

SUSTAINABILITY RISK ASSESSMENT POLICY

I. GENERAL PROVISIONS

1. This Sustainability Risk Assessment Policy (the '**Policy**') sets out how sustainability risks are integrated into the investment decision-making process of UAB CAPITALICA ASSET MANAGEMENT (the '**Management Company**').
2. The general rules and principles for the decision-making and execution of investment decisions are established in the Management Company's Rules for the organization of activities and the performance of essential functions and in the Investment Decision Making Policy.
3. The Policy is aimed at defining the integration of sustainability risks, the consideration of negative impacts on sustainability, sustainable investment objectives or the promotion of environmental or social characteristics in investment decision-making processes.
4. The terms used in the Policy have the meanings defined below:
 - 4.1. **CEO** means the sole-person governance body of the Management Company (Head of Administration);
 - 4.2. **ESG** means Environmental, Social, and Governance Criteria;
 - 4.3. **CIU** means a Management Company-managed collective investment undertaking for informed investors;
 - 4.4. **RE** means real estate assets;
 - 4.5. **Sustainable investment** means an investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators on the use of energy, renewable energy, raw materials, water and land, on the production of waste, and greenhouse gas emissions, or on its impact on biodiversity and the circular economy, or an investment in an economic activity that contributes to a social objective, in particular, an investment that contributes to tackling inequality or that fosters social cohesion, social integration and labour relations, or an investment in human capital or economically or socially disadvantaged communities, provided that such investments do not significantly harm any of those objectives and that the investee companies follow good governance practices, in particular with respect to sound management structures, employee relations, remuneration of staff and tax compliance;
 - 4.6. Sustainability risk refers to an environmental, social, or governance event or situation that, if it occurs, could have a significant real or potential negative impact on the value of investments.
 - 4.7. **Board** means a collegial governance body of the Management Company.

II. BACKGROUND

5. The Paris Agreement, which the European Union (the '**EU**') endorsed on 5 October 2016, aims to strengthen the response to climate change.

6. In order to meet the objectives of the Paris Agreement and to significantly reduce the risks and impacts of climate change, Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector was adopted on 27 November 2019 (the '**Regulation**').
7. As the EU is increasingly faced with the catastrophic and unpredictable consequences of climate change, resource depletion and other sustainability-related issues, it was decided to oblige financial market participants (one of which is the Management Company) by the Regulation to disclose information regarding their approaches to the integration of sustainability risks and the consideration of adverse sustainability impacts.

III. MANAGEMENT COMPANY'S APPROACH

8. Failure of the economy to adapt to climate change is one of the five biggest risks worldwide.¹ The Management Company is aware of these risks and therefore assesses the impact of climate change on its investments.
9. Climate change can be viewed through many different dimensions. The Management Company considers the following four risk factors, which are indicative of the future impact of climate change on investments:
 - 9.1. **Technologies:** Expanding investment in decarbonisation technologies.
 - 9.2. **Resource availability:** The impact of long-term weather conditions on investment (e.g., how long-term temperature changes will affect the ability to absorb resources) and related physical changes.
 - 9.3. **Impact:** Physical impact on investments due to acute weather conditions (e.g., probability of natural disasters).
 - 9.4. **Policy:** All international, national and sub-national targets, mandates, legislation and regulations aiming to reduce the risk of further human-induced climate change.
10. In assessing sustainability risks, the Management Company takes into account international studies² which show that:
 - 10.1. climate change risks will affect the return on investment whatever the scenario;
 - 10.2. although the impacts may vary, climate policies and technologies are expected to have a positive impact on infrastructure, emerging markets, and RE;
 - 10.3. RE investments are expected to generate further returns due to RE positive sensitivity to the technology factor;
 - 10.4. Investors should consider the opportunity to increase investments in sustainable real estate if they believe in strong and decisive actions in the field of climate change.
 - 10.5. Physical risk must be managed within real estate, infrastructure, and natural resources, particularly in instances where insufficient measures are being implemented to reduce pollutant emissions.
11. The following sustainability-related risks may negatively impact the value of real estate assets:
 - 11.1. climate change and natural disasters: emerging physical risks associated with climate change, such as rising sea levels, extreme weather events, floods, and heat waves. These risks can lead to property damage, increased insurance costs, reduced employment level, and lowered property values;
 - 11.2. energy and resource efficiency: inefficient use of energy, high carbon emissions and misuse of other resources (e.g., water) can lead to high energy costs, reduced employment and lower asset and enterprise values;
 - 11.3. environmental pollution and contamination: various sectors may be exposed to contamination risks (e.g., due to improper waste disposal), which can lead to increased costs and reputational damage due to contaminated

¹ World Economic Forum. Global Risks 2015.

² 'Investing in a time of climate change' Mercer 2015.

soil, groundwater, or air quality problems, which in turn can lead to reduced employment levels and lower asset values.

12. In order to optimize investment outcomes, the Management Company will assess sustainability risk not only by selecting the appropriate asset class but also by considering the industry sector related to the investment object and any other significant circumstances.
13. Before deciding to invest in a particular property, the Management Company will assess the following:
 - 13.1. ESG risks of the property/a set of circumstances (e.g., energy efficiency, total heating/cooling costs, possibilities of building solar panels, etc.);
 - 13.2. the impact of ESG risks on the value of the property now and in the future;
 - 13.3. future investment needs;
14. While the Management Company will primarily focus on assessing environmental requirements and climate change risks concerning real estate assets, investment decisions and the management of these assets will also take into account social and employee issues, as well as matters related to respect for human rights, anti-corruption efforts, and the prevention of bribery.
15. If sustainability risk were to materialize, the Management Company anticipates that it would have a minimal negative impact on the value of investments. This is because the Management Company has planned to invest in risk management strategies, such as:
 - 15.1. Implementing appropriate systems to mitigate heatwaves;
 - 15.2. Enhancing energy efficiency; and
 - 15.3. Other measures.
16. Accordingly, the expected impact of sustainability risks on the return on investment in RE is considered to be twofold. Costs related to sustainability risk mitigation, such as retrofitting buildings for energy efficiency or addressing pollution problems, can have an adverse (negative) impact on project profitability and cash flows. On the other hand, the implementation of appropriate measures (e.g., increased energy savings) can reduce utility costs, increase tenant satisfaction, and reduce operational risks.

IV. DESCRIPTION OF THE POLICY AIMED AT IDENTIFYING AND PRIORITISING PRINCIPAL ADVERSE IMPACTS ON SUSTAINABILITY FACTORS

17. Considering the principal negative impact is an integral part of the Management Company's investment process. Accordingly, the Management Company assesses the principal negative impact of investment decisions made with respect to sustainability factors.
18. The responsibility for assessing the risks posed by climate and other sustainability aspects to investment value and for managing these risks has been delegated to the managers of the investment strategy.
19. Considering that the existing investment strategies invest in real estate, the Management Company evaluates and discloses the mandatory real estate-related indicators specified in Commission Delegated Regulation (EU) 2022/1288 (Delegated Regulation) for all investment strategies:
 - 19.1. Fossil fuel exposure arising from real estate;
 - 19.2. Position of energy-inefficient real estate.
20. The Management Company has conducted a materiality assessment and has determined that, for all investment strategies, it will evaluate the indicator 'GHG emissions from RE' as an additional measure of principal negative impact.

21. The materiality assessment was carried out in accordance with the methodology for assessing the materiality of impacts as defined in the draft Corporate Sustainability Reporting Standards.³ Thus, the assessment of materiality was carried out in the following steps:
- 21.1. **Stage one:** An initial assessment was carried out, taking into account the impacts of the CIU and including additional indicators measuring negative impacts, applicable to investments in RE, as presented in Table 2 of Annex I of Delegated Regulation. It was assessed whether the impact of RE measured by the indicators in the table:
- is currently under development (“Actual”), or
 - is not currently under development but likely to be developed (“Potential”), or
 - is not developed at all according to the nature of the activity (“Not developed”).
- 21.2. **Stage two:** An additional assessment of the materiality of these indicators was carried out, assessing the severity of the CIU impact and the likelihood of developing impacts.
22. The materiality of the additional indicators (set out in Table 2 of Annex I of the Delegated Regulation) was assessed on the basis of the following parameters:
- 22.1. The severity of an adverse impact (for all impacts), determined by:
- Scale—depends on the context, e.g., non-compliance with laws or regulations, or how strongly the impact affects third parties.
 - Scope—how widespread the impact is or whether it affects a large number of third parties.
 - Remediability (irremediable character).
- 22.2. The likelihood of developing this impact (potential impacts).
23. A severity score for adverse impacts was determined from the assessment of all parameters. Only the actual impact with the highest severity score is disclosed and assessed.
24. Potential impacts are only disclosed if the assessment score in terms of the strength of the impact is higher than that of the actual impacts and the likelihood of developing such impacts is high.
25. The results of the materiality assessment show that indicator No. 18 “GHG emissions generated by RE” set out in Table 2 of Annex I of the Delegated Regulation has the highest materiality, and therefore priority, and is disclosed in accordance with Article 4 of the SFDR.
26. In order to minimise errors in assessment, the Management Company has used external consultants who have the necessary expertise and competencies to carry out the assessment.
27. The assessment is carried out using external expertise and information from scientific sources on the sustainability-related adverse impacts of CIU activities (e.g., the Intergovernmental Panel on Climate Change reports, data and reports published by the European Commission and the European Environment Agency, etc.). The use of external experts to carry out the assessment aims to minimise the likelihood of assessment error due to bias, which is assumed to remain minimal and does not require further action.
28. Although the Management Company does not have a policy that incorporates provisions of international codes of ethics for responsible business conduct, the Management Company will endeavour to take into account environmental, social and labour issues, as well as respect for human rights and anti-corruption and anti-bribery issues, in its investment decisions and in the management of CIUs. The Management Company also seeks to ensure that its activities are conducted in a transparent and ethical manner and in accordance with the following standards of good and ethical practice:
- 28.1. OECD [Guidance](#) for Multinational Enterprises;
- 28.2. OECD [Due Diligence](#) Guidance on Responsible Business Conduct;

³ Draft European Sustainability Reporting Guidelines 1 Double materiality conceptual guidelines for standard-setting developed by European Financial Reporting Advisory Group.

28.3. UN Guiding Principles on Business and Human Rights;

28.4. International Labour Organisation's Declaration on Fundamental Principles and Rights at Work;

28.5. principles and rights set out in the International Bill of Human Rights.

29. The Management Company does not adhere to internationally recognised standards specifically designed for the due diligence and reporting of principal adverse impacts.

30. CIU buildings managed by the Management Company are not subject to Paris Agreement compliance targets.

V. SUSTAINABILITY REQUIREMENTS FOR NON-EQUITY SECURITIES

31. The investment strategies managed by the Management Company invest in real estate assets. In implementing each investment strategy, the Management Company will seek to:

31.1. Invest in real estate assets that meet sustainability standards;

31.2. Invest in real estate assets that can be improved to align with the concept of sustainable properties.

32. Real estate assets that meet sustainability standards are considered to be those that possess one of the following certifications or comply with one of the following standards:

32.1. GRESB,

32.2. BREEAM, or

32.3. LEED.

33. These certifications encompass a wide range of criteria evaluated and overseen by the certifying bodies, including carbon dioxide reduction (carbon neutrality), ecological responsibility, efficiency, and a proper focus on human health and well-being.

34. When investing in a specific real estate asset, the goal will be to obtain the certification and/or standard (GRESB, BREEAM, LEED) that best aligns with the needs of the investment object.

35. For example, studies conducted by the BRE Global organization indicate that among the three dimensions of sustainability—economic, social, and environmental—the most significant and prominent benefits are observed in the social sphere. Individuals working and living in sustainable buildings report higher satisfaction and productivity, leading to an improved quality of life. Clear economic advantages are also evident: such buildings command higher rental prices, incur lower operational costs, enjoy increased property values, and yield greater investment returns. In the realm of environmental protection, buildings certified under standards like BREEAM exhibit notable benefits, including reduced construction waste, lower CO2 emissions during construction and operation, minimized ecological impact, and often an increased ecological value of the area in cases of conversion.

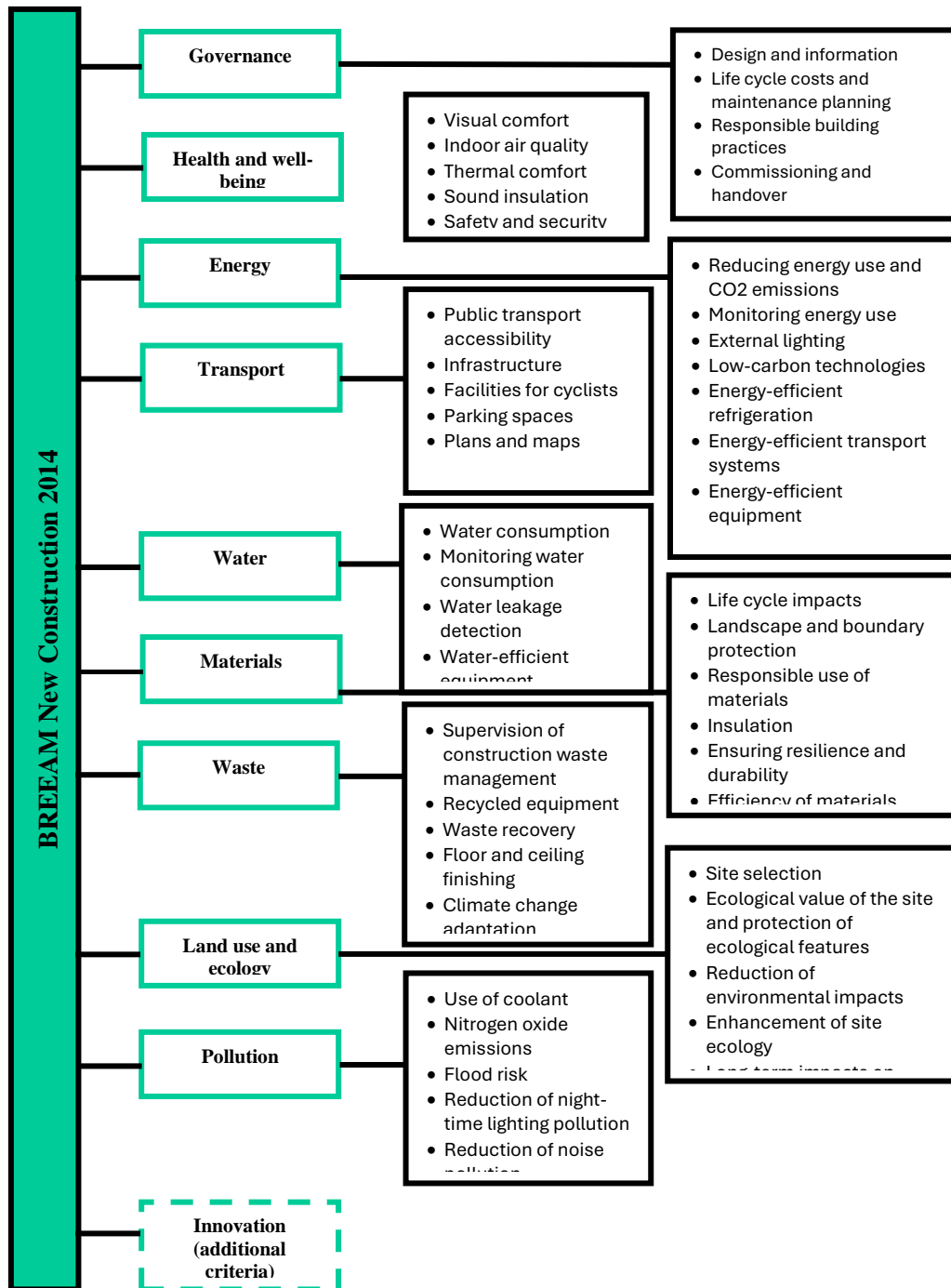
36. Analysis and calculations of implemented BREEAM projects indicate that additional investments are required for the implementation of sustainable building strategies and the acquisition of BREEAM certification, typically ranging from approximately 5% to 12%. The amount of additional investment depends on the type of building, its purpose, the desired level of BREEAM rating, and the set objectives. Practice shows that these investments in sustainable solutions and technologies are typically recovered within approximately 4 to 7 years.

37. Benefits of certification include:

37.1. For real estate developers and owners: the opportunity to recover investments more quickly and achieve higher returns;

37.2. For property managers: a means to reduce ongoing operational costs;

- 37.3. For architects and engineers: the opportunity to develop innovative solutions and technologies that minimize environmental impact;
- 37.4. For users: the ability to work, live, learn, and enjoy leisure activities in a comfortable and healthy environment.
- 38.** Depending on the selected certification and standards, and as needed, investments will be made in the properties to enhance sustainability and increase asset value, including:
 - 38.1. Installation of LED lighting;
 - 38.2. Integration of solar power systems;
 - 38.3. Development of common areas for employee well-being;
 - 38.4. Optimization of energy efficiency in the properties; and other measures.
- 39.** Investment properties will be developed, enhanced, and adapted to meet the requirements of the selected certifications/standards. For example, the BREEAM certification criteria that the investment property should meet (if the Management Company decides to adhere to BREEAM) are as follows:



40. The Management Company assesses sustainability-related parameters to control sustainability risks and to identify potential positive environmental impacts of RE properties. The assessment is carried out at least semi-annually by completing the table presented in Annex No. 1 below. Daily intensity parameters to be assessed:

40.1. electricity intensity (kW/m²);

40.2. heating energy intensity (kW/m²);

40.3. intensity of the largest greenhouse gas emissions (sampling 1 and 2 CO_{2e}/m²);

40.4. renewable electricity ratio;

40.5. water consumption intensity (m³/m²).

41. The Management Company will also assess which risks related to climate change and ESG are relevant in each case depending on:
 - 41.1. whether CIU income will be derived from the sale or rent of RE;
 - 41.2. who will use RE—businesses or households;
 - 41.3. how a particular business, such as logistics, might be affected;
 - 41.4. how certain households, such as the middle class, might be affected.
42. The Management Company's objective is not only to assess sustainability risks at the time of the investment decision but also to manage them throughout the lifetime of the CIU, including the proper and sustainable management, maintenance, refurbishment, etc. of RE properties.

VI. FINAL PROVISIONS

43. This Policy enters into force from the day of its approval and may be abolished, amended and/or supplemented only by a decision of the Board.
44. The CEO ensures that this Policy is made known to the employees of the Management Company.
45. The Board keeps the Policy under regular review for compliance with the statutory requirements and, where necessary, amends and supplements the Policy.
46. Amendments and/or additions to the Policy enter into force on the day following the date of their adoption. The CEO must ensure that the employees of the Management Company are informed of any changes and/or additions to the Policy in a timely manner.

