

Nazca Capital PAI statement

This document summarises the policies and procedures of Nazca Capital (“Nazca” or “the firm”) regarding the principal adverse impacts (“PAIs”) of its investment decisions on sustainability factors.

The document will lay out:

- a description of the PAIs
- a description of the policies to identify and prioritise adverse sustainability impacts
- a summary of the firm’s policies about how it engages with investee companies regarding the principal adverse impacts
- a reference to the firm’s incorporation of internationally recognised ESG initiatives and standards

The firm considers principal adverse impacts of investment decisions on sustainability factors in a manner appropriate to its size and the nature and scale of its activities, and the types of financial product it makes available. Depending on the characteristics of each financial product it offers, and in particular whether the product promotes environmental or social characteristics or has sustainable investment as its objective, the firm will determine and disclose whether, and the extent to which, it considers the principal adverse impacts of its investment decisions.

In relation to products that promote environmental or social characteristics, the firm considers principal adverse impacts to the extent described in that product’s pre-contractual documents. In all cases, please refer to a product’s pre-contractual information for the specific policies applicable to that product.

More information related to the firm’s approach to ESG (Environmental, Social, and Governance factors) and responsible investment in general, can be found on the firm’s website at <https://www.nazca.es/en/strategy/esg/>.

Summary

Nazca considers the principal adverse impacts of its investment decisions on sustainability factors in a manner appropriate to its size and the nature and scale of its activities and the types of financial product it makes available. Nazca will use reasonable best efforts to gather, monitor and report the principal adverse impact indicators where appropriate.

Description of principal adverse sustainability impacts

Nazca uses the definition of principal adverse impacts as prescribed in Recital 20 of the Regulation: ‘Those impacts of investment decisions that result in negative effects on sustainability factors’.

Sustainability Factors

Sustainability Factors are defined in Article 2(24) of the Regulation as: environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

Adverse Impact Indicators

Nazca will gather, monitor and report on the following adverse impacts indicators related to the environment:

1. GHG emissions
2. Carbon footprint
3. GHG intensity of investee companies
4. Exposure to companies active in the fossil fuel sector

5. Share of non-renewable energy consumption and production
6. Energy consumption intensity per high impact climate sector
7. Activities negatively affecting biodiversity-sensitive areas
8. Emissions to water
9. Hazardous waste ratio

Nazca will gather, monitor and report on the following adverse impact indicators related to social issues:

1. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.
2. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD guidelines for Multinational Enterprises
3. Unadjusted gender pay gap
4. Board gender diversity
5. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)

Nazca will also gather, monitor and report on the following additional indicators:

1. Investments in companies without carbon emission reduction initiatives
2. Investments in companies without workplace accident prevention policies

Principal adverse impact indicators will be reported on an annual basis.

Description of policies to identify and prioritise adverse sustainability impacts

Nazca believes that a fundamental pillar of incorporating sustainability factors into the investment process and transforming them into a lever for value creation is a sound ESG governance structure. The firm provides all investment professionals with an annual ESG training in order to properly integrate ESG matters into their daily investment decisions.

Nazca's approach to responsible investment and the integration of ESG considerations throughout the entire investment cycle allows for the identification and prioritisation of adverse sustainability impacts. The investment process is broken down into five separate stages: (i) screening, (ii) due diligence, (iii) investment decision, (iv) investment holding period, and (v) exit.

Screening

In the first stage of the investment cycle, Nazca will screen potential investees against the firm's list of excluded companies and sectors on which its funds will not contemplate to invest in.

Nazca will not invest in:

- Illegal economic activities: production, commercialisation or any other activity that might be illegal under the laws or regulations of their home jurisdiction (Spanish or Portuguese). The activity of human cloning with reproductive purposes is considered as an illegal economic activity in the context of these guidelines.
- Tobacco and distilled alcoholic beverages: the production and commercialisation of tobacco and distilled alcoholic beverages as well as related products.
- Production and trading of weapons and ammunition: financing the production and trading of weapons and ammunition of any type. This restriction will not apply when such activities are part or are ancillary to European Union policies.

- Casinos: financing of casinos and equivalent businesses.
- Restrictions in the information technology sector: research, development or technical implementation related to electronic data or solutions that aim online gambling as well as online casinos or pornography.
- Life sciences sector: whenever support or financing is provided to research, development or technical implementation related to:
 - Human cloning with research or therapeutic purposes
 - Genetically modified organisms

Due Diligence

Nazca subjects each potential investment that passes the screening phase to an ESG Due Diligence undertaken by an external specialized consultant. The firm's Due Diligence methodology is based on financial materiality framework which allows for the identification of material themes based on the potential investment's sector. In addition to the financial materiality framework, Nazca also assesses the potential investment's performance against internal themes and criteria that are based on regulation and international standards (SFDR, TCFD, SDGs). Any principal adverse impact identified during the due diligence process, as well as opportunities, are included in an ESG Action Plan.

Investment Decision

The findings and conclusions of the due diligence process are discussed in the Investment Committee. In the event that a material risk or adverse impact is identified, the potential investee is asked to implement immediate measures to remediate and cease the negative impact.

Investment Holding Period

Once a company enters Nazca's portfolio, an ESG Action Protocol is triggered that includes the following binding elements:

1. Medium and long-term action plan, prepared by an external expert, that includes annual measures to be implemented by the company, under the regular supervision of its Board of Directors.
2. A set of ESG indicators to measure the progress of the measures included in the action plan, the main adverse impacts, and in this respect, monitor the improvement in the company's ESG performance.

The ESG Action Protocol includes at least the following:

1. Adherence to Nazca's ESG Policy.
2. The appointment of an ESG manager within the company to coordinate and promote the implementation of the measures.
3. Approval of the ESG Action Plan and the annual measures.
4. Approval of a Corporate Compliance Program to strengthen corporate governance.
5. Measurement of the carbon footprint and the design and approval of a reduction plan.

Nazca measures a set of indicators that are divided into Core KPIs and Company-Specific KPIs. The former include the PAI indicators as well as those selected from other best practice standards such as ILPA, TCFD and the SDGs. The latter are based on the financially material themes specific to each company.

Each company ESG Action Plan and indicators are measured and reported on an annual basis.

Exit

Upon the exit of an investment, Nazca assesses the company's performance against the sustainability indicators throughout the holding period.

Engagement policies

Once the decision to invest in a company has been made, a mid and long-term ESG strategic plan is activated post-closing. The investee hires a sustainability expert to design a strategic action plan. This plan is to be approved by the company within a maximum of 12 months and approved at Board level. An ESG Leader is appointed internally within each investee to ensure the proper implementation of the action plan. The ESG Leader reports to the Board of Directors to communicate on the progress made on annual objectives.

- Include the action plan's material aspects as well as certain information obligations to facilitate its monitoring within a 180-day Plan and Value Creation Plan for the Investment Period
- The monitoring of the execution of the Value Creation Plan through periodic dialogue with the investee's ESG Responsible as well as Board of Directors' meetings. This Value Creation Plan, details the strategic objectives and the actions necessary to achieve said objectives. During the Investment Period, compliance with the action plan is monitored and promoted in the Investee Companies through representation on the Board of Directors, dialogue with the management team and coordinated action with the ESG Responsible.
- The Value Creation Plan includes a core set of actions seeking to generate sustainable value creation and preservation through: (i) inorganic growth, (ii) acquisitions, (iii) strategic definition, (iv) operational improvements, (v) reinforcement of management teams and (vi) active management of ESG factors in the company.

References to international standards

The firm has been a signatory of the United Nations Principles for Responsible Investment ("PRI") since 2016 and commits to the following principles:

- Incorporate ESG issues into investment analysis and decision-making processes
- Be active owners and incorporate ESG issues into ownership policies and practices
- Seek appropriate disclosures on ESG issues by the entities in which the firm invests in
- Promote acceptance and implementation of the Principles within the investment industry
- To work together to enhance the firm's effectiveness in implementing the Principles
- Report the firm's activities and progress towards implementing the Principles.

Nazca's responsible investment policy and practices are equally aligned with the TCFD recommendations on climate related risks and incorporates this recommendations into its investment decisions and processes. The firm seeks to positively contribute to the UN's Sustainable Development Goals through its activities by mapping the specific contribution of each investee in the portfolio.

Review of the policy

This Principal Adverse Sustainability Impacts Statement is effective as of 1st January, 2023, and will be reviewed at least once a year.

VERSIONS

Date	Comments	Version
2023.01.01	First approval	1