



asset  
management

# XP Infrastructure

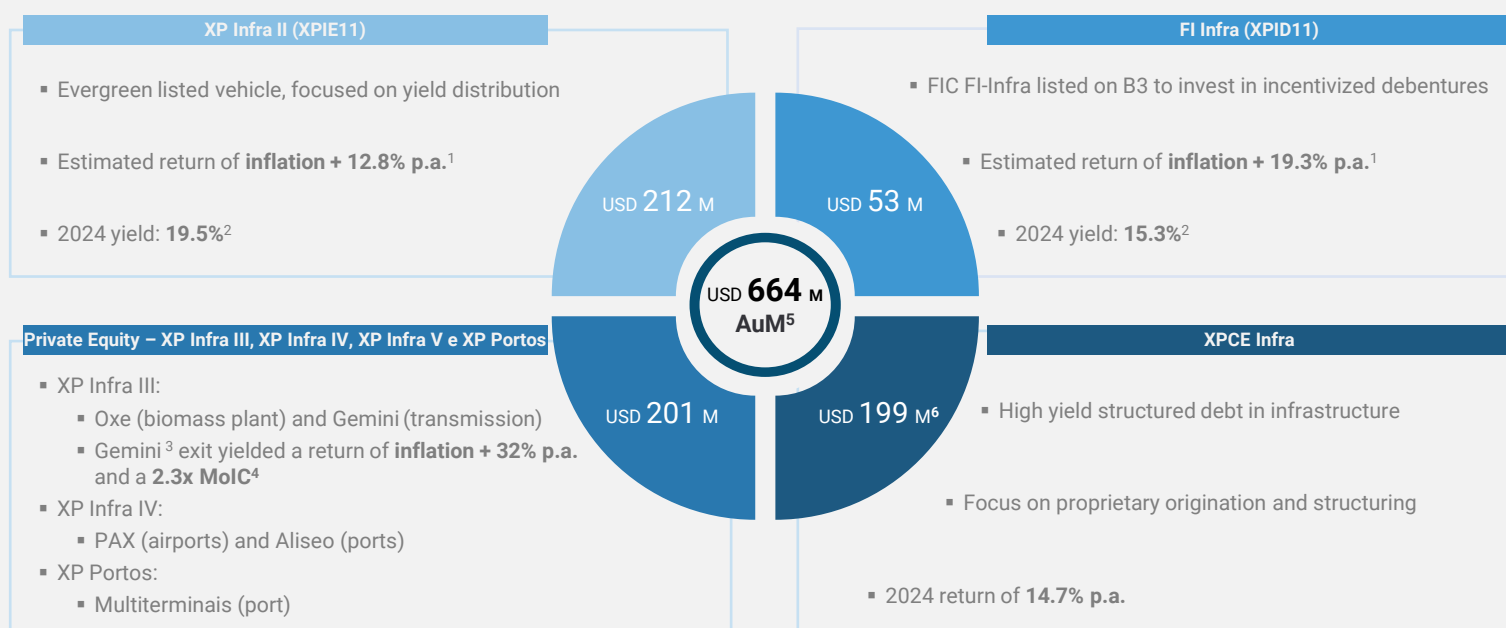
ESG Report | 2024



## Letter to Investors

Dear Investors,

XP Asset Management’s infrastructure division invests in both private equity and debt instruments issued by companies from sectors such as energy, sanitation, transportation, and telecommunications. As of December 2024, the infra team was managing six funds (“Funds”), four of which in the private equity strategy. Throughout the year, two new capital gain funds were raised: USD 11 million in the FIP XP Portos (a club deal in the ports segment) and USD 94 million in the XP Infra V FIP-IE, a blind pool structure. Additionally, one of its evergreen yield-oriented listed vehicles (XP Infra II FIP-IE, or XPIE11) completed its 4th follow on, raising an additional USD 104 million, mainly for the acquisition of 58,5MW in wind farms.



Considering the relevance of incorporating ESG (Environment, Social and Governance) aspects into the investment process, XP Asset Management published its ESG policy (“Policy”) in 2022. The Policy is aligned with the PRI, or Principles for Responsible Investment (a set of guidelines created by international investors with the support of the United Nations) aiming to establish general guidelines for integrating environmental, social, and corporate governance factors into the investment process across all asset classes and strategies

Moreover, the infrastructure division subsequently established a specific policy, regulating the approach to the implementation, analysis, and monitoring of ESG aspects of invested and prospective assets, i.e., a more tailor-made approach to the infrastructure environment. The team also follows an internal code of conduct, which details the procedures to be adopted in the sourcing, structuring and monitoring process of new investments.

Source: XP Asset Management. (1) Considers the market value of the share at the close of business on 12/31/2024. (2) Ratio between total distributions per share during the year 2024 and the market value of the share at the market close on 12/31/2024. (3) Indirect investment through shares of the FIP Power. (4) Multiple on Invested Capital. (5) Net asset values as of the base date of 12/31/2024. (6) Of which 15 USD million are allocated in other fixed income funds.

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These procedures are valuable proprietary tools created in collaboration with NINT Group (formerly known as SITAWI Finanças do Bem), a pioneer in developing financial solutions for impact investing from a social and environmental standpoint.

The framework mentioned above includes tools that include: (i) the categorization of investments into different ESG risk classifications; (ii) a sector-adapted approach to critical points in any formal ESG due diligence process; (iii) an ESG questionnaire model for the monitoring of new investments; and (iv) a standard action plan in case sensitive issues are mapped during the analysis. As a result, the investment committees include a specific section addressing ESG matters and their consequences to the investment under scrutiny. These procedures are mandatory and are part of the analysis of every investment opportunity submitted to the investment committee.

Although these topics have always been considered relevant by the management team, the objective of such initiatives was to establish a more specific and objective system for the integration of ESG aspects in a customized and thorough approach. With that in place, we strongly believe to be applying best practices currently adopted in the Brazilian infrastructure industry.

This report is the third annual report focused on shedding light to the market, existing and prospective investors on the efforts put in place and results achieved in the previous year from an ESG standpoint. Finally, we will provide (i) further details on the policy currently in use, (ii) an overview of the approaches adopted segregated by fund type (private equity and debt), and (iii) a portfolio overview.

Sincerely,

Infrastructure Management Team

## Strategy and Approach

XP Asset published its policy for responsible investments in 2022, in line with the United Nations Principles for Responsible Investment (PRI). In addition, the infrastructure division has its own code of conduct, developed in collaboration with NINT Group, guiding its investment process from an ESG perspective. Moreover, analytic tools have been developed in collaboration with the ESG-specialized consulting firm NINT Group, including: (i) a risk categorization tool, (ii) a materiality matrix, and (iii) suggested documents, questionnaires, and standard ESG clauses.

Our risk categorization tool allows for classifying investments based on an internal rating of A, B+, B, or C, with A being the highest risk or highest potential exposure. To define the rating, the tool weighs risk levels (High, Medium, or Low) associated with environmental, social, and governance issues for each sector and type of enterprise, as detailed below. The classification consists of 15 criteria and is as follows: (i) projects with three or more criteria rated as high risk are classified as “A,” (ii) projects with two or more criteria rated as medium risk are classified as “B+,” (iii) projects with one medium criterion are classified as “B,” and (iv) projects with only low risk are classified as “C.”

### ESG Rating Evaluation Parameters

Rating A	Rating B+	Rating B	Rating C
<p><b>Environmental Assessment</b></p> <ul style="list-style-type: none"> <li>Sensitive environmental areas</li> <li>Areas with potential water scarcity</li> <li>Areas exposed to other extreme environmental/geological events (landslides, floods, wildfires, among others)</li> <li>Areas with potential energy or other resource scarcity</li> </ul>			
<p><b>Social Assessment</b></p> <ul style="list-style-type: none"> <li>Sensitive protected areas (archaeological and cultural sites of national and international importance)</li> <li>Areas of traditional indigenous communities</li> <li>Areas with land disputes</li> <li>Areas requiring involuntary resettlement</li> <li>Mobilization of significant number of temporary workers to construction site</li> <li>Significant number of unskilled or migrant workers (including outsourced activities)</li> <li>Use of explosives or other hazardous substances directly or through associated facilities</li> </ul>			
<p><b>Governance Assessment</b></p> <ul style="list-style-type: none"> <li>Exposure to any controversy related to ethical conduct issues</li> <li>Ties to the government</li> <li>Board of Directors and/or Advisory Board</li> <li>Family-owned</li> </ul>			

The materiality matrix consolidates the levels of materiality of environmental and social risks for each type of asset. The environmental section consists of risks such as efficient resource use, pollution prevention, waste management, greenhouse gas emissions, climate change, land use, and biodiversity conservation. The social section considers risks associated with employment and working conditions for direct and indirect employees, relationships with customers, and community health and safety.

Source: XP Asset Management

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Environmental and Social themes are organized in line with the IFC Performance Standards, which are performance standards related to applicable issues defined by the IFC, adapted to reflect the local context.

Finally, the tools applied include a set of ESG clauses, which should be evaluated on a case-by-case basis and used as applicable in the operation documents. The material includes a list of specific ESG questions and a baseline action plan.

These resources are used in different phases of the investment process and according to specific demands inherent to analyzed opportunities. The process begins with sourcing efforts alongside infrastructure companies, investment banks, and boutiques. At this stage, an exclusion list is verified, which defines forbidden sectors (such as coal-fueled and nuclear generation). Assets that pass the exclusion filter then proceed to risk categorization (internal rating) and the customized materiality matrix (material topics for further exploration in due diligence).

Next, the analysis phase begins, during which the financial model and Q&As are developed and perfected. At this stage, a preliminary discussion takes place in the Investment Committee with managers from XP Asset, where conclusions are presented and points are addressed. With the approval of the Investment Committee, a Non-Binding Offer or indicative term sheet is prepared.

The next step consists of the due diligence process, marked by the engagement of consultants focusing on legal, technical, market, accounting, and ESG aspects, as applicable. In the diligence dedicated to ESG aspects (when applicable, depending on the assigned rating), the infrastructure investment funds must develop an ESG Action Plan to address the identified gaps. If due diligence is satisfactory, a new submission is made to the investment committee, and a Binding Offer is shared with the targeted company.

After fulfilling the conditions precedent, the funds are disbursed, and the investment is monitored until divestment. During this phase, the asset is monitored in terms of: (i) operational and financial aspects through reports, (ii) governance, mainly through board seats (when applicable), and (iii) ESG, through the monitoring of action plans, performance indicators, and coverage in the annual ESG report. Additionally, on-site visits to the assets are conducted by both the investment team and the due diligence teams. In 2024, the management team conducted approximately 23 visits to 22 assets of the funds. These visits are additional to visits conducted by consultants and other service providers.

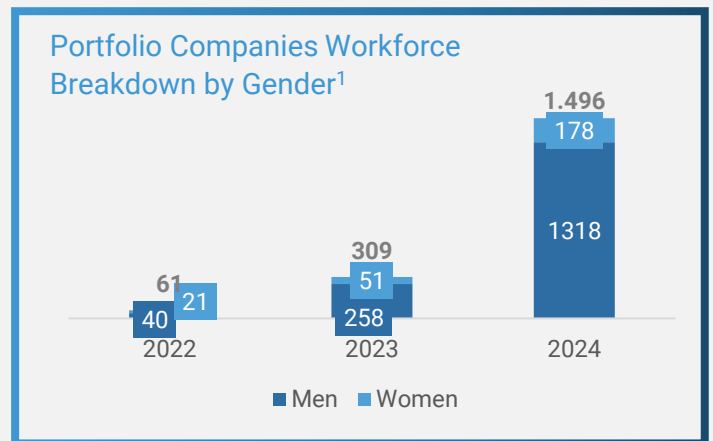
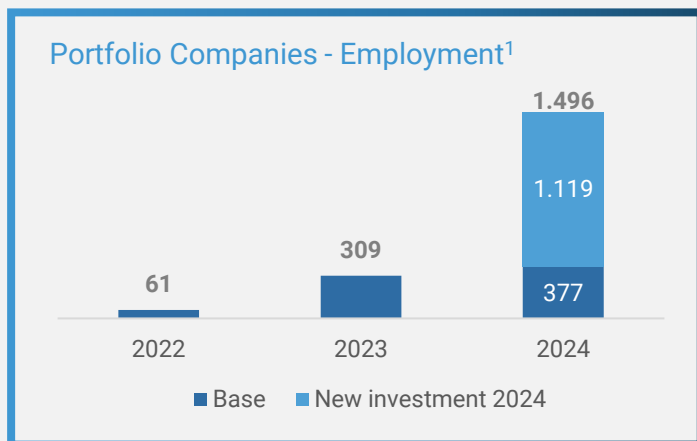


## Key ESG Indicators

In addition to each asset’s risk factors, potential positive impacts are also evaluated and monitored through the tracking of indicators that adhere to best governance practices and socio-environmental measures. We outline below some of the monitored indicators.

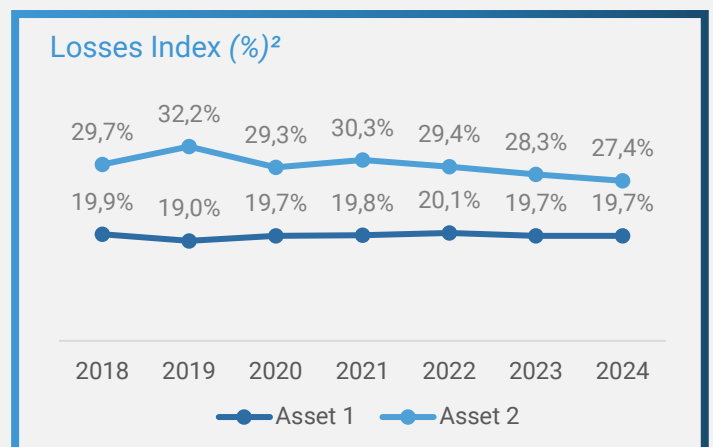
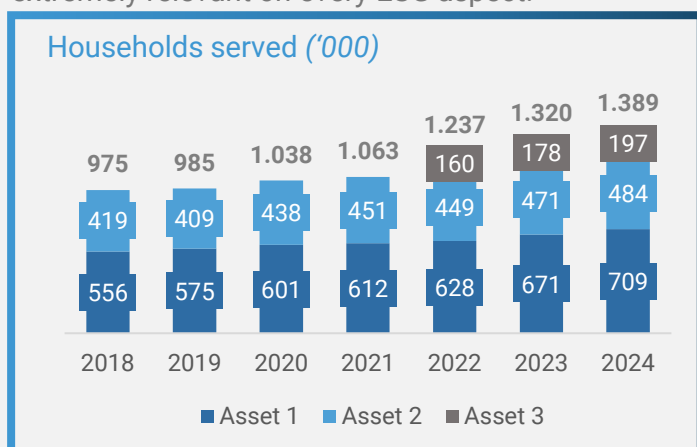
From a social impact perspective, it is worth highlighting the financial contributions made to the land leaseholders of the wind energy assets located in Rio Grande do Norte. The two wind farms in the portfolio provide a significant source of supplemental income to over 40 families, who now receive monthly payments for land that previously generated no financial return. In 2024, a total of BRL 1,036,136 was paid to landowners. Additionally, in Apodi, BRL 184,950 was allocated to support development programmes benefiting the local population in Quixeré, Ceará.

Additionally, job creation can be highlighted since infrastructure investments are high in job creations. Our investments are responsible for a significant demand for workers, especially during the implementation periods. We directly monitor ongoing hiring in the invested companies, also assessing the existing gender diversity and assuring payment parity within the workforce. It is worth noting that the significant increase in the number of employees in 2024 is due to the acquisition of a stake in a company whose employee count is substantial compared to other investments (a container terminal operator).



### Sanitation

The infrastructure division holds investments in water and sanitation assets, which in 2024 were responsible for 1,389,335 households (1,320,440 in 2023). Access to the sewage collection network reduces exposure to diseases and relevant improvements in public health. These investments have increased their respective treatment rates and reduced water losses, which are important indicators for environmental preservation and waste prevention. Additionally, they contribute to the goals of universalization of sanitation through the expansion of active households. Considering that Brazil is still an emerging market and water supply and sewage treatment are considerably below that of developed countries, we consider funding to sanitation to be extremely relevant on every ESG aspect.



Source: XP Asset Management and Companies. (1) The values consider only direct job creation. (2) Asset 3 is in its main CapEx phase and has not yet reported losses.

**Power Generation**

Regarding environmental aspects, one of the monitored indicators relates to the reduction of greenhouse gas (GHG) emissions, which can be verified in current investments in renewable generation projects, including solar energy, hydropower, and biomass thermal energy. Considering installed capacity (MW) and estimated annual generation (MWh), it is possible to compare the reduction of CO<sub>2</sub> emissions per year from each power plant as opposed to coal-fueled and gas-fueled plants.

For these calculations, values of tons of CO<sub>2</sub> emitted per MW or per MWh were used, compared to fossil fuel sources available on the platforms of the International Energy Agency (IEA) and the World Nuclear Association (WNA). Currently, the entire generation portfolio in the area involves renewable energy. In 2024, the total emissions avoided compared to coal are equivalent to 167,838 gasoline-powered passenger vehicles driven for one year and to the energy consumption of 123,939 households over one year, according to conversion data from the United States Environmental Protection Agency (EPA).

**Impact of the Electric Generation Plants in the Portfolio**

Asset	Setor	Installed Capacity (MW)	Reduction of Emissions per Year vs Coal (CO <sub>2</sub> ton)	Annual Emissions Reduction vs Natural Gas (CO <sub>2</sub> ton)
Asset 1	Solar Generation	6.1	8,568	4,284
Asset 2	Solar Generation	162.4	227,360	113,680
Asset 3	Solar Generation	156.0	218,400	109,200
Asset 4	Hydropower Generation	12.0	36,000	16,800
Asset 5	Hydropower Generation	14.0	42,000	19,600
Asset 6	Thermal Generation - Biomass	46.0	148,090	65,260
Asset 7	Wind Power Generation	27.3	76,440	35,490
Asset 8	Wind Power Generation	31.2	87,360	40,560
Asset 9	Solar Generation	11.8	16,506	8,253
<b>Total</b>		<b>466.8</b>	<b>860,724</b>	<b>413,127</b>

Gasoline-powered passenger vehicles driven for one year



**167,838** equivalent vehicles<sup>1</sup>

Energy consumption of households over one year

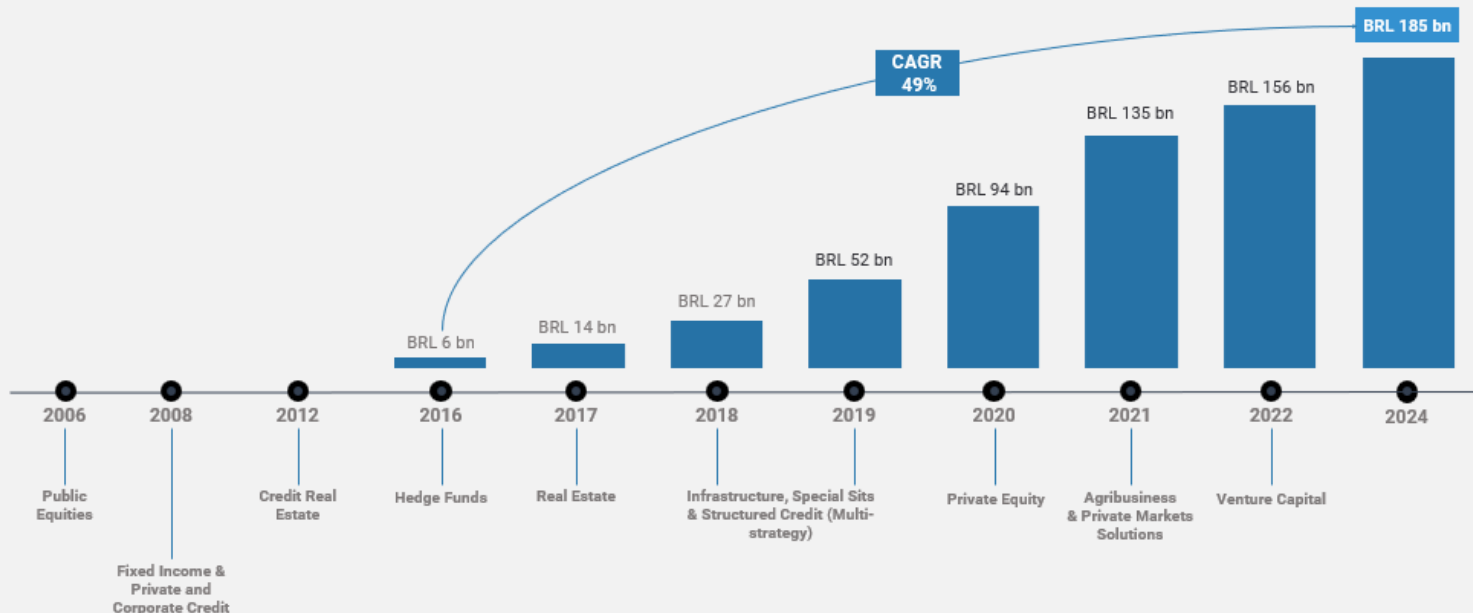


**123,939** equivalent households<sup>1</sup>

Source: XP Asset Management, International Energy Agency (IEA), World Nuclear Association (WNA), United States Environmental Protection Agency (EPA), and Companies. (1) Consumption equivalent to total emissions avoided compared to coal, according to conversion data from the United States Environmental Protection Agency (EPA).

## About XP Asset Management

XP Asset was founded in 2006. Over the years, we have consolidated our policies, controls, and governance. We have brought in and developed top-notch professionals and integrated liquid strategies such as Equities, Fixed Income, Multi-Strategies, and Structured Credit, as well as illiquid strategies such as Infrastructure, Special Situations, Real Estate, Agriculture, Private Equity, and Venture Capital.



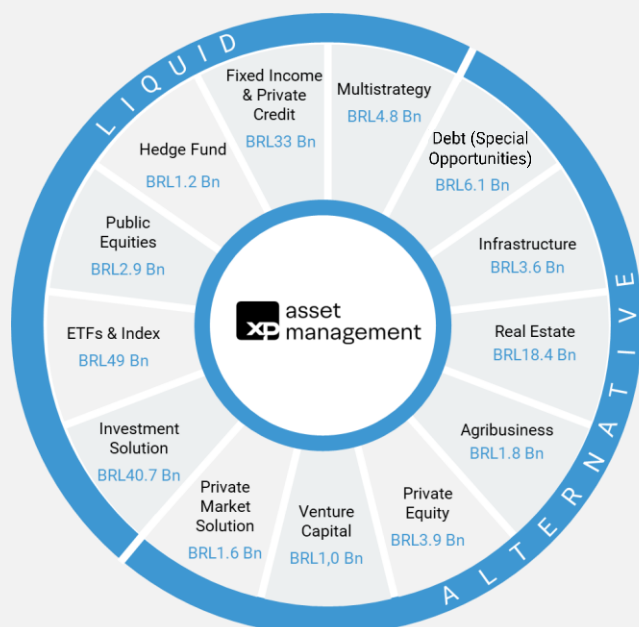
## We are a leading asset manager in Brazil

**BRL189 bn** in assets under management

**4 million** investors

**13** investment strategies

**+170** professionals



### Independence and Relevance

Combination of the solidity of XP Inc. with an Independent Asset model.

### Long-term Alignment

Multi-desk management model with independent results in each strategy linked to performance and meritocratic partnership.

### Shared Intelligence

Recurring integration among teams with the aim of broadening managers' perspectives for decision-making.

Sources: Anbima Investment Fund Management Ranking Methodology.

## Disclaimer



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