

Policy on the Integration of Sustainability Risks in the Investment Decision-making Process



oquendo
CAPITAL





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“As a top-quality leader firm specialized in asset management, we are committed to responsibly investing our managed assets as well as improving our portfolio companies ESG performance”



1.

Introduction

Oquendo Capital SGEIC SA (“**Oquendo**” or the “**Company**”) is a leading private debt investor offering comprehensive senior and junior private credit solutions that span the entirety of the capital structure. Our focus is on partnering with successful businesses led by market experts, backed by dedicated shareholders, and equipped with highly skilled professional management teams.

In some cases we also take minority stakes in the companies’ equity, thus extending our financing offer across the entire capital structure.

We are situation-agnostic and most of our investments are in the context of LBO, growth, and shareholder restructurings. We have a generalist sector focus and work with companies with EBITDA between €2 and €40 million that may be owned by private equity firms or families.

At the time of publication of this policy, the funds under management by Oquendo are: Oquendo Mezzanine II SCA SICAR, Oquendo III SCA SICAV, Oquendo Senior Debt Fund SCA SICAV- RAIF, Oquendo IV SCA SICAV- RAIF, Oquendo IV ELTIF SCA SICAV-RAIF, Fondo Valenciano de Impulso Empresarial - Impulsa I, F.C.R.E., S.A. Oquendo Senior II ELTIF SCA SICAV-RAIF and Oquendo Senior II SCA SICAV-RAIF.

Our geographical scope is Spain, France, Italy and Portugal with selective coverage of other Southern European markets.

Oquendo emphasizes its fiduciary duty to act with utmost integrity and responsibly when it interacts with its various stakeholders. We place a strong focus on Environmental, Social, and Governance (ESG) issues, integrating them into our investment practices to enhance value creation and ensure responsible investment decisions.

We believe ESG factors significantly influence the financial performance of companies. Issues like climate change, resource scarcity, and changing demographics are reshaping industries, serving as vital intangible value drivers and factors for evaluating corporate quality. Incorporating ESG into investment decisions leads to better risk adjusted returns and a more comprehensive consideration of societal values and interests.

We prioritize sustainable and responsible investment, aiming to support companies that uphold strong environmental, societal, and governance standards. We exercise discernment in investment decisions, potentially refusing to finance entities deemed lacking in social or environmental responsibility. This Policy on the integration of sustainability risks in the investment decision-making process (the “**Policy**”) is drafted and approved in accordance with the requirements provided in the 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**”).

The Policy follows the main international rules applicable to the sustainable and responsible investment standards:

- The United Nations Principles for Responsible Investment (of which Oquendo is signatory).
- The ISO 26000 rule on Social responsibility.
- The UN Global Reporting Initiative Standards.
- The UN Global Compact 10 Principles.
- The Organization for Economic Co-operation and Development (OECD) Principles of Corporate Governance.
- The Equator Principles.

In addition, the frameworks used to identify the sustainability outcomes connected to our investment activities are the following:

- The UN Sustainable Development Goals (SDGs) and targets.
- The UNFCCC Paris Agreement.
- The UN Guiding Principles on Business and Human Rights (UNGPs).
- The International Labour Organization’s Declaration on Fundamental Principles and Rights at Work and the eight core conventions.
- The Task Force on Climate-related Financial Disclosures (TCFD).

2. **Purpose**



The 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, sets out rules for financial institutions to harmonize the approach and make transparent disclosures to end investors on the integration of sustainability risks, on the consideration of principal adverse impacts¹, on sustainable and responsible investment objectives, or on the promotion of environmental or social characteristics, in investment decision-making and advisory processes.

The purpose of this Policy is, in accordance with this Regulation, to provide transparency in the Oquendo investment process, laying out all the steps from investment strategy decisions to portfolio implementation and to highlight where ESG-related issues are being incorporated throughout the process.

In all, this enables end investors to better understand how sustainability risks are considered throughout the investment process.

ESG issues are crucial factors in the process of decision-making in the Company

ESG issues are crucial factors in the process of decision-making in the Company. In particular, the potential negative impact of investment decisions on sustainability factors is one of the main aspects that are considered in the decision-making process. The Company may refuse investments that it considers that are not responsible from an ESG perspective.

Furthermore, as a provider of capital, we at Oquendo are mindful of the necessary transition to a low carbon economy and the consequential impact in terms of winners and losers. Both climate-related physical and transition risks have to be weighted in our investment thesis.

(1) The AIFM, when considering potential investments, takes into consideration the following principal adverse impact on sustainability factors in the course of assessing sustainability risks and their impacts on the value of investment: (Carbon footprint; GHG emissions ;Energy efficiency; Electricity consumption; Recycling awareness; Climate change; Independence Governing Body; Money Laundering; Health and Safety; Anti-corruption; Inclusion)All the investments carried out by the Company follow Oquendo's policy on integration of sustainability risks in the investment decision-making process and its specific requirements (the "ESG Policy").

3.

Negative Screening



Oquendo will not invest in sectors or activities contrary to its principles and values, or those of its investors. Before analyzing any transaction, it will verify whether the sector of activity of the company in which it is going to invest or finance belongs to the excluded sectors and, if so, it will immediately rule out the transaction.

> **Oquendo Investment Restrictions**

The Company shall not invest, guarantee or otherwise provide financial or other support, directly or indirectly, to companies or other entities:

- (a) whose business activity consists of an illegal economic activity (i.e. any production, trade or other activity, which is illegal under the laws or regulations applicable to the Company or the relevant company or entity, including without limitation, human cloning for reproduction purposes); or
- (b) which substantially focus on:
 - (i) the production of and trade in tobacco and distilled alcoholic beverages and related products;
 - (ii) the financing of the production of and trade in weapons and ammunition of any kind, it being understood that this restriction does not apply to the extent such activities are part of or accessory to explicit European Union policies;
 - (iii) casinos and equivalent enterprises;
 - (iv) the research, development or technical applications relating to electronic data programs or solutions, which
 - (x) aiming specifically at:
 - (i) supporting any activity referred to under items (a) to (d) above;
 - (ii) internet gambling and online casinos; or
 - (iii) pornography;
 - (y) are intended to enable to illegally:
 - (i) enter into electronic data networks; or
 - (ii) download electronic data.
 - (v) fossil fuel-based energy production and related activities, as follows: coal mining, processing, transport and storage, oil exploration & production, refining, transport, distribution and storage, natural gas exploration & production, or any other activity related to this.
 - (vi) energy-intensive and/or high CO₂-emitting industries, ie: manufacture of other inorganic basic chemicals (NACE 20.13), manufacture of other organic basic chemicals (NACE 20.14), manufacture of fertilisers and nitrogen compounds (NACE 20.15), or any other activity related to this.
- (c) in which any of the following exists:
 - (i) harmful or exploitative forms of child labour or forced labour;
 - (ii) production or trade of any product or development of any activity considered illegal according to the laws and regulations of the country in which the project is located;
 - (iii) production and trade of banned substances or in process of withdrawal as, for example, polychlorinated biphenyls (PCBs), substances that deplete the ozone layer and herbicides, pesticides, drugs and other chemicals;
 - (iv) trade with wild fauna and flora covered by the convention on international trade in endangered species of wild fauna and flora ("CITES");
 - (v) use of driftnets more than 2.5 km. in length;
 - (vi) manufacture or trade in products containing loose asbestos fibers;
 - (vii) cross-border trade in products or waste, except that meets in the basel convention and the rules related to such convention; or
 - (viii) destruction of areas considered of high conservation value.
- (d) Residence in tax heavens.

4.

Governing principles



The following principles shall be considered as the “fundamental conduct pillars” in the decision-making process of the Company



The following principles shall be considered as the “fundamental conduct pillars” in the decision-making process of the Company:

> **(a) Lawfulness:** the Company assesses the level of compliance of the applicable regulation of the potential and actual investments, in order to avoid potential cases of fraud, corruption and any willful misconduct contrary to the law, understood in its broadest sense.



> **(b) Respect for human rights:** the Company evaluates the respect to human rights (understood as a whole, not only the civil and political rights such as freedom and equality, but also the social, cultural and economic rights, including, but not limited to labour and education rights) of the potential and actual investments.



> **(c) Respect for labour conditions:** the Company assesses aspects such as the existence of healthy and safe working environments, the promotion of diversity and equal treatment (without consideration for age, gender, marital or parental status, sexual orientation, ethnic or national origin, culture, political affiliation, physical ability, appearance, education or religious background), the elimination of discrimination in respect of employment and occupation and the fight against discriminatory practices in recruiting, promoting and rewarding employees. Oquendo also promotes and contributes to the elimination of all forms of forced or compulsory labour and, specifically, the abolishment of child labour.



> **(d) Respect for the environment:** Oquendo takes into consideration factors such as the application of measures to avoid or minimize environmental damage, limitation of emissions of harmful substances and waste and use of natural resources responsibly.



> **(e) Corporate governance:** the Company assesses companies’ corporate governance performance considering compulsory regulations, local rules and regional best practice in their markets. This includes appropriate allocation of executive responsibilities and balance between executive and independent directors and fair and consistent remuneration to the employees and key roles according to the performance of their functions.

5. Investment protocol



In order to systematically integrate ESG criteria and Governing Principles application into Oquendo's investment and financing decision-making and ownership and monitoring practices, the following actions are followed:

1. Incorporation of ESG into the Investment Process

Oquendo has adopted a six (6)-stage process to ensure that every investment opportunity is rigorously screened before, during and after investing the Fund's capital:

- > **1. Origination:**
 - promoting continuous contact with sponsor, banks, advisors and companies.
 - participation in conferences and seminars.
 - leverage on market, know-how and relationships.
- > **2. Initial screening:**
 - preliminary analysis of each transaction.
 - review of fit within Oquendo's investment strategy and criteria.
 - the decision on continuity into the next phase.
- > **3. Preliminary due diligence:**
 - review of existing information.
 - construction of a financial model.
 - preliminary discussion on the suitable instrument and potential terms and conditions.
- > **4. Deal structuring:**
 - full financial review and complete review of all due diligence materials.
 - negotiation of the final term sheet.
 - production of detailed investment Memo.
- > **5. Approval and closing:**
 - investment committee and final negotiations on legal documentation.
 - transaction execution (representation, money transfer, etc.).
 - investment notes to investors.
- > **6. Monitoring and exit:**
 - portfolio monitoring and maintenance of the internal rating.
 - quarterly monitoring and valuation reports.
 - company board attendance and exit note to investors.

During the investment process Oquendo, as UN PRI signatory, is committed to the following responsible investment principles:

- Incorporate ESG issues into our investment analysis and decision-making process.
- Be active business partners and incorporate ESG issues into our policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which we invest.
- Promote acceptance and implementation of ESG milestones within the investment industry.
- Work together to enhance the implementation of the principles.
- Report on our activities and progress towards implementing the ESG principles.

The integration of those principles in the investment process has been spread along the six-investment stages and developed in three (3) phases:

a. Pre-Investment from origination to preliminary due diligence

A comprehensive due diligence is performed by Oquendo¹, which allows to identify, prevent and treat any conduct, activity or behaviour contrary to the Governing Principles. This due diligence exercise starts at the very first stage of the financing and investment decision-making process through the arrangement of specific meetings with the potential portfolio companies; the gathering of relevant information via questionnaires regulatory/compliance filings and also media reports; the review of the internal control policies of the potential portfolio companies and any other action necessary to analyze, on a comprehensive basis, the compliance model of the potential portfolio companies regarding the Governing Principles.

Once the due diligence process is finished, the main conclusions, identifying the key strengths and the gaps and deficiencies of the potential portfolio companies, regarding the compliance with the Governing Principles, in light of their nature, scale and complexity, are reached. This outcome allows Oquendo to qualify the potential investment to decide if it fits with the Governing Principles and is considered as “suitable” for financing or investing. Potential portfolio companies with a robust framework of internal controls and policies in respect of ESG principles are considered as strategic and qualify as a priority ver-

sus other ones that do not consider ESG principles as a core issue in their strategy of the business. However, if significant ESG factors that cannot be adequately mitigated are identified during the analysis, it may lead us to reconsider and potentially abandon the prospective investment or financing transaction.

ESG consideration may also be included in the Investment Memo presented to the Investment Committee and approved before submission to the General Partner for its consideration. Through the preparation of an appropriate ESG checklist, Oquendo identifies whether the risk is acceptable or unacceptable and then consider addressing the identified risk to the review of the management.

In financing agreements involving control structures (e.g., mezzanine, single lenders), any significant risk identified during the investment phase is incorporated into the covenants. Consequently, the financed company is obligated to address the issue. The spread is likewise contingent on issue resolution, potentially increasing or decreasing based on the outcome (either as a penalty or an incentive). If the company fails to adhere to the covenants, the loan becomes immediately due and payable, resulting in a default.” The Company may propose the potential portfolio companies to adopt any measures, to adapt its structure, nature and functioning to the Governing Principles, as a precondition of the financing transaction or investment.

In equity transactions, we –invest as a minority partner so we adhere to our co-investors ESG action plans if we consider those to be aligned with our Governing Principles. If it is not the case, we try to promote our ESG Governing Principles in our co- investments agreements.




b. Post-acquisition from deal structuring to approval and closing

ESG principles are not measurable, therefore Oquendo works with the portfolio company to create company specific ESG Key Performance Indicators (KPIs) to be tracked and monitored during the investment period or life of the loan.

ESG KPI data are captured and reviewed by the investment teams. If the KPIs contains anomalies or discrepancies, further investigations are performed and actions are taken, if needed.

(1) When the sponsor initiates an ESG due diligence report, we conduct a thorough review.

KPIs monitored and applied by Oquendo are summarized as follows:

| |  E Environmental |  S Social |  G Governance |
|---|---|--|--|
| KPIs Applied to all companies | <ol style="list-style-type: none"> 1. Energy efficiency 2. Sustainability policy 3. Level of Co² emission 4. Waste 5. Analyze ESG aspects taken into account 6. Recycling sensibilization 7. Environmental certificates | <ol style="list-style-type: none"> 1. Staff turnover 2. Training and qualification 3. Number of working hours 4. Number of women employed 5. Equality plan 6. Policies of work/life balances 7. Measurement of work environment 8. Volunteering and donations 9. Health & safety of employees | <ol style="list-style-type: none"> 1. Turnover of the year 2. Number of women in the board of manager 3. Anti-competitive behavior 4. Corruption 5. Compliance model 6. Residence in fiscal paradise |

We make our best efforts to ensure that all borrowers and portfolio companies report the applicable Key Performance Indicators (KPIs). We actively encourage them to initiate measurement when they are not already doing so and, once reporting is underway, to continually strive for improvement wherever feasible.

Portfolio companies are asked to follow Oquendo's ESG guidelines, which includes developing an ESG policy and reporting framework and are designed to provide useful information to the companies.

c. Post-acquisition monitoring and exit phase

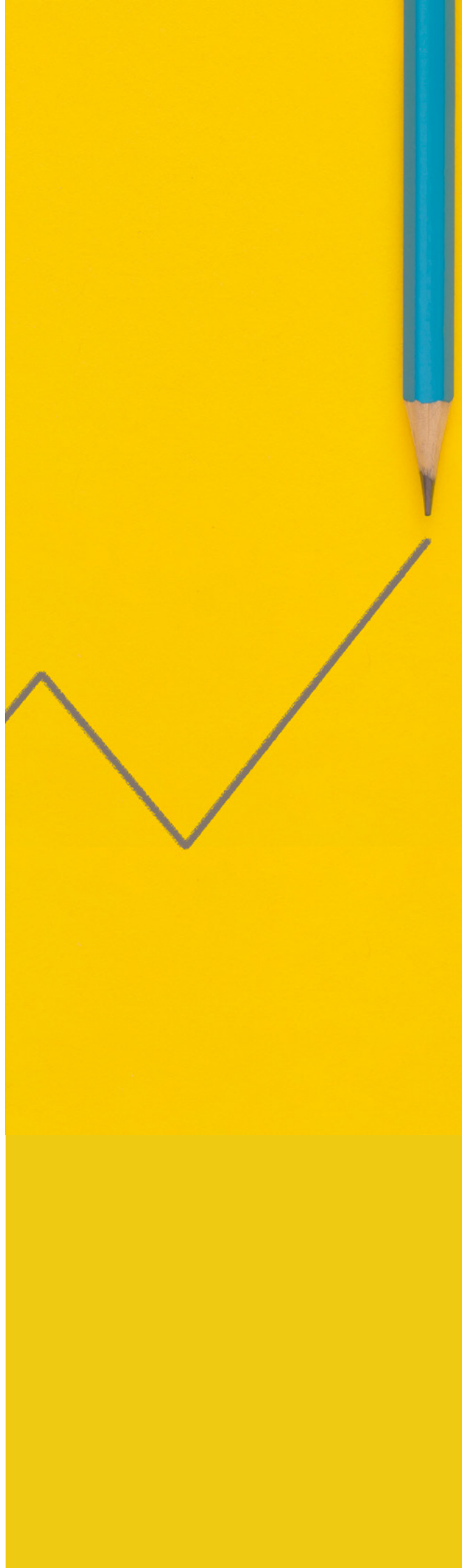
Following the implementation phases of Oquendo's ESG procedures as part of its active approach. Oquendo maintains a regular dialogue with its portfolio companies through the submission of the ESG Questionnaire (with over 80 questions), which provide granular detail of each portfolio company's compliance with ESG matters and the Governing Principles. Based on such information, the KPIs are reviewed, reported and internally discussed with the management body of the portfolio companies, if required. Performance is benchmarked against prior years and objectives.

If new or additional ESG matters arise during Oquendo's lending period or ownership of portfolio companies, Oquendo will seek to assess and rectify the situation by discussing it with the management of the company. If a serious ESG issue is identified, the issue is escalated to the Investment Committee.

As part of the post-acquisition and post-financing monitoring, Oquendo has defined a dispute management procedure to address potential cases of corruption. An ethical penalty affects honorable companies when an uneven playing field and corruption exist. This penalty includes the loss of reputation, credibility and social license dimension; the sheer economic loss; the capacity to attract talent.

Additionally, a conflict of interest policy is defined for each fund.

The procedure is applied at all Oquendo's employees and to the portfolio companies. Oquendo ensures that no one inside and outside the organization is involved with case of corruption or bribery. Whether the circumstance should arise, the investment team have to report the case to the Investment Committee and submit the concerns to the management of the companies and if the case is not solved, evaluate the possibility of exit from the deal in order to safeguard the image and market reputation.



2. Interaction and active dialogue with portfolio companies

Oquendo is committed to act as a responsible lender and investor, using its influence to encourage its portfolio companies to adopt and comply with ESG practices deemed appropriate. Along the life of the loan or the investment period, Oquendo focuses regularly on the compliance of the ESG criteria and the Governing Principles contained in the present Policy by the portfolio companies, monitoring their activities.

The Company appoints an independent compliance officer to ensure that portfolio companies operate lawfully and ethically, upholding business integrity. They must comply with relevant international standards, conventions, and agreements on business integrity, anti-corruption, and anti-bribery. Additionally, they should effectively manage associated risks in line with our Governing Principles. Oquendo collaborates with other lenders and investors to increase its influence when engaging with companies.

> Stewardship Policy

Oquendo Investment Stewardship emphasizes valuing management quality and integrating ESG factors into our evaluation of corporate governance for our portfolio companies. Our commitment to stewardship involves engaging directly with these companies, emphasizing the importance of ESG. We urge our companies to recognize their reliance on global ecosystem stability and to adopt practices that promote sustainable value creation.

Our investment team champions the push for sustainable business practices in our portfolio companies. Additionally, we collaborate with an external consultant for an ESG risk assessment. This yields actionable recommendations for each company and produces a risk report for each fund. These ESG guidelines serve as a roadmap to enhance companies' ESG performance. Oquendo tries to instill stewardship principals to their companies:

- Staff resources and expertise to carry out stewardship function
- Through presence on the Board of Directors of the Companies, as board members or observers
- Assigning responsibility for ESG matters to the board when feasible
- ESG matters are addressed by the Board on an annual basis at a minimum
- We collaborate with the board to effectively oversee ESG risks and capitalize on ESG opportunities post-investment
- Maintain policies designed to mitigate conflicts of interest when they arise
- Promoting long-term value creation and integration of environmental, social and governance (ESG) factors
- In the event that our initial efforts fall short of achieving our objectives within a designated timeframe, a decision will be made, which could involve either removing the investee's management (for majority investors) or divesting the signatory's stake in the investee company (for secondary investors engaged with companies or funds).

6.

Transparency and Accountability



Oquendo is committed to transparency and accountability in its Sustainable and Responsible Investment actions. Public disclosure bolsters an organization's credibility, allowing stakeholders to grasp how it handles pertinent ESG and sustainability matters. Such transparency also spurs continual improvement.

Consequently, Oquendo pledges to consistently communicate its investment strategies and actions to its key stakeholders. This communication includes:

- (i) The disclosure of this Policy on the company's website which includes our stewardship-related commitments.
- (ii) The issuance of an annual report, regarding the main activities of Oquendo regarding its responsible and sustainable investment activities which includes:
 - (a) Changes in governance.
 - (b) Commitments related to stewardship and the progress made toward fulfilling them.
 - (c) Climate-related commitments and the progress made in fulfilling them.
 - (d) Commitments to human rights and the progress made in fulfilling them.
 - (e) And other commitments.
- (iii) The release of the Climate Change Strategy policy, which thoroughly outlines the core pillars of the climate change strategy, specifies the precise governance structures pertinent to climate change, details the established processes, and clarifies the reporting mechanisms, among other essential facets.
- (iv) The issuance of an individual or collective reports, regarding the compliance of the portfolio companies with ESG criteria and Governing Principles:
- (v) Oquendo Climate-related Performance and Risk Assessment (OCPRA) in line with recommendations from the Task Force on Climate-related Financial Disclosures (TCFD).

7. ESG Governance



The following governance structures, along with their associated responsibilities, are tasked with the implementation and oversight of Oquendo Capital's ESG Strategy:

- **Board of Directors:** The Board of Directors establishes and supervises the execution of the ESG policy and the Climate Strategy. It conducts a comprehensive review of all ESG and climate-related policies and evaluates their performance. The Board closely tracks progress towards key objectives such as reducing the carbon footprint and achieving other social and governance goals. Additionally, it grants approval for annual reports and corporate development. The Board also offers oversight for the Guidelines on environmental, social, and/or governance factors and the Guidelines on sustainability outcomes.
- **Investment Committee:** The Investment Committee ensures that an ESG and climate assessment is conducted before entering into any new deals:
 - Monitors potential ESG risks and controversies.
 - Conducts Due Diligence and follows up more rigorously when identifying potential ESG risks or controversies.
 - Makes the ultimate financing or investment decision.
- **Chief Financial Officer:** The Chief Financial Officer holds responsibility for the Climate Strategy and reports to both the Investment Committee and the Board.
- **ESG Committee:** Leads the planning and execution of the ESG agenda, ensuring:
 - Adherence to our ESG policy.
 - Proactive guidance and assistance to investment teams in their assessment of potential ESG-related risks and opportunities.
 - Fostering knowledge exchange on pressing ESG matters, including climate change, human rights, reporting standards, and SFDRs, across the entire organization.
 - Undertaking various additional tasks, such as supervising our climate strategy, aligning with PRI principles, adhering to UN Global Compact principles, reviewing the responsible investment policy, and annually coordinating ESG reporting on our portfolio.
- **ESG Manager:** Serving as a dedicated expert in ESG and climate-related affairs, the ESG Manager coordinates Oquendo's initiatives concerning ESG and climate change. Reporting directly to the CFO, the ESG Manager carries the responsibility of assessing climate-related risks and providing consistent support to analysts and portfolio managers in ESG metric evaluation. This role also involves the preparation of routine reports detailing the execution of our Climate Strategy.

Team's ESG training

Our team engages in comprehensive ESG training, covering competencies related to responsible investment, climate change, human rights, governance factors, and holistic ESG considerations. Attendance at these training sessions is mandatory for the Board of Directors, Investment Committee, Chief Financial Officer, and ESG Committee. These sessions are expertly organized and facilitated by our ESG manager.

In addition, we have enlisted the services of external ESG advisors to train our team, analyze prevailing ESG macro trends that could impact our operations, and identify new areas for improvement.

Compensation policy

ESG objectives and ratings are thoughtfully integrated into the compensation policy, effectively mitigating sustainability-related risks.

Consistent with our broader ESG strategy, we have incorporated ESG performance indicators into the team's performance evaluation process.



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