The essence of our business is not only to find attractive investment opportunities, but also to work to drive positive change, influencing industries around the world to become more sustainable. We have a broad range of international investors including leading institutions, companies and private individuals.

We are responsible long-term owners who are "invested" both in terms of our stewardship and our capital. We leverage our regional and sector expertise with active investments in the world's fast-growing economies and combine it with a clear, proprietary ESG framework to deliver strong and sustainable returns for our investors. With our beginnings in emerging and frontier markets, we are today a global investor, with extensive experience in and a focus on sustainable long-term investments.

Within East Capital Group you will find East Capital - specialising in emerging and frontier market strategies, East Capital Real Estate - managing commercial real estate investments in Central and Eastern Europe, Espiria - offering bespoke global and Nordic equities and fixed income strategies, and Adrigo - a Nordic long/short fund strategy targeting absolute returns. East Capital Group owns 49% of Cicero Fonder and 49% of Hjerta (Nordic Brokers Association), it also has a significant holding in the listed company Eastnine (OM:EAST), which owns, develops and manages modern and sustainable office and logistics premises in prime locations in the Baltics and Poland.

For more information, visit our website www.eastcapital.group.

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Our ESG Journey - 26 years of engagement

1997
East Capital is founded. Based on sound Nordic values, we set out to be long-term, active and responsible owners.
We start engagement and voting.

2002
We send our first annual letters to all portfolio companies, detailing our expectations as owners.

2004
We introduce East Capital Awards, to reward the progress of outstanding companies in East Capital's portfolios.

2007
We implement sector exclusion criteria. Commercial gambling exclusion was added in 2020.

2009
We join ACGA (Asian Corporate Governance Association).

2010
We start semi-annual controversy screening of all funds.
We establish a new role within investment team: Head of Corporate Governance and Sustainability.

2011
We start nominating independent directors to the board of our portfolio holdings.

2012
We become signatory of UN PRI.
We start disclosing and offsetting our scope 1 and 2 GHG emissions.

2013
We introduce East Capital Best Corporate Governance Award.

2015
Integra, a landmark court case, puts us on the map for protecting minority investors all over the world.

2016
We implement our proprietary ESG integration tool, integrating sustainability and SDGs in our investment process.

2017
We join SISD.

2018
We join Climate Action 100+, Tobacco-Free Finance Pledge.

2019
We launch East Capital Global Emerging Markets Sustainable.
We become a TCFD supporter.

2020
We join SWESIF and IIGCC.
We implement Esgaia, a tool for engagement management.

2021
We become an IFRS Alliance member and join the FSDA. Espiria joins NZAM and launches Espiria SDG Solutions.
We introduce East Capital SDG VCA tool.

2022
We become signatory of UNGC and a supporter of TPI, IPDD and Advance.
Espiria rolls out EIA and EQSS tools.

2023
We join Nature Action 100 and we sign up as early adopter of TNFD.

Photo: Alessio Soggetti (Unsplash)

2023 in a nutshell

Active ownership, stewardship, initiatives

- We joined the launch meeting with all participants in **Advance** (UN PRI initiative on human rights) and the first meeting with the Zijin Mining engagement group's members, followed by a meeting with Zijin Mining management.

- We organised a **meeting with IIGCC and PRI representatives** to suggest a broad **engagement with key data providers** to put pressure on issuers to disclose relevant SFDR needed metrics, and to ensure that reporting and scoring by data providers lends no benefits to companies that don't make full and proper disclosure. Both IIGCC and PRI are keen to focus advocacy efforts on robust implementation of Level II requirements under SFDR.

- We started the work on the Tier 1 Baseline Engagement with a Greek company, a holding in East Capital Global Emerging Markets Sustainable and Eastern European strategies, which is in the scope of the **Net Zero Engagement Initiative**. NZEI is coordinated by IIGCC, the Institutional Investors Group on Climate Change).

- We were confirmed publicly as a signatory of **Nature Action 100**, which was officially launched mid-September. We partake in 4 engagements with Chinese portfolio holdings (Alibaba, Tongwei, Yili, Zijin Mining), which had by Q1 2024 all started.

- We signed up 71 companies for this year's **CDP's NDC** campaign (45 East Capital, 22 Espiria, 4 Adrigo) and were given responsibility as lead investor for 28 companies. There were 280 participants for the 2023 NDC campaign, targeting 1,600 companies. **CDP's NDC** campaign resulted in a 18% success rate (5/28), lower than usual. Granular information about the campaign is available in the campaign report, distributed globally, where East Capital Group is mentioned (page 5).

> At a time when environmental disclosure requirements keep increasing and competing standards are emerging, we support the CDP framework as the broadest and most-established. We have been promoting it towards our portfolio companies specially in emerging markets for several years in a row.

Karine Hirn
Chief Sustainability Officer and Partner

- We participated in the **annual CDP's SBT campaign**. CDP has curated a sample of high-impact companies with the MSCI ACWI Index as a starting point and applied a number of filters to ensure maximum impact and relevance. The sample size almost doubled in 2023 compared to last year, therefore more companies were engaged through the campaign.

- **ACGA China Working Group** launched two new engagements, and we were offered a leading role in both (BYD and CATL). While progress is being made on the former, the latter has not.

- We signed the joint letter by Eurosif, PRI, IIGCC, UNEP FI and EFAMA, along with 92 investors, calling on the EU Commission to uphold the **integrity of the first set of ESRS**, to maintain the EU's status as a global leader on sustainable finance.

- As part of the FSDA (Financial Sector Deforestation Action), we collaborate with leading global investors on the engagement with Swedish hygiene and health company, Essity. We also engaged with several portfolio holdings on deforestation risks (see pages 49-51 of this report).

- We signed the **ISSB statement** *"Climate risks are increasingly having a real effect on companies and capital. Therefore we support the establishment of market infrastructure to enable consistent, comparable climate-related disclosures at a global level. We are committed to advancing the adoption and use of the ISSB's Climate Standard as the climate global baseline."* to demonstrate our support for ISSB's climate global baseline as part of the COP28 agenda.

- We formally signed up as early adopter of **TNFD** (Taskforce on Nature Related Financial Disclosures). We will commit to disclose in line with TNFD recommendations for FY2025. The list of early adopters was published in January 2024 in connection with WEF in Davos. In Sweden we are the only asset manager to do so, and only one out of four financial institutions alongside three AP funds (Swedish National Pension Funds).

- We were invited to join the **PRI Sustainable Systems Investment Manager Reference Group** (SSIMRG). This new initiative gives us an opportunity to work with the PRI on a varied spectrum of ESG issues and systemic sustainability challenges, directly access PRI to discuss barriers to responsible investment in your markets and help shape PRI's views and workstreams; and connect with peers globally.

- We participated in the **UNGC's SDG Stock Take Survey**, a collaborative project led by the UN Global Compact and Accenture. Findings were presented at the 2023 SDG Summit at UN General Assembly in September 2023, as well as at COP28 in November 2023.

- We completed a survey by the **IFC, coordinated by the Sustainable Stock Exchange initiative to promote gender equality** in capital markets, and designed to understand how companies are or can integrate climate risks and opportunities into business strategy, culture and values, and promote gender equality and women's business leadership. Results of the survey will be part of the IFC's Women on Boards and in Business Leadership program.

- We participated in the **Global Stewardship Resourcing Survey**, a joint project by the UN PRI and The Thinking Ahead Institute, which aims to understand the current size and shape of stewardship resources in the investment industry.

- We were interviewed for a project led by Transparency International UK Chapter which is developing practical **guidance for impact investors**, founded by British International Investment and Swedfund.

- We participated in the PRI's **EU Policy Priority poll**.

Resources, policies

- **ESG Policy** for the East Capital Group, following board approval, was published on our websites, in its entireness.

- We implemented an **ESG database for East Capital** (covering ESG scorecards' finding and 3-steps-test) in PowerBI. Other internal processes, related to reporting and to research, have been automatized and we have identified a number of processes to be streamlined, including with the use of AI tools.

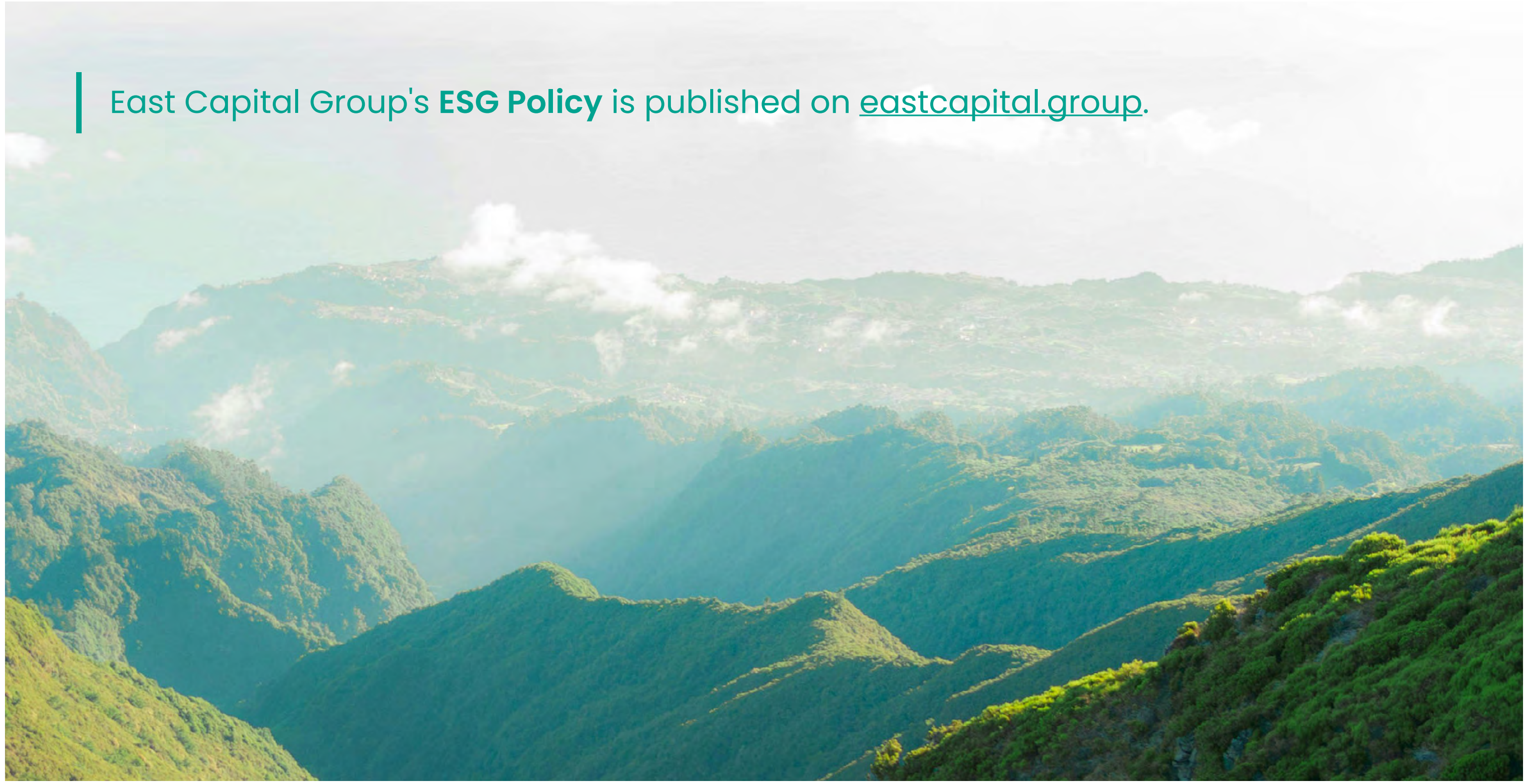


Photo: Geike Verniers (Unsplash)

How we generate value

Key characteristics of our portfolio management approach

Since day one, we have set out to be a long-term, active and responsible investor. Our investment teams base their investment strategy on in-depth knowledge of local markets, fundamental analysis and frequent company visits. Evaluation of ESG-related risks and opportunities forms an integral part of the investment process. We favour investments in companies that show long-term sustainable growth and have responsible owners.

Over the years, our investment teams have interacted with thousands of companies, management teams, regulators, governments and other investors. We have consistently worked on developing how we address sustainability and ESG-topics to ensure that we are able to offer sustainable investment products to our clients. This has resulted in a unique and proprietary approach that has been diligently carried out by our investment teams for more than 25 years. Our ultimate goal remains the same: to make better informed investment decisions and enhance the value of our portfolio companies through active ownership, while contributing to the advancement of sustainability in our investment universe.

On-the-ground

Frequent and personal meetings with company owners, management teams and policymakers are an integral part of the investment process, providing us with in-depth local knowledge, access to information and an extensive network. Being on-the-ground is essential in better understanding the local market dynamics, making better-informed investment decisions and monitoring existing holdings.

Research-driven

Diligent research is essential for identifying key performance drivers and correctly assessing risk. We rely on our own research, including risk scenarios and a proprietary ESG analysis, in our investment process.

Long-term

While we can make some short-term adjustments, we do so without sacrificing the overall long-term focus and the low core turnover of the portfolios. We focus on companies with strong and predictable growth profiles, high and consistent return on equity, high free cash flow and high capital efficiency. Fundamentals matter over time.

Active stock pickers

We look beyond index composition and invest by conviction on a company-by-company basis. Our portfolios typically have a high active share. Our off-benchmark exposure often includes a significant allocation to small and mid-cap companies, which can offer "below radar" and hence reasonably priced exposure to certain sectors benefiting from strong structural demand. We also like frontier markets which are in general both faster-growing and less correlated to the developed world than emerging markets.

Dynamic

It is important to keep a clear view on the rapid pace of change and its potential impact on stock prices, especially when it comes to emerging and frontier markets. Central bank decisions, commodity prices, geopolitics and local investor sentiment will all influence stock performance. It is therefore important to keep a look at the drivers beyond the pure fundamentals.

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. We consider good corporate governance as well as environmentally and socially responsible behaviour to be essential in managing a company with the aim of maximising 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 recognised 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.

Throughout the years, we have also engaged in numerous dialogues with governments, stock exchanges, regulators, standard-setters, industry initiatives and other market participants to promote improvements in the institutional and legal framework of specific markets.

Active owners

ESG factors are an important driver of long-term investment returns from both an opportunity and a risk-mitigation perspective. We are enforcing improved ESG standards and strengthening the chain of accountability in portfolio companies through our monitoring capacity and constructive engagement. Continuous dialogue with portfolio companies covers a range of issues such as developing a clear and consistent shareholder distribution policy, professionalising board processes, promoting gender diversity on boards, raising and addressing environmental and social concerns, improving transparency, reporting and investor relations, improving rights for minority shareholders or reaching a better fair-value in buyouts. Our experience has shown that an engaged and constructive dialogue will more often lead to convincing the company to initiate positive change, while simply exiting the investment achieves nothing. Voting at AGMs/EGMs is another important way for us to communicate our views to the companies and their management.

Our sustainability disclosure

East Capital Group is committed to consistent and thoughtful transparency and has been reporting publicly on responsible investing and ESG (Environmental, Social, and Governance) related efforts and results since 2015. As a UN PRI (Principles of Responsible Investment) signatory since 2012, East Capital publishes its annual transparency report on its website.

For the third year, in 2023, we produced our annual Sustainability Disclosure, developed in accordance with the Sustainability Accounting Standards Board (SASB) Industry Standards for Asset Management and Custody Activities. The disclosure contains assessments of our performance across four material topics: transparent information and fair advice for customers; incorporation of ESG factors in investment management and advisory; employee engagement, diversity and inclusion; and business ethics.

The sustainability disclosure also includes a section on climate related issues in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This framework provides a standardised and relevant way of helping investors and others understand how we assess and manage climate-related risks and opportunities.

Further, East Capital Group closely monitors new developments and complies with existing requirements of the EU legal framework on sustainability-related disclosure, including the Sustainable Finance Disclosure Regulation (SFDR). The SFDR lays down harmonised rules for financial market participants and financial advisers on transparency regarding the integration of sustainability risks and the consideration of adverse sustainability impacts, as well as the provision of sustainability-related information with respect to financial products.

Managing our climate footprint

East Capital Group offsets its carbon emissions on an ongoing basis and identifies adequate investment projects to support communities in becoming carbon neutral.. The Stockholm office pioneered this effort by becoming a climate neutral office already in 2010, and as of 2012, all offices are included in emission calculations and our efforts to reduce climate impact. Our clear ambition is to actively decrease our negative climate impact. This means that we every year calculate our greenhouse gas emissions, according to the international standard Greenhouse Gas Protocol, implement measures to reduce our emissions and offset any remaining emissions. Our emissions are mainly related to our business travel and offices.

Investing in the community

Our social contributions to support our investment universe are primarily focused on helping children and young people to ensure a better future. We prefer to build long-term relationships and we actively ensure that any initiative that we support is efficiently run with lasting positive effects that are congruent with the aim of our support.

SOS Children's Villages

Since 2007, East Capital has been a proud partner of the SOS Children's Village in Keila, Estonia. SOS Children's Villages provides a loving home to children who do not have the opportunity to grow up with their biological family. SOS Estonia is part of SOS Children's Villages International, maintaining high standards of operations, quality control and organisation. Throughout these years, we have supported SOS families living in the SOS Children's Village in Keila. Initially, in 2007, we were supporting a family with five children and then from 2018 we have been supporting another family, also with five children – during 2023, alongside planned activities, we were pleased to host the family for a holiday at the newly opened LaSpa Hotel located on the Estonian seaside. Our relationship with the family is very appreciated by our employees and we regularly visit them in Keila.

Support for Ukraine

During 2023 East Capital Group focused on supporting Ukraine through donations to various organizations.

Insamlingsstiftelsen Sverige-Ukraina

Insamlingsstiftelsen Sverige-Ukraina's goal is to improve the health and living conditions of the Ukrainian population by strengthening healthcare, education and other important infrastructure, while working to support veterans and volunteers.

www.sve-ukr.se

OperationAid

OperationAid supports the children and healthcare in Ukraine. Right now they focus on transport and care of the wounded, as well as activities for war-affected children and young people. Hope is not a strategy, let's act together, here and now!

www.operationaid.org

Star for life Ukraine

Star for Life Ukraine is striving for a future where every underprivileged child can harness the power of technology and education to shape their destiny.

www.sflua.org

Svenska bussarna

Svenska Bussarna is an initiative started by a young Swedish team, in connection with the refugee crisis that arose when Russia invaded Ukraine. Already the first months they transported 700 women and children to safety. They have also supported Ukraine with cars, ambulances, medicine, and other humanitarian, aid and continue to do so.

www.svenskabussarna.com

Our ESG framework

Our approach and tools are organised in four pillars

Pillar 1:

Sector exclusions

Since 2007

What:

- Negative screening is defined and monitored at fund level
- No investment in any company with any exposure to controversial weapons
- Depending on strategies, portfolios may exclude:
  - Alcohol
  - Commercial gambling
  - Fossil fuel
  - Pornography
  - Tobacco
  - Weapons
- Other sector exclusions such as alcohol and fossil fuel apply to specific strategies

How:

- Screening implemented in the analysts'/PMs' initial analysis
- External screening available if uncertain
- Quarterly portfolios checks reported to the Board

Pillar 2:

Controversy (norms-based) analysis

Since 2010

What:

- Monitor suspected breaches of international norms, standards and underlying conventions on human rights, labour standards, environment, health & safety or bribery
- Input for dialogue and engagement
- East Capital Global Emerging Markets Sustainable, Multi-Strategi and Global Frontier Markets, and Espiria SDG Solutions exclude companies which are non-compliant

How:

- Screening implemented in the analysts'/PMs' initial analysis
- Screening using external data input
- Ongoing monitoring by the analysts/PMs
- Assessment done and reported to the Board on a quarterly basis

Pillar 3:

ESG integration tools

Since 2016

What:

East Capital
- Red Flag Analysis
- ESG Scorecard
- SDG VCA (Global Emerging Markets Sustainable)

Adrigo
- Red Flag Analysis

Espiria
- Red Flag Analysis
- EQSS
- Espiria Impact Assessment (SDG Solutions)
- 21 List (fixed income)

East Capital Real Estate
- Red Flag Analysis
- ESG Scorecard
- BREEAM

How:

- Scoring done by the analysts/PMs: own judgment remains critical
- Calibration performed with the ESG team
- Scores reviewed annually or upon major event
- Data reported quarterly to the Investment Committee and to the Board

Pillar 4:

Active ownership and landlordship

Since 1997

What:

- Active ownership to add value post investment
- Communicate our views and expectations as owner
- Initiate engagement where relevant, primarily based on our proprietary analysis, which identifies material issues
- Achieve material and measurable results
- Create value for tenants and communities

How:

- Engaging on our own directly with companies
- Collaborating with other investors, associations, initiatives if relevant and efficient
- Proxy voting
- Letters to portfolio companies and tenants
- Data and results reported quarterly to the Investment Committee and to the Board

Photo: Anil Xavier (Unsplash)

Our ESG and sustainability integration toolbox

	Scope	Area covered	Aim
Red flag score • East Capital • Espiria • Adrigo • East Capital Real Estate	▸ All existing holdings ▸ When initiating research on new companies	▸ At the outset, considers the 10 most critical ESG questions ▸ Focuses on major Red Flags related to corporate governance, ethics and corruption ▸ Covers international norms and standards and severe systematic environmental or social controversies ▸ Considers Principal Adverse Impact	▸ Helps focus research resources and gives quick ESG overview and understanding ▸ Specific requirement levels (maximum number of red flags) used in portfolio construction
ESG scoring ESG Scorecard • East Capital • East Capital Real Estate	▸ All Key Active Positions and ten largest holdings as a minimum ▸ All holdings in Global Emerging Markets Sustainable and in East Capital Real Estate funds	**East Capital ESG Scorecard** ▸ Governance, Environment and Social risk and opportunities (current and outlook) ▸ 50+ questions to consider relevant and material ESG risks and opportunities in EMs and FMs ▸ SDG module based on holdings' revenue exposure More details on page 12 and 13	▸ Generates a list of issues to research further or raise with the holding ▸ Helps to determine level of conviction and to adjust our scenarios and modelling assumptions, if needed
EQSS • Espiria	▸ All holdings in Espiria funds	**Espiria Quality & Sustainability Score** ▸ Scorecard built on qualitative analysis of individual companies across 5 topics More details on page 17	
Additional sustainability assessment • East Capital Global Emerging Markets Sustainable	▸ All holdings	**SDG VCA Value Chain Analysis** ▸ Combination of revenue alignment and SASB materiality mapping and metrics to identify the two most important SDGs across the value chain ▸ Materiality, Intentionality, Additionality and Criticality criteria More details on page 14	▸ Identify, measure and monitor contribution to sustainable development goals through assessment of various dimensions ▸ Part of the eligibility criteria or part of the definition of sustainable investment for our Article 9 funds under SFDR More details on page 26
• Espiria SDG Solutions	▸ All holdings	**Espiria Impact Assessment** ▸ 1 primary SDG target, 5 dimensions of impact, Outcome KPIs More details on page 17	

Photo: Anil Xavier (Unsplash)

East Capital proprietary ESG Scorecard

In 2016 we developed and launched a proprietary ESG Scorecard to further integrate ESG factors into our investment process. The decision to develop our own scorecard was mainly driven by the desire to formalise and structure our own knowledge, experience and views of relevant and material ESG-related risks and opportunities. It was further compounded by the lack of coverage of external ESG research on emerging and frontier markets. Since 2017, it also includes a separate SDG module to ensure that we integrate risks and opportunities related to these goals on the path to 2030. In 2020 we added a momentum score which is key to guide our engagement priorities.

Our ESG Scorecard guides us in our assessment of relevant and material ESG risks and opportunities from an emerging and frontier markets' perspective. As the scorecards are filled in by the relevant research analysts, portfolio managers and portfolio advisors, with the support of our Chief Sustainability Officer, we ensure that the entire investment team integrates relevant and material risks and opportunities in their fundamental analysis, ensuring a more holistic analysis of company quality. The ESG Scorecard comprises 10 Red Flag questions and 50+ additional questions within E, S and G, which structures our review to consider relevant and material ESG risks and opportunities and an SDG module.

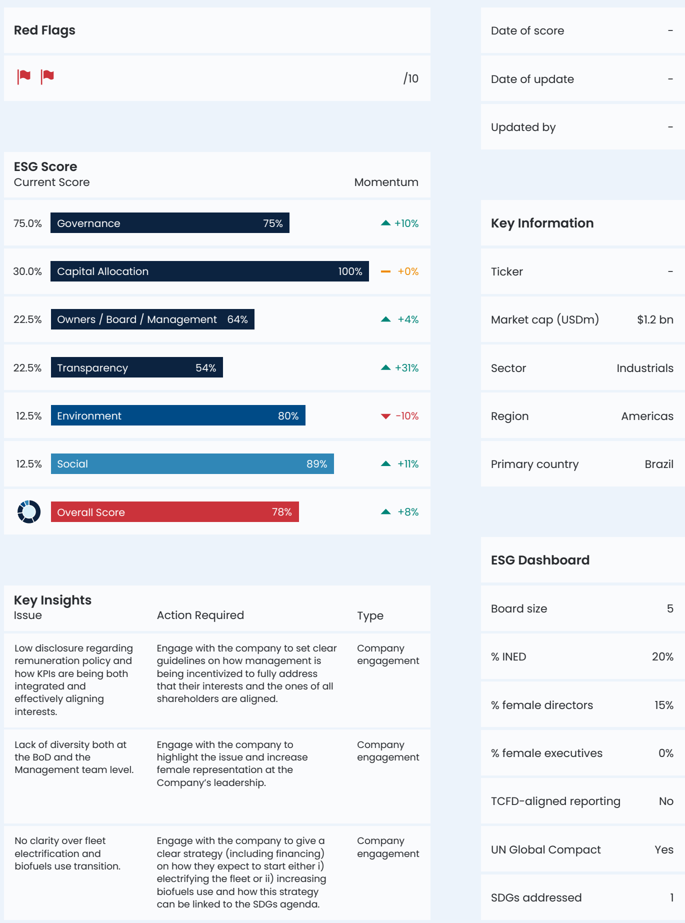
Some of the main benefits of the ESG Scorecard are that it:

- ensures that we consider relevant and material E, S and G related factors, including risks and opportunities related to the SDGs;
- generates a list of issues/questions to research further or raise with the company;
- identifies areas of improvement that we can address through constructive engagement;
- helps to focus our internal resources and ensures that we bring sustainability topics onto corporate agendas;
- ensures an integrated approach and a holistic analysis of company quality due to its being executed by the investment team;
- allows us to adjust our scenarios and modelling assumptions, if needed;
- helps to determine a level of conviction, (together with financial quality, significant upside, etc), reflected in the stock allocation;
- includes a forward-looking assessment through the momentum score.

Exposure to SDG is assessed through a separate SDG module (see next page)

ESG Scorecard

Example



Red flags look at 10 most critical issues around shareholders, management, governance and controversies

Governance (75% weight) and **capital allocation** (30%) in specific remain heart of scorecard

Score (and **momentum**) formally part of process, >70 required for portfolio inclusion, unless positive momentum; this ensures a high quality portfolio

Scorecard is updated by PMs and analysts on an annual basis and drives **key insights** and **engagement priorities**

Based on our own insights of the companies, we assess **ESG momentum**, i.e. direction of travel

Key metrics (as assessed by the team) are fed into our system for portfolio overviews

Separate **SDG module** assesses revenue alignment with SDGs

Oversight by **Chief Sustainability Officer** who will review all scorecards to ensure consistency among analysts/PMs

The 17 SDGs are grouped into two categories:

1. Goals that we believe may impact the demand for, or attractiveness of, a company's products, services or technologies.

In order to assess the impact of these goals in a structured way, the SDG module contains questions and examples per goal that help us to identify streams of revenue from a company's products/services or technologies that are expected to either:

- BENEFIT due to greater demand in order to achieve the SDGs, e.g. clean energy, education, health OR
- SUFFER due to lower demand or total substitution in order to achieve the SDGs, e. g. fossil assets or unhealthy food.

2. Goals that we see as the universal responsibility of all companies to address in their operations, regardless of size, market or sector.

Our expectation is that companies should act and operate in a manner that is supportive of achieving these SDGs, for example by working towards gender equality and decent work (and not actively contributing negatively). These goals are addressed in our overall ESG assessment of the company, as the proprietary ESG Scorecard is cross-referenced to each of these goals, with questions within the E, S and G sections.

Photo: Geike Verniers (Unsplash)

SDG Value Chain Analysis – East Capital

Case study published by the UN PRI

Why we focus on SDG outcomes

At East Capital our investment philosophy is to build portfolios around reasonably valued companies with strong structural growth exposure and management of material ESG risks and opportunities. In our Global Emerging Markets Sustainable (GEMS) fund, we also use the Sustainable Development Goals (SDGs) to identify structural growth themes.

Since 2016 our analysts and portfolio managers have been using a proprietary ESG Scorecard. We find that external ESG data providers don't add much value to our investment processes, given their coverage of emerging and frontier markets is often sporadic and employs a tick-the-box approach focused on the availability of policies. We believe this hinders emerging markets companies, which are often at an early stage of their ESG journey. Our internal research leverages our local knowledge, understanding, network and track record of constructive engagement.

A key part of our ESG Scorecard is a section on SDG revenue alignment, but we realised that this focus has some limitations, because:

- it is relatively subjective for all but the most obvious companies (e.g. pharmaceutical or healthcare-related companies may immediately be deemed to contribute to the SDGs while companies producing electrical components may be overlooked without further analysis)
- it does not necessarily represent the true SDG impact the company has (positive or negative) across its value chain
- it pushes investors towards a narrow selection of solutions providers that are often trading at stretched valuations

Consequently, we were keen to expand our ESG analysis to ensure that our investment team incorporated the analysis of SDGs more broadly.

Through our bottom-up research we find many examples of attractively priced companies whose activities do drive genuine and measurable SDG outcomes. One example would be one of the world's largest inverter companies (a key input for the renewable value chain) that achieved 45% renewable power use by 2022 and is targeting 100% by 2028. This will further reinforce the attractiveness of its products to buyers across the globe.

Nonetheless, given the huge variety of companies and sectors we analyse, it was difficult to incorporate our SDGs analysis in a systematic way.

How we focus on SDG outcomes

Consequently, we developed an SDG value chain analysis (VCA) tool. It incorporates Sustainability Accounting Standards Board (SASB) metrics that have been mapped to the SDGs by the Value Reporting Foundation (see SASB reporting standards and sustainability outcomes below). Figure 1 shows an example of the metrics mapped to the food retail sector.

Figure 1. Selected material metrics and SDG alignment for food retailers[1]

SDG	Metric (based on SASB)
1.2	(1) Average hourly wage and (2) percentage of in-store and distribution center employees earning minimum wage, by region
1.2	Revenue from products third-party-certified to environmental or social sustainability sourcing standards
2.1	Revenue from products labeled and/or marketed to promote health and nutrition attributes
2.2	High-risk food safety violation rate
7.2	(1) Operational energy consumed, (2) percentage grid electricity, (3) percentage renewable
8.4	Gross global Scope 1 emissions from refrigerants
8.4	Fleet fuel consumed, percentage renewable
12.3	Amount of food waste generated, percentage diverted from the waste stream

1. Source: SASB

Our tool uses these metrics as inputs, combined with our SDG revenue alignment analysis across the value chain, as described in the process below:

1. Use a combination of revenue alignment and SASB materiality mapping and metrics to identify the two most important SDGs for a company.
2. Assess how the company's activities (including its value chain) have impacted these SDGs over the last one to three years and how we expect them to do so in the next three to five years. The latter often requires dialogue with companies as guidance on non-financial metrics/target setting is fairly limited in general and even more so within emerging markets.
3. Based on the assessment, we apply a simple five-point rating system: strong positive impact, weak positive impact, neutral impact, weak negative impact, strong negative impact. We use the four principles identified in Figure 2 to determine the impact a company has on the SDGs identified and assign a rating – activities meeting one or two of these principles would be given a weak positive impact rating whereas those meeting three or four would get a strong positive impact rating.
4. As part of our SFDR Article 9 obligations, we also look at whether the company's activities are significantly misaligned with any of the SDGs.
5. The company is then given an overall score, based on a simple weighted average of the four impact assessments – 100 is given for strong positive impact and 50 for weak positive impact.

Figure 2. Impact assessment criteria

Principle	Question
Materiality	Are the impact categories material to the company's business?
Intentionality	Does the company intend to have a positive impact through its products or services?
Additionality	Does the service/product offer a tangible sustainability benefit that would not have otherwise occurred, i.e. does the company go beyond industry norms?
Criticality	Is the product or service critical to accomplishing a particular sustainability aim?

SASB reporting standards and sustainability outcomes

The SASB reporting standards identify 12-14 material and largely outcome-based sustainability metrics per sector. The Value Reporting Foundation has broken these into 77 sub-sectors, making them highly specific and relevant. They provide our analysts and portfolio managers with a ready-made list of the outcomes to look for when assessing a company's broader SDG alignment.

Embedding the tool into our investment process

We have fully embedded the VCA tool into our investment process for the Global Emerging Markets Sustainable fund. When we started using the tool in 2021-2022 we removed 6 companies due to not meeting our required score (25), i.e. not having net positive SDG impact. Currently, however, because we complete the analysis as part of the research process before buying a stock, a score of below 25 would mean we would not invest in a company.

We also use the tool to identify engagement opportunities, for instance highlighting to companies the importance of setting clear and metric-based sustainability-related targets that should filter through to management KPIs.

Company SDG VCA score directly feed into portfolio construction, based on a minimum threshold of 25. We also use the tool to generate clear and insightful data on the SDG outcomes of our investments. This remains, however, due to the industry-wide lack of data and the wide variety of positive and negative SDG outcomes.

While we already report on some portfolio-wide metrics, including carbon intensity, gender diversity at board and senior management level and – where the data allows – water usage, others are less broadly applicable. For example, for food retailers, careful management and control of food waste is one of the most material metrics we would look for (SDG12 – Responsible consumption and production), though this is not something we would expect companies in other sectors to report on.

SDG Value Chain Analysis – Case study

Finding positive SDG impact in the Middle East

Empower Central Cooling Systems provides district cooling, which is essentially pumping cold water through buildings to cool them instead of air conditioning. They are the largest player in the world, and cool many of Dubai's landmark buildings, including the Palm, the Emirates Tower and the Dubai World Trade Centre.

District cooling is up to 50% more energy efficient than air conditioning and doesn't use hazardous refrigerants found in the latter. As such, it is widely accepted to be a key solution to making cities more sustainable. For this reason, Empower's entire business is clearly aligned with several sub-goals of SDG 11 – sustainable cities and communities.

However, an important part of the SDG analysis is that we look across the value chain. The SASB metrics identified by our tool suggest that other material sustainability issues include emissions / power generation and also water usage. For the time being the company uses grid power from the UAE grid which is predominantly gas powered and uses mostly water from primary sources (as opposed to sewage). We assess that this has a negative impact on SDG outcomes. However, going forward the company is targeting to source above 40% of its water from treated sewage water and expects it will decarbonise in line with the UAE grid. As such we assess that in the next 3-5 years, the company's activities will have a neutral impact on this SDG.

The overall score is based on a simple weighted average of these four impact assessments, where 100 is given for strong positive impact and 50 for weak positive impact. Empower, a holding in East Capital Global Emerging Markets Sustainable, scores 38.

Assessing Empower Central Cooling Systems using the SASB-based VCA tool[1]

EMPOWER	11 SUSTAINABLE CITIES AND COMMUNITIES	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
How have the company's activities (including its value chain) impacted this SDG in the last 1-3 years?	**Strong Positive impact (Score 100)** • District cooling can reduce cooling energy consumption by 50%, and can drastically reduce electricity use during peak demand periods • In Dubai, A/C represents 70% of energy consumption, and according to the company, avoided emissions in 2023 from using their cooling were 1,006 kt CO_2e	**Weak Negative impact (Score -50)** • Company is currently powered by the UAE grid which is predominantly gas powered • Currently 20% of water used is treated sewage; this is increasing gradually
How do you expect the company's activities (including value chain) to positively impact this SDG in the next 3-5 years?	**Strong Positive impact (Score 100)** • The company is largest district cooling company globally and is expected to grow capacity at 5-8% per annum	**Neutral (Score 0)** • Interim targets see an increase of treated sewage to above 40% by 2025; no detailed decarbonisation approach, although we would expect the grid to slowly decarbonise in line with the country's Paris commitments
Is the company's activities or value chain significantly misaligned with any of the SDGs?	No	
Total score	**38** (based on simple average)	

Espiria ESG and sustainability integration toolbox

International standards and tools used in our process

SASB® STANDARDS
Now part of IFRS Foundation

IMPACT MANAGEMENT PROJECT

IRIS+

Espiria Quality & Sustainability Score (EQSS)

All Espiria fund strategies

Since EQSS was developed and rolled out in 2022, Espiria investment team has been using the framework for fundamental analysis to evaluate companies, applicable to all Espiria strategies. It is a scorecard built on qualitative analysis of individual companies across 5 topics, including Leadership, Market & Growth Potential, Business Strength & Resilience, Fundamental Factors and Sustainability. Each topic covers multiple sub-topics with specific parameters to assess, alongside pre-set guidelines. EQSS includes assessment across Principal Adverse Indicators under the SFDR regulation, as well as on companies' Net Zero alignment. The EQSS framework ensures true integration of critical factors that define the comprehensive quality of any company, and all data are historically traceable in our database.

Espiria Impact Assessment (EIA)

Espiria SDG Solutions

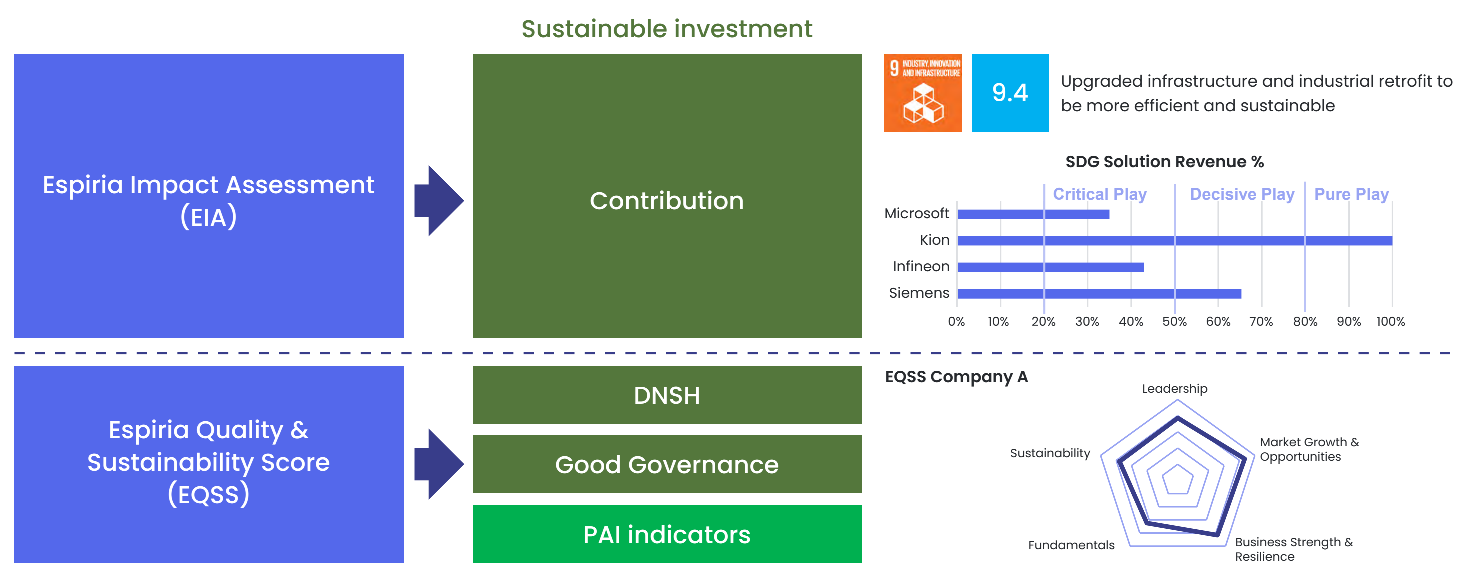
The EIA tool was designed in 2021 and has been used by the investment team to verify and ensure clarity on why and how a company contribute significantly to a specific SDG target, with outcomes measured by material KPIs. The tool consists of 28 questions to be assessed at the investee company level, covering 5 dimensions of impact (What, Who, How Much, Contribution, Risks) as well as best practices to safeguard the company's delivery of tangible impact: Intentionality, Materiality, Accountability, Measurability, Additionality.

The investment team relies on EQSS and EIA to select investments that demonstrate quality, structural growth potential and are SDG Solution companies with verifiable impact theory of change as well as measured outcomes.

At the end of 2023, the social and environmental outcomes of Espiria SDG Solutions' investment portfolio were compiled by the investment team for the second time since the strategy's launch in October 2021, enabling also now a year-on-year comparison on a set of outcome indicators.

More details on page 35

The EQSS and EIA integration in the investment process also ensure Espiria strategies always live up to our sustainable investment commitment under the EU Sustainable Finance Disclosure Regulation, illustrated in chart below:



Active ownership framework

Dialogue and engagement with companies

Our experience has shown that an engaged and constructive dialogue will more often lead to convincing the company to initiate positive change, while simply exiting the investment achieves nothing.

In addition to numerous telephone conferences and written correspondences, our research analysts, portfolio managers and portfolio advisers maintain a continuous dialogue with management teams, board members and other owners through more than 1,000 company meetings every year. Typical ESG topics may include working with companies to develop a clear and consistent dividend policy, professionalising board work and processes, raising and addressing environmental concerns, improving transparency, reporting and investor relations, improving rights for minority shareholders or reaching a better fair-value in buyouts. These meetings also provide an opportunity to discuss and understand how the company is positioned in relation to current and future ESG issues.

When contemplating an investment in a new company, understanding the shareholder structure is key. So, the first section we turn to is the list of shareholders. Is there a controlling shareholder? What are the incentives and goals of this shareholder and how do they align with those of us as minority investors? Assessing the main shareholders' incentives constitutes an important part in determining alignment. When possible, we aim to directly engage with other shareholders to build trusting relationships where we can maintain an open dialogue on the company's progress and, if needed, also be able to convey any constructive suggestions we believe may generate and support shared value creation for all shareholders.

Engagement process

Identify

- Proprietary ESG integration tools

Assess

- The main goals of the engagement are identified
- Engagements are prioritised based on our ability to influence a company and add value
- Portfolio weighting is also considered when prioritising engagements

Engage

- We engage directly with either the management team, the board or other shareholders through:
  - on-the-ground meetings with companies as well as our extensive local networks
  - letters, phone calls or emails to companies
- We collaborate with other investors and stakeholders

Monitor/Report

- Discussed in team meetings
- Progress is monitored on a case-by-case basis
- Where there are no signs of progress, there may be changes to the portfolio (depending on the materiality of the issue)
- Engagements are logged in Esgaia
- Included in quarterly reports to the board and investment committees, annual reports and in client communication

When adding a new portfolio holding to the East Capital funds, we initiate dialogue with the management by sending a "Letter from your new shareholder" to the CEO and the Chairperson. We encourage all companies' management teams and boards to make sure that rigorous analyses are done to 1) identify and prioritise their relevant and material environmental and social factors on a market, sector and operational level, and 2) address and integrate these into the company's strategy. We see this as an additional responsibility under good governance, making companies better positioned to react to changes in regulation, consumer demand and other developments, thereby ensuring that they remain relevant in the long term.

There are numerous examples where our assessment of ESG standards has helped us to avoid investments in companies that later failed, or where we have preserved value by blocking unfavourable resolutions at shareholder meetings. But more importantly, we are using our role as an active owner to engage with portfolio companies to ensure that the ESG risks and opportunities that, in our view, are relevant to a company's operations, are strategically assessed and integrated.

> Continuous dialogue with portfolio companies includes developing a clear and consistent dividend policy, professionalising board work and processes, raising and addressing environmental concerns, improving transparency, reporting and investor relations, improving rights for minority shareholders or reaching a better fair-value in buyouts.

Prioritising engagements

We have a formalised approach for how we allocate our internal engagement resources:

- Prioritise engagements in key active positions and 10 largest holdings of any strategy
- Prioritise ESG topics seen as specially important, material and relevant to the sector, market and company

Engagement resources

All analysts, portfolio managers and portfolio advisors are actively involved in ESG matters as part of their everyday work; through the implementation of ESG integration tools, participating and contributing in engagements and proposing and deciding on voting instructions.

Since 2010, the Head of Corporate Governance and Sustainability (succeeded in 2019 by Partner Karine Hirn as Chief Sustainability Officer, with the help of an Analyst) has been evaluating and structuring the practical ESG-related tools used in investment activities, supporting the investment teams in identifying and interpreting the impact and consequences of existing and emerging ESG related factors on issuers and portfolios, as well as ensuring relevant and material ESG matters are reported and discussed in investment team meetings and reported to the investment committee and board meetings.

Engagements are formally logged and developments and follow-ups are discussed during portfolio review meetings. The board of directors is updated on notable developments on a quarterly basis, in addition to receiving the full engagement log.

esgaia.

A platform to streamline active ownership

Since 2020 we have been using Esgaia to manage and monitor our engagement activities globally, streamline our workflows and increase the efficiency of our efforts. Esgaia is a tool that facilitates investors' engagement with portfolio holdings and other stakeholders, by structuring data and processes, automating reports and allowing collaboration with other investors. Esgaia's aim is to set a global standard for successful active ownership processes.

Photo: Jonas Jacobsson (Unsplash)

Nomination of board members

We encourage 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.

Board members should be selected based on skill, integrity and the ability to devote a sufficient amount of time to their work. We also strive to influence companies to ensure that an appropriate ratio of the board of directors/supervisory is independent in relation to the company and its executive management. Although the definition of independent director may vary between markets, the essence is the same — that directors should have a proven ability to exercise objective judgment in making decisions that are in the best interests of all shareholders.

Our experience has shown that independent directors are able to contribute with many improvements to the work of the boards, including:

- establishing board committees and improving board practices;
- improving transparency and investor relations;
- proposing revised dividend policies;
- implementing KPI-based executive compensation plans and new, financials-based KPIs;
- challenging and blocking value-eroding deals.

Voting

The majority of our portfolio holdings are limited liability companies, where the ultimate decision-making body is the shareholders' meeting. Although a still highly manual, complex and costly process, we believe investors should exercise their voting rights at annual and extraordinary shareholders' meetings (AGMs/EGMs) where this makes sense for their investment. Shareholder participation in AGMs and EGMs serves as a monitoring effect on the company's management and board and instils respect for the highest decision-making body — and ultimately the entire governance structure of the company. We see voting as one important way to communicate our views to the companies and their management.

East Capital Group uses an external proxy voting platform, which provides an efficient voting interface, an important source of information on upcoming AGMs/EGMs and their respective agendas, as well as a tool for tracking and reporting on voted meetings. Given that our funds are highly diversified, comprising mainly minority stakes in a large number of markets, we are unable to attend all AGMs/EGMs in person. More often, we vote by proxy or issue a power of attorney and voting instructions to someone who can represent us at the meeting.

Agendas for upcoming AGMs and EGMs are sent to our teams on a daily basis. In determining if and how the voting rights shall be exercised, members of the investment teams will consider all available information related to the meeting as well as our own analysis of the specific company, including contacting the company to get further clarification on specific resolutions. Our general views on typical resolutions and other ownership-related issues are described in East Capital Group's Active Ownership Policy. The investment teams will use this policy as a basis for deciding on how to vote in a meeting, while taking into account relevant market specifics.

Voting decisions are independently reached within the investment teams and we will not delegate decision making to any third party, although we may take third party recommendations into consideration. Ultimately, all voting decisions are made on a case-by-case basis, in the best interest of clients. Voting activities and results are presented at team meetings, investment committee meetings and board meetings.

Legal action

Since its founding in 1997, East Capital has invested in more than one thousand companies in emerging and frontier markets. We always prefer active engagement above exit or legal action and have a long track record of successfully resolving issues and preserving minority shareholder rights through open and constructive dialogue. However, if dialogue fails and East Capital deems that it has a responsibility and duty to take further steps to protect the capital that our clients have entrusted us with, we will evaluate the cost-benefit of initiating legal action. On average, East Capital is involved in one to two legal processes per year. This means that East Capital, since 1997, has been involved in 25-30 legal disputes, some of which have carried on across more than one year. Not all legal disputes have gone to court.

> We strive to influence companies to ensure that an appropriate ratio of the board of directors/supervisory is independent in relation to the company and its executive management.

East Capital Real Estate

Sustainability governance through stakeholder materiality and engagement

The sustainability strategy of East Capital Real Estate targets to ensure future-proof operations of the real estate business. The basis for the sustainability strategy and our sustainability goals is the materiality analysis which in turn is based on stakeholder dialogues among other sources.

We identify our key stakeholders as:

- Tenants and building users
- Business partners and service providers
- Employees
- Investors
- Credit institutions
- Local communities
- Legislators

We engage with our key stakeholders through various channels, such as meetings, direct e-mail and phone communication, surveys and consultations. Based on the stakeholder engagement we have mapped the most material topics relating to each stakeholder group. We continue to update and evolve this materiality analysis as we continue to build our sustainability processes.

Stakeholder group	Engagement channels	Material topics	Our action
Tenants, building users	• Direct communication by in-house property management • Satisfaction surveys	• Efficient properties • Healthy and sustainable workplaces	• Property improvements (technical, indoor climate etc) • Follow-up actions from satisfaction surveys • Guidance, events, newsletters for optimized resource use
Suppliers (business partners, service providers)	• Direct communication by in-house property management • Supplier code of conduct	• Secured health and safety in supply chain • No incidents or violations of international norms and regulations • Local sourcing	• Implementation, dialogue and feedback on supply chain code of conduct • Supplier assessments • Sustainable fit-out guides
Employees	• Satisfaction surveys	• Safe, healthy, productive, and attractive workplaces • Personal development and equal opportunities • High business ethics	• Workplace reviews • Follow-up actions from satisfaction surveys • Implementation of human resources policies and code of conduct
Investors	• Regular meetings • Regular reporting	• Investment return through sustainable property portfolio • Portfolio low exposure to climate risks	• Sustainability strategy and goals • Climate risk identification and mitigation • Transparent and comprehensive reporting • Solid GRESB rating
Credit institutions	• Regular meetings • Regular reporting	• Sustainable financing • Greenhouse gas emissions	• Sustainability strategy and goals • Transparent and comprehensive reporting
Local communities	• Direct engagement with certain groups • Residents' and public feedback	• Reduced climate impact and efficient properties • Stronger communities	• Sustainability strategy and goals • Climate risk mitigation • Supporting vulnerable social groups
Legislators	• Required reporting	• Policies leading to reduced climate impact • Good business ethics and anti-corruption	• Good governance practices and ensured compliance • Policy coverage and implementation

Our proprietary ESG Scorecard

One of the main tools to reach our sustainability goals is our proprietary ESG scorecard. The ESG scorecard is an in-depth questionnaire which is filled out while conducting acquisition processes but is similarly used as a monitoring and follow-up tool for portfolio holdings thereafter.

The ESG Scorecard considers the most critical ESG risks in the Red Flag section and then covers key environmental, social and governance issues in respective sections. The Red Flag section contains 11 questions which outline the most crucial sustainability-related risks and allow us to check the asset's conformity with our ESG policy, applicable EU regulations and other major environmental, social or governance issues. The questions relate to sustainability assessment, energy efficiency, physical climate risk and transition risk, biodiversity, tenant profiles, tenant wellbeing, and if there are any controversies in the alignment with the Sustainable Development Goals related to property use. For new acquisitions, the red flag section further includes five questions related to the counterparty in the transaction. In case Red Flags are identified, we also map the reasons and future mitigation/improvement paths.

The ESG scorecard then incorporates 42 questions on environmental, social and governance aspects of the asset. The questions range from energy and water use, efficiency measures in the building to location, accessibility and indoor climate as well as covering key oversight issues.
The scorecard generates an overall ESG score for the property which is then used as input to our investment decision and later monitoring the development of the sustainability profile of the property.
The scorecard analysis draws out key strengths and weaknesses, as well as threats and opportunities of each property. It serves as a benchmark against peers or market averages and as a tool to identify required improvements on an ongoing basis.

Red flags out of 10 total	0,0

ESG score	% of total
Environment	88%
Social	93%
Governance	83%
OVERALL WEIGHTED SCORE	88%

Key information	
Country Property sector	Estonia Office
Main tentant profile	B2B
Property size, lettable sq.m. Property's building completion date	15 000 2021
Environmental certificate Energy rating	BREEAM New Construction Excellent A+, A
East Capital Real Estate's Investment Vehicle	East Capital Real Estate IV

Key positive highlights	
Environment	1. BREEAM "New Construction "Excellent" certificate as well as energy rating A 2. Building management system allowing to increase efficiency and keep the resource use as well as side costs to tenants low
Social	1. The property has good indoor climate and sufficient natural lightning 2. The property has electric vehicle charging spaces as well as bike racks and changing rooms/showers for cyclists
Governance	1. The main tenants have publicly available sustainability commitments and governance policies 2. The main use of the property is ethical and corruption risk low

Areas for improvement	Issue	Improvement plan	Estimated CAPEX need	Potential NOI increase
Red flags	None detected			
Environment	1. The property does not include rainwater reuse system 2. The property does not include renewable energy on site	Investigate the opportunity to install one Investigate installation of solar panels	n/a EUR 100th	n/a n/a
Social	1. Recreational areas are too small in proportion to the building size	Add more recreational areas for tenants	EUR 35th	n/a
Governance	1. The tenants are not fully covered with lease amendments on ESG criteria	Amend the lease agreements	-	n/a

Association memberships

East Capital Group sees significant potential in collaborating with other investors on specific ESG topics.

Asian Corporate Governance Association (ACGA)

Member since 2009
acga-asia.org

We are members of the China and Korea working groups, co-lead of two major engagements with Chinese companies and joined as a speaker the ACGA Annual Conference which was held in Mumbai in November 2023.

Swedish Investment Fund Association

Member of the working group for ownership issues and sustainability since 2011
fondbolagen.se

In 2023, our CSO was member of the Signatory Advisory Committee for the PRI in Person which was held in Tokyo, we organised several events in 2023 together with Nordic signatories. We are a member of Advance, the UN PRI initiative on human rights. Our CSO is a member of the Sustainable Systems Investment Managers Reference Group (SSIMRG).

Association of the Luxembourg Fund Industry (ALFI)

Member of the responsible investing working group since 2016
alfi.lu

IFRS

Member since 2021
ifrs.org

Swedish Investors for Sustainable Development (SISD)

Member since 2017
sida.se

UN Principles for Responsible Investment (PRI)

Signatory since 2012
unpri.org

We participate in three IIGCC-led collaborative engagement initiatives: Climate Action 100+, Nature Action 100 and Net Zero Engagement Initiative.

Institutional Investors Group on Climate Change

Member since 2020
iigcc.org

Sweden's Sustainable Investment Forum

Member since 2020
swesif.org

UNGC, United Nations Global Compact

Supported UNGC principles since 2010, became a signatory in 2022
unglobalcompact.org

Support to initiatives and pledges

Advance (PRI)

Supporter since 2022
unpri.org

Baltic Institute of Corporate Governance (BICG)

Supporter since 2009
bicg.eu

Board Diversity Hong Kong

Supporter since 2019
boarddiversityhk.org

CDP

Signatory since 2014, supporter of the annual disclosure campaign since 2019
cdp.net

Climate Action 100+

Signatory since 2018
climateaction100.org

Finance Sector Deforestation Action (FSDA)

Signatory since 2021
racetozero.unfccc.int

Investors Policy Dialogue on Deforestation (IPDD) Initiative

Supporter since 2022
tropicalforestalliance.org

Nature Action 100

Supporter since 2022
natureaction100.org

Net Zero Engagement Initiative (by IIGCC)

Supporter since 2022
iigcc.org

Taskforce on Climate-related Financial Disclosures

Supporter since 2019
fsb-tcfd.org

Taskforce on Nature-related Financial Disclosures

Early adopter 2025
tnfd.global

The Net Zero Asset Managers initiative (NZAM)

Signatory since 2021 (Espiria)
netzeroassetmanagers.org

Tobacco-Free Finance Pledge

Supporter since 2018
unepfi.org

Transition Pathway Initiative (TPI)

Supporter since 2022
transitionpathwayinitiative.org

PRI principles

East Capital Group has been signatory since 2012

Supported by the United Nations, the Principles for Responsible Investment (PRI) provide a voluntary and aspirational set of six investment principles to reflect the increasing relevance of ESG issues to investment practices. The six principles offer a menu of possible actions for incorporating ESG issues into investment practice, and have been developed by investors, for investors.

	PRI Principles	Examples of what we do
1	We will incorporate ESG issues into investment analysis and decision-making processes.	ESG factors are an integral part of our investment analysis. No variations or exceptions
2	We will be active owners and incorporate ESG issues into our ownership policies and practices.	We engage with companies on ESG issues on our own or in collaboration with others We cast our (proxy) votes directly or via dedicated voting providers We monitor portfolios to detect violations of international conventions and guidelines
3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.	Topics include working with companies to encourage appropriate and adequate disclosure of environmental, social and sustainability-related matters, improving transparency and reporting of KPIs, DEI metrics, strategy, compensation systems
4	We will promote acceptance and implementation of the principles within the investment industry.	We are promoting responsible investments independently, as well as together with collaborative organisations/initiatives. This includes participating as speakers in different forums and providing media comments
5	We will work together to enhance our effectiveness in implementing the principles.	We are collaborating with other shareholders and taking part in relevant stakeholder and investment associations Dialogue with governments, stock exchanges and financial regulators to promote improvements in the institutional and legal framework
6	We will report on our activities and progress towards implementing the principles.	We publish an annual Sustainable Investment Report, as well as a PRI Transparency Report and an Assessment Report We ensure that we understand and comply with relevant disclosure requirements, including the SFDR (Sustainable Finance Disclosure Regulation)

Photo: Pawel Czerwinski (Unsplash)

SFDR Corner

The European Union's Sustainable Finance Disclosure Regulation (SFDR) is a key part of the EU Action Plan on sustainable finance which aims at directing capital towards a more sustainable economy. The SFDR is about disclosing and reporting, in order to provide more transparency on sustainability risks across capital markets and alleviate risks of greenwashing.

Financial Market Participants such as East Capital Group are in scope of the SFDR's specific transparency and reporting requirements both at the entity and product level.

SFDR disclosures are based on a set of universal mandatory indicators for so-called principal adverse impact (PAI), which relate to environment-related impacts (including climate, nature, waste, water) and in the areas of social impact (such as employee matters, gender pay gap, board diversity, respect for human rights, anti-corruption and anti-bribery). There are 14 such indicators and additional 22 environmental and 24 social opt-in indicators.

For more information and details, please refer to pre-contractual SFDR disclosures for all our funds on Adrigo's, East Capital's, Espiria's and East Capital Real Estate's websites and periodic disclosures as per end of year 2023 included in the 2023 annual reports for article 8 and 9 funds published on the websites.

SFDR Art. 8 & 9	Fund	Min. proportion of Sust. Investments	Min. E prop.	Min. S prop.	Aligned with E/S characteristics (Art. 8)
Art.8	East Capital Balkans	10%	5%	5%	20%
Art.8	East Capital China-A Shares	10%	5%	5%	20%
Art.8	East Capital Global Frontier Markets	10%	5%	5%	20%
Art.8	East Capital Multi-Strategi	5%	2,5%	2,5%	10%
Art.8	East Capital New Europe	10%	5%	5%	20%
Art.9	East Capital Global Emerging Markets Sustainable	90%	10%	10%	N/A
Art.8	Espiria 30	5%	2,5%	2,5%	15%
Art.8	Espiria 60	5%	2,5%	2,5%	15%
Art.8	Espiria 90	10%	5%	5%	20%
Art.8	Espiria Global Innovation	10%	5%	5%	20%
Art.8	Espiria Nordic Corporate Bond	5%	5%	N/A	10%
Art.9	Espiria SDG Solutions	90%	10%	10%	N/A

SFDR Corner

East Capital's Three-Step-Test for Sustainable Investments

Step 1
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

Step 2
No significant harm to E or S

No Red Flags (RFs) related to environmental or social controversies; the analysis also requires consideration of principal adverse impacts (PAI)
AND
Compliant in the controversy (norms-based) and the sector-based screening

Step 3
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
AND
No more than 2 Red Flags related to governance issues

East Capital Funds	#1 Aligned with E/S characteristics	#2 Other	#1A Sustainable	#2 Not sustainable	#1B Other E/S characteristics	Other environmental	Environmental	Social
East Capital Balkans	85.4%	14.6%	77.6%	N/A	7.8%	27.3%	N/A	50.4%
East Capital China A-Shares	94.6%	5.4%	71.6%	N/A	23.0%	37.0%	N/A	34.6%
East Capital Global Emerging Markets Sustainable	N/A	N/A	96.6%	3.4%	N/A	N/A	31.6%	65.0%
East Capital Global Frontier Markets	79.7%	20.3%	77.2%	N/A	2.5%	5.2%	N/A	69.0%
East Capital Multi-Strategi	60.9%	39.1%	60.1%	N/A	0.8%	11.7%	N/A	48.4%
East Capital New Europe	90.1%	9.9%	86.0%	N/A	4.1%	18.3%	N/A	67.7%

More SFDR disclosure per fund

SFDR Corner

Espiria's Three-Step-Test for Sustainable Investments

Step 1
Contribution to E and/or S

Companies which contribute to one or several of the UN SDGs in their offering of products, services, and technologies. Contribution will be measured via revenue, capital expenditure, operating expenditure and/or research and development linked to the UN SDGs and should exceed 20%.

Step 2
No significant harm to E or S

No Red Flags related to environmental or social controversies;
the analysis also requires consideration of principal adverse impacts (PAI)
AND
Compliant in the controversy (norms-based) and the sector-based screening.

Step 3
Good governance practices

No more than 2 Red Flags related to governance issues

Minimum proportions and legally binding elements are as below. Minimum proportions should be adhered to at all times and are monitored by the risk management function.

Espiria Funds	#1 Aligned with E/S characteristics	#2 Other	#1A Sustainable	#2 Not sustainable	#1B Other E/S characteristics	Other environmental	Environmental	Social
Espiria Global Innovation	95.8%	4.2%	39.9%	N/A	55.9%	18.6%	N/A	21.3%
Espiria Nordic Corporate Bond	97.3%	2.7%	16.6%	N/A	80.8%	13.7%	N/A	2.2%
Espiria SDG Solutions	N/A	N/A	98.6%	1.40%	N/A	N/A	47%	51.5%
Espiria 30	97.5%	2.5%	12.5%	N/A	85.0%	5.9%	N/A	6.6%
Espiria 60	96.8%	3.2%	25.3%	N/A	71.5%	12.3%	N/A	13.0%
Espiria 90	98.3%	1.7%	31.3%	N/A	67.0%	13.7%	N/A	17.6%

More SFDR disclosure per fund

East Capital – Engagement Summary

East Capital engaged with

85

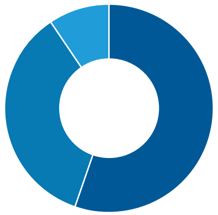
companies

Totalling

98

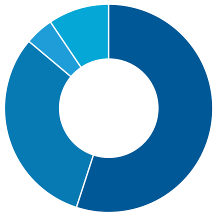
different engagements in 2023

Engagement type



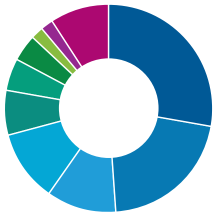
Environmental	66%
Governance	42%
Social	11%

Region



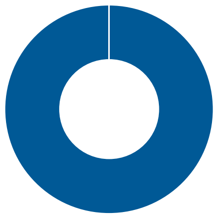
Asia	60%
Europe	34%
South America	5%
Africa	1%

Sector



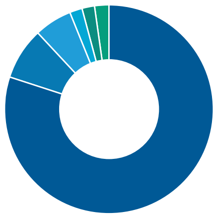
Financials	28%
Materials	21%
Consumer Staples	11%
Industrials	11%
Consumer Discretionary	7%
Information Technology	5%
Utilities	4%
Africa	2%
Communication Services	2%
Other	9%

Africa



South Africa	100%

Asia

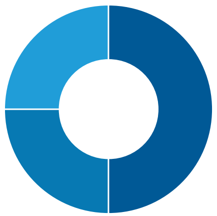


China	81%
India	8%
South Korea	6%
Hong Kong	2%
Taiwan	2%
Indonesia	2%

Europe

Poland	23%
Turkey	20%
Romania	17%
Russia	13%
Greece	10%
Estonia	7%
Hungary	3%
Lithuania	3%
United Kingdom	3%

South America



Brazil	50%
Mexico	25%
Chile	25%

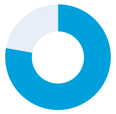
East Capital – Voting

We aim to vote at all AGMs and EGMs in all of our most significant holdings, defined as our key active positions ("KAPs") and the 10 largest holdings in all fund strategies. We will also vote in any additional holdings where it makes sense and is important from a shareholder perspective.

During 2023, we voted at 303 AGMs and/or EGMs in 85 different companies, corresponding to 89% of the market value of our assets under management, in securities carrying voting rights in our UCITS funds.

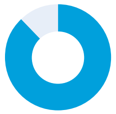
> We see voting as an important way to make our voice heard and to influence the strategic direction and governance of the businesses we own.

Voted at 303 AGMs and/or EGMs:

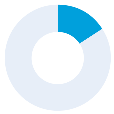


78%
of total AUM voted

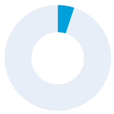
32%
Meetings with at least 1 vote Against, Withhold or Abstain



88%
of meetings voted

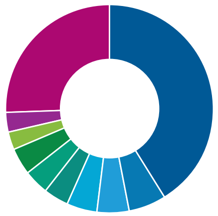


16%
votes against management



5%
votes on shareholder proposals

Geographical Breakdown



China	42%
India	6%
Greece	5%
Poland	5%
Türkiye	4%
Romania	4%
Brazil	4%
Cyprus	3%
Kazakhstan	3%
Others	26%

Fund	% of AUM voted	% of meetings voted 2023
East Capital Balkans	99%	93%
East Capital China A-Shares	100%	99%
East Capital Global Emerging Markets Sustainable	94%	95%
East Capital Global Frontier Markets	86%	88%
East Capital Multi-Strategi	79%	81%
East Capital New Europe	97%	93%

Please be advised that the graphs and numbers presented reflect assets where we hold voting rights unless otherwise specified.

East Capital Awards

Unveiling Excellence: East Capital Awards 2023 go to ebebek, Empower, FinVolution Group and Mytilineos

For more than two decades, East Capital has been working for positive change, spotlighting outstanding companies within their investment portfolio through the esteemed East Capital Awards. This tradition continues in 2023, with recognition in categories such as Best Growth, Best IPO, Best Corporate Governance, and East Capital Discovery of the Year.

This year's Best Corporate Governance Award went to **Mytilineos**, a Greek aluminium and power producer and a long-term holding across our strategies. Over the last few years, the company has transformed itself into an energy transition powerhouse, decommissioning all coal power plants and investing heavily in renewable energy, with a growing EBITDA at 25% CAGR from 2016-2022. The result is a diversified, robust business with high earnings visibility and strong capital returns, with Return on Invested Capital (ROIC) improving from mid-single digits to mid-teens in the last five years. The company also has a transparent and appropriate policy for returning capital to shareholders, with all-in yield including buybacks at around 6% for 2023, at the current share price. Executive remuneration is reasonable, including material sustainability KPIs which are clearly explained in their remuneration report. Finally, the company has been making clear efforts to improve the diversity of its leadership team, recently appointing a female CFO and achieving 25% gender diversity at the board of director level (a number we hope will improve further). We believe that robust corporate governance is driving Mytilineos' energy transition journey, with ambitious emissions reduction targets and a 15% fall in absolute Scope 1 and 2 emissions since 2019, all with a rapidly growing EBITDA. We believe the above factors have contributed to their exceptional stock performance, with the stock returning 64% year-to-date and 264% in the last three years.

More about East Capital Awards[1]





Dilara Saygi and Eglé Fredriksson meeting with Mytilineos - this year's Best Corporate Governance Award winner. Mytilineos is a Greek aluminium and power producer and a long-term holding across our strategies.

1. https://www.eastcapital.group/insights/unveiling-excellence-east-capital-awards-2023-go-to-ebebek-empower-finvolution-group-and-mytilineos

Photos: Sara Rossi

East Capital Real Estate – Highlights

- BREEAM certifications were received for three properties during 2023 in East Capital Baltic Property Fund III and East Capital Real Estate IV. The Vesse retail property, Hilton Tallinn Park hotel and the Via 3L logistics complex were all certified with an In-Use certificate at the level of "Very Good". Duetto office complex added during 2023 to East Capital Real Estate IV already holds a BREEAM New Construction "Very Good" certificate.

- In East Capital Real Estate IV, BREEAM certification coverage was 97% at the end of 3Q 2023, however the fund acquired a larger, uncertified logistics complex at the end of the year and the coverage fell to 53% from the leasable area. The property certification process has been started. For East Capital Baltic Property Fund III, several of the certificates acquired during 2020-2021 are already expiring and the fund ended the year at 68% of certification coverage from leasable area. The renewal process of BREEAM assessments is ongoing.

- The mapping of properties' energy efficiency showed a substantial part of the properties in East Capital Baltic Property Fund III and East Capital Real Estate IV already among the best performers but also indicated properties where improvements are needed. The next focus is to ensure all properties are future-proof with regard to energy efficiency. Potential improvements include adding sub-metering and building automation, sourcing or producing renewable energy, switching to more sustainable energy sources, as well as engaging with tenants for optimised energy use.

- Several solar energy projects are ongoing either initiated by us or in cooperation with the tenant. We currently report a low coverage across the portfolios but expect the share of solar photovoltaic installations to increase considerably during the coming years.

- After starting to include the sustainability-related lease clauses to our new lease agreements and any lease changes from 4Q 2022, we can now report coverage of 55% of leasable area in East Capital Real Estate IV and 33% in East Capital Baltic Property Fund III. The target remains to have aligned sustainability goals with all our tenants.

- We continue to attach the supplier code of conduct to new service agreements. The supply chain policy was enforced from March 2022 and defines the essential guidelines relating to human and labour rights, working conditions, anti-corruption and anti-bribery as well as the environment. Alongside our own code of business conduct, we ensure high business ethics and compliant practices across our real estate operations.

> Alongside our own code of business conduct, we ensure high business ethics and compliant practices across our real estate operations.

Pille Rand
Head of Sustainability and Research
East Capital Real Estate

- We have carried out a physical climate risk assessment provided by Munich RE, one of the world's leading providers of risk solutions. Overall, we can summarize a low exposure to most acute risks but are vulnerable to some of the long-term shifts in climate patterns.

The Vesse retail property, Hilton Tallinn Park hotel and the Via 3L logistics complex were all certified with an In-Use certificate at the level of "Very Good".

- We demonstrated our commitment to sustainability integration by participating in the GRESB real estate benchmark as well as PRI reporting.

- In our second round of GRESB reporting we improved from 2 stars to 3 stars (out of 5) for both of the reported funds (East Capital Baltic Property Fund III and East Capital Real Estate IV). We received a very strong score of 28 out of 30 points for our management policies and practices. In the property performance, we can summarize a lower than peers resource use for most properties.

GRESB

Photos: Kaupo Kalda, Magnus Heinmets

Espiria – Engagement Summary

As part of East Capital Group, Espiria views active ownership as an important and integrated component of the investment process. We believe that active ownership, including our monitoring capacity, constructive engagement with companies or divestment in cases when we deem that our engagement has not resulted and will not result in the desired change, can play a key role in implementing and enforcing improved ESG standards and strengthening the chain of accountability in portfolio companies.

Often, but not always, our engagements to promote sustainability characteristics are based on findings made through our EQSS or EIA analysis. Areas where we see that active ownership can lead to a significant positive impact on ESG-related characteristics and ultimately the quality of investee companies include board diversity, auditor rotation, executive incentive alignment with ESG objectives, transparency on equitable pay, reduced carbon emissions, improved practices related to production processes, waste management and labour safety, as well as transparent and accountable corporate governance.

In 2023, Espiria engaged with 14 companies, totalling 18 different engagements during the year.

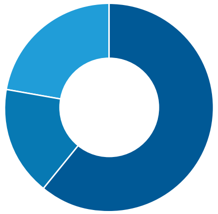
Engaged with
14
companies

Totalling
18
different engagements

An example of a company engagement is the dialogue we have had with BYD Co, in which we expressed our concerns as a long-term shareholder about the company's lack of board diversity. There is a growing appreciation that a diverse board is a key driver of strong corporate governance, essential to preserve and enhance long-term corporate value. In this context, gender has become a key component of the responsible investment policies of many asset owners and institutional investors worldwide, with an increasing number voting against companies with single-gender boards. The dialogue has led to a positive outcome, with BYD now having appointed one female director. It is not yet a sufficiently gender-diverse board but this engagement has led to initially positive results, and we continue to engage with the company by also leveraging the collective strength of more investors.

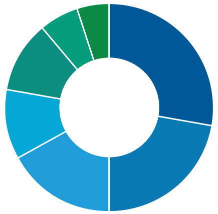
> Gender has become a key component of the responsible investment policies of many asset owners and institutional investors worldwide, with an increasing number voting against companies with single-gender boards.

Engagement type



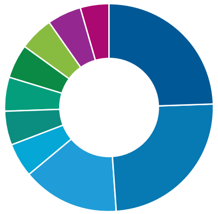
Environmental	61%
Social	17%
Governance	22%

Sector



Information Technology	28%
Industrials	22%
Consumer Discretionary	17%
Utilities	11%
Financials	11%
Consumer Staples	6%
Energy	5%

Geographical Breakdown



China	28%
United States	28%
Hong Kong	17%
Canada	6%
Germany	6%
Finland	6%
France	6%
Indonesia	6%
Spain	6%
Sweden	5%

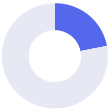
Espiria – Voting

During 2023, Espiria continued to execute well on the existing voting framework by members of the investment team, following their own analysis of voting decisions.

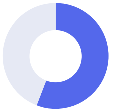
Espiria participated in voting for 59 companies during the year, representing 56% of AUM. 7% of our votes were against the management; these votes express our views mainly on companies' need to address issues such as lack of board diversity, improper executive incentives, insufficient ESG target setting, and lack of auditor rotation, among others.

Voted at 59 AGMs and/or EGMs:

43%
of total AUM voted



22%
Meetings with at least 1 vote Against, Withhold or Abstain

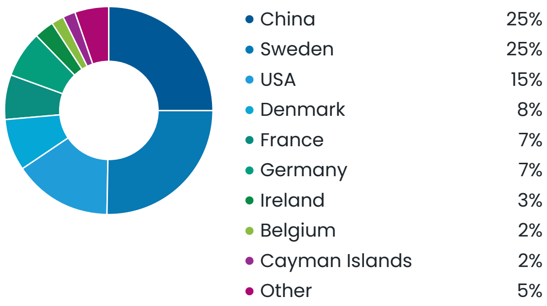


56%
of meetings voted

7%
votes against management

5%
votes on shareholder proposals

Geographical Breakdown



Fund	% of AUM voted	% of meetings voted 2023
Espiria 30	37%	49%
Espiria 60	48%	59%
Espiria 90	54%	57%
Espiria Global Innovation	51%	57%
Espiria SDG Solutions	73%	76%

Please be advised that the graphs and numbers presented reflect assets where we hold voting rights unless otherwise specified.

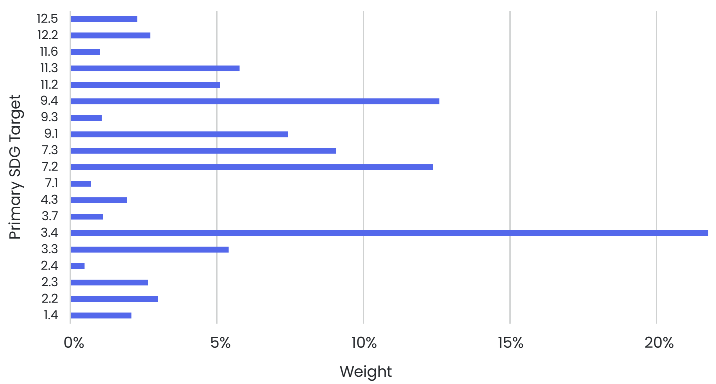
Espiria SDG Solutions

Portfolio’s environmental and social outcomes

The fund evaluates and measures how each investment contributes to the Sustainable Development Goals (SDGs) on a holding level. Besides, common indicators within each theme are also used to monitor the strategy's portfolio performance in achieving SDG targets.

As end of 2023, 19 SDG targets were addressed as the primary target by the Fund’s investments (summarized in table and chart below):

Portfolio Composition by Primary SDG Target



The following key performance indicators (KPIs) have been aggregated to demonstrate SDG Solutions' outcome performance as of the end of 2023. These indicators are relevant for multiple companies within the same theme, and the data used is solely based on self-reported information from the companies, i.e. no secondary estimates were used.

The performance at the holding level is summarized below (before being normalized by the size of assets under management)

Theme	SDG Target	Sustainability Indicators (Outcome KPIs)	Portfolio Performance 2023[1] and Year-on-year comparison
Sustainable Food & Ecosystem	2.3	• Highly engaged farming acres under management for yield enhancement • Digitalized hectares	92 million acres (+35%) 23 million hectares (+21%)
Circular Economy	12.5	% of secondary (recycled) materials in inputs	55-100% (unchanged)
Health & Empowerment	1.4	• Number of people with access to ultra-micro and micro-financing products • Number of women with access to ultra-micro and micro-financing products	36.85 million (+5%) 15.1 million (+9%)
	3.8	Number of patients covered by access to medicine program	4.01 million (+17%)
	4.5	Number of people reached with digital education access	142 million (+20%)
Energy Transition	7.2	• Renewable energy capacity installed • Renewable energy capacity enabled • Renewable energy generated for use and sale	2,500 MW (+18%) 150,754 MW[2] (+44%) 34,600 GWh (+4%)
	7.3	CO2 equivalent avoided for customers	112 million tonnes (+20%)
Connectivity & Infrastructure	11.2	• Number of fully electric vehicles sold • Avoided tailpipe CO2 equivalent	1.69 million units (+72%) 47.2 million tonnes (+70%)

1. 2023 data are used whenever available, otherwise 2022 data were used in calculations.
2. Total capacity enabled calculation may be overstated due to potential double counting as renewable enablers on the same value chain only report their own respective capacity figures.

East Capital Global Emerging Markets Sustainable

H2 2023 Impact Report

The report (available on our website) sets out the Principal Adverse Impact ("PAI") indicators according to the EU's Sustainable Finance Disclosure Regulation ("SFDR") and highlights the key metrics the portfolio management team uses to assess the impact of the fund's investee companies on the surrounding world. Here are the key takeaways:

- Our fund's **GHG intensity is 72% below the benchmark**; primarily because we do not invest in fossil fuel companies and because we do consider carbon intensity versus peers as part of the investment process. We would typically not invest in companies with a carbon intensity considerably above peers.

- Our **fund's exposure to negative biodiversity impact / hazardous waste is nil / very low**, we would not invest in such names according to our processes as we actively avoid misalignment with SDGs.

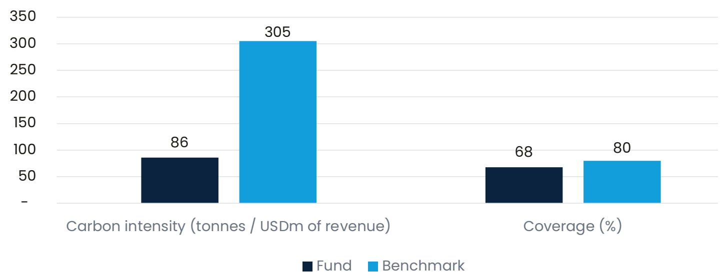
- Violation of global guidelines are part of our exclusion screening process.

- Due to lack of data on gender pay gap in emerging markets, we focus on **board gender diversity**. Our fund performs worse than the benchmark, partly due to our strong bias towards small and mid-caps names. Currently 16% of the board members of the fund's holdings are female, a slight improvement from 14% in the previous period. This remains a key engagement priority of ours.

Carbon intensity versus benchmark

- We use carbon intensity as a standard, easy-to-compare metric when evaluating companies.

- Data coverage has been increasing, in part due to engagement efforts from investors like ourselves; for example, we actively participate every year in the CDP Non-Disclosure Campaign to **improve climate related data** in portfolio companies. Beyond disclosure efforts, we participate in Climate Action 100+ and Net Zero Engagement Initiative.



Stewardship

- For 2023, we voted at **87** meetings (95%) of the 92 shareholder meetings where we were able to vote; in **28** meetings (30%) we voted against some items (**10%** of the votable items).

- We voted against items that are not aligned with our voting policy, such as insufficient gender diversity at board level or overly long auditor tenure.

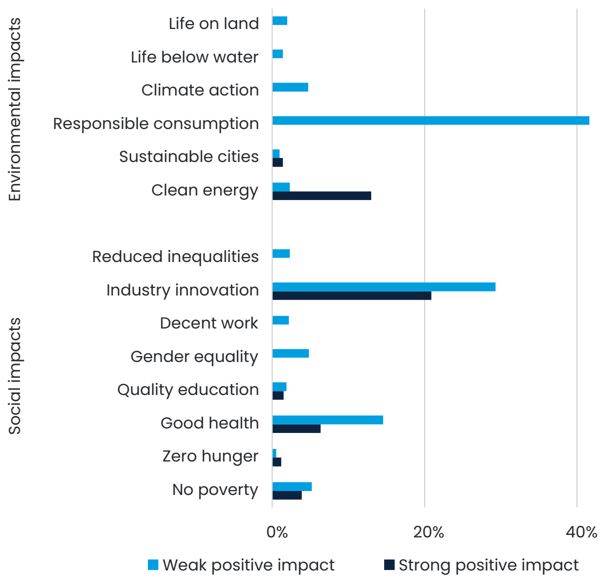
Voting is the least we can do in terms of exercising our shareholder rights, and we typically follow up with management when we vote against items to ensure they understand the rationale for our actions.

SDG impact

- We assess SDG impact using a proprietary tool, which is explained in detail in a PRI case study and was recently selected as a best practice responsible investment example for China.

- East Capital SDG VCA (value chain analysis) combines revenue exposure and SASB mapping to identify the two most material SDGs for a company's value chain. The tool gives a score of -100 to 100, based on current impact and 3-5 year outlook. Impact is assessed based on materiality, intentionality, additionality and criticality.

- We currently assess that **57%** of the fund has a **strong positive impact** on one or more SDGs. Because we require a score of above 25 ("weak positive impact") to be included in the portfolio, **100%** of our companies have **a positive impact on one SDG**.



Case studies

Sustainable cities
Empower, the world's largest district cooling company. District cooling is 50% more energy efficient than air conditioning, crucial in UAE where A/C accounts for 70% of overall GHG emissions.

Clean energy
Renew, India's largest renewable energy company by total energy generation capacity, with a total portfolio of 13.7 GW as of Q2 2023, around 11% of India's total renewable capacity (excluding hydro).

Industry and innovation
Sungrow, one of the world's largest inverter companies, provides a key input for the solar value chain, and makes significant steps to decarbonise its own operations, achieving 45% renewable power usage in 2022, and targeting 100% by 2028.

Good health
Oncosclinicas, Brazil's leading cancer clinics and labs chain, uses partnerships with first tier US institutions to bring latest treatments to Brazil.

No poverty
Gentera is the leading microfinance institution in Mexico and Peru and provides financial services to the underserved segment in the region. They have been the gateway for more than 13m people to the financial system.

Sustainable investment definition

ESG analysis at East Capital is done by the Portfolio Managers and Analysts who cover the companies using robust proprietary tools, such as East Capital ESG scorecard and East Capital SDG VCA.

We classify "sustainable investment" using 3 binding elements that leverage the results of these proprietary tools.

1. Sector and norms-based screening
   More details on page 10

2. SDG VCA tool of at least 25
   More details on page 14

3. Company is classified as sustainable as per our "Three-Step-Test"
   More details on page 27

As of 31 December 2023 we assess that **97%** of the fund can be classified as sustainable. There are two companies that do not meet our criteria due to low ESG scores. These holdings, however, meet the minimum safeguards as they do not belong to an excluded sector and have a good track record. We also hold a small amount of cash for liquidity purposes, which also cannot be classified as a sustainable investment.

East Capital Real Estate

Sustainability governance through stakeholder materiality and engagement

Stakeholder focus: tenant engagement

We consider tenants to be one of our most important stakeholder groups. Alongside the construction and improvement of our buildings, the performance of our buildings is largely dependent on tenant activities.

From the start, we have aimed to be an active owner and landlord, prioritizing in-house property management to engage directly with all tenants in our property portfolio. We maintain regular dialogue on property performance to influence how tenants use our properties and guide them towards more sustainable resource use. In 2022, we finalized sustainability-related lease clauses, which have been included in all new lease agreements and amendments since. These clauses focus on information exchange, energy, water, and waste management, sustainable procurement, and sustainability considerations during renovations of premises.

We plan to enhance tenant guidance and engagement further by sustainability-focused events and newsletters.

Tenant engagement, East Capital Baltic Property Fund III	**As of 31.12.2023**
Share of lease agreements with annex on sustainability clauses, by sqm	33%
Share of lease agreements with annex on sustainability clauses, by gross rent	30%

Tenant engagement, East Capital Real Estate IV	**As of 31.12.2023**
Share of lease agreements with annex on sustainability clauses, by sqm	62%
Share of lease agreements with annex on sustainability clauses, by gross rent	60%

We highly value tenant feedback on property management, maintenance, and facilities, and we continuously analyze their views and approaches to various aspects of sustainability. During the fourth quarter of 2022, we conducted a tenant satisfaction survey involving 100 tenants across 11 properties in our Baltic Property Fund III and Real Estate IV. We followed the same process in the fourth quarter of 2023 for our newest acquisitions not included in the 2022 survey. Overall, we found that tenants are generally very satisfied with the landlordship of East Capital Real Estate, considering the assets to be well-maintained and future-proof. Additionally, we received several comments in the surveys, which our in-house property managers are currently addressing.

Tenant satisfaction, East Capital Baltic Property Fund III	**Survey 4Q 2022**
Response rate in survey, measured by leased area	64%
Average satisfaction score (out of 5.0)	4.1
Net Promoter Score (scale of -100 to +100)	+5

Tenant satisfaction, East Capital Real Estate IV	**Survey 2022/23**
Response rate in survey, measured by leased area	71%
Average satisfaction score (out of 5.0)	4.1
Net Promoter Score (scale of -100 to +100)	0

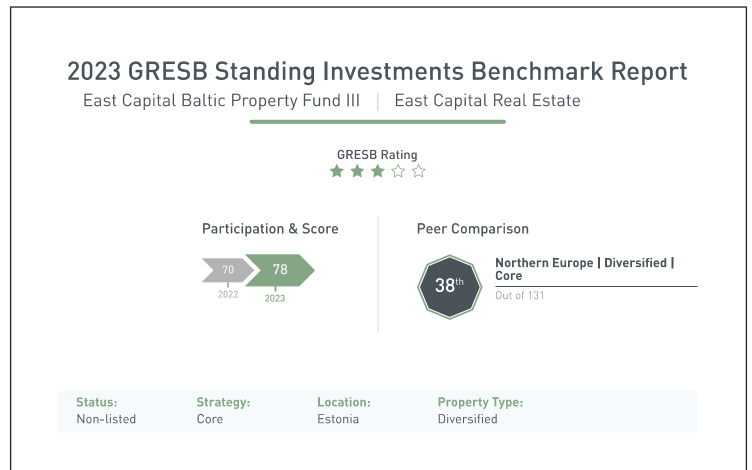
External reporting and ratings

For greater clarity and comparability among asset managers, we have participated in the GRESB global ESG benchmark survey since 2022 with East Capital Baltic Property Fund III and East Capital Real Estate IV. The GRESB real estate benchmark provides consistent and validated ESG performance data to the market, enables peer comparison, and serves as a valuable self-assessment framework for necessary improvements. Based on the results of the GRESB survey, East Capital Real Estate has implemented numerous enhancements in its ESG practices.

In the 2023 survey, East Capital Real Estate received 3 stars out of 5 for both of its reported funds as well as a Green Star recognition for strong performance in both the Management and the Performance component of the GRESB survey. We can highlight exceptionally strong score in the Management component validating our solid sustainability policies and processes. We also reported mostly better than peers performance in properties' consumption figures.

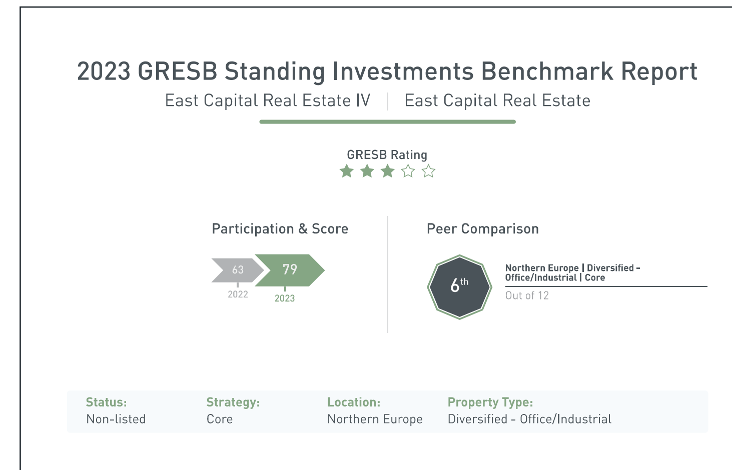
East Capital Baltic Property Fund III

GRESB score	78 / 100
GRESB rating	3* / 5*
Management score	28 / 30
Performance score	50 / 70



East Capital Real Estate IV

GRESB score	79 / 100
GRESB rating	3* / 5*
Management score	28 / 30
Performance score	51 / 70



East Capital Real Estate

Progress report in our key environmental areas

Energy efficiency

East Capital Real Estate recognizes the significant impact the property sector, with its high energy consumption, has on climate change and is committed to enhancing the energy efficiency of the buildings we acquire and manage. We assess the energy performance of properties both upon acquisition and for our existing portfolio by reviewing the building profile, energy rating, and energy intensity. Where necessary and feasible, we invest in improvements such as incorporating renewable energy sources, switching to more sustainable energy options, and investing in equipment and technologies that enhance the building's energy efficiency. The energy profile and efficiency of a building are crucial components of environmental certifications, and improvements may be initiated during the certification process. Additionally, we engage with our tenants to encourage and support reductions in their energy usage wherever possible.

Our energy efficiency targets include obtaining energy performance certificates for our entire property portfolio and improving the energy efficiency of the lowest-performing assets, thereby reducing the overall energy intensity across the portfolio.

We also aim for complete coverage of energy consumption data in our properties, which is currently at 100% for East Capital Real Estate IV and 85% for East Capital Baltic Property Fund III (based on 2023 data).

Our key performance indicators in energy efficiency:

East Capital Baltic Property Fund III	As of 31.12.2023
Share of energy performance certificates across the portfolio	68%
Share of certified properties in the EPC class A-C	75%
Average energy intensity across the portfolio, kWh/sqm*	161

East Capital Real Estate IV	As of 31.12.2023
Share of energy performance certificates across the portfolio	100%
Share of certified properties in the EPC class A-C	87%
Average energy intensity across the portfolio, kWh/sqm*	108

Renewable energy

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. We aim to use renewable energy across our property portfolio, including producing on-site renewable energy and purchasing renewable energy. We have initiated processes to install solar panels onto our properties where it is technically possible and economically feasible. For purchased energy, we have switched to renewably sourced electricity and efficient district heating where possible. 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 our objective over time.

Our key performance indicators in renewable energy:

East Capital Baltic Property Fund III	As of 31.12.2023
Assets purchasing electricity from renewable sources (holding REC)	3/6
Assets with operational or ongoing on-site renewable energy (solar PV) installation	1/6

East Capital Real Estate IV	As of 31.12.2023
Assets purchasing electricity from renewable sources (holding REC)	5/9
Assets with operational or ongoing on-site renewable energy (solar PV) installation	4/9

Greenhouse gas emissions

East Capital Real Estate acknowledges that climate change is one of the most pressing global issues today and understands the significant transformation required to move towards a net zero world. We have aligned our ESG policies and targets with this goal. In East Capital Real Estate, our first priorities are to eliminate or reduce the greenhouse gas emissions in line with recognized hierarchy for greenhouse gas management. We have prioritized energy efficiency improvements and sourcing renewable energy to avoid emissions. We have also engaged and plan for further engagement with our tenants to reduce emissions from tenant operations where possible.

We measure our greenhouse gas emissions annually in line with the Greenhouse Gas Protocol recommendations. Our reported emissions currently relate to fuels (gas) used for heating in properties (Scope 1), purchased heating and electricity (Scope 2) as well as the energy used by tenants (Scope 3). We use emission factors published by the government institutions locally in Estonia, Latvia, and Lithuania.

We plan to expand the calculations of Scope 3 emissions and add verification to emission calculations in the future. We also plan for creating a net zero policy and roadmap.

Sustainability assessments

East Capital Real Estate's target is to fully cover its property portfolio with sustainability certifications in East Capital Baltic Property Fund III and East Capital Real Estate IV. Meeting the requirements of a sustainability certification leads to improved building characteristics and better performance, which often translates into lower operational costs. We believe that the certifications provide more comparability and transparency between commercial properties. We also believe a certified property contributes to tenant well-being in the building and leads to increased occupancy rates.

East Capital Real Estate has chosen to certify its properties under the BREEAM (Building Research Establishment Environmental Assessment Method) certification system, the world's leading science-based suite of validation and certification systems for a more sustainable built environment. The targeted minimum level for most properties is "Very Good", whereas for offices we aim for an "Excellent" level. This threshold can be reached either in the first assessment or the following renewals.

For our office buildings, we also will investigate healthy building certifications focusing on occupier's well-being such as Fitwel, WELL or similar.

Our key performance indicators in sustainability assessments:

East Capital Baltic Property Fund III	**As of 31.12.2023**
No of certified buildings (BREEAM)	8/12
Certified buildings % from leasable area*	68%
Certified buildings % from gross property value	62%

*Coverage fell from 87% after 3 certificates expired in Dec 2023, to be renewed during 2024

East Capital Real Estate IV	**As of 31.12.2023**
No of certified buildings (BREEAM)	9/11
Certified buildings % from leasable area*	53%
Certified buildings % from gross property value	68%

*Coverage fell from 97% as of 30.09.2023 after the acquisition in 4Q 2023, where the property does not hold a sustainability assessment but will be certified during 2024

Our properties certified with BREEAM rating during 2023

Via 3L Logistics

Tallinn, Estonia

East Capital Real Estate IV

BREEAM In-Use "Very Good" rating received in May 2023

A modern logistics park, with an excellent location along the Tallinn Ring Road, ensuring very good access from the main highways, ports and the airport. Central Tallinn and the port can be reached in 15 minutes and the airport is located only five minutes away from the property.

Via 3L Logistics was certified under the BREEAM In-Use standard in May 2023, receiving an overall score of 58% and a "Very Good" rating. The property scored very high in resilience aspect, as well as in energy and resources categories.

Duetto offices

Vilnius, Lithuania

East Capital Real Estate IV

Office buildings acquired in June 2023, holding BREEAM New Construction "Very Good" certificates

A modern business complex, consisting of two 10-storey buildings, Duetto A and Duetto B, completed in 2017 and 2019 respectively. The buildings have a total lettable area of 17 260 sqm. The complex is conveniently located next to Vilnius Western Bypass, which connects Vilnius suburbs to the city center and provides easy access to both Kaunas and Riga highway exits.

Both buildings (Duetto A and Duetto B) are BREEAM New Construction certified and fully leased, providing convenient, cost-effective, and environmentally sustainable office space that meets the demands of modern working.

Vesse COOP hypermarket building

Tallinn, Estonia

East Capital Baltic Property Fund III

BREEAM In-Use "Very Good" rating received in Dec 2023/ Jan 2024

The Vesse COOP hypermarket building is part of the Vesse retail complex, in which a Bauhof DIY store was already previously awarded with a BREEAM "Very Good" rating in 2020. The building was first constructed in 2004, but has undergone renovations regularly.

During 2023, BREEAM assessment was undertaken for the retail building including COOP hypermarket as the anchor tenant. During the process, several improvements were implemented, including efficiency improvements into water equipment, additional facilities for cyclists, enhancements into alarm systems and leakage detection. The property thereafter received an In-Use "Very Good" assessment in Asset Performance, showing best results in water, transport, resource and resilience aspects.

Hilton Tallinn Park Hotel

Tallinn, Estonia

East Capital Baltic Property Fund III

BREEAM In-Use "Very Good" rating received in December 2023

Built in 2016, the 202-room Hilton Tallinn Park Hotel is located in the heart of Estonia's capital city Tallinn, and features a restaurant, conference centre, gym and spa. The hotel is the brand's first in the Baltic region.

The building was first certified in 2020, being one of the first BREEAM certifications in East Capital Real Estate managed portfolio as well as the first hotel to be certified in Estonia.

In 2023, a renewal of the certification was undertaken, now under BREEAM In-Use version 6. The property received 59% in Asset Performance and a rating of "Very Good". The property showed the strongest performance in energy, transportation, and resilience aspects.

Photos: Kaupo Kalda, Magnus Heinmets, Tonu Tunnel

Water management

Water consumption is another important topic in the real estate sector both from a sustainability perspective as well as the cost of building operations. As a landlord, East Capital Real Estate can contribute to more economical water use by installing water-efficient equipment, such as low flow and water-conserving facilities, and leak detectors throughout the water system. Water management in the building and water-saving equipment are an important part of the environmental certifications, and several improvements are initiated in the process of certifying our properties. As the next step, we engage with our tenants on their water use and cooperate to reduce it where possible.

Water consumption is monitored across all properties in East Capital Baltic Property Fund III and East Capital Real Estate IV and reported within the GRESB framework and the sustainability report alongside other consumption data. We aim for decreased water use year-on-year and have targeted to review the effectiveness of water facilities across our property portfolio.

Waste management and circularity in fit-outs and operations

East Capital Real Estate does not typically engage in new construction or major renovations. However, for the refurbishments of our lease premises either by ourselves or by our tenants we are developing a sustainable fit-out guide that will to a large extent, focus on the sustainable and flexible design of premises that will minimize current and future resource use, sourcing of certified, durable, renewable, or reused materials, as well as proper waste management during the refurbishment process. We do not currently have data on the waste generated by the fit-out of our leased premises but have identified this as a future area for improvement.

For waste generated in tenants' daily operations, we monitor the waste amounts and disposal routes regularly (at least once per annum or more frequently if data allows). According to the globally recognized waste management hierarchy, our priority is to minimize the waste amounts produced. Since waste generation in leased premises is not directly under our control, we strive to cooperate with tenants. From the landlord's side, we can ensure the properties are equipped with appropriate waste sorting facilities to reuse and recycle the waste as much as possible and to minimize the amount of waste sent to landfills. We have 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. We also plan to engage with tenants more on the waste management topic through guides, newsletters or focus events.

We have a full coverage for waste data for our III and IV funds except for one logistics property. The share of waste recycled, reused, or used as energy was 83% in East Capital Baltic Property Fund III and 90% in East Capital Real Estate IV in 2022. The 2023 waste disposal data is still to be finalized.

> The share of waste recycled, reused, or used as energy was **83%** in East Capital Baltic Property Fund III and **90%** in East Capital Real Estate IV in 2022.

Consumption data for East Capital Baltic Property Fund III

East Capital Baltic Property Fund III	2022	2023	y-o-y	y-o-y (for a comparable portfolio)
Total energy use in portfolio, MWh	26 147	26 714	2.2%	0.4%
Average energy intensity, kWh/sqm	158	161	2.1%	0.4%
Energy data coverage, by sqm	85%	85%		
Total water consumption, m3	60 142	69 894	16.2%	13.7%
Average water consumption, litres/sqm	308	357	15.9%	13.7%
Water use coverage, by sqm	100%	100%		
Total greenhouse gas emissions, tonnes*	5 155	5 309	3.0%	3.0%
Greenhouse gas emissions, kg/sqm*	31	32	2.9%	2.9%
GHG emission coverage, by sqm	85%	85%		
Total waste amount, tonnes	1 488	1 180	-20.7%	-22.3%
Recycled waste % of total (reuse, recycling, waste to energy)	83%	n/a		
Waste data coverage, by sqm	58%	60%		

*market-based approach

Regional allocation by sqm, East Capital Baltic Property Fund III

Sector allocation by sqm, East Capital Baltic Property Fund III

Portfolio composition as of 31.12.2023

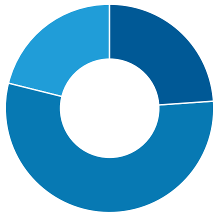
Property	Location	Property type	Property leasable area, sqm
Hilton Tallinn Park hotel	Estonia	Hotels	22 530
Vesse retail centre	Estonia	Retail	23 758
Nehatu logistics park	Estonia	Logistics/industrial	77 326
Ulmana Park	Latvia	Logistics/industrial	13 733
Lidostas Park	Latvia	Logistics/industrial	23 240
Galleria Riga	Latvia	Retail	23 613

Consumption data for East Capital Real Estate IV

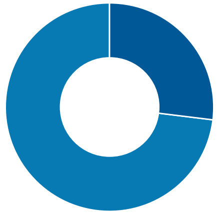
East Capital Real Estate IV	2022	2023	y-o-y	y-o-y (for a comparable portfolio)
Total energy use in portfolio, MWh	10 314	12 476	21.0%	-5.7%
Average energy intensity, kWh/sqm	126	108	-14.5%	-7.7%
Energy data coverage, by sqm	100%	100%		
Total water consumption, m3	15 446	23 233	50.4%	6.2%
Average water consumption, litres/sqm	189	201	6.3%	4.1%
Water use coverage, by sqm	100%	100%		
Total greenhouse gas emissions, tonnes*	1 767	1 713	-3.1%	-9.5%
Greenhouse gas emissions, kg/sqm*	22	15	-31.9%	-11.4%
GHG emission coverage, by sqm	100%	100%		
Total waste amount, tonnes	282	315	11.8%	-28.7%
Recycled waste % of total (reuse, recycling, waste to energy)	90%	n/a		
Waste data coverage, by sqm	100%	100%		

*market-based approach

Regional allocation by sqm, East Capital Real Estate IV



Sector allocation by sqm, East Capital Real Estate IV



Portfolio composition as of 31.12.2023

Property	Location	Property type	Property leasable area, sqm
SEB Tallinn HQ	Estonia	Office	16 051
Via 3L Logistics	Estonia	Logistics/industrial	33 067
Place 11 office	Latvia	Office	15 854
Rimi Distribution Centre*	Latvia	Logistics/industrial	93 690
U30 stock-office*	Latvia	Logistics/industrial	3 642
Jankiskiu industrial facility	Lithuania	Logistics/industrial	13 047
Pigu Distribution Centre	Lithuania	Mixed use	6 460
Zalgirio 112 office	Lithuania	Office	7 588
Duettos*	Lithuania	Office	17 261

*acquired in 2023. One property acquired in April 2024 as a final investment in fund

East Capital Real Estate

Risk assessments

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

East Capital Real Estate incorporates key physical and transition risks into its ESG scorecard. These risks are assessed using publicly available sources, market data, local and EU regulations, and property characteristics.

In terms of transition risks, we have identified our exposure to several key factors: policy and legal risks, the transition to low-carbon technologies, market risks, and reputation risks. We believe that our current sustainability strategy, actions, and reporting efforts help mitigate these transition risks and potentially create new opportunities as we deepen our commitment to sustainability.

East Capital Real Estate has also conducted a location risk assessment of its East Capital Baltic Property Fund III and East Capital Real Estate IV portfolios. The analysis has been outsourced from Munich RE, one of the world's leading providers for risk solutions. We can summarize a low exposure to most acute risks, but are vulnerable to some of the long-term shifts in climate patterns. The aggregated exposure to location risks for the fund portfolios are brought out in the tables.

Scale

No hazard	Low exposure	Medium exposure	High exposure

Probability of acute hazards	ECBPFIII	ECREIV
Earthquake	Low exposure	Low exposure
Volcanoes	No hazard	No hazard
Tsunami	No hazard	No hazard
Tropical Cyclone	No hazard	No hazard
Extratropical Storm	Medium exposure	Medium exposure
Hail	Medium exposure	Medium exposure
Tornado	Medium exposure	Medium exposure
Lightning	Low exposure	Low exposure
River Flood	Low exposure	Medium exposure
Flash flood	Low exposure	Low exposure
Storm Surge	No hazard	No hazard
Wildfire	Low exposure	Low exposure

Exposure to chronic stressors

ECRE IV portfolio	RCP 8.5, year 2050	RCP 8.5, year 2100
Tropical cyclone	No hazard	No hazard
River flood	Medium exposure	Medium exposure
Sea level rise	-	Low exposure
Heat stress	Low exposure	Medium exposure
High average temperature increase	Medium exposure	High exposure
Drought stress	Low exposure	Low exposure
Fire weather stress	Low exposure	Low exposure
Precipitation stress	Low exposure	Low exposure
Long-term precipitation	Low exposure	Medium exposure

ECBPF III portfolio	RCP 8.5, year 2050	RCP 8.5, year 2100
Tropical cyclone	No hazard	No hazard
River flood	No hazard	No hazard
Sea level rise	-	No hazard
Heat stress	Low exposure	Low exposure
High average temperature increase	Medium exposure	High exposure
Drought stress	Low exposure	Low exposure
Fire weather stress	Low exposure	Low exposure
Precipitation stress	Low exposure	Low exposure
Long-term precipitation	Low exposure	Medium exposure

East Capital Real Estate

Contribution to the Sustainable Development Goals

In 2023, we conducted an impact analysis to assess how our sustainability goals and focus areas align with the United Nations Sustainable Development Goals. We have identified to have medium to high and direct impact to work for the following goals:

We have also recognized our potential to contribute to Sustainable Development Goals related to quality education (our support to SOS Children's Village), gender equality (by promoting Diversity, Equity, and Inclusion in our company) as well as providing decent work and promoting economic growth both directly in our own company as well as through providing quality commercial real estate premises for businesses to grow in.

4 QUALITY EDUCATION | 5 GENDER EQUALITY | 8 DECENT WORK AND ECONOMIC GROWTH

Our goal or focus topic	Sustainable Development Goal
Increased efficiency of water equipment in our properties and reduced water consumption	6 CLEAN WATER AND SANITATION
Increased energy efficiency	7 AFFORDABLE AND CLEAN ENERGY
Increased share of renewable energy use	7 AFFORDABLE AND CLEAN ENERGY
Improve or retrofit properties in our portfolio for improved efficiencies	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
Ensure safe access to all our properties and increased share of green spaces	11 SUSTAINABLE CITIES AND COMMUNITIES
Increased share of waste recycling	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
Climate risk assessments of properties with available mitigation of these risks	13 CLIMATE ACTION

Deforestation risk report 2023

East Capital Group committed to the Financial Sector Deforestation Action in 2021, by signing the Financial Sector's Letter on Ending Commodities-driven Deforestation.

Background

We consider deforestation a major risk, as we believe forests are vital for climate mitigation objectives. Tropical forest deforestation accounts for 8% of all CO2 emissions[1], more than the entire EU, and agricultural commodity sourcing for palm oil, soy, cattle products; and pulp and paper is by far the largest cause of this deforestation. This means addressing agricultural commodity-driven deforestation for these four products has the potential to make a large and rapid impact on the climate and nature crises.

Besides we are fully aware that our investments are parts of the deforestation economy; for instance, two thirds of tropical deforestation is driven by the production of a handful of commodities such as palm oil, soy, timber, paper and pulp, beef and leather while such commodities are present in more than 50% of the packaged products in our supermarkets[2].

Risk analysis

In 2022 and 2023, we conducted a risk analysis across the East Capital Group's public equity portfolios. The basis of the analysis is to identify parts of our portfolio with economic activity in sectors considered high-risk (Table 1) and operating in countries considered high-risk (Table 2).

In 2023, the high-risk sector exposure across East Capital and Espiria portfolios ranged from 2.9% to 19.6%, with the highest sector risk exposure to be found in East Capital China A-shares, followed by Espiria SDG Solutions (13.3%), and East Capital Global Frontier Markets (12.4%). Adding the lens of high-risk countries for the economic activity of our portfolio holdings, the fund with the highest risk exposure is East Capital China A-shares (19.6%).

Besides, we added an additional lens to the screening, making use of Principal Adverse Impact (PAI) Indicators. Principle Adverse Impact indicators, as defined by the Sustainable Finance Disclosure Regulation (SFDR) are essentially a set of mandatory indicators and metrics which aim to show financial market participants how certain investments pose sustainability risks. While PAI indicators are as of yet not available for all our holdings, their availability has already been improving and is expected to increase, partly due to stewardship activities of financial markets participants including East Capital Group, and the ramping up of coverage by a multitude of ESG data providers.

The PAI indicator *"PAI Activities Negatively Affecting Biodiversity Areas"* proved to be of very little use as data coverage is poor and the basis seems to be only covering the actual operation of companies, not their value chain. Instead, we primarily used the indicator *"PAI Lack of Deforestation Policy"*.

The final screening is done to identify which companies are active in high-risk sectors, in high-risk countries, and not having a deforestation policy, or there is no data available for this PAI. We are not expecting and requesting lots of policies from portfolio companies; however, we firmly believe in the materiality approach of ESG factors, i.e. we focus and expect companies to focus on issues which are of fundamental importance to their business. Hence the **lack of deforestation policy in companies which might participate in a significant way in commodities-driven deforestation becomes a red flag**. For instance, in 2021, together with our research partner for South America, CrediCorp, we were part of an initiative to encourage a major lender in Brazil to establish lending policies addressing exposure to agricultural commodity-driven deforestation, so that they put in place a structure to ensure that financing activities potentially connected to agricultural commodity-driven deforestation are systematically examined and addressed.

As a result of the screening, we concluded that the funds with the highest equity exposure to deforestation risks, as defined above, are East Capital China A-shares (13.6%), East Capital Global Emerging Markets Sustainable (4.9%), Espiria SDG Solutions (4.2%), East Capital Multi-Strategi (2.7%), and East Capital Eastern Europe (0.5%).

12 holdings were identified. Each of these holdings got a red flag related to deforestation risk in our proprietary ESG analysis.

Financial institutions (FIs) indirectly support deforestation by providing financing to companies in sectors such as beef and soy production. Additionally, they have an indirect influence by offering financial support to wholesale and retail operators whose supply chains involve high-risk commodities associated with deforestation. According to reports by Forests & Finance and Forest 500 USD 6.1 trillion have been provided to 350 companies most at risk for driving tropical deforestation, of which more than half (USD 3.2 trillion) were provided by FIs without any deforestation policy. Using the same screening methodology (high-risk country, relevant PAI indicators), we identified 13 banks across our portfolios, all but one domiciled in emerging markets.

Next page:
Stewardship and conclusion

1. World Resources Institute, By the Numbers: The Value of Tropical Forests in the Climate Change Equation | World Resources Institute (wri.org)
2. Forest 500, a project of Global Canopy
Photo: Rich Carey (Shutterstock)

Stewardship

Direct engagement

Based on this analysis, we engaged with 13 banks and 11 non-financial holdings (one holding included in the initial count being a legacy asset of insignificant size and for which efforts on this issue would prove meaningless). Each holding was sent a letter from our Group CSO requesting more information and details on their risk management related to deforestation, approach to deforestation risks in their operation and value chain, and sharing - if they have any - a stated non-deforestation commitment. Responses were received from a handful of companies, which has been followed up; and we are currently following up with all recipients of the letter who have not replied.

CDP campaign

Besides, during the year we participated in the annual CDP non-disclosure campaign. As lead investor on 10 companies regarding the Forest questionnaire, besides 25 companies for the Climate Change questionnaire and 10 for the Water Security questionnaire, our success rate was 10%, with only one company reporting for the first time to CDP Forest.

Engagement with policymakers

We are a member of the IPDD (Investor Policy Dialogue on Deforestation) where we participate in the consumer group countries, which main objective is to work with governments, public agencies, industry associations and other stakeholders to halt deforestation. The goal of the IPDD Consumer Countries workstream is to engage with government-related authorities and associations, as well as other stakeholders in key consumer regions (the United States, the United Kingdom and the European Union today, China will soon be added to the list) that are debating and/or implementing deforestation-free commodity regulations. This workstream builds on the ongoing process of investor engagement with Brazilian and Indonesian authorities and associations, and others on the systematic and sustainable management of forest assets and to ensure respect for human rights.

Specifically, five investor expectations have been identified in the IPDD Consumer Countries workstream to work towards:

1. Promote constructive public policy dialogue with the largest forest risk commodity (FRC) consumer countries, with the aim to halt deforestation.
2. Promote understanding of the systemic drivers of deforestation, including commodity supply chains lacking appropriate due diligence and control, as well as consumption patterns driving unsustainable demand for FRCs.
3. Support the implementation of the COP26 deforestation commitments and the achievements of its objectives.
4. Ensure that investor advocacy accounts for commonalities and differences across markets.
5. Complement the existing objectives of the Indonesia and Brazil IPDD working groups to ensure goals are aligned across commodity supply and demand curves.

As of January 2024, IPDD is supported by 79 global institutional investors, from 20 countries. The coalition now represents approx. USD 10 trillion of AUM.

Conclusion and moving forward

Supported by the introduction of regulatory requirements (primarily in Europe but also in some Asian jurisdictions) and the increasing awareness about the negative risks on climate change and biodiversity driven by deforestation, there is a momentum emerging around disclosure and management of deforestation risks. It is still early days but financial investors such as ourselves, are committed to prioritize these issues in the ESG analysis of their investments and stewardship activities.

One of the priorities of our engagement activities will be to promote education around the regulatory frameworks which will affect our portfolio holdings such as the European Union Regulation on Deforestation-free Products (EUDR) which entered into force on June 29, 2023, and will start to be enforced in December 2024. Another major piece of legislation recently approved by the European Union is the Corporate Sustainability Due Diligence Directive (CSDDD), which will set obligations for large companies regarding actual and potential adverse impacts on human rights and the environment, with respect to their own operations, those of their subsidiaries, and those carried out by their business partners.

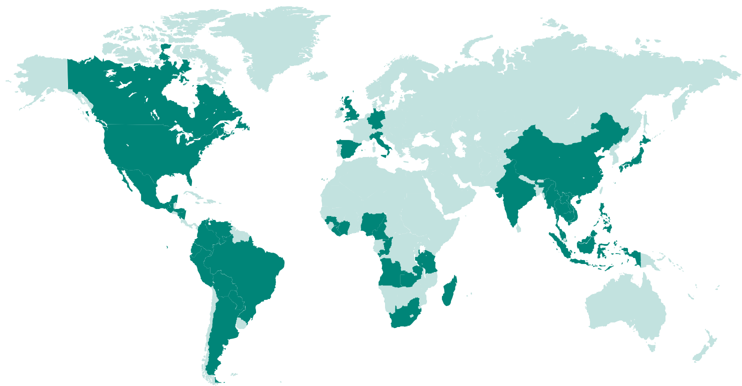
Next page:
High risk sectors and countries

Photo: Alen Thien (Shutterstock)

Table 1: High-risk sub-sectors

GICS sub-sector	High forest-risk commodities for the sub-sector
Coal and consumable fuels	Palm oil, Soy
Paper packing	Pulp and paper
Forest packages	Timber, Pulp and paper
Paper products	Palm oil, Soy, Beef, Leather, Timber, Pulp and paper
Automobile Manufacturers	Leather
Home furnishing	Leather, Timber
Homebuilding	Timber
Apparel, Accessories and luxury goods	Leather, Pulp and paper (including cellulosic fibres)
Footwear	Leather, Pulp and paper (including cellulosic fibres)
Textiles	Leather, Pulp and paper (including cellulosic fibres)
Restaurants	Palm oil, Soy, Bee
Internet and direct marketing retail	Pulp and paper
Multiline retail	Beef, Leather, Palm oil, Soy, Pulp and paper, Timber
Apparel retail	Leather, Pulp and paper (including cellulosic fibres)
Home improvement retail	Timber
Automative retail	Leather
Home furninshing retail	Leather, Timber
Food distributors	Palm oil, Soy, Beef, Pulp and paper
Food retail	Palm oil, Soy, Beef, Pulp and paper
Agricultural products	Palm, Soy, Pulp and paper, Timber, Beef, Leather
Personal products	Beef, Palm oil, Soy
Household products	Palm oil, Soy, Pulp and paper
Personal products	Palm oil, Soy, Pulp and paper
Diversified banks	Beef, Leather, Palm oil, Soy, Pulp and paper, Timber
Regional banks	Beef, Leather, Palm oil, Soy, Pulp and paper, Timber
Thrifts and mortgage finance	Beef, Leather, Palm oil, Soy, Pulp and paper, Timber
Renewable electricity	Palm oil, Soy, Timber

Table 2: High risk countries



Country	Key forest-risk commodities produced and processed
Angola	Timber, Soy, Palm oil
Argentina	Cattle, Soy
Bolivia	Timber, Cattle, Soy
Brazil	Timber, Cattle, Soy, Leather, Palm oil
Cambodia	Timber, Cattle, Palm oil
Cameroon	Timber, Cattle, Soy
Canada	Timber, Beef, Pulp and paper
China	Timber, Soy, Beef, Leather, Palm oil, Pulp and paper
Colombia	Timber, Cattle, Soy, Palm oil
Côte d'Ivoire	Timber, Cattle, Palm oil
Democratic Republic of the Congo	Timber, Soy, Palm oil
Ecuador	Timber, Cattle, Palm oil
Germany	Timber, Soy, Beef, Leather, Palm oil, Pulp and paper
Guatemala	Timber, Cattle
Guinea	Timber, Palm oil
Honduras	Timber, Cattle, Palm oil
India	Timber, Cattle, Soy, Beef, Leather, Palm
Indonesia	Timber, Soy, Palm oil
Italy	Leather
Japan	Timber, Pulp and paper
Lao People's Democratic Republic	Timber, Cattle, Soy
Liberia	Timber, Palm oil
Madagascar	Timber, Cattle
Malaysia	Timber, Palm oil
Mexico	Timber, Cattle, Soy, Leather, Palm oil
Myanmar	Timber, Cattle, Palm oil
Nicaragua	Timber, Cattle, Palm oil
Nigeria	Timber, Palm oil
Paraguay	Timber, Cattle, Soy
Peru	Timber, Cattle, Soy, Palm oil
Philippines	Timber, Palm oil
South Africa	Cattle, Soy
Spain	Soy, Palm oil
Thailand	Timber, Soy, Leather, Palm oil, Pulp and paper
United Kingdom	Timber, Pulp and paper
United Republic of Tanzania	Timber, Cattle
USA	Timber, Soy, Beef, Leather, Palm oil, Pulp and paper
Venezuela	Timber, Cattle
Vietnam	Timber, Soy, Leather
Zambia	Timber, Cattle, Soy

Promoting responsible investment

Through communication, publications and speaking events

- **Responsible Investor Europe conference in London**: Participated in a panel on 'Engagement in Emerging Markets.'

- **ReThink**, the largest annual sustainability event in Hong Kong: Joined a panel on Swedish sustainability leadership with Scania, H&M, and Volvo Bus.

- **High-level conference for Telia's corporate clients** in Lithuania: Served as a keynote speaker and participated in a panel discussing themes such as ESG through the expression of the company's shareholders' value, ESG main tendencies and trends, and the regulatory environment for investors and issuers.

- We participated in **Sustainable Finance MX23** in Mexico City, organised by the Mexican Council for Sustainable Finance and the Institutional Stock Exchange of Mexico.

- We spoke at a panel on ESG & geopolitics at the **ACGA annual forum** in Mumbai and organised and hosted a **COP28 event in Stockholm, with SWESIF and PRI**, where Sweden's lead negotiator for COP as keynote speaker.

- Following our active participation in a **PRI led workshop on human rights risk identification** and subsequent work on the topic, East Capital Group was mentioned in the PRI guide published during Q2. Human rights (PAI#9) is one of voluntary PAI indicators we chose, alongside deforestation.

- We took part in the Net Zero Asset Owners Alliance's EMTI (Emerging Markets Transition Investments) project which published **Code Red! Call for Action on Responsible Corporate Engagement in Emerging Markets**. The paper can be found on the website of the UNEP FI and the EU ASEAN Business Council.


ASSET CLASS REPORTS

Emerging market equities: Slow progress on corporate governance

BY LYNN STRONGIN DODDS | APRIL 2023 (MAGAZINE)

Equity investors see improvements in corporate governance in emerging markets, but alignment between shareholders, management and owners remains critical

We regularly engage with both generalist and specialized media to discuss ESG and sustainability-related topics. In 2023, these activities included:

- An interview for an article in IPE about corporate governance in emerging markets.

- **Several radio interviews on Hong Kong's leading radio station RTHK** on ESG trends in Asia and how investors approach physical climate risks.

- An article on SFDR in Waters Technology titled '*Teething problems: Data difficulties overshadowing inaugural sustainability disclosures*'

- An interview on **CNBC** Squawk Box commenting on New York Climate Week.

- We are featured as the only investor case study in the **PRI publication**. Our report, "Responsible investment and sustainability outcomes in China Current practice and policy recommendations" provides a summary of the sustainability policy landscape in China. It identifies current practice, emerging opportunities and key challenges for investors in China to integrate the consideration and pursuit of sustainability outcomes and the SDGs into their decision making. We were part of the **PRI in Person Signatory Advisory Committee** planning the **Tokyo PRI in Person conference**, joined it and published a conference report.

UN PRI in Person 2023

More Action and Broader Perspectives

East Capital Group participated in the UN PRI in Person, the world's leading responsible investment conference held in Tokyo from 3-6 October 2023. The conference brought together over 1000 asset owners, asset managers and service providers, from around the world.

Our Chief Sustainability Officer, who is a member of the PRI Signatory Advisory Committee, in charge of shaping the agenda ahead of the conference, shared with us that the committee had two important goals for this year's conference: more actionable outcomes for signatories (reflected in the conference's theme "Moving from commitments to action"), and broader perspectives through inviting more diverse speakers such as corporations, policymakers, NGOs and politicians thus avoiding any preaching-to-the-choir type of gathering. Below are some on-the-ground notes and impressions given to us by our Chief Sustainability Officer, Karine Hirn. We welcome any questions and reflections!

For only the second time ever, seven years after Singapore, the UN PRI organised its annual flagship conference in Asia. A very relevant location, considering the fact that the Asian continent is home to half of the world's population and is the most vulnerable region to climate risks (for instance between 2000 and 2019, four out of the top five economies reporting the highest number of disasters are located in Asia: China (1st), India (3rd), the Philippines (4th) and Indonesia (5th)[1]). Asia consumes half of the world's energy on one hand and on the other hand, it provides many critical parts of the value chains for green solutions as well as natural carbon-sink.

The conference was kick-started by the inspiring keynote speech of Japan Prime Minister Fumio Kishida, seemingly ready to mobilize trillions of Japanese's savings and unleash the power of science, technology and entrepreneurship to green the world.

The PRI in Person is always a very intense conference, with meetings, seminars, side events and networking from early in the morning to late in the evening. Besides plenary sessions consisting of keynote speeches and panels, there are numerous break-out sessions and workshops. Thankfully for me, and the large delegation of fellow participants from Asia and Australia, the intensive program was easier to navigate, without jetlag, compared to last year in Barcelona! Feeling like a PRI conference veteran, and also well-prepared this year due to my involvement in the PIPSAC (PRI in Person Signatory Advisory Committee), I managed to limit the FOMO feeling through a pre-set strategy: avoiding the late nights with tempting sake, and making the most of the program by focusing on the sessions which met the two objectives we had agreed upon during the PIPSAC discussions: actionable outcome and broader perspectives.

The conference's theme "**Moving from Commitments to Action**" was spot on. Compared to previous years, I felt that there was indeed much more focus on concrete actions such as workshops on transition plans in practice, new disclosure standards such as the TNFD (Task Force on Nature-related Financial Disclosure), sharing of perspectives on tools and collaborations to assess and limit deforestation risks, phase 2 of Climate Action 100+ (a 6 years-old global investor-led initiative to ensure the world's corporate greenhouse gas emitters take necessary action on climate change) or the launch of Spring – a new stewardship initiative of the UN PRI to focus on nature-related risks. I couldn't help but telling the people involved in the latter that Spring means "run" in Swedish and that indeed we should accelerate the pace for nature.

For me personally it was also a great opportunity to meet in person with many peers with whom we co-operate within various initiatives and associations such as the FSDA (Financial Sector Deforestation Action), IPDD (Investor Policy Dialogue on Deforestation), Climate Action 100+, Advance (focus on human rights), the recently launched Nature Action 100+ and our old friends at the Asia Corporate Governance Association with whom we have multiple collaborative engagements towards Chinese and Korean companies.

The topics covered had been carefully curated by the PRI staff, with support from the PIPSAC. Expectedly, the agenda centred around climate, while nature, including deforestation risks, was much higher on the agenda compared to previous years, and so were human and labour rights and the related topics of a Just Transition. What I missed was the topic on how responsible investors should approach the sustainability-related impact of artificial intelligence; I expect this topic debate to become more prominent going forward.

On the next page is a selection of highlights per topic from the multiple sessions and discussions I had in the course of three intensive conference days and some personal takeaways.

Next page:
Selection of highlights from sessions and discussions

1. Data from the UN Office for Disaster Risk Reduction (UNDRR)

Climate

There is a growing realisation about looming physical climate risks, even in low-carbon scenarios. The 21st century's challenges encompass migrating from mitigation strategies to adaptation.

KH: After years of focus on climate mitigation, it is indeed (sadly) time to really get to work on climate adaptation and invest in resilience. Just before going to Tokyo, I had just weathered the heaviest rainfall in history at home in Hong Kong.

Achieving net zero seems challenging, as it would require an annual capex of 1.3 trillion USD, while only around 700 million USD is currently available. The importance of carbon pricing as a mechanism for carbon reduction cannot be underestimated.

KH: The window for the 1.5-degree is closing before our eyes, only 7% of polled delegates considered it still reachable. A base-case scenario anticipating a 2.4-degree increase, assuming a 25% reduction in GHG emissions is absolutely catastrophic and will imply massive damages.

GHG emissions are expected to fall with an increase in cleantech and renewables investments, which are projected to be the growth story of the coming decades.

KH: These sectors fell out of favor when the interest rates started to rise but the long-term investment case remains intact and has delivered very strong returns over the last five years. My colleagues and myself being on-the-ground are very well-equipped to closely follow the largest and most dynamic market for these industries, namely China.

Climate and nature show intricate dependencies. For instance, land use, especially in Southeast Asia, is a significant source of climate change mitigation. At the same time the green transition requires resources from nature such as minerals, land or seabed to install wind farms.

KH: The concept of the SDG conflicts, which intensity and scope differs across geographies and levels of economic development, is increasingly in focus; how we will solve them is a defining moment for humanity.

Nature and Biodiversity

There is a strong need for investors to use tools which offer traceability and data through the value chain, for instance to track deforestation activities and ensure responsible sourcing. For investors to be able to properly assess and mitigate nature-related risks, companies ought to disclose localized data, easier said than done for businesses which operate across multiple geographies.

KH: No surprise data-providers and starts-ups are getting excited about this new goldmine! Since localized data is also needed for physical climate risk assessment, we might hit two birds with one stone (no pun intended) and get more granular data very soon. Also, since climate and nature are deeply intertwined, investors can engage on both topics in their dialogue with companies.

Solution-providers and companies that minimize their impact on nature, for instance waste recycling, water management, soil pollution restoration are pivotal.

KH: If today these "nature positive contributors" are hard to come by and completely inexistent in some markets and asset classes, one can expect that there will be many more in the near future, as requirements increase, including from responsible investors like ourselves, regulatory frameworks are implemented and client demand soars.

Nature and biodiversity are complex and multi-faceted, still leaving lots of room for interpretation in the years to come, hence it is paramount to establish and implement standards.

KH: It makes it easier that the TNFD standards follow the TCFD framework's four pillars, but six years down the road after TCFD recommendations were launched, only 4% of TCFD supporters align with all TCFD recommended disclosures - so let's not get too complacent.

The task of identifying which sectors represent high single or double-materiality risks on nature and biodiversity is fairly simple there is a consensus view on food and beverage, pharmaceuticals, materials and mining.

KH: Mapping is one thing, further assessing and quantifying the risks, as well as mitigating them is much more difficult; we all need to get our heads around this, and quickly. It is estimated that half of the world's GDP is moderately or highly dependent on nature.

Human Rights and Just Transition

Most environmental issues, such as climate change transition and physical risks, loss of biodiversity, and sourcing of green materials, have a social impact which remains less well explored. Social unrest around the world reminds us of the risks that must be addressed now and where short-term planning is required.

KH: While responsible investors have to take action, for instance through stewardship and asset allocation, these hugely complex issues require also engagement with other stakeholders and policymakers.

Implementation challenges when incorporating human rights can be mitigated through "preventive" and investigative processes. Investors should first map the risk materiality in their portfolios and also deepen their assessment across value chains. Alternative data sources and external assurances are critical in this work.

KH: The more I think about it, the more convinced I am that we will eventually start using the Scope 1, 2 and 3 frameworks also for human rights. Scope 1 relates to own labour force, Scope 2 relates to supply chain and communities and Scope 3 is about the use of companies' products and services, downstream, with an impact on human rights.

While sectors such as manufacturing, materials and mining, and construction sectors have traditionally been in focus for social rights (including health &safety and labour rights), digital technologies and services are not free from material sustainability topics such as data privacy, children's rights, controversial dual use of technologies and digital addiction.

KH: As big tech dominates many markets and economies, and companies need to be made accountable, we, as responsible investors, welcome more focus on these topics within the industry. Our upcoming new strategy, Espiria Global Innovation, will definitely have them as a key priority for risk assessment and engagement with our portfolio holdings.

New technologies help with data challenges. For instance, AI and blockchain technologies can be applied to trace sourcing of material and mining and Large Language Models can help scrape unstructured data such as local news and social media. Asset geolocation which is required for physical climate risk assessment and nature-related risk analysis should also be leveraged for monitoring of human and labour rights in supply chains.

Keiden Kintol, Head of ESG, Republic of Palau and Karine Hirn, Chief Sustainability Officer, East Capital Group

KH: The imperative for investors to be more granular in their approach, looking at where assets are located, is clear. This resonates well with our on-the-ground approach.

Two key-note speeches made a lasting impression on me: one from Keiden Kintol, from the Republic of Palau, who described, one after the other, the climate crisis effects on their island nation and communities, such as ocean acidification, coral bleaching, rising sea levels, extreme weather events, water/food scarcity, health risks and economic impacts.

The second one was from Dr Parag Khanna, the Founder & CEO of Climate Alpha, Future Maps who articulately described the world of tomorrow, introducing the idea of several geographies: resources, borders, infrastructures, and demographics, which are increasingly misaligned, creating huge pressure and pains going forward. According to Dr Khanna, the 21st century will witness a shift wherein climate refugees will surpass the number of political refugees. At the same time, it is essential to reframe the migration

discourse and also see it as an opportunity. Collaborative initiatives, such as global skill partnerships in essential sectors with labour-exporting countries like Mexico, Nigeria and the Philippines, can pave the way for a more inclusive approach to migration.

Both speeches above were not the most reassuring and positive messages on which to end the conference nor this report, but there is no time for complacency. We have crossed 6 out of 9 planetary boundaries and we are lagging most SDGs targets, eight years after the signature of the Paris Agreement with only seven years left to achieve the 2030 Agenda. What stands out however is the collective acknowledgment of the issues at hand and the shared responsibility to address them. The current ESG backlash in the USA, which was discussed in a very interesting plenary session, does not seem to deter anyone.

As we move forward, these insights will be instrumental in shaping our strategies and priorities. It's evident that a multi-faceted approach, combining technology, policy-making and collaborative initiatives will be essential. The onus isn't just on global leaders but on each one of us, as investors and individuals, to leverage these insights for actionable change. The journey ahead is challenging, but armed with knowledge, collaboration, and determination we are better poised to make a difference.

Snippets from panels, keynotes and personal conversations over sushi and coffee

- Turning a blind eye to all the sustainability problems will not make them go away.
- We need more ambition; we need more action and we need it now. In a world facing global boiling, responsible investors shall not be change-takers, but change-makers.
- The G20 and UN agenda ought to change so that they become dedicated to the Just Transition.
- The Global South should leapfrog the fossil fuel phase and get all the support developed countries have pledged but not yet disbursed.
- We have nowhere to hide from nature issues, we already have plenty of nature risks in our portfolios.
- ESG backlash aside, at CalSTRS, we have not changed the way investments are made, we remain long-term and we need to be because Californian teachers live for a very long time!
- Come to Palau, climate change is definitely not a myth, contrary to what Trump was saying.
- Asian youth, with 12 times more millennials than the US or Europe, is the future of humanity.
- We vote against directors of companies not reporting to CDP, period.
- You need a body-check every year, do the same on your portfolio regarding physical climate risks, identify where the problems are, and prioritize which actions are needed.
- Thanks to the SFDR, data providers business is growing faster than the AuM of their clients.

- There are two imperatives if we don't want to discard the Paris agreement: end coal and end deforestation. Europe anti-deforestation law is a game-changer.
- Our job, as responsible investors, is not to fight politicians; that would mean we are becoming politicians!
- A 1% to 5% risk for a "centennial flood" means that a warehouse can be flooded every 20 years, and it also means it can happen tomorrow.
- Start by asking the company: "how can we help you" and tell them you want to succeed together.
- A collaborative engagement team is like a football team, depending on how it is led, it is either like 6-year olds running everywhere uncoordinated on the field, or a team of coordinated professionals who score.
- You cannot have transition finance without transition plans.
- Humans chose "fight or flight". But it does not work this way with nature.

Karine Hirn
Chief Sustainability Officer and Partner

Working for positive change since 1997

Since our start over 25 years ago we have been identifying trends connected to the transition from planned economies to consumer-driven markets, today we are working with and for the transition to a sustainable world. And today, we are global investors with an active and long-term ownership in hundreds of companies around the globe.

With a range of strategies capturing investment opportunities in both emerging and developed markets, East Capital Group is well-equipped to continue pioneering and offering exciting investment solutions today, and in the years ahead.

East Capital Group's strategy rests on conducting proprietary, unbiased research of new and existing investment opportunities. In-person meetings with management and site visits at local offices and facilities provide additional insights into operations and local market dynamics. This strategy has benefited both the clients and investments of East Capital for over 25 years.

From Emerging and Frontier Markets to the global arena - East Capital Group is working for positive change.

East Capital Group adheres the principle of having eyes and ears on-the-ground. Whether through East Capital's Emerging and Frontier Markets strategies, Espiria's global strategies, the Nordic small and midcap hedge fund Adrigo or East Capital Real Estate funds in Central and Eastern Europe, it is the same principle that applies across all East Capital Group funds and asset classes. Frequent on-the-ground meetings with company owners, management teams and policymakers is an integral part of our investment process, providing us with in-depth local knowledge, access to information and an extensive network. We believe a true regional presence is vital to making better-informed investment decisions and monitoring our existing holdings.

"For us, sustainability issues have always been decisive, as we invested and still invest in fast-growing, and sometimes challenging industries and markets, where data is scarce, and improvements are needed. As investors, we learned early on to scrutinize how companies were governed and how they managed their environmental and social factors. As we developed and rolled out our proprietary analysis tools, considering risk scenarios and ESG factors became an integrated part of the investment process, and the basis of our active ownership agenda," says Karine Hirn, Co-Founder and Chief Sustainability Officer, East Capital Group.

The journey continues

Founded on the anniversary date of the fall of the Berlin wall, East Capital has always had an "explorer" mindset, inspired by the idea of convergence, and powered by inquisitive minds. Twenty-five years ago, the convergence opportunity was Eastern Europe, standing at the crossroads of development. The experiences gained affirmed this approach and fuelled the drive to find new opportunities which, in 2010, led East Capital further east to Asia; broadening the investment universe to include global emerging and frontier markets. Today, the convergence opportunity revolves around sustainability, powered by a continued drive to work for positive change.

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