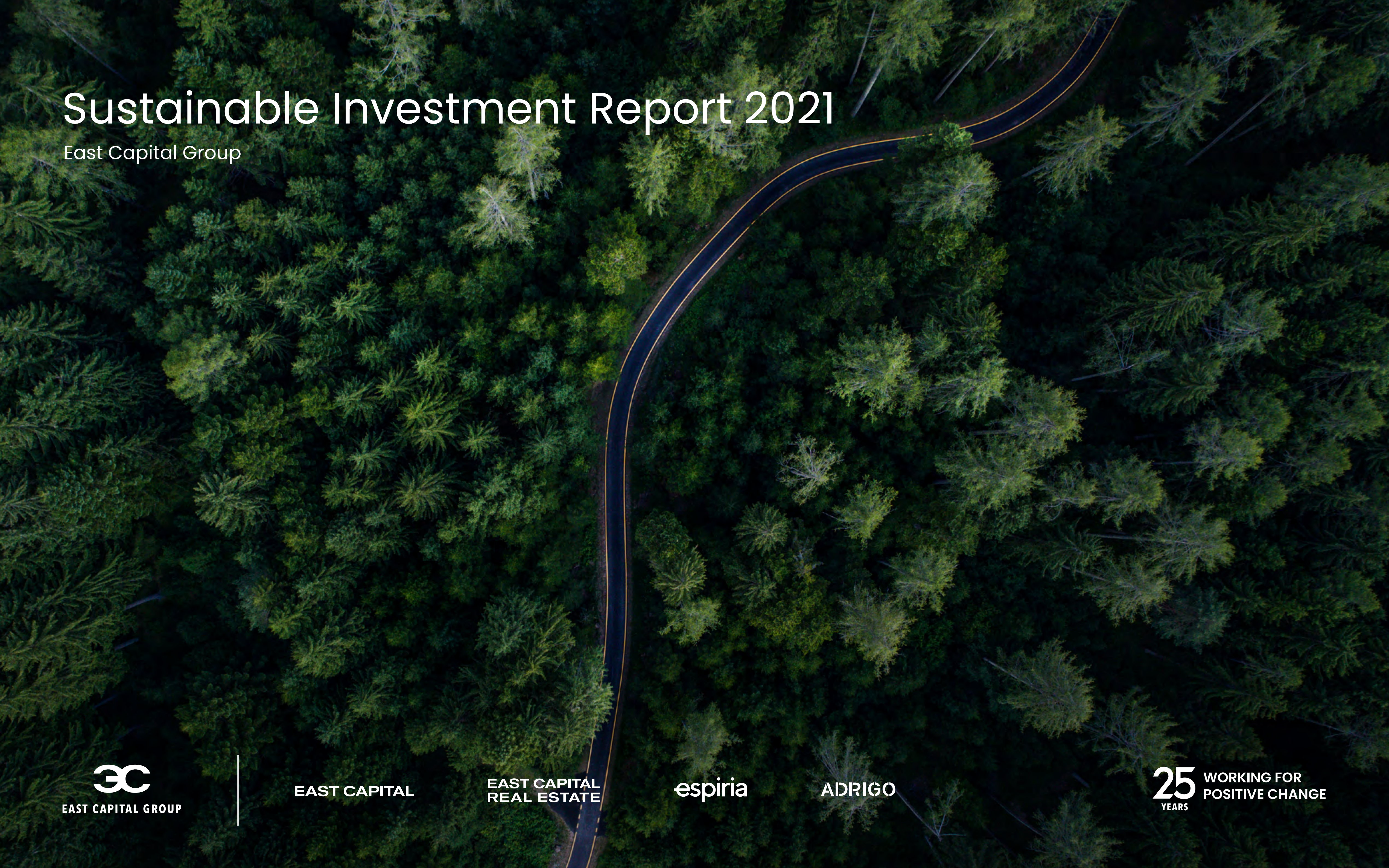
Sustainable Investment Report 2021

East Capital Group



EAST CAPITAL GROUP

EAST CAPITAL

EAST CAPITAL REAL ESTATE

espiria

ADRIGO

25 YEARS WORKING FOR POSITIVE CHANGE

IMPORTANT INFORMATION

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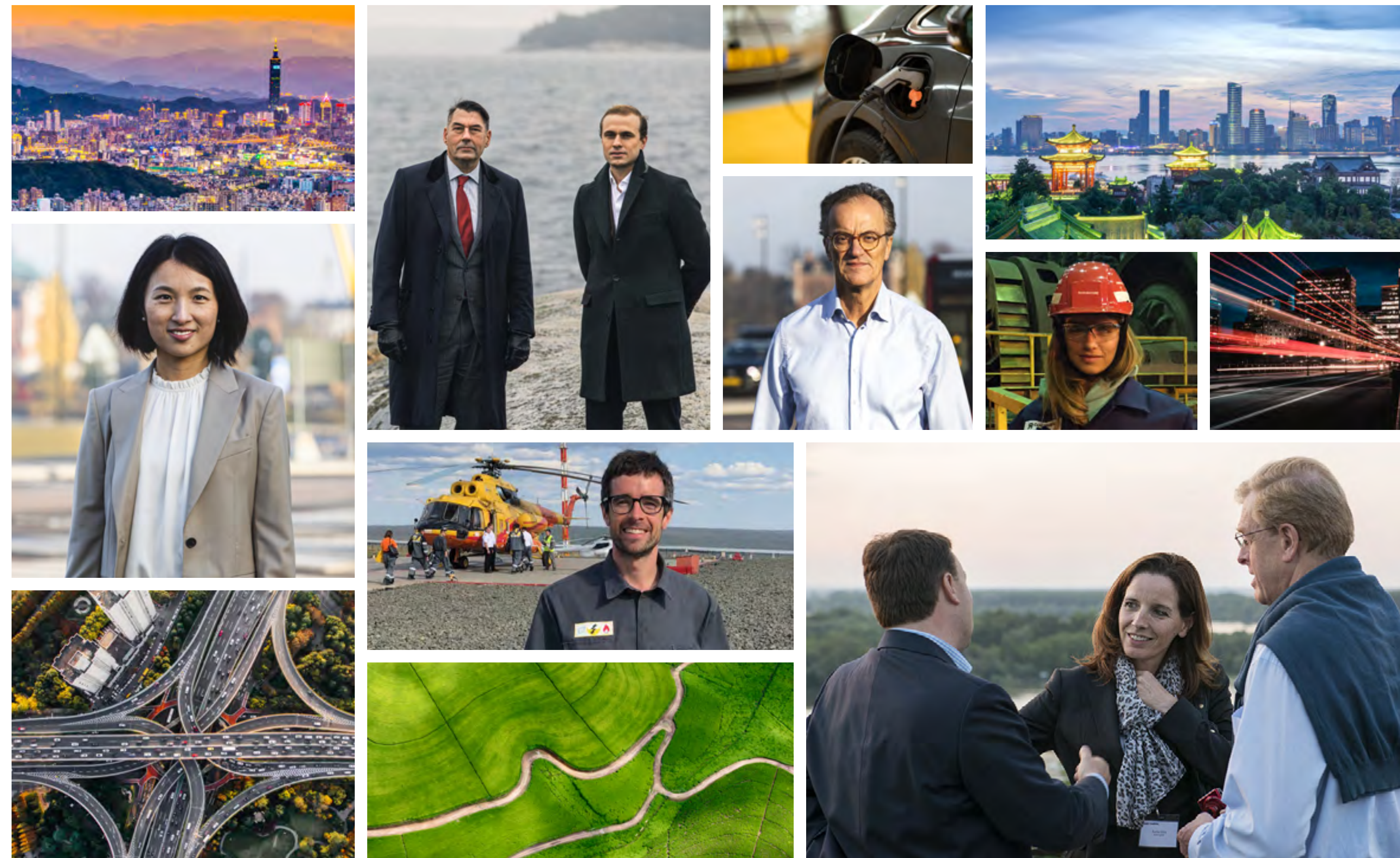
East Capital Group

East Capital Group is an active 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 actively work to drive change, influencing industries around the world to become more sustainable.

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 hedge fund strategy targeting absolute returns. East Capital Group also has a significant holding in the listed company Eastnine (OM:EAST), which owns, develops and manages sustainable, premium office spaces in the Baltic region.



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Working for positive change

East Capital Group turns 25 in 2022. The year started sadly, with the horrific invasion of Ukraine by Russia. The unfolding humanitarian crisis and looming impacts on the energy transition, food security and heightened tensions around the world make it difficult to celebrate, no matter the milestone in question. We are also, at this time, consciously reminded of the premises and purpose upon which we founded our company in 1997: Working for Positive Change. As one of the earliest, largest and most active investors in Russia, we are deeply shaken by the ongoing tragic developments. But despite the sadness and horror, we still feel that our efforts during this past quarter of a century have not been in vain. Our company has seen many crises and every time we have learned some invaluable lessons which have made us more resilient as an organisation and, applied forward, have improved both our value proposition to our clients and the positive impact we are having on the world. We know that this will happen this time as well, and we believe that the world's need for positive change is growing exponentially.

Looking back at 2021, we have been very busy. We joined SASB as an Alliance User Member and became a signatory to the United Nations Global Compact. During COP26, Espiria (East Capital Group's brand for Developed Markets, Nordic equities and bonds) committed to the Net Zero Asset Managers Initiative and we joined a global deforestation initiative. We also worked more on biodiversity, together with Alquity, a London-based impact asset manager, with whom we created an ESG & Impact Council at the time when we took a minority position in their capital early 2021. Our participation in the annual CDP non-disclosure campaign was once again very successful. We prioritised the work of harmonising our sustainable investment framework across our different asset classes and brands.

This annual sustainable investment report is for the first time issued by East Capital Group, and covers both tools and results of our work for Adrigo, East Capital, East Capital Real Estate and Espiria. As we summarise the year that has been, we would highlight the strong growth of sustainable investing and the finetuning of our rigorous approach.

25 YEARS **WORKING FOR POSITIVE CHANGE SINCE 1997**

CLIENT DEMAND AND REGULATION

2021 was yet again a year with record-breaking demand for sustainable investments. Investment flows into ESG funds have continued unabated during 2021, something we expect to continue in 2022. In 2021, USD 3 of every USD 10 of inflows into global equity funds have gone into so called "sustainable" funds, as have USD 2.3 of every USD 10 of flows into global emerging market funds. ESG assets now make up 11% of total global emerging markets' assets under management, up from just 3% three years ago, partly due to managers repurposing (or relabelling) their funds as sustainable. Regrettably, many funds' ESG credentials still consist of exclusions and screening. Our approach goes much further as you will read and understand in this report.

Exemplified by the hype around COP26 which was held in Glasgow in November 2021, the Agenda 2030 for sustainable development has been dominated by climate change. While 70 countries, accounting for more than 80% of global CO_2 emissions and 90% of global GDP have committed to a mid-century net zero future, we can expect more tangible policy-making work as we go along. Undeniably, policy makers are catching up with the imperative of the transition to a world which would get closer to or meet the Agenda 2030. The various European regulations such as the EU Taxonomy, SFDR (Sustainable Finance Disclosure Regulation) and the CSRD (Corporate Sustainability Reporting Directive) have had and will keep having a strong impact on the world of ESG investing.

LOOKING BEYOND, FORWARD AND DOING OUR HOMEWORK

During the year we developed and rolled out new ESG integration tools such as the SDG VCA (Value Chain Assessment) tool which assesses the impact of our portfolio holdings across the value chain for East Capital Global Emerging Markets Sustainable and the SDG impact assessment tool for Espiria SDG Solutions. These tools demonstrate our belief that investors need to look beyond the obvious names in order to get exposure to the sustainability-driven structural growth stories at much more reasonable valuations. Likewise, we spend more time focusing on the forward-looking developments in companies, in order to catch the future "ESG stars". This is very much in line with our active ownership approach where we want to work for positive change and will not content ourselves in just investing in today's ESG darlings.

Doing so requires a lot of internal research and dialogue with our portfolio holdings. As we observe the rapid expansion of ESG data providers, we also note that there is a real risk that such tools are used by investors without actually considering their usefulness in their investment process or in terms of real-world impact. For example, running our own models to assess transition risk in companies under various carbon pricing scenarios has enabled us to find much more real-world application of these numbers, including robust dialogues with companies and engagement on transition risk management.

A WORLD IN CONSTANT CHANGE

We started 2022 by publishing an ESG outlook which presented the key trends that will shape the world of ESG – the A.S.A.P. year. The four themes, "Accountability, Subtleties, Adaptation, People" remain valid, even though, at this time of writing, our hearts and minds are with the people of Ukraine.

Peter Elam Håkansson
Chairman and CIO

Karine Hirn
Chief Sustainability Officer

Our ESG journey

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. We become active member of API (Association of Institutional Investors – the Russian corporate governance association).

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

2007
We implement sector exclusion criteria for all fund products. 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 using an external research partner.
We establish a new role within investment team: Head of Corporate Governance and Sustainability.

2011
We expand our voting and nomination and election of independent directors.

2012
We become signatory of UN PRI (Principles of Responsible Investment).
We become a climate-neutral company.

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 (Swedish Investors for Sustainable Development).

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

2019
We launch East Capital Global Emerging Markets Sustainable, awarded an ESG label by LuxFlag.
We become a TCFD (Task Force on Climate-Related Financial Disclosures) supporter.

2020
We join SWESIF (Sweden's Sustainable Investment Forum), IIGCC (Institutional Investors Group on Climate Change) and Climate Governance Initiative Russia.
We implement Esgaia, a tool for engagement management.

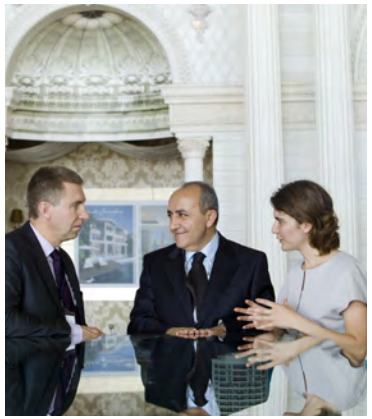
2021
We start a partnership with the leading impact investor Alquity. We become a SASB Alliance User Member. We join Net Zero Asset Managers initiative with Espiria. We launch Espiria SDG Solutions. We join the Financial Sector Commitment on Eliminating Commodity-driven Deforestation. We further integrate SDG impact across the value-chain, introducing our SDG VCA tool.

2022
We become signatory of United Nations Global Compact.
We became supporter of TPI (Transition Pathway Initiative).

Photo: Alessio Soggetti (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 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.

LOCAL

Frequent on-the-ground 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. In emerging and frontier markets, a true regional presence is vital in 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 compositions and invest by conviction on a company by company basis. Our portfolios typically have a high active share. Our off-benchmark exposure includes allocation to smaller companies, frontier markets and local Chinese A-shares. Smaller companies offer a larger exposure to certain fast-growing sectors responsive to local market dynamics. Frontier markets are in general both faster-growing and less correlated to the developed world than emerging markets. To find meaningful exposure to renewable energy and clean technologies in emerging markets, allocation to local Chinese shares is critical.

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 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. 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.

Photos: Snežana Vučetić Bohm, East Capital, Maria Kukatova

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.

Early 2022, we produced our first Sustainability Disclosure, developed in accordance with the Sustainability Accounting Standards Board (SASB) Industry Standards for Asset Management and Custody Activities. The disclosure contained 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.

We also decided to add 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.

CLIMATE NEUTRAL COMPANY SINCE 2012

East Capital is a climate neutral company in accordance with the UN definition of climate neutrality. 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.

RAOUL

Since 2014, we have been engaging with the charity foundation RAOUL in St Petersburg, founded in honour of Raoul Wallenberg, a legendary Swedish businessman and diplomat. East Capital is focusing on a special project, which aims to help young people with special needs and orphanage graduates to enter the workplace. The support involves education, arranging employment, and provides training in social adaptation and self-organisation. Over 1000 young people have been coached, aiming to enable them to get and retain a job with an official income.

Photo: SOS Children's Villages

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 is providing 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, with high standards in operations, quality control and organisation. Throughout these years, we have been funding a family with five children who live with their SOS mother in the SOS Children's Village in Keila. Our relationship with the family offers our employees a lot of joy, as we regularly visit the family in Keila, and they have also come to Stockholm to stay with us on several occasions.

2022: the A.S.A.P year

What are the four key trends we believe will shape the world of ESG investing in 2022?

AS SUSTAINABLE AS POSSIBLE?
AS SOON AS POSSIBLE?
WE ARE AT A TURNING POINT

Accountability

Subtleties

Adaption

People

Dimensions that will shape the world of ESG in 2022

A FOR ACCOUNTABILITY

COP26 catalysed a barrage of announcements and climate pledges from governments, investors, lenders and companies. This is obviously positive, but 2022 will be the year where we need to go from "talking the talk" to "walking the walk". Investors like us are looking for companies with robust transition plans detailing clear actions that will result in the short-term emissions reductions that are crucial in keeping global warming well below 2C.

Reporting metrics

A key part of measuring the results from these plans, or any other sustainability impact, is clear reporting standards, in particular SASB (Sustainability Accounting Standards Board, housed under the Value Reporting Foundation or VRF), which we have selected as our preferred framework. In 2021 we rolled out a SASB-based SDG Value Chain Analysis tool for our global emerging markets portfolio and it is remarkable how much easier it becomes to compare and contrast companies' outcomes. For example, we were recently discussing a number of healthcare providers in various emerging markets. One of the material sustainability issues our tool highlights is energy use, because the healthcare industry accounts for 4.4% of global CO2 emissions[1]. While every company claims they have made large strides in reducing emissions and increasing energy efficiency, it is important to take the analysis one step further: for instance, looking at energy consumption per sqm of hospital space over time and comparing it to peers makes it very easy to assess how much each company has really achieved. Once we have a clear view on this, we can engage with companies on the topic and trigger some real improvement. We think this style of analysis will become increasingly common and this is what we are building East Capital ESG Scorecard 3.0 around. We already do this for the more obvious metrics. For example, for Russian steel companies our Moscow colleagues will know the projected dividend yield, free cash flow yield and the carbon intensity per ton for each of the large producers.

New tools and higher standards

One interesting area we are following closely is the emergence of more tools that help investors and companies measure and report on these metrics. This includes spatial finance, satellites (very important for methane emissions) and blockchain-based reporting solutions. Accountability will be driven by data and standards, and it would be remiss of us not to highlight some of this "alphabet soup" because it will take a lot of investors' time in the coming year whether we like it or not. The various European regulatory initiatives will now really start impacting the world of ESG investing. These are the EU Taxonomy regulation, the SFDR (Sustainable Finance Disclosure Regulation), which sets out obligations for asset managers and the CSRD (Corporate Sustainability Reporting Directive), which regulates how all companies listed on European regulated markets report on sustainability and tag information into a European single access point. Besides, in 2022, we will closely follow how two recently announced initiatives will play out: the ESG Book, a new open-source for ESG data, and the International Sustainability Standards Board (ISSB), which will hopefully see audited material sustainability metrics become part of IFRS-type reporting.

1. "Healthcare's Climate Footprint", Health Care Without Harm, September 2019 https://noharm-global.org/sites/default/files/documents-files/5961/HealthCaresClimateFootprint_092319.pdf

S FOR SUBTLETIES

Given the breathtaking pace at which ESG investing has developed, the market has tended to fall back to some relatively (overly) simplistic axioms, such as "all oil/mining companies are bad".

However, we expect that the market will gradually adapt to the level of nuance required when thinking of these issues. For example, at face value, it is objectively great that Shell was ordered to reduce Scope 1-3 emissions by 45% by 2030 in a recent court order, or that BP sold off their Alaskan assets and hence reduced CO2e emissions by some 8MT. However, does that mean the demand for oil will decrease? If not, who will produce that oil? Most likely countries, such as Iran or Venezuela, which care much less about the environment, or companies which are beyond reach of shareholder activism. BP's Alaskan assets were bought by a non-transparent privately owned company and emissions increased by 8% the year after they were acquired[2]. Such actions by oil majors are usually well-intentioned and justified, but most likely it would have made more sense for these highly transparent best-in-class companies to be controlling oil production and winding down their fields in a sustainable and gradual manner. The same is true for coal, and hence it was a logical and welcome step to see the Asian Development Bank announcing plans to buy out and retire coal power plants, running them in a responsible way until they repay the debt. For those of us who have always paid attention to the ownership of any business we invest in (we call it KYO – Know Your Owner[3]), the question of shareholder's responsibility is interconnected with real-world impact.

Individual approaches matter

Our sense is that over the last few years there has been a fallacy that ESG will homogenise (partly thanks to data like ESG ratings or implied temperature rise metrics) and hence it would be easier for fund selectors and asset owners to select good ESG funds. However, we believe that assessing an ESG approach is like assessing overall investment processes of funds. Every manager will end up with a slightly different approach and investors need to think smartly about the real word impact of their investments.

From our perspective the most important thing managers can do is to be fully transparent with what they do and how they do it. For example, if a client has an ESG-related question on a company in one of our portfolios, we can get the analyst or portfolio manager who has completed the scorecard or value-chain assessment to explain exactly what we were thinking, what sort of engagement we have with the company and our expectations for future developments on any issue.

We also strongly believe that both good and bad examples of strong ESG/SDG practice and impact can be found in any sector. For example, we own an Indian movie theater chain that has eliminated single-use plastic from their operations, reducing 100,000 kilos of plastic demand per year, and is targeting fully renewable power use as soon as practically possible.

A FOR ADAPTATION

Regardless of the efforts put into mitigating the effect of climate change, scientific evidence and recent extreme weather events from Siberian, Californian or Greek fires to German, Chinese and Indonesian floods remind us of the fact that climate change is already a fact. Companies need to prepare for the impact of climate change because these events do have an impact on profitability for those effected.

Naturally, investors and other capital providers will want to take these risks into account when analysing companies, though for the time being it is difficult to do this in a systematic way, which is clearly unnerving. We hope, and expect, that more tools will become available to really assess these risks in a structured way, particularly around geo-tagging and weather modelling.

The same issue is true for biodiversity. We know that human-induced changes to ecosystems have contributed to a significant loss in biodiversity, which will impact our portfolio companies, for example through higher operating expenses due to increased input prices in the food sector. However, for the time being it is very difficult to assess companies' exposure to these risks in a systematic way, partly because we do not see them affecting our companies' value chains to the same extent as physical and transitional risks of climate change. Therefore, we are very excited that the first beta version of the Taskforce on Nature-related Financial Disclosures (TNFD) will be released in Q1 2022, which will hopefully provide a clear framework to improve and increase reporting about nature and biodiversity loss that we can discuss with portfolio holdings.

2. "What Happens When an Oil Giant Walks Away", Bloomberg, April 2021, https://www.bloomberg.com/graphics/2021-tracking-carbon-emissions-BP-hilcorp/
3. "Know your owner", East Capital, September 2021, https://www.eastcapital.com/Look-East/Experts/Peter-Elam-Hakansson/know-your-owner/

Double-materiality

Adapting to a world where the effects of climate change and biodiversity loss are already felt and will become a fait accompli everywhere, requires a focus on "double-materiality" assessment. The concept of double-materiality, which emerged a few years back, is about defining the environmental and social impact a company has and how the company itself is impacted by these factors. The concept also requires the exploration of the interconnectivity of the two. A big part of the double materiality assessment work will be centred around adaptation and the idea that climate change already has an impact on many businesses and sectors, may it be the price of soft commodities or the concept of setting a "true price" on inputs, such as fossil fuels (which we discuss in the commodities section of our 2022 Outlook[4]).

P FOR PEOPLE

One of our fundamental ESG beliefs has always been that the "G" is central to the "E" and the "S", i.e. companies with high quality governance usually display better environmental and social practices. Nowadays, we notice that the importance of "S" is increasing, and we think that this trend will accelerate.

Some incredibly challenging times, partly driven by Covid-19, have taken a toll on mental and physical health, leading to investors and companies focusing more on decent pay and work conditions, as well as health and safety issues. Many companies are now fielding extensive questions from investors on health & safety and talent retention; and other labour-related issues, which, in some sectors, have become a real headache due to labour market disruptions.
As examples of how this social focus can impact companies, we see that construction projects in China are suspended to protect workers from poor air quality and tech companies in Asia no longer dare to boast about their 6-9-9 work culture (6 days a week, from 9am to 9pm). Employers' responsibility is becoming increasingly in focus. Only once in our 25-year history of investing in frontier and emerging markets were we hosted by the Head of HR on a company visit, it was a ready-made garment factory in Bangladesh, 3 years after the Rana Plaza tragedy. We are convinced that more companies will bring their head of HR to speak to investors going forward.

New paradigm for social relationships

The pandemic has sped up some transformations with profound impact on people, for instance how we interact with other individuals, colleagues and clients we have never met in person, how city landscapes have been transformed (forever, some argue), new modes of entertainment, travelling and socialising where digitalisation has reduced human contacts and increased human interaction. Companies that understand these profound changes and adapt their client value propositions accordingly will outperform their peers, and we are looking for these attributes when screening for investment ideas. Gamification of the user experience of consumer goods companies is one of many examples demonstrating this key trend.

Further changes related to the pandemic is the unprecedented amount of social welfare which was distributed as part of the economic recovery programs in many countries. We see some societies adopting a welfare state model which has huge implications on consumption. The social checks handed out by governments in developed markets has led to explosive demand for consumer goods, which often are manufactured in emerging markets, and for digital services for which some emerging markets companies are ahead of the curve.

Of course, we would be remiss to not mention the standards and data that will drive disclosure (and hence action) on the general "social" topic. As part of the EU Sustainable Action Plan, a social taxonomy might be forthcoming in Europe and already now the minimum social safeguards implemented in the EU environmental taxonomy will drive more focus on how companies behave towards their communities. A new initiative by the PRI regarding human rights is about to be launched and is modelled around the Climate Action 100+, i.e. an investor led initiative to engage with the worst companies and push them for better disclosure and proper management of the issues. Questions on human rights in the value chains of our portfolio companies will become more frequent.

CONCLUSION

Accountability, Subtleties, Adaptation and People are four main dimensions which we think will shape the world of ESG in 2022. A.S.A.P is also a symbol of another key conviction we have that we are at a turning point for ESG and responsible finance. 2030 is only nine years away, and six years have already passed since the SDGs were enacted in the Paris Agreement. The journey has started slowly but will accelerate massively going forward.

4. "2022 outlook – an "alpha year" or a headache for active managers?", East Capital, December 2021, https://www.eastcapital.com/Look-East/News-articles/articles-2021/outlook-2022/
Photo: Tyler Nix

Our ESG framework

The practical ESG tools used in our investment activities are organised in four pillars

ESG pillar 1:

Sector exclusions (negative screening)

Since 2007

What:

- All portfolios exclude companies that are known to generate a significant share of their revenues from:
  - Weapons
  - Tobacco
  - Pornography
  - Commercial gambling
- No investment in any company with any exposure to controversial 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
- Portfolios re-confirmed annually by the investment teams

ESG 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 (Sustainalytics)
- Ongoing monitoring by the analysts/PMs
- Assessment done and reported to the Board on a quarterly basis

ESG pillar 3:

ESG integration tools

Since 2016

What:

East Capital
- Red Flag Analysis
- ESG Scorecards
- SDG VCA (Global Emerging Markets Sustainable)
- Climate Transition Risk Analysis

Adrigo
- Red Flag Analysis

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

East Capital Real Estate
- Red Flag Analysis
- ESG Scorecards
- 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
- Results reported monthly to the Investment Committee and quarterly to the Board

ESG pillar 4:

Active ownership

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

How:

- Engaging on our own directly with companies
- Collaborating with other investors, associations, initiatives if relevant and efficient
- Proxy voting
- Nominating and electing independent directors
- Letters to portfolio companies
- Voting and engagement activities are reported monthly to the Investment Committee and quarterly to the Board

Our ESG integration tools

We assign specific requirement levels in terms of maximum number of red flags, which are taken into account when constructing portfolios.

	Holdings	Aim	Area covered
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 ▸ Gives quick ESG overview and understanding ▸ Helps focus research resources	▸ Focuses on major Red Flags related to corporate governance, ethics and corruption ▸ Covers international norms and standards and severe systematic environmental or social controversies
ESG score East Capital East Capital Real Estate	▸ All Key Active Positions and ten largest holdings as a minimum ▸ All holdings in some selected strategies (Global Emerging Markets Sustainable) ▸ All holdings in East Capital Real Estate funds	▸ 50+ questions to consider relevant and material ESG risks and opportunities in EMs and FMs ▸ Helps to determine level of conviction (together with financial quality, significant upside, momentum etc.) ▸ Generates a list of issues/questions to research further or raise with the holding ▸ Allows us to adjust our scenarios and modelling assumptions, if needed	▸ Governance (75%) • Shareholders/board/management • Dividend policy • Capital allocation • Ethics and corruption • Transparency ▸ Environment (12.5%) • Impacts on CapEx/OpEx next 5 years • Significant controversies • Management's understanding of relevant risks and opportunities, incl. climate change and loss of biodiversity ▸ Social (12.5%) • Impacts on CapEx/OpEx next 5 years • Health & safety • Supply chain • Significant controversies
SDG module East Capital East Capital Real Estate	▸ All Key Active Positions and ten largest holdings as a minimum ▸ All holdings in some selected strategies (Global Emerging Markets Sustainable) ▸ All holdings in East Capital Real Estate funds	▸ Framework 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	▸ Goals: 1- 4, 6, 7, 9 and 11-15 12 Goals that we believe may impact the demand for, or attractiveness of, a company's products, services or technologies ▸ Goals: 5, 8, 10, 16 and 17 The remaining 5 Goals that we see as the universal responsibility of all companies to address in their operations, regardless of size, market or sector are assessed in the E, S and G sections of our scorecard ▸ **See more details on page 17**

Climate transition risk analysis - East Capital

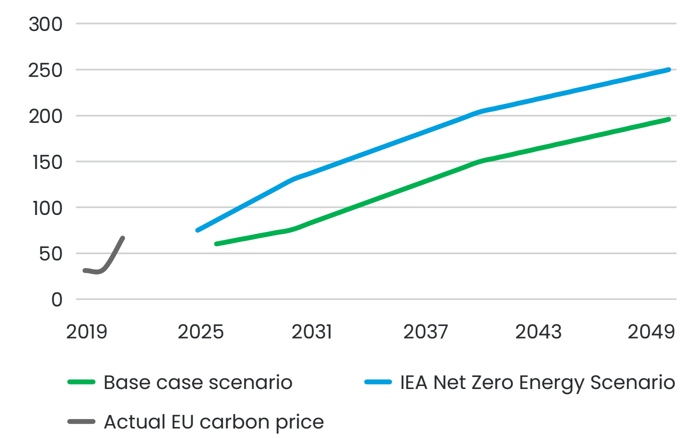
Since 2020, we have been developing and using a proprietary model to assess transition risks for our portfolio companies in selected East Capital funds. The tool is relatively simple and looks at two long-term carbon pricing scenarios. The first one is based on a carbon import tax for Scope 1 and 2 emissions for steel and aluminium exports from 2022, and for oil from 2025 and domestic carbon pricing by 2030. The second one is based on the International Energy Agency's (IEA) Net Zero Emissions by 2050 Scenario which sees emissions in line with a 1.5C scenario with limited overshoot risk. For frontier markets, the IEA states that a carbon price of USD 15 in 2030 will be required, and so we use this in both scenarios for holdings in frontier markets. The model generates two results: impact to EBITDA from 2020–2050 and implied equity valuation using a DCF approach. Numbers are subsequently aggregated to understand a total "climate value at risk".

For our Eastern European holdings, in 2021 we were able to model forward the reducing emissions intensity for many companies, as they have announced emissions intensity reduction targets, something that makes the tool particularly relevant.

We also developed a specific methodology for the metals sector based on carbon intensity versus peers. This is based on the idea that if the entire metals sector were to start paying carbon prices for all of their Scope 1 and 2 emissions, some of these additional costs would be passed on to the consumer. As such, we assume that companies would be likely to absorb carbon prices to the extent that they are above projected sector average carbon intensity. Interestingly this analysis highlighted the fact that the aluminium producer Rusal would actually benefit from carbon pricing (EBITDA would be 24% higher in 2030), as they have some of the lowest carbon intensity levels globally, because their energy mix to power their smelters is 90% hydropower. This reaffirmed our strong positive view on Rusal, one of East Capital's largest alpha contributors in 2021.

We also introduced an improved methodology for banks based on detailed loan book analysis, assuming a higher and increasing cost of risk for the more problematic sectors. This somewhat "back of the envelope" approach still yielded interesting results and conversations with our holdings and within our team.

Carbon price, USD / tonne of CO2 equivalent



In 2021 we applied our proprietary climate transition risk analysis tool to three strategies: East Capital Eastern Europe, East Capital Russia and East Capital Global Frontier Markets. This generated the following results:

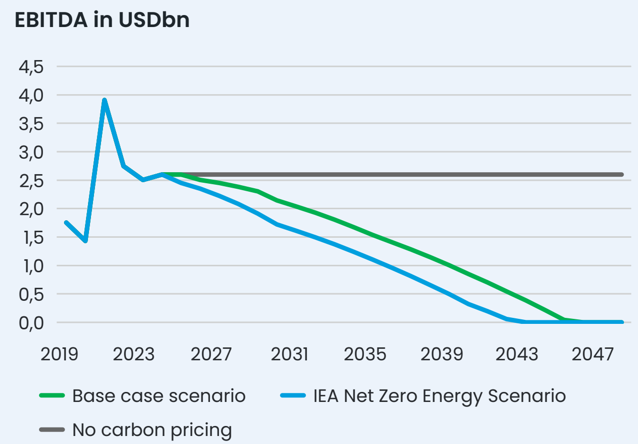
Strategy	2030 EBITDA at risk		Value destroyed	
	Base	IEA Net Zero	Base	IEA Net Zero
East Capital Eastern Europe	-9%	-18%	-16%	-29%
East Capital Russia	-10%	-23%	-19%	-37%
East Capital Global Frontier Markets	-0.7%	-0.7%	n/a	n/a

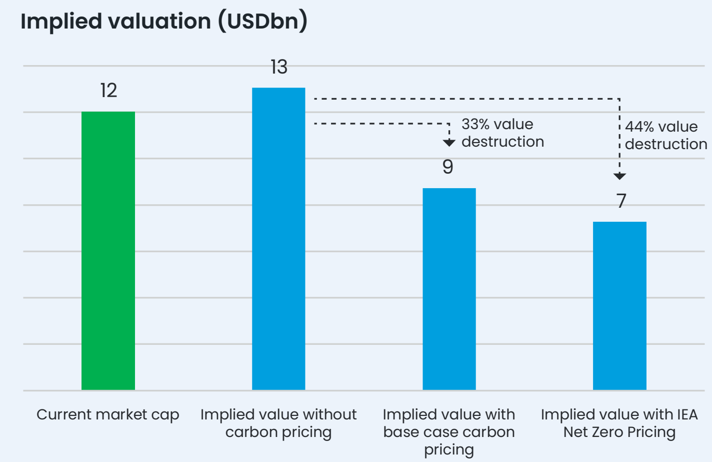
Like all our proprietary tools, this tool is completed by analysts and PMs. While the fund level analysis is interesting, the main benefit of this exercise is actually to draw analysts' and PMs' attention to the various opportunities and risks facing companies. This in turn enables us to have more meaningful dialogues with companies as we can really quantify the impact on valuation of various transition scenarios.

Going forward, the critical question is whether governments will be able to implement the high carbon prices the world needs. Given current circumstances with very high cost of energy and increasing fossil fuel subsidies, this unfortunately does not look likely. Indeed, while current carbon pricing schemes cover around 23% of global emissions, less than 4% of emissions are covered by a price high enough to reduce 2030 emissions in line with the Paris agreement[1].

East Capital's propietary transition risk analysis

Example output for Russian steel company





Valuation implied by DCF analysis

1. "State and Trends of Carbon Pricing", World Bank, May 2022, https://openknowledge.worldbank.org/handle/10986/37455

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 and made several updates to questions in all three sections.

Our 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 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.

SUSTAINABLE DEVELOPMENT GOALS

The 2030 Agenda for Sustainable Development

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.

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, e.g. work towards gender equality and decent work (and not actively contribute negatively). These goals are addressed in our overall ESG assessment of the company, as the proprietary scorecard is cross-referenced against each of these goals, with questions within the E, S and G sections.

Photo: Geran De Klerk (Unsplash)

SDG VCA 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 sustainable global emerging markets (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 – from India's largest cinema chain, which has completely removed plastics in its food and beverage offering, saving up to 100k tons of plastic annually, to a Polish e-commerce company that will switch its server farms to fully renewable power by 2023.

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 started embedding the VCA tool into our investment process and have already used it to make portfolio decisions. We have divested two companies in the GEMS fund because their scores were too low and have added exposure to one company because it received a high score, and we found the valuation and fundamentals sufficiently attractive.

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

In the coming months we plan to finetune a more formal system, where company impact scores will directly feed into portfolio construction, based on a minimum threshold. We already employ such an approach with our ESG scorecard – companies usually require a score of 70 to enter our GEMS fund.

We also want to use the tool to generate clear and insightful data on the SDG outcomes of our investments. This is challenging, 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.

2. Source: Based on Goldman Sachs, GS SUSTAIN (2021): Investing in the Sustainable Development Goals

SDG VCA analysis – East Capital

Example: Assessing an Indian telecoms company

A significant part of Airtel's revenue comes from providing mobile phone coverage to rural areas of India, including reasonably priced 4G services (India has the lowest data costs in the world at US$0.09 per GB of data[3]).

As we have seen first-hand when travelling in emerging markets, phone and internet access can have a transformational impact on people's lives, providing access to work and educational opportunities as well as the formal financial system.

Airtel's activities are clearly supportive of SDG 9 – Industry, innovation and infrastructure, particularly 9.1: "Develop quality, reliable, sustainable and resilient infrastructure, with a focus on affordable and equitable access for all." However, this is primarily because Airtel is a telecoms company, rather than it having a specific focus on generating a positive impact. Consequently, we gave them a weak positive impact ranking both for their current activities and outlook, as we do not expect this to change in the future.
Given Airtel is primarily a network operator, we identified SDG 12 – Responsible consumption and production – as most material, given it includes many metrics regarding energy use.

Airtel has made significant strides in this area, largely through network upgrades, with a 97% reduction in network emissions intensity from 2015 to 2020. It is targeting net-zero emissions by 2050 and – more importantly – targeting eradicating diesel consumption by 2030.
Given these intentional steps, we gave Airtel a strong positive impact ranking for the next three to five years.

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. Airtel, a holding in our GEMS fund, scored 63.

Figure 3. Assessing Bharti Airtel using the SASB-based VCA tool[4]

airtel	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	12 RESPONSIBLE CONSUMPTION AND PRODUCTION
How have the company's activities (including its value chain) impacted this SDG in the last one to three years?	**Weak positive impact** • Key provider of mobile phone access to rural areas in India: 169 million rural customers in 2020 vs. 127 million in 2017. • Instrumental in rolling out 4G in India - reaching 95.4% coverage of India's population in 2020. • Key provider of home broadband (111 cities), which enables critical connectivity, especially during the COVID-19 pandemic (working from home, home schooling).	**Weak positive impact** • Through improving technology, the company has achieved a 97% reduction in network emissions intensity from 2015 to 2020: 8.4tCO2e/terabyte in 2015, 0.99CO2e/terabyte in 2018, 0.217CO2e/terabyte in 2020.
How do you expect the company's activities (including value chain) to positively impact this SDG in the next three to five years?	**Weak positive impact** • Roll-out of 5G services across India in the coming five years. • Reduce annual customer churn rate by 20% by 2023 (2019 as a baseline, which was 7.1%).	**Strong positive impact** • Achieve net-zero carbon emissions by 2050. • Eradicate diesel consumption from operations by 2030 (16.3 million litres consumed in 2021, up from 15.0 million in 2019).
Is the company's activities or value chain misaligned with any of the SDGs?	No	
Overall impact score	63	

3. "What Does 1GB of Mobile Data Cost in Every Country?", Visual Capitalist, July 2020, https://www.visualcapitalist.com/cost-of-mobile-data-worldwide/
4. Source: East Capital

Impact investment at East Capital Group

Espiria showing the way

Since 2015, The UN Sustainable Development Goals (SDGs) has become a common language for corporates and investors, widely used in the communications on their sustainability agenda. However, despite the broad adoption of the SDG, we currently notice a huge funding gap to achieve the SDGs by 2030, at around $5-7 trillion per year[1] (Figure 1), a whopping size equal to 10% of global GDP.

A top priority for public equity investors

At Espiria, we see closing this funding gap as a top priority, through an acceleration in capital allocation accordingly, and we see the role financial industry plays in this as critical. Today, the financial industry has stewardship over a 80% of the world's liquid financial assets[2], and asset managers are a determining driving force to achieve SDGs, through their capital allocation towards sustainability transitions as well as acting as responsible owners.

We are also convinced about what public equity investing can potentially achieve in turning the SDGs vision into reality, given the huge size and the vast investor base of this asset class – a must-have as the world grapples with sustainable development at a global scale and with uttermost complexity.

Mainstreaming and policy impact

In the recent 2-3 years, we have witnessed the start of a new trend, when impact investing approach becomes more mainstream, driven by an ongoing shift in mindset among investors and corporates, who are increasingly seeing what we see - opportunities from aligning their business strategies with social or environmental goals. Besides the extensive evidence in the benefit of doing so, there has also been increasing regulatory support in showing the critical importance of incorporating ESG standards into regulatory concepts of fiduciary duty, as well as in promoting sustainable investments while curbing "impact washing", such as the EU Sustainable Finance Disclosure Regulation (SFDR).

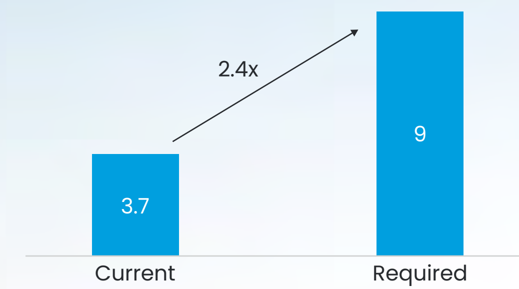
All these developments are tremendously exciting for us at Espiria, as a public equity asset manager, since we believe there will be more and more stakeholders incentivised to join in propelling the transition towards a world built on a sustainable socio-economic foundation. But we do realise that it is also about the execution.

BARRIERS TO BE OVERCOME

We highlight two areas for further development in the public equity investing space, when it comes to delivering sustainability outcome or impact. Firstly, the potential for public equity investors in adopting an impact approach is not yet fully explored. The percentage of funds that adopt strategies with articulated contribution towards sustainable goals or impact remains low. Despite extensive evidence of success, many still hold on to the debate of 'trade-off' between financial returns and impact. Secondly, with intentions to deliver impact tangibly, i.e., with real world outcomes, more investors need to close the gap towards a solid impact investment process, which centres around 'intentional contribution being measured' – a clear distinction from a conventional ESG investing processes that mainly focuses on 'ESG risk minimisation'.

Figure 1. Estimated Annual SDG funding globally

Current v.s. Required (mid-value, $ trillion)



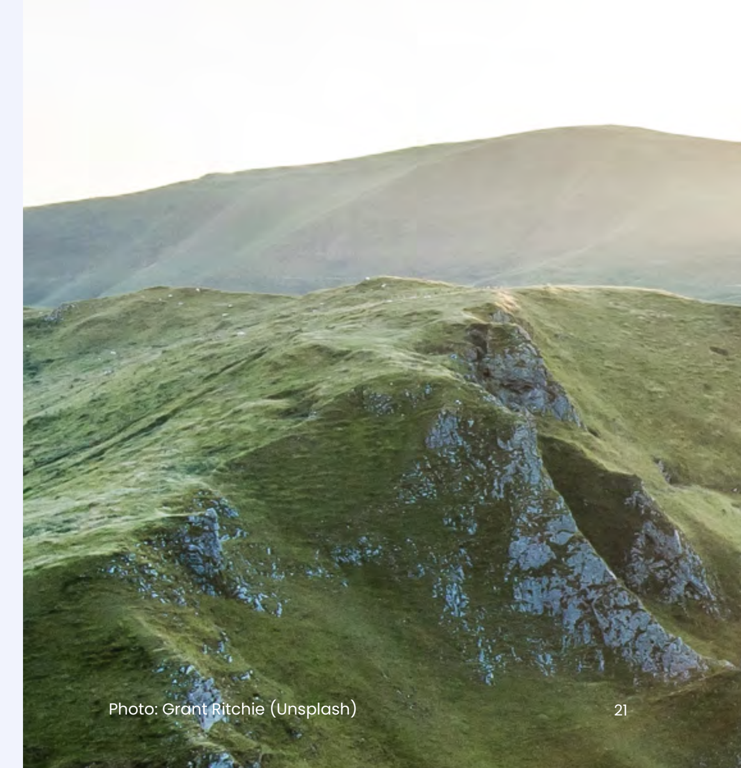


Photo: Grant Ritchie (Unsplash)

1. Based on information from 'Capital as a Force for Good', 2021 Report.
2. 85% of the $400 trillion of gross liquid financial assets is managed or allocated by the financial industry according to the same report above.

Impact investing or investing with impact?

Espiria White Paper

Considering the importance of these two areas, Espiria published early 2022 a white paper *"Impact investing or investing with impact – a call for rigor and transparency on impact in public equity investing"*, in which we elaborated on what impact investing really is, the nuances on several relevant terminologies and implications in practices. We reckon that a well-executed impact investing strategy reflects 5 key words – "intentionality," "materiality," "measurability," "accountability" and "additionality", and that they should be the guiding principles in investing with impact through public equities as well.

In the white paper, we also reflected carefully over several key challenges in in seeking effective results and best practices to impact invest via public equity, including:

- Is it possible to deliver market-rate financial return with intended impact without a trade-off between the two?
- How to establish a credible causal relationship between an investment and an investor's intended impact?
- How to deal with impact data, that may be lacking?
- Can public equity investors prove their additionality on impact creation through the stock market, where capital is naturally abundant?

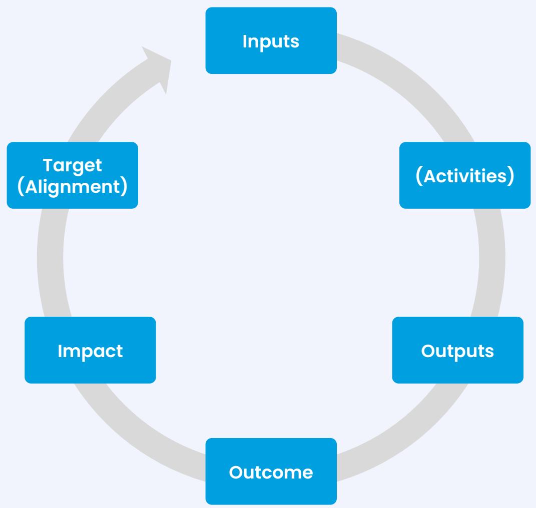
These reflections have served a strong purpose for us at Espiria, leading to the establishment of our new investment framework - one that focuses on delivering attractive long term financial returns fully aligned with tangible impact. This is reflected in the investment strategy and process of the Espiria SDG Solutions fund, which aims to achieve this double-bottom-line objective through investing in innovative and future proof solutions linked with investable SDG targets.

ESPIRIA SDG SOLUTIONS

In constructing the portfolio of Espiria SDG Solutions, we rely on our proprietary SDG Taxonomy as a guide to the most urgent sustainable transition needs and those SDG targets considered investable via private sector activities; we initially identified 47 investable out of 169 of them. We have also set up clear criteria on how solution companies are defined in the context of SDGs, where each solution company directly addresses one primary SDG target through its products or services, with respective thresholds being met on its relevant revenue, CAPEX or OPEX figures. These criteria are applied in both screening and selection process.

Most importantly, besides selecting quality solution companies through a financial lens, we also put a strong focus on justifying and measuring companies' contribution to SDG targets, reflected in the use of our Espiria Impact Tool by the investment team, where each company's contribution to its primary SDG target is analysed from five dimensions (courtesy to the Impact Management Project), both qualitatively and quantitatively. We measure and monitor their real-world impact based on careful selection of material KPIs, backed up by our Theories of Change (Figure 2) analysis and in reference to multiple international standards/tools on impact measurement, including the IRIS+ catalogue, SASB and the indicators in EU Taxonomy regulation.

In the past year, we have also further improved our active ownership framework to more effectively support our ambition of acting as a catalyst for even bigger positive impacts, which our holding companies could potentially generate.



Myth	Reality	Our Approach
"UN SDGs **cannot** guide private sector investment decisions"	Pathways towards SDGs unveil tremendous **structural opportunities**	**Espiria SDG Taxonomy** • 12 SDG goals • 47 targets • 5 broad themes
"Invest to achieve SDG targets means to **sacrifice** financial returns"	Double-bottom-line is achievable when business strategies **fully align** with concrete social and environmental outcomes	**Espiria Quality Compass** • Solution companies defined • Structural & value driver • Risk scenarios • Valuation
"Investing through public equities is subjective to SDG/impact washing"	A wide range of tools are available to **avoid** falling into impact washing trap	**Espiria Impact Tool** • 1 primary SDG target • 5 dimensions of impact • Outcome KPIs

International standards and tools used in our process

SASB

IMPACT MANAGEMENT PROJECT

IRIS+

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 in the annual report 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

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

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)
- Sustainable Investment Report is produced annually
- Engagements are logged in Esgaia

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, Paul Nissan) 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 monthly investment committee and quarterly board meetings.

Engagements are formally logged and developments and follow-ups are discussed at each portfolio review meeting. 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

In 2020 we started working with 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.

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.

Over the years, we have participated in the nomination and election of 8-12 independent directors per year; primarily in Russia, South East Europe and the Baltics. In Russia, we either nominate directors on our own or in collaboration with other minority investors through our membership in the Russian Association of Institutional Investors (API). Over the years, the API and its members have contributed to nominating and electing approximately 500 independent directors to Russian boards.

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 weekly 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 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.

> Over the years, we have participated in the nomination and election of 8-12 independent directors per year; primarily in Russia, South East Europe and the Baltics.

Support to associations and initiatives

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

Associations

Asian Corporate Governance Association (ACGA)

Member since 2009
acga-asia.org

The Association of Institutional Investors (API)

Member since 2002, Deputy Chairman
api-russia.org

Association of the Luxembourg Fund Industry (ALFI)

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

Swedish Investment Fund Association

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

Institutional Investors Group on Climate Change

Member since 2020
Chair of the Russia working group

UN Principles for Responsible Investment (PRI)

Signatory since 2012
unpri.org

Sustainability Accounting Standards Board

Member User since 2021
sasb.org

Sweden's Sustainable Investment Forum

Member since 2020
swesif.org

Initiatives and Pledges

Baltic Institute of Corporate Governance (BICG)

Supporter since 2009
bicg.eu

Board Diversity HK

Supporter since 2019
boarddiversityhk.org

Climate Action 100+

Joined in 2018, co-leader on 3 engagements in Russia (the engagements in Russia are currently suspended)
climateaction100.org

CDP

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

Climate Governance Initiative (CGI)

Supporter since 2020
climate-governance.org

The Net Zero Asset Managers initiative (NZAM)

Supporter since 2021 (Espiria)
netzeroassetmanagers.org

Swedish Investors for Sustainable Development (SISD)

Member since 2017
sida.se

Task Force on Climate-related Financial Disclosures

Supporter since 2019
fsb-tcfd.org

Tobacco-Free Finance Pledge

Supporter since 2018
unepfi.org/psi/tobacco-free-finance-pledge/

Transition Pathway Initiative (TPI)

Supporter since 2022
transitionpathwayinitiative.org

UNGC, United Nations Global Compact

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

Photo: Jon Flobrant (Unsplash)

PRI principles

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 develop a clear and consistent dividend policy, professionalising board work and processes, raising and addressing environmental, social and sustainability-related concerns, improving transparency, reporting and investor relations, improving rights for minority shareholders or reaching a better fair-value in buyouts
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)

Our latest initiatives, commitments and partnerships

2021-2022 has seen strong momentum for collaborative engagement around the world, both towards corporates but also towards governments. East Capital Group joined several of them, including the following:

- East Capital Group was one of 733 investor signatories supporting the **Investor Agenda's Global Investor Statement to Governments on the Climate Crisis**. The statement calls on all governments to 1) strengthen their NDCs for 2030, 2) commit to NZ by 2050, 3) implement domestic policies to deliver these targets (carbon pricing, removal of fossil fuel subsidies, phase out of thermal coal-based electricity generation, avoidance of new carbon-intensive infrastructure, development of just transition plans), 4) ensure Covid economic recovery plans to support the transition, 5) commit to implement TCFD aligned mandatory risk disclosure requirements. The statement was sent to heads of state on 26 October.

- We joined alongside 10 investors the CDP Forest Champions - **Consultative workshop on biodiversity disclosure for financial institutions**.

- East Capital Group joined the **PRI's Investor Statement** in support of an effective, fair and equitable global vaccine response.

- We signed the **Global Investor Statement – "Where's The Beef?"**[1] organised by FAIRR Initiative, which calls on G20 nations to improve disclosure on their targets for emissions reduction in agriculture within or alongside their NDC commitments. Only a handful of countries specifically mention agriculture in their sectoral targets.

- Espiria joined **Net Zero Asset Managers Initiative** (NZAM), as one of the so-called "wave 5" signatories, announced at COP26. NZAM consists today of 220 signatories which commit to support the goal of net zero GHG emissions by 2050, in line with global efforts to limit warming to 1.5°C. It also commits to support investing aligned with net zero emissions by 2050 or sooner.

Specifically, as a NZAM signatory, we commit to:

1. Work in partnership with asset owner clients on decarbonisation goals, consistent with an ambition to reach net zero emissions by 2050 or sooner across all AUM.
2. Set an interim target for the proportion of assets to be managed in line with the attainment of net zero emissions by 2050 or sooner.
3. Review our interim target at least every five years, with a view to ratcheting up the proportion of AUM covered until 100% of assets are included.

In order to fulfil these commitments signatories will:

For assets committed to be managed in line with the attainment of net zero emissions by 2050 or sooner

1. Set interim targets for 2030, consistent with a fair share of the 50% global reduction in CO_2 identified as a requirement in the IPCC special report on global warming of 1.5°C.
2. Take account of portfolio Scope 1 & 2 emissions and, to the extent possible, material portfolio Scope 3 emissions.
3. Prioritise the achievement of real economy emissions reductions within the sectors and companies in which we invest.
4. If using offsets, invest in long-term carbon removal, where there are no technologically and/or financially viable alternatives to eliminate emissions.
5. As required, create investment products aligned with net zero emissions by 2050 and facilitate increased investment in climate solutions.

Across all assets under management

1. Provide asset owner clients with information and analytics on net zero investing and climate risk and opportunity
2. Implement a stewardship and engagement strategy, with a clear escalation and voting policy, that is consistent with our ambition for all assets under management to achieve net zero emissions by 2050 or sooner.
3. Engage with actors key to the investment system including credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that products and services available to investors are consistent with the aim of achieving global net zero emissions by 2050 or sooner.
4. Ensure any relevant direct and indirect policy advocacy we undertake is supportive of achieving global net zero emissions by 2050 or sooner.
5. Publish TCFD disclosures, including a climate action plan, annually, and submit them to the Investor Agenda via its partner organisations for review to ensure the approach applied is based on a robust methodology, consistent with the UN Race to Zero criteria, and action is being taken in line with the commitments made here.

1. "Where's the beef?", FAIRR, https://www.fairr.org/wheres-the-beef/

- East Capital Group signed the **Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation**. The commitments summarised below are in line with the biodiversity policy we enacted in 2021.

By the end of 2022

- Assess exposure to deforestation risk through financing or investment in clients/holdings, with a focus on 'forest risk' agricultural commodities – palm oil, soy, beef and leather, pulp and paper – that are understood to be tied to the most significant deforestation impacts.
- Establish investment/lending policies addressing exposure to agricultural commodity-driven deforestation.
- Deepen, or where necessary begin, engagement of the highest risk clients/holdings on deforestation in their supply chains, operations, and/or financing.
- Engage on policy to support an enabling environment for businesses to avoid deforestation risks and impacts.

By 2023

- Disclose deforestation risk and mitigation activities in portfolios, including due diligence and engagement.

By 2025

- Publicly report credible progress, in alignment with peers, on the milestones to eliminate forest-risk agricultural commodity-driven deforestation in the underlying holdings in our investment/lending portfolios through successful company engagement, and only provide finance to clients that have met risk-reduction criteria. Increase investment in nature-based solutions.

- We joined the initiative by **IIGCC to send a letter to 100 companies** identified by Moody's Climate Solutions, as being highly exposed to climate-related hazards, to ask them to adopt the recommendations. East Capital Group decided to sign on to this letter. Three of the 100 companies are Espiria's holdings: Infineon Technologies (Worst in Class), Roche Holding (Average), Sanofi (Average).

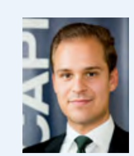
- East Capital Group, through our CEO, became **signatory of an op-ed supporting the key points of the CSRD proposal**. The initiative, transmitted through Eurosif/Swesif, was promoted by the lead Member of the European Parliament, Mr Pascal Durand, involved in the legislation on corporate sustainability reporting, the Corporate Sustainability Reporting Directive (CSRD). The main driver behind the initiative is concern that business groups and associations are vocally lobbying to water down the proposal by the European Commission as well as delay the application and implementation timeframe. We believe than an ambitious and well-functioning CSRD will deliver better reporting and data by investee companies. It is vital for sustainable investors to make better, more informed investment decisions and it is also key to operationalise further other frameworks such as the SFDR, the EU Taxonomy, and the EU Green Bond Standard.

- We joined the **IIGCC's Investor Position Statement on Voting**: *Voting to Secure Net Zero Alignment Disclosures - An Investor call for net zero alignment disclosures with director oversight and votes on implementation.* The goal of the statement was to set out what is required to enable investors to using voting widely to support the goal of aligning portfolios with net zero (in support of initiatives like NZIF/NZAM) and to have a 'say on climate.' It therefore aimed to lay out the pathway forward in three core areas: (1) what disclosures are needed from companies, (2) what voting mechanisms need to be considered and designed and (3) how the supporting market infrastructure including data providers and proxy advisors will need to enhance their services to support investors to do this. It will form the foundation for the forthcoming working group on Net Zero Stewardship and discussions with service providers such as proxy advisors. The statement aimed to respond to and build on the Say on Climate campaign by signalling some of the practicalities of what is required to deliver net zero voting at scale.

- We signed the **CSRD Statement of Support**[2] organised by the PRI, alongside 54 signatories (USD 9.2tr in AUM). The statement sets out six key aspects of the CSRD proposal that co-legislators should take into consideration to align the CSRD with the EU sustainable finance strategy: scope should be extended to include non-listed SMEs from high-risk sectors, support the double materiality and integrated reporting, welcome the introduction of EU-wide assurance requirement (but want a clear timeline), welcome the mandate provided to EFRAG regarding the development of European sustainability reporting standards, welcome the single electronic reporting format and the initiative on the establishment of a European Single Access Point (ESAP) for financial and sustainability information.

- We joined the **2021 CDP Science Based Targets campaign** to call on the most impactful companies globally to set 1.5°C aligned emissions reduction targets and achieve net-zero value chain emissions before 2050. We signed the first edition of this unique collaborative engagement effort, which was launched in July 2020 (137 global financial institutions, representing nearly USD 20tr in assets). The 2021 edition targeted 1616 companies and gathered 220 financial institutions (USD 29tr).

"We do not believe in divestment to achieve change in the world, but instead want to engage. As a shareholder in emerging and frontier market companies, we wanted to participate in the CDP SBT Campaign for the second year because this powerful call to action to many high-impact companies in our portfolios is highly relevant and complementary to our climate action efforts."



Paul Nissan
Analyst

2. "Investor statement of support for EU corporate sustainability reporting directive", PRI, September 2021, https://dwtyzx6upklss.cloudfront.net/Uploads/h/u/f/pricsrdinvestorstatementofsupport_755637.pdf

Promoting higher ESG standards and practices

ESG
Environment

- Panellist on “Green finance for green growth” at the International Financial Congress 2021, organised by the Central Bank of Russia
- Co-keynote speaker together with Head of Trade, EU Office to Hong Kong at top-level conference with Hong Kong Chief Executive, Secretary for the Environment and Secretary for financial services, The European Green Deal for sustainable trade and finance, Hong Kong
- Panellist at Climate Governance Russia’s webinar Net Zero conference on "Global investors and climate change: expectations, assessments and reality"
- East Capital client webinar together with representatives from Gazprom and Climate Governance Russia, Russia Virtual Investor Trip – “What’s happening in the world’s fourth largest CO2 emitter?”
- East Capital Group’s COP26 online events with two experts, Cary Krosinsky (Brown University, US) and Changhua Wu (Beijing Future Innovation Center), Pre-COP “Be Prepared” and Post-COP “A success or a failure?”
- Panellist at Fund Forum Asia – “Dear CEO… Let’s discuss climate leadership. Common goals different practice: how are leading asset managers from across Asia are preparing to build climate-resistant portfolios and creating sustainable value for all shareholders?”
- Panellist at RenCap ESG Conference, “ESG & Energy transition challenge”
- Panellist at the Bridge COP26 event, “Investing climate friendly - an obvious way forward”, Sweden
- Moderator for a panel with two alternative proteins food experts at Swedcham, “The future of food”, Hong Kong
- Presenter of a Lukoil case study to 95 members of the IIGCC at their Q2 corporate update call
- Panellist on investment and sustainable finance at the London Energy Forum
- CCE Mondial de la Responsabilité, "Décarboner l’industrie et les transports, financer des investissements socialement responsables"
- SPIEF Seminar on climate action, Saint Petersburg
- Supporter of the CDP Non-Disclosure Campaign (NDC), our successful contribution to the CDP NDC, which this year included 168 investors, bestowed us great visibility in the investor influence section of the campaign’s annual report. **See more details of the campaign on page 43**

ESG
Social

- Signatory of an investor statement on the Bangladesh Accord. In advance of the eighth anniversary of the Rana Plaza building collapse on 24 April, we were one of the 181 investors and PRI signatories signing an investor statement in support of a legally binding approach to finding, fixing and preventing unsafe conditions in the workplace
- Participant in a UN Capital Development Fund (UNCDF) side event at PrepCom1 on Sustainable Development in LDCs – Supporting Transformative Investments for SDG Achievement in LDCs

ESG
Governance

- Host of the BIGC Chairman INED training session, Stockholm
- Hong Kong Exchanges and Clearing’s Consultation Paper on the Review of the Corporate Governance Code, covering a range of important corporate governance issues, including board gender diversity, and addressing a number of our long-term advocacy areas. Single gender boards will no longer be acceptable (with a 3-year transition period) and companies are asked to set targets and timelines for gender diversity at board level and across the workforce. We participated under our own name as well as joined the ACGA response to the consultation
- Panellist at the PRI & ACGA conference’s panel discussion session, talking about our experience of studying corporate governance issues in A-shares and engaging with Chinese companies
- Published an article on ESG investing in China A-shares, outlining the specificities of the Chinese domestic equity market and investigating the governance challenges of China compared to other emerging markets[1]

1. https://www.eastcapital.com/Look-East/Experts/Karine-Hirn1/esg-investing-in-china-a-shares/

SUSTAINABLE DEVELOPMENT GOALS

ESG Environment | **ESG Social** | **ESG Governance**

- Masterclass presentation organised by the Emerging Markets Investor Alliance on ESG investing in Russia "Taming the Bear: 20 years of active engagement in Russia"
- Lithuanian Private Equity and Venture Capital Association's conference ESG class, Vilnius
- Keynote speaker at several ESG-themed seminars at the Baltic Institute of Corporate Governance, Vilnius
- Panellist at the Inter-Pacific Bar Association's (IPBA) online event with 600 participants in Asia, "What does ESG Mean for the financial market players"
- Panellist at Plenary: "China – The Big Issues" at the ACGA 20th Annual Conference (hybrid format), Hong Kong/Beijing
- Participant in the EY 2021 Investor Survey, which included 325 investors and analysts from around the world, and whose goal was to examine how investment teams evaluate and use companies' ESG performance and reporting. East Capital featured among 5 investment industry leaders respondents, as we joined the in-depth interviews
- Water Technology ESG conference with focus on ESG data
- Panellist at the Luxembourg for Finance China Finance Forum, "ESG Trends in China", Luxembourg Stock Exchange
- Panelist in the Calastone conference "ESG funds popularity explosion goes global: Where does Asia stand on ESG?", Hong Kong
- Panellist on ESG integration at the Woods Prague Spring ESG Symposium

Eglé Fredriksson, Portfolio Manager, in Vilnius spreading the very important message of ESG challenges and opportunities: An asset manager's viewpoint.

- Panellist on "Sustainable Investing in Romania" at the CEE Sustainable Finance Summit
- PRI EM Panellist on "Investing for sustainability outcomes in emerging markets"
- Panellist on "Understanding Investors' ESG Integration Strategies" for the Turkish Investor Relations Society (TUYID) Sustainable Investment Summit
- Di TV Hållbart Näringsliv – TV debate on sustainable and ESG investments in China
- GRC Watch ESG conference: one panel on ESG data and one panel on engagement
- Wealth & Society Asia – Video interview about how to properly assess and manage the risks involved in sustainable investments, also sharing the journey that the East Capital took to enter the Asian market and the decision-making process behind investing into Chinese ESG-focused companies
- ALFI Digi Pulse Asia panel discussion regarding new ESG regulations in Europe and ESG trends in Asia
- Emerging Markets Investor Alliance - masterclass presentation "Lessons from 10 years of ESG investing in China"

David Nicholls, Portfolio Advisor, speaking at the opening session of the 20th annual congress of the Institute of Directors in Moscow.

Photo: ACGA

Karine Hirn, Chief Sustainability Officer, speaks about corporate governance in China at the plenary session of the ACGA 20th Annual Conference (hybrid format), Hong Kong/Beijing.

East Capital Real Estate

GENERAL APPROACH

As part of the East Capital Group, East Capital Real Estate's ambition is to support the group's purpose of Working for Positive Change by embedding sound ESG principles and processes across all funds. Since inception in 2005, we have set out be a long-term and responsible property investor, consistently evaluating ESG-related risks and opportunities and developing our internal ESG framework.

We work towards the following objectives: more efficient buildings, less carbon emissions, higher employee and tenant well-being and satisfaction, and full compliance with regulations. We believe this approach brings both sustainability-related and financial benefits.

SPEAKING IN CONCRETE TERMS

We prefer properties with strong environmental qualities, including those that:

- are in strategically well-positioned locations, with easy access to public transport and/or well-connected via pedestrian and bicycle routes,
- utilise renewable energy and smart construction solutions that require less energy,
- have sophisticated water and waste management systems, and
- have been constructed or renovated integrating environmentally friendly solutions (for example, using recycled building materials).

For a large part of our property portfolio, we have concluded energy agreements where energy is sourced 100% from renewable sources such as solar, wind or hydropower. We are seeking to cover all the portfolio with similar agreements. We have also started a project to install solar panels to suitable properties (mostly logistics parks) thus producing our own energy and further reducing our environmental footprint. We have introduced and will improve processes to monitor and report the carbon dioxide emissions from the operations of our properties. The energy efficiency initiatives are set to reduce these emissions.

In addition to environmental aspects, we also pay high attention to the social characteristics of our properties. We highly value our tenants' health, safety and well-being and assess the accessibility, air quality, light and sound qualities of the building during the acquisition process. We prefer and strive for properties with good indoor climate, high share of natural light, and access to sporting and recreational areas.

ESG INTEGRATION

Carbon emissions targets and environmental considerations are leading priorities for us as investors and real estate managers. Environmental, social and governance (ESG) considerations play a significant part in the fundamental analysis process we use to generate superior risk-adjusted returns.

Our ESG scorecard, which we introduced in 2019, is applicable to all existing investments. The scorecard serves as a benchmark against peers or market average and as a tool to identify required improvements on an ongoing basis. It is also crucial ahead of acquisitions to understand material risks and opportunities of the new building or property.

The scorecard includes a Red Flag section, highlighting material ESG risks and any aspects not in line with sustainability goals and best practices. Furthermore, the properties are assessed in various aspects of relevant sustainability issues, closely aligned with the UN Sustainable Development Goals, for example with regards to energy efficiency, water consumption, waste management, accessibility, indoor climate and air quality, noise or light pollution. We also analyse governance issues related to former owner, current tenants and other relevant topics related to control and oversight. We would generally not invest in properties with a score below 50% and prefer that new acquisitions have scores in the upper range (70%-90%).

Our goal is to ensure that all buildings in our portfolios become carbon emission-free. This includes improving our existing stock of buildings to bring them into line with net-zero carbon emissions targets by 2050. We expect accelerating technological developments will change the ways existing properties need to be redeveloped in terms of climate change mitigation and adaptation risks.

Our careful attention to health and well-being, environmental and energy-efficiency considerations ensures that all our properties are more attractive and beneficial to the tenants. This approach also reduces operational running costs, which in turn results in higher returns for our investors.

> Our value proposition is to make every property we own as environmentally efficient and economically viable as possible to add value both for our tenants and our investors.

SOCIAL RESPONSIBILITY

East Capital Real Estate seeks to be an active participant in the development of the Baltic countries both in and beyond the real estate sector. For many years, we have been a sponsor of Nordic Real Estate Forum, the biggest real estate conference in the Baltics. The aim of this forum is to bring together real estate industry professionals and discuss the most important industry topics, get new insights and foster collaboration. East Capital Real Estate is also supporting the well-being and education of children and the development of youth, by sponsorships with the Youth to Olympics foundation and the SOS Children's Village in Estonia, which we have been supporting for 15 years.

SUSTAINABILITY CERTIFICATIONS

East Capital Real Estate's target is to fully cover its property portfolio with sustainability certifications (excluding for funds which are in divestment phase). While properties certified under BREEAM, LEED or other certification systems are preferred in the investment process, in case the property has not previously been certified we will proceed to have it assessed and certified within 12—18 months.

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 sustainability assessment method for master planning projects, infrastructure and buildings.

The BREEAM third-party assessment uses recognised measures of environmental, social and economic sustainability performance to evaluate the building's specifications, design, construction and use. These measures are set against ten core categories and benchmark criteria.
The resulting overall score is translated into a rating on a scale of BREEAM certification levels: Unclassified (<30%), Pass (>30%), Good (>45%), Very Good (>55%), Excellent (>70%) and Outstanding (>85%).

Currently, 78% of our focus portfolio is certified or in process for receiving a BREEAM certification. The targeted minimum level for all properties is "Very Good", which can be attained during its first assessment or the following updates. Currently, 60% of the certified properties have already obtained a "Very Good" or "Excellent" certification.

Photos: Oleg Harchenko

OUR BREEAM CERTIFIED BUILDINGS INCLUDE:

Zalgirio 112 office

Vilnius, Lithuania

BREEAM New Construction "Very Good" certification received in May 2022

A newly developed 5-storey office building located in the rapidly developing and expanding part of Vilnius' central business district "New Skansenas". It is a modern A+ energy efficiency business centre, including a high-efficiency ventilation with humidification and a climate control system. The premises of the business centre also meet high parameters of acoustic comfort.

Vesse Bauhof do-it-yourself store

Tallinn, Estonia

BREEAM In-Use "Very Good" certification received in December 2020

The Vesse Bauhof building received high evaluations across all nine BREEAM categories, with outstanding results achieved in the well-being of users, waste management, accessibility, and energy use.

Nehatu Logistics

Tallinn, Estonia

BREEAM In-Use "Good" and "Very Good" certification received from May 2020–May 2021

Nehatu Logistics consists of 5 industrial buildings which all have obtained BREEAM In-Use certificates. Two buildings in the complex – Niidu road 1 and 3 – were the first industrial properties certified by BREEAM in Estonia. The main advantages enjoyed by the complex are land use, large proportion of green areas and accessibility both by public transportation and bicycle. In addition, the buildings provide a good indoor climate for the workers. This year, we launched a solar panel project for Nehatu Logistics.

Hilton Tallinn Park Hotel

Tallinn, Estonia

BREEAM In-Use "Very Good" certification received in June 2020

The newly built and centrally located Hilton Tallinn Park hotel was opened in June 2016 and was acquired by East Capital Real Estate shortly after. Hilton Tallinn Park hotel was one of the first certified buildings in our portfolio and is still the only BREEAM certified hotel in Estonia. BREEAM has published a case study about the hotel, accessible via BREEAM's website[1].

Photos: Kaupo Kalda, Magnus Heinmets

1. https://www.breeam.com/case-studies/entertainment-and-leisure/hilton-tallinn-park-estonia/

OUR BREEAM CERTIFIED BUILDINGS INCLUDE:

Jankiskiu 52 Industrial Complex

Vilnius, Lithuania

BREEAM In-Use "Very Good" certification received in February 2021

A "last mile" modern logistics, distribution, and light industry centre located in a suburb of Vilnius, 15 minutes away from Vilnius city centre and with excellent access to Vilnius Western bypass and Vilnius-Klaipeda A1 highway.

Mustamäe Keskus shopping centre

Tallinn, Estonia

BREEAM In-Use "Very Good" certification received in December 2021, The property has now been sold

Mustamäe Keskus is a shopping centre with a modern concept focusing on entertainment and leisure. It is a well-loved meeting place for locals in the Mustamäe residential district in Tallinn.

Metro Plaza Office Building

Tallinn, Estonia

BREEAM In-Use "Very Good" certification received in February 2020, The property has now been sold

The landmark Metro Plaza office building in the very heart of Tallinn received a "Very Good" assessment rating in 2020. Factors that had a positive impact on the assessment were a glass facade ensuring a bright work environment, a green area that was added on the terrace, as well as additional parking places for bicycles.

A13 Office Building

Tallinn, Estonia

BREEAM In-Use "Very Good" certification received in June 2019

Our A13 Office Complex was the first of our properties as well as the first office building in Tallinn to be certified with the BREEAM In-Use "Very Good" assessment in June 2019. The office property has a central location, providing tenants with excellent access by public transport, bicycles and on foot. During the certification process, ventilation systems were upgraded to enhance the indoor climate.

Photos: Kaupo Kalda, Magnus Heinmets

ACTIVITIES DURING 2021

During the past year, East Capital Real Estate has initiated, implemented and planned for several processes as part of our sustainability work. The key focus is on the efficiency and modernisation of our buildings, including more sustainable energy, water, waste management and reducing carbon emissions. This is supplemented by introducing policies, stakeholder engagement, participation in initiatives and reporting according to recognised standards. Some examples of our sustainability-related activities during 2021 include:

- We continued the **BREEAM sustainability certifications** across our portfolio and received three new certifications in 2021 for buildings in the Nehatu Logistics park. Certification processes were initiated for another four properties in our III and IV funds with certification expected during 2022. We also acquired two properties with certifications either obtained prior or shortly after acquisition (Jankiskiu 52 Industrial Complex and Zalgirio 112 office).

- We launched a **pilot solar panel project** for Nehatu Logistics properties. We have identified the volume of solar panels to cover the energy consumption of the five buildings in the logistics park, and now proceed with technical and feasibility studies. The total area of the logistics park is over 77,000 sqm and would allow for up to 6-7 MW of solar panels to be installed.

- In addition to our hands-on property management approach, where we interact with our tenants regularly, we conducted our first **tenant satisfaction survey** in December 2021. This year's survey showed that 65% of respondents were fully or mostly satisfied with the quality they receive compared to the rent they pay. The overall Net Promoter Score was a 13% (on a scale from -100% to 100%), therefore illustrating that most of the responding tenants would recommend our properties to other businesses. We will proceed to carry out another tenant satisfaction survey in 2022, when we will aim for an improved participation rate and even more valuable feedback.

- We introduced the **Global Real Estate Sustainability Benchmark (GRESB)** for the first time for the company and for three of our funds. GRESB helps to identify risks and opportunities in the portfolio management policies and processes, as well as to map and improve asset performance in energy, water, waste and greenhouse gas areas and tenant relations. We will continue using this benchmark going forward and will seek to improve our score continuously.

- We rolled out and filled in proprietary **ESG scorecards** for the entire East Capital Real Estate portfolio, which also outline improvement plans. In general, the properties in our portfolio rate well in the ESG scorecards with scores ranging from 60%—80%. The office and retail properties rate slightly higher on average as they are more centrally located, with better access and infrastructure. In the red flag section, several properties have no red flags identified and otherwise 1—2 red flags out of 9 were identified, most often related to sustainability assessment. Some properties were also identified to use fluorinated gas in the cooling systems, which are to be phased out and need to be replaced in the longer run.

- We created an **internal ESG steering group** to further integrate and develop the ESG work at East Capital Real Estate. We also hold regular ESG task force meetings with the property management, legal and marketing teams.

Property
A PRI
2020

- Our PRI score for Property is "A" (the latest assessment report is from 2020).

GOING FORWARD

Looking ahead, East Capital Real Estate will continue with the sustainability-related processes already implemented as well as take new initiatives.

We aim to **implement even better solutions to regularly monitor building energy and water performance**, including tracking carbon footprints, and to identify potential inefficiencies. Regular monitoring will also allow to set metrics and targets and follow up on these. We will emphasise the importance and potential of renewable energy.

We will **continue to certify our assets with BREEAM certifications**, to have East Capital Baltic Property Fund III and East Capital Real Estate IV portfolios fully covered with sustainability assessments. We will also review the energy performance ratings across our portfolio and calculate where they are missing.

We will start to **implement solutions to improve the entire value chain sustainability performance**. Our overarching aim is to educate, inspire and push suppliers to comply with the highest ESG standards. In this spirit, we introduced a new policy early 2022, urging suppliers to address topics such as human rights and labour rights, environment, anti-corruption, law and regulation compliance, as well as to provide a whistleblowing option to suppliers.

We are also **finalising the ESG related lease agreement clauses**, which will be added to our standard lease agreements going forward. We will carry out another tenant satisfaction survey in 2022 and will also look for further ways to engage with our tenants in our sustainability efforts.

East Capital Real Estate is planning on further **reporting according to GRI standards** and aligning all our disclosure with the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). Finally, a key goal is to improve our GRESB rating, which will be a key indicator of our achievements in the sustainability area.

East Capital – Engagement Summary

East Capital engaged with

117

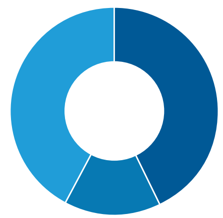
companies

Totalling

197

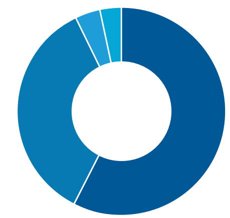
different engagements in 2021

Engagement type



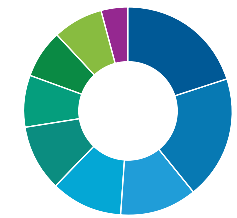
Environmental	43%
Social	15%
Governance	42%

Region



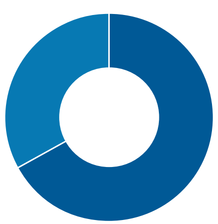
Europe	59%
Asia	36%
South America	4%
Africa	2%

Sector



Financials	20%
Materials	19%
Consumer Staples	12%
Communication Services	11%
Information Technology	10%
Energy	8%
Consumer Discretionary	8%
Industrials	8%
Other	4%

Africa

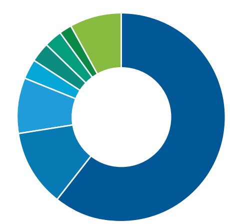


South Africa	67%
Nigeria	33%

Asia

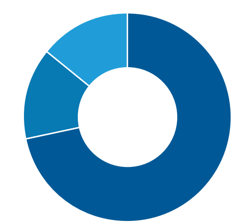
China	53%
India	11%
Taiwan	9%
Singapore	7%
South Korea	7%
Thailand	4%
Other	9%

Europe



Russia	62%
Turkey	12%
Poland	9%
Hungary	3%
Romania	3%
Slovenia	3%
Estonia	2%
Other	6%

South America



Brazil	71%
Mexico	14%
Chile	14%

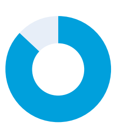
East Capital – Voting

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.

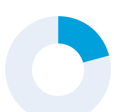
During 2021, we voted at 328 AGMs and/or EGMs in 185 different companies out of approximately 512, corresponding to 87% of the market value of our assets under management, in securities carrying voting rights in our UCITS funds. Historically, East Capital has focused on voting in Russia, Turkey, the Balkans, Baltics and the CIS countries. In 2016, we expanded our voting activities to include shareholder meetings in Asia, as well as certain other frontier markets on the African continent and in the Middle East. In 2019, we started investing in South American holdings, and our voting activity in Russia remained the largest, with almost half of the proxy voting taking place in Russian companies. The next biggest regions by importance of voting activity were the Balkans (13%), China (12%) and Africa (7%).

> 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 328 AGMs and/or EGMs:

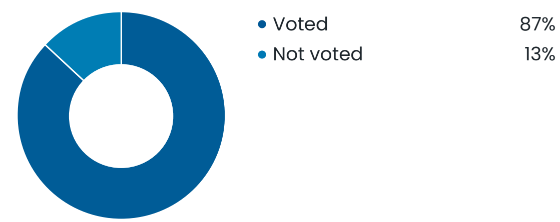


87%
of UCITS equity market value

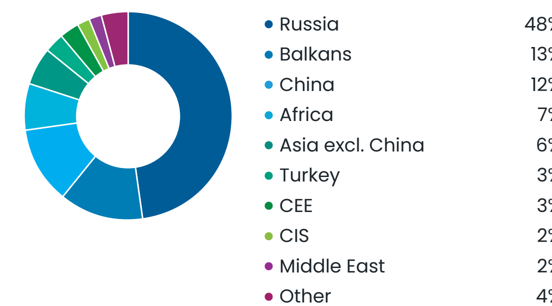


21%
Meetings with at least 1 vote Against, Withhold or Abstain

Percentage of total AUM voted



Breakdown per region



Fund	% of AUM voted 2021	% of votes with mgmt 2021	% of votes against mgmt 2021
East Capital Balkans	86%	100%	0%
East Capital China A-Shares	97%	90%	10%
East Capital Eastern Europe	94%	92%	8%
East Capital Global Emerging Markets Sustainable	76%	83%	17%
East Capital Global Frontier Markets	70%	80%	20%
East Capital Multi-Strategy	68%	87%	13%
East Capital New Europe	90%	97%	3%
East Capital Russia	94%	89%	11%

AUM including assets with voting rights

Recognising excellence among portfolio companies

East Capital Best Corporate Governance Award 2021

East Capital firmly believes in recognising exceptional companies in our investment region, which we do through the annual East Capital Awards, which were initially launched in 2004. The Awards are presented in the following four categories: Best Growth, Best IPO, Best Corporate Governance, and Discovery of the Year. The "Best Corporate Governance Award" recognises a company that demonstrates a clear aim to create value for all shareholders by demonstrating strong standards in the area of corporate governance, and addresses the opportunities and risks related to environmental and social concerns.

In 2021, East Capital presented the Best Corporate Governance award to **mBank**. Poland's fourth largest bank has consistently demonstrated superior corporate governance standards, with board quality and diversity standing out on a global level. 50 percent of the company's board are independent non-executive directors and 38 percent are female, with directors demonstrating strong international, sustainability and interdisciplinary experience.

Furthermore, the bank has made good progress in integrating material corporate social responsibility issues and SDGs into its 2020-2023 strategy with the ambition to be the leader in terms of sustainability in the Polish banking sector. It has also implemented comprehensive ESG exclusion policies as part of its lending practices. Moreover, East Capital finds the entire team, from investor relations to board members, highly professional and open to constructive discussions with investors.

Photos: https://en.media.mbank.pl/presskits#presskit

East Capital engagement case study

CCC

CCC - Leading footwear manufacturer and retailer from Poland

CCC is a leading footwear manufacturer and retailer from Poland, which has been in our portfolio since 2005. We have had a constructive and positive dialogue with the management team to support and accelerate CCC's sustainability journey.

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

BACKGROUND AND ISSUES

The fashion and footwear industry accounts for 4% of global greenhouse gas emissions[1], among other environmental and social issues primarily related to the value chain. CCC is the largest footwear producer and retailer in Central Eastern Europe. We first invested in the company in 2005 and have, from the beginning, had a running dialogue on sustainability and governance issues, including speaking publicly at their investor days in 2016 and 2018.

When analysing the company's 2022 sustainability strategy which was published in 2019, we identified several key issues:

1. A lack of ambition, with a target of 2% reduction of GHG emissions per year with no long-term or science-based targets
2. No robust measurement and reporting of scope 2 and 3 GHG emissions
3. No material plans to increase the circularity of the products
4. No material improvement in supply chain transparency, with supply chain audit of just 60% by 2022

OBJECTIVE

Throughout 2021 we voiced our concerns with the current strategy. We sent a detailed letter to the board of directors that outlined our expectations and we had extensive dialogues with various representatives of CCC, including board members, the CEO and the Head of Sustainability.

Our proposal was that the company:

1. Carries out a comprehensive analysis of full scope 1, 2, and 3 GHG emissions
2. Commits to a 65% reduction of Scope 1 and 2 emissions by 2030 or -6% per year per pair of footwear sold and reduce Scope 3 emissions (once calculated) by 30% by 2030
3. Joins the Science Based Target initiative (SBTi), which would ensure targets are aligned with the Paris agreement
4. Transparently report on sustainable materials content in all products as well as waste management and end-of-life waste utilisation progress

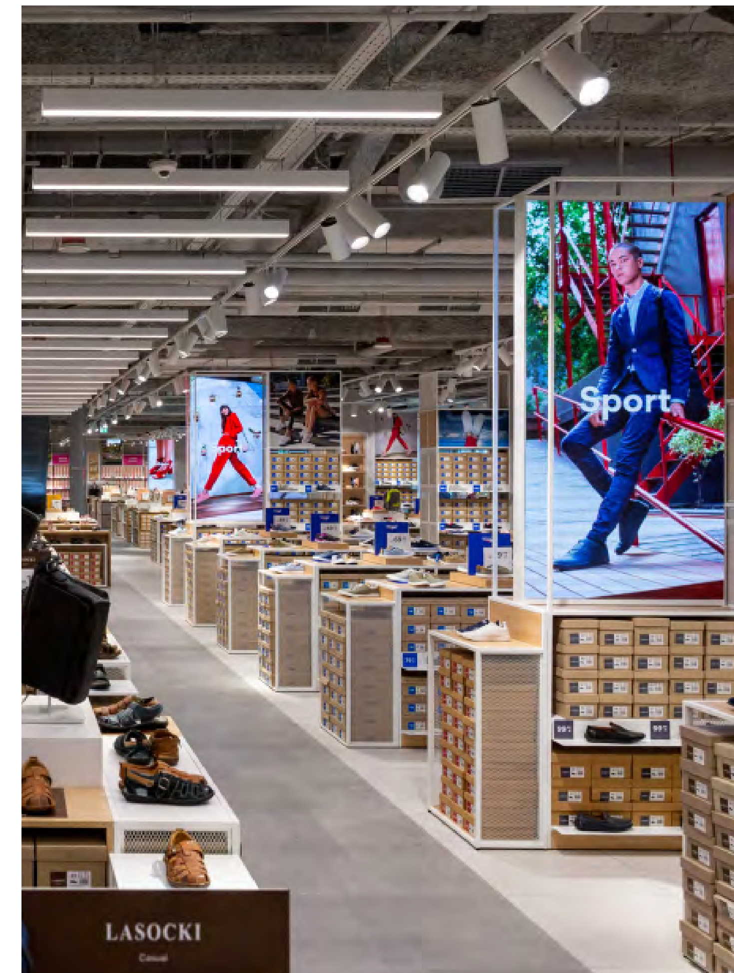


Photo: Corporate.ccc.eu

1. McKinsey "Fashion on climate", August 2020, https://www.mckinsey.com/industries/retail/our-insights/fashion-on-climate

RESULTS

As a result of very good management response to our engagement, in December 2021 the company announced their new 2025 Sustainability strategy, with the following highlights:

1. Scope 1 and 2 emissions reduction target of 80% by 2030 or -7.3% per year per pair of footwear sold
2. Calculation of Scope 3 emissions for 2021 and target a 40% reduction by 2030
3. By 2030 all CCC products to have low carbon footprint and low water use labels
4. In terms of product sustainability, by 2025 50% revenues should come from sustainable collections and 100% of the products should have transparent production methods, certified by an external third party. Product circularity should be addressed by collecting second-hand shoes to become a regional leader in post-consumer waste, collecting and giving a second life to used shoes (260k pairs collected in 2020)
5. 100% of high-risk value chain to be audited and examined for environmental impact by 2025; 80% value chain implementing own environmental targets by 2030 and 100% complying with the CCC suppliers' code by 2025
6. In terms of social commitments, reduce gender pay gap to 0% and glass ceiling ratio to 0%, both by 2030

These are ambitious sustainability goals which exceed our initial proposal by some 30% for GHG emissions. Given that CCC is one of the fastest growing footwear companies in the world, and expected to at least double its shoe production between 2019 and 2030 to 106 million pairs, the GHG emission reductions embedded in the new sustainability strategy would save a staggering 890 kt of CO_2e per year in 2030 compared to no action in GHG emission reduction per product. This is equal to almost 150% of current Swedish GHG emissions[2] from footwear consumption. Based on these targets and the positive dialogue we have with the management, we believe that CCC has genuine intentions to become an in-and-out leader in sustainability, which will ensure the company is well placed to enjoy sustainable growth for years to come.

Photos: Corporate.ccc.eu

2. Estimated by East Capital using input data from:
"Footwear Consumption", ResearchGate, https://www.researchgate.net/figure/Per-capita-footwear-consumption-in-different-countries-SATRA-2003-CBI-2004-AAfA-2006_fig3_220381287
"Household consumption expenditure on footwear in Sweden from 2008 to 2019", Statista, April 2022, https://www.statista.com/statistics/575844/footwear-consumption-expenditure-sweden/
"The impact of footwear on climate change", Effekt Footwear, June 2021, https://www.effektfootwear.com/blog/the-impact-of-footwear-on-climate-change

"Environmental data is definitely still a huge ask from most companies in emerging and frontier markets where national regulatory frameworks are lagging behind and where unfortunately domestic investors do not yet prioritize these issues. Hence the work of CDP is really important, and we were keen for the third year in a row to participate in the annual Non-Disclosure Campaign. We have a well-established framework to select which companies across our portfolios of 200+ names to put on our list as lead and co-sign. Besides, the campaign is seen as a reiteration of previous direct requests, since CDP participation is assessed in our proprietary ESG scorecard and very often part of our individual engagement with corporates. Our success rate keeps improving and this year we were particularly happy to see some of our holdings in Russia and China with very large environmental impact reporting for the first time. Proper risk management and target settings always start with adequate data collection."

Breakdown of CDP submissions (% of AUM)	**2021 Climate Change Disclosure Status**	**2021 Forests Disclosure Status**	**2021 Water Disclosure Status**
Sum AUM requested	482,518,171	113,861,827	206,566,950
Share of tot. AUM	37.9%	8.9%	16.2%
Sum AUM submitted	312,824,046	48,268,126	144,545,744
Share of tot. AUM	24.6%	3.8%	11.4%
Share submitted out of requested	**65%**	**42%**	**70%**

Breakdown of CDP emissions (# of companies)	**2021 Climate Change Disclosure Status**	**2021 Forests Disclosure Status**	**2021 Water Disclosure Status**
# Companies Requested	149	38	59
# Companies Submitted	91	12	36
% Companies requested that submitted	61%	32%	61%

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 Red Flag analysis. Areas where we see that active ownership can lead to a significant positive impact on ESG related characteristics 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.

Engaged with
14
portfolio holdings

Totalling
14
different engagements

In 2021, Espiria engaged with 14 companies, totalling 14 different engagements during the year. An example of a company engagement has been a dialogue with Kalera AS, an American vertical farming company, with the objective to enhance its governance practices as well as its ESG disclosure transparency. We raised our concerns to the Board and senior management on the use of share options in board member compensations. In addition, we initiated efforts to seek broader ESG data-based evidence on the company's claim of their vertically grown products having better sustainability footprints than conventionally grown ones. We also raised questions and expressed willingness to offer our views regarding choices of material ESG targets and KPIs, ESG data collection processes, and management remuneration aligned with ESG KPIs. Kalera AS expressed a positive intention to discuss with us on raised issues but has not yet been able to follow up with concrete actions as of end of 2021.

We also collaborate with other shareholders and participate in different investor-led initiatives. For example, in 2021 we had dialogues with Samsung Electronics through a collective engagement initiative coordinated by the Asian Corporate Governance Association (ACGA). The objective of the dialogues, held with the lead independent director of Samsung Electronics, was to enhance the company's governance practices, including board and supervisory board quality. We also collaborated with a group of investors to engage with 9 companies on human rights issues in Myanmar, raising concern on how these companies handled human rights for their business activities or business relationships in Myanmar.

Further, we had dialogues with Novo Nordisk, a Danish multinational pharmaceutical company, with the aim of continuously improving the company's actions and outcomes regarding access to medicine in low-to-mid income countries. This is a collective effort along with a group of investors coordinated by the Access to Medicine Foundation (AMF). Espiria also co-signed the Investor letter "Vaccine Equity and Executive Remuneration" initiated by Achmea and coordinated by the AMF, which was sent to Pfizer, Johnson & Johnson, Moderna, and Astra Zeneca. The goal is to make the asks more forceful and to create a link for informing proxy voting decisions.

Following an East Capital Tradition, Espiria provided an annual "CIO to CEO Letter" to holdings in our portfolio, highlighting priorities for our ESG analysis and active ownership work.

Photo: Simon Rae (Unsplash)

Espiria – Voting

During 2021, Espiria adopted a voting framework to decide for which holdings we shall prioritise voting activities that are performed by members of the investment team, following their own analysis of voting decisions.

Espiria voted in 14 companies during the year, representing 11% of AUM. 23% 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, insufficient auditor rotation, lack of executive incentive alignment with ESG objectives, poor transparency on equitable pay, among others.

28%
of meetings voted

11%
of AUM voted

15%
of equity voted

77%
votes with management

23%
votes against management

5%
votes on shareholder proposals

50
votable meetings

14
companies voted in

Fund	Votable meetings	Meetings voted	Meetings voted (%)	AUM voted	AUM voted (%)	Equity voted	Equity voted (%)
Espiria 30	27	10	37%	8 603 400	5%	8 603 400	14%
Espiria 60	31	13	42%	18 068 405	11%	16 440 296	16%
Espiria 90	48	13	27%	22 813 042	10%	20 905 468	12%
Espiria Global	32	14	44%	18 010 374	17%	16 599 260	17%
Espiria SDG Solutions	29	13	45%	34 363 138	14%	31 620 517	16%

Adrigo – Engagement Summary

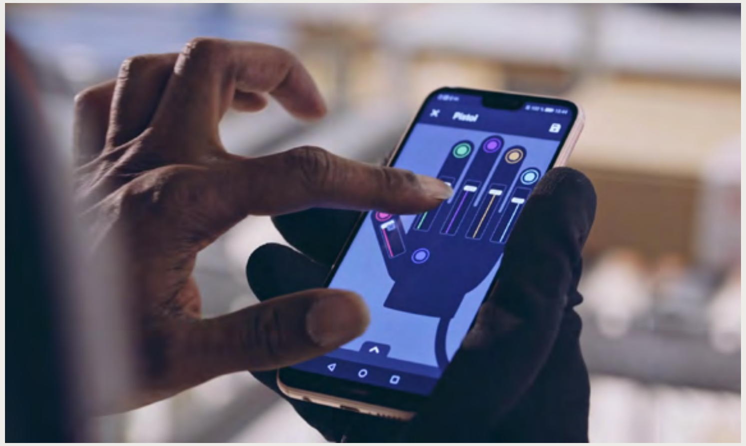
Adrigo, offering a Nordic small-caps hedge fund strategy targeting absolute returns, is part of East Capital Group and our continuous ESG journey. Adrigo has close contact and regular dialogue with the management of most companies in the portfolio. Besides, following our analysis of ESG-related risks through the Red Flag analysis, we chose to engage with some portfolio holdings, generally to be found in our core and high-potential segments.

During the year, Adrigo engaged with 4 portfolio holdings, totalling 5 different engagements. An example of a company engagement by Adrigo was with **Bioservo Technologies**. Adrigo discovered Bioservo in 2019. Bioservo is a Swedish company which was listed on Nasdaq First North Growth market in 2017. The firm develops wearable muscle strengthening systems such as gloves which help people with impaired hand function.

Engaged with
4
portfolio holdings

Totalling
5
different engagements

The objective of our engagement focused on Bioservo's board composition, in order to deepen the competence in the medical field among directors, as well as to diversify the board's composition in terms of gender. As one of the largest shareholders in the company, we joined the nomination committee and selected two new female board members with expertise from the medical, pharma, and rehabilitation fields who were subsequently elected at the 2021 AGM.



Photos of Ironhand® from Bioservo Technologies (www.bioservo.com/news-media/videos)

> Following an old tradition for East Capital, we sent out a letter to the CEO of each of our holdings in the long book from Adrigo for the first time in 2021. The Adrigo CIO Letter highlighted the most common weaknesses that we see in the portfolio, following the full roll-out of our Red Flag analysis.

CIO LETTER TO HOLDINGS

Best x

As the Chairman of East Capital Group and CIO for Adrigo, we are writing to you because Adrigo is a shareholder in your company. Since East Capital Group was founded in 1997, we have maintained a dialogue with all of our portfolio companies as an active and engaged owner, which has been a contributing factor to continuous returns.

We invest in what we consider to be quality companies. Thus, when making investment decision it is central for us to also evaluate companies from an ESG perspective. Therefore, we have identified three main areas for improvement among companies within our current portfolio - sustainability reporting, gender diversity among management/board members and independence among board members.

We believe a company's stance on and approach to climate change will impact its attractiveness to investors, customers and staff. The next big topic on investors' radars is biodiversity. We expect our portfolio companies to invest time in these matters and in-detail examine the entire value chain. We are aware of the challenges of quantifying this, but it is undeniably vital for the future.

This leads us to the first area of improvement, namely **sustainability reporting**. We as long-term owners urge companies to report what they consider to be material risks, how they are managed today and how they will be managed in the future. To facilitate the work of distinguishing the sustainability aspects that are of most importance, you can find guidance from SASB (Sustainable Accounting Standard Board)1. The organization publishes industry-specific standards which identify social and environmental and governance issues that are most relevant for financial results. We as investors use these standards as starting point when we analyze our portfolio companies.

Furthermore, we want to highlight the importance of continuing the work for **gender diversity** within organizations. We want to remind our companies that this is still an ongoing process that requires active work. Finally, we have identified a **low degree of independence** among board members in small and medium-sized companies. We believe this increases the risk of companies becoming narrow-minded and neglecting necessary changes. Of course, meritocracy should apply to the composition of a board, but we are convinced that the governance of a company will be more effective with good diversification.

Please do contact either us directly, or our colleague, Karine Hirn, Partner and Chief Sustainability Officer (karine.hirn@eastcapital.com) for any questions on the above – we are always happy to talk.

Peter Elam Håkansson
Chairman East Capital Group

Staffan Östlin
CIO Adrigo

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