

Sustainability-related Disclosures

KS Merito Sustainable Energy FUND I AIF
(legal entity identifier: 40203438878)

This document includes sustainability-related information about the Fund in accordance with Article 10 of the Sustainable Finance Disclosures Regulation (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) and the regulatory technical standards laid down in Articles 24 to 36 of the Commission Delegated Regulation (EU) 2022/1288.

Summary

Pursuant to Article 10 of the SFDR, financial market participants are required to publish and maintain summary information on their website regarding financial products that promote environmental or social characteristics, or which have sustainable investment as their objective. This disclosure is intended to offer transparency on the Fund's (as mentioned in the heading above) sustainability-related information.

This Fund is an Article 8 fund that promotes environmental or social characteristics. While the Fund does not have as its objective a sustainable investment, it will have a minimum proportion of 30% of sustainable investments with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy.

The Fund promotes environmental and/or social characteristics by primarily investing in companies that are involved in the installation and development of solar panel parks. By doing so, the Fund promotes the transition to renewable energy, the reduction of greenhouse gas emissions, and energy security and independence. This supports the transition to clean, renewable energy and helps reduce reliance on fossil fuels thereby contributing to mitigating climate change and achieving net-zero emissions goals.

Before making an investment, an initial screening of potential investments is conducted, during which the company in question is evaluated against the exclusions list of Merito and for its potential involvement in Harmful Practices as defined by the Merito Group Responsible Investment Policy. Companies that do not meet the negative screening will not be further considered for investment.

Further assessment involves evaluating the extent to which the company contributes to SDG 7 – Affordable and Clean Energy. For sustainable investments and investments that are aligned with environmental or social characteristics investee companies must meet minimum requirements in terms of good governance practices in respect to at least sound management structures, employee relations, remuneration of staff, and tax compliance.

For those investments that are considered sustainable investments, investee companies must additionally meet the 'do no significant harm' (DNSH) criteria that use principal adverse impacts (PAI) indicators.

The attainment of the environmental and/or social characteristics promoted by the Fund throughout its lifecycle are measured by certain sustainability indicators as described below. Data is obtained via multiple available sources such as sustainability reports, adverse media coverage, information provided by the management of an investee company and others, and Merito takes reasonable steps to ensure data quality.

Merito acknowledges the importance of engaging with investee companies for strategic purposes to mitigate risks, address sustainability-related controversies in investee companies, and enhance long-term value of investments. Overall, we seek to encourage companies to improve their environmental, social and governance (ESG) performance and embed a long-term approach to decision-making.

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

Summary in Latvian (Kopsavilkums latviešu valodā)

Saskaņā ar SFDR 10.pantu finanšu tirgus dalībniekiem ir pienākums publicēt un uzturēt savā tīmekļa vietnē kopsavilkuma informāciju par finanšu produktiem, kas veicina vides vai sociālo īpašību ievērošanu vai kuru mērķis ir ilgtspējīgi ieguldījumi. Šī informācijas atklāšana ir paredzēta, lai nodrošinātu pārredzamību attiecībā uz Fonda (kā norādīts virsrakstā) ilgtspējas saistīto informāciju.

Šis Fonds ir 8. panta fonds, kas veicina vides vai sociālo īpašību ievērošanu. Lai gan Fonda mērķis nav ilgtspējīgi ieguldījumi, vismaz 30% no tā ieguldījumiem būs ilgtspējīgi ieguldījumi ar vides mērķi tādās ekonomiskajās darbībās, kas neatbilst ES Taksonomijā noteiktajiem vides ilgtspējas kritērijiem.

Fonds veicina vides un/vai sociālās īpašības, galvenokārt ieguldot uzņēmumos, kas nodarbojas ar saules paneļu parku uzstādīšanu un attīstīšanu. Tādējādi Fonds veicina pāreju uz atjaunojamo enerģiju, siltumnīcefekta gāzu emisiju samazināšanu, kā arī enerģētisko drošību un neatkarību. Tas atbalsta pāreju uz tīru, atjaunojamo enerģiju un palīdz samazināt atkarību no fosilajiem kurināmajiem, tādējādi veicinot klimata pārmaiņu mazināšanu un mērķa par nulles emisijām sasniegšanu.

Pirms ieguldījuma veikšanas tiek veikts sākotnējais potenciālo ieguldījumu izvērtējums, kura laikā attiecīgais uzņēmums tiek novērtēts saskaņā ar Merito izslēgšanas sarakstu un tā iespējamo iesaisti kaitīgās praksēs, kā tas definēts Merito Grupas Atbildīgas ieguldīšanas politikā. Uzņēmumi, kas neiztur negatīvo atlasu, netiek tālāk izvērtēti ieguldījumu veikšanai.

Turpmāka izvērtēšana ietver analīzi par to, cik lielā mērā uzņēmums veicina ANO ilgtspējīgas attīstības mērķa Nr. 7 – Pieejama un tīra enerģija – sasniegšanu. Ilgtspējīgie ieguldījumi un ieguldījumi, kas ir saskaņoti ar vides vai sociālajām īpašībām, tiek veikti tikai tajos uzņēmumos, kas atbilst minimālajām labas pārvaldības prasībām, tostarp attiecībā uz pārvaldības struktūrām, attiecībām ar darbiniekiem, atalgojumu un nodokļu nomaksas praksi.

Tiem ieguldījumiem, kas tiek uzskatīti par ilgtspējīgiem, uzņēmumiem papildus ir jāatbilst principam “nenodarīt būtisku kaitējumu” (DNSH), kurš tiek izvērtēts, izmantojot galveno nelabvēlīgo ietekmju (PAI) rādītājus.

Vides un/vai sociālo īpašību, ko Fonds veicina tā dzīves cikla laikā, sasniegšana tiek mērīta ar noteiktiem ilgtspējas rādītājiem, kas aprakstīti turpmāk. Dati tiek iegūti no vairākiem avotiem, piemēram, ilgtspējas ziņojumiem, nelabvēlīgiem mediju atspoguļojumiem, informācijas no ieguldījuma uzņēmumu vadības un citiem, un Merito veic pamatotus pasākumus, lai nodrošinātu datu kvalitāti.

Merito atzīst sadarbības nozīmi ar ieguldījuma uzņēmumiem stratēģiskiem mērķiem – risku mazināšanai, ilgtspējas saistīto strīdu risināšanai un ieguldījumu ilgtermiņa vērtības uzlabošanai. Kopumā mēs cenšamies mudināt uzņēmumus uzlabot to vides, sociālo un pārvaldības (ESG) darbību un ieviest ilgtermiņa pieeju lēmumu pieņemšanā.

Nav noteikts salīdzinošais rādītājs attiecībā uz Fonda veicināto vides vai sociālo īpašību sasniegšanu.

No sustainable investment objective

This financial product promotes environmental or social characteristics, but does not have as its objective sustainable investment. While the Fund does not have as its objective a sustainable investment, it will have a minimum proportion of 30% of sustainable investments with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy. Sustainable investments are investments in economic activities that contribute 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.

To identify sustainable investment opportunities, a DNSH test is applied to investee companies to ensure that they do not significantly harm other social or environmental objectives. The DNSH test uses PAI indicators, as described below, to identify and exclude from sustainable investment companies that do not pass the thresholds.

PAI indicators are fully integrated into the DNSH test, i.e. it includes an assessment against these indicators:

Climate and other environment-related indicators –

- GHG emissions
- Activities negatively affecting biodiversity-sensitive areas
- Emissions to water
- Hazardous waste and radioactive waste ratio

Indicators for social and employee, respect for human rights, anti-corruption and anti-bribery matters

- Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises on Responsible Business Conduct
- Unadjusted gender pay gap
- Board gender diversity
- Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)

In cases where a company does not pass the DNSH test on one or more of the above PAI indicators it will not qualify as part of a sustainable investment. Nevertheless, the company will be encouraged to mitigate the reasons for non-compliance with the said indicator and further monitored for performance to see if it could qualify in the future.

Merito also seeks alignment of sustainable investments with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights, including the principles and rights set out in the eight fundamental conventions identified in the Declaration of the International Labour Organisation on Fundamental Principles and Rights at Work and the International Bill of Human Rights to some extent. Namely, as per Merito Group Responsible Investment Policy, Merito excludes investments in companies that engage in certain Harmful Practices as defined therein, i.e. companies that knowingly and repeatedly engage in severe abuse of human rights, serious environmental damage, contribution to significant biodiversity loss, corrupt behaviour, or tax evasion.

Environmental or social characteristics of the financial product

The Fund promotes environmental and/or social characteristics by primarily investing in companies that are involved in the installation and development of solar panel parks. By doing so, the Fund promotes the transition to renewable energy, the reduction of greenhouse gas emissions, and energy security and independence. This supports the transition to clean, renewable energy and helps reduce reliance on fossil fuels thereby contributing to mitigating climate change and achieving net-zero emissions goals.

Overall, to avoid adverse social outcomes, negative screening of investee companies is conducted. For this purpose, the business activities of an investee company are evaluated against the exclusions list included in the Merito Group Responsible Investment Policy and by assessing their potential involvement in Harmful Practices as defined therein.

Merito's exclusions list covers the following:

- Tobacco;
- Distilled alcoholic beverages;
- Casinos and gambling;
- Pornography;
- Illegal economic activities such as operating a brothel, drug dealing etc.;
- Fossil fuel-based energy production and related activities, such as Arctic drilling, exploration and extraction of oil, natural gas, and coal mining;
- Energy-intensive and/or high CO₂-emitting manufacturing industries, such as the manufacturing of chemicals, fertilizers, plastics, cement, and basic iron and steel, if a company takes insufficient steps to reduce its contribution to climate change.

The Fund will not proceed with investments that do not meet the established negative screening criteria.

Second, to promote investments that are associated with positive outcomes, alignment with the priority Sustainable Development Goals (SDGs) of Merito is examined. These are (i) SDG 7 – Affordable and Clean Energy, (ii) SDG 8 – Decent Work and Economic Growth, and (iii) SDG 12 – Responsible Consumption and Production.

This Fund in particular seeks to promote SDG 7 – Affordable and Clean Energy:



Further, sustainable investments must meet the DNSH requirements as detailed in Merito Sustainability Risk Policy and described above.

Investment strategy

Fund follows a focused investment strategy targeting the development and operation of industrial-scale solar PV projects in Latvia. The strategy promotes environmental characteristics by investing exclusively in renewable energy infrastructure and excluding activities with significant negative environmental or social impacts (e.g., fossil fuels, weapons, tobacco).

The following binding elements apply to ensure that investments align with the environmental and social characteristics promoted by the fund:

- **Minimum Environmental/Social Alignment:**

At least 70% of the fund's investments are made in economic activities that promote environmental and/or social characteristics, in accordance with the fund's sustainability objectives and ESG policy.

- **Sustainable Investments Commitment:**

A minimum of 30% of the fund's investments qualify as sustainable investments with an environmental objective, although they are not necessarily aligned with the EU Taxonomy.

- **Application of Exclusion Criteria:**

The fund applies binding exclusion criteria to eliminate investments in sectors or activities that conflict with its sustainability goals. These include, but are not limited to:

- Fossil fuel production and distribution
- Weapons and defense
- Tobacco
- Violations of international norms (e.g., UN Global Compact)

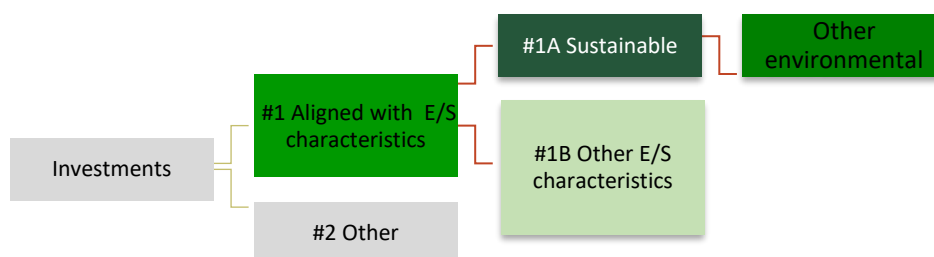
- **Good Governance Assessment:**

Investments are only made in entities that demonstrate sound governance practices, including transparent management structures, fair treatment of employees, responsible remuneration policies, and full tax compliance.

These binding elements are integrated into the fund's investment decision-making and monitoring processes to ensure ongoing alignment with the stated environmental and social characteristics.

Proportion of investments

A minimum of 70% of the Fund's total assets will be invested in investments that are aligned with the environmental and/or social characteristics described above (#1 Aligned with E/S characteristics). Of those, a minimum of 30% will be invested in sustainable investments (#1A Sustainable) while the remainder – up to 40% – will be invested in investments aligned with environmental and/or social characteristics described above (#1B Other E/S characteristics). For example, these might include investments in companies that are aligned with the environmental characteristics and meet minimum requirements in terms of good governance practices but do not pass the DNSH test. All of the sustainable investments (#1A Sustainable) will have environmental objectives that are not aligned with the EU Taxonomy. The Fund may invest up to 30% of its total assets in other investments (#2 Other).



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:

- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social objectives.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

Monitoring of environmental or social characteristics

The following sustainability indicators are used to measure the attainment of the environmental and/or social characteristics promoted by the Fund throughout its lifecycle, namely contribution to SDG 7 – Affordable and Clean Energy:

- **Renewable Energy Capacity Installed (MW):** The total installed capacity of solar energy within the Fund's portfolio. It measures the extent to which the fund is contributing to the development of clean, renewable energy infrastructure. Higher installed capacity translates to a greater positive environmental impact in terms of potential clean energy generation and a larger share of renewable energy in the global energy mix (% of energy consumed from renewable resources).
- **Renewable Energy Generated (MWh/year):** This measures the total amount of clean energy generated by the solar panel parks developed. It also allows to monitor the efficiency of solar panels deployed.
- **Carbon Emissions Avoided (tons of CO₂ per year):** This indicator measures the amount of CO₂ emissions avoided due to the generation of energy from solar panels instead of fossil fuel-based power sources. This allows to understand the Fund's contribution to climate change mitigation.

If required, external advisors may be involved for the necessary calculations.

Methodologies

The methodologies used by Merito to measure how the social or environmental characteristics promoted by the financial product are met are the following:

- **Initial Screening:** Investment team will perform both negative and positive screening against the Merito Group Responsible Investment Policy. For the negative screening the business activities of a company will be evaluated against the exclusions list and a potential involvement in Harmful Practices as defined therein. For the positive screening the alignment with the priority Sustainable Development Goals of Merito will be examined. For this Fund in particular – contribution to SDG 7 – Affordable and Clean Energy.
- **DNSH:** When applicable, DNSH test will be carried out against these indicators: GHG emissions, Activities negatively affecting biodiversity-sensitive areas, Emissions to water, Hazardous waste and radioactive waste ratio, Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises on Responsible Business Conduct, Unadjusted gender pay gap, Board gender diversity, Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons).
- **Good Governance:** Assessment of alignment with good governance practices in respect to at least sound management structures, employee relations, remuneration of staff, tax compliance.

Investments that comply in all three respects are deemed sustainable investments. Those investments that contribute to SDG 7 – Affordable and Clean Energy and are accompanied by good governance practices but do not pass the DNSH test will not qualify as sustainable investments. The investment could still be made and the company will be encouraged to mitigate the reasons for non-compliance with a DNSH indicator in question and further monitored for performance to see if it could qualify as a sustainable investment in the future.

Data sources and processing

Data for the assessment is obtained via multiple available sources such as sustainability reports, adverse media coverage, information provided by the management of an investee company and others. Internal research and analysis of the data is carried out by Merito. If required, external advisors may be involved.

To ensure data quality, Merito seeks additional information from investee companies where there are reasonable doubts about the appropriateness of the data collection and calculation approaches at investee companies and gaps in data sources.

A proportion of the data used in sustainability assessments is based on estimates, particularly in cases where investee companies do not disclose complete or up-to-date information. These estimations are made using reasonable assumptions, benchmarking with comparable companies or sectors, and internal methodologies developed by Merito. Where material, such estimations are cross-checked with external sources or validated by third-party data providers when feasible.

Limitations to methodologies and data

A challenge arises from the fact that gathering and analysing sustainability data can be complex and resource-intensive for investee companies. This difficulty may lead to inconsistencies, inaccuracies, or gaps in self-reported data, as companies may lack the necessary expertise, tools, or systems to track and measure sustainability metrics. As a result, the quality of self-reported data could be compromised.

To mitigate these limitations, Merito takes the measures described above to ensure data quality and continues to monitor developments in the EU's ongoing implementation of sustainability reporting and sustainable finance frameworks to seek alignment of its approach with the current market practices and regulatory requirements.

Due diligence

Merito adopts a rigorous and proactive approach to due diligence, ensuring a thorough assessment and careful consideration of all relevant factors to support informed decision-making. Applying a high standard of due diligence in the selection and ongoing monitoring of investments made by the Fund helps facilitate the long-term value of its investments.

During the due diligence phase, Merito's investment team assesses how sustainability risks are managed within the companies and assets under consideration for investment. This includes reviewing sustainability reports, if any, and/or requesting additional information to assess both quantitative and qualitative ESG information, however, Merito engage with the investee companies to discuss the data, but will not conduct due diligence, audit, or other verification of the data provided by the portfolio companies unless it is necessary.

Engagement policies

Merito acknowledges the importance of engaging with investee companies for strategic purposes to mitigate risks, address sustainability-related controversies in investee companies, and enhance long-term value of investments. Where material sustainability risks are identified, Merito engages with the investee company to address those risks. In addition, as described above, we seek to increase the proportion of sustainable investments within the Fund by encouraging the investee companies that do not meet the DNSH criteria to mitigate the reasons for non-compliance so that they could later be classified as sustainable investments. Overall, we seek to encourage companies to improve their ESG performance and embed a long-term approach to decision-making.

Our engagement approach is based on the size of our investment, the materiality of the risks and the likelihood of achieving change through engagement. Typically, engagement occurs through communication and meetings with the management of investee companies.

Designated reference benchmark

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

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