

Sustainability related disclosures

This disclosure is made by UAB Sound asset management (**Management Company**) to comply with the requirements of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector (**SFDR**).

1. INTEGRATION OF SUSTAINABILTY RISKS INTO INVESTMENT DECISION MAKING PROCESS (ARTICLE 3 OF THE SFDR)

A sustainability risk refers to an environmental, social, or governance event or condition that, if it occurs, could cause an actual or potential material negative impact on the value of the investments made by the collective investment undertakings (CIU) managed by the Management Company

Sustainability factors, such as environmental considerations, social and employee matters, respect for human rights, anti-corruption, and anti-bribery issues, may have either positive or negative impacts on the financial performance of the CIU’s investments. While sustainability factors can present opportunities, for the purpose of integration, sustainability risks are defined as the negative materialization of these factors. This risk can be relevant both as a separate risk category and as a component of other risks, including market, credit, liquidity, and other risks. Sustainability risk is highly dependent on the CIU investment strategy and the activities of its target investments.

Sustainability factors include events or conditions that could either be of an “outside-in” nature (such as physical climate or transition matters) or be directly related to the financial impact of “inside-out” effects caused by the Management Company, its employees, portfolio companies, or any other related stakeholders.

Examples of sustainability risks include:

<p>Environmental risks</p>	<ul style="list-style-type: none"> · <i>Weather events</i>: the risk of physical damage to company’s assets that arises from weather events such as wildfires, storms or floods. Such natural phenomenon could lead to business disruption and losses, and reduce the value of financial instruments related to the affected company. · <i>Long-term shifts in climate</i>: the risk of physical damage to company’s assets that arises from longer-term shifts in the climate such as increasing mean temperatures and rising sea
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	<p>levels. Valuations of residential and commercial property in vulnerable areas may be reduced as a result. Relocation of offices, warehouses, factories, etc. may be required to prevent further disruption and insurance premiums could be adversely impacted.</p> <ul style="list-style-type: none"> · <i>Regulatory/policy changes</i>: the risk of policy changes which increase the cost of doing business. Environmental regulations could demand increased standards of operating which are costly to implement or could introduce new taxation laws which decrease profitability; · <i>Consumer behaviour</i>: the risk of behavioural change in consumers following the emergence of disruptive technologies and price-competitive greener solutions which shift sentiment and societal preferences; · <i>Reputational damage</i>: the risk of reputational damage following an event that negatively impacts the environment (e.g. water pollution). There could be regulatory fines as a result of the event which further detracts from the company's assets.
<p>Social risks</p>	<ul style="list-style-type: none"> · <i>Lack of diversity</i>: the risk of lack of diversity and inclusion representation across senior management and boards which leads to a narrow corporate strategy and weaker long-term performance. · <i>Lack of engagement</i>: the risk of failing to engage and retain the best people, thereby reducing a key source of competitive advantage. · <i>Consumer preferences towards social issues</i>: the risk of changing consumer preferences following increased awareness of social issues, such as labour practices, environmental impacts and community relations. · <i>Reputational damage and fines</i>: the risk of reputational damage following an event that negatively impacts customers

	<p>and may also lead to regulatory fines. These events could include areas such as product safety, customer welfare and data security.</p>
<p>Governance risks</p>	<ul style="list-style-type: none"> · <i>Board independence</i>: the risk of weak senior management structure and lack of board independence. This can lead to sub-optimal oversight, corporate strategy and risk management, which can be amplified following critical incidents or in periods of stress. · <i>Compliance with requirements</i>: the risk of reputational damage after failing to adhere to regulatory requirements, tax requirements or standard accounting practices, in addition to any related financial penalties. · <i>Remuneration</i>: the risk that weak remuneration structures may contribute to inappropriate risk taking. · <i>Reporting and transparency</i>: the risk of poor reporting and transparency or low business ethics and conduct which could mask indicators of the above-mentioned risks.

When making investment decisions, the Management Company team seeks to assess risks and factors that may affect the value and results of investments. However, the relevance, severity, materiality, and time horizon of sustainability factors can differ significantly based on the investment strategy of the CIU. Accordingly, the Management Company team assesses the sustainability factors relevant to the specific investment being analysed and the sustainability risks associated with them, alongside other risks and factors that may have a real or potential negative impact on the value of the CIU’s investment.

Sustainability risks are identified, managed, and monitored for each CIU in accordance with the requirements outlined in this disclosure, investment policies and procedures, as well as other procedures as deemed necessary.

Based on the investment strategy of the CIU and its classification under the SFDR, investments by the CIU may be subject to safeguards and checks as outlined in this disclosure:

- **Excluding investments using a restricted investment list:** The CIU may not provide financing to companies 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.
- **Conducting ESG scoring of companies:** The CIU may limit investments in companies with elevated sustainability risks based on sustainability risk scores. The Management Company conducts sustainability assessments and scoring of the CIU's portfolio companies. This assessment involves specific criteria from each of the sustainability components (environmental, social, and governance) against which portfolio companies are evaluated to gauge their sustainability. These criteria pertain to the most pertinent aspects within each sustainability 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 sustainability scoring, the Management Company may establish KPIs for certain portfolio companies. The KPIs are set on a case-by-case basis at the Management Company's discretion to determine whether any KPIs are required. KPIs aim to mitigate and diminish negative sustainability impacts noted during portfolio company scoring.
- **Monitoring:** The Management Company is obliged to integrate material sustainability risks and opportunities in the portfolio construction and monitoring process within the eligible investment universe. Where established, the Management Company shall monitor the performance of the agreed KPIs and changes in the relevant portfolio company's sustainability profile annually and throughout the entire investment lifetime.

2. PRINCIPAL ADVERSE IMPACT DISCLOSURES

Article 4 of the SFDR requires financial market participants to ensure transparency in terms of the consideration of principal adverse impacts (**PAIs**) of investment decisions on sustainability factors (according to the "comply or explain" principle for entities with fewer than 500 employees).

The Management Company supports the policy aims of the PAIs regime, which seeks to improve transparency for investors and the market regarding how financial market

participants integrate consideration of the adverse impacts of their investment decisions on sustainability factors. However, given the Management Company's size and current stage of activities, we consider it disproportionate to comply with the specific regime in the SFDR.

NO CONSIDERATION OF PRINCIPAL ADVERSE IMPACTS AT ENTITY LEVEL (ARTICLE 4 OF THE SFDR)

At present, the Management Company does not consider the PAIs of its investment decisions on sustainability factors at the entity level. This is due to the stage of activities of the Management Company, the unavailability of data for all of the prescribed adverse impact indicators (as set out in the delegated regulation to the SFDR) for the underlying investments, and because PAIs assessment at the entity level is not currently a strategic priority of the Management Company. This is due to the type of strategies the Management Company manages, as well as the technical challenges associated with undertaking extensive due diligence on adverse sustainability impacts. The Management Company manages products that do not, at the product level, consider the PAIs of investment decisions on sustainability factors. Consequently, the heterogeneity of the PAIs monitored at the product level makes it impossible to generate a consolidated report at the entity level of the Management Company that is both relevant and, furthermore, significant in terms of assets under management.

We support the effort of the policy towards an effective disclosure on sustainability, therefore we will review our PAI statement at least yearly.

NO CONSIDERATION OF PRINCIPAL ADVERSE IMPACTS AT PRODUCT LEVEL (ARTICLE 7 OF THE SFDR)

Currently, the Management Company manages one CIU. Regarding this product, no due consideration is currently given to the PAIs on sustainability factors as defined in the SFDR when making investment decisions. According to the Management Company's opinion, the investment strategy of this CIU does not currently account for PAIs. Several factors contribute to this, including the specific sustainability risks associated with the CIU's investments, which depend on the nature of the activities of the portfolio companies being financed. Additionally, considering that this CIU typically does not involve direct ownership or active management of underlying assets at this stage, conducting detailed due diligence on adverse sustainability impacts is currently not feasible.

Therefore, the Management Company is currently not in a position to consider the PAIs of investment decisions on sustainability factors. The Management Company will review the decision not to consider PAIs at this CIU level at least once per annum, taking into account

factors such as the portfolio companies financed and the possibility to collect necessary information to perform a principal adverse impact assessment.

Regarding the “do no significant harm” disclosures requirement, the CIU takes into account the PAIs indicators to demonstrate that sustainable investments do not significantly harm any environmental or social objectives. However, as noted above, the CIU currently does not consider the PAIs of its investment decisions on sustainability factors. Further information on this is provided in the documents of the CIU and is provided to investors or potential investors, considering that the CIU is a closed-ended CIU.

3. INTEGRATION OF SUSTAINABILITY RISKS INTO REMUNERATION POLICY (ARTICLE 5 OF THE SFDR)

In accordance with Article 5 of SFDR this disclosure provides information on the Management Company’s policy on the integration of sustainability risks into remuneration policy.

We explain that variable compensation, if deemed necessary and proportional, may be reviewed upon maturity of the pay-out. Adjustments to the compensation may be made based on an evaluation of overall performance, the level of risks associated with the CIUs managed by the Management Company, and any mistakes made by the recipient. This includes, but is not limited to, the consideration of sustainability risks specific to each CIU managed by the Management Company.

Furthermore, for the CIUs currently under the Management Company’s management, variable remuneration is payable only when the relevant hurdle rate is achieved. This ensures that long-term results of the CIUs are considered, including proper relevant risk management.