

**Product name:** Informuotiesiems investuotojams skirta uždarojo tipo į paskolas investuojanti investicinė bendrovė Sound Senior Private Debt Fund 1 KŪB (the “Fund”)

**Legal entity identifier:** N/A

Environmental and/or social characteristics

**Sustainable investment** means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The **EU Taxonomy** is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not include a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.

**Does this financial product have a sustainable investment objective?**

**Yes**                         **No**

<input type="checkbox"/> It will make a minimum of <b>sustainable investments with an environmental objective: ____%</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input type="checkbox"/> in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> </ul>	<input checked="" type="checkbox"/> It <b>promotes Environmental/Social (E/S) characteristics</b> and while it does not have as its objective a sustainable investment, it will have a minimum proportion of 15% of sustainable investments <ul style="list-style-type: none"> <li><input checked="" type="checkbox"/> with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy</li> <li><input checked="" type="checkbox"/> with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy</li> <li><input checked="" type="checkbox"/> with a social objective</li> </ul>
<input type="checkbox"/> It will make a minimum of <b>sustainable investments with a social objective: ____%</b>	<input type="checkbox"/> It promotes E/S characteristics, but <b>will not make any sustainable investments</b>

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

The Fund targets to invest part of the Fund’s aggregate invested amounts in portfolio companies classified as contributing to European Investment Fund’s criteria for Climate Action and Environmental Sustainability (“**CA&ES**”) in accordance with the criteria published by the European Investment Fund.

Additionally, Fund’s investments are subject to safeguards and checks applied by the Fund including as outlined further in this disclosure:

- Excluding investments using restricted investment list. The Fund promotes certain minimum environmental and social safeguards through applying exclusion criteria with regards to products and business practices that the Fund believes are detrimental to society and incompatible with sustainable investment strategies. The Fund does not provide financing to companies engaged in illegal activities and active in restricted sectors such as alcohol/tobacco/gambling, activities associated with fossil fuel-based energy production, energy-intensive and/or high CO2-emitting industries and others as referred in Fund’s Limited Partnership Agreement (“**LPA**”).
- The Fund promotes conducting business activities in accordance with the United Nations Universal Declaration of Human Rights, the International Labor Organization’s (ILO) labour standards, the United Nations Guiding Principles for



**Sustainability indicators** measure how the environmental or social characteristics promoted by the financial product are attained.

Business and Human Rights (UNGPs), the United Nations Global Compact (UNGC) and the OECD Guidelines for Multinational Enterprises, by scrutinizing companies that violate these principles.

- Conducting ESG scoring of companies. The Fund limits investing in companies with an elevated sustainability risk based on ESG risk scores. The Fund Manager will conduct ESG assessment and scoring of the Fund's portfolio companies. This assessment will involve specific criteria from each of the ESG components (environmental, social and governance) against which each portfolio company will be evaluated to gauge its ESG profile. These criteria will pertain to the most pertinent aspects within each ESG category (e.g., company's sustainability practices, labour and other social practices, governance and ethical standards).
- Establishing portfolio company Key Performance Indicators (KPIs). Guided by the outcomes of ESG scoring, the Fund Manager may establish KPIs for certain portfolio companies. The KPIs will be set on a case-by-case basis and based on the Fund Manager's discretion to decide whether any KPIs are required. KPIs will seek to mitigate and diminish negative ESG impacts noted during portfolio company scoring.
- The Fund Manager will be monitoring performance of the agreed KPIs and changes in the relevant portfolio company's ESG profile yearly and during the whole investment lifetime.

No reference benchmark has been designated for the purpose of attaining the environmental or social characteristics promoted by the Fund.

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

For the sustainable part of the investments of the Fund, the Fund has the following sustainability indicators:

1. The % of investments in portfolio companies that are on the Exclusion list as result of the application of the exclusion policy.
2. The KPI established for a sustainable part of the portfolio. The KPIs may encompass a wide range of sustainability indicators, varying from environmental factors (GHG emissions, carbon footprint, energy consumption intensity, etc.) to social considerations (employee welfare, workplace accidents, incidents of discrimination, corruption score, etc.) and other relevant matters. The Fund Manager will establish and monitor KPIs for the portfolio companies throughout the duration of the investment. The KPIs will be established based on the outcomes of the ESG scoring results. The Fund Manager will identify the areas of greatest weakness for each relevant company and develop KPIs that address those specific shortcomings.

● ***What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?***

The Fund, through the sustainable portion of its portfolio, will support projects or companies with a positive impact on climate change, resource conservation, and pollution reduction, and/or invest in projects or companies that prioritize social responsibility and inclusivity. However, considering that the Fund is a private debt fund, the objectives of the sustainable investments may differ based on the portfolio company's activities and business areas.

***How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?***

The Fund checks whether the potential investments, which are considered as promoting environmental or social characteristics, do no significant harm to environmental or social sustainable investment objectives.

To avoid negative impact, for the sustainable part of the investments under the SFDR, the Fund considers the universally mandatory principal adverse impacts (PAIs) for the do no significant harm purposes. This is done to demonstrate that sustainable investments do not significantly harm any environmental or social objectives.

For Taxonomy-aligned investments, such assessment is conducted during the initial screening process and checks whether the activity of the target does not harm any of the six environmental objectives outlined in the Article 9 of the EU Taxonomy. Additionally, the assessment checks for negative impacts on the minimum safeguards specified in Article 18 of the EU Taxonomy. The Fund aims to ensure that any negative impacts on the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including relevant labour rights conventions, are avoided.

Additionally, the Fund will adhere to its investment restriction requirements, as noted above, which will prevent from investing:

- in high CO2-emitting industries;
- activities associated with fossil fuel-based energy production;
- in companies operating within other excluded sectors as provided in the LPA.

If certain additional negative information appears during the ESG scoring process, the Fund Manager may decide to refrain from financing the relevant company.

*How have the indicators for adverse impacts on sustainability factors been taken into account?*

Compliance for a sustainable part of the portfolio will be assessed first to determine adherence to the DNSH principle. This will be done by considering the PAI indicators provided in Table 1 of Annex I of Commission Delegated Regulation 2022/1288, (“CDR”) along with any relevant PAI indicators in Tables 2 and 3 of Annex I of CDR. The reported data will be assessed as to how could be improved over time, or choose a particular threshold or tolerance level from which divestment would occur against certain indicators.

Other additional indicators for PAIs on sustainability factors are considered and prioritised by the Fund Manager based on materiality of the impact and nature of activities of the portfolio companies, promoting social and/or environmental. At least one additional indicators shall be taken from the environmental area and at least one from social.

*How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:*

The identification, prioritisation and assessment of adverse impacts on sustainability factors is exercised by ensuring the compliance with UN Guiding Principles on Business and Human Rights and principles of UN Global Compact

**Principal adverse impacts** are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

on human rights, labour, environment and anticorruption. The Fund Manager ensures alignment with the standards via engagement with portfolio companies and via regular reviews of the portfolio companies that forms part of the sustainable portfolio.

The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.

Any other sustainable investments must also not significantly harm any environmental or social objectives.



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

- Yes  
 No



**What investment strategy does this financial product follow?**

The Fund will be a diversified private debt fund. The Fund will primarily invest in the provision of senior debt to SMEs and/or Mid-Caps, while it may also invest, directly or indirectly, in non-distressed contractually subordinated debt. It will target 40 investments during the investment period (including reinvestments).

During the life of the Fund, at least 60% of the investments will be in Lithuania and up to 20% each in Latvia and Estonia. However, without prejudice to the indicated targeted geography, the Fund is also allowed to finance enterprises based or active in the territory of the Member States of the European Union.

The maturity of Fund’s loans will be between 1 and 5 years, with possible extension of up to 7 years. The loans/ bonds will not be rated worse than “B3” based on the Moody’s equivalent rating.

The Fund does not finance portfolio companies that:

- are involved in illegal economic activities;
- substantially focus on tobacco and distilled alcoholic beverages, weapons and ammunition production and trade, casinos, electronic data programs/ solutions enabling previously noted activities, illegal activities, internet gambling, online casinos, pornography or fossil fuel-based energy production and related activities;
- operate in energy-intensive or high CO2-emitting industries unless they meet environmentally sustainable criteria as defined in the EU Taxonomy or are eligible under the CA&ES objectives;

**The investment strategy** guides investment decisions based on factors such as investment objectives and risk tolerance.

**Good governance** practices include sound management structures, employee relations, remuneration of staff and tax compliance.

- engage in other activities negatively impacting ESG requirements specified in the Fund documentation or violating other restrictions applicable to the Fund;
- are undergoing restructuring, bankruptcy or similar processes, have certain convictions related to the company or its management, operate in restricted industries as identified above or engage in activities that violate the law.

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

The investment strategy contains binding elements such as:

1. Exclusion policy (i.e., restricted investment sectors, activities and others as noted above).
2. The portfolio is constructed in order to achieve or to respect the minimum proportion of investments which are classified as contributing to CA&ES objectives.
3. Adherence to the DNSH principle, as noted above.
4. ESG scoring model and ESG KPIs are also binding on the relevant portfolio companies. Each company will be scored using ESG scoring model, with the scoring regularly updated.

- ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

There is no committed minimum rate to reduce the scope of investments, but some natural barriers will apply (exclusion list (as mentioned above)).

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

It will depend on the sector where the company is active, but in standard case the Fund Manager during the initial screening process will evaluate whether the potential portfolio company has a code of conduct, anti-bribery and corruption policy, as well as how it adheres to employee rights and labour standards, health and safety and etc.

Furthermore, where relevant, portfolio company KPIs may also address good governance requirements. The Fund Manager may also embed reporting requirements in agreements conducted with the investment companies.

**Asset allocation** describes the share of investments in specific assets.



**What is the asset allocation planned for this financial product?**

To comply with the EU Taxonomy, the criteria for **fossil gas** include limitations on emissions and switching to renewable power or low-carbon fuels by the end of 2035. For **nuclear energy**, the criteria include comprehensive safety and waste management rules.

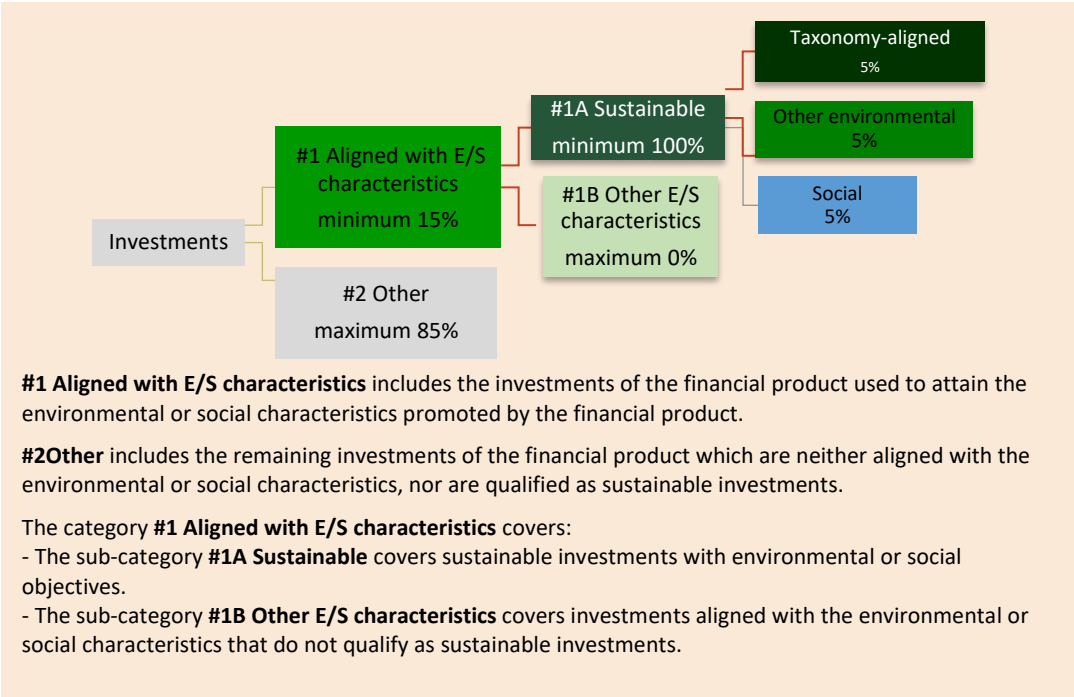
**Enabling activities** directly enable other activities to make a substantial contribution to an environmental objective.

**Transitional activities** are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

reflecting the share of revenue from green activities of investee companies

- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

The Fund seeks to invest part of its aggregate invested amounts in investments which have environmental and social characteristics by contributing to CA&ES objectives, of which not less than 15% consist of sustainable investments. Investments aligned with other E/S characteristics (#1B) will represent the difference between the actual proportion of investments aligned with environmental or social characteristics (#1) and the actual proportion of sustainable investments (#1A)



● **How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?**

No derivatives will be used by the Fund.



● **To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?**

This Fund has up to 5% share of investments with an environmental objective that are aligned with the EU Taxonomy.

● **Does the financial product invest in fossil gas and/or nuclear energy related activities that comply with the EU Taxonomy<sup>12</sup>?**

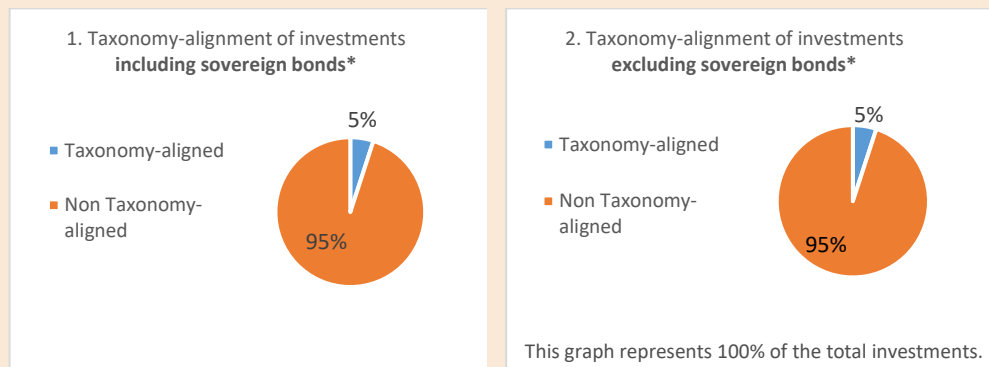
Yes:

In fossil gas     In nuclear energy

No

<sup>12</sup> Fossil gas and/or nuclear related activities will only comply with the EU Taxonomy where they contribute to limiting climate change (“climate change mitigation”) and do not significantly harm any EU Taxonomy objective - see explanatory note in the left hand margin. The full criteria for fossil gas and nuclear energy economic activities that comply with the EU Taxonomy are laid down in Commission Delegated Regulation (EU) 2022/1214.

**The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds\*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.**



\* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures.

● **What is the minimum share of investments in transitional and enabling activities?**

There is no committed minimum share of investments in the Fund in transitional and enabling activities.



**What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?**

The Fund will have at least 5% of sustainable investments with an environmental objective. However, the exact allocation between environmental and social objectives may exhibit slight variations. This flexibility is influenced by the Fund's private debt investment strategy and its anticipated diversification.



**What is the minimum share of socially sustainable investments?**

The Fund will have at least 5% of sustainable investments with a social objective. However, the exact allocation between environmental and social objectives may exhibit slight variations. This flexibility is influenced by the Fund's private debt investment strategy and its anticipated diversification.



**What investments are included under “#2 Other”, what is their purpose and are there any minimum environmental or social safeguards?**

Investments in the “Others” category may be held in the Fund up to a maximum of 85% of its aggregate invested amounts. The Fund will perform finance a variety of portfolio companies, however, all of the portfolio companies will be subject to exclusionary screening and ESG scoring, which will serve as sustainability safeguards.



are sustainable investments with an environmental objective that do not take into account the criteria for environmentally sustainable economic activities under the EU Taxonomy.



**Where can I find more product specific information online?**

**More product-specific information can be found on the website:**

All relevant information is provided at [www.soundam.eu/sustainability](http://www.soundam.eu/sustainability) section.