



1. INTRODUCTION

The Sustainability Policy detailed below (hereinafter the "Policy") describes the approach, philosophy and procedures that should guide the analysis of securities carried out by the Investment Department of Nao Asset Management E.S.G., S.G.I.I.C., S.A. (hereinafter ("Nao AM", the "Entity", the "SGIIC", or the "Company") when evaluating the characteristics and performance of any company likely to be an investment target with regard to matters of sustainability, that is Environmental, Social and Governance (ESG).

The objectives of this policy are the following:

- Provide a framework for investment decision-making by the Investment Department of Nao A.M., regarding the analysis of the non-financial characteristics of the company.
- Ensure compliance with the investment policies defined in the information prospectus of the vehicles and portfolios managed in relation to sustainability issues.
- Provide greater transparency to the participants and potential clients of Nao AM regarding the investment principles, strategies and ASG criteria by which the Nao AM Investment Department is guided when evaluating the suitability of investments of the portfolio that manages.
- Adapt the sustainability strategy to the new standards and regulations in those aspects that affect it.

The Investment Department, in collaboration with the Regulatory Compliance Unit, will keep this policy permanently updated and will propose the inclusion of all the modifications it deems necessary to adapt the investment and decision-making process to the circumstances and needs of each moment.

In any case, the review of the internal procedures will be permanent and the Regulatory Compliance Unit may submit to the Board of Directors, at any time, as many proposals for improvement as it deems necessary on its own initiative or by the person in charge of any other Company's area of activity.

2. SCOPE OF APPLICATION

The Investment Department of Nao A.M., as the person responsible for making investment decisions on behalf of the Investment Funds and portfolios managed, is subject to the content of this Policy.

3. DEPARTMENTS TARGETED BY THIS POLICY



Once this Policy and its subsequent updates or modifications have been approved, it will be made available to the areas of activity that it affects.

In addition, each time the Policy is updated or modified, the Regulatory Compliance Unit will send an email to all directors, managers, and employees of the Entity to inform them of the modification of the Policy, detailing the change made and the reasons for it.

In the case of substantial modifications or updates, specific training will be provided mainly to those employees affected by the change to inform them of the implications and the new obligations that may have arisen following the change.

4. APPLICABLE REGULATION

The ESG legislation applicable to financial institutions is listed below:

- Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR).
- Regulation (EU) 2020/852 regarding the establishment of a framework to facilitate sustainable investments.
- Delegated Regulation (EU) 2021/2139 (technical selection criteria to determine the conditions under which an economic activity is deemed to make a substantial contribution to climate change mitigation or adaptation, and to determine whether that economic activity does not cause significant damage to any of the other environmental objectives).
- Delegated Regulation (EU) 2021/2178 (specification of the content and presentation of the information that companies must disclose regarding environmentally sustainable economic activities, specifying the methodology for complying with the disclosure obligation).
- Delegated Regulation (EU) (6/4/22) with RTS (Regulatory Technical Standards) (pending approval).

5. ESG INVESTMENT STRATEGY

5.1. INVESTMENT APPROACH AND PHILOSOPHY

NAO Asset Management, E.S.G. is a SGIIC based in Valencia that is committed to integrating sustainability into the analysis of its investments as a way of offering committed and honest savings management.

Within the investment selection process, Nao AM applies the analysis of non-financial variables with a focus on improving risk control and the impact that the non-consideration of these could have on the profitability of the investment. *The general is that taking ESG variables into account*



helps to complement traditional fundamental analysis based on financial metrics and to better understand the risks faced by a company. The reasons are as follows:

- Applying ESG criteria enables companies' non-accounting assets and liabilities to be analysed. In the experience of Nao AM's management team, it allows for greater control of a company's non-accounting risks. Examples include the possibility of lawsuits against a company or possible litigation, malpractice in matters related to money laundering, excessive employee turnover or obsolete facilities that pollute too much or may cause disasters.
- It also helps not only to improve portfolio returns but also to reduce volatility by mitigating exposure to factors that are difficult to control.
- Finally, sustainability allows us to detect very interesting growth trends around recycling, energy efficiency and logistics, climate change, population well-being, improvement of health services and prevention or connectivity.

Within this analysis process, in general terms, Nao AM will analyze the strategy, activities and performance carried out by any potentially investable company, taking into account these three variables: environment, social and government. However, and also depending on the characteristics and policy defined for each vehicle managed by the entity, Nao AM mainly promotes the following environmental aspects: climate change mitigation and adaptation as well as resource efficiency through the promotion of circular economy and energy efficiency practices. To a lesser extent, it also aims to promote the reduction of pollution without harming other aspects such as the impact on biodiversity or water resources.

The favoring of these characteristics will always be carried out taking into account at all times that minimum safeguards must be met in terms of good governance practices of the company and respect for the principles and standards of responsible behavior such as the Declaration of Human Rights, the Declaration of the International Labour Organisation (ILO), the Global Compact on Human Rights, the Guiding Principles of the United Nations and the Sustainable Development Goals.

It will also be taken into account that certain social characteristics are met within the company's activity, promoting actions to develop diversity and inclusion among employees, fair remuneration, employee development and well-being beyond the mandatory Health and Safety standards.

5.2. COMPANY SELECTION STRATEGIES



Within its ESG policy, Nao AM mainly follows an integration strategy consisting of favoring those entities/investments that favor the inclusion in the portfolio of those companies or issuers that have clear objectives of improvement in terms of sustainability and that are demonstrating compliance with these objectives. This, being the main line of work, also takes into account the application of certain exclusions mentioned below:

• Exclusion criteria by sectors: Tobacco, adult entertainment/pornography, weapons of mass destruction, anti-personnel mines, gambling and betting houses.

• Exclusion criteria for companies:

- o Failure to comply with the minimum safeguards specified in the previous section,
- o Having demonstrated a past history of unethical business conduct, fraud or scandal involving board members..

Nor will it invest in companies that have been clearly declared non-sustainable and/or that have not articulated a sustainability strategy that involves all levels of the organization.

5.3. INFORMATION SOURCES

In order to carry out this ESG analysis, the management company will rely on information from the companies analysed, different entities such as ESG rating and qualification providers and data providers (Bloomberg, Refinitiv, etc.) as well as internally developed tools. We may also take into account the guidelines and models of other organisations considered as standards within the industry, such as the Value Reporting Foundation, the Global Reporting Initiative (GRI) or the Task Force on Climate-Related Financial Disclosure (TCFD).

5.4. INVESTMENT PROCESS

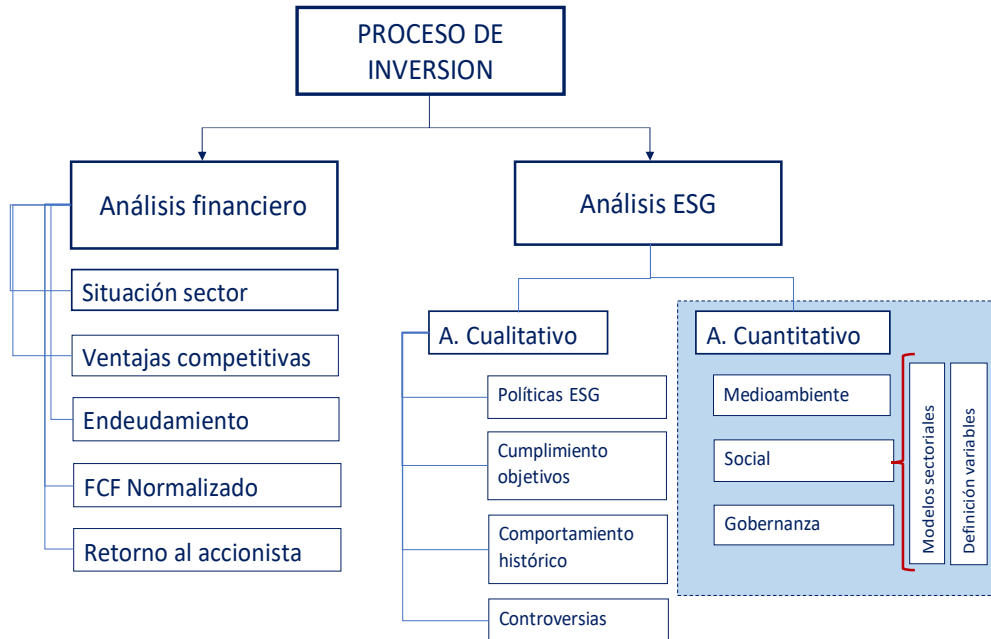
The analysis process is dual. A fundamental analysis of the company based on financial variables and a sustainability analysis based on extra-financial ESG variables (Social, Environmental and Governance) are carried out, with great complementarity and common elements between the two. Any company included in the portfolio must meet the criteria established for each type of analysis.

- Equity/corporate bond positions

Within the financial analysis carried out by NAO, we look for companies that are well positioned in strategic sectors, with structural growth and without technological or regulatory challenges for the coming years. We value the company from the point of view of the cash that it is capable of generating and returning to shareholders, always taking special care not to invest in indebted



businesses and paying special attention to shareholder remuneration as well as the track record in allocating resources to good projects.



With regard to the ESG assessment or analysis process, the scheme to be followed is as follows:

- Applications of the exclusion criteria defined in the previous section (by sector, by company).
- Qualitative analysis: Consisting mainly of the study of the activities, history and processes carried out by the company, analysis of all the non-financial information it discloses, track record of board members and main executives, ESG strategy, established policies. As an example, the following scheme would be followed.



Estrategia ESG bien definida
Políticas bien establecidas
Larga trayectoria en RSC/ ESG
Reportig/ Buena calidad de la información
Formación y concienciación
Adhesión a directrices o iniciativas sectoriales

- Quantitative analysis: This will allow us to determine to what extent and at what speed the company's ESG objectives are being met.
- Controversies: The historical controversies that have affected the different metrics are analyzed and monitored. In addition, any possible future incidents are monitored on a regular basis.
- Exposures: The exposures of companies or portfolio issuers to controversial activities are monitored, analysing the materiality of these activities and the impact they may have in the future on both ESG and financial performance.

Quantitative and qualitative elements or indicators are aggregated into impact groups, allowing for an in-depth analysis of the three pillars of sustainability adapted to the type of asset/sector invested in:

- Environment: With regard to the qualitative assessment, the commitment to the conservation of natural resources with the reduction of their use or elimination of their abusive use, promotion of innovation with investment in new techniques and/or businesses that are kinder to the environment, climate change (promotion and/or encouragement of renewable energies, reduction and efficiency of CO2 emissions, reduction and efficiency of greenhouse gases...), natural resources (forestry, water, wood and water treatment policies...), pollution management and waste management and environmental opportunities, etc. will be taken into account.

Regarding the purely quantitative analysis, the following groups of indicators are established as a starting point to study the company's performance and track record.



Contaminación/ calidad del aire
Gasto energético/ Renovables
Gestión de residuos/ Economía circular
Recursos hídricos
Verificación y control de la cadena de suministro

- **Social criteria:** With respect to the qualitative analysis, aspects such as the promotion of respect for human rights, decent work, the development of the worker within the company, both in their professional and personal development (gender equality, training, health and safety, professional development...), and/or control of the company's products so that they do not cause physical or moral harm to consumers, among others are examined in depth. Relations with clients and suppliers (marked with a criterion of transparency in relations), and with the community in general (with practices and/or businesses that generate value, as well as penalizing the performance of activities and/or businesses that are harmful to the environment or society). Policies and expenditures on education and health, employment, social quality (life expectancy).

Regarding the purely quantitative analysis, the following groups of indicators are established as a starting point to study the company's performance and track record.

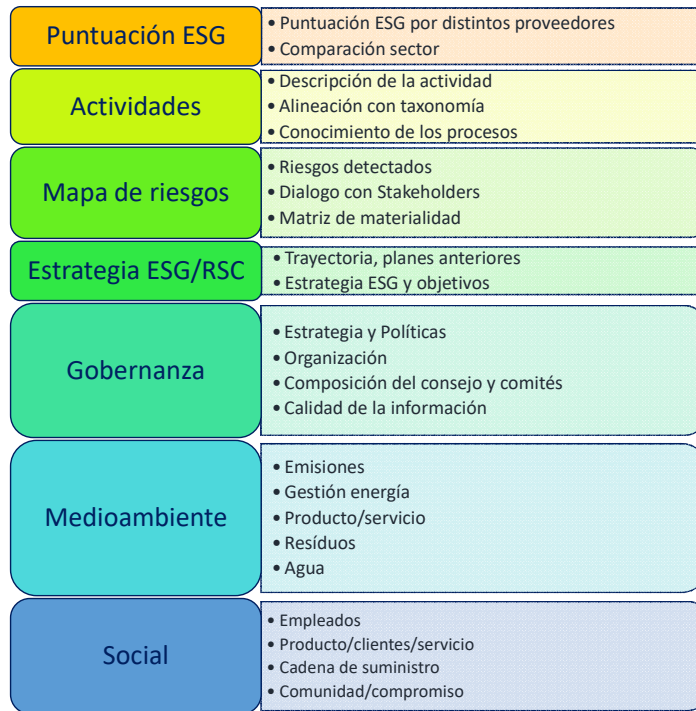
EMPLEADOS
ACCIONISTAS
CONSUMIDORES
CADENA DE SUMINISTRO
COMUNIDAD

- **Corporate Governance:** An in-depth analysis of the quality of the management team is carried out in order to limit negative events and news that may affect in the short term the evolution of a share: accidents, strikes, corruption and fraud.

In summary, these are the points that will be covered in both the qualitative and quantitative analysis. The importance assigned to each indicator or variable will depend on the sector in



which the company operates and on those aspects considered key within each industry, for which the methodologies defined by VRF, GRI, TCFD or other organisms will also be taken into account.



- Government Bond positions

Investing in government bonds requires a different analysis than investing in corporate bonds for the following reasons:

- In developed countries, they are considered risk-free assets, so the impact of ESG data is limited.
- The profitability of the different issues is mainly linked to the economic policy of their currency area and macro data of each country, so the impact of ESG factors is limited.
- Engagement with issuers is practically non-existent.

Given that it is very difficult to apply ESG criteria, similar to corporate bonds or shares in government bonds, the following criteria are established for the inclusion of these bonds in the portfolio: The entire investment in government bonds will be made in issues from OECD countries, giving priority to those with better ratings in international indices of democratic quality and transparency.

6. EXTERNAL EVALUATION.



Nao AM also has an aggregate rating of its portfolio based on the methodology of a reputable rating provider. In this sense, it has been established that 75% of the assets of the investment vehicles managed by the company declared as article 8 according to the EU Sustainable Finance Disclosures Regulation (SFDR) must have a high sustainability rating based on that provider.

10% of the assets in the portfolio will be allowed to be unrated as long as it is justified by the contribution that the company's activity can make to society or the environment.

7. ENGAGEMENT.

Nao AM considers that the 'engagement' with the companies in which it invests is an important element within the periodic monitoring. As active investors, the team maintains contact with the companies where, in addition to discussing company-specific issues such as business strategy, governance issues, changes in capital structure etc., ESG issues related to the company's business are also discussed.

When the meetings are unsatisfactory, the management team may consider taking some kind of decision, which could include:

- Voting against resolutions at the shareholders' meeting
- Collaborating with other institutional investors
- Selling all or part of the position

Further information can also be found in the 'Policy on the Exercise of Political Rights' and 'Long Term Involvement Policy' approved by Nao AM and available at the following link: <https://www.nao-sam.com/wp-content/uploads/Politica-implicacion.pdf>

