

➤ **What is ESG?**

Issues of sustainability and responsible behaviour are often associated with the acronym ESG. ESG stands for Environmental, Social, and Governance.

The subject of these policies is the attitude towards climate protection, energy – especially renewable energy, presence of raw materials, health, safety, human rights, labour rights and good corporate governance.

➤ **What are the sustainability risks?**

These are environmental, social or "governance" events that can negatively impact returns from an investment product. The sustainable policies that companies implement and the footprint they leave in the world around us in the form of adverse impacts can be assessed. Adverse impacts can range from events related to a company's environmental pollution to practices of disregard for employee rights. Such events may result in a negative impact on the evaluation of the company and therefore on the return of a related investment product.

UBB considers sustainability risks and the main adverse effects on sustainability factors in various ways in its investment proposition and therefore in its investment advice:

- o Clear sustainability strategy
- o Very harmful enterprises or activities are excluded
- o Transparent policies on socially questionable practices such as nuclear power, tax avoidance or the death penalty

The full policy is available on the UBB Asset Management website <https://www.ubbam.bg/expertease>

➤ **What are sustainable investments?**

"Sustainable investment" means an investment that leaves a measurable footprint by improving environmental, social or good corporate governance conditions. These are business activities that contribute to an environmental objective measurable, for example, by key resource efficiency indicators regarding energy use, renewable energy, raw materials, water and land, efficiency in terms of waste generation and greenhouse gas emissions, or in terms of impact on biodiversity and the so-called circular economy. These are also investments in economic activities that contribute to a social objective, e.g. by tackling inequalities or by promoting social cohesion, social integration and employment relations.

Directly related to the adverse impacts assessment are the discussed below indicators of Principal Adverse Impacts on the sustainability factors.

PRINCIPAL ADVERSE IMPACT [PAI] INDICATORS

Economic activities can have both positive and negative effects on sustainability factors. Principal Adverse Impacts (PAI) indicate the adverse impact of investment decisions on sustainability factors, such as the environment, the social environment, respect for human rights, anti-corruption and the like.

Greenhouse gases (GHG)	Greenhouse gas emissions [PAI1]	<p>This indicator refers to greenhouse gas emissions emitted throughout the production chain of goods and services of the investee companies.</p> <p>Various greenhouse gases such as carbon dioxide, methane and nitrous oxide are included.</p> <p>This is calculated as follows: the greenhouse gas emissions, expressed in tonnes of CO₂, in relation to the size of the investment.¹ (of the companies invested in)</p>	<i>This adverse impact is not currently explicitly considered in the management of the funds.</i>
	Carbon footprint [PAI2]	<p>This indicator takes into account the quantity of carbon dioxide emitted throughout the production chain of goods and services of the companies invested in.</p> <p>This is calculated as the ratio of total greenhouse gas emissions² divided by the fund's investments.</p>	Currently, this indicator is not explicitly taken into account in the management of the funds.

¹ Greenhouse gas emissions can be classified under scope 1, scope 2, scope 3 or the total greenhouse gas emissions (scopes 1+2+3): the direct CO₂ emissions as a result of the company's own activities (scope 1); the indirect CO₂ emissions as a result of the generation of purchased electricity (scope 2); the indirect CO₂ emissions as a result of the activities of e.g. suppliers and customers (scope 3).

²See footnote number 1.

	<p>Greenhouse gas intensity of the companies invested in [PA13].</p>	<p>This indicator refers to the greenhouse gas emissions of companies in which investments are made.</p> <p>This is calculated as the weighted average of the companies' greenhouse gas emissions relative to their revenues.</p>	<p>✓ Responsible funds have targets to reduce the greenhouse gas intensity of companies invested in. The target for these types of funds is to reduce the fund's greenhouse gas intensity (scope 1+2) by 50% by 2030 (vs. end of 2019).</p>
	<p>Exposure to companies active in the fossil fuel sector [PA14]</p>	<p>This indicator shows the share of investments in companies active in the fossil fuel sector.</p> <p>These are enterprises which derive income from the exploration, extraction, distribution or refining of coal and lignite, liquid fossil fuels, gaseous fossil fuels or from their specific distribution (including transport, storage and trading).</p>	<p>✓ All responsible investment funds have zero tolerance for fossil fuels. Excluded are all companies in the energy sector and all utilities that produce electricity from fossil fuels.</p>
	<p>Share of non-renewable energy consumption and production [PA15].</p>	<p>This indicator refers to the ratio of non-renewable and renewable energy consumption and production of the investee companies.</p>	<p>Currently, this indicator is not explicitly taken into account in the management of the funds.</p>
	<p>Intensity of energy consumption by sector with high climate impact [PA16].</p>	<p>This indicator shows the ratio of energy consumption (in gigawatt/hour) of the company to the turnover of the company (in million euro).</p> <p>And this for companies in sectors with high climate impact such as: agriculture and forestry, fishing, mining, industrial production, power</p>	<p>Currently, this indicator is not explicitly taken into account in the management of the funds.</p>

		generation, water management, construction, car trade, transport and real estate.	
Biodiversity	Activities that have a negative impact on areas with vulnerable biodiversity [PA17].	<p>The indicator shows which part of the investments concerns enterprises with branches/activities in areas with vulnerable biodiversity.</p> <p><i>Biodiversity-sensitive areas are the European Natura 2000 network of protected natural areas, UNESCO World Heritage Sites and key biodiversity sites as well as other protected areas.</i></p>	Currently, this indicator is not explicitly taken into account in the management of the funds.
Water	Water pollution/ Emissions to water [PA18].	<p>The indicator points to water pollution (emissions) from enterprises.</p> <p>Emissions to water are direct emissions of 'priority substances' such as lead, cadmium and mercury (and others) and direct emissions of nitrates, phosphates and pesticides, into water sources.</p> <p>This indicator is calculated in tonnes of emissions to water from investee companies in relation to the size of the investment.</p>	Currently, this indicator is not explicitly taken into account in the management of the funds.

<p>Waste</p>	<p>Hazardous waste ratio [PAI9]</p>	<p>The indicator refers to hazardous waste generated by enterprises.</p> <p>Hazardous waste is waste that is radioactive, flammable, toxic, corrosive, irritant and so on. This indicator is calculated in tonnes of hazardous waste by investing enterprises in relation to the size of the investment.</p>	<p>Currently, this indicator is not explicitly taken into account in the management of the funds.</p>
<p>Social and labour issues</p>	<p>Violations of the principles of the United Nations Global Compact (UNGC) and the Organization for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises [PAI10].</p>	<p>This indicator refers to non-compliance with human rights, respect for labour law, environmental law and anti-corruption law. This is determined as follows: the proportion of the investments that concern companies that were once involved in violations of the UNGC³ principles or OECD Guidelines for International Business compared to the total investment.</p>	<p>✓ Responsible funds exclude violators of the UNGC principles.</p>

³ *The United Nations Global Compact (UNGC) has formulated ten sustainability principles relating to human rights, labour, the environment and anti-corruption.*

	<p>Lack of processes and compliance mechanisms to monitor compliance with the UNGC principles and the OECD Guidelines for Multinational Enterprises [PAI11].</p>	<p>This indicator indicates the absence of methods and controls on their application, on compliance with the UNGC⁴ principles and the OECD Guidelines for Multinational Enterprises.</p> <p>This is determined as follows: the proportion of the investment that concerns enterprises without methods and controls in relation to the total investment.</p>	<p>Currently, this indicator is not explicitly taken into account in the management of the funds.</p>
	<p>Unadjusted gender pay gap [PAI12]</p>	<p>This indicator shows wage differences between men and women.</p> <p>This is determined as follows: the unadjusted pay gap is the ratio of the average gross hourly earnings of female employees to those of male employees.</p>	<p>Currently, this indicator is not explicitly taken into account in the management of the funds.</p>

⁴ See footnote Number 3.

	<p>Gender diversity on the board of directors [PA13].</p>	<p>This indicator focuses on gender diversity in the Board of Directors.</p> <p>This is determined as follows: the number of women on the board of directors in relation to the total number of board members in the investee companies.</p>	<p>Currently, this indicator is not explicitly taken into account in the management of the funds.</p>
	<p>Exposure to controversial weapons [PA14]</p>	<p>This indicator refers to investments in companies involved in the manufacture or sale of controversial weapons. Controversial weapons include anti-personnel mines, cluster munitions, chemical weapons and biological weapons.</p> <p>This is determined as follows: the proportion of investments in companies involved in the manufacture or sale of controversial weapons in relation to the total investment.</p>	<p>✓ Funds that invest responsibly exclude controversial weapons. The exclusions list includes companies involved in the development, testing, storage or production of (essential components of) controversial weapon systems. By extension, conventional weapons are also excluded.</p>

<p>Environment (countries)</p>	<p>Greenhouse gas intensity of countries [PAI15].</p>	<p>This indicator refers to the greenhouse gas emissions of countries in which investments are made.</p> <p>This is calculated as the weighted average of countries' greenhouse gas emissions⁵ relative to their gross domestic product.</p>	<p>✓ Responsible funds have objectives to reduce the greenhouse gas intensity of countries invested in. The objective for this type of fund is to:</p> <p>For EMU funds: outperform the global benchmark by at least 25%.</p> <p>For global funds: outperform the global benchmark by at least 10%.</p> <p>For emerging market funds: maximum 100% worse than the global benchmark.</p>
<p>Social (countries)</p>	<p>Invested countries where social violations occur [PAI16].</p>	<p>This indicator points to social violations in countries. Social violations are described in international treaties and conventions, United Nations principles and, where applicable, national legislation.</p> <p>This is shown in two ways:</p> <ul style="list-style-type: none"> - the absolute number of countries with social violations in which investments are made. - the relative number (i.e. the number of countries with social violations divided by all investee countries) 	<p>Funds that invest responsibly do not invest in government bonds of the most controversial regimes. Responsible funds may not have exposure to government bonds of countries belonging to the 50% of countries with the most controversial regimes. These are regimes with a high degree of corruption, which fundamentally violate human rights, do not respect laws and lack good governance and political freedom. Countries which are subject to international sanctions are also excluded.</p>

⁵ See footnote Number 1.

<p>Fossil fuels (real estate)</p>	<p>Exposure to fossil fuels through real estate assets [PAI17].</p>	<p>This indicator refers to investments in real estate assets that are involved in the extraction, storage, transport or manufacturing of fossil fuels.</p>	<p>ⓘ Not applicable. Responsible funds do not invest in real estate assets.</p>
<p>Energy efficiency (real estate)</p>	<p>Exposure to energy inefficient real estate assets [PAI18]</p>	<p>This indicator points to investments in energy inefficient real estate assets. Energy-inefficient real estate: - either has an EPC value that is too high (>C) - or it does not comply with the near-zero energy (BEN) principles.</p>	<p>ⓘ Not applicable. Responsible funds do not invest in real estate assets.</p>