PRI Principles for Responsible Investment

RI TRANSPARENCY REPORT

2013/14

AS Avaron Asset Management

UNEP Finance Initiative Changing finance, financing change | United Nations Global Compact

An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

About this report

The PRI Reporting Framework is a key step in the journey towards building a common language and industry standard for reporting responsible investment (RI) activities. This RI Transparency Report is one of the key outputs of this Framework. Its primary objective is to enable signatory transparency on RI activities and facilitate dialogue between investors and their clients, beneficiaries and other stakeholders. A copy of this report will be publicly disclosed for all reporting signatories on the PRI website, ensuring accountability of the PRI Initiative and its signatories.

This report is an export of the individual Signatory organisation's response to the PRI during the 2013-14 reporting cycle. It includes their responses to mandatory indicators, as well as responses to voluntary indicators the signatory has agreed to make public. The information is presented exactly as it was reported. Where an indicator offers a response option that is multiple-choice, all options that were available to the signatory to select are presented in this report. Presenting the information exactly as reported is a result of signatory feedback which suggested the PRI not summarise the information. As a result, the reports can be extensive. However, to help easily locate information, there is a **Principles index** which highlights where the information can be found and summarises the indicators that signatories complete and disclose.

Understanding the Principles Index

The Principles Index summarises the response status for the individual indicators and modules and shows how these relate to the six Principles for Responsible Investment. It can be used by stakeholders as an 'at-a-glance' summary of reported information and to identify particular themes or areas of interest.

Indicators can refer to one or more Principles. Some indicators are not specific to any Principle. These are highlighted in the 'General' column. When multiple Principles are covered across numerous indicators, in order to avoid repetition, only the main Principle covered is highlighted. This results in some Principles not being explicitly highlighted. For instance, Principle 1 and 2 cannot be implemented without implementing Principle 3, but there are cases when Principle 3 is not explicitly highlighted.

All indicators within a module are presented below. The status of indicators is shown with the following symbols:

Symbol	Status
✓	The signatory has completed all mandatory parts of this indicator
☑	The signatory has completed some parts of this indicator
🔒	This indicator was not relevant for this signatory
-	The signatory did not complete any part of this indicator
🏳	The signatory has flagged this indicator for internal review

Within the table, indicators marked in blue are mandatory to complete. Indicators marked in grey are voluntary to complete.

PRI disclaimer

This document is based on information reported by signatories and responses have not been independently audited by the PRI Secretariat, PRI working groups, or any other third party. While this information is believed to be reliable, no representations or warranties are made as to its accuracy and no responsibility or liability can be accepted for any error or omission.

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Principles Index

Organisational Overview				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OO 01	Signatory category and services	✓	Public							✓
OO 02	Headquarters and operational countries	✓	Public							✓
OO 03	Subsidiaries that are separate PRI signatories	✓	Public							✓
OO 04	Reporting year and AUM	✓	Public							✓
OO 05	Breakdown of AUM by asset class	✓	n/a							✓
OO 06	How would you like to disclose your asset class mix	✓	Public							✓
OO 07	Segregated mandates or pooled funds	🔒	n/a							✓
OO 08	Breakdown of AUM by market	✓	Public							✓
OO 09	Additional information about organisation	✓	Public							✓
OO 10	RI activities for listed equities	✓	Public							✓
OO 11	RI activities in other asset classes	✓	Public							✓
OO 12	Modules and sections required to complete	✓	Public							✓

Overarching Approach				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
OA 01	RI policy and other guidance documents	✓	Public							✓
OA 02	Publicly available policies / documents	✓	Public						✓	
OA 03	Policy components and coverage	✓	Public	✓	✓					
OA 04	Conflicts of interest	✓	Public							✓
OA 05	RI goals and objectives	✓	Public							✓
OA 06	Main goals/objectives this year	🔒	n/a							✓
OA 07	Governance, management structures and RI processes	✓	Public							✓
OA 08	RI roles and responsibilities	✓	Public							✓
OA 09	RI in performance management, reward and/or personal development	✓	Public							✓
OA 10	Collaborative organisations / initiatives	✓	Public				✓	✓		
OA 11	Promoting RI independently	✓	Public				✓			
OA 12	Dialogue with public policy makers or standard setters	✓	Public				✓	✓	✓	
OA 13	ESG issues in strategic asset allocation	✓	Public	✓						
OA 14	Allocation of assets to environmental and social themed areas	✓	Public	✓						
OA 15	ESG issues for internally managed assets not reported in framework	✓	Private							✓
OA 16	ESG issues for externally managed assets not reported in framework	🔒	n/a							✓
OA 17	RI/ESG in execution and/or advisory services	🔒	n/a	✓	✓					
OA 18	Innovative features of approach to RI	-	n/a							✓
OA 19	Internal and external review and assurance of responses	✓	Public							✓

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Direct - Listed Equity Incorporation				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
LEI 01	Breakdown by passive, quantitative, fundamental and other active strategies	✓	Public	✓						
LEI 02	Description of ESG incorporation	✓	Public	✓						
LEI 03	Percentage of each incorporation strategy	✓	Public	✓						
LEI 04	Type of ESG information used in investment decision	✓	Public	✓						
LEI 05	Information from engagement and/or voting used in investment decision-making	✓	Public	✓						
LEI 06	Types of screening applied	✓	Public	✓						
LEI 07	Processes to ensure screening is based on robust analysis	✓	Public	✓						
LEI 08	Processes to ensure fund criteria are not breached	✓	Public	✓						
LEI 09	Types of sustainability thematic funds/mandates	🔒	n/a	✓						
LEI 10	Description of ESG integration	✓	Public	✓						
LEI 11	Review ESG issues while researching companies/sectors	✓	Public	✓						
LEI 12	Processes to ensure integration is based on robust analysis	✓	Public	✓						
LEI 13	Aspects of analysis ESG information is integrated into	✓	Public	✓						
LEI 14	ESG issues in index construction	🔒	n/a	✓						
LEI 15	How ESG incorporation has influenced portfolio composition	✓	Public	✓						
LEI 16	Incorporation of ESG issues has improved financial/ESG performance and reduced risk	✓	Public	✓						
LEI 17	Examples of ESG issues that affected your investment view / performance	✓	Public	✓						
LEI 18	Disclosure of approach to ESG incorporation	✓	Public		✓				✓	

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PRI Principles for Responsible Investment

Direct - Listed Equity Active Ownership				Principle						General
Indicator	Short description	Status	Disclosure	1	2	3	4	5	6	
LEA 01	Description of approach to engagement	✓	Public		✓					
LEA 02	Reasoning for interaction on ESG issues	✓	Public	✓	✓	✓				
LEA 03	Process for identifying and prioritising engagement activities	✓	Public		✓					
LEA 04	Objectives for engagement activities	✓	Public		✓					
LEA 05	Process for identifying and prioritising engagement activities	✓	Public		✓					
LEA 06	Objectives for engagement activities	✓	Public		✓					
LEA 07	Role in engagement process	🔒	n/a		✓		✓			
LEA 08	Monitor / discuss service provider information	🔒	n/a		✓				✓	
LEA 09	Share insights from engagements with internal/external managers	✓	Public	✓	✓					
LEA 10	Tracking number of engagements	✓	Public		✓					
LEA 11	Number of companies engaged with, intensity of engagement and effort	✓	Public		✓					
LEA 12	Engagements on E, S and/or G issues	✓	Public		✓					
LEA 13	Companies changing practices / behaviour following engagement	✓	Public		✓					
LEA 14	Examples of ESG engagements	✓	Public		✓					
LEA 15	Disclosure of approach to ESG engagements	✓	Public		✓				✓	
LEA 16	Description of approach to (proxy) voting	✓	Public		✓					
LEA 17	Typical approach to (proxy) voting decisions	✓	Public		✓					
LEA 18	Percentage of voting recommendations reviewed	🔒	n/a		✓					
LEA 19	Confirmation of votes	✓	Public		✓					
LEA 20	Securities lending programme	✓	Public		✓					
LEA 21	Informing companies of the rationale of abstaining/voting against management	✓	Public		✓					
LEA 22	Percentage of (proxy) votes cast	✓	Public		✓					
LEA 23	Proportion of ballot items that were for/against/abstentions	✓	Public		✓					
LEA 24	Shareholder resolutions	✓	Public		✓					
LEA 25	Examples of (proxy) voting activities	✓	Public		✓					
LEA 26	Disclosing voting activities	✓	Public		✓				✓	

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PRI Principles for Responsible Investment

AS Avaron Asset Management

Reported Information

Public version

Organisational Overview

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PRI Principles for Responsible Investment

Basic Information

OO 01 | Mandatory | Gateway/Peering | General

OO 01.1 Select the services you offer.

☑ Fund management

% of assets under management (AUM) in ranges

- ○ <10%
- ○ 10-50%
- ◉ >50%

☐ Fund of funds, manager of managers, sub-advised products

☐ Other, specify

☐ Execution and advisory only services

OO 02 | Mandatory | Peering | General

OO 02.1 Select the location of your organisation's headquarters.

Estonia

OO 02.2 Indicate the number of countries in which you have offices (including your headquarters).

- ◉ 1
- ○ 2-5
- ○ 6-10
- ○ >10

OO 02.3 Indicate the approximate number of staff in your organisation in full-time equivalents (FTE).

FTE

12

OO 03 | Mandatory | Descriptive | General

OO 03.1 Indicate whether you have subsidiaries within your organisation that are also PRI signatories in their own right.

- ○ Yes
- ◉ No

OO 04 | Mandatory | Gateway/Peering | General

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PRI Principles for Responsible Investment

OO 04.1 Indicate the year end date for your reporting year.

31/12/2013

OO 04.2 Indicate your total AUM at the end of your reporting year.

	trillions	billions	millions	thousands	hundreds
Total AUM			309	100	000
Currency	EUR				
Assets in USD			407	144	693

OO 04.3 Indicate the level of detail you would like to provide about your asset class mix.

◉ Approximate percentage breakdown to the nearest 5% (e.g. 45%)

○ Broad ranges breakdown (i.e. <10%; 10-50%; >50%)

OO 06 | **Mandatory** | **Descriptive** | **General**

OO 06.1 To contextualise your responses to the public, indicate how you would like to disclose your asset class mix.

◉ Publish our asset class mix as percentage breakdown

	Internally managed (%)	Externally managed (%)
Listed equity	91	0
Fixed income – corporate	2	0
Fixed income – government	0	0
Fixed income – other	0	0
Private debt	0	0
Private equity	0	0
Property	0	0
Infrastructure	0	0
Commodities	0	0
Hedge funds	0	0
Forestry	0	0

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Farmland	0	0
Inclusive finance	0	0
Cash	7	0
Other (1), specify	0	0
Other (2), specify	0	0

○ Publish our asset class mix as broad ranges

○ Publish our asset class mix as per attached file (the following image formats can be uploaded: .jpg, .jpeg, .png,.bmp and .gif)

OO 08	Mandatory to Report Voluntary to Disclose	Peering	General

OO 08.1 Indicate the breakdown of your organisation's AUM by market.

Market breakdown	% of AUM
Developed Markets	○ 0% ◉ <10% ○ 10-50% ○ >50 %
Emerging, Frontier and Other Markets	○ 0% ○ <10% ○ 10-50% ◉ >50 %

OO 09	Voluntary	Descriptive	General

OO 09.1 Provide any additional information about your organisation, its mission, strategies, activities or investments which are important to contextualise your responsible investment activities.

Avaron is a boutique asset management company focusing on Eastern European listed equity and fixed income asset classes. Avaron employs value-driven bottom-up investment style with strong emphasis on company quality. Portfolios run by Avaron are benchmark agnostic and have a small and mid-cap bias.

Gateway asset class implementation indicators

OO 10	Mandatory	Gateway	General

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OO 10.1	Select the responsible investment activities your organisation implemented, directly and/or indirectly, for listed equities in the reporting year.

☑ We incorporate ESG issues into investment decisions on our internally managed assets

☑ We engage with companies on ESG issues via our staff, collaborations or service providers

☑ We cast our (proxy) votes directly or via service providers

☐ None of the above

OO 11	Mandatory	Gateway	General

OO 11.1	Indicate if in the reporting year you incorporated ESG issues into your investment decisions and/or your active ownership practices in the following internally managed asset classes.

☑ Fixed income – corporate

☐ Cash

☐ None of the above

OO 12	Mandatory	Gateway	General

OO 12.1	The modules and sections that you will be required to complete are listed below. They are based on the percentages provided in your AUM breakdown and your responses to the gateway indicators. Note, you are only required to report on asset classes that represent 10% or more of your AUM. You may report voluntarily on any applicable modules or sections by selecting them from the list. Direct - Fixed Income and Infrastructure are always voluntary.

Core modules

☑ Organisational Overview

☑ Overarching Approach (including assets which do not have a separate module)

RI implementation directly or via service providers

Direct - Listed Equity incorporation

☑ Listed Equity incorporation

Direct - Listed Equity active ownership

☑ Engagements

☑ (Proxy) voting

Direct - Fixed Income

☐ Fixed Income - Corporate

Closing module

☑ Closing module

Note: Please make sure your response to this indicator is complete and confirmed before you progress. Your response will determine which tailored modules and sections you will be presented with.

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AS Avaron Asset Management

Reported Information

Public version

Overarching Approach

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Responsible investment policy

OA 01	Mandatory	Gateway/Core Assessed	General

OA 01.1 Indicate if you have a responsible investment policy.

- (•) Yes
- ( ) No

OA 01.2 Indicate if you have other guidance documents or more specific policies related to responsible investment.

- (•) Yes
- ( ) No

OA 01.3 Provide a brief description of the key elements of your responsible investment policy or, if you do not have a policy, of your overall approach to responsible investment. [Optional]

Responsible Investment Policy defines Avaron Asset Management's commitment to sustainable investing, detailing the ESG approach that is followed in managing its investments. The Policy asserts that the consideration of ESG factors does not include making ethical or moral judgments on particular practices or issues. Instead the risks and opportunities that are relevant to the current or future value of the investment will be scrutinized.

OA 02	Mandatory	Core Assessed	PRI 6

OA 02.1 Indicate if your responsible investment policy is publicly available.

- (•) Yes

OA 02.2 Provide a URL to your responsible investment policy.

URL

http://www.avaron.com/files/PRI/2012.07_Avaron_SRI_policy.pdf

- ( ) No

OA 02.3 Indicate if your other policies or guidance documents related to responsible investment are publicly available.

- (•) Yes
  - ( ) Yes, all
  - (•) Yes, some

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PRI Principles for Responsible Investment

OA 02.4	List these other policies or guidance documents related to responsible investment that are publicly available and their URLs.

Policy or document name	URL
Exercise of voting rights strategy	http://www.avaron.com/files/PRI/2011.10.10_Exercise_of_voting_rights_strategy.pdf

○ No

OA 02.5	Additional information. [Optional]

Internal risk managament policy documents are available only upon request by clients/beneficiaries.

OA 03	Mandatory	Core Assessed	PRI 1,2

OA 03.1	Indicate the components/types and coverage of your responsible investment policy and guidance documents.

Select all that apply

Policy components/types	Coverage by AUM
☑ Policy setting out your overall approach ☑ (Proxy) voting policy ☑ Engagement/active ownership policy ☑ Specific guidelines on corporate governance ☑ Specific guidelines on environmental issues ☑ Specific guidelines on social issues ☐ Asset class-specific guidelines ☑ Screening/exclusion policy ☐ Other, specify ☐ Other, specify	○ Applicable policies cover all AUM ◉ Applicable policies cover a majority of AUM ○ Applicable policies cover a minority of AUM

OA 04	Mandatory	Core Assessed	General

OA 04.1	Indicate if your organisation has a policy on managing potential conflicts of interest in the investment process.

◉ Yes

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PRI Principles for Responsible Investment

OA 04.2	Describe your policy on managing potential conflicts of interest in the investment process. [Optional]

Avaron's Internal Policy addresses the conflicts of interest situations within the organization. The Policy determines the overarching principle to act in accordance with the best interests of the client, identifies a list of circumstances that may give rise to a conflict of interest situation and measures adopted to manage such situations. Some of the measures adopted to avoid and manage the conflict of interests situation within the investment process are the following:

1. Avaron does not trade on own account (except for small amounts as part of analysts' training programme that is subject to limitations to make sure that client interests are not harmed) to avoid conflicts of interest from Avaron trading on its own account;
2. Policy for Personal Transactions of the relevant persons has been adopted that limits the eligible securities and transactions and sets out reporting requirements of personal transactions;
3. Prohibition on competition is applicable: the relevant persons are not allowed to be engaged in financial or investment services outside Avaron. The relevant persons are required to regularly submit declarations of economic interests;
4. Best Execution Policy has been implemented to ensure the best execution for clients and avoid preferral of specific counterparties.

○ No

Objectives and strategies

OA 05	Mandatory	Gateway/Core Assessed	General

OA 05.1	Indicate if your organisation sets objectives for its responsible investment activities.

○ Yes

◉ No

Governance and human resources

OA 07	Voluntary	Descriptive	General

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PRI Principles for Responsible Investment

OA 07.1	Provide a brief description of your organisation's governance, management structures and processes related to responsible investment.

In Avaron one of the Management Board Members, carrying also an Investment Manager role, has taken responsibilities of overseeing the responsible investment activities including policy development and implementation. The Board Member is directly accountable in front of the Supervisory Board that represent the shareholders of Avaron.

Avaron has integrated ESG analysis into the investment decision making process. ESG research is carried out internally by Investment Analysts. Investment Committee that includes all the Investment Managers and Compliance Officer ultimately takes the investment decisions into new investment cases. This entails also working through the ESG analysis results and deciding upon further ESG related activities when needed.

☐ I would like to attach an organisation chart (the following image formats can be uploaded: .jpg, .jpeg, .png, .bmp and .gif)

OA 08	Mandatory	Gateway/Core Assessed	General

OA 08.1	Indicate the roles present in your organisation and for each, indicate whether they have oversight and/or implementation responsibilities for responsible investment.

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	Roles present in your organisation

☑ Board members or trustees

- ☑ Oversight/accountability for responsible investment
- ☑ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment

☑ Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee

- ☑ Oversight/accountability for responsible investment
- ☐ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment

☐ Other Chief-level staff or head of department, specify

☑ Portfolio managers

- ☐ Oversight/accountability for responsible investment
- ☑ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment

☑ Investment analysts

- ☐ Oversight/accountability for responsible investment
- ☑ Implementation of responsible investment
- ☐ No oversight/accountability or implementation responsibility for responsible investment

☐ Dedicated responsible investment staff

☐ External managers or service providers

☐ Other role, specify

☐ Other role, specify

OA 08.2	Indicate the number of dedicated responsible investment staff your organisation has. [Optional]

	Number

0

OA 09	Voluntary	Additional Assessed	General

OA 09.1	Indicate if your organisation's performance management, reward and/or personal development processes have a responsible investment element.

Board members/Board of trustees

- ☐ Responsible investment included in personal development and/or training plan
- ☑ None of the above

Chief Executive Officer (CEO), Chief Investment Officer (CIO), Investment Committee

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☐ Responsible investment KPIs and/or goals included in objectives

☐ Responsible investment included in appraisal process

☐ Variable pay linked to responsible investment performance

☐ Responsible investment included in personal development and/or training plan

☑ None of the above

Portfolio managers

☐ Responsible investment KPIs and/or goals included in objectives

☐ Responsible investment included in appraisal process

☐ Variable pay linked to responsible investment performance

☐ Responsible investment included in personal development and/or training plan

☑ None of the above

Investment analysts

☐ Responsible investment KPIs and/or goals included in objectives

☐ Responsible investment included in appraisal process

☐ Variable pay linked to responsible investment performance

☐ Responsible investment included in personal development and/or training plan

☑ None of the above

OA 09.3	Provide any additional information on your organisation's performance management, reward and/or personal development processes in relation to responsible investment.

Avaron is a management owned boutique. All Investment Managers are shareholders of the company and have invested a notable part of thier personal wealth in Avaron investment products. Thus, all senior decision makers are directly motivated by the performance of Avaron and its products. As the underlying reason behind the ESG implementation into the investment process in Avaron is the belief that ESG issues affect the long-term performance of the portfolios, then the motivational scheme of senior staff can be considered to be related to the value added of the ESG analysis.

Investment Analysts variable pay is linked to Avaron performance as a company, and is decided upon their individual performance by their supervisors. Conducting ESG analysis is an integral part of the Analysts' job and is assessed as part of their overall company bottom-up analysis performance. No separate performance criteria related to ESG analysis has been set.

Personal training plans of the staff are set on annual basis during personal perfrormance review and may include also responsible investment related training if deemed necessary.

Promoting responsible investment

OA 10	Mandatory	Core Assessed	PRI 4,5

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PRI Principles for Responsible Investment

OA 10.1	Indicate if your organisation is a member of and/or participant in any collaborative organisation or initiatives that promote responsible investment.

◉ Yes

OA 10.2	Select the collaborative organisation and/or initiatives of which your organisation is a member or in which it participated during the reporting year, and the role you played.

Select all that apply

☐ Asian Corporate Governance Association

☐ Association for Sustainable & Responsible Investment in Asia

☐ Australian Council of Superannuation Investors

☑ CDP Climate Change

	Your organisation's role in the initiative during the reporting period (see definitions)

☑ Basic

☐ Moderate

☐ Advanced

☑ CDP Forests

	Your organisation's role in the initiative during the reporting period (see definitions)

☑ Basic

☐ Moderate

☐ Advanced

☑ CDP Water

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	Your organisation's role in the initiative during the reporting period (see definitions)

☑ Basic

☐ Moderate

☐ Advanced

☐ CFA Institute Centre for Financial Market Integrity

☐ Council of Institutional Investors (CII)

☐ Eumedion

☐ Extractive Industries Transparency Initiative (EITI)

☐ Global Investors Governance Network (GIGN)

☐ Global Real Estate Sustainability Benchmark (GRESB)

☐ Institutional Investors Group on Climate Change (IIGCC)

☐ Interfaith Center on Corporate Responsibility (ICCR)

☐ International Corporate Governance Network (ICGN)

☐ Investor Group on Climate Change, Australia/New Zealand (IGCC)

☐ Investor Network on Climate Risk (INCR)/CERES

☐ Local Authority Pension Fund Forum

☐ Principles for Responsible Investment

☐ Regional or National Social Investment Forums (e.g. UKSIF, Eurosif, ASRIA, RIAA), specify

☐ Shareholder Association for Research and Education (Share)

☐ United Nations Environmental Program Finance Initiative (UNEP FI)

☐ United Nations Global Compact

☐ Other collaborative organisation/initiative, specify

☐ Other collaborative organisation/initiative, specify

☐ Other collaborative organisation/initiative, specify

☐ Other collaborative organisation/initiative, specify

○ No

OA 11	Mandatory	Core Assessed	PRI 4

OA 11.1	Indicate if your organisation promotes responsible investment, independently of collaborative initiatives.

◉ Yes

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OA 11.2	Indicate which of the following actions your organisation has taken to promote responsible investment, independently of collaborative initiatives.

☐ Provided or supported education or training programmes for clients, investment managers, broker/dealers, investment consultants, legal advisers or other investment organisations

☐ Provided financial support for academic or industry research on responsible investment

☑ Encouraged better transparency and disclosure of responsible investment practices across the investment industry

☐ Spoke publicly at events and conferences to promote responsible investment

☐ Wrote and published in-house research papers on responsible investment

☐ Encouraged the adoption of the PRI

☐ Other, specify

○ No

OA 12	Voluntary	Additional Assessed	PRI 4,5,6

OA 12.1	Indicate if your organisation - individually or in collaboration with others - conducted dialogue with public policy makers or standard-setters in support of responsible investment in the reporting year.

◉ Yes

☐ Yes, individually

☑ Yes, in collaboration with others

OA 12.2	Select the methods you have used.

☑ Endorsed written submissions to governments, regulators or standard-setters developed by others

☐ Drafted your own written submissions to governments, regulators or standard-setters

☐ Participated in face-to-face meetings with government members or officials to discuss policy

☐ Other, specify

OA 12.3	Where you have made written submissions (individually or collaboratively) to governments and regulatory authorities, indicate if these are publicly available.

◉ Yes, publicly available

	provide URL

http://www.uss.co.uk/Documents/Audit-Grouppositionpaper5Mar2013.pdf

○ No

○ No

ESG issues in asset allocation

OA 13	Voluntary	Descriptive	PRI 1

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OA 13.1	Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between geographic markets.

○ Yes

◉ No

OA 13.3	Additional information.

Avaron is a pure value based bottom-up stock picker, thus strategic asset allocation nor geographical allocation decisions are relevant in the context of the investment process. However, our aim is to limit exposure to companies operating in oppressive regimes. Thus, companies that derive 10% or more of their pre- tax profits and/or revenues from operations related to or taking place in oppressive regimes are excluded from the investment universe.

The list of oppressive regimes is based on the latest Economist Intelligence Unit Democracy Index, which measures the state of democracy in 165 independent countries and 2 territories. The Index comprises 60 indicators covering five different categories: electoral process and pluralism, functioning of the government, political participation, political culture and civil liberties. Oppressive regimes have been defined as countries with 2.0 or lower score on a scale from zero to ten of the Index.

In addition, the European Union restrictive measures within the framework of the Common Foreign and Security Policy and the list of countries identified for sanctions by the UN Security Council are followed on an ongoing basis, with the possibility to make additional exclusions if deemed necessary. The decision for additional exclusions is at the discretion of Avaron's Investment Committee, upon a proposal by the respective Investment Manager.

OA 14	Voluntary	Descriptive	PRI 1

OA 14.1	Indicate if your organisation allocates assets to, or manages, funds based on specific environmental and social themed areas.

○ Yes

◉ No

Assurance of responses

OA 19	Voluntary	Additional Assessed	General

OA 19.1	Indicate whether your reported information has been reviewed, validated and/or assured by internal and/or external parties.

◉ Yes

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OA 19.2	Indicate who has reviewed, validated and/or assured your reported information.

☑ Reviewed by Board, CEO, CIO or Investment Committee

☐ Validated by internal audit or compliance function

☐ Assured by an external independent provider, specify name

OA 19.3	Describe the steps you have taken to review, validate and/or assure the content of your reported information.

The report has been reviewed after completion by the Investment Committee and Management Board of Avaron.

○ No

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AS Avaron Asset Management

Reported Information

Public version

Direct - Listed Equity Incorporation

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Overview

LEI 01	Mandatory to Report Voluntary to Disclose	Gateway/Peering	PRI 1

LEI 01.1 Provide a breakdown of your internally managed listed equities by passive, quantitative, fundamental and other active strategies. For strategies that account for less than 10% of your internally managed listed equities, indicate if you would still like to report your activities.

Strategies

- ☐ Passive
- ☐ Active – quantitative (quant)
- ☑ Active – fundamental and other active strategies

	% of internally managed listed equities

- ○ <10%
- ○ 10-50%
- ◉ >50%

LEI 02	Voluntary	Descriptive	PRI 1

LEI 02.1 Provide a brief overview of how you incorporate ESG issues in listed equity investments.

Avaron has built two ESG layers into its investment process aiming to insure the ESG issues are consistently taken into account when making investment decisions:

5. Sector and/or country exclusion in order to not exceed acceptable levels of involvement in activities considered to be controversial such as weapons, alcohol, tobacco, gambling, adult content and activities in oppressive regimes;
6. A compliance check of investee companies with the main principles laid out in the United Nations Global Compact for social and environmental criteria, and separately with governance criteria set in- house.

ESG incorporation in actively managed listed equities

Implementation processes

LEI 03	Mandatory	Gateway/Core Assessed	PRI 1

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LEI 03.1	Indicate (1) which ESG incorporation strategy and/or combination of strategies you apply to your actively managed listed equities and (2) the breakdown of your actively managed listed equities by strategy or combination of strategies.

ESG incorporation strategy (select all that apply)

☐ Screening alone (i.e. not combined with any other strategies)

☐ Thematic alone (i.e. not combined with any other strategies)

☐ Integration alone (i.e. not combined with any other strategies)

☑ Screening + Integration strategies

Percentage of active listed equity to which the strategy is applied (estimate +/- 10%)	%
	100

☐ Thematic + integration strategies

☐ Screening + thematic strategies

☐ All three strategies combined

☐ No incorporation strategies applied

	Total actively managed listed equities

100%

LEI 03.2	Describe your primary reasons for choosing a particular ESG incorporation strategy.

ESG factors are mainly considered in the investment decision- making and ownership practices with an aim to reduce investment risk. Screening, which is the main strategy of ESG risk management in Avaron, has proven to be an efficent approach taking into account the cost-benefit considerations that boutique-type houses need to address. At the same time being a bottom-up stock picker it is essential to have an ESG layer integrated into the investment process in order to have a sound and thorough fundamental basis for decision-making

LEI 04	Voluntary	Additional Assessed	PRI 1

LEI 04.1	Indicate what ESG information you use in your ESG incorporation strategies and who provides this information.

Type of ESG information

☑ Raw ESG company data

Indicate who provides this information

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☐ ESG research provider

☐ Sell-side

☐ In-house – specialised ESG analyst or team

☑ In-house – analyst or portfolio manager

☑ Company-related analysis or ratings

Indicate who provides this information

☐ ESG research provider

☐ Sell-side

☐ In-house – specialised ESG analyst or team

☑ In-house – analyst or portfolio manager

☐ Sector-related analysis or ratings

☑ Country-related analysis or ratings

Indicate who provides this information

☐ ESG research provider

☐ Sell-side

☐ In-house – specialised ESG analyst or team

☑ In-house – analyst or portfolio manager

☑ Screened stock list

Indicate who provides this information

☐ ESG research provider

☐ Sell-side

☐ In-house – specialised ESG analyst or team

☑ In-house – analyst or portfolio manager

☐ Issue-specific analysis or ratings

☐ Other, specify

LEI 04.2	Provide a brief description of the ESG information used, highlighting any differences of sources of information across your ESG incorporation strategies.

ESG information used for the internal analysis is to a large extent sourced directly from the investee companies.

LEI 04.3	Indicate if you incentivise brokers to provide ESG research.

○ Yes

◉ No

LEI 05	Voluntary	Additional Assessed	PRI 1

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LEI 05.1	Indicate if your organisation has a process through which information derived from ESG engagement and/or (proxy) voting activities is made available for use in investment decision-making.

☑ Engagement

- ◉ We have a systematic process to ensure the information is made available.
- ○ We occasionally make this information available.
- ○ We do not make this information available.

☑ (Proxy) voting

- ◉ We have a systematic process to ensure the information is made available.
- ○ We occasionally make this information available.
- ○ We do not make this information available.

(A) Implementation: Screening

LEI 06	Mandatory	Descriptive	PRI 1

LEI 06.1	Indicate and describe the type of screening you apply to your internally managed active listed equities.

Type of screening

☑ Negative/exclusionary screening

Screened by

- ☐ Product
- ☐ Activity
- ☑ Sector
- ☑ Country/geographic region
- ☑ Environmental and social practices and performance
- ☑ Corporate governance

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Description

Avaron has built two ESG layers into its investment process aiming to insure the ESG issues are consistently taken into account when making investment decisions:

7. Sector and/or country exclusion in order to not exceed acceptable levels of involvement in activities considered to be controversial such as weapons, alcohol, tobacco, gambling, adult content and activities in oppressive regimes;
8. A compliance check of investee companies with the main principles laid out in the United Nations Global Compact for social and environmental criteria, and separately with governance criteria set in-house.

The first layer - exclusionary sector/country screening - determines that Avaron will avoid investing in companies which:

- Design, develop, manufacture and/or overhaul military weapons and/or weapons-delivery systems (i.e. jet fighters, battleships, armoured personnel carriers etc.);
- Derive 10% or more of their pre-tax profits and/or revenues from gaming and/or lottery
- Derive 10% or more of their pre-tax profits and/or revenues from production and/or sale of alcoholic beverages;
- Derive 10% or more of their pre-tax profits and/or revenues from production and/or sale of tobacco products;
- Derive 10% or more of their pre-tax profits and/or revenues from production and/or sale of pornographic materials;
- Derive 10% or more of their pre-tax profits and/or revenues from operations related to or taking place in oppressive regimes.

The list of oppressive regimes is based on the latest Economist Intelligence Unit (www.eiu.com) Democracy Index, which measures the state of democracy in 165 independent countries and 2 territories. The Index comprises 60 indicators covering five different categories: electoral process and pluralism, functioning of the government, political participation, political culture and civil liberties. Oppressive regimes have been defined as countries with 2.0 or lower score on a scale from zero to ten of the Index.

In addition, the European Union restrictive measures within the framework of the Common Foreign and Security Policy and the list of countries identified for sanctions by the UN Security Council are followed on an ongoing basis, with the possibility to make additional exclusions if deemed necessary.

The exclusionary sector/country screening is carried out at least once per annum by the Investment Manager and Analyst responsible for the respective company.

☐ Positive/best-in-class screening

☑ Norms-based screening

Screened by

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☑ UN Global Compact Principles

☐ Universal Declaration of Human Rights

☐ International Labour Organization Conventions

☐ United Nations Convention Against Corruption

☐ OECD Guidelines for Multinational Enterprises

☐ Other, specify

Description

In developing the second ESG layer - the ESG compliance check - Avaron has taken the UN Global Compact Ten Principles as a basis for its proprietary social and environmental compliance check for the investee companies. The compliance check of corporate governance issues are assessed based on the International Corporate Governance Network Corporate Governance Principles, bearing in mind the possible local differences in the prevailing conduct code.

The companies' ESG compliance assessment, is based on 13 criteria covering environmental, social and governance aspects with the aim to filter out companies that have significantly and repeatedly breached any of the key principles. The criteria are the following:

9. Abuses of international and/or local environmental norms and protocols
10. Implementation of environmental technologies where applicable
11. Activities to promote environmental responsibilities
12. Abuses of human rights
13. Cases of child labour and forced labour usage
14. Safety of working environment and products
15. Freedom of association and recognition of the right to collective bargaining
16. Cases of corruption, extortion and/or bribery
17. Transparency of the business
18. Abuses of minority shareholder rights
19. Share structure, board composition, independence and remuneration
20. Adequate investor communication (availability, sufficiency, quality)
21. Reporting and policy framework (formal code of business conduct, ESG policy and reporting)

The above mentioned thirteen criteria are divided into two different subcategories with different weight in the decision making process. First group automatically triggers "engage or exclude" action to be taken in case of incompliance with at least one of the set criterion, while the second group would require two cases of incompliance to trigger further action.

The ESG compliance check is carried out at least twice a year by the Investment Manager and Analyst responsible for the respective company as part of the regular company analysis via company reporting, management interviews, third party check-ups and news flow monitoring.

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LEI 06.2	Describe how the screening criteria are established, how often the criteria are reviewed and how you notify clients and/or beneficiaries when changes are made.

Changes in the methodology of screening will be communicated to clients/beneficiaries via the RI Policy update on Avaron's webpage.

LEI 07	Mandatory	Core Assessed	PRI 1

LEI 07.1	Indicate which processes your organisation uses to ensure that screening is based on robust analysis.

☐ Comprehensive ESG research is undertaken or sourced to determine companies' activities and products.

☐ Companies are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies

☐ External research and data used to identify companies to be excluded/included is subject to internal audit by ESG/RI staff, the internal audit function or similar

☑ Company ESG information/ratings are updated regularly to ensure that portfolio holdings comply with fund policies

☐ A committee or body with representatives independent of the individuals who conduct company research reviews some or all screening decisions

☐ A periodic review of the quality of the research undertaken or provided is carried out

☑ Other, specify

Avaron's Investment Committee validates the ESG analysis in the case of all new portfolio investments.

☐ None of the above

LEI 08	Voluntary	Additional Assessed	PRI 1

LEI 08.1	Indicate which processes your organisation uses to ensure that fund criteria are not breached

☐ Checks are performed to ensure that stocks meet the funds' screening criteria. These checks are:

☑ Automated IT systems prevent investment managers from investing in excluded stocks or those that do not meet positive screening criteria.

☐ Audits of fund holdings are undertaken regularly by internal audit function

☐ Other, specify

☐ None of the above

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LEI 08.2	If breaches of fund screening criteria are identified - describe the process followed to correct those breaches.

In case of breaches on sector/country exclusions once a breach is detected the position will be liquidated.

In case of beaches on companies' ESG compliance the criteria are divided into two different subcategories with different weight in the decision making process. First group automatically triggers "engage or exclude" action to be taken in case of incompliance with at least one of the set criterion, while the second group would require two cases of incompliance to trigger further action. Furtheron, the responsible Analyst shall assess the gravity/severity of the breach, namely:

22. the temporal proximity (when and for how long has the incident occurred);
23. size (financial costs, land polluted etc. associated with the incident);
24. credibility (allegations, legal action taken etc.);
25. and repetitiveness (is the incident a one-off incident or it is evidence of systematic failings over a period of time).

Emphasis is also placed on a company's response to the incident, with favourable consideration for positive and responsible practices taken by the company to ensure that such a breach does not occur again. For some controversial activities, in addition to the level of involvement, it is also important to consider how the company approaches and considers its potentially contentious activities. Therefore the presence (or absence) of relevant and targeted responsible policy that acknowledges the company's involvement in an activity, as well as the existence of systems and practices taken to ensure that it operates in a responsible manner, are important elements in the assessment.

Should the ESG compliance failures occur for companies Avaron is currently invested in, then after the initial breach analysis is completed, the responsible Investment Manager shall bring the case in front of the Investment Committee that decides upon further action. In case the engagement option is excluded, the investment will be liquidated. If engagement will be pursued then the objective and timeline for the engagement will be decided upon and engagement process started. Should the investee company fail to address the raised issue within a reasonable timeframe, the investment will be liquidated.

(C) Implementation: Integration of ESG issues

LEI 10	Voluntary	Descriptive	PRI 1

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LEI 10.1	Describe how you integrate ESG factors into investment decision making processes.

All investee companies undergo sector/country screening to in order to not exceed acceptable levels of involvement in activities considered to be controversial such as weapons, alcohol, tobacco, gambling, adult content and activities in oppressive regimes. In addition a compliance check of investee companies with the main principles laid out in the United Nations Global Compact for social and environmental criteria, and separately with governance criteria set in-house.

All material risks discovered during the ESG compliance check that can be quantified will be taken into account in valuing the company, thus directly affecting the target price and portfolio construction.

Governance issues are also additionally assessed as part of company quality score, which enables to rank investee companies in Avaron's universe on 0-100 scale. Quality score is taken into account in portfolio construction - the lower the quality, the higher upside we require in order the company to be added to the portfolio. Low quality names with a score below 50, are excluded from the investment universe.

LEI 11	Mandatory	Core Assessed	PRI 1

LEI 11.1	Indicate if E, S and G issues are reviewed while researching companies and/or sectors in active strategies.

ESG issues	Coverage/extent of review on these issues
Environmental	○ We systematically review the potential significance of environmental issues and investigate them accordingly ◉ We occasionally review the potential significance of environmental issues and investigate them accordingly ○ We do not review environmental issues
Social	○ We systematically review the potential significance of social issues and investigate them accordingly ◉ We occasionally review the potential significance of social issues and investigate them accordingly ○ We do not review social issues
Corporate Governance	◉ We systematically review the potential significance of corporate governance issues and investigate them accordingly ○ We occasionally review the potential significance of corporate governance issues and investigate them accordingly ○ We do not review corporate governance issues

LEI 12	Voluntary	Descriptive	PRI 1

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LEI 12.1	Indicate which processes your organisation uses to ensure that ESG integration is based on a robust analysis.

☐ Comprehensive ESG research is undertaken or sourced to determine companies' activities and products

☐ Companies are given the opportunity by you or your research provider to review ESG research on them and correct inaccuracies

☑ Company information and/or ratings on ESG are updated regularly

☐ A periodic review of the quality of the research undertaken or provided is carried out

☑ Other, specify

Investment Committee reviews ESG analysis as part of the investment case prior investing in a new company.

☐ None of the above

LEI 12.2	Describe how ESG information is held and used by your portfolio managers.

☐ ESG information is held within centralised databases or tools and it is accessible by all relevant staff

☑ ESG information or analysis is a standard section or aspect of all company research notes or industry/sector analysis generated by investment staff

☐ Systematic records are kept that capture how ESG information and research was incorporated into investment decisions

☐ Other, specify

☐ None of the above

LEI 12.3	Additional information.

Each covered company in Avaron's investment universe has a dedicated ESG analysis sheet in the Excel file containing exclusionary sector/country screening and ESG compliance check data.

LEI 13	Voluntary	Additional Assessed	PRI 1

LEI 13.1	Indicate into which aspects of investment analysis you integrate ESG information.

☐ (Macro) economic analysis

☐ Industry analysis

☑ Analysis of company strategy and quality of management

◉ Systematically

○ Occasionally

☐ Idea generation

☐ Portfolio construction

☑ Fair value/fundamental analysis

◉ Systematically

○ Occasionally

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LEI 13.2	Indicate which methods are part of your process to integrate ESG information into fair value/fundamental analysis.

☑ Adjustments to income forecasts (sales, earnings, cash flows)

☐ Adjustments to valuation tools (discount rates, return forecasts, growth rates)

☐ Other adjustments to fair value projections, specify

☐ Other, specify

Outputs and outcomes

LEI 15	Voluntary	Descriptive	PRI 1

LEI 15.1	Indicate how your ESG incorporation strategies have influenced the composition of your portfolio(s) or investment universe.

☑ Screening

	Describe any reduction in your starting investment universe or other effects.

Negative screening has reduced the number of companies in our investment universe mostly based on insufficient governance but also based on sector (e.g. arms production, gambling, tobacco, alcohol) and country exposure (e.g. Eastern European companies operating in Iran)

	Specify the percentage reduction

	%

10

☑ Integration of ESG issues

	Select which of these effects followed your ESG integration:

☑ Reduce or prioritise the investment universe

☐ Overweight/underweight at sector level

☐ Overweight/underweight at stock level

☑ Buy/sell decisions

☐ Other, specify

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LEI 15.2	Additional information.

In addition Avaron uses a quality score to rank companies in our coverage universe on 0-100 scale. Governance issues are also additionally assessed as part of the quality score. Quality score is taken into account in portfolio construction - the lower the quality, the higher upside we require in order the company to be added to the portfolio. Low quality names with a score below 50, are excluded from the investment universe.

LEI 16	Voluntary	Descriptive	PRI 1

LEI 16.1	Indicate if you believe that incorporating ESG factors has: (a) Impacted funds' financial performance; (b) Reduced funds' risk or volatility; (c) Improved funds' ESG performance.

a) Impacted funds' financial performance

Screening		Integration of ESG issues	
◉ Yes ○ No		◉ Yes ○ No	

b) Reduced funds' risk or volatility

Screening		Integration of ESG issues	
◉ Yes ○ No		◉ Yes ○ No	

c) Improved funds' ESG performance

Screening		Integration of ESG issues	
◉ Yes ○ No		◉ Yes ○ No	

LEI 16.2	Describe how you are able to determine these outcomes and your actual performance.

On ad hoc basis we compare the risk-adjusted returns of the excluded companies with our portfolio returns.

LEI 17	Voluntary	Descriptive	PRI 1

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LEI 17.1	Provide examples of ESG issues that affected your investment view and/or performance during the reporting year.

☑ ESG issue 1

	ESG issue and explanation

In case of one Romanian financial holding company, SIF Banat-Crisana, our analysis discovered thet the management had made investments into management related companies without providing proper and timely disclosure. We adressed the issue with the management but did not get a satisfactory disclosure nor assurance that such cases would not arise in the future.

	ESG incorporation strategy applied

☐ Screening

☐ Integration

☑ Combination of ESG incorporation strategies

	Impact on investment decision or performance

We excluded the company from our investment universe.

☐ ESG issue 2

☐ ESG issue 3

☐ ESG issue 4

☐ ESG issue 5

Communication

LEI 18	Mandatory	Core Assessed	PRI 2,6

LEI 18.1	Indicate if your organisation proactively discloses information on your approach to ESG incorporation in listed equity.

◉ We disclose it publicly

	Provide URL

http://www.avaron.com/?id=2250

LEI 18.2	Indicate if the information disclosed to the public is the same as that disclosed to clients/beneficiaries.

◉ Yes

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LEI 18.3	Indicate the information your organisation proactively discloses to clients/ beneficiaries and the public regarding your approach to ESG incorporation.

- ○ Broad approach to ESG incorporation
- ◉ Detailed explanation of ESG incorporation strategy used

LEI 18.4	Indicate how frequently you typically report this information.

- ○ Quarterly or more frequently
- ◉ Between quarterly and annually
- ○ Less frequently than annually
- ○ Other, specify

○ No

○ We disclose it to clients and/or beneficiaries only

○ We do not proactively disclose it to the public and/or clients/beneficiaries

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Engagement

Overview

LEA 01	Voluntary	Descriptive	PRI 2

LEA 01.1	Provide a brief overview of your organisation's approach to engagement.

Avaron takes an active approach to communicating its views to companies and seeking improvements where there are shortcomings in performance, or a company has failed to apply appropriate standards, or to provide adequate disclosure. Should the company breach Avaron's ESG criteria, engagement would be the preferable option over exclusion in order to thrive towards better ESG awareness and policies. A dialogue with the company is maintained over an extended period if necessary. Escalation of the engagement activities will depend upon the company's individual circumstances. Actions may include communications through the company's brokers, direct engagement with the management board or joint intervention with other shareholders.

Avaron recognizes that in many instances joint action by shareholders has the potential to be more effective than acting alone. Thus, in special circumstances Avaron may consider participation in collaborative engagement initiatives.

LEA 02	Mandatory	Gateway	PRI 1,2,3

LEA 02.1	Indicate your reasons for interacting with companies on ESG issues and indicate who carries out these interactions.

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Type of engagement	Reason for interaction
Individual/Internal staff engagements	☑ To support investment decision-making (e.g. company research) ☑ To influence corporate practice (or identify the need to influence) on ESG issues ☑ To encourage improved ESG disclosure ☐ Other, specify ☐ We do not engage via internal staff
Collaborative engagements	☐ To support investment decision-making (e.g. company research) ☑ To influence corporate practice (or identify the need to influence) on ESG issues ☑ To encourage improved ESG disclosure ☐ Other, specify ☐ We do not engage via collaborative engagements
Service provider engagements	☐ To support investment decision-making (e.g. company research) ☐ To influence corporate practice (or identify the need to influence) on ESG issues ☐ To encourage improved ESG disclosure ☐ Other, specify ☑ We do not engage via service providers

Process

Process for engagements run internally

LEA 03	Mandatory	Core Assessed	PRI 2

LEA 03.1 Indicate whether your organisation has a formal process for identifying and prioritising engagement activities carried out by internal staff.

◉ Yes

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LEA 03.2	Describe how you identify and prioritise engagements.

Engagement activity is triggered in case the in-house ESG analysis indicates a breach with the internally set ESG criteria. The criteria are divided into two different subcategories with different weight in the decision making process. First group automatically triggers "engage or exclude" action to be taken in case of incompliance with at least one of the set criterion, while the second group would require two cases of incompliance to trigger further action.

Engagement activities are prioritised based upon the assessment of the severity of the breach. After the breach has been detected the responsible Analyst shall assess the gravity/severity of the breach, namely:

26. the temporal proximity (when and for how long has the incident occurred);
27. size (financial costs, land polluted etc. associated with the incident);
28. credibility (allegations, legal action taken etc.);
29. and repetitiveness (is the incident a one-off incident or it is evidence of systematic failings over a period of time).

Emphasis is also placed on a company's response to the incident, with favourable consideration for positive and responsible practices taken by the company to ensure that such a breach does not occur again. For some controversial activities, in addition to the level of involvement, it is also important to consider how the company approaches and considers its potentially contentious activities. Therefore the presence (or absence) of relevant and targeted responsible policy that acknowledges the company's involvement in an activity, as well as the existence of systems and practices taken to ensure that it operates in a responsible manner, are important elements in the assessment.

If the company fails toaddress our concerns within a reasonable timeframe we exclude it from our investment universe.

○ No

LEA 04	Mandatory	Core Assessed	PRI 2

LEA 04.1	Indicate if you define specific objectives for your engagement activities.

◉ Yes

- ◉ Yes, for all engagement activities
- ○ Yes, for the majority of engagement activities
- ○ Yes, for a minority of engagement activities

○ No

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LEA 04.2	Indicate if you monitor the actions that companies take following your engagements.

◉ Yes

- ◉ Yes, in all cases
- ○ Yes, in the majority of cases
- ○ Yes, in the minority of cases

LEA 04.3	Describe how you monitor and evaluate the progress of your engagement activities.

Once a certain issue has been raised with the investee company, including also an indication of the timeframe within we expect action to be taken, we monitor the progress via keeping an active dialogue with the management.

○ No

Process for engagements conducted via collaborations

LEA 05	Mandatory	Core Assessed	PRI 2

LEA 05.1	Indicate whether your organisation has a formal process for identifying and prioritising collaborative engagements.

○ Yes

◉ No

LEA 06	Mandatory	Core Assessed	PRI 2

LEA 06.1	Indicate if the collaborative engagements in which you are involved have defined objectives.

◉ Yes

- ◉ Yes, for all collaborative engagement activities
- ○ Yes, for the majority of collaborative engagement activities
- ○ Yes, for a minority of collaborative engagement activities

○ No

LEA 06.2	Indicate if you monitor the actions companies take following your collaborative engagements.

◉ Yes

- ○ Yes, in all cases
- ◉ Yes, in the majority of cases
- ○ Yes, in the minority of cases

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LEA 06.3	Describe how you monitor and evaluate the progress of your collaborative engagement activities.

In case of collaborative engagements targeting specific companies Avaron participates only if the company is part of Avaron's investment universe. Collaborative enagements targeting positive change in general ESG practices globally, Avaron uses the updates of the lead investor to monitor the progress.

○ No

General processes for all three groups of engagers

LEA 09	Voluntary	Additional Assessed	PRI 1,2

LEA 09.1	Indicate if the insights gained from your engagements are shared with your internal or external investment managers as input for consideration in investment decisions.

Type of engagement	Insights shared
Individual/Internal staff engagements	◉ Yes, systematically ○ Yes, occasionally ○ No
Collaborative engagements	○ Yes, systematically ◉ Yes, occasionally ○ No

LEA 10	Mandatory	Gateway/Core Assessed	PRI 2

LEA 10.1	Indicate if you track the number of companies you engage with.

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Type of engagement	Tracking engagements
Individual / Internal staff engagements	◉ Yes, we track the number of our engagements in full ○ Yes, we partially track the number of our engagements ○ No, we do not track our engagements but can provide a reasonable estimate of our engagement numbers ○ No, we do not track and cannot estimate our engagements
Collaborative engagements	◉ Yes, we track the number of our engagements in full ○ Yes, we partially track the number of our engagements ○ No, we do not track our engagements but can provide a reasonable estimate of our engagement numbers ○ No, we do not track and cannot estimate our engagements

Outputs and outcomes

LEA 11 | Mandatory to Report Voluntary to Disclose | Core Assessed | PRI 2

LEA 11.1 Indicate the number of companies with which your organisation engaged during the reporting year.

	Number of companies engaged (avoid double counting, see explanatory notes)
Individual / Internal staff engagements	1
Collaborative engagements	1

LEA 11.2 Indicate what percentage of your engagements were comprehensive during the reporting year. [Optional]

Type of engagement	**% Comprehensive engagements**
Individual / Internal staff engagements	◉ > 50% ○ 10-50% ○ <10% ○ None
Collaborative engagements	◉ >50% ○ 10-50% ○ <10% ○ None

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LEA 11.3	Indicate what percentage of your collaborative engagements you were a leading organisation during the reporting year. [Optional]

Type of engagement	% Leading role
Collaborative engagements	○ >50% ○ 10-50% ○ <10% ◉ None

LEA 12	Voluntary	Additional Assessed	PRI 2

LEA 12.1	Indicate if your engagements in the reporting year covered E, S and/or G issues.

Type of engagement	Coverage
Individual / Internal staff engagements	☐ Environmental ☐ Social ☑ Corporate Governance ☐ We do not track this information
Collaborative engagements	☐ Environmental ☐ Social ☑ Corporate Governance ☐ We do not track this information

LEA 12.2	Provide an estimated breakdown by E, S and/or G issues.

Individual / Internal staff engagements

% Corporate Governance only

100

100%

Collaborative engagements

% Corporate Governance only

100

100%

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LEA 13	Voluntary	Descriptive	PRI 2

LEA 13.1	Indicate whether you have a reliable estimate of the number of cases during the reporting year where a company has changed its practices, or made a commitment to do so, following your organisation's and/or your service provider's engagement activities.

◉ Yes

LEA 13.2	Indicate the number of companies that changed or committed to change in the reporting year following your organisation's and/or your service provider's engagement activities.

	Number of company changes or commitments to change
Individual / Internal staff engagements	0
Collaborative engagements	0

○ No

LEA 14	Voluntary	Descriptive	PRI 2

LEA 14.1	Provide examples of the engagements that your organisation carried out during the reporting year.

☑ Add Example 1

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PRI Principles for Responsible Investment

Topic or ESG issue	Audit - New EC Directive and Regulation
Conducted by	☐ Individual / Internal ☑ Collaborative
Objectives	To have institutional investor interests considered when detaling the new European audit regulation including specific proposals on the mandatory rotation, appointment& tendering, non-audit services provided by the selected auditor, audit report disclosure and audit committee composition.
Scope and Process	To engage actively in drawing up the new EC directive on audit. Collaboration was led by the Universities Superannuation Scheme (USS) and included over 30 major European institutional investors and investor associations, releasing a Position Paper, which sets out the long-term investor view of weaknesses in the audit sector, and proposals for key steps to restore trust.
Outcomes	Although the proposals of the collaboration were not taken into account in full, investors' interests in the process were represented leading to a compromise on the raised issues.

☑ Add Example 2

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Topic or ESG issue	Related party transactions
Conducted by	☑ Individual / Internal ☐ Collaborative
Objectives	To improve the standards of disclosure on related party transactions
Scope and Process	In case of one Romanian financial holding company, SIF Banat-Crisana, our analysis discovered thet the management had made investments into management related companies without providing proper and timely disclosure. We adressed the issue with the management but did not get a satisfactory disclosure nor assurance that such cases would not arise in the future.
Outcomes	We excluded the company from our investment universe.

☐ Add Example 3
☐ Add Example 4
☐ Add Example 5
☐ Add Example 6
☐ Add Example 7
☐ Add Example 8
☐ Add Example 9
☐ Add Example 10

Communication

LEA 15	Mandatory	Core Assessed	PRI 2,6

LEA 15.1 Indicate whether your organisation proactively discloses information on its engagements.

○ We disclose it publicly
○ We disclose it to clients and/or beneficiaries only
◉ We do not proactively disclose it to the public and/or clients/beneficiaries.

LEA 15.6 Additional information. [Optional]

Avaron discloses information regarding egagement activities to clients/beneficiaries based upon their request.

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PRI Principles for Responsible Investment

(Proxy) voting and shareholder resolutions

Overview

LEA 16	Voluntary	Descriptive	PRI 2

LEA 16.1	Provide a brief overview of your organisation's approach to (proxy) voting (including the filing and/or co-filing of shareholder resolutions if applicable).

Avaron normally participates on behalf of the investment portfolios, in shareholders' meetings, according to the level of advantage that this participation would bring to the managed portfolios, as well as for the opportunity to affect decisions regarding the shares where voting rights are held. Avaron has identified the following quantitative and qualitative criteria that drive the decision to exercise participation and voting rights through a cost-benefit analysis that also takes into consideration the investment objectives and policies of the investment portfolios. Avaron participates in all shareholders' meetings and interacts with the Board of Directors of those companies where the Funds hold a significant share (5% or more). If the set limit is not exceeded, then participation and voting rights shall be exercised if required by the need to safeguard the interest of the portfolios' shareholders.

Avaron participates in the shareholders' meetings that are deemed relevant to the company's benefit, in order to identify situations of particular interest for the purpose of protecting and supporting the interests of minority shareholders. Avaron contributes to the election of members of the boards of statutory auditors or board members through the voting mechanism, representing minority shareholders. Avaron participates in those shareholders' meetings where extraordinary operations are decided upon, if , such participation is needed to support or object to a proposed operation, to insure the best interests of the investment portfolios.

At shareholders' meetings with routine affairs and uncontested agenda points, Avaron does not exercise its voting rights if the investment portfolios hold less than a 5% share. Should however, a motion conflict with the long-term interests of investors, Avaron will actively exert its influence and disregard the recommendation of the Board of Directors.

In no case is the exercise of the participation and voting rights not bound by or subject to voting or blocking shareholders' agreement.

Process

LEA 17	Mandatory	Descriptive	PRI 2

LEA 17.1	Indicate how you typically make your (proxy) voting decisions and what this approach is based on.

	Approach

◉ We use our own research or voting team and make our own voting decisions without the use of service providers.

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	Based primarily on

◉ our own voting policy

○ our clients requests or policy

○ other, explain

○ We hire service provider(s) which make voting recommendations or provide research that we use to inform our voting decisions.

○ We hire service provider(s) which make voting decisions on our behalf, except for some pre-defined scenarios for which we review and make voting decisions.

○ We hire service provider(s) which make voting decisions on our behalf.

LEA 19	Voluntary	Descriptive	PRI 2

LEA 19.1	To ensure that your (proxy) votes are cast and reach their intended destination on time, indicate if you did the following.

☑ Obtain confirmation that votes have been lodged:

○ for a majority of votes

◉ for a minority of votes

☐ Participate in projects to improve the voting trail and/or to obtain vote confirmation

☐ None of the above

LEA 19.2	Provide additional information on your organisation's vote confirmation efforts.

We primarily cast our votes through the global custodian who provides us confirmation on cast votes. In case of direct voting we opt to get confirmation from the investee company if deemed neccessary.

LEA 20	Voluntary	Additional Assessed	PRI 2

LEA 20.1	Indicate if your organisation has a securities lending programme.

○ Yes

◉ No

LEA 21	Mandatory	Core Assessed	PRI 2

LEA 21.1	Indicate if you ensure that companies are informed of the rationale when you and/or the service providers acting on your behalf abstain or vote against management recommendations.

◉ Yes, in most cases

○ Sometimes, in the following cases:

○ No

○ Not applicable as we and/or our service providers do not abstain or vote against management recommendations

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LEA 21.2	Additional information. [Optional]

In case of abstaining or voting against the management recommendations the aim is to send a clear message to the investee company, thus in most cases we also communicate the rationale to the management of the company.

Outputs and outcomes

LEA 22	Mandatory	Core Assessed	PRI 2

LEA 22.1	For listed equities where you and/or your service provider has the mandate to issue (proxy) voting instructions, indicate the percentage of votes cast during the reporting year.

◉ We do track or collect this information

Votes cast (to the nearest 1%)

%

19

Specify the basis on which this percentage is calculated

○ of the total number of ballot items on which you could have issued instructions

○ of the total number of company meetings at which you could have voted

◉ of the total value of your listed equity holdings on which you could have voted

LEA 22.2	If there are specific reasons why you did not vote certain holdings, explain these, and if possible, indicate the percentage of holdings affected by these factors. [Optional]

Avaron participates in all shareholders' meetings and interacts with the Board of Directors of those companies where the Funds hold a significant share (5% or more). If the set limit is not exceeded, then participation and voting rights shall be exercised if required by the need to safeguard the interest of the portfolios' shareholders. At shareholders' meetings with routine affairs and uncontested agenda points, Avaron does not exercise its voting rights if the investment portfolios hold less than a 5% shareholding.

○ We do not track or collect this information

LEA 23	Voluntary	Descriptive	PRI 2

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LEA 23.1	Indicate if you track the voting instructions that you and/or your third party have issued on your behalf.

◉ Yes, we track this information

LEA 23.2	Of the voting instructions that you and/or third parties have issued on your behalf, indicate the proportion of ballot items that were:

Voting instructions	Breakdown as percentage of votes cast
For (supporting) management proposals	% 94
Against (opposing) management proposals	% 6
Abstentions	% 0

100%

○ No, we do not track this information

LEA 24	Voluntary	Descriptive	PRI 2

LEA 24.1	Indicate if your organisation directly or via a service provider filed or co-filed any shareholder resolutions during the reporting year.

○ Yes

◉ No

LEA 25	Voluntary	Descriptive	PRI 2

LEA 25.1	Provide examples of the (proxy) voting activities that your organisation and/or service provider carried out during the reporting year.

☑ Add Example 1

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PRI Principles for Responsible Investment

Topic or ESG issue	Dividend payout
Decision made by	☑ Internal staff ☐ Service provider
Objectives	To signal the investee company that investors expect a higher payout given the inefficeint capital structure (net cash position).
Scope and Process	Activist financial shareholders filed an alternative higher payout proposal for the shareholder meeting in order to draw the attention of the investors to the suboptimal capital structure of the company that has been retained by the management for several years without sufficient reasoning for it. We reviewed the alternative proposal and come to the conclusion that it was also alingned with our in-house views on the issue. Consequently Avaron voted against the management proposal and in favour of the alternative investors' proposal.
Outcomes	Management proposal was approved and higher payout was not accepted.

☐ Add Example 2

☐ Add Example 3

☐ Add Example 4

☐ Add Example 5

☐ Add Example 6

☐ Add Example 7

☐ Add Example 8

☐ Add Example 9

☐ Add Example 10

Communication

LEA 26	Mandatory	Core Assessed	PRI 2,6

LEA 26.1 Indicate if your organisation proactively discloses information on your voting activities.

○ We disclose it publicly

○ We disclose it to clients/beneficiaries only

◉ We do not proactively disclose our voting activities to the public and/or to clients/beneficiaries

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LEA 26.6	Additional information. [Optional]

Avaron discloses the voting activities to clients and beneficiaries in detail upon their request.

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