Sustainability Risk Integration Policy

CAIXABANK ASSET MANAGEMENT SGIIC, S.A.U.

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CaixaBank
ASSET MANAGEMENT

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Index

1 Background

CaixaBank Asset Management SGIIC, S.A.U. ('CaixaBank AM' or the 'Management Company') is committed to contributing to the transition towards a sustainable economy in which long-term profitability is combined with social justice and protection of the environment. The Paris Agreement adopted at the Climate Change Conference is the first universal legally binding agreement on climate change and aims, among other things, for financial flows to be consistent with the transformation towards a low-carbon and climate-resilient economy.

In this line, CaixaBank AM implements a sustainability risk integration model based on three essential pillars:

- The incorporation of environmental, social and governance (ESG) factors into investment analysis and decision-making process, in addition to traditional financial criteria

- The long-term involvement of the management company with the companies in which it invests, with greater participation in corporate governance decisions (proxy voting)

- Open dialogue with listed companies on material or controversial issues related to ESG factors (engagement).

In 2011, CaixaBank AM formalised its commitment to the United Nations Global Compact, as a sign of its commitment to sustainability, committing itself to supporting and applying its ten principles relating to human rights, employment rights, the environment and the fight against corruption.

In 2016, CaixaBank strengthened its commitment by adhering to the Principles for Responsible Investment (PRI), an initiative by the investment community, promoted by the United Nations, for contributing to the development of a more stable and sustainable financial system through the implementation of six defined principles.

The integration of this model could have a favourable effect on the companies' long-term profit or loss and contribute to greater environmentally sustainable economic growth and social progress.

In this regard, this policy responds to the above principles, to the European Commission's plan for sustainable finance and, in particular, to Regulation (EU) 2019/2088 of the European Parliament and of the Council on sustainability-related disclosures in the financial services sector (SFDR), which establishes the obligation for companies to specify, in their policies, how all relevant sustainability risk that could have a negative material impact on the financial profitability of the investment is integrated into their investment management processes, and also to report on this process.

2 Objetive and scope

The Sustainability Risk Integration Policy establishes the principles of action for the incorporation of environmental, social and governance (ESG) criteria into processes and decision-making for the provision of investment services, along with traditional financial criteria, from a risk perspective defined as the ESG status or event that could have a material negative impact on the value of the investment if it occurs.

This document is applicable to CaixaBank AM and to the subsidiaries that depend on it, as appropriate. The adaptation of each company's internal procedures may entail, among other decisions, the approval of their own policy in the subsidiaries, the purpose of which will be to adapt it to their specificities, either by subject matter, jurisdiction or the relevance of the risk in the subsidiary.

Its scope covers all of the assets in the portfolios managed by the management company, except indexed funds, due to their nature. The scope is also initially different for funds of funds, but with the aim that this will become the same over the medium and long term.

The action principles for long-term involvement with the companies in which CaixaBank has positions will be established in the specific policies.

This policy will come into effect on the date it is approved by the Board of Directors and excludes any pre-existing investment.

3 Regulatory Framework

This policy has been drawn up in accordance with prevailing legislation, particularly:

1. Act 11/2018, of 28 December, amending the Commercial Code, the revised text of the Corporate Enterprises Act approved by Royal Legislative Decree 1/2010, of 2 July, and Act 22/2015, of 20 July, on Account Auditing, on non-financial information and diversity.

2. Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017 amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement.

3. Act 35/2003, of 4 November, on Collective Investment Schemes (ACIS).

4. Royal Decree 1082/2012, of 13 July, approving the regulation for implementation of Act 35/2003, of 4 November, on Collective Investment Schemes (ACIS).

5. Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (SFDR).

The management company already has a set of related policies in effect that have been approved by its governance bodies:

- Code of Business Conduct and Ethics
- Corporate Policy on Human Rights
- Proxy Voting Policy
- Policy on Open Dialogue with Issuers
- Environmental Risk Management Policy
- Defence Sector Relationship Policy
- Corporate Sustainability and Corporate Social Responsibility Policy

These policies reflect CaixaBank AM's commitment to performing its business activity in strict compliance with applicable regulations and in accordance with the highest standards of ethical and professional conduct. It considers it essential to properly evaluate and manage the risk and social and environmental impact arising from its activities.

In this regard, CaixaBank AM recognises the following initiatives, conventions and institutions:

- The United Nations International Charter of Human Rights.
- The United Nations Global Compact.
- The United Nations Guiding Principles on Business and Human Rights.
- The Principles for Responsible Investment (PRI).
- The United Nations Sustainable Development Goals (SDGs).

4 Governance Framework

The Board of Directors is ultimately responsible for the policy. Its duties include approving the policy and ratifying amendments and updates to the same submitted by the Management Committee at the proposal of the SRI Committee.

The Investments Area must ensure that its teams are suitably familiar with the exclusion criteria set out in this policy and must not take positions explicitly excluded by it. The pertinent management teams are therefore responsible for making investment decisions considering the assets excluded by this policy.

The necessary control mechanisms will be implemented to ensure assets are properly identified and monitored in accordance with the provisions of this policy.

BODIES AND DUTIES

Function	Responsiblities
Creation/update	Commercial and Business Development Area (SRI Department)
Performance/Line of defence	*Investments Area*
Monitoring/Line of defence Control/Line of defence	Risks Area Compliance *Department*
Initial approval and updates	Management bodies Socially Responsible Investment Committee Governance bodies (final approval): - Review and approval for escalation to the Board: Management Committee - Final approval: Board of Directors
Custody	Commercial and Business Development Area

5 Management Framework

Approval of this policy does not, in general, imply any amendment to the processes defined in the decision-making process for new assets. Investment proposals for new assets will therefore be subject to existing policies and their secondary standards, criteria and procedures.

The management company's sustainability risk integration model is based mainly on the integration of ESG factors into investment processes. It is not a model based solely on exclusions.

The SRI Committee identifies and approves specific restrictions for the investment sector related mainly to companies directly or indirectly involved in certain activities and to controversies classified as 'very serious' (out-of-the-ordinary events at companies that bring their performance in areas relating to significant ESG factors into question: sanctions for bad practices, breaches of international standards, environmental disasters, corruption...).

This ESG analysis is intended to apply to all the assets in the portfolio and to constantly improve in the medium and long term. To this end, CaixaBank AM uses data from providers specialising in ESG matters in its analysis and considers due diligence procedures carried out with external fund managers. It also relies on partners to establish the criteria, methodologies and procedures necessary to carry out its analyses.

In general, CaixaBank AM expresses its opposition to investing in companies and states involved in practices that violate international treaties, such as the United Nations Global Compact, and establishes restrictions on companies directly or indirectly involved in certain activities related to:

- ✓ Controversial weapons: companies involved in the development, production, maintenance or trading of controversial weaponry or that provide essential and non-essential components or services)
- ✓ Military contracts (companies where certain percentages of their income come from the production of specially designed military weapons or components and essential equipment for the production and use of conventional weapons and ammunition, and software or hardware related to defence activities).
- ✓ Thermal coal (companies where a certain percentage of their income depends on mining or generating electricity from thermal coal).
- ✓ Energy: oil sands (companies that dedicate a certain percentage of their business activity to oil sand mining and production)

Investment in business groups or companies that might be subject to these restrictions may occasionally be considered, as an exception. Approval of these exceptions must comply with the governance framework stipulated by CaixaBank AM and be approved by the SRI Committee.

Controversial weapons

In line with international conventions and the general concerns of society, CaixaBank AM considers the following to be controversial weapons: antipersonnel mines, biological, chemical and nuclear weapons, cluster bombs, depleted uranium weapons, blinding laser weapons, incendiary weapons and non-detectable fragment weapons.

In the case of nuclear weapons, companies domiciled in countries that have ratified the 1968 Treaty on the Non-Proliferation of Nuclear Weapons would be excepted, provided that they are involved in other activities in addition to nuclear weapons, that not more than 5% of their income comes from nuclear activities and they are not involved in any other type of controversial weapons. The Risk Area will review and update the countries that are signatories to the treaty every two years.

In the particular case of third-party funds, CaixaBank AM identifies management companies whose corporate values are aligned with our management company's sustainability risk management, preferably selecting those that incorporate ESG factors into their investment and active dialogue processes.

Risk identified

To ensure adequate identification, measurement, evaluation, management, control and monitoring of risk, in the strategic risk management processes established in the management company's Risk Management Policy, it considers a risk catalogue with two description levels, among other things.

In the area of sustainability risk integration, ESG factors are included within the following level 2 risks:

- **Operational risk – Fiduciary risk:**

  Losses if the management company manages, advises on or custodies its clients' investment assets incorrectly or without evaluating the sustainability risks that may affect them if they occur, even when complying with regulations and legislation, to greater detriment of the client than what is already inherent to the financial risk of their investments.

- **Reputational risk:**

  In relation to not promoting ESG factors or barely integrating them into the business. That means not properly integrating ESG factors into strategy, into CaixaBank AM's own actions when managing client portfolios and investments (including unitholders and beneficiaries of managed pension funds), into the business.

6 Control Framework

CaixaBank AM promotes a risk culture that encourages risk control and compliance, as well as the establishment of a robust internal control framework that covers the entire management company and allows fully informed decisions to be made on the risk assumed.

CaixaBank AM's internal control framework is built around levels of control, based on CaixaBank AM's three lines of defence model and guarantees strict segregation of duties and the existence of several layers of independent control:

- The **first level of control** is made up of the procedures and processes of the operating units that manage dialogue activities with companies and suppliers of investment products, and the exercise of rights inherent to the listed securities that make up the portfolios managed by CaixaBank AM. They are responsible for applying internal policies and procedures in this matter and proactively implement measures to identify, manage and mitigate risk and establish and implement adequate controls. The Investment Area, specifically, acts as the first level of management control.

- The **second level of control** ensures the quality of the entire generation and management process for the different risks, reviews consistency with the internal policy and public guidelines on the processes, performs specific controls regarding the information inputs used, establishes the design and review guidelines for the processes and controls established in the units that manage these risks.

- The **third level of control**, made up of the Internal Audit Function, will carry out periodic supervisory activities on the effectiveness and efficiency of the sustainability management framework, including first and second level controls, as well as on compliance with prevailing legislation, the requirements of the supervisory bodies and the internal policies and procedures related to this risk. Based on the results of its controls, it will issue valuable recommendations to the areas, monitor their proper implementation and, where appropriate, make recommendations to the governance bodies and propose possible improvements.

The existence of controls regarding the adequate application of the general principles established in this policy, as well as, where appropriate, development of the same in internal frameworks and procedures must be guaranteed.

7 Reporting Framework

The management company, through its SRI Committee, establishes the general SRI principles and reference framework. The SRI Committee is tasked under its regulations with keeping the Management Committee regularly informed of the main issues addressed and decisions adopted in connection with socially responsible investment, for their ratification and/or approval, as necessary. The Management Committee must submit all proposals it considers relevant to the Board of Directors, particularly where proposals may entail reputational risk for the management company.

8 Update

This Policy will be reviewed every two years and when necessary in order to adapt it to governance, to prevailing regulatory requirements or to sector recommendations *considered relevant.*

Without prejudice to the above and to ensure the adoption of corrective measures with the necessary agility, simple typographical or linguistic amendments will be approved by the Management Committee.