

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 making and executing investment decisions are set out 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** means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material adverse (negative) impact on the value of the investment. Risks arising from the environment are divided into physical and transition risks. Physical risks refer to the financial impact of a changing climate, including more frequent extreme weather events and gradual changes in climate, as well as of environmental degradation, such as air, water, and land pollution, water stress, biodiversity loss and deforestation. Transition risks refer to an institution's financial loss that can result, directly or indirectly, from the process of adjustment towards a lower-carbon and more environmentally sustainable economy. Social risks refer to potential damage to an institution's reputation and stakeholders' relations resulting from employment relationships, human rights and ethical behaviour. Governance risks refer to weaknesses in an organisation's governance, such as ineffective management, lack of internal controls, non-compliance with laws, failure to pay taxes on time, etc.;
 - 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 increasing their investment in sustainable RE and sustainability-minded companies.
11. The following sustainability risks may have an adverse (negative) impact on the value of investments:
 - 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;

¹ World Economic Forum. Global Risks 2015.

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

- 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 soil, groundwater, or air quality problems, which in turn can lead to reduced employment levels and lower asset values.
12. Before deciding to invest in a particular property, the Management Company will assess the following:
 - 12.1. ESG risks of the property/a set of circumstances (e.g., energy efficiency, total heating/cooling costs, possibilities of building solar panels, etc.);
 - 12.2. the impact of ESG risks on the value of the property now and in the future;
 - 12.3. future investment needs;
 - 12.4. the industry to which the investee property relates and other relevant circumstances.
13. Before deciding to invest in non-equity securities, the Management Company will assess the following:
 - 13.1. the impact of ESG risks on the value of the issuer now and in the future, including climate change risks in the geographical area;
 - 13.2. the future legal framework for sustainability;
 - 13.3. physical and transition risks in the sector;
 - 13.4. the risks stemming from dependence on the use of fossil fuels and natural resources;
 - 13.5. the risks stemming from the governance of the issuer.
14. While the Management Company will focus on assessing environmental requirements and climate change risks, in relation to the investment, social and labour issues, as well as respect for human rights and anti-corruption and anti-bribery issues will also be taken into account when making investment decisions.

Impact on investment in RE

15. If sustainability risks were to materialise, the Management Company assesses that this should have an insignificant adverse (negative) impact on the value of the managed RE investments. This is because the Management Company is committed to investing in risk management such as:
 - 15.1. deploying appropriate systems to cope with heat waves;
 - 15.2. improving 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.

Impact on investment in non-equity securities

17. Issuers that take ESG risks into account have certain advantages, such as:
 - 17.1. mitigating potential risks;
 - 17.2. creating long-term value;
 - 17.3. attracting investors and building confidence.

18. Accordingly, the likely impact of sustainability risks on the return on investment in non-equity securities is considered to be twofold. Investments in issuers (their non-equity securities) that manage ESG risks are safer and should have greater resilience to adverse factors, including those that would affect investment returns. This is because ESG-sensitive investments are less exposed to global economic changes. Such investments have a lower level of risk, more stable returns, and higher returns over periods of up to 5 years. On the other hand, the Management Company cannot guarantee that the vast majority of issuers will consider and manage ESG risks. Accordingly, investments in such issuers (their non-equity securities) can have an adverse (negative) impact on the value of investments.
19. It should be noted that the Management Company will not be in a position to exercise significant influence over the issuers on behalf of CIUs, as it will not hold instruments conferring such rights (e.g., a controlling interest). Accordingly, the Management Company, although it will seek the issuers to contribute to environmental or social objectives, will have only very limited leverage to initiate changes and actions within undertakings.

IV. DESCRIPTION OF THE POLICY AIMED TO IDENTIFY AND PRIORITISE PRINCIPAL ADVERSE IMPACTS ON SUSTAINABILITY FACTORS

20. Considering principal adverse impacts is an integral part of the Management Company's investment process. Accordingly, the Management Company assesses principal adverse impacts of RE investment decisions in respect of CIUs on sustainability factors (unless the incorporation documents of a particular CIU provide that no assessment of principal adverse impacts on sustainability will be made).
21. Due to the lack of data and its reliability, the Management Company will not assess principal adverse impacts on sustainability when investing in non-equity securities.
22. Responsibility for assessing and managing risks to the value of investments in terms of climate and other sustainability aspects is entrusted to CIU managers.
23. Taking into account that existing CIUs invest in RE, the Management Company assesses and discloses the mandatory indicators relating to investments in RE set out in Commission Delegated Regulation (EU) 2022/1288 (the '**Delegated Regulation**') in respect of all CIUs:
 - 23.1. exposure to fossil fuels through RE;
 - 23.2. exposure to energy-inefficient RE.
24. The Management Company has carried out a materiality assessment and based on this assessment has determined that for CIUs investing in RE and assessing principal adverse impacts on sustainability, it will assess the indicator "GHG emissions generated by RE" as an additional indicator of principal adverse impacts.
25. 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:
 - 25.1. **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").

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

- 25.2. **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.
26. 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:
- 26.1. 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).
- 26.2. The likelihood of developing this impact (potential impacts).
27. 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.
28. 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.
29. 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.
30. 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.
31. 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.
32. 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:
- 32.1. OECD Guidance for Multinational Enterprises;
- 32.2. OECD Due Diligence Guidance on Responsible Business Conduct;
- 32.3. UN Guiding Principles on Business and Human Rights;
- 32.4. International Labour Organisation’s Declaration on Fundamental Principles and Rights at Work;
- 32.5. principles and rights set out in the International Bill of Human Rights.
33. The Management Company does not adhere to internationally recognised standards specifically designed for the due diligence and reporting of principal adverse impacts.
34. CIU buildings managed by the Management Company are not subject to Paris Agreement compliance targets.

V. SUSTAINABILITY REQUIREMENTS FOR NON-EQUITY SECURITIES

- 35.** The Management Company, as part of the investment strategy of the CIU, which invests in non-equity securities and has sustainability objectives, will seek to invest in issuers whose activities contribute to the improvement of environment and social characteristics:
- 35.1. climate change mitigation;
 - 35.2. climate change adaptation;
 - 35.3. conservation and protection of water and marine resources;
 - 35.4. transition to the circular economy;
 - 35.5. pollution prevention and control;
 - 35.6. protection and restoration of biodiversity and ecosystems;
 - 35.7. implementation of the UN Sustainable Development Goals;
 - 35.8. implementation of the Paris Agreement goals.
- 36.** The Management Company will seek to assess the following aspects of the issuers whose non-equity securities are to be acquired:
- 36.1. objectives relating to the improvement of environmental characteristics;
 - 36.2. objectives relating to the improvement of social characteristics;
 - 36.3. contribution to international initiatives on sustainability (UN Sustainable Development Goals, Paris Agreement, etc.);
 - 36.4. introduction of environmental standards;
 - 36.5. projects to improve energy and water efficiency and reduce waste;
 - 36.6. promotion of the circular economy;
 - 36.7. having, or committing to have, social policies and procedures (equal opportunities, whistleblower protection, prevention of corruption, prevention of violence and harassment).
- 37.** An issuer that meets at least 3 of the above indicators will be considered to be pursuing sustainability and an investment in its non-equity securities will be considered to promote environmental or social characteristics.
- 38.** The assessment of compliance will be made from publicly available information and/or based on information from the issuer.

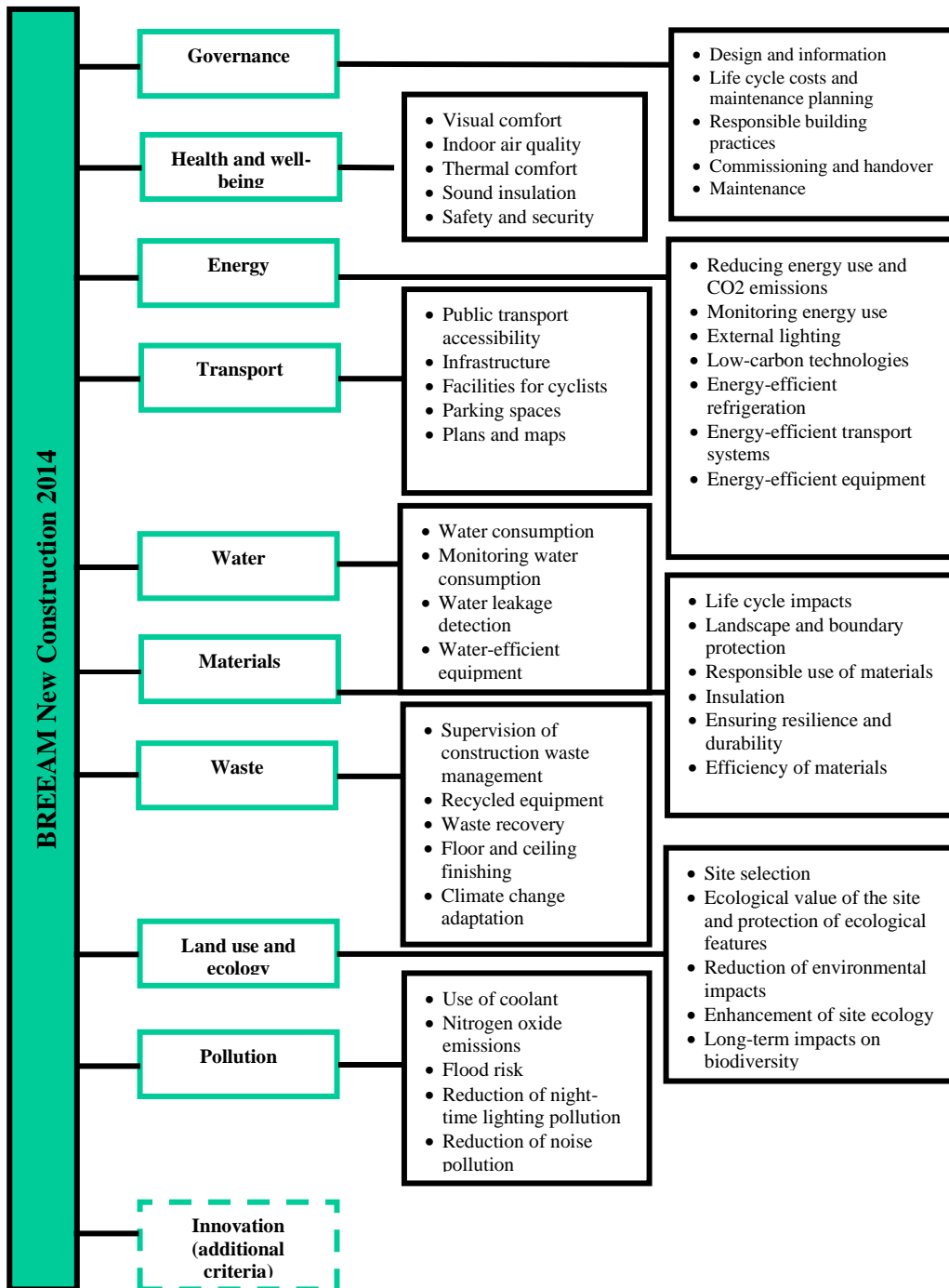
VI. SUSTAINABILITY REQUIREMENTS FOR RE

- 39.** The Management Company, as part of the investment strategy of the CIU, which invests in RE and has sustainability objectives, will seek:
- 39.1. to invest in RE properties that meet sustainability standards;
 - 39.2. to invest in RE properties that could be improved to meet the concept of sustainable properties.
- 40.** Properties meeting sustainability standards are considered to be RE properties that have one of the following certifications or meet one of the following standards:
- 40.1. GRESB,

40.2. BREEAM or

40.3. LEEDS.

41. These certificates cover a wide range of criteria, such as carbon-neutral solutions, environmental responsibility, efficiency, and the proper approach to human health and well-being, which are assessed and monitored by the certifying bodies.
42. Investing in a specific RE property will aim at obtaining a certificate and/or standard most relevant to the needs of the investee property (GRESB, BREEAM, LEEDS).
43. As an example, the research conducted by BRE Global shows that of the three dimensions of sustainability—economic, social, and environmental—the greatest and most significant benefits have been observed in the social sphere. That is, people who work and live in sustainable buildings have a higher level of satisfaction and productivity and a higher standard of living. There are clear economic advantages of such buildings, in particular, higher rentals, lower operational costs, increased asset value, and higher return on investment. In the field of environmental protection, buildings certified, for instance, under BREEAM standards have the following advantages: less construction waste, less CO₂ emissions during the construction and operation of the building, less environmental impact, and often an increase in the eco-value of the site (in the case of conversion).
44. Analyses and calculations of implemented BREEAM projects show that the implementation of a sustainable building strategy and obtaining of a BREEAM certificate requires additional investments, which usually amount to ~5-12%. The extent of additional investments depends on the type and purpose of the building, the level of BREEAM assessment sought and the objectives set. Practice shows that these investments in sustainable solutions and technologies can be recouped in ~4-7 years.
45. Benefits of certification:
 - 45.1. for RE developers and owners, an opportunity to recover their investments faster and get higher returns;
 - 45.2. for building managers, a means to reduce current costs;
 - 45.3. for architects and engineers, an opportunity to develop innovative solutions and technologies that reduce the negative impact on the environment;
 - 45.4. for users, an opportunity to work, live, study, and entertain in a comfortable and healthy environment.
46. Depending on the chosen certification and standard, where necessary, investments will be made in the properties to improve their sustainability and increase their value:
 - 46.1. installation of LED lighting;
 - 46.2. integration of solar power plants;
 - 46.3. development of common spaces for the well-being of staff;
 - 46.4. optimisation of the energy efficiency of buildings, etc.
47. Investee properties will be developed, improved, and adapted to meet the requirements of selected certificates/standards. For example, the BREEAM certification criteria that an investee property would need to meet (should the Management Company decide to comply with BREEAM) are:



48. 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:

- 48.1. electricity intensity (kW/m²);
- 48.2. heating energy intensity (kW/m²);
- 48.3. intensity of the largest greenhouse gas emissions (sampling 1 and 2 CO_{2e}/m²);
- 48.4. renewable electricity ratio;
- 48.5. water consumption intensity (m³/m²).

- 49.** The Management Company will also assess which risks related to climate change and ESG are relevant in each case depending on:
- 49.1. whether CIU income will be derived from the sale or rent of RE;
 - 49.2. who will use RE—businesses or households;
 - 49.3. how a particular business, such as logistics, might be affected;
 - 49.4. how certain households, such as the middle class, might be affected.
- 50.** 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.

VII. FINAL PROVISIONS

- 51.** 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.
- 52.** The CEO ensures that this Policy is made known to the employees of the Management Company.
- 53.** The Board keeps the Policy under regular review for compliance with the statutory requirements and, where necessary, amends and supplements the Policy.
- 54.** 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.

