

Promotion of environmental characteristics

Summary

NCH Baltics is a real estate fund manager. The primary investment focus of our managed fund “NCH Baltic Real Estate Opportunity Fund I” (“Fund”) is class B industrial and logistics facilities, which after acquisition we will develop and make significantly more attractive to buyers. We support sustainability ideas, therefore, when improving the condition of the purchased objects, we pay a lot of attention to the promotion of environmental characteristics. Therefore, our approach is to create “green” funds as per EU’s regulation 2019/2088 “On sustainability-related disclosures in the financial services sector”. The fund promotes environmental characteristics, but its target is not sustainable investment, therefore it is classified as a “light green” fund or as an “Article 8” fund of the Regulation.

Guidelines for facilitating environmental characteristics are provided in the Environmental, Social and Corporate Governance (ESG) Policy of NCH Baltics and the Fund’s Sustainability Plan of October 6, 2021 (Restated and Amended as of 11.08.2022 and 28.04.2023).

Before each new investment, we conduct an examination of the acquirable real estate and determine its state of sustainability and the necessary sustainability improvements. In accordance with the results of the examination, a business plan is developed for each object, which determines the amount of investment necessary to improve sustainability.

Monitoring of environmental characteristics is carried out during the acquisition of a real estate, after its acquisition and throughout the entire period of its management. Before the acquisition of each object, its legal and technical due diligence is carried out. Within its framework we assess whether any of the existing or expected environmental, social or management events or conditions may have a material negative impact on the planned investment and its return. The Manager regularly prepares reports related to sustainability issues, as well as plans for improving sustainability characteristics.

We regularly collect data pertaining to environmental characteristics of the properties we manage, we process and analyze the practical benefits of these characteristics, and plan improvements of these characteristics and the Fund's returns.

No sustainable investment target

Fund facilitates environmental characteristics, but its target is not sustainable investment.

Environmental characteristics of the Fund

Real estate is the Fund’s investment focus. Therefore, when managing the Fund, we focus on environmental characteristics that are directly related to the management and administration of a real estate. The table below shows the environmental characteristics we facilitate.

Environmental characteristics (basic category)	Environmental characteristics (subcategory)
Energy efficiency	
CO ₂ emissions	including: electric car charging
Waste	Waste sorting
Resource consumption	Electricity
	Water
	Heating
	Use of renewable resources - solar panels, etc.
	Separate electricity, heating/heat, and water meters for rooms

Investment strategy

Fund's investment strategy, to achieve compliance with environmental characteristics, is included in the Environmental, Social and Corporate Governance (ESG) Policy of NCH Baltics of October 6, 2021 and the Fund's sustainability plan (Amended and Restated on 11.08.2022 and 28.04.2023). We strictly adhere to the Policy and the sustainability plan, and in addition we provide a specific sustainability plan to each investment object. The Policy outlines our main guidelines in the area of environmental and social sustainability as well as corporate governance. The Policy also outlines our considerations when the Fund makes its investments and manages real estate after its purchase, including determining the procedure how sustainability issues are assessed. The Policy and the aforementioned plans are reviewed no less than annually.

The Fund acquires real estate as separate assets through subsidiary companies (SPVs) established by the Fund, without making investments in investee companies. Consequently, we do not apply policies that assess the good governance practices of the investee company. At the same time, the Fund's SPVs are subject to the same compliance policies, including Code of Ethics and Compliance Manual, that apply to NCH Baltics as the manager of the fund.

Proportional amount of the investments

Before each site acquisition, its due diligence is carried out to determine the sustainability status of the object and the necessary improvements. Based on the results of due diligence, a business plan is developed for the object to determine the level of investment needed to improve sustainability. Thus, for each object, the proportion of the total investment to be made in improving environmental characteristics is determined.

The Fund acquires real estate as separate assets through SPVs established by the Fund, therefore separate record keeping for investments in investee companies is not carried out.

Monitoring of environmental characteristics

Environmental characteristics are monitored during the process of acquiring a real estate and after its acquisition throughout the whole period of its management. Before the purchase of each object,

its legal and technical due diligence is carried out, within it we evaluate the environmental characteristics, indicators, potential impact and necessary improvements.

NCH Baltics applies internationally recognized due diligence standards. Specific questionnaires are used to assess sustainability issues and to apply and document them within the framework of due diligence. Sustainability factors considered in connection with investment decisions, depending on the investment target, include, but are not limited to:

- Energy efficiency assessment – energy efficiency, availability of renewable energy, energy consumption data, energy efficiency rating, energy efficiency and sustainability certification of buildings.
- Environmental assessment – construction materials, fossil fuels, pollution, water usage efficiency, waste management, compliance with local environmental regulations.

A red flag in relation to sustainability may be a sufficient reason to reject a potential deal at the investment approval stage.

After completing due diligence and performing return calculations, a business plan for the investment is prepared. If it is established that any of the existing or expected environmental characteristics may have a material negative impact on the planned investment and its return, it will be clearly stated in the business plan and relevant prevention measures will be suggested. Any environmental characteristics that need to be improved or introduced, such as solar panels or electric car charging stations, are also identified and reflected in the business plan.

NCH Baltics after a real estate has been purchased:

- Based upon the issues related to sustainability discovered during due diligence, takes appropriate measures, including planning the necessary actions according to the business plan, determining their costs and assigning responsible individuals.
- Compiles sustainability related indicators and other data (electricity, water and other consumption figures, energy efficiency figures, waste management data, etc.).
- Systematizes, analyzes and evaluates indicators and other data that are related to sustainability issues.
- Carries out sustainability related planning according to the collected data and its analysis.

NCH Baltics regularly prepares reports related to sustainability issues, as well as prepares plans for improving sustainability characteristics which are provided to potential and existing investors, as well as published on the NCH Baltics website.

Methodologies

The Fund manager utilizes these methodologies to measure compliance with the Fund's facilitated environmental characteristics:

- Surveys.
- Checklists.

- Qualitative and quantitative analysis.

Data sources and processing

Fund manager uses and processes the following data sources:

- a) To achieve the environmental characteristics promoted by the Fund, we use the following data sources:
 - regular site inspections,
 - site meter readings,
 - surveys,
 - information/reports provided by site managers/tenants,
 - accounting registers.
- b) To ensure the quality of the data, we regularly monitor and compare the received data with historic data.
- c) The data collected is processed and stored electronically.
- d) All collected data is included in accounting calculation.

Methodology and data limitations

Although methodology and data limitations overall do not impact the Fund's promoted environmental characteristics, it should be noted that there are some concerning aspects:

- lack of common methodology;
- lack of standardized reports from site managers/tenants;
- limited access to information.

Reliability check

Fund manager evaluates the site's sustainability in several stages:

- Sustainability due diligence before investing – prior to purchasing the property, outsourced independent experts inspect the property according to a checklist made by the Fund manager.
- An annual plan is created for the management of the object, whose implementation is monitored by the person responsible for sustainability.

To ensure our activities comply with the Investment Strategy and policies, we strictly adhere to them at all levels, additionally, NCH Baltics board carries out regular control of this process.

Engagement policies

The requirements of the engagement policy are not applicable to the Fund.

Designated reference standard

No designated reference standard has been chosen to achieve environmental characteristics.