

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 (its compliance to the business plan) 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 it is not targeting 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" – special purpose vehicles, 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, among other things, the sustainability status of the object. Based on the results of due diligence, a business plan is developed for the object which determines sustainability attributes to be developed and the amount of investment required. Fund policy is the acquisition and development of category B real estate. Due to the real estate's being usually substantially different from each other, in terms of both their state and the necessary improvements, the Fund does not have a fixed proportion of investment for promoting characteristics, and the sum necessary for promoting characteristics is customized for every object depending on its specifics.

The Fund acquires real estate as separate assets through SPVs established by the Fund. SPV's are not to be considered beneficiary companies, therefore separate record keeping for investments in investee companies is not carried out.

Information which, in accordance with (EU) Regulation 2019/2088 article 8. paragraphs 1., 2. And 2.a, must be disclosed before concluding a contract, is attached as Annex Nr. 1.

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, as well as compares it to the data stated in the business plan.
- If data is different from the predictions in the business plan, chief financial officer reports this to Fund management. If the data is worse than predicted in the business plan, Fund management evaluates the situation and takes an appropriate decision on the further course of action.

NCH Baltics prepares annual periodic reports / reviews related to sustainability issues, 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.

Template for pre-contractual disclosure of financial products referred to in EU Regulation 2019/2088, Article 8, paragraph 1., 2. and 2.a. and EU Regulation 2020/852, first part of Article 6.

Name of the product: NCH Baltic Real Estate Opportunity Fund I AIF
ID Nr.: 40203351235

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

Yes

It will make a minimum of **sustainable investments with an environmental objective**: ___%

in economic activities that qualify as environmentally sustainable under the EU Taxonomy

in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

It will make a minimum of **sustainable investments with a social objective**: ___%

No

It promotes Environmental/Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ___% of sustainable investments

with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy

with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

with a social objective

It promotes E/S characteristics, but **will not make any sustainable investments**

What environmental and/or social characteristics are promoted by this financial product?

● **What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?**

Real estate is the Fund's investment focus. Therefore, when managing the Fund, we focus on environmental characteristics and sustainability indicators that are directly related to the management and administration of real estate. The table below shows the environmental characteristics we facilitate while managing the Fund owned real estate, as well as the designation of indicators or the units in which these characteristics are measured. The Fund was established at the end of year 2021, so its performance history is not yet sufficient to create a stable benchmark, therefore it is not currently applied.

Environmental characteristics (basic category)	Environmental characteristics (subcategory)	Units of sustainability indicators
Energy efficiency		Percentage of total area of buildings with energy performance certificate
CO ₂ emissions	CO ₂	CO ₂ (tons per year): Scope 1 and Scope 2 Total
		Scope 1
		Scope 2
		CO ₂ (tons per year)/rented m ² : scope 1 and scope 2 Total
	Electric car charging	Yes/No
Waste	Waste sorting	Yes/no
Resource consumption	Electricity	kWh per year
		kWh per year/total m ²
		kWh per year/rented m ²
		m ² (%) lighting with LED bulbs
	Water	m ³ per year
		m ³ per year/total m ²
		m ³ per year rented out m ²
	Heating	kWh per year
		kWh per year/total m ² to be heated
		kWh per year/total rented out m ² to be heated
Use of renewable resources - solar panels, etc.	percentage of total kWh of electricity to be used per year	
Separate electricity, heating/heat, and water meters for rooms	unit	

Does this financial product consider principal adverse impacts on sustainability factors?

Currently, the Fund does not consider PAI (principal adverse impact) on sustainability factors. Nevertheless, we are ready to implement it immediately upon reaching certain financial results or if requested by the investors of the Fund. You can find a more detailed explanation on the page "PAI" posted on our website (www.nchbaltics.eu) in the "ESG" section.

What investment strategy does this financial product follow?

You can find a more detailed explanation on the page "Investment strategy for sustainability issues" posted on our website (www.nchbaltics.eu) in the "ESG" section.

● *What are the binding elements of the investment strategy used to select investments that attain each of the environmental or social characteristics promoted by this financial product?*

The Fund's investment strategy determines (i) sustainability objectives, (ii) stakeholders, and (iii) essential sustainability issues and risk factors to be evaluated.

In regards to Fund investments and management, we focus on the following real estate-related environmental characteristics:

- Energy efficiency
- CO2 emissions
- Waste sorting
- Resource management

The Fund's specific goal is to acquire B-category real estate, improve them, promote their sustainability, and turn them into properties with a good return. Our goal is to improve each of the above-mentioned characteristics, making real estate environmentally friendly, sustainable, convenient for lessees and as attractive as possible for buyers. Therefore, we make our investment choices not based on the sustainability status of the real estate before its purchase, but on how and to what extent we can develop it by managing the object after its purchase.

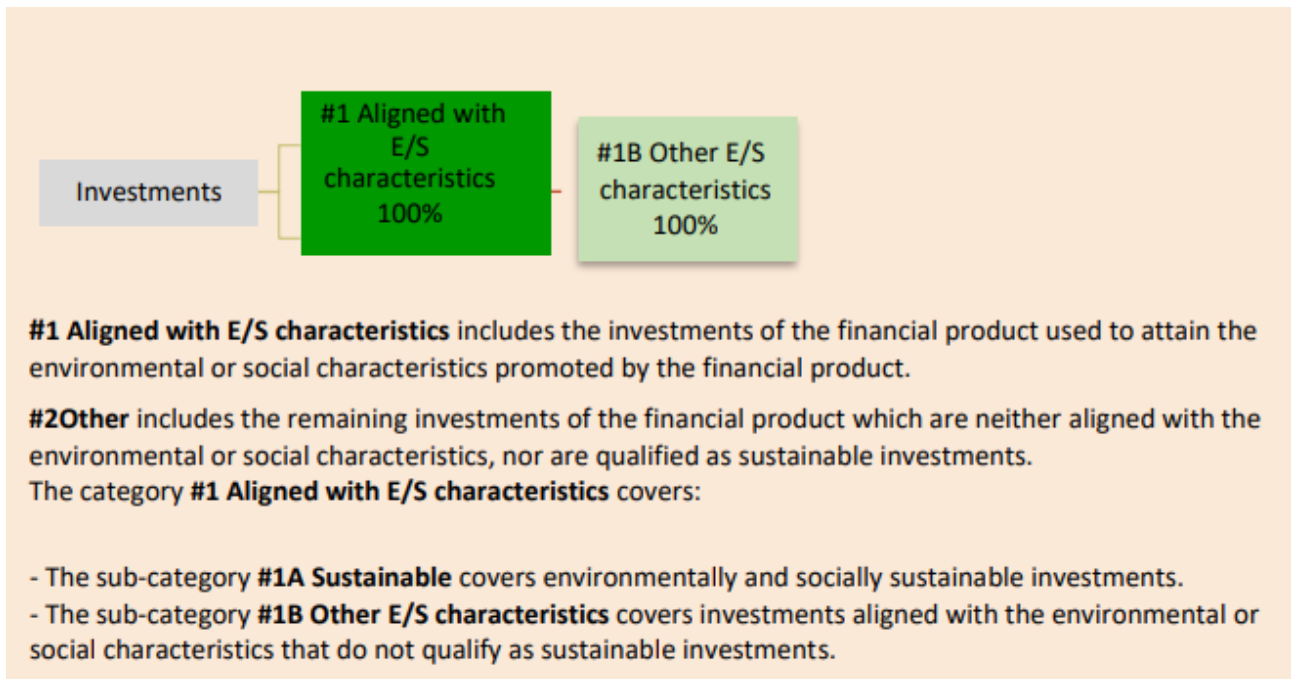
● **What is the policy to assess good governance practices of the investee companies?**

Investments in real estate are made through 100% Fund owned SPV's (Special Purpose Vehicles), with them directly buying the chosen real estate. SPV's are used as a tool for placement of investments and risk separation and are not to be considered beneficiary companies. Consequently, the Fund does not develop policy or other documentation on relations with beneficiary companies, including engagement policies.

What is the asset allocation planned for this financial product?

The Fund's investment plans are to invest in real estate in the Baltic states. As part of these plans, the Fund will acquire, develop, rebuild, lease, manage and sell logistical, industrial, office, residential and hotel (to be converted into residential) properties. The Fund will acquire properties that are considered to be undervalued and will increase their value through renovation, transformation, development and/or by improving property management.

The Fund promotes environmental characteristics, but does not make sustainable investments.



The table below summarizes the environmental protection measures we are taking or considering taking in the real estate properties of the Fund under our management.

Environmental characteristics (basic category)	Environmental characteristics (subcategory)	Promotion of characteristics - action plan
Energy efficiency		A comprehensive set of measures: <ul style="list-style-type: none"> • improving the sealing of buildings - replacement of windows, doors, gates. • installation of ventilation/heat recovery system in the office area • insulation of individual areas (facades, roof, foundations) • replacement of obsolete/energy-inefficient systems with energy-efficient ones.
CO ₂ emissions		Scope 1 and Scope 2 pollution data measurements. Assessment of the main sources of pollution and the possibility of their improvement or replacement.
	Electric car charging	Provision of electric car charging at the real estate.
Waste	Waste sorting	Agreement with lessees on waste sorting (Green Lease), incorporating it into lease agreements or drawing it up in the form of a separate document.
Resource consumption		
	Electricity	<ul style="list-style-type: none"> • Changing all types of lighting to LED. • Identifying and optimizing the performance of high power-consuming engineering equipment. • Installation of control meters for each tenant (if consumption is high, then maybe several meters for one tenant), installation of meters for each substantial source of energy consumption - for example, for area lighting, heating hub, pumps, etc.
	Water	<ul style="list-style-type: none"> • Installation of control meters for each tenant. • Replacement of all types of plumbing with water-saving models (dual flush toilets, faucets with max consumption 6L/min). • Evaluating the possibility of installing sensor taps in shared WCs
	Heating	Weighing the options: <ul style="list-style-type: none"> • Connection to district heating (JSC Rīgas Siltums). • In the case of individual heating - giving up coal, and gas and switching to renewable resources, for example - woodchip, pellets. • Installation of control meters for each tenant.
	Use of renewable resources - solar panels, etc.	<ul style="list-style-type: none"> • Construction of solar panels with rated capacity to cover summer hour consumption if existing structures are sufficient to install panels without reinforcement.

		<ul style="list-style-type: none">• Electric car charging.
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What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?

The Fund invests in real estate. 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. At the same time, we have a series of investments in the improvement of real estate that are economically necessary but do not qualify as contributing to environmental or social characteristics, for example, the creation or improvement of asphalt areas for vehicle parking.

Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

The Fund is recently established and therefore does not have a sufficient track record to produce a robust and valid index, so no specific index has been selected as a reference benchmark at this time.

Where can I find more product specific information online?

More specific information about the Fund can be found at: <https://www.nchbaltics.eu>