

SUSTAINABILITY AND ENGAGEMENT POLICY

CBL PO006

Generally available information



Approved	At the Council meeting of CBL Asset Management IPAS on 06.02.2025 Minutes No 133/2025
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Document control

Version	Effective date	Amendments	Number of pages
1.0	11.10.2019	New document	4
2.0	25.01.2021	General amendments. The policy specifies the following: the terms used, information on conflicts of interest that may arise in relation to sustainability and engagement considerations, sections on the process of integrating ESG factors and engagement.	5
3.0	26.01.2022.	General amendments. The owner of the process/product was.	5
4.0	31.01.2023.	Document was reviewed, no amendments.	5
5.0	08.02.2024.	The Policy was supplemented with a section on the Sustainability Strategy and the SDG (Sustainable Development Goals); Pre-contractual disclosures were added; the list of terms was updated; the description of risks was revised; the section "Engagement" was updated; the section "Reporting" was revised.	4
6.0	06.02.2025.	Changes in policy: clarified terms and their explanations; established the link to the Group's ESG framework, clarified engagement principles, defined voting principles and engagement in public policy-making, and added conditions for evaluating third-party asset managers. Added references to legal acts and related documents.	5

Organisational and administrative conditions

Owner of the process/product: ESG Officer

Title of the process/product: Management of customer portfolios, funds, investments and pension plans.

Framework and purpose of the document _____

The Company believes that environmental, social and governance (ESG) factors may affect the value of the investments made by the Company over time. Sustainable investment approach is developing fast. The Company shares the view that by integrating ESG factors in asset management, the return on investment grows or the impact is neutral at a lower overall risk level, as demonstrated by academic research as well. Moreover, integrating ESG factors into the asset management process contributes to the sustainable development of the world as well.

In June 2019, the Company signed the UN Principles for Responsible Investment (PRI) confirming its commitment to implement responsible investments. Consequently, the Company undertook to respect the following six principles:

- 1) incorporate ESG issues into investment analysis and decision-making processes;
- 2) be active owners and incorporate ESG issues into ownership policies and practices;
- 3) seek appropriate disclosure on ESG issues by the entities in which we invest;
- 4) promote acceptance and implementation of the Principles within the investment industry;
- 5) to cooperate with the PRI and PRI signatories to enhance effectiveness in implementing the Principles;
- 6) to report on activities and progress towards implementing the Principles.

The purpose of this policy is to define the core principles and elements to ensure that ESG factors and engagement principles are followed in providing services in managing investment funds, state funded pension schemes or pension plans established by private pension funds and individual investment portfolios.

Scope _____

The Policy is binding and the Company adheres to it in the management of all asset classes included in the portfolios under the management of the Company.

The Policy is established pursuant to Article 75.⁴ of the Law on Investment Management Companies, Article 29 of the Private Pension Funds Law, Article 126.³ of the Financial Instruments Market Law, Article 60.¹ of the Law on Alternative Investment Funds and their Managers and the UN-supported Principles for Responsible Investment: www.unpri.org, as well as taking into account best practices in this area.

Terms and abbreviations

Bank – AS Citadele Banka.

Company – “CBL Asset Management” IPAS.

Entity – Within the meaning of this Policy, an entity whose issued financial instruments are included in the assets managed by the Company.

ESG factors/ Sustainability – Environmental, social and governance factors.

Group – the Bank and the Bank's subsidiaries subject to consolidation, including the Company.

Controversial weapons - weapons which have disproportionate and indiscriminate impact on civilians, even years after a conflict has ended.

Management Service Recipient/MSR – an investment fund (UCITS), investment plan of a state funded pension scheme, pension plan established by private pension funds or an alternative investment fund.

PAI (Principal Adverse Impacts) – principal adverse impacts of investment decisions.

Policy – The given Sustainability and Engagement Policy.

UN PRI – Principles for Responsible Investment developed by the UN-supported international group of institutional investors. : www.unpri.org.

UN SDGs (Sustainable Development Goals) – the UN sustainable development goals.

Transparency Report – A report on ESG related activities prepared by the Company and submitted to the PRI for evaluation.

General provisions

1. The Company as a manager of investment funds, state funded pension schemes, pension plans established by private pension funds and individual investment portfolios, acts in accordance with the best long-term interests of its clients, i.e., ultimate beneficial owners.
2. The Company is a Citadele Group subsidiary and adheres to the Group's ESG framework and key ESG governance principles. The Citadele Group has set Sustainability ambitions and goals, establishing principles that are followed in daily operations to make Sustainability an integral part of business activities.
3. The Company's asset management process is active, including a fundamental and/or a quantitative assessment of investment factors, depending on the asset class.
4. The Policy defines the main principles for assessing ESG factors and implementing thereof in the asset management process.
5. Taking into account the assessment of the ESG risk materiality, a decision is taken on the integration of ESG factors in the management of each MSR.
6. The Company ensures compliance with the disclosure requirements regarding the integration of the ESG factors and engagement.
7. The Company, in accordance with applicable laws and regulations, develops internal documents governing the ESG risk management procedure.
8. The Company identifies the types of conflicts of interest that may arise in connection with sustainability and involvement considerations, in particular by exercising its voting rights at the General Meetings of Entities' shareholders. The Company does not support decisions that increase ESG risks as well as takes measures to prevent, manage and detect such conflicts of interest. If necessary, the decision on exercising voting rights is considered by the Management Board of the Company.
9. The Company considers the requirements for double materiality assessment as specified in the Sustainability Information Disclosure Law.

Sustainability strategy and SDG

10. The Company follows the Group's sustainability strategy in its operations and processes. The Group's sustainability strategy has been developed within the framework of the UN SDGs. Citadele Group has prioritised five UN SDGs linked to the Group's business strategy and sustainable operations in areas where the Group has the greatest opportunity to make a positive impact:
 - 10.1. SDG 3: Good health and well-being;
 - 10.2. SDG 7: Affordable and clean energy;
 - 10.3. SDG 8: Decent work and economic growth;
 - 10.4. SDG 9: Industry, innovation and infrastructure;
 - 10.5. SDG 13: Climate action;
11. In addition to the UN SDGs set by the Group, the Company has prioritised three of the UN SDGs that form the basis of the Company's sustainability strategy and are to be implemented through asset management processes:

- 11.1. SDG 7: Affordable and clean energy;
- 11.2. SDG 8: Decent work and economic growth;
- 11.3. SDG 13: Climate action;
- 12. The Company may identify and prioritise additional UN SDGs for each investment product, which are disclosed in the investment product documents.

Integration of sustainability (ESG) factors _____

- 13. The Company's investments are based on risk analysis, taking into consideration entities' financial and operational factors such as the entity's business model, strategic opportunities and the ESG risk level inherent in its operations and the management thereof.
- 14. For each asset class, the integration of ESG factors is adapted to the way the particular asset class is managed. In general, the Company evaluates both absolute and industry relative ESG risk in asset management, applying the best-in-class investment approach.
- 15. To avoid financing of an entity that has a clearly negative impact on the community and environment, the Company particularly distances itself from investments in entities which are included in the EU sanctions lists or whose core business activity is related to pornography and production and development of Controversial weapons, reflecting a negative screening approach.
- 16. When investing in externally managed funds, the Company pays special attention to ensuring that the asset manager is a signatory to the UN PRI, demonstrating a commitment to responsible investment and/or has disclosed its sustainability-related information on its website.
- 17. The Company regularly ensures that the requirements mentioned in paragraph 16 are fulfilled according to the procedure set out in Procedure PR037 .
- 18. The integration of ESG factors is the responsibility of the managers of investment funds, state funded pension schemes or pension plans established by private pension funds as well as of individual investment portfolios.
- 19. For analysing the impact of the ESG factors inherent in investments, the Company uses ratings assigned by international credit rating and information agencies as well as the Company's internal ratings regarding the investees' ESG risk level.
- 20. The Company shall take steps to integrate ESG factors into the investment process for investment funds, state funded pension schemes, pension plans established by private pension funds and individual portfolios of financial instruments, together with an assessment of the material risks, and shall take steps to mitigate potential and actual adverse ESG impacts where possible.
- 21. For each product managed by the Company, the Pre-contractual Disclosure has been developed which discloses the need and degree of integration of ESG factors into the management process. These pre-contractual disclosure documents are available on the Company's website www.cblam.lv.

Engagement _____

- 22. The Company carries out engagement activities in the Entities assuming that it contributes to creating a long-term value.
- 23. In the opinion of the Company, engagement activities can be attributed to both existing and potential investments. Existing investments are subject to active ownership as described in Paragraph 28.
- 24. The objective of engagement is to promote sustainable operations and development of those Entities, in whose financial instruments the Company invests, as well as the protection of investors.
- 25. When implementing the established investment policy, the Company's main engagement activities are focused on the Entities in which the Company has made the most material investments.
- 26. The Company primarily engages with the Entities, particularly by using its voting rights if the Company has at least 5% of the total voting rights. In the communication with the Entities invested in about material financial and non-financial factors and risks, the Company pays particular attention as to whether the Entity:
 - 26.1. has a clearly defined operational strategy;
 - 26.2. has published financial and non-financial results and disclosed significant risks;
 - 26.3. has disclosed its capital structure;
 - 26.4. does not cause negative impact on the community and its staff (social impact);
 - 26.5. reduces the negative impact on environment caused by its activities;
 - 26.6. respects good corporate governance principles.
- 27. The engagement activities are the responsibility of the managers of investment funds, including alternative investment funds, state funded pension schemes, pension plans established by private pension funds, and individual portfolios of financial instruments.
- 28. The engagement activities, considering the objective referred to in the paragraph 24, are carried out in a variety of ways, including:
 - 28.1. direct communication with the investee Entity's management in person as well as otherwise, for example, via e-mails or webinars;
 - 28.2. using voting rights at the shareholders' meetings of the investee Entities;
 - 28.3. using external initiatives in cooperation with other investors, e.g., the PRI Collaboration Platform where applicable, which possibly results in a greater impact on the management of the investee Entities;
 - 28.4. communicating with the investee Entities' stakeholders;

- 28.5. implementing the management of actual and potential conflicts of interest in relation to engagement in the management of Entities, in accordance with CBL N0009 Conflict of Interest Prevention Rules and CBL N0017 Rules on the Conduct and Control of Personal Transactions with Financial Instruments;
- 28.6. participate in public consultations and discussions with state and municipal institutions, as well as non-governmental organizations.
29. The Company commits to using its shareholder voting rights responsibly and strategically, considering the impact of the issues under consideration on all factors, including sustainability. Our goal is to vote in a way that ensures our decisions align with and promote the long-term interests of our investors.
 - 29.1. The Company, using its voting rights in relation to the following environmental factors, ordinarily will:
 - **support** reasonable proposals to reduce the negative impact on the environment and climate change, reduce the consumption of natural resources, and promote the circular economy;
 - **support** proposals requiring companies to report on their environmental practices, policies and impacts, including environmental damage, and their effect on shareholder value;
 - **support** proposals requiring companies to disclose information on greenhouse gas emissions and mitigation targets.
 - 29.2. The company, using its voting rights related to social factors and human rights compliance, ordinarily will:
 - **support** proposals that improve employee rights and protection, working conditions, ensure fair treatment of employees, and promote employee diversity and inclusion;
 - **support** proposals that promote human rights compliance in the international value chain, reflecting a commitment to ethical business practices and responsible corporate citizenship.
 - 29.3. The company, using its voting rights related to the following governance factors, ordinarily will:
 - **support** proposals that require the majority of supervisory board members to be independent and that the board audit, compensation and nominating committees to be composed exclusively of independent supervisory board members;
 - **support** proposals that require the separation of the roles of CEO and chairman of the supervisory board;
 - **support** reasonable proposals related to the appointment of a responsible board member or the establishment of a board-level committee on sustainability/ESG issues. In evaluating these proposals, we will consider whether the proposed changes are consistent with good governance practices, improve ESG factor oversight and are appropriate for the company's specific circumstances.
30. When carrying out an engagement activity, the Company ensures that:
 - 30.1. prior to carrying out the engagement activities, the issues significant to the particular Entity are assessed;
 - 30.2. communication with the Entity is only about significant issues and occurs in accordance with the approaches specified in Paragraph 28;
 - 30.3. after the completion of the engagement activities, information on the engagement is summarised in the Company's IT system in the Engagement Activities Register within five working days.
31. Through engagement, the Company ensures controlling of the Entity's further actions on these issues. If the Entity does not make improvements in material matters, the Company may change the investment decision in relation to this Entity, including selling the investment.

Reporting obligation _____

32. To ensure effective communication, cooperation and transparency, each year, the Company prepares a report on the implementation of the engagement policy if, according to this Policy, the investments are considered material and if the number of the voting rights used meets the requirements of Paragraph 26, inter alia, disclosing:
 - 32.1. general information about the Company exercising its voting rights;
 - 32.2. explanations of significant voting in the reporting period;
 - 32.3. information about the use of proxy advisory services.
33. The report is publicly available on the Company's website and includes information on all investment funds managed by the Company, state funded pension schemes, pension plans established by private pension funds and individual portfolios of financial instruments.

Responsibility and Policy implementation control _____

34. The Portfolio Management Department of the Company ensures that the investment funds, state funded pension schemes, pension plans established by private pension funds and individual investment portfolios managed by the Company comply with the Policy.
35. For the integration of ESG factors in the Company's processes, the responsible member of the Management Board of the Company assigns an employee with appropriate knowledge for analysing ESG factors. The responsibility of the employee is to facilitate the integration of ESG factors into the asset management process and advise portfolio managers on the integration of these factors and the implementation of engagement activities.
36. The ESG Officer provides the Management Board of the Company with a Transparency Report on the progress of the implementation of ESG principles and engagement at least on an annual basis.
37. The Company's ESG Officer prepares an annual PAI statement of investment decisions on sustainability factors within the scope of the SFDR requirements, for those funds whose methodologies specify it. The data on the relevant funds' ESG indicators is obtained and prepared by the Risk Analyst. This statement is submitted for approval to the Management

Board and Supervisory Board of the Company. The report is prepared for the previous year and is published on the Company's website.

38. The Management Board of the Company instructs the responsible departments to take organisational or administrative measures for effective integration of ESG principles in the Company's processes and sustainability risk assessment.
39. The Management Board of the Company promotes maintaining and developing knowledge about ESG issues in the industry in general.
40. Company's employees are provided with training on sustainability issues at least once a year, both within the Group and using external training resources. The content of the Group's sustainability training is developed with the participation of the Company's responsible employees, supplemented with sustainability issues specific to the Company's operations.
41. Political engagement is primarily carried out by representing the Company in industry associations and other relevant non-governmental organizations, forming an opinion based on information. Political engagement aligns with the long-term interests of investors and the goals of responsible investment. The Company regularly reviews its membership in trade associations to prevent misalignments between the political initiatives of the representative organization and the Company's sustainability strategy. Company employees must align their political engagement with the Group's Code of Ethics, Anti-Corruption Policy, this Policy, and implement it in a way that promotes significant sustainability factor improvements in the long-term interests of society as a whole. The Company does not fund political parties and does not engage third-party lobbyists.
42. The Management Board of the Company oversees that the objectives of the portfolio managers include the integration of ESG factors and the implementation of engagement activities.
43. The Management Board of the Company is responsible for the implementation of the Policy and accepting of internal regulations that ensure the implementation of the Policy. The Company has a member of the Management Board in charge of ESG issues.
44. The Policy is reviewed at least once a year.
45. The Council of the Company approves the Policy and ensures an overall monitoring of its implementation involving, to the extent possible, the Internal Audit Department of the Bank's Group.

Related documents _____

46. Procedure CBL PR037 Sustainability risk integration in investment process.
47. Group PO0017 Code of Ethics.
48. Group PO0029 Anti-Corruption Policy.