



**AZORA**

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SFDR Website Disclosure Document  
Azora European Climate Solutions Fund,  
F.C.R.

### Version control

Created Date	Approval date	Version	Change summary
02 / 07 / 2024	10 / 07 / 2024	1.0	Initial version.

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## **1. Definition**

The purpose of this Document is to provide information with regards to the Azora European Climate Solutions Fund, F.C.R. (**AECS**) as an Article 9 Fund defined by the Sustainable Finance Disclosure Regulation (**SFDR**), to comply with article 37 of the SFDR Regulatory Technical Standards (**RTS**)

## **2. Summary**

This document outlines AECS's sustainable investment objective including its sustainable investment framework, details on impact KPIs to monitor as well as methodologies and data sources used. The document additionally outlines any methodology and data limitations, and the measures AECS has put in place to ensure adherence to the sustainable investment strategy. Finally, this disclosure document sets out the engagement policies and environmental activities of the fund.

## **3. Attainment of the sustainable investment objective**

AECS is an Article 9 fund with sustainable investment as its objective and no index has been designated as a reference benchmark. AECS's objective is to make sustainable investments in companies that contribute to the following environmental objectives:

- Climate change mitigation.
- Climate change adaptation.
- Prevention and monitoring of pollution.

AECS is managed by Azora Gestión, S.G.I.I.C., S.A. (Azora Group), which promotes responsible and sustainable investment. To do this, the Azora Group measures its contributions using a series of reference frameworks. To this regard, the Sustainable Development Goals (**SDGs**) serve as the framework for measuring the Azora Group's contribution to achieve the only common global roadmap for 2030 that promotes an economic transition toward a more sustainable society. As a result, the Azora Group has analyzed the priority SDGs for its activity, based on the investment approach, the nature of the assets it manages and the willingness to contribute to these specific SDGs.

AECS has identified the following priority SDGs:



To further strengthen the sustainable investment objective, AECS has committed to link part of the fund's remuneration to key impact objectives.

## **4. No significant harm to the sustainable investment objective**

AECS is classified Article 9 fund under the SFDR classification with sustainable investment as its objective, following strict KPI monitoring and utilizing global standards throughout the investment process to ensure no significant harm to the sustainable investment objectives.

To comply with SFDR requirements, AECS will monitor and report:

- Indicators set out in Table 1, Annex I of the Commission Delegated Regulation (EU) 2022/1288. These indicators include alignment within the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.
- At least one additional indicator set out in Table 2 of Annex I of the Commission Delegated

Regulation (EU) 2022/1288.

- At least one additional indicator set out in Table 3 of Annex I of the Commission Delegated Regulation (EU) 2022/1288.

#### KPIs

Climate & Other Environmental Related	Social & Governance
<ul style="list-style-type: none"> <li>• Emissions</li> <li>• Biodiversity</li> <li>• Water</li> <li>• Waste</li> <li>• Fossil fuels</li> <li>• Energy efficiency</li> <li>• Environmental</li> </ul>	<ul style="list-style-type: none"> <li>• Social &amp; employee matters</li> <li>• Health &amp; safety</li> <li>• Diversity &amp; inclusion</li> <li>• Exposure to controversial weapons</li> <li>• Responsible governance</li> <li>• Human rights policies</li> <li>• Anti-corruption &amp; anti-bribery policies</li> <li>• Investment in Bcorp-certified companies</li> <li>• Community: local labour and providers</li> <li>• Whistleblower Channel: claims received</li> </ul>

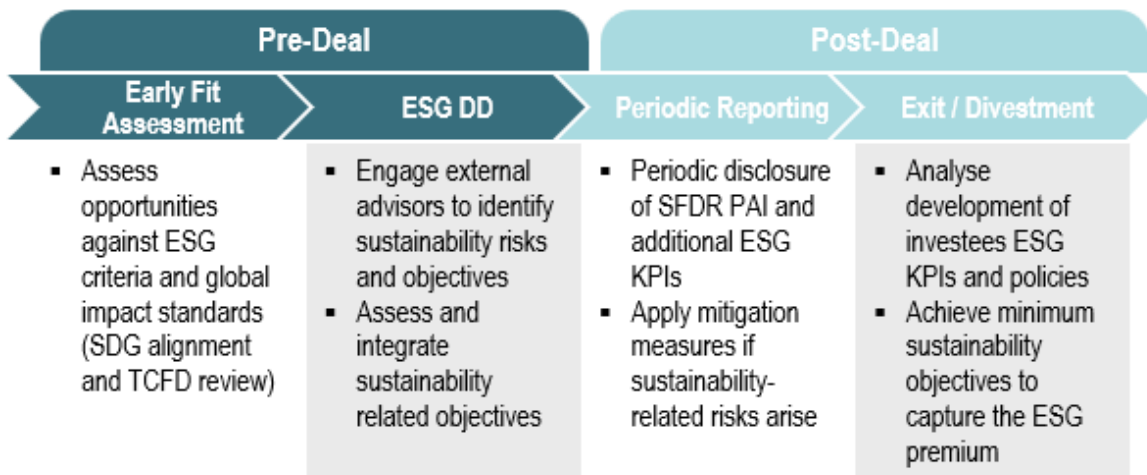
### **5. Sustainable investment objective of the financial product**

AECS provides growth capital to lower middle-market businesses in Europe addressing the decarbonization of real assets and climate change risk:

- AECS promotes clean energy by investing in and supporting the acceleration of the energy transition. Expanding the energy infrastructure and upgrading technology to improve energy productivity and efficiency.
- AECS leverages Azora Group’s broader real estate footprint to support urban solutions and sustainable cities, promoting resilient decarbonization solutions and investing in technologies that make urban buildings more resilient and improve the lives of urban dwellers.
- AECS invest in solutions which strengthen the resilience and adaptive capacity to climate-related hazards of real estate assets, supporting profitable business solutions that drive demand for effective climate change-related planning and management in Europe.

### **6. Investment Strategy**

AECS integrates sustainability at every step of the investment process:



AECS integrates sustainability into its investment holding period by developing an impact business plan with investees. This plan ensures the investment contributes positively to the energy transition while achieving financial returns. AECS's carry is also dependent on achieving the impact target. For additional information, please see AECS Sustainability Risk Integration Document.

## **7. Monitoring of the sustainable investment objective**

AECS monitors the sustainable objectives of the fund via an impact methodology to measure the environmental impact of each portfolio company. AECS produces periodic KPI reports on the environmental, social and governance metrics indicated in section 3. In addition, AECS prepares the 100-day Environmental, Social and Governance (**ESG**) plan for each new investment.

## **8. Methodologies**

AECS follows global standards throughout the investment process to measure the attainment of the sustainable investment objective, including:

- **Early assessment tool:** Conduct a comprehensive target analysis against ESG incorporating assessment on SDG alignment and TCFD review.
- **ESG due diligence (DD) via third party advisors:** Engage with external advisors to evaluate the targets to identify any sustainability risks and define objectives for the investee. AECS uses the DD findings to define engagement plans with the investee companies.
- **Proactive ownership:** As a signatory to the UN Principles for Responsible Investment, AECS, as part of Azora Group, actively engages with investees based on clearly defined objectives. Engagement activities further detailed [here](#).
- **Periodic reporting:** Periodic disclosure of SFDR PAI and additional ESG KPIs to actively monitor sustainability risks and apply mitigation measures where necessary.
- **Capability building:** Stay abreast of the sustainable investment landscape to constantly enhance investment team and investees' capabilities.
- **Impact business plan and carry:** AECS ensures sustainability is embedded within each investee by developing an impact business plan that positively contributes to the energy transition. Moreover, AECS's carry is linked to this sustainability target, ensuring remuneration and impact are interlinked.

- **Exit/divestment process:** Assess investee ESG KPIs and development of policies during the investment period. As part of the exit process, achieve the minimum defined sustainability objectives to capture the ESG premium. Lastly, ensure impact beyond divestment by assessing potential buyer(s) and/or exit strategy.

## **9. Data sources and processing**

AECS uses internal and external data sources as inputs to attain the sustainable investment objective of the fund. Internal data includes own benchmarks, analysis and ratings as well as inputs provided by the portfolio companies. AECS also relies on external, publicly available third-party data sources to measure investees' impact and assess carry. Such data can include country energy consumption data and CO2 emissions.

With the support of third-party advisors, AECS conducts emissions data assessment of portfolio companies to calculate GHG emissions at the company level. The GHG reporting and services are determined by and in accordance with the GHG Protocol's Corporate Accounting Standards. Additionally, reporting is further refined using investment reporting frameworks, PCAF, PRI, NZAM, ISSB-IFRS2 and relevant EU regulatory reporting requirements. Where there are data gaps, our advisors will estimate emissions data, based on asset or portfolio-company data.

AECS receives data in different manners, including Excel file updates, and via questionnaires. The preference is to fully automate data retrieval to avoid any operational risks. AECS is designing an automated solution to aggregate data from portfolio companies and third-party providers.

## **10. Limitations to methodologies and data**

AECS recognizes there are limitations with the impact methodology and data sources. Some of the methodologies outlined can place a greater emphasis on assessing environmental impacts. Some of the data limitations include the necessary reporting infrastructure within portfolio companies as well the accuracy of data provided.

While methodologies and data limitations exist in measuring sustainability impacts, AECS's commitment to transparency, continuous improvement, and holistic risk management strategies do not affect the attainment of the sustainable investment objective over the long term.

## **11. Due diligence**

AECS conducts a comprehensive ESG due diligence with the support of third-party advisors. As part of this process, detailed analysis of the target companies is conducted, which includes environmental impact, rigor of policies, natural resource management, workforce diversity, corporate governance and decision-making process among others.

Additionally, key sustainability and objectives are identified, assessment and integration of sustainability related objectives and potential upside from value-creation initiatives.

After the ESG due diligence, AECS aligns with the management team to design and execute a 100-day ESG plan with defined milestones and objectives.

## **12. Engagement policies**

AECS promotes effective and purposeful stewardship, engaging with portfolio companies to drive their impact.

To drive the ESG agenda, AECS continues to pursue active ownership within portfolio companies to influence and promote ESG related objectives:

**Engagement**

- Pursue **collaboration action** – identifying **ESG issues**, **set objectives**, **tracks results**, and incorporate findings into **investment decision making**.

**Voting as a Board Member**

- For example, by **mandating the adoption** of appropriate **social safeguards** and **leading practices**.
- **Specific voting requirements** in relation to **human capital**, **financial capital** and **strategic matters**.

**Active Ownership**

- Including holding **board positions in our portfolio companies** and having **all the strategic reserved matters** which require a **favorable vote from Azora ECS**.

**External Advisors**

- Engaged with external advisors to support **our portfolio companies** to measure their **GHG Emissions Scope 1/2/3** and facilitate collection of the **SFDR PAI indicators**.
- **Recommendations** have been provided to our portfolio companies, with a view to **enhance their ESG reporting capabilities** to align to **best practice** in the **future**.