Sustainable Investment Report 2022

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.







Our ESG journey

1997 2002 2004 2007 2009 2010 2011 2012 2013 2015 2016 2017 2018 2019 2020 2021 2022

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

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

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

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

2009
We join ACGA (Asian Corporate Governance Association).

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

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

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

2013
We introduce East Capital Best Corporate Governance Award.

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

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

2017
We join SISD.

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

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

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

2021
We set up an ESG and impact committee with Alquity.
We become an IFRS Alliance member and join the FSDA. Espiria joins NZAM and launches Espiria SDG Solutions.
We introduce East Capital SDG VCA tool.

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

Photo: Alessio Soggetti (Unsplash)

Advancements in our responsible investment work 2022

Last year in a nutshell

Policies and frameworks

- Group-level ESG policy including our approach to sustainable investment within the SFDR framework and the "Three steps test"
- Supply and Procurement policy
- ESG Action Plan for East Capital Real Estate
- Investor Climate Action Plan

Disclosure

- East Capital Group released its first ever sustainability disclosure, following SASB and TCFD guidelines
- Due Diligence Questionnaire on Diversity, Equity and Inclusion

Tools

- Full implementation of the SDG VCA tool for holdings of East Capital Global Emerging Markets Sustainable
- Full implementation of the Espiria Impact Assessment (EIA) tool for holdings of Espiria SDG Solutions
- We introduced and rolled out Espiria Quality and Sustainability Score (EQSS), a thorough scorecard to assess holdings in Espiria funds; PAI metrics are included
- East Capital Group EDA (End Deforestation Action): mapped exposure to deforestation risk across our portfolios using data from Global Canopy Forest 500

New initiatives and commitments

- We joined Transition Pathway Initiative
- We filed NZAM (Net Zero Asset Managers) targets for Espiria
- We became an Investor Participant to Advance, the UN PRI initiative focusing on human and labour rights
- We joined the Investors Policy Dialogue on Deforestation (IPDD) Initiative
- We joined the new Net Zero Engagement Initiative coordinated by IIGCC
- We signed up to join Nature Action 100+

Campaigns

- Espiria SASB Radar
- CDP Non-Disclosure Campaign targeting Espiria's and East Capital's holdings
- CDP Science Based Targets campaign: CDP contacted around 1,200 high impact companies on behalf of 220 investors through a letter which requests these companies to commit and set a science-based target aligned with 1.5°C temperature scenario.

Training, research

- How to approach and integrate in investment processes NDCs, macro and sovereign ESG risks (together with Alquity)
- Extensive research and training regarding SFDR and EU taxonomy
- How to evaluate risks of social conflicts and deforestation
- AIGCC Climate training course
- PRI Net Zero Listed Equity Practitioners webinars
- EU social taxonomy

East Capital Real Estate

- BREEAM certifications were received for four properties during 2022, leading to 76% of floor area certified of the focus portfolio
- Our ESG-related lease clauses were completed
- The Supply Chain and Procurement policy was enforced from March 2022
- East Capital Real Estate's ESG policy was updated
- In 2022, East Capital Real Estate completed its first official GRESB assessment round for Baltic Property Fund III and Real Estate IV. Both funds received 2 stars out of 5 and a Green Star recognition in their reporting

Where are we heading?

Concluding on the year of 2022 with an ESG and responsible investment lens, and reflecting on the work, discussions and events which took place during that year, there are two major topics, namely, the tragic war in Ukraine, and the implementation and further rolling-out of the Sustainable Finance Disclosure Regulation. Reflecting on what 2023 will be about, we believe that the key priority will remain about climate with the dimensions of urgency, Just Transition and climate adaptation now taking center stage.

East Capital Group's delegates to the UN PRI in Person: from left to right Karine Hirn, Chief Sustainability Officer, Nikodemus Dahlgren, Head of Investor Relations, Paul Nissan, ESG Analyst

The clock is ticking

During the UN PRI in Person conference which we attended at the end of 2022, IEA's Executive Director Dr Fatih Birol was adamant that "the 1.5 degrees scenario is not dead" but somberly stated that the window to reach it is getting very narrow. During 2022, in the wake of Russia's invasion of Ukraine, the focus on energy has shifted from climate concerns to a myriad of other dimensions ranging from national security, sovereignty, economic resilience and social priorities. What we see as a short-term diversion which could actually accelerate the need for decarbonation in the long run, is however no good news when time is so short, carbon budgets are shrinking fast and overall ambitions are already underwhelming, both from governments and companies. For instance, the Climate Action 100+ status review shows that capex programs of 90% of the world's biggest CO2 emitters are not aligned to a 1.5-degree scenario. Going forward we and other shareholders will have to increase pressure on businesses and request real world absolute decreases in greenhouse gas emissions.

Where E and S converge

Just Transition, also to be seen in light of surging energy and food costs triggered by the war in Ukraine and supply chock, has emerged as a primary concern in Europe where the European Commission has approved a series of funding and support mechanisms to ensure the green transition does not add to the woes of the most vulnerable regions and communities. We argued last year, in our 2022 outlook, that post pandemic, social factors will climb the priority ladder for companies and investors alike and we see the Just Transition dimension as one core element of this mega trend. Our engagements on social topics have been on the rise and we do not see this as a short-term trend. Likewise the importance of supporting the most vulnerable nations which led to the agreement on a loss and damage fund at the COP27 might lead to more funding towards emerging and frontier markets which are the most vulnerable. The importance of social risks related to labour rights and human rights in a world where income inequalities have increased, and sectors such as metals and mining are becoming critically important to the energy transition are expected. We note the new PRI initiative on human rights, Advance, which was launched at the end of 2022; and in which we participate on behalf of one of our holdings in China.

Tomorrow is already here

Yet another conviction from last year's outlook was that climate adaptation - i.e. measures and investments to become more resilient to physical climate risks - will be prioritized, and this has proven true. COP27 was dubbed the "Adaptation COP", and even if some worry that it would imply diverting efforts and funds from climate mitigation, one should not be fooled and ignore the facts that we have already entered an era of warmer temperatures and extreme weather events with soaring costs. Physical climate risks and how companies prepare for them shall form an integrated part of investors assessment. Biodiversity loss counts as yet another extremely important area which investors have to take into consideration. The taskforce on Nature-related Financial Disclosures will publish its final recommendations in 2023 and we have started to incorporate some dimensions related to natural capital as part of our SFDR disclosure as well as initiated specific engagements on deforestation risks.

Data, but what for?

In conclusion, driving forces which will shape the world of responsible investing in 2023 will also lead to more accountability. We expect 2023 to be the catalyst year in terms of ESG data: in several jurisdictions around the world companies face an increasing reporting burden as required by regulators or requested by various stakeholders, while fund managers with funds domiciled in Europe have to implement and deepen disclosure requirements under the Sustainable Finance Disclosure Regulation. What gets measured gets managed so we do welcome these developments even if we also realise that the real-world impact of these reporting exercises is extremely limited and should never become an illusionary replacement for the actual and tangible work of responsible owners. Transition finance, a new asset class to support companies, particularly those in high emitting sectors, to align with the Paris Agreement 2030 and 2050 goals by providing the capital needed to facilitate progressive emission reductions, is one such area in which we look forward to being more involved.

Peter Elam Håkansson
Chairman and Group CIO

Karine Hirn
Chief Sustainability Officer and Partner

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 and social concerns, improving transparency, reporting and investor relations, improving rights for minority shareholders or reaching a better fair-value in buyouts. Our experience has shown that an engaged and constructive dialogue will more often lead to convincing the company to initiate positive change, while simply exiting the investment achieves nothing. Voting at AGMs/EGMs is another important way for us to communicate our views to the companies and their management.

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.

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

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

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

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.

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.

Support for Ukraine

During 2022 East Capital Group focused on supporting Ukraine through donations to various organizations including Hospitallers Ukraine Aid.

Hospitallers Ukraine Aid

Hospitallers Ukraine Aid provides funding and backing to voluntary paramedics, who save lives through emergency treatment of the seriously wounded. They provide vehicles and medical equipment 'on demand' directly to those who need them and are able to deliver aid in under 72 hours with neither central bureaucracy, nor costs or administrative hurdles.

International Committee of the Red Cross, Ukraine

ICRC

International Committee of the Red Cross has over 800 staff working in eight locations across Ukraine to deliver relief items to displaced people, provide medicines and supplies to health care facilities, restore water supply for millions of people, and other lifesaving activities.

Photo: SOS Children's Villages

Our ESG framework

Our approach and tools are organised in four pillars

Pillar 1:

Sector exclusions

Since 2007

What:

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

How:

- Screening implemented in the analysts'/PMs' initial analysis
- External screening available if uncertain
- Quarterly portfolios checks reported to the Board
- Portfolios re-confirmed annually by the investment teams

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

Pillar 3:

ESG integration tools

Since 2016

What:

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

Adrigo
- Red Flag Analysis

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

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

How:

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

Pillar 4:

Active ownership and landlordship

Since 1997

What:

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

How:

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

Our ESG and sustainability integration toolbox

	Scope	Area covered	Aim
Red flag score • East Capital • Espiria • Adrigo • East Capital Real Estate	▸ All existing holdings ▸ When initiating research on new companies	▸ At the outset, considers the 10 most critical ESG questions ▸ Focuses on major Red Flags related to corporate governance, ethics and corruption ▸ Covers international norms and standards and severe systematic environmental or social controversies ▸ Considers Principal Adverse Impact	▸ Helps focus research resources and gives quick ESG overview and understanding ▸ Specific requirement levels (maximum number of red flags) used in portfolio construction
ESG scoring			
ESG Scorecard • East Capital • East Capital Real Estate	▸ All Key Active Positions and ten largest holdings as a minimum ▸ All holdings in Global Emerging Markets Sustainable and in East Capital Real Estate funds	**East Capital ESG Scorecard** ▸ Governance, Environment and Social risk and opportunities (current and outlook) ▸ 50+ questions to consider relevant and material ESG risks and opportunities in EMs and FMs ▸ SDG module based on holdings' revenue exposure **More details on page 12 and 13**	▸ Generates a list of issues to research further or raise with the holding ▸ Helps to determine level of conviction and to adjust our scenarios and modelling assumptions, if needed
EQSS • Espiria	▸ All holdings in Espiria funds	**Espiria Quality & Sustainability Score** ▸ Scorecard built on qualitative analysis of individual companies across 5 topics **More details on page 17**	
Additional sustainability assessment • East Capital Global Emerging Markets Sustainable • Espiria SDG Solutions	▸ All holdings	**SDG VCA Value Chain Analysis** ▸ Combination of revenue alignment and SASB materiality mapping and metrics to identify the two most important SDGs across the value chain ▸ Materiality, Intentionality, Additionality and Criticality criteria **More details on page 14** **Espiria Impact Assessment** ▸ 1 primary SDG target, 5 dimensions of impact, Outcome KPIs **More details on page 17**	▸ Identify, measure and monitor contribution to sustainable development goals through assessment of various dimensions ▸ Part of the definition of sustainable investment for our Article 9 funds under SFDR **More details on page 29**

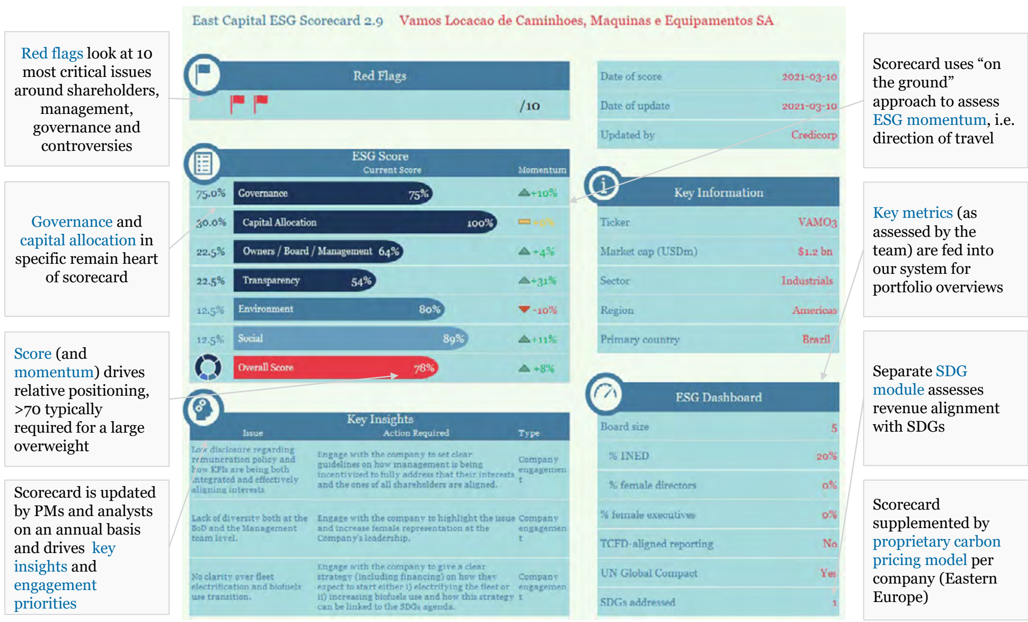
East Capital proprietary ESG Scorecard

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

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

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

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



SUSTAINABLE DEVELOPMENT GOALS

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

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 ESG 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

Espiria ESG and sustainability integration toolbox

International standards and tools used in our process

SASB — Sustainability Accounting Standards Board · IMPACT MANAGEMENT PROJECT · IRIS+

Espiria Quality & Sustainability Score (EQSS)

All Espiria fund strategies

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

Espiria Impact Assessment (EIA)

Espiria SDG Solutions

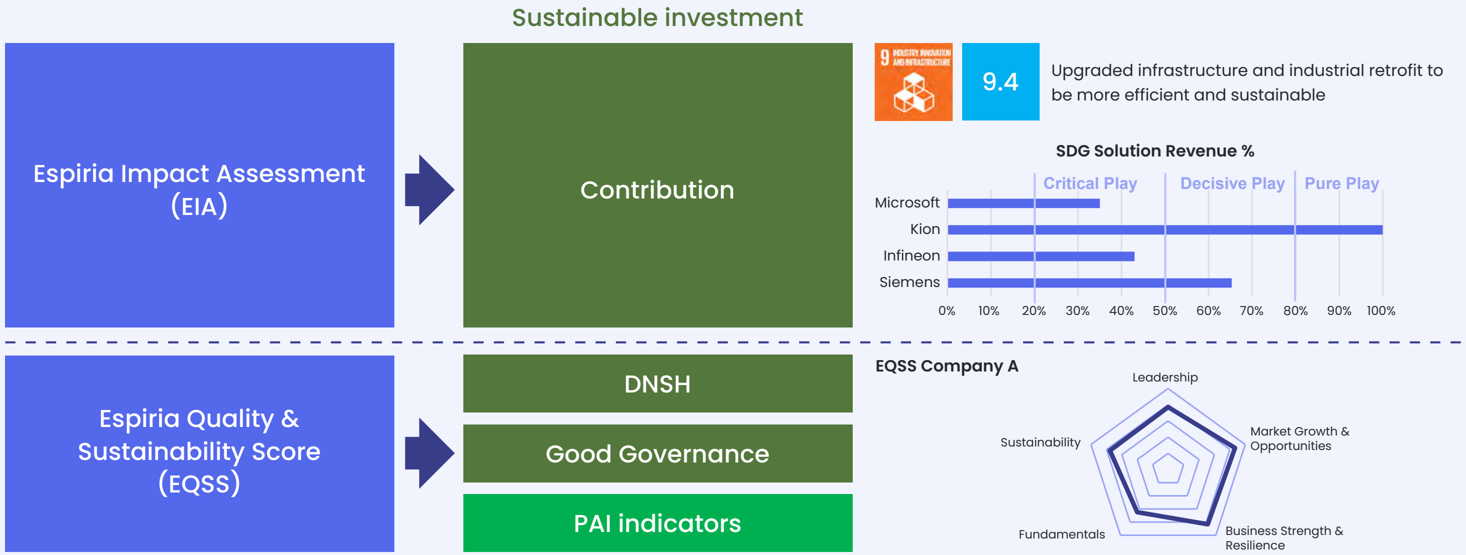
The EIA tool is designed and used by the investment team to verify and ensure clarity on why and how a company contribute significantly to a specific SDG target, with outcome measured by material KPIs. The tool consists of 28 questions to be assessed at the investee company level, covering 5 dimensions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

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

At the end of 2022, the social and environmental outcomes of Espiria SDG Solutions' investment portfolio were compiled by the investment team or the first time since the strategy's launch in October 2021.

More details on page 41

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



East Capital Real Estate proprietary ESG Scorecard

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

When first analysing a potential acquisition, we conclude a short ESG checklist for the property. The checklist includes key items such as the presence of a sustainability assessment, the energy label of the building, the tenant profile as well as the potential for renewable energy use. The ESG checklist provides an initial short ESG score for the building and is the first step in our proprietary ESG analysis.

The more thorough tool used for assessing the sustainability profile of potential new acquisitions is our proprietary ESG Scorecard. The ESG Scorecard is an in-depth questionnaire which is filled out while conducting more advanced acquisition processes.

The Red Flag section covers the most crucial sustainability risks and compliance criteria in order to adhere to international norms and standards. It contains ten questions on sustainability assessment, energy efficiency, physical climate risk and transition risk, tenant profiles, tenant wellbeing, and If there are any controversies in the alignment with the Sustainable Development Goals related to the property use. The Red Flag section also covers the real estate indicators from the PAI statement.

In the case of new acquisitions, the Red Flag section includes additional questions related to the counterparty of the transaction. We have set a threshold of a maximum of two Red Flags for standing investments and a maximum of three Red Flags for new acquisitions. A higher number of Red Flags is deemed acceptable if there is a specific reason and a clear mitigation path.

The ESG Scorecard incorporates 42 questions on environmental, social and governance aspects of the asset. The questions range from energy and water use, efficiency measures in the building to accessibility and indoor climate as well as covering key oversight issues.

The scorecard analysis draws out key strengths and weaknesses, as well as threats and opportunities of each property. The scorecard generates an overall ESG score for the property ranging from 0 to 100 which is then used as an input to our investment decision. In general, we would not invest in properties with a score below 60 and prefer that new acquisitions have scores in the upper range (80-100). Deviations from the general thresholds are allowed if and when improvement possibilities are identified and assessed as reasonable.

The scorecard analyses are reviewed and updated annually. For existing holdings, the scorecard serves as a benchmark against peers or market average and as a tool to identify required improvements on an ongoing basis.

The ESG Scorecard in brief:

- Considers the most critical ESG risks in the Red Flag section
- Covers key environmental, social and governance issues in respective sections
- Summarizes key strengths and weaknesses
- Helps to put down improvement plans for properties
- Generates an ESG score and enables benchmarking, both between existing properties and investment opportunities

Next page:
East Capital Real Estate ESG Scorecard

East Capital Real Estate ESG Scorecard

Sample property

Red flags out of 10 total	0,0
ESG score	**% of total**
Environment	88%
Social	93%
Governance	83%
OVERALL WEIGHTED SCORE	**88%**

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

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

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

Deforestation in focus

Starting point

Responsible investors understand that action on deforestation is key to achieve net zero as there is no solution to climate change without a solution to tropical deforestation. We also shall acknowledge that over two thirds of tropical deforestation is driven by the production of a handful of commodities including palm oil, soy, timber, paper and pulp, beef, and leather. These commodities are present on average in more than 50% of the packaged products in supermarkets.

Why investors care

Integrating these risks is important as deforestation poses a systemic risk to the global economy hence to the finance sector. Besides interest for this issue is increasing among our investors, with more focus put on nature in general, biodiversity and deforestation. As regulatory frameworks are coming in place to tackle disclosure and adequate management of these risks, both for financial markets participants such as ourselves as well as financial institutions and listed companies across most sectors, we shall expect the issue of deforestation to take central stage in the coming years.

Our approach

In 2021 we enacted a biodiversity policy, which now forms part of our group ESG policy, and we signed up to the Financial Sector Commitment Letter on Eliminating Commodity-driven Deforestation, since then renamed FSDA (Financial Sector Deforestation Action). In 2022 we signed up to the IPDD (Investor Policy Dialogue on Deforestation), a collaborative investor initiative supported by the PRI which was set up in 2020 to engage with public agencies and industry associations in selected countries on the issue of deforestation. In 2022 we introduced the EDA (End Deforestation Action) across East Capital Group and were also selected as lead investor for the engagement with Essity, a global hygiene and health company headquartered in Sweden and an holding in Espiria funds. Besides, we actively contribute to the CDP non-disclosure campaign every year where issuers are also encouraged to report forest data.

End Deforestation Action

We used data from Forest 500, a project of a data-driven not for profit organisation called Global Canopy, which covers sectors and regions with High Deforestation Risk Exposure to map the deforestation risk exposure of our portfolios based on industry, country of risk; or both industry and country. Then we determined whether we had key active positions in holdings with high deforestation risk exposure.

The result is a summary of deforestation risk for each portfolio, with a breakdown for sector exposure; country exposure; individual holdings. Holdings identified as having a deforestation risk were further analysed using relevant questions and red flags in the proprietary ESG Scorecard (the environmental section of the East Capital scorecard (Q1 to Q8) and the Red flag questions 2 and 9 for all brands.

Going forward, based on the answers in the deforestation risk analysis, we intend to categorise identified holdings into high, medium and low deforestation risk, based on both their exposure to deforestation and human rights risk and the steps they are taking to mitigate that exposure to prioritise holdings for engagement. Next step is to start specific company engagements. Active ownership efforts will be targeted at holdings where we have the most financial exposure and where we believe we have the most leverage and potential influence. We also intend to do more work on the risk exposure and impact of the banking sector, asking management of banks how they assess risks associated with climate change, biodiversity and deforestation on their business.

> Integrating deforestation risks is important as deforestation poses a systemic risk to the global economy hence to the finance sector.

Photo: Rich Carey, Shutterstock

Active ownership and landlordship 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 investment committee and 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.

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 Active Ownership Policy. The investment teams will use this policy as a basis for deciding on how to vote in a meeting, while taking into account relevant market specifics.

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

Legal action

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

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

East Capital Real Estate

Landlordship in focus

East Capital Real Estate shall act as an active, engaged, and responsible property owner and landlord. This includes close interaction with various stakeholders for improving the sustainability profile of the property and the awareness for sustainability topics within the local real estate sector.

We identify our key stakeholders as:
- Building tenants and occupiers
- Business partners, such as suppliers and transactions counterparts
- Employees
- Investors
- Credit institutions
- Local communities
- Legislators, such as governments and the EU

In the further materiality analysis, we mapped the key topics for each stakeholder and have used these in establishing our sustainability strategy and processes.

We aim to guide the tenants in sustainable building use and have developed ESG related lease criteria to be added in lease agreements. We also work to ensure the health and wellbeing of occupiers in our building and do this for example by assessing the property in our ESG Scorecard as well through BREEAM certifications, and by tenant feedback from direct communication and tenant satisfaction surveys.

We have a supplier code of conduct in place to ensure our service providers' compliance to standards and regulations.

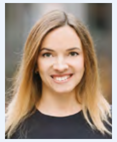
We participate in global benchmarks, various sector events and report to investors and banks in an effort to create more awareness, clarity and comparability between asset managers.

We help building strong communities by supporting children and youth initiatives.

We ensure that our employees are treated equally and have good working conditions, by enforcing human resource policies and conducting employee satisfaction surveys.

We identified property energy and resource use as an important topic connecting all the stakeholders. As a landlord, we can first review the property in our ESG Scorecard, compile improvement plans, add sustainable solutions such as renewable energy sources, obtain a sustainability assessment and work with improvements in this process. We then see tenant engagement as the main tool for further improving property efficiency.

> East Capital Real Estate shall act as an active, engaged and responsible property owner and landlord; we call this "Active Landlordship"



Pille Rand
Head of Sustainability and Research
East Capital Real Estate

Active Landlordship framework

Identify	Assess	Engage	Monitor/report
Stakeholder identification	Materiality analysis of most important topics	Tenant engagement, working jointly towards more sustainable buildings	Tenant satisfactions surveys and feedback
Proprietary ESG Scorecard analysis	Property improvement plans from the scorecard analysis	Supply chain management by code of conduct	Employee satisfaction surveys
		Prioritizing employee health, wellbeing and satisfaction	Supplier assessment
		Investor dialogue and reporting, working with credit providers	Sustainable investment reports
		Building stronger communities by supporting children and youth education and sports activities	Building energy performance ratings and sustainability assessments
		Capital expenditures into buildings	GRESB benchmark assessment report

East Capital Real Estate

Tenant engagement

We consider tenants to be one of our most important stakeholder groups. Besides, alongside how the building has been built and how we improve it, the performance of our buildings is largely dependent on tenant activities.

From start, we have set out to be an active owner and landlord, and we have prioritized having an in-house property management engaging directly with all tenants in our property portfolio. We monitor the tenant satisfaction and well-being and have ongoing discussions in order to influence the way tenants use our properties and guide them towards more sustainable use of resources.

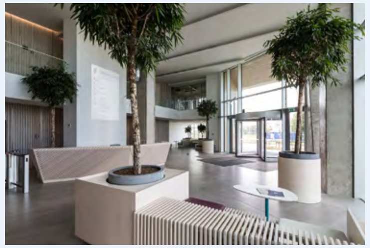
We also have a structured dialogue with the tenants on sustainability. We finalized ESG related lease clauses in 2022, and these have now been added to all new lease agreements and lease amendments. These amendments specify the environmental, social and governance principles of the lease agreement. These clauses are focused on the following areas:

- General principles and information exchange
- Energy and water management
- Waste management
- Sustainable procurement
- Consider sustainability during renovations of premises

We update and discuss the property performance regularly with tenants and this includes utility consumption, as well as possible measures we could take to decrease resource use and any additional costs to tenants.

During autumn 2022, we conducted our second tenant satisfaction survey. The survey covered 11 properties and close to 100 tenants across our Baltic Property Fund III and Real Estate IV. We received feedback from tenants covering 67% of the leasable area in the funds. Most respondents are long-term tenants - 71% have leased their premises with East Capital Real Estate for over 5 years and 89% for over 2 years. **The average satisfaction score was 4.1 out of 5.0.** 77% of the respondents are fully or mostly satisfied with the quality they receive compared to the rent they pay. The overall Net Promoter Score is +2% for all properties (on a scale of -100% to +100%), which we consider a good result but there is always room for improvement. We were keen to note how tenants value various aspects of the property including sustainability related aspects and were pleased to see an increase in the importance of the sustainability related factors in the rented buildings compared to the 2021 survey . In conclusion, tenants are generally very satisfied with the property management and their communication with East Capital Real Estate.

We will continue to interact with our tenants and ask for their feedback on property management, maintenance as well as the facilities, and continuously analyse how they view and approach various aspects of sustainability. In the next surveys we look to widen the sample range for building occupiers, and annually review the questionnaire to include any topical issues. In 2023, we will also work with more tenant communication and provide even further guidance on sustainability.



Place Eleven is one of Riga's most sustainable buildings with a BREEAM New Construction "Excellent" certification and an A+ class energy certificate.

Read more about BREEAM certifications on page 44

Photos: Indriķis Stūrmanis

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

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 encourage appropriate and adequate disclosure of environmental, social and sustainability-related matters, improving transparency and reporting of KPIs, DEI metrics, strategy, compensation systems.
4	We will promote acceptance and implementation of the principles within the investment industry.	We are promoting responsible investments independently, as well as together with collaborative organisations/initiatives. This includes participating as speakers in different forums and providing media comments
5	We will work together to enhance our effectiveness in implementing the principles.	We are collaborating with other shareholders and taking part in relevant stakeholder and investment associations Dialogue with governments, stock exchanges and financial regulators to promote improvements in the institutional and legal framework
6	We will report on our activities and progress towards implementing the principles.	We publish an annual Sustainable Investment Report, as well as a PRI Transparency Report and an Assessment Report We ensure that we understand and comply with relevant disclosure requirements, including the SFDR (Sustainable Finance Disclosure Regulation)

Photo: Pawel Czerwinski (Unsplash)

Our latest initiatives, commitments and partnerships

- East Capital Group joined **Transition Pathway Initiative**. TPI is a global initiative led by asset owners and supported by asset managers, which was launched in 2017 by the Church of England and the Environment Agency Pension Fund. 124 investors (see list here[1]) combining USD 40 trillion in AuM and AuA globally have pledged support for the TPI to date. As a supporter, we can use the TPI tool and its data in our research, in engagement with companies and in tracking our holdings' alignment. We will be invited to meetings, calls and webinars on issues related to the world transition to a low carbon economy where we can meet asset owners and peers.

- We became an Investor Participant to **Advance** – PRI's new collaborative stewardship initiative on human rights and social issues which was launched at the UN PRI in Person in December 2022, signing up to be one of the collaborating investors for Zijin Mining.

- We joined the **Investors Policy Dialogue on Deforestation (IPDD) Initiative**. IPDD, hosted by WEF, led by Tropical Forest Alliance is a collaborative investor initiative with around 60 asset owners and managers, which was set up in July 2020 to engage with public agencies and industry associations in selected countries on the issue of deforestation. The goal of the initiative is to coordinate a public policy dialogue on halting deforestation, and we will use this platform to liaise with asset owners and peers, and engage with policy makers. We see the IPDD as an important part of our commitment to the FSDA, the global initiative aiming at eliminating commodity-driven deforestation.

- We signed the **Net Zero Engagement Initiative**, an initiative by the PRI and IIGCC to provide a forum to scale and accelerate engagement across investment portfolios and enable investors to meet the engagement goals they have set as part of their net zero commitments. There are ca. 120 companies on that list which will be made public mid-February We have signed on behalf of Espiria and East Capital (with the latter taking the lead for two Greek companies: Mytilineos, Terna).

- We signed up to join a new initiative within IIGCC, **Nature Action 100+**, launched during COP15. This new global investor engagement effort aims at driving greater corporate ambition and action to tackle nature and biodiversity loss. The initiative will focus on companies in key sectors that are deemed to be systemically important in reversing nature and biodiversity loss by 2030. The collaborative engagement program is coordinated by Finance for Biodiversity and will have three streams: (1) corporate engagement, (2) engagement with policy makers, (3) technical analysis tool development. Selecting the companies to be targeted will be harder than for Climate Action 100+; do we look at companies with the highest impact or with the highest dependencies? Social issues are also expected to feature, especially indigenous rights. Target company list will be established by a technical advisory group.

1. https://www.transitionpathwayinitiative.org/supporters

SFDR Corner

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

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

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

For more information and details, please refer to pre-contractual SFDR disclosures for all our funds on Adrigo's, East Capital's, Espiria's and East Capital Real Estate's websites and periodic disclosures as per end of year 2022 included in the 2022 annual reports for article 8 and 9 funds published on the websites.

Investee companies in East Capital's article 8 sub-funds must adhere to the sub-fund sector exclusion policy and pass all steps in the table below to be classified as a sustainable investment. East Capital Global Emerging Markets Sustainable, classified as an article 9, must comply with each step in the table below and also comply with norms and sector-based screening, and attain at least a score of 25 in accordance with our SDG VCA tool.

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

SFDR Corner

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

Step 1
Contribution to E and/or S

>60% score in the E and S sections of the ESG Scorecard, which includes sustainability indicators and other information related to E and S objectives

Step 2
No significant harm to E or S

No Red Flag related to environmental or social issues
AND
Compliant in controversy (norms-based) screening and in sector-based screening

Step 3
Good governance practices

>60% score in the G section of the ESG Scorecard, which includes questions related to sound management structures, employee relations, remuneration of staff and tax compliance
AND
No more than 2 Red Flags related to governance issues

East Capital Funds	#1 Aligned with E/S characteristics	#2 Other	#1A Sustainable	#2 Not sustainable	#1B Other E/S characteristics	Other environmental	Environmental	Social
East Capital Balkans	69%	31%	69%	N/A	N/A	22%	N/A	48%
East Capital Global Emerging Markets Sustainable	N/A	N/A	98%	3%	N/A	N/A	34%	64%
East Capital Global Frontier Markets	75%	25%	73%	N/A	1%	14%	N/A	60%
East Capital New Europe	79%	21%	76%	N/A	3%	19%	N/A	56%
East Capital China A-Shares	80%	20%	64%	N/A	16%	32%	N/A	33%
East Capital Multi-Strategy	51%	49%	50%	N/A	1%	14%	N/A	36%

▸ More SFDR disclosure per fund

SFDR Corner

Espiria's Three-Step-Test for Sustainable Investments

Step 1
Significant contribution to E/S objective(s)

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

Step 2
No significant harm to other E/S objectives

The investment should not have any Red Flags (RFs) related to environmental or social controversies; the Red Flag Analysis also requires consideration of principal adverse impacts (PAI). The investment must be Compliant in the controversy (norms-based) and the sector-based screening.

Step 3
Good governance practices

The investment should not have more than 2 RFs related to governance issues.

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

Espiria Funds	#1 Aligned with E/S characteristics	#2 Other	#1A Sustainable	#2 Not sustainable	#1B Other E/S characteristics	Other environmental	Environmental	Social
Espiria SDG Solutions	N/A	N/A	98%	2%	N/A	N/A	49%	49%
Espiria Global	96%	4%	37%	N/A	59%	19%	N/A	18%
Espiria 90	98%	2%	26%	N/A	73%	13%	N/A	13%
Espiria 60	99%	2%	23%	N/A	76%	12%	N/A	11%
Espiria 30	98%	2%	10%	N/A	88%	5%	N/A	5%
Espiria Nordic Corporate Bond	99%	1%	32%	N/A	68%	23%	N/A	9%

More SFDR disclosure per fund

East Capital Group – promoting Responsible Investment

In Asia, we spoke at the PRI Conference Week China **"ESG Investing frontier: Investment practices on shaping SDG outcomes in China and the wider emerging markets"**. PRI published East Capital SDG VCA case study in Mandarin East Capital: 将SDG结果纳入新兴市场投资 on their wechat account. We also gave a keynote at the Hedgefund Asia conference **"ESG five trends shaping the world of responsible investment in 2022"**. We were invited as a Speaker at the PRI's Conference Week China, **"Investing for Net-Zero and SDGs"**. We spoke at a closed-door NZAO Asia Roundtable **"Engagement as part of a Responsible Investment strategy: Responsible and effective engagement in emerging markets"**. We spoke at the Swedish Winter event in Hong Kong, organised by Business Sweden, in a broadcasted panel discussion on sustainable consumption.

In Central and Eastern Europe, we joined the **Lithuanian Business Forum** to speak on financial markets' perspectives on ESG topics, were part of a panel at **Woods ESG conference** on the topic of energy transition in Central and Eastern Europe and joined a roundtable on ESG Investing **"How do US and European institutional investors approach ESG?"**, targeting IR and ESG teams from public companies in Eastern Europe.

In Northern Europe, we held a keynote **"Sustainable investments in emerging markets"** at Realtid ESG-Dagen. We spoke at Novare's event on climate transition **"How far have we come regarding sustainable investments"**. We hosted the PRI strategic consultation event in Stockholm for Nordic signatories. A second ESG Dagen in Stockholm saw us take the stage for a keynote **"Ownership influence in emerging markets: why and how."**

We hosted **Swesif PRI joint event on COP27 and climate action for Emerging Markets** in Stockholm during which Mattias Frumerie, Sweden's chief negotiator in COP27, talked about the outcome from COP27, while Ed Baker from PRI, Policy Director, presented his views about obstacles, real or perceived, to directing capital to developing markets from asset owners, and spoke at the investor panel during the event.

Furthermore, we organised a series of webinars for our clients and partners, such as a Zooming in on the "E" and Deforestation , **Zooming in on the "S" and People**, Zooming in on the "G" and Know Your Owner (KYO).

We held a webinar for Hjerta financial advisors **"Sustainability and investment advisory"**. A **Panel on ESG & sustainability** was held during East Capital Group's 25th anniversary with Swedish sustainability leaders from the corporate world.

Elsewhere we joined a panel on **"ESG data and engagement"** at the UCITS & AIFM Conference in London and a Fund Europe's roundtable on **"China including ESG risks and practices"**. We spoke at **UN PRI in Person** in Barcelona at a panel discussion on **"Closing the EM funding gap"**. Earlier in the year, we held a presentation to PRI Latam signatories on SDG VCA tool: **Caso práctico East Capital sobre la integración de criterios ASG y ODS en sus procesos de inversión en mercados emergentes**. We also joined the European Issuers Awards as a Jury member. This European Commission project, which aims to promote capital markets development, included for the first year ESG factors for evaluation. The jury consists of expert advisors from Investment management, VCs, business/political media, legal services. This high-level event was a good way to promote ESG practices, and highlight Eastern European SMEs, besides learning about new companies and industry trends in other European countries and use takeaways as feedback to Eastern European stock exchanges.

Statements

- East Capital Group signed the **2022 Global Investor Statement to Governments on the Climate Crisis**. The Statement, the most ambitious so far with 533 signatories representing almost USD 39trn in AuM, is prepared annually and jointly by the founding partners of The Investor Agenda. The Statement was launched to the media and external stakeholders in September 2022 at the New York Climate Week and the UN General Assembly

- East Capital Group became a signatory to a **joint PRI-IFAC-WBCSD statement** to support PRI's engagement to ensure that investors benefit from simplicity and alignment of corporate sustainability reporting

- East Capital Group signed the **Letter on the Advancement of Deforestation Data** which is on behalf of a group of global institutional investors to propose a collaboration with ESG data providers to source and provide a new set of deforestation-related data for a set of key commodities. The letter was signed by 27 investors and will be sent by Robeco to Sustainalytics, MSCI, Bloomberg, Moody's, ISS, Refinitiv, Fitch Ratings and Factset

- Espiria signed **ACGA letter to the Japanese FSA and JPX/TSE** on enhancing gender diversity in the boards and management of TSE Prime companies

- East Capital Group signed the **CDP letter to Governments for UN Water Conference 2023**. The letter summarizes key policy asks before the UN Water Conference in March 2023, to ensure a planned and equitable transition to a water secure world by 2030

- East Capital Group was a signatory to the **"Moving together on nature" statement**, which was drafted by the UNEP Finance Initiative, the PRI and the Finance for Biodiversity Foundation; it is a call for the adoption of an ambitious Global Biodiversity Framework at the COP 15, held in December 2022 in Montréal. This statement was endorsed by 150 financial institutions representing USD 24 trillion in AuM

Consultations

- We completed the **Swedish Fund Association's survey** on climate change approach and reporting

- We participated in the **TCFD Asset Manager and Asset Owner Climate-Related Reporting Survey**

- We contributed to a **study commissioned by CDP** to examine attitudes towards corporate environmental action and CDP. The study focuses on how Capital Markets stakeholders perceive and engage with environmental issues, the role of environmental reporting and, in particular, how CDP can better serve professionals like ourselves

- We completed a **survey by Funds Europe and CACEIS regarding Climate Risk & Asset Management**, about decision-making and governance around climate risks

- We were interviewed for a qualitative survey by **Silion on ESG trends for 2022**, main themes discussed were climate and energy security, ISSB, social risks, value chain issues, responsible divestment

- We participated in **Eurosif survey on climate-related data and indicators**, helping Eurosif to better understand which climate-related data are truly decision-useful for investors, and how such data and investors' climate strategies can be improved

- We responded to **CDP Capital Markets consultation** on how best to leverage the growing Forests & Water Security disclosure data into useful and beneficial tools and/or services for signatories

- We participated in a **research survey organised by the UNGC** to gain insights on perceptions about the UN Global Compact, in the UNGC-Accenture CEO Study on Sustainability as well as contributed to a UNGC study on how the Swedish corporate world assesses its work with sustainability and what the hinders and necessary building blocks are

- We contributed to the survey on the plans related to the future membership offering once the **Value Reporting Foundation** consolidates with the IFRS Foundation at the end of June 2022. The plan is to merge the SASB Alliance and the <IR> Business Network into a unified membership organization that, under the IFRS Foundation, will continue to provide access to the most relevant sustainability and corporate reporting resources

East Capital – Engagement Summary

East Capital engaged with

111

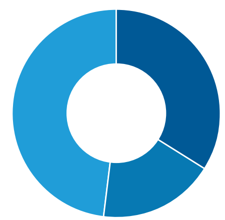
companies

Totalling

206

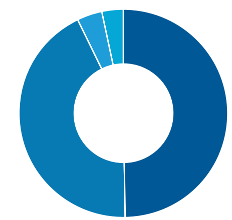
different engagements in 2022

Engagement type



Environmental	34%
Social	18%
Governance	48%

Region

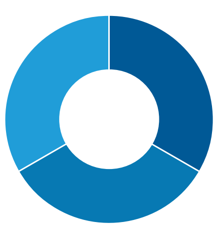


Europe	50%
Asia	43%
South America	4%
Africa	3%

Sector

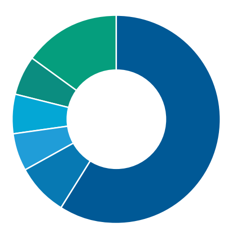
Financials	21%
Materials	16%
Consumer Staples	11%
Consumer Discretionary	10%
Information Technology	10%
Energy	9%
Communication Services	8%
Industrials	7%
Other	7%

Africa



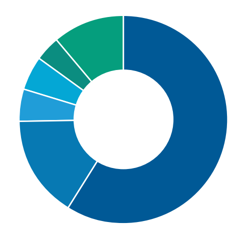
Egypt	33%
Morocco	33%
Nigeria	33%

Asia



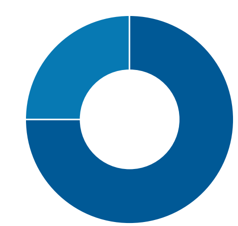
China	59%
South Korea	8%
India	6%
Philippines	6%
Vietnam	6%
Other	15%

Europe



Russia	59%
Poland	16%
Romania	5%
Turkey	5%
Estonia	4%
Other	11%

South America



Brazil	75%
Mexico	25%

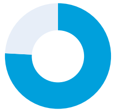
East Capital – Voting

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

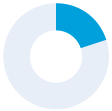
During 2022, we voted at 287 AGMs and/or EGMs in 165 different companies, corresponding to 76% of the market value of our assets under management, in securities carrying voting rights in our UCITS funds. Historically, East Capital has focused on voting in Russia, Turkey, the Balkans, Baltics and the 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.

> 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 287 AGMs and/or EGMs:

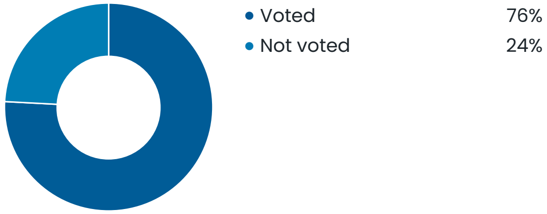


76%
of UCITS equity market value

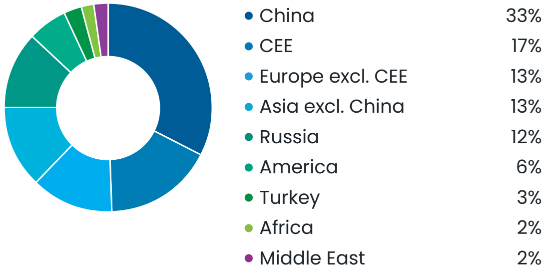


20%
Meetings with at least 1 vote Against, Withhold or Abstain

Percentage of total AUM voted



Geographical Breakdown



Fund	% of AUM voted 2022	% of votes with mgmt 2022	% of votes against mgmt 2022
East Capital Balkans	91%	100%	0%
East Capital China A-Shares	94%	84%	16%
East Capital Global Emerging Markets Sustainable	62%	90%	10%
East Capital Global Frontier Markets	77%	100%	0%
East Capital Multi-Strategy	63%	93%	7%
East Capital New Europe	95%	98%	2%

AUM including assets with voting rights

East Capital – Highlights




East Capital Best Corporate Governance Award 2022

Airtel Africa is one of Africa's leading telecom companies and a long-term holding in the East Capital Frontier Markets Fund. As such, it is a company with whom we have a long running dialogue on a range of material sustainability issues.

The company has made significant strides in the last year, publishing its first sustainability report, establishing a sustainability committee at board level and including sustainability KPIs for senior management. Furthermore, the company has introduced mandatory annual training on anti-bribery issues and improved the quality of the board by adding a well-qualified independent director, taking female board level representation to 31%.

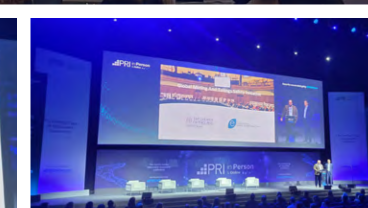
We believe the company is a good example that other companies in Africa and around the world can follow. It is worth noting that in the last 12 months the stock has returned 7% in USD terms, 30% above MSCI All-World Index.

[Watch the film on YouTube](https://www.youtube.com/watch?v=YYwXfb_d3BQ)[1]

Annika Poutianen, independent non-executive director of Airtel, is handed the East Capital Best Corporate Governance Award by Jacob Grapengiesser, CIO of East Capital at a ceremony in Stockholm during East Capital's 25 year anniversary celebration, hosted by Group CIO and Chairman Peter Elam Håkansson (right)

East Capital Chief Sustainability Officer speaker at the UN PRI in Person 2022

Focus of the discussion was to identify the hurdles and suggest ways to circumvent them. Emerging markets are more often than not places where you find the greatest needs for sustainable development funding and appealing opportunities to have an impact as an investor, by allocating capital to solution providers and working on improving practices at portfolio holding level.



1. https://www.youtube.com/watch?v=YYwXfb_d3BQ

Photo: Sara Rossi

East Capital engagement case study

KGHM – A State-owned copper producer representing an estimated 1.5% of Poland's total CO2 emissions

Eglé Fredriksson, Portfolio Manager at East Capital, visits one of KGHM's copper and salt mines in Polkiwice, Poland.

Background and issue

KGHM is one of the world's largest copper producers, with main operations in Poland, and it is also a holding in our Emerging Europe strategies. While copper is a vital metal for the energy transition, used for wind and solar technology, electric vehicles and infrastructure, its extraction implies many environmental risks and requires large amounts of energy. KGHM's carbon intensity is almost 2 times higher than industry's average due to the coal-based power supply, and its emissions represent around 1.5% of Poland's total CO2 emissions.

In 2021 the company announced climate targets: a commitment to achieve net zero by 2050 and a 30% reduction of scope 1 and 2 by 2030 (vs 2020). However, when analyzing KGHM's climate policy and standards, we identified several issues:

- Lack of details about pathways to net zero targets and key milestones
- No detailed targets are disclosed for emission reduction and structure for the KGHM group, targets are only available for the parent company
- The company is not a supporter of the Taskforce on Climate-Related Financial Disclosures (TCFD), hence lack of adequate disclosure
- No commitment to the Science Based Targets Initiative (SBTi)

Objective

We sent a detailed letter to the Supervisory Board of KGHM outlining our expectations. During 2022 we have been in discussions with the Management, as well as the Investor Relations department, and the Director responsible for renewables and nuclear investments.

Our proposal was that the company:

1. Adopts more ambitious goals for the entire KGHM group; i.e. the 55-60% reduction target for scope 1 and scope 2 emissions by 2030 and the net zero target by 2050 shall apply for the entire group and not just the parent company as this represents only 62% of consolidated EBITDA in 2022.
2. Implements TCFD reporting, which would be a positive reinforcement of KGHM's journey towards sustainability and serve as a guiding framework for how the group should provide information to all stakeholders on the risks and opportunities associated with climate change.
3. Joins the Science Based Targets Initiative and discloses official and specific targets regarding the transition to a zero-carbon economy. We believe committing to SBTi is the best way to build a climate-secure future for the KGHM Group in support of a more ambitious decarbonization roadmap.
4. Appoints or nominates a dedicated Supervisory Board Member and/ or Sustainability Committee responsible for ESG matters to show the company's firm stance and ambitions to become a sustainability leader.

Decarbonization strategy analysis

To check the feasibility of the decarbonization proposal we prepared an internaldetailed simulation of the potential decarbonization strategy for the company, with a potential 41% power decarbonization plan by 2027.

Key points:

- Internal green generation (solar, wind on-shore, wind off-shore and SMR) is expected to have positive IRR of 7% - 18% 20-year IRR
- 2022-27 transition capex would amount to EUR 320 million, resulting in increased Net debt/EBITDA of 0.8x in 2024, significantly less than 2x limit included in debt covenants; while 2028-30 capex of EUR 1.4 billion can be covered by increased free cash flow (FCF)
- KGHM being among the highest cash cost copper producers globally (4th quartile), high electricity price (+80% yoy in 2022) put significant pressure on margins as energy cost is 10% of sales and 13% of the EBITDA margin. Hence the positive economics of renewable energy (RES levelized cost below spot price) would result in cost savings of up to 8% of EBITDA and 20% of FCF by 2027, increasing to 17% of EBITDA by 2030, including the sale of excess green energy on the market.
- Long-term Net Zero goals of KGHM can be achieved by employing additional new technologies, such as energy efficiency measures and electrification of fleet.

On the basis of the assumptions above, we have concluded that it would be feasible for KGHM to significantly decarbonize its operations and even become a net electricity seller by 2030.

Results

We are fully aware that the process of decarbonization and meeting ambitious environmental targets takes time, and effects do not come overnight. However, we are encouraged by some demonstrated progress described below:

- The company committed to publicly disclose the emissions reduction targets for the entire KGHM Group by the end of 2024, and to calculate and publish Scope 3 emissions also for the whole group by mid-2024.
- The Company is developing solar power plant projects in areas owned by KGHM, such as at the Głogów Copper Smelter and Refinery, at the Cedynia Copper Wire Rod plant and the Obora Sandpit area, with similar projects also being prepared on other land owned by KGHM.
- The Company is also active on the M&A market for renewable energy sources and is engaged in several due diligence and valuation processes for assets that are available for purchase.
- KGHM has also taken steps leading to the investments in offshore wind farms – in 2022 KGHM signed a 50/50 partnership with TotalEnergies and placed bids for seven concessions on the Baltic Sea
- KGHM plans to build a small modular light water nuclear unit with a capacity of up to 500MW by 2030. In 2021, KGHM established a Nuclear Energy Department and in February 2022 a contract was signed with NuScale to commence work on implementing the SMR (small modular reactor) technology in Poland
- From the beginning of 2023, 100% of electricity in the Chilean Sierra Gorda mine is generated from renewables, which amounts to decarbonising 12% of the total group’s copper production.

We are looking forward to further dialogues with the company as it makes progress defining and implementing its decarbonization strategy. We appreciate the improvement and the direction the KGHM has taken, but we are also confident that commitment to more ambitious targets and faster progress is still possible if it is supported by a constructive approach from the company and a further push from shareholders.

KGHM is one of the largest blue chip stocks in Poland and among the largest copper and silver miners in the world, having vast replacement reserves in Poland and expanding internationally.

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.

In 2022, Espiria engaged with 50 companies, totalling 54 different engagements during the year.

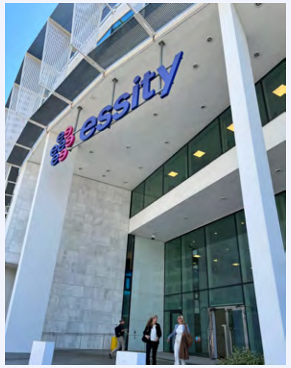
An example of a company engagement is the dialogue we have had with Essity, within the FSDA (Finance Sector Deforestation Action); Skandia and Boston Common are collaborating investors. Following extensive work mapping the gaps between the company's practices and the FSDA expectations and email correspondence with Essity's management we had an extensive discussion with the company in December. Topics covered were integration of forest related risks, human rights and indigenous people's rights, interests of forest smallholders, packaging manufactured from renewable or recycled material, indirect suppliers, supply chain management and ethical audit, disclosure. Both the company and the collaborating investors praised our diligent work in this engagement.

Engaged with
50
companies

Totalling
54
different engagements

Engagement type

Environmental	31%
Social	37%
Governance	32%



Huizi Zheng visiting Essity in Gothenburg

Espiria SASB-radar

We launched this campaign in 2022. The purpose is for us to drive better disclosure of material ESG factors by our portfolio holdings, which we lack, and improve our ability to assess their ESG practices and outcomes through our EQSS tool. We implemented a simple, efficient engagement methodology to encourage more of our holdings to report according to SASB standards, by mapping all holdings that are not SASB reporters, removing short-term holdings and small caps, resulting in the SASB Radar Company Target List consisting of 30 unique holdings. A standardised letter where we explained what the SASB standards are and why we encourage companies to use them in their disclosure was sent out with Espiria CIO and East Capital Group CSO signatures. The initial response was quite limited, but a follow-up and reminder 8 weeks later gave a higher response rate of 20%. We are an IFRS Alliance User member (formerly called SASB Alliance) and we strive to promote SASB standards towards issuers and other stakeholders.

Deforestation

We are leading the engagement with Essity within the FSDA (Finance Sector Deforestation Action); Skandia and Boston Common are collaborating investors.

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 35 companies during the year, representing 28% of AUM. 8% 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.

40% of meetings voted

28% of AUM voted

41% of equity voted

92% votes with management

8% votes against management

8% votes on shareholder proposals

112 votable meetings

35 companies voted in

Fund	Votable meetings	Meetings voted	Meetings voted (%)	AUM voted	AUM voted (%)	Equity voted	Equity voted (%)
Espiria 30	49	16	33%	150 045 322	10%	141 526 889	34%
Espiria 60	60	24	40%	1 365 651 966	70%	446 553 528	40%
Espiria 90	81	27	33%	925 894 276	62%	371 332 914	29%
Espiria Global	56	24	43%	337 690 424	70%	183 701 720	41%
Espiria SDG Solutions	53	31	58%	1 183 777 919	67%	891 612 186	52%

Espiria SDG Solutions

Portfolio’s environmental and social outcomes

At the end of 2022, the social and environmental outcomes of Espiria SDG Solutions’ investment portfolio were compiled for the first time since the strategy's launch in October 2021. The fund evaluates and measures how each investment contributes to the Sustainable Development Goals (SDGs) on a holding level. Besides, common indicators within each theme are also used to monitor the strategy's overall performance in achieving SDG targets. The following key performance indicators (KPIs) have been aggregated to demonstrate SDG Solutions' outcome performance as of the end of 2022. These indicators are relevant for multiple companies within the same theme, and the data used is solely based on self-reported information from the companies, i.e. we did not use any estimates.

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

Theme	SDG Target	Sustainability Indicators (Outcome KPIs)	Portfolio Performance (2022[1])
Sustainable Food & Ecosystem	2.3	Actively engaged farming hectares under management for yield enhancement	148 million hectares
Circular Economy	12.5	% of secondary (recycled) materials in inputs	55-100%
Health & Empowerment	1.4	• Number of people with access to ultra-micro and micro financing products • Number of women with access to ultra-micro and micro financing products	35 million 13.5 million
	3.8	Number of patients covered by access to medicine program	3.42 million
	4.5	Number of people reached with digital education access	118 million
Energy Transition	7.2	• Renewable energy capacity installed • Renewable energy capacity enabled • Renewable energy generated for use and sale	2,121 MW 104,733 MW 33,400 GWh
	7.3	CO2 equivalent avoided for customers	93 million tonnes
Connectivity & Infrastructure		• Number of fully electric vehicles sold • Avoided tailpipe CO2 equivalent	977,889 units 27.38 million tonnes

1. 2022 data is used whenever available, otherwise 2021 data was used in calculations.

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.

Engaged with
7
companies

Totalling
9
different engagements

7 of these engagements have been about corporate governance and specifically gender diversity as we see that some holdings would benefit from increased board or management diversity.

One such company is Bonesupport AB, an orthobiologics company and a long-term holding for Adrigo where we were instrumental in encouraging better gender diversity. We raised awareness about the advantages of having diverse teams and how this contributes to long-term profitability in multiple meetings and interactions with the company. Their Board of Directors which consisted of one woman and four men saw a second strong female candidate elected to the board at the AGM 2022. Additionally, as they are putting a lot of emphasis on diversity in their organisation, we encouraged them to incorporate numbers about the outcome of their DEI efforts into their sustainability report.

Case study

Bonesupport specializes in the development and manufacturing of synthetic bone graft with antibiotic eluding effect. Its product is unique and validated by several published studies. We discovered the company in 2017, for which we saw a major long-term potential, while the short-term outlook was more uncertain. While the stock was clearly undiscovered by most institutional investors, we built a first position. Key de-risking catalysts were a change in the management, with renewed focus on commercial development, a new go-to-market model in the US which got validated and an increased confidence in the European expansion. We kept emphasizing these issues and requests in our frequent discussions with CEO Emil Billbäck and other owners.

In 2022 our expectations were met, as the company reached sales in 2022 of SEK 320m with 90% gross margins and 65% incremental operating margins in the US. Bonesupport's management targets 40% sales growth 2023-2025. Cerament G, the antibiotic-eluding product, was approved in the US during the second quarter of 2022 with a commercial launch in late third quarter. The product pipeline remains neglected by the market, among other products for instance a bisphosphonate combination (preventing osteoporotic fractures).

Photo: SciePro(Shutterstock)

East Capital Real Estate

2022 in brief

- BREEAM certifications were received for four properties during 2022, leading to 76% of floor area certified of the focus portfolio (excluding funds in divestment phase) by year-end 2022. The Place Eleven office added during 2022 to East Capital Real Estate IV already has a BREEAM New Construction "Excellent" certificate.

- The portfolio coverage with BREEAM sustainability assessments increased further to 88% of floor area by June 2023 as one more property received their certification during May 2023 (the certification process is up to 12 months from initiation).

- Our proprietary ESG Scorecard analysis remains the key tool for assessing primarily sustainability risks but also the positive features of new investments. Existing ESG Scorecards were updated for all properties in the focus portfolio in 1Q 2022, as the scorecard analysis is used as a basis for property improvements on an annual basis.

- Our ESG-related lease clauses were completed: they are to be included in all new leases as well as lease amendments from September 2022.

- A second annual tenant satisfaction survey was carried out during autumn 2022, reaffirming the strong tenant relationship we have established with the tenants but also highlighting some improvement areas such as reviewing maintenance services offered in the building, and improving property access and mobility.

- Investigation into own renewable energy solutions continued across the property portfolios. These processes take time; however, one project is about to be completed during summer 2023.

- Energy performance certificates for the portfolio were reviewed during 2022 and calculated where it was previously not required by legislation. Next, focus is on improving energy performance of properties with lower energy ratings.

- The Supply Chain and Procurement policy was enforced from March 2022, defining essential guidelines for a code of conduct applying to service providers and contractors of East Capital Real Estate.

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

- East Capital Real Estate's ESG policy was updated; it now includes a description of how East Capital Real Estate applies the East Capital Group's ESG pillar framework as well as how we manage and address key environmental topics. The social topics are covered by group-wide policies.

- In ESG governance bi-monthly Steering Committee meetings guide and oversee the sustainability work. Task Force meetings are additionally summoned to inform and implement processes.

- An employee satisfaction survey was carried by an external partner, Great Place to Work, and the results demonstrated strong employee satisfaction within East Capital Real Estate.

- We continued to support to children and youth initiatives and promote active and healthy lifestyle of our employees.

The PRI is the largest global reporting project on responsible investment. East Capital Group is a signatory to the PRI since 2012. In the 2021 assessment, East Capital Group received 78 points out of 100 and 4* in the Real Estate module. We were praised for integrating ESG into our investment due diligence process by the proprietary ESG Scorecard. We also have a strong formal commitment to sustainability by participating in organizations and initiatives as well as having established processes for governing the sustainability work. At the time of responding to the questionnaire, we were lacking policies covering real estate specific sustainability themes but have since improved and added on to our policy framework. We have similarly improved in reporting as East Capital Group's sustainable investment report is thoroughly covering the tools and approach we use, and we nowadays also report on sustainability in our quarterly investor reporting. Results from the PRI also highlighted the need to engage further with tenants on ESG issues, which had also been identified in our own materiality analysis and has led to several developments in tenant engagement since 2021.

GRESB

In 2022, East Capital Real Estate completed its first official GRESB assessment round for Baltic Property Fund III and Real Estate IV. Both funds received 2 stars out of 5 and a Green Star recognition in their reporting. 23 points out of 30 in the Management Component illustrates several processes and policies in place and calls for further improvement, for example in putting in place an Environmental Management System. In the Performance Component, the funds received 60-70% of total available credits. We ranked better than peers in sensible energy and water use and good waste recycling ratio in most of our properties, however, have some way to go to best performance in setting targets and tenant engagement. Improvement areas were identified and worked on after the results were released and we can already report on several advancements in the 2022 assessment, due by 1 July 2023.

Sustainability assessments

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.

Meeting the requirements of a sustainability certification leads to improved building characteristics and better performance, which often translates into lower operational costs. We believe that the certifications provide more comparability and transparency between commercial properties. We also believe a certified property contributes to tenant well-being in the building and leads to increased occupancy rates. Going forward, sustainability assessments are expected to be an integral part of the commercial real estate field.

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.

Currently, 88% 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. 2/3 of the certified properties have already obtained a "Very Good" or "Excellent" certification.

During the BREEAM certification processes, we have implemented following improvements in our properties:

- Adding bicycle facilities such as bicycle racks, showers, changing rooms
- Adding electric vehicle charging stations to the parking lot
- Installing energy-efficient and customer-controlled lighting
- Installing water-efficient sanitary equipment
- Improving the indoor air quality by ventilation system improvements
- Conducting environmental assessments and studies, such as flooding risk assessments and environmental impact assessments

Selected BREEAM certified buildings

SEB head office

Tallinn, Estonia

BREEAM In-Use "Very Good" certification received in July 2022

East Capital Real Estate obtained the BREEAM In-Use sustainability certificate for the SEB's Tallinn head office in July 2022. The entire 24-storey building is leased to SEB Bank, who has been its tenant since the commissioning of the building in 1999. The property received highest scores in the Transport, Materials and Waste categories.

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. In summer 2023, solar panels were installed on the roof of Zalgirio 112 office building to generate electricity for the common areas for the building.

Photos: Kaupo Kalda, Jevgenija Zukova-Cernova

Place Eleven office

Riga, Latvia

Acquired in October 2022, holding a BREEAM New Construction "Excellent" certification

Place Eleven is one of Riga's most sustainable buildings with a BREEAM New Construction "Excellent" certification and an A+ class energy certificate. High energy efficiency and modern attributes make Place Eleven both cost effective and attractive for tenants.

Lidostas Logistics Park

Riga, Latvia

BREEAM In-Use "Very Good" certification received in October 2022

Lidostas Parks is a modern complex which is used for warehouse, logistics and production purpose located near the Riga Airport. Largest tenants of the property are Latvia MGI Tech, ELKO Group and Printful Latvia. The property received highest ratings in the resilience, resources and transport categories.

Pigu Distribution Centre

Vilnius, Lithuania

BREEAM In-Use "Very Good" certification received in July 2022

In July 2022, East Capital Real Estate obtained a BREEAM International In-Use sustainability certificate for the Pigu distribution centre property at a level of "Very Good". Completion of the certification confirms successful conversion and regeneration of this asset according to high modern environmental and energy efficiency standards. The asset is fully leased to the regional e-commerce leader PIGU and acts as its headquarters and main distribution center.

Photos: Indriķis Stūrmanis, Vilnis Slūka, Donatas Petkus

East Capital Group

Since 1997, East Capital has invested in the world's most dynamic markets. This year East Capital Group celebrates 25 years of practicing a robust investment philosophy, based on fundamental analysis, an on-the-ground approach, and active ownership. This anniversary marks an important milestone in East Capital's journey and continued commitment to working for positive change in global markets and sectors.

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

East Capital Group works for positive change

The early years of East Capital were about identifying trends connected to the transition from planned economies to consumer-driven markets. Today, East Capital Group works with and for the transition to a sustainable world, as global investors with an active and long-term ownership in hundreds of companies around the globe.

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

Even though the world has changed in many ways in the past 25 years, East Capital Group still adheres to the same principle of having eyes and ears on-the-ground. Whether through East Capital's Emerging and Frontier Markets strategies, Espiria's global strategies, the Nordic small and midcap hedge fund Adrigo or East Capital Real Estate funds in Central and Eastern Europe, it is the same principle that applies across all East Capital Group funds and asset classes.

25 years of experience – now the journey continues

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

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

> As investors, we learned early on to scrutinize how companies were governed and how they managed their environmental and social factors. As we developed and rolled out our proprietary analysis tools, considering risk scenarios and ESG factors became an integrated part of the investment process, and the basis of our active ownership agenda

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25 YEARS WORKING FOR POSITIVE CHANGE