

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) RELATED DISCLOSURES OF UAB “I ASSET MANAGEMENT”

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This disclosure is made to comply with the requirements of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (hereinafter – **SFDR**).

1. INTEGRATION OF SUSTAINABILITY RISKS INTO INVESTMENT DECISION MAKING PROCESS

In accordance with Article 3 of SFDR, this disclosure provides information on UAB “I asset management” (hereinafter – **IAM**) policy on the integration of sustainability risks in its investment decision-making process.

1.1. Sustainability risk

Sustainability risk means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment. IAM is committed to putting sustainability as one of the most important component of its investment process over the time to reflect its support for actions aimed at climate issues and changing market requirements. The relevance, severity, materiality and time horizon of ESG factors can differ significantly by the alternative investment fund (**AIF**). Sustainability risk can occur through different risk types, including standard risks such as market, liquidity, credit, etc. Sustainability risks may impact the investee company’s/target’s capacity to generate enough income to cover its obligations or may interrupt its ability to grow and/or perform daily operations.

We consider sustainability risks can be classified into four key categories of risks:

- (a) **transitional risk**, e.g. decreased demand for carbon-intensive products and services or increased production costs due to changing input prices, changes in valuations due to stricter policy changes, regulation, increased taxation and other measures aiming at reducing emissions;
- (b) **physical climate risk** e.g. decreased production capacity due to supply chain perturbations, lower sales due to demand shocks or higher operating or capital costs, reduced collateral due to physical risks. Physical risk which is the highest and most material can be split into two categories: (a) *acute* – event-driven physical risks, including the increased severity of extreme weather events such as cyclones, hurricanes or floods or (b) *chronic* – longer-term shifts in climate patterns.
- (c) **policy and legal risks** associated with changing climate-change regulation. Consequently, sustainability risk factors may have a material impact on investment target held by an AIF, it may increase volatility and may result in a decrease or complete loss of value;
- (d) **stakeholder management risk** – broad range of positive and negative factors, traditionally considered non-financial that can impact the company’s operational effectiveness and resilience as well as its public perception, and social license to operate. For example, labour rights and community relations.

Examples of sustainability risks considered by IAM depending on the strategy of the AIF include:

Environmental risks

- **weather events**: the risk of physical damage to company’s assets that arises from weather events such as wildfires, storms or floods. Such natural phenomenon could lead to business disruption and losses, and reduce the value of financial instruments related to the affected company;

- **long-term shifts in climate:** the risk of physical damage to company's assets that arises from longer-term shifts in the climate such as increasing mean temperatures and rising sea levels. Valuations of residential and commercial property in vulnerable areas may be reduced as a result;
- **regulatory/policy changes:** the risk of policy changes which increase the cost of doing business. Environmental regulations could demand increased standards of operating which are costly to implement or could introduce new taxation laws which decrease profitability;
- **consumer behaviour:** the risk of behavioural change in consumers following the emergence of disruptive technologies and price-competitive greener solutions which shift sentiment and societal preferences;
- **reputational damage:** the risk of reputational damage following an event that negatively impacts the environment (e.g. water pollution) and leads to mass selling of investments related to the issuer. There could also be regulatory fines as a result of the event which further detracts from the issuer's assets.

Social risks

- **lack of diversity:** the risk of lack of diversity and inclusion representation across senior management and boards which leads to a narrow corporate strategy and weaker long-term performance;
- **lack of engagement:** the risk of failing to engage and retain the best people, thereby reducing a key source of competitive advantage;
- **consumer preferences towards social issues:** the risk of changing consumer preferences following increased awareness of social issues, such as labour practices, environmental impacts and community relations;
- **reputational damage and fines:** the risk of reputational damage following an event that negatively impacts customers and may also lead to regulatory fines. These events could include areas such as product safety, customer welfare and data security.

Governance risks

- **board independence:** the risk of weak senior management structure and lack of board independence. This can lead to sub-optimal oversight, corporate strategy and risk management, which can be amplified following critical incidents or in periods of stress;
- **compliance with requirements:** the risk of reputational damage after failing to adhere to regulatory requirements, tax requirements or standard accounting practices, in addition to any related financial penalties;
- **remuneration:** the risk that weak remuneration structures may contribute to inappropriate risk taking;
- **reporting and transparency:** the risk of poor reporting and transparency or low business ethics and conduct which could mask indicators of the above-mentioned risks.

1.2. Integration of sustainability risks into decision making process

IAM ESG Policy is designed to **identify, manage and monitor** within investment decision making process ESG events that are considered to be most relevant to the AIFs managed by IAM and that could have a material negative impact on the value of the investment targets.

Where IAM is not comfortable with the level of risk, including sustainability risk, posed by an investment, relevant steps shall be taken to mitigate and manage that risk which may include divestment from a particular investment.

Sustainability risks shall be identified, managed and monitored for each AIF under IAM's management in accordance with the requirements of Risk Management Policy and the ESG Policy also taking into account the nature of the investment strategy (active, passive, etc.). Sustainability risks shall be identified and described, if any, in the Prospectus of each AIF under management, irrespective of whether it is qualified as Taxonomy Art

7, SFDR Art 8 or SFDR Art 9 AIF. In addition, identification process shall follow the determination of potential sustainability risk impact on financial returns and shall be disclosed in the Prospectus of each AIF.

Identification process:

- (a) *General:* sustainability risk shall be identified and assessed with regards to each AIF as part of the risk management process. Assessment of these risks is done relative to their materiality (i.e. likelihood of impacting returns of the investment) and alongside with other risk assessments (e.g. liquidity, credit, etc.);
- (b) *Data and tools:* sustainability risk assessment and identification are specific to the asset class and to the objectives of the AIF. Managers of AIF may access material sustainability insights through analysis from internal research teams coupled with third-party data. This data ranges from broad ESG scores and rankings to indicators of physical climate risk, reputational risk or employee sentiment;
- (c) *Disclosures:* the prospectus of each AIF shall have a sustainability risk section and provide the description of key sustainability risks or the explanation of their absence where relevant. Other AIF documents shall also include sustainability risk description in accordance with the legal requirements, where relevant;
- (d) *Simplified process:* sustainability risks for Taxonomy Art 7 AIFs are identified and managed, if any, on a simplified basis with no specific methodology and tools that may be applicable to SFDR Art. 8 and SFDR Art. 9 AIF's.

Management/mitigation: Management and mitigation of risks may vary depending on the strategy of each AIF (active, real estate, etc.). For passive strategies IAM shall normally apply negative screening criteria.

Monitoring: sustainability risks and imposed KRIs (if any) shall be reviewed periodically at least once per year in line with the Risk Management Policy requirements.

2. INTEGRATION OF SUSTAINABILITY RISKS INTO REMUNERATION POLICY

In accordance with Article 5 of SFDR this disclosure provides information on IAM policy on the integration of sustainability risks into remuneration policy. We explain that variable compensation shall be reviewed upon maturity of the pay-out and shall be adjusted taken into account the overall results, determined level of risks of AIF and mistakes made by a particular receiving person, including, but not limited to the consideration of sustainability risks that may be determined for a specific AIF.

3. STATEMENT ON DUE DILIGENCE POLICIES WITH RESPECT TO PRINCIPLE ADVERSE IMPACT (PAI)

In accordance with Article 4(1) of SFDR this disclosure provides information on IAM policy on consideration of principles adverse impact (PAI) of investment decisions. In general, IAM considers PAI for those AIFs which are classified as either SFDR Art. 8 or SFDR Art. 9 AIFs.

Due diligence policy with respect to PAIs

Identification and prioritization of PAIs and indicators

- (a) For all AIFs where IAM considers PAIs (notably SFDR Art. 8 or SFDR Art. 9 AIFs), IAM shall seek to identify PAIs as per the SFDR RTS list of mandatory and non-mandatory indicators and shall seek to collect information on a best-effort basis with regards to identified PAIs;
- (b) For non-ESG AIFs (notably Taxonomy Art. 7 AIFs) IAM may identify PAIs but is not necessarily identifying SFDR mandatory and non-mandatory PAIs as per the SFDR RTS.

Monitoring and mitigation of PAIs for SFDR Art. 8 or SFDR Art. 9 AIFs

- (a) *Frequency*: the monitoring of PAIs is completed on an ongoing basis, however at least once year and is a fundamental part of the investment process. This involves identifying and monitoring material or likely to be material PAIs across holdings of AIFs.
- (b) *External assistance*: in addition, IAM may instruct an external provider to perform a regular review of investee companies and targets we invest in against the ten principles outlined by the UN Global Compact and related standards, including the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.
- (c) *Monitoring outcomes and decisions*: where monitoring highlights that a holding may not be operating in a responsible manner, IAM shall research these concerns and clearly justify why it is comfortable to continue investing in the company. To the extent possible, IAM and AIF managers shall engage regularly with companies on material challenges, to address identified concerns and possible means of mitigation of PAIs. If there are serious concerns that a company is persistently failing to tackle these issues and acknowledge the wider impact of their actions, IAM may consider divesting.

Engagement policies

IAM understands its ability to create positive change by being active owners, which involves monitoring the investments and identifying ESG issues, strategic problems or opportunities for improvement, engaging with management teams or investment/property managers, voting at general meetings.

The monitoring and engagement process shall include where relevant:

- (a) voting policy: detailed in the Investment Decision Making Policy;
- (b) discussions with management with the aim to pursue ESG matters: depends on the strategy of each AIF;
- (c) communication with other stakeholders and collaborations where feasible: monitor emerging issues, regulatory developments, concerns of key stakeholders, as well as best practices relating to ESG management.

Adherence to responsible business conduct codes and internationally recognised standards

IAM shall consider where appropriate and reasonable to guide its activities in relation to ESG taking into consideration established international standards and practices. The most important ones IAM is considering are the following:

UN Global Compact Principles	https://www.unglobalcompact.org/what-is-gc/mission/principles
UN Guiding Principles on Business and Human Rights	GuidingPrinciplesBusinessHR_EN.pdf (ohchr.org)