

INTEGRATION OF SUSTAINABILITY RISK IN INVESTMENT DECISION-MAKING PROCESS

I. Introduction

According to Article 3 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 (“**SFDR**”) each financial market participant shall publish on their websites information about their policies on the integration of sustainability risks in their investment decision-making process.

Given that, the Usaldusfond BaltCap Infrastructure Fund (“**Fund**”) provides herein the main information to its investors on how the Fund has incorporated environmental, social and governance (“**ESG**”) considerations into Fund’s investment decision-making process.

This information concerning the integration of sustainability risk in investment decision-making process shall be published on the website <https://www.baltcap.com/our-strategy/infrastructure/>

The information provided herein shall be reviewed and, if necessary, updated, following the amendments to the Fund’s investment strategy and/or Fund’s procedures or arrangements, governing Fund’s investment decision-making process.

II. Implemented ESG practices

Proper ESG practices contribute to long-term sustainability and performance of the portfolio companies and/or infrastructure objects the Fund invests. Fund’s investment philosophy is based on value creation delivered through active ownership. From the beginning of its activities the Fund has followed ESG criteria by incorporating the latter to the Fund’s investment decision-making process.

Fund’s primary focus is providing development capital for transport, energy, and energy efficiency infrastructure projects in the Baltics. Infrastructure assets play a critical role in the sustainable operations of communities, providing safe, clean, reliable, affordable and essential services that people depend upon in their daily lives, therefore, infrastructure development is one of the key priority areas for the region to improve its competitiveness and independence.

Fund’s investment strategy is based on the highest ESG standards and climate change mitigation criteria.

When making investment decisions, the Fund commits to follow the United Nations Principles for Responsible Investment, which, *inter alia*, requires to incorporate ESG issues into investment analysis and decision-making processes, as well as to be active investment objects owners, by using of rights and position of ownership to influence the activities or behaviour of investee companies. Active governance enables effective engagement with, and oversight of, the risks and opportunities that can affect Fund’s portfolio company over the long run and significantly impact its ability to achieve its long-term objectives.

III. ESG integration in Fund’s investment decision-making process

The Fund targets investments which contribute to a low-carbon economy and facilitate the mitigation of climate change and/or which targets certain social factors.

The Fund, during its investment decision-making process, considers the following environmental topics (non-exhaustive list):

- carbon emission and its environmental impact (e.g. fossil fuel power generation projects with CO₂ emissions of more than of 550 gCO₂/kWh, as well as oil pipelines, refineries, petroleum exploration/production and underground gas storage are excluded);
- energy consumption and resource efficiency (e.g. the Fund selects the project to invest where the investment is motivated by energy efficiency, whereas the motivation can be demonstrated in different ways depending on the type of projects, and among others with a consistency with relevant legal and regulatory requirements, such as the Energy Efficiency Directive 2012/27/EU and the Energy Performance of Buildings Directive 2010/31/EU);

- usage of alternate energy sources (e.g. by assessing the potential investment CapEx and OpEx, associated with sustainable assets);
- biodiversity (e.g. with regard to Investments subject to the requirements of the Habitats Directive 92/43/EEC and/or Birds Directive 79/409/EEC the Fund assess potential investment and monitor for its impact on habitats and biodiversity and nearby sites of nature conservation against an established baseline (for wind energy projects, notably local and migrating bats and birds, and for hydropower projects, notably local and migrating aquatic species and minimal ecological flow).

The Fund, during its investment decision-making process, considers the following social topics (non-exhaustive list) concerning investments in education:

- whether the potential investment demonstrates consistency with public sector health and education policies and is economically efficient in the use of public funds. If possible, the Fund uses economic indicators on a case-by-case basis to demonstrate the social impacts arising from the potential investment;
- construction, rehabilitation, extension and extraordinary maintenance of school facilities (e.g., revitalise existing schools, increase the energy class of the existing school buildings as well as to expand and modernize the sport facilities);
- whether the target investment will create an additional capacity for serving pupils in the neighbouring districts, allowing local children to avoid daily commuting to faraway schools;
- whether the target investment will benefit are/will be well-suited for education, by considering whether the target investment will have proper classrooms and laboratories, a sports field, convenient recreation, etc.

Research & investment management	Appropriate investment due diligence	<p>Fund views ESG as an important element in forward-looking strategic positioning rather than a backward-looking compliance consideration. Therefore, <i>ex-ante</i> screening is an important tool for identifying and understanding different ESG related risks.</p> <p>Through appropriate due diligence procedures, it is ensured that, at the time of the investment, each Fund's investment complies with applicable national laws and European Union environmental and social legislation.</p>
	ESG data assessment	<p>For example, Fund's energy efficiency projects should be justified on the basis of an economic cost-benefit analysis, for which in general the net present value of the energy saved including externalities is greater than the net present cost of the project over its life considering 5% real discount rate in the European Union.</p>
	Consideration at portfolio management / investment decision level	<p>Fund's investment policies and investment arrangements specifically preclude the Fund from providing finance to businesses in industries considered environmentally or socially harmful, such as arms and ammunition or tobacco, or activities involving harmful or exploitative forms or forced labour /harmful child labour, etc. (for a more complete list, please refer to the exclusion part below).</p>

<p>Documentation</p>	<p>Documentation of proprietary data and research methods</p>	<p>Fund identifies, describes, and assesses direct, indirect and induced environmental and social impacts, and keep records of such assessment. The aforementioned information is provided to the investment committee of the Fund, to take the investment decision.</p> <p>The Fund and/or its portfolio companies keep copies of the relevant documents collected during the due diligence process, among others, concerning environmental and/or social matters regarding the investments (including the documentation utilised for the due diligence process).</p>
<p>Monitoring</p>	<p>Risk management and oversight</p>	<p>Fund has appointed an Environmental and Social Manager for ensuring, among other things, proper Fund operation and maintenance of the environmental and social management system.</p> <p>After initial investment, the Fund maintains regular dialogue with its portfolio companies through active ownership, as well as through annual assessment of the Fund's portfolio companies ESG performance. During such assessment, the Fund's portfolio companies are assessed in the following areas:</p> <ul style="list-style-type: none"> i) workplace; ii) environment; iii) product, services and markets; iv) governance; v) community; vi) ESG leadership; vii) overall ESG index. <p>Also, each of the Fund's portfolio companies pledges to comply with certain ESG obligations on an on-going basis and to notify to the Fund any breaches thereof.</p>
	<p>Ongoing monitoring and maintenance</p>	

Exclusion

The Fund during its investment decision-making process applies overall restrictions across the Fund's investment activities. This covers certain activities restricted from the investment areas to address sustainability risks and for future purposes adverse sustainability impacts. Some examples of excluded activities (non-exhaustive list):

1. production or activities involving harmful or exploitative forms or forced labour/harmful child labour;
2. production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements;
3. any business relating to pornography or prostitution;
4. production or trade in wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species or Wild Fauna and Flora (CITES);
5. production or use of or trade in hazardous materials such as radioactive materials, unbounded asbestos fibres and products containing PCBs;

6. cross-border trade in waste and waste products unless compliant to the Basel Convention and the underlying regulations;
7. production, use of or trade in pharmaceuticals, pesticides/herbicides, chemicals, ozone depleting substances and other hazardous substances subject to international phase-outs or bans;
8. destruction of Critical Habitat;
9. commercial concessions over, and logging on tropical natural forest; conversion of natural forests into a plantation.

IV. Legal disclaimer

The only objective for provision of information herein is to disclose the necessary information according to Article 3 of the SFDR.

This information document has been prepared on 10 March 2021. The material listed herein is valid as of the date noted, and is for informational purposes only, and does not intend to address the financial objectives, situation, or specific needs of any individual investor. Any information is for illustrative purposes only and is not intended to serve as investment advice or solicitation.