

TRANSPARENCY OF THE PROMOTION OF ENVIRONMENTAL AND SOCIAL CHARACTERISTICS

On 27 November 2019, the 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**”) has been adopted. The SFDR seeks to establish a pan-European framework to facilitate sustainable investment and provides for a harmonized approach regarding sustainability-related disclosures to investors within the European Economic Area's financial services sector.

According to Article 10 of the SFDR, financial market participants shall publish on their websites for each financial product concerning the promotion of environmental and social characteristics. Therefore, in this document the information is provided regarding promotion of environmental and social characteristics in the investments of Usaldusfond BaltCap Infrastructure Fund (“**Fund**”).

Since as of adoption hereof, the draft regulatory technical standards specifying the details of the content of the information referred to in Article 10 of the SFDR has not yet been adopted, information provided herein will be updated after the European Commission adopts the respective delegated acts (if needed).

This information document has been prepared on 10 March 2021. This information document shall be reviewed and, if deemed needed, updated:

- (i) at least annually;
- (ii) following the amendment to Fund's investment strategy (if any); and
- (iii) after relevant delegated acts, governing disclosures under the SFDR, as well as Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 and its relevant delegated acts, will come into force,

by the Fund's general partner, and, if deemed necessary, updated accordingly.

This information document and all its subsequent amendments shall be published on the website <https://www.baltcap.com/our-strategy/infrastructure/>.

1. Summary

Fund's investment philosophy is based on value creation delivered through active ownership. The Fund focuses on delivering long-term revenue, profit growth and building businesses through acquisition.

The Fund also focuses on 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 which 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.

The Fund follows the UN Principles for Responsible Investments (PRI) and integrates environment, social and governance (“**ESG**”) factors into the Fund's investment analysis, decision-making processes, and active ownership practices.

Fund's approach to ESG integration is based on the following steps:

- a) **identify** – the first step of ESG integration is identifying material ESG issues at the Fund's prospective portfolio company and/or other investment object;
- b) **assess** – the Fund evaluates its prospective portfolio company and/or investment object performance on material ESG issues, with a focus on the environmental issues;
- c) **integrate** – the Fund incorporates these ESG analyses into the investment cases so that they can be considered throughout the investment decision-making process, and later on, through a whole lifecycle of the investment.

The Fund's focuses its investment activities on the economic and social infrastructure. In order to attain sustainable investment objective, the Fund periodically monitors and calculates reduction of greenhouse gas

(CO₂) emissions of the Fund's portfolio companies and investment objects. The main parameter to calculate the decarbonisation trajectory is the greenhouse gas (CO₂) intensity.

2. No significant harm to the sustainable investment objective

Investments of the Fund do not significantly harm any of the sustainable investment objectives. The principle of 'do no significant harm' is in place for the Fund's investments to commit that neither the environmental nor the social sustainable objectives are significantly harmed with the Fund's investments.

Fund's sustainable investment is aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights.

3. Sustainable investment objective of the Fund

The Fund's eligible investment should meet minimum thresholds for economic performance and financial profitability, the level and nature of which will vary from sector to sector and between technologies in different stages of development.

The Fund keeps its focus on environmental characteristics. When adopting investment decision, the Fund considers the following criteria:

- a) climate change mitigation;
- b) climate change adaptation;
- c) pollution prevention and control;
- d) protection and restoration of biodiversity and ecosystems; and
- e) other relevant criteria.

Below are provided some specific criteria which prospective investments of the Fund must comply with. Please note that this is not an exhaustive list and the Fund, depending on the specific prospective investment, usually considers more relevant criteria for that specific prospective investment.

Renewable energy

All the Fund's eligible renewable energy investments must be based on resource modelling (e.g., wind, solar radiation, geothermal, etc.), implementation and operation conducted by qualified specialists with proven experience. Where relevant, the Fund's eligible investments shall also demonstrate adequate electricity transmission capacity.

When assessing the renewable energy investments, the Fund applies certain criteria, specific to the relevant renewable energy sub-sector (e.g., only IEC-Type certified offshore wind turbines are acceptable for offshore wind projects; the Fund applies certain economic criteria (certain OPEX and CAPEX thresholds), etc.).

Energy efficiency

The Fund may also invest in projects where the investment is motivated by energy efficiency. This motivation can be demonstrated in different ways depending on the type of projects and among others the following: (i) consistency with the recommendation of an energy audit, and/or (ii) consistency with relevant legal and regulatory requirements and in particular the Energy Efficiency Directive 2012/27/EU and the Energy Performance of Buildings Directive 2010/31/EU.

For example, when the Fund invests in energy efficiency projects in industrial facilities and small and medium enterprises, all investments, *inter alia*, will need to be identified by an energy audit according to the minimum requirements established by EN 16247 (or equivalent) audit standard.

Social

The Fund, during its investment decision-making process, considers 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.

4. Investment strategy

Without prejudice to the Fund's investment restrictions, procedures and guidelines, the objective of the Fund is to achieve long term capital appreciation, consistent with a diversified, risk-managed investment portfolio.

The investment strategy of the Fund is to invest in long term infrastructure assets and hold it throughout their useful life. The Fund's focus its investment activity on the economic and social infrastructure, public private partnerships ("PPP") and low risk energy projects around the Baltics.

The Fund targets both greenfield and brownfield investments in a broad range of infrastructure sectors (such as PPP of road reconstructions, concessions of ports and airports, social infrastructure developments as well as expansion of generation capacity of electricity, primarily in renewable energy generation based on local energy sources such as biomass, waste, biogas solar and wind, and develop investments in energy efficiency in buildings, street lighting and networks) to seek low risk assets that exhibit some or all of the following characteristics:

- a) the provision of essential services to the community;
- b) long term ownership of infrastructure asset base;
- c) a strategic competitive advantage due to high barriers to entry;
- d) a dominant market position and economies of scale;
- e) sustainable and predictable cash flows over the long term;
- f) potential for long term capital growth;
- g) an experienced and capable operational management team;
- h) low demand risk, long term agreements or revenues that are governed by regulatory regimes;
- i) the potential to increase returns to equity by optimizing the capital structure.

5. Proportion of investments

This part will be updated and the information concerning proportions of Fund's investments promoting environment and social characteristics will be disclosed herein after the Fund will prepare its annual report in accordance with Article 11 of the SFDR, and later on, if deemed needed, after the Taxonomy regulation, its relevant delegated acts, as well as relevant SFDR delegated acts will come into force. The first annual report in accordance with the SFDR requirements will be provided to the Fund's investors together with an annual Fund's report for year 2022.

6. Monitoring of sustainable investment objective

Technical assessment

The Fund usually monitors the following Fund's portfolio companies' / investment objects' indicators:

- a) CO₂ emission reduction;
- b) Fossil Energy consumption;
- c) Electricity consumption;
- d) Waste production;
- e) Waste re-circulated;
- f) Renewable energy pros/cons;
- g) SLCP (Short Lived Climate Pollutants).

The Fund monitors yearly improvement of the aforementioned indicators and, on a case-by case basis, other relevant indicators.

The indicators above are examples only and may vary from the Fund’s investment to investment depending on type of business.

Questionnaire

To ensure that the Fund’s ESG principles are fulfilled, the Fund’ investment advisor (BaltCap, AS) monitors portfolio companies’ environmental and social performance through ESG survey (for more information concerning the survey please see part 7 thereof). The main focus of the survey is to provide an ESG performance overview that meets the expectations of the Fund’s investors.

7. Methodologies

Technical assessment

When assessing whether the prospective Fund’s investments are eligible, considering the Fund’s prospective investment characteristics, the Fund uses the following methodologies:

- a) energy audit carried out in line with EN 16247 (or another equivalent standard) audit standard;
- b) energy management system certified according to ISO 50001, etc.

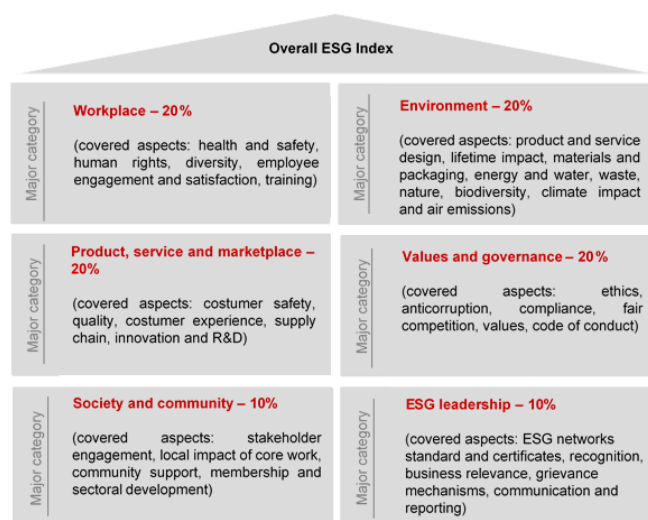
When monitoring the Fund’s sustainable investment objective (calculating greenhouse gas (CO₂)), the Fund uses the following methodologies:

- a) calculation of saved greenhouse gas (CO₂) (considering change of fuel balance (Base scenario – production of energy in capacity fired by biomass (renewable energy sources (RES)). Counterfactual scenario – production of energy fired by natural gas in existing gas CHPs (fossil fuel));
- b) consumption of natural gas production of energy.

Questionnaire

Investment advisor of the Fund (BaltCap, AS) prepares annual ESG questionnaire, which allows comparing Fund’s portfolio companies management approach of different ESG aspects in a universal way in different Fund’s portfolio companies (please note that this survey also covers other relevant investment advisor investment funds).

The survey enables to measure the Fund’s portfolio companies progress and present the results for investors. The questionnaire consists of five major categories, plus ESG leadership as an overall category. As the number of judged questions is different in each part, each category is given a fixed percentage of the result – workplace, environment, marketplace and governance as the most important categories receive 20% each, while community and ESG leadership receive 10% each.



Each category is divided into ESG aspects to cover the major ESG topics that should be relevant among all Fund's portfolio companies despite their field of activity. Every aspect consists of four different types of questions addressing:

- a) system of the current Fund's portfolio company management approach;
- b) a self-evaluation of the actual adherence to the Fund's portfolio company management approach,
- c) the level of practical implementation in the Fund's portfolio company, and
- d) quantitative performance data of some major measures within the aspect.

Answers on the management approach, self-assessment, and practical implementation are judged and scored later by neutral sustainability experts, based on simple methodology – more conscious, systematic, and strategic practices receive a higher score.

8. Data sources and processing

The Fund combines the data it gathers from external providers with the expertise and knowledge of Fund's and/or Fund's general partner and/or Fund's investment advisor employees and/or external service providers, to formulate a well-balanced investment view.

The Fund assesses and monitors development impacts of its investments throughout the investment life cycle. The Fund periodically monitors and calculates the Fund's portfolio companies' and investment objects' greenhouse gas (CO₂) emissions reduction. The main parameter to calculate the decarbonisation trajectory is the greenhouse gas (CO₂) intensity. The basis for development impact assessments is sector specific.

9. Limitations to methodologies and data

The Fund do not apply limitations to methodologies and data, referred in paragraph 8 herein.

10. Due diligence

The Fund views ESG as an important element in forward-looking strategic positioning rather than a backward-looking compliance consideration. Therefore, *ex-ante* screening is an important tool for identifying and understanding different ESG related risks. 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.

The Fund ensures that an assessment is carried out with regard to each prospective investment in order for the Fund to come to the reasoned conclusion that the environmental and social impacts have been identified and duly addressed and the prospective investment is considered acceptable (i.e. that each prospective investment is designed so as to avoid and, if this is not reasonably possible, reduce any significant adverse impact, and any significant residual negative impacts have been, in order of preference, mitigated, compensated or offset), so that each Fund's investments complies, or, by taking certain appropriate measures will comply, with national laws and regulations and any applicable European Union directives on environmental and social matters.

During the due diligence procedure, the Fund prepares due diligence reports and collects other informational materials from or in relation to the prospective investments.

The Fund also obtains a contractual obligation from each Fund's portfolio company to comply with these obligations on an on-going basis and to notify to the Fund any breaches thereof.

11. Engagement policies

The Fund and its portfolio companies are committed to the Code of Responsible Behaviour of the investment advisor of the Fund (BaltCap, AS) ("**Code**"). The Code defines values and principles which the Fund and its portfolio companies commit to follow in daily operations. The Code embraces five aspects of responsible behaviour:

- a) be honest and ethical;

- b) keep your house in order and apply good governance principles;
- c) care about people;
- d) encourage collaboration for a more advanced society;
- e) respect the natural environment.

12. Attainment of sustainable investment objective

No index is designated as a reference benchmark for the purpose of attaining the sustainable investment objective, as required under Article 9 (1) of the SFDR. Therefore, information on how the Fund attains its sustainable investment objective is provided herein.

The Fund, to attain the sustainable investment objective, periodically monitors and calculates the reduction of greenhouse gas (CO₂) emissions of the portfolio companies/investment objects of the Fund. The main parameter to calculate the decarbonisation trajectory is the greenhouse gas (CO₂) intensity since this parameter ensures comparability across sectors and is not biased for or against a particular sector.

The Fund also reports once per annum on climate specific indicators change to its investors.