

Vallis Sustainable Investments II

Statement on principal adverse impacts of investment decisions on sustainability factors

Financial Market Participant: Vallis Sustainable Investments II FCR, 254900AKYNGHDP982446

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Summary

Vallis Sustainable Investments II FCR considers principal adverse impacts of its investment decisions on sustainability factors. The present statement is the consolidated statement on principal adverse impacts on sustainability factors of VCP. This statement on principal adverse impacts on sustainability factors covers the reference period from 1 January 2023 to 31 December 2023. A summary of Principal Adverse Indicators considered by Vallis is presented in following table.

| Summary of Principal Adverse Indicators prioritized by Vallis | | | | |
|---|---|---|-------------|--------|
| Applicable to | Theme | PAI Indicator | SFDR Table* | Number |
| Investee companies | Climate and other environment-related indicators | GHG emissions | 1 | 1 |
| | | Carbon footprint | 1 | 2 |
| | | GHG intensity of investee companies | 1 | 3 |
| | | Exposure to Companies Active in the Fossil Fuel Sector | 1 | 4 |
| | | Share of Non-Renewable Energy Consumption & Production | 1 | 5 |
| | | Energy consumption intensity per high impact climate sector | 1 | 6 |
| | | Activities negatively affecting biodiversity sensitive areas | 1 | 7 |
| | | Emissions to water | 1 | 8 |
| | | Hazardous waste ratio | 1 | 9 |
| | | Water usage and Recycling | 2 | 6 |
| | Social and Employee, Respect for Human Rights, Anti-corruption and Anti-bribery matters | Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises | 1 | 10 |
| | | Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises | 1 | 11 |
| | | Unadjusted gender pay gap | 1 | 12 |
| | | Board gender diversity | 1 | 13 |
| | | Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) | 1 | 14 |
| | | Rate of accidents | 3 | 2 |
| | | Number of days lost to injuries, accidents, fatalities or illness | 3 | 3 |
| | | Lack of anti-corruption and anti-bribery policies | 3 | 15 |

* Indicators for adverse impacts of Table 1 and any relevant indicators of Table 2 and 3 of Annex I of the SFDR Delegated Act

Description of the principal adverse impacts on sustainability factors

Indicators applicable to investments in investee companies

| CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS | | | | | | | |
|--|---|--|-------------------------------|---------------|--|--|--|
| Adverse sustainability indicator | | Metric | Unit | Impact 2022* | Impact 2023 | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| Greenhouse gas emissions | 1. GHG Emissions | Scope 1 GHG Emissions | tCO2e | not available | not available | Three out of five portfolio companies have not yet reported this year GHG emissions. One of them has an ongoing carbon footprint analysis. Specifically, Docout and Europalco were a recent addition to the Fund portfolio in 2023 and did not have time to adopt proper reporting. Zolve has the calculations for 2022 but has not yet prepared the reporting for the 2023 due to the complexity of its calculations. | Portfolio companies have been implementing and have identified actions that may contribute to a reduction of its GHG emissions, namely: - Replacement of refrigerant gas equipment adopting more efficient and sustainable solutions - Acquisition of electricity produced from renewable sources from energy suppliers - Investment in the own production of electricity from renewable sources through the installation of solar panels (roof-top photovoltaic panels and/or carport systems) - Promote the adoption of electrical vehicles, hybrid vehicles or vehicles using LPG or petrol as alternative to diesel - Promote car sharing, the use of public transport, or other eco-friendly alternatives (bicycle, walking, etc) in commuting |
| | | Scope 2 GHG Emissions | tCO2e | not available | not available | | |
| | | Scope 3 GHG Emissions | tCO2e | not available | not available | | |
| | 2. Carbon Footprint | Total GHG Emissions | tCO2e | not available | not available | | |
| | | Carbon footprint | tCO2e | not available | not available | | |
| | | GHG intensity of investee companies | tCO2e / EUR Rev | not available | not available | | |
| 3. GHG Intensity of Investee | GHG intensity of investee companies | tCO2e / EUR Rev | not available | not available | | | |
| 4. Exposure to Companies Active in the Fossil Fuel Sector | Share of investments in companies active in the fossil fuel sector | % | 0% | 0% | - | | |
| 5. Share of Non-Renewable Energy Consumption & Production | Share of non-renewable energy consumption and non-renewable energy production of investee companies from non-renewable energy sources compared to renewable energy sources, expressed as a percentage of total energy sources | % | not available | 89% | - | | |
| 6. Energy consumption intensity per high impact climate sector | Energy consumption in kWh per million EUR of revenue, per high impact climate sector | kWh / EUR Rev | 0.20 | 0.29 | Information regards one portfolio company operating in temperature-controlled logistics (Logifrio) and one portfolio company operating in medical disposables (gloves) manufacturing (Ractac). Not applicable for remaining portfolio companies. | | |
| Biodiversity | 7. Activities negatively affecting biodiversity sensitive areas | Share of investments in investee companies with sites/operations located in or near to biodiversity-sensitive areas where activities of those investee companies negatively affect those areas | % | 0% | 0% | - | |
| Water | 8. Emissions to water | Tonnes of emissions to water generated by investee companies per million EUR invested, expressed as a weighted average | Tonnes / million EUR invested | not available | not available | Information is not available for one of the portfolio companies therefore, we cannot report on the full portfolio. | The portfolio companies that report on this PAI undergone various actions to reduce water utilization. Some companies are planning to implement water reutilization mechanism to reduce water consumption |
| Waste | 9. Hazardous waste ratio | Tonnes of hazardous waste and radioactive waste generated by investee companies per million EUR invested, expressed as a weighted average | Tonnes / million EUR invested | not available | 0.06 | Information is not available for one of the portfolio companies. Therefore, we cannot provide 2022 comparison. | The portfolio companies that report on this PAI undergone various actions to reduce hazardous waste. All the companies generating such waste use a duly licensed company to deal with such waste. |

| INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS | | | | | | | |
|--|---|---|-----------|--------------|-------------|-------------|---|
| Adverse sustainability indicator | | Metric | Unit | Impact 2022* | Impact 2023 | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| Social and employee matters | 10. Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises | Share of investments in investee companies that have been involved in violations of the UNGC principles or OECD Guidelines for Multinational Enterprises | % | 0% | 0% | - | - |
| | 11. Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises | Share of investments in investee companies without policies to monitor compliance with the UNGC principles or OECD Guidelines for Multinational Enterprises or grievance/complaints handling mechanisms to address violations of the UNGC principles or OECD Guidelines for Multinational Enterprises | % | 50% | 40% | - | For the companies that have not yet approved this fully compliant mechanism we expect to regularise this situation in 2024. |
| | 12. Unadjusted gender pay gap | Average unadjusted gender pay gap of investee companies | % | 0% | 0% | - | - |
| | 13. Board gender diversity | Average ratio of female to male board members in investee companies, expressed as a percentage of all board members | Ratio F/M | 11% | 12% | - | The companies shareholders are committed with the continuous improvement of this ratio. |
| 14. Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons) | Share of investments in investee companies involved in the manufacture or selling of controversial weapons | % | 0% | 0% | - | - | |

Other indicators for principal adverse impacts on sustainability factors applicable to investments in investee companies

| ADDITIONAL CLIMATE AND OTHER ENVIRONMENT-RELATED INDICATORS | | | | | | | |
|---|------------------------------|---|-------------------------------------|---------------|---------------|--|--|
| Adverse sustainability indicator | | Metric | Unit | Impact 2022* | Impact 2023 | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| Water | 6. Water usage and Recycling | Amount of water consumed by the investee companies (in cubic meters) per million EUR of revenue of investee companies | Cubic meters / million EUR invested | 4 | 15 | - | Each company has an objective to reduce this indicator in 2024 |
| | | Percentage of water recycled and reused by investee companies | % | not available | not available | Information is not available for one of the portfolio companies. | - |

| ADDITIONAL INDICATORS FOR SOCIAL AND EMPLOYEE, RESPECT FOR HUMAN RIGHTS, ANTI-CORRUPTION AND ANTI-BRIBERY MATTERS | | | | | | | |
|---|--|--|----------------|---------------|-------------|-------------|--|
| Adverse sustainability indicator | | Metric | Unit | Impact 2022* | Impact 2023 | Explanation | Actions taken, and actions planned and targets set for the next reference period |
| Social and employee matters | 2. Rate of accidents | Rate of accidents in investee companies expressed as a weighted average | Ratio | 67 | 87 | - | H&S is tightly monitored at the level of each portfolio company. All of them have a target to reduce this ratio in 2024. |
| | 3. Number of days lost to injuries, accidents, fatalities or illness | Number of workdays lost to injuries, accidents, fatalities or illness of investee companies expressed as a weighted average | Number of days | not available | 9 | - | - |
| Anti-corruption and anti-bribery | 15. Lack of anti-corruption and anti-bribery policies | Share of investments in entities without policies on anti-corruption and anti-bribery consistent with the United Nations Convention against Corruption | % | 0% | 20% | - | The one company which currently does not have such policy formalized is engaged to implement it in 2024. |

Other than the indicators referred above, there are no other indicators used to assess principal adverse impacts on sustainability factors for purpose of article 6^a, no. 1, paragraph c) of the Regulation (EU) 2022/1288.

* Amended to rectify formulas and ensure comparability

Description of policies to identify and prioritise principal adverse impacts on sustainability factors

In order to select the most promising investment opportunities, VCP conducts a comprehensive analysis of target companies before making any investment. In the environmental field, VCP believes that responsible management of ESG factors is essential for creating long-term value for investors, as companies with these concerns tend to perform better over time. In order to achieve this, VCP has developed its own responsible investment approach, which sets out how it identifies the ESG risks inherent in each investment opportunity and always opts for investments in companies that demonstrate the best results in this area.

The Responsible Investment approach, comprising several documents approved by the Board of Directors of VCP up until 2023, is divided into four components:

1. ESG guiding principles and framework

VCP adopts ESG concerns into all the different type of decisions and commercial approach and thought the lifetime of the target companies. Firstly, in the field of origination and as a first screening, VCP identifies the sectors in which the target company operates and assesses its ethical conduct. At the investment analysis stage, VCP assesses three key areas: (i) the level of comfort with the investment partners, (ii) the target company's integrity and honesty, and its compliance with laws and good practices in the sector, and (iii) the company's risk control tools.

One of the most crucial stages of the assessment is Legal and ESG due diligences. VCP will assess whether the target company aligns with its ESG policies. Where issues of material non-compliance are identified, VCP will require commitment from the company to implement measures within agreed timeframes to fulfil the requirements

2. Main Policies

In terms of environmental policy, VCP is unequivocal in its objectives: (i) to protect the environment, (ii) to encourage the efficient use of natural resources and (iii) to promote the improvement of the environment wherever possible. To this end, VCP always seeks to assess and minimise the negative environmental impacts of its operations.

3. The investee company commitment

In terms of environmental impact, VCP requires all potential subsidiaries to commit to conducting their business in a manner that: (i) encourages the efficient use of natural resources and promotes the protection of the environment; (ii) ensures investee companies (in high carbon intensity sectors) determine their greenhouse gas footprint and make this data available on an annual basis to VCP; (iii) provides for i) the reporting as soon as practicably possible to VCP of any incident involving the Company [or any member of the Group] that results in any loss of life or any material effect on the environment; and ii) the reporting of the Company's [and each member of the Group's] compliance with the ESG Principles in an annual report by the Company to its Board in a manner which allows a reader to make an informed assessment of the Company and, to the extent relevant, each member of the Group as against the requirements of the ESG Principles; and (iv) implements a social and environmental management system which enables effective identification, management and monitoring of any risks and provides a framework for action.

4. An ESG and ethical framework for investments

VCP believes that the portfolio companies should compromise themselves from the very beginning with an ESG and ethical attitude towards their businesses and their different stakeholders (in this regard, please check the "Engagement Policies" section).

Responsibility

An investment manager will be responsible for managing all operational aspects relating to the pre-investment phase [the first screening, the due diligence, the investment decision and the (eventual) investment agreement (in this last one, the investment manager will be cooperating with a member of the operating team)].

Once the target company is already part of the Fund's portfolio, all the ESG operations (post acquisition operations, ongoing engagement and monitoring, annual review, selling operations) will be conducted by an operating team.

Methodologies to select the indicators

All SFDR mandatory indicators for the reporting were chosen as considered relevant for some of the portfolio companies. In addition, several other social and environmental indicators were analysed and given their relevance for the majority of the portfolio companies they were included in the reporting. The methodology used to choose the indicators takes into account the probability of occurrence and the severity of the principal adverse impacts, including their potentially irremediable character. The annual assessment and data collected from portfolio companies is essential in that selection and analysis, as it allows to flag the most relevant and impactful issues to address. Indeed, the methodology for the selection of indicators is reliant and subject to availability and quality of such data received from portfolio companies.

Engagement Policies

In order to involve potential investee companies and their minority shareholders, VCP endorses its ESG framework for all investments acting via the Board of Directors. All portfolio companies' Board of Directors guarantee that:

- (i) Investee companies will adopt a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility and encourage the development and diffusion of environmentally friendly technologies;
- (ii) Investee companies should not be engaged in behaviour that i) unnecessarily pollutes land, air or water; ii) unnecessarily destroys or wastes finite resources; iii) produces an unnecessary high level of carbon emissions.

In order to assess the company's external stakeholders engagement, an annual reporting both to LPs and wider stakeholders, including but not limited to the UN PRI, is elaborated.

Furthermore, the engagement policy includes the following activities:

- The portfolio company management is responsible for delivering its KPIs and targets over the year;
- VCP will engage with the target companies to identify opportunities for improvement;
- VCP will monitor adherence to the agreed actions plans and compliance with relevant local laws and standards;
- On-going gathering and monitoring of ESG KPI data reported quarterly to the Board of Portfolio Company, VCP Operating Team to appraise performance and take action in the event of underperformance;
- Incident reporting process to report incidents immediately to VCP (depending on the severity) and steps taken for remedial measures.

In order to adapt engagement policies (and more) in cases where there is no reduction in the main negative impacts over more than one reference period, VCP will carry out an annual assessment of the adequacy of the ESG framework. Based on the results of this evaluation, the ESG policy may be reviewed and changes may be made. To this end, feedback will be gathered from the team and the investee companies.

Reference to International Standards

In accordance with Article 9 of the Delegated Regulation 2022/1288 of 6/04/2022, our investment strategy, internal business conduct codes, due-diligence and investors reporting at the Fund's level are aligned with some international standards. Please note however, that we are still working on making all our portfolio companies to be aligned with the same international standards, including with the objectives of Paris Agreement. Specifically:

- United Nations Principles for Responsible Investment (UN PRI): Our Fund uphold the six principles established by the UN PRI, integrating environmental, social, and governance (ESG) factors into our investment decisions and ownership practices.
- Sustainable Development Goals (SDGs): Our investment approach is guided by the UN's 17 SDGs, seeking to ensure that our activities and investments contribute positively to sustainable development.

With respect to the description of the specific indicators used to consider the PAI on sustainability factors reporting this year and the methodology and data used to measure please note the following:

- The methodology for calculating GHG emissions translated into CO2e emissions in 2023 was based on the requirements of the Greenhouse Gas Protocol (GHG) Initiative (<https://ghgprotocol.org/>), which corresponds to a business partnership among various stakeholders such as non-governmental organizations, governments, and other entities, brought together by the World Resources Institute and the World Business Council for Sustainable Development, a coalition of 170 international companies, headquartered in Geneva. The requirements of the GHG Protocol specify that the calculation of emissions must be subdivided into 3 different Scopes, corresponding to direct emissions, indirect emissions from the production and consumption of electricity, and finally, other indirect emissions.
- With respect to the objectives for the reduction of the GHG emissions for each portfolio companies they are aligned with the objectives of Paris Agreement. However, we recognize that for some of our companies, especially the newly bought in 2023, there were no calculations performed for 2023 and no objectives, therefore, are set. Due to this lack of information, we cannot state that the Fund as a financial product is aligned with the objectives of Paris Agreement. We are committed to regularize this situation in 2024 and 2025 as our portfolio companies mature and start to make those calculations.
- With respect of Social and Employee matters we report that none of our Companies are in violation of Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.

We do not use forward-looking climate scenario as prescribed by Task Force on Climate-related Financial Disclosures (TCFD). The main reason this is a relatively small size of our portfolio companies and of the Fund overall that does not yet have enough human and financial resources dedicated to the complex calculations that a forward-looking climate scenario analysis involve. We are committed to address this matter in the following years as a part of our continuous dedication to responsible investing and sustainable development.

Historical Comparison

This is the first year when historical comparison is available. Due to the addition of two new companies in 2023 - Europalco and Docout, some historical comparison may be distorted because there is no comparative data available for the previous reporting period.