ASSESSMENT

27 September 2024

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KOOR ESG SICAV a.s.

Second Party Opinion – Green Finance Framework Assigned SQS1 Sustainability Quality Score

Summary

We have assigned an SQS1 Sustainability Quality Score (excellent) to KOOR ESG SICAV a.s.'s (KOOR ESG SICAV) green finance framework dated September 2024. KOOR ESG SICAV has set up this framework to finance three eligible green categories — renewable energy, energy efficiency and climate change adaptation. The framework is aligned with the four core components of the International Capital Market Association's (ICMA) Green Bond Principles (GBP) 2021 (including the June 2022 Appendix 1), and the Loan Market Association, the Asia Pacific Loan Market Association, and the Loan Syndications and Trading Association's (LMA/APLMA/LSTA) Green Loan Principles (GLP) 2023. The company has also incorporated all Moody's Ratings identified best practices for all four components. The framework further demonstrates a high contribution to sustainability.

Sustainability quality score

SQS1

SQS5 Weak | SQS4 Intermediate | SQS3 Good | SQS2 Very good | SQS1 Excellent

Alignment with principles
USE OF PROCEEDS

Overall alignment

Not aligned | Partially aligned | Aligned | Best practices

FACTORS	ALIGNMENT
Use of proceeds	
Evaluation and selection	
Management of proceeds	
Reporting	

Contribution to sustainability

Overall contribution

Poor | Limited | Moderate | Significant | High

Expected impact
Relevance and magnitude

ADJUSTMENTS	
ESG risk management	No adjustment
Coherence	No adjustment

POINT-IN-TIME ASSESSMENT

Scope

We have provided a Second Party Opinion (SPO) on the sustainability credentials of KOOR ESG SICAV's green finance framework, including the framework's alignment with the ICMA's GBP 2021 (including the June 2022 Appendix 1) and the LMA/APLMA/LSTA's GLP 2023. Under its framework, KOOR ESG SICAV plans to issue green financial instruments to finance projects under three green categories — renewable energy, energy efficiency and climate change adaptation (as outlined in Appendix 2 of this report).

Our assessment is based on the last updated version of the framework received on 24 September 2024, and our opinion reflects our point-in-time assessment[1] of the details contained in this version of the framework, as well as other public and non-public information provided by the issuer.

We produced this SPO based on our Framework to Provide Second Party Opinions on Sustainable Debt, published in October 2022.

Issuer profile

The KOOR ESG SICAV a.s. (KOOR ESG SICAV) fund is an investment vehicle created by the owners of KOOR, s.r.o. in 2022. KOOR, s.r.o., founded in 2010, is the leading local Slovak group specializing in energy services. The company provides a wide range of energy services aimed at improving the efficiency of heating equipment and reducing the energy consumption of buildings. Its portfolio spans a variety of services, including heat production and distribution, building insulation, LED lighting, renewable energy solutions such as solar panels and battery storage, and energy management consultancy.

The establishment of the KOOR ESG SICAV fund aims to support the financing of KOOR, s.r.o.'s operations by providing a platform for raising funds from both small and large investors. The fund prioritizes investment in projects spearheaded by KOOR, s.r.o. within the Slovak Republic, the Czech Republic and Hungary. KOOR ESG SICAV has developed a network of thematic sub-funds to direct resources toward projects aiming at enhancing energy efficiency and conserving energy, all while upholding environmental, social and governance (ESG) principles. Specifically, the KOOR ESG sub-fund is designed to finance green projects deemed eligible by KOOR, s.r.o.

Strengths

» Eligible projects target key sustainability challenges for the buildings sector by addressing improvements in energy efficiency and the avoidance and reduction of greenhouse gas (GHG) emissions.

» The eligibility criteria for the financed assets follow selected substantial contribution criteria for several economic activities, as enshrined in the EU Taxonomy.

» The environmental objectives of climate change mitigation and adaptation are clearly defined and relevant.

Challenges

» Despite following established international standards, the energy efficiency category does not meet the best-in-class benchmarks for reductions in primary energy demand and energy efficiency gains.

» The climate change adaptation category lacks specific minimum thresholds for the resulting GHG emission reductions and energy improvements, creating uncertainty around the climate benefits.

Alignment with principles

KOOR ESG SICAV's green finance framework is aligned with the four components of the ICMA's GBP 2021 (including the June 2022 Appendix 1), the LMA/APLMA/LSTA's GLP 2023 and all Moody's Ratings identified best practices:

- ☑ Green Bond Principles (GBP)
- ○ Social Bond Principles (SBP)
- ☑ Green Loan Principles (GLP)
- ○ Social Loan Principles (SLP)
- ○ Sustainability-Linked Bond Principles (SLBP)
- ○ Sustainability Linked Loan Principles (SLLP)

Use of proceeds

Not aligned	Partially aligned	Aligned	Best practices
			▼

Clarity of the eligible categories – BEST PRACTICES

KOOR ESG SICAV has clearly and comprehensively communicated the nature of expenditures, and the eligibility criteria for the three eligible green categories. The issuer has specified that the eligible projects will be located within the Slovak Republic and the Czech Republic. It has scheduled the commencement of activities in the Czech Republic for 2024-25. KOOR ESG SICAV has provided granular descriptions of the eligible projects that could be financed with each issuance. The definition of eligible categories follows the substantial contribution criteria contained in the EU Taxonomy Climate Delegated Act for Climate Change Mitigation and Climate Change Adaptation, thus incorporating internationally recognized technical thresholds.

Clarity of the environmental or social objectives – BEST PRACTICES

The issuer has clearly outlined climate change mitigation and climate change adaptation as the relevant environmental objectives associated with its eligible categories. KOOR ESG SICAV has referenced the United Nations' (UN) Sustainable Development Goals (SDGs) and the EU Taxonomy Climate Delegated Act for sustainable activities, which are considered coherent with the choice of eligible categories.

Clarity of the expected benefits – BEST PRACTICES

KOOR ESG SICAV has identified improvements in energy efficiency and the avoidance and reduction of GHG emissions as relevant benefits for the eligible green categories. The benefits are clear, measurable and will be quantified in the ongoing reporting. KOOR ESG SICAV expects to have no share of refinancing, which makes the definition of an associated look-back period obsolete.

Best practices identified - use of proceeds

- » Eligibility criteria are clearly defined for all project categories
- » Objectives set are defined, relevant and coherent for all project categories
- » Relevant benefits are identified for all project categories
- » Benefits are measurable and quantified for most projects, either ex-ante with clear baselines or with a commitment to do so in future reporting

Process for project evaluation and selection

Not aligned	Partially aligned	Aligned	Best practices

Transparency and quality of process for defining eligible projects – BEST PRACTICES
KOOR ESG SICAV has established a clear process for evaluating, selecting and monitoring eligible projects, formalized in its publicly available framework. The roles and responsibilities for project evaluation and selection are clearly defined according to the issuer's green commission directive, and include relevant expertise. According to the directive, the head of sales ensures the selection of projects that meet the conditions set for green projects. The list of selected projects is submitted by the head of sales to the green commission on a quarterly basis or as needed. The projects financed under this framework refer to eight EU Taxonomy economic activities. While the “Do no significant harm” nor the “Minimum safeguards” criteria are included in the eligibility criteria outlined in the framework, the issuer has additionally committed to align its projects with these criteria. KOOR ESG SICAV also commits to removing projects from its eligible portfolio that no longer meet the eligibility criteria and reallocating funds to an alternative eligible project.

The traceability of the decision-making process at the project level is ensured through an internal business management system throughout the entire life cycle. This system maintains records of eligible projects and documentation related to the green commission decision-making.

Environmental and social risk mitigation process – BEST PRACTICES
The environmental and social (E&S) risk mitigation processes are included in the internal directive “Risk Identification and Assessment”. KOOR ESG SICAV commits to implementing measures related to the management of material ESG risks by combining passive, corrective and preventive risk management measures. Mitigation and adaptation solutions with corresponding measures intended to reduce the most critical physical risks, such as temperature-related risks, are applied to all projects. The issuer specifies that projects facing controversies may be withdrawn from the list of eligible assets and replaced by other eligible projects.

Best practices identified - process for project evaluation and selection

- The roles and responsibilities for project evaluation and selection are clearly defined and include relevant expertise
- There is evidence of continuity in the selection and evaluation process through the life of the financial instrument(s), including compliance verification and procedures to undertake mitigating actions when needed
- The process for project evaluation and selection is traceable
- Material environmental and social risks for most project categories are identified
- Presence of corrective measures to address environmental and social risks across projects
- ESG controversies are monitored

Management of proceeds

Not aligned	Partially aligned	Aligned	Best practices ▼

Allocation and tracking of proceeds – BEST PRACTICES

KOOR ESG SICAV has defined a clear process for the management and allocation of proceeds, as detailed in its green finance framework, which will be publicly available on the issuer's website. The net proceeds raised via the green finance framework will be held in a dedicated separate account and only used for the eligible projects. As long as the green financing instruments are outstanding, the balance of the tracked net proceeds will be annually adjusted to match the allocations to eligible projects made during that period. The issuer has committed to allocate net proceeds within 24 months.

Management of unallocated proceeds – BEST PRACTICES

Unallocated funds may be temporarily used for other cash management purposes or other treasury securities. Formal exclusion criteria for temporary permitted investments relate to GHG-intensive activities. In addition, the issuer will hold unallocated proceeds in its bank partner's current accounts, using only highly liquid instruments. This approach complies with EU legislation standards, including the Corporate Sustainability Reporting Directive (CSRD) and the Capital Requirements Regulation (CRR) III/Capital Requirements Directive (CRD) IV. In case of project divestment or postponement, the divested proceeds will be reallocated to projects that comply with the green finance framework as soon as reasonably practicable.

Best practices identified - management of proceeds

» Broad disclosure of a clearly articulated and comprehensive management of proceeds policy to external stakeholders; bondholders or lenders at a minimum

» Short allocation period, for example typically less than 24 months

» Disclosure on temporary placement and presence of exclusion criteria toward environmentally or socially harmful activities

» Commitment to reallocate proceeds to projects that are compliant with the framework

Reporting

Not aligned	Partially aligned	Aligned	Best practices ▼

Transparency of reporting – BEST PRACTICES

KOOR ESG SICAV will report annually on the use of proceeds issued under the framework, and in the event of material developments until bond maturity and loan payback. The allocation report will cover relevant information on the allocation of proceeds, encompassing a list and description of projects financed, the total amount of proceeds allocated to the project categories and the outstanding amount of unallocated net proceeds. In addition, the issuer will provide an impact report on the sustainability benefits of its green projects until maturity of the instruments, which will also include information on material developments, issues or controversies related to the projects. Both, the allocation and the impact reports will be made available to investors.

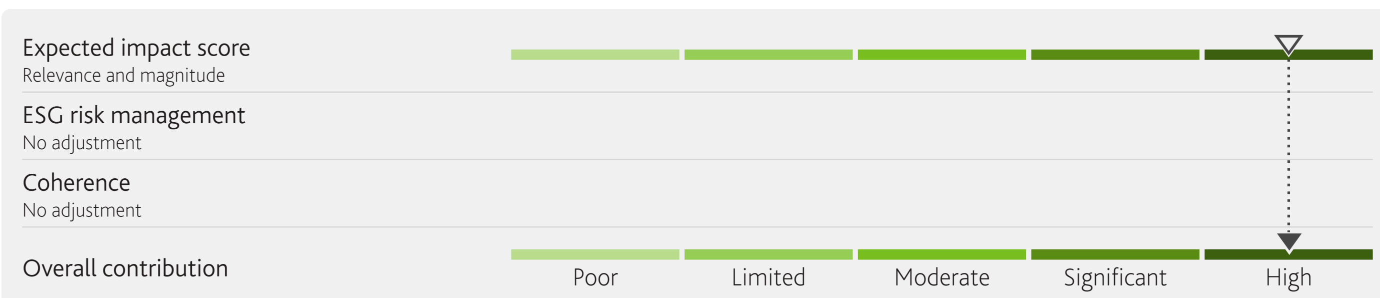
The calculation methodologies and assumptions used to report on the environmental impact of the eligible projects are publicly available in the green finance framework. KOOR ESG SICAV will annually obtain an independent third-party review on the proceeds allocation and the reported environmental benefits until the proceeds' full allocation and in the event of material changes.

Best practices identified - reporting

- » Reporting until full bond maturity or loan payback
- » Reporting covers material developments and issues related to the projects or assets
- » Reporting on allocation of proceeds and benefits done at least at eligible category level
- » Exhaustive allocation reporting – balance or % of unallocated funds, types of temporary investments (e.g. cash or cash equivalent) and share of financing vs re-financing
- » Clear and relevant indicators to report on the expected environmental/social impact of all the projects, where feasible, or eligible categories
- » Disclosure of reporting methodology and calculation assumptions to bondholders or lenders at a minimum
- » Independent audit of the tracking and allocation of funds at least until full allocation and in case of material changes
- » Independent impact assessment on environmental benefits by a qualified third-party reviewer at least until full allocation and in case of material changes and/or case studies to report on the social impact/benefits

Contribution to sustainability

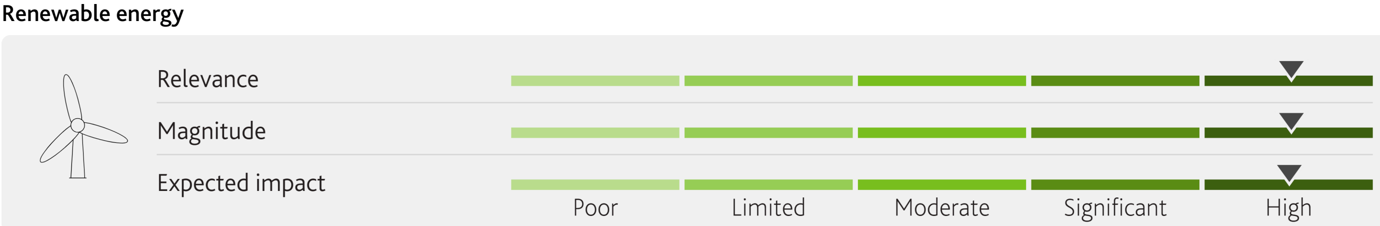
The framework demonstrates a high overall contribution to sustainability.



Expected impact

The expected impact of the three eligible categories on the environmental objectives is high. Based on the information provided by the issuer, we expect most of the proceeds from forthcoming green instruments to be allocated to the renewable energy and energy efficiency categories. A detailed assessment by eligible category is provided below.

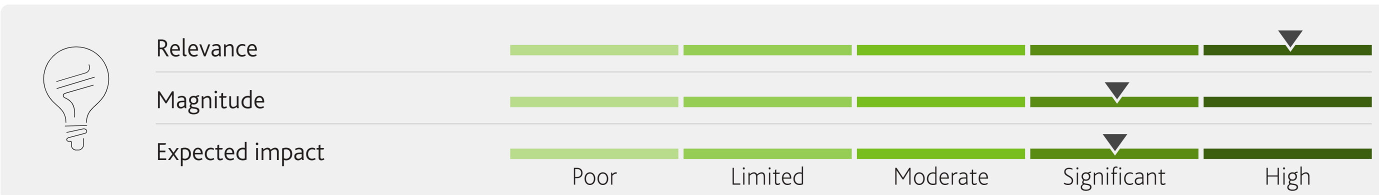
Renewable energy



Financing renewable energy projects — such as the installation, maintenance and repair of renewable energy technologies, and their application in renovated buildings — is highly relevant for increasing renewable energy production capacity and advancing the energy transition. These projects will be located in both the Slovak Republic and the Czech Republic — regions not yet saturated with renewable energy projects and where electricity production still heavily depends on fossil fuels.

The eligible projects under the renewable energy category will have a high, positive, long-term impact on climate change mitigation by directly reducing and avoiding GHG emissions in electricity consumption. The eligibility criteria of the category align with the substantial contribution criteria of the EU Taxonomy economic activity 7.6 — Installation, maintenance and repair of renewable energy technologies, thus adhering to recognized international standards. In addition, KOOR ESG SICAV's selection criteria for the solar power, electric heat pumps and battery storage systems align with the best-in-class technology standards. We do not expect any carbon lock-in effects or any E&S externalities for all projects.

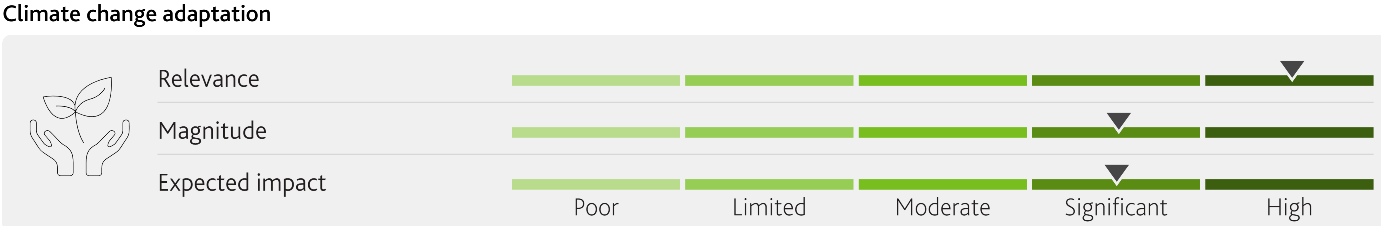
Energy efficiency



Investments in energy efficiency improvements are highly relevant to the issuer and the energy industry because of their potential to tackle major sustainability challenges and reduce energy-related emissions. Modernizing outdated infrastructure in both the Slovak Republic and the Czech Republic is key to achieving efficient, sustainable energy use, and decreasing fossil fuel dependence. The issuer's operations, focused on delivering sustainable energy solutions and including services to the real estate sector, directly address these challenges.

The magnitude of KOOR ESG SICAV's impact in the energy efficiency category is deemed significant, grounded in the projects' eligibility criteria, which align with the substantial contribution criteria of the EU Taxonomy economic activities 4.15, 7.2, 7.3, 7.5, 9.1 and 9.3. While activities in the area of district heating and cooling distribution employ best-in-class technologies, the specific minimum thresholds set for energy improvements or GHG-emission savings in the remaining activities within this category are not considered the most ambitious. In this context, renovating existing buildings to achieve at least a 30% reduction in primary energy demand (PED) meet essential requirements, but do not reach the highest levels, such as the 60% reduction contemplated for "deep" renovations[2]. Similarly, the commitment to a minimum of 20% efficiency gains in the installation, maintenance and repair of energy efficiency equipment is seen as having a lower impact than the commonly achieved threshold of 30%. Finally, R&D-related projects like business model development and energy-efficiency consultancy lack specific project descriptions, including minimum thresholds for GHG-emission savings or energy improvements, resulting in an unclear climate impact. Nevertheless, we do not expect any carbon lock-in effects or any E&S externalities for all projects in scope.

Climate change adaptation



The relevance of KOOR ESG SICAV's R&D-related climate change adaptation activities is high, reflecting the critical need for decarbonization and energy efficiency improvements in the energy sectors of the Slovak Republic and the Czech Republic. These countries have historically depended on fossil fuels and have encountered challenges such as investments needed for renewable technologies, integration of renewables into the existing grid, and competition with fossil fuels and nuclear energy. However, in the two countries, both public and private investments in R&D for energy efficiency and decarbonization remain substantially lower than the EU average, indicating a lag in investment in these areas.

The magnitude of KOOR ESG SICAV's climate change adaptation project is significant, based on the projects' alignment with recognized international standards, specifically the substantial contribution criteria of the EU Taxonomy economic activities 9.2 (Annex II, Climate Change Adaptation). The eligible category encompasses enabling activities with the potential for short-, medium- or long-term impacts, depending on the activity type. Despite the lack of specified minimum thresholds for the resulting GHG-emission savings or energy improvements and, consequently, the low transparency regarding the actual impact and applied technologies, the focus on service-related projects, such as the development of business models and providing energy-efficiency-related consultancy services, mitigates the potential for lock-in effects or negative E&S externalities.

ESG risk management

We have not applied a negative adjustment to the expected impact score for ESG risk management. KOOR ESG SICAV employs a formalized internal approach to assess the benefits and risks of its green projects. They follow the internal “Risk Identification and Assessment” directive and are ISO 9001 certified, integrating risk management practices. From the outset, project eligibility adheres to EU Taxonomy criteria for climate change mitigation, ensuring that they do not significantly harm environmental objectives. These objectives include climate change adaptation, water and marine resource protection, circular economy transition, pollution prevention and biodiversity protection. KOOR ESG SICAV's sustainability practices, which include considerations of the environment, labor and human rights, ethics, and sustainable procurement, were ranked in the top 15th percentile of all companies across industries within the database of an independent corporate sustainability ratings provider.

Coherence

We have not applied a negative adjustment to the expected impact score for coherence. Projects to be financed under KOOR ESG SICAV’s green finance framework align with its broader sustainability priorities because the issuer's business is entirely dedicated to developing services, solutions and manufacturing products for more energy efficiency and less carbon footprint linked to heating equipment and buildings.

Appendix 1 - Mapping eligible categories to the United Nations' Sustainable Development Goals

The three eligible categories included in KOOR ESG SICAV's green finance framework are likely to contribute to three of the UN's SDGs, namely:

UN SDG 17 Goals	Eligible Category	SDG Targets
GOAL 7: Affordable and Clean Energy	Renewable energy Energy efficiency	7.2: Increase substantially the share of renewable energy in the global energy mix
		7.3: Double the global rate of improvement in energy efficiency
GOAL 9: Industry, Innovation and Infrastructure	Renewable energy Energy efficiency	9.4: Upgrade infrastructure and retrofit industries to make them sustainable, with all countries taking action
GOAL 13: Climate Action	Renewable energy Energy efficiency Climate change adaptation	13.1: Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters in all countries

The mapping of the UN's SDGs in this SPO considers the eligible project categories and associated sustainability objectives/benefits documented in the issuer's green finance framework, as well as resources and guidelines from public institutions, such as the ICMA's SDG Mapping Guidance and the UN's SDG targets and indicators.

Appendix 2 - Summary of eligible categories in KOOR ESG SICAV's green finance framework

Eligible Categories	Description	Sustainability Objectives	Impact Reporting Metrics
Renewable energy	Types of contracts or projects: - PPA (Power purchase agreement) - RE (Renewable energy) – Provision of renewable energy equipment - BESS (Battery Energy Storage Systems) – Energy storage systems in a form of electric energy using batteries EU Taxonomy economic activity: 7.6. Installation, maintenance and repair of renewable energy technologies	Climate Change Mitigation	- Estimated annual GHG emissions avoided in t CO_2e - Estimated annual renewable energy generation in MWh
Energy efficiency	Types of contracts or projects: - EPC (Energy Performance Contracting) – client pays from future savings - GES (Guaranteed Energy Service) – energy savings are guaranteed to the client - PBC (Performance based contract) - EC (Energy contracting) EU Taxonomy economic activities: 4.15. District heating/cooling distribution 7.2. Renovation of existing buildings 7.3. Installation, maintenance and repair of energy efficiency equipment 7.5. Installation, maintenance and repair of instruments and devices for measuring, regulation and controlling energy performance of buildings 9.1. Close to market research, development and innovation 9.3. Professional services related to energy performance of buildings	Climate Change Mitigation	- Estimated annual energy savings in MWh - Estimated annual GHG emissions avoided in t CO_2e
Climate change adaptation	EU Taxonomy economic activity: 9.2. Close to market research, development and innovation	Climate Change Adaptation	- Estimated increase in generation and storage in MWh

Endnotes

1 The point-in-time assessment is applicable only on the date of assignment or update.

2 Official Journal of the European Union, Commission Recommendation (EU) 2019/786 of 8 May 2019 on building renovation (notified under document C(2019) 3352) (Text with EEA relevance.), May 2019.

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