



# Sustainability Risk Integration Policy

Register of approval and revisions:

Version	Description of Changes	Effective date
1	Initial version	9 March 2021

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## 1. Background

Caixabank Asset Management Luxembourg S.A. (“CaixaBank AM LUX” or “the ManCo”) is committed to contributing to the transition towards a sustainable economy combining long-term profitability with social justice and environmental protection. The Paris Agreement adopted at the Climate Conference is the first-ever universal, legally binding agreement on climate change, and aims, among other things, that financial flows are consistent with the transformation towards a low-carbon and climate-resilient economy.

In this sense, CaixaBank AM LUX has developed a Sustainability Risk Integration model based on three core pillars:

- the incorporation of environmental, social and corporate governance aspects (ESG aspects) into the investment analysis and decision-making process, complementing traditional financial criteria;
- long-term involvement of the ManCo with the companies in which it invests, with greater participation in corporate governance decisions (proxy voting);
- engagement with listed companies on material or controversial issues related to ESG factors.

CaixaBank AM LUX is wholly owned by CaixaBank Asset Management SGIIC, S.A.U. (hereinafter, "CaixaBank AM"), which joined the United Nations Global Compact in 2011 committing to support and apply the ten principles on Human Rights, Labor Rights, Environment and Fight against Corruption.

Subsequently, in 2016, CaixaBank AM reinforced its commitment to adhere to the Principles for Responsible Investment (PRI), an initiative of the investment community promoted by the United Nations, whose ultimate objective is to contribute to the development of a more stable and sustainable financial system, thanks to the implementation of the six defined principles.

The integration of this model could have a favorable effect on the companies' long-term results and contribute to environmentally sustainable economic growth and social progress.

In this sense, this Policy responds to the previous principles, to European Commission’s Sustainable Finance Action Plan, and, in particular, to Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector, which establishes the obligation for financial market participants to specify in their policies how sustainability risks are integrated into their investment management processes, as well as to continually assess all relevant sustainability risks that could have a material negative effect on the financial profitability of the investment, and report on this process.

## 2. Objective and scope

The Sustainability Risk Integration Policy (the “SRI Policy”) establishes the principles of action for the incorporation of sustainability factors (Environmental, Social and Corporate Governance criteria, "ESG") in the investment decision making process -along with traditional financial criteria- whereby the Sustainability Risk is defined as the ESG event or condition, which, if it occurs, could have a material detrimental impact on the value of the investment.

This Policy is applicable to CaixaBank AM LUX. In practice, CaixaBank AM LUX has delegated the investment management function of the UCITS vehicles to CaixaBank AM. CaixaBank AM may sub-delegate the investment management function further to a sub-delegate, such as BPI Gestão

de Ativos, SGFIM, S.A. (“BPI GA”). Therefore, the scope of this Policy will be defined further in the SRI Policy of CaixaBank AM or BPI GA, as appropriate.

The principles of action aimed at long-term involvement with the companies in which CaixaBank AM LUX’s investment funds hold positions will be established in the specific policies.

This policy will take effect from the date of approval by the Board of Directors and excludes any pre-existing investment.

### **3. Regulatory framework**

This policy has been drawn up in accordance with applicable provisions, particularly:

#### **European framework:**

- 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 (“Shareholder Rights Directive II – SRD II”);
- Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector, as amended (referred to as the “Sustainable Finance Disclosure Regulation - SFDR”);
- Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (referred to as the “Taxonomy Regulation”);

#### **Luxembourg framework:**

- Luxembourg law of 17 December 2010 transposing Directive 2009/65/EC on undertakings for collective investment in transferable securities (“UCITS Law”);
- Luxembourg law of 24 May 2011 on the exercise of certain shareholder rights at general meetings of listed companies, as amended, in particular by the Law of 1 August 2019 transposing SRD II;
- Luxembourg Law n°562 of August 1, 2019 implementing the SRD II and amending the Luxembourg law of May 24, 2011 on the exercise of certain rights of shareholders in listed companies;
- CSSF Circular 18/698 on the authorization and organization of investment fund managers incorporated under Luxembourg law.

Furthermore, CaixaBank AM LUX's governance bodies have approved a set of related policies already in force, including:

- The Corporate Code of Business Conduct and Ethics
- The Corporate Human Rights Policy
- The ManCo Proxy Voting Policy
- The Corporate Policy on Corporate Social Responsibility

These policies reflect the commitment of CaixaBank AM LUX to perform its activity in strict compliance with applicable regulations and the highest standards of ethical and professional conduct. It considers that proper evaluation and management of the risks and social and environmental impacts arising from its activities are essential.

#### 4. Governance framework

The Board of Directors has the ultimate responsibility for establishing the Policy. Its duties include approving the policy and ratifying modifications and updates to it submitted by the Management Committee.

The Investment Area at CaixaBank AM must ensure adequate knowledge of the exclusion criteria in this Policy among its teams and must not take positions that are explicitly excluded by it. The portfolio management teams are therefore responsible for making investment decisions considering the assets excluded by this Policy.

When implementing the Policy, CaixaBank AM LUX will ensure that its delegate puts in place control mechanisms needed to ensure identification and monitoring of assets in accordance with the provisions of this Policy.

#### BODIES AND DUTIES

Funtion	Responsibilities
Creation/update	Management Committee of the ManCo
Performance/Line of defence	Investment area (CaixaBank AM)
Monitoring/Second line of defence Control/Line of defence	Risk area of the ManCo and the delegate Compliance area of the ManCo and the delegate
Initial approval and updates	Governance bodies: <ul style="list-style-type: none"> <li>Review and approval for escalation to the Board: Management Committee</li> <li>Final approval: Board of Directors</li> </ul>
Custody	Compliance

#### 5. Management framework

Approval of this Policy does not, in general, imply any modification of the processes defined in the decision-making process for investing in new assets. Investment proposals for new assets will, therefore, be subject to the current policies and their implementing norms, criteria and procedures.

Although the Management Company's Sustainability Risk Integration model is mainly based on the integration of sustainability aspects into investment processes, it is not a model based solely on exclusions.

The SRI Committee at CaixaBank AM identifies and approves specific restrictions to the investment universe related mainly to companies involved, directly or indirectly, in certain activities and to controversies classified as "very serious" (extraordinary events in companies that question their performance in issues with significant sustainability aspects, such as sanctions for bad practices, breaches of international standards, environmental disasters and corruption).

This ESG analysis aims to apply to the whole of the assets in the portfolio and to constantly improve in the medium and long term. To this end, CaixaBank AM LUX will verify that their fund managers use data from providers specialized in ESG matters in their analysis and consider due

diligence procedures carried out with external fund managers. It also relies on partners to establish the necessary criteria, methodologies and procedures to perform its analyses.

**In general, CaixaBank AM LUX expresses its opposition to investing in companies and countries involved in practices that violate international treaties, such as the United Nations Global Compact, and set 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 for these.
- **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 material and activities.
- **Thermal coal:** Companies where a certain percentage of their income depends on mining or generating electricity from thermal coal.
- **Energy - Oil sands:** Companies where a certain percentage of their income depends on the production and exploration of oil sands.

Exceptionally, investment in companies or business groups that may be subject to these restrictions may be considered, in certain circumstances. Approval of such exceptions must be approved by the Board of Directors of the ManCo.

**In the context of international conventions and Society's general concerns, CaixaBank AM LUX considers antipersonnel mines, biological, chemical and nuclear weapons, cluster bombs, depleted uranium weapons, blinding lasers, incendiary and non-detectable fragment weapons to be controversial.** In the case of nuclear weapons, companies domiciled in countries which have ratified the Nuclear Non-Proliferation Treaty of 1968 would be exempted, provided that these companies carry out other activities in addition to nuclear weapons, the income from the nuclear activity does not exceed 5% and they are not related to any other controversial weapons. In this sense, the Risk Area will conduct a biennial review and update of the countries adhered to said treaty.

In the particular case of third-party funds, CaixaBank AM LUX will verify that their fund managers identify management companies whose corporate values are aligned with the management of the sustainability risks of the ManCo, preferably selecting those companies which incorporate ESG factors in their investment processes and active dialogue.

### **Identified risks**

In order to ensure an adequate identification, measurement, evaluation, management, control and monitoring of risks, the ManCo considers in its Risk Management Process, among other aspects, a mapping of Sustainability Risk with two levels of description.

In terms of Sustainability Risk Integration, ESG aspects are included within the following risks:

- **Operational risks – Fiduciary risk:**  
Losses in the event that the ManCo manages the investment assets of its funds incorrectly, or without evaluating the sustainability risks which may affect them, even in compliance with law and regulation, if they materialize to the detriment of the investors in a superior way to that inherent to the financial risks of their investments.

- **Reputational risk:**

In relation to the lack of promotion of ESG aspects or a poor integration of these in the business. That is, not integrating ESG aspects properly in the strategy, in the ManCo's oversight of the portfolio management and the investments of investors (including Board members and beneficial owners of managed funds), in the business.

## 6. Control framework

CaixaBank AM LUX promotes a risk culture which encourages risk control and compliance, as well as the establishment of a robust internal control framework which reaches the entire ManCo and allows fully informed decisions to be made on the risks assumed.

The internal control framework of CaixaBank AM LUX is articulated by Levels of Control, based on the Three Lines of Defense model of the CaixaBank Group, and guarantees the strict segregation of functions and the existence of several layers of independent control:

- The **first level of control** is made up of procedures and processes of the operating units which manage dialogue activities with companies and providers of investment products, and the exercise of the inherent rights to the listed securities which make up the fund portfolios of CaixaBank AM LUX. Based on the delegation of the portfolio function, the delegated investment managers are responsible for the application of the internal policies and procedures in this matter, for proactively implementing measures for the identification, management and mitigation of Risks and for establishing and implementing proper controls.  
Specifically, the Investment Area of the delegated Investment Manager acts as the first level of management control.
- The **second level of control** ensures the quality of the entire process of generation and management of the different risks, reviews the coherence with the internal policy and public guidelines of the processes, performs specific controls on the information inputs used, establishes the design and the guidelines for reviewing the processes and controls established in the management units of these risks.
- The **third level of control**, constituted by the Internal Audit Function, will carry out periodic supervision activities on the effectiveness and efficiency of the sustainability management framework, including the controls of the first and second level of control, as well as on compliance with the current legislation into force, the requirements of supervisory bodies, and internal policies and procedures related to this risk. Based on the results of its controls, the Internal Audit Function will issue recommendations to the areas, will monitor their proper implementation and, where appropriate, will make recommendations to the CaixaBank AM LUX's Board of Directors and propose possible improvements.

The existence of controls over the adequate application of the general principles established in this Policy shall be guaranteed, as well as, where appropriate, their development in internal frameworks and procedures.

## **7. Reporting framework**

CaixaBank AM LUX, through its participation in CaixaBank AM's SRI Committee, establishes the general principles and the framework of reference for socially responsible investment.

The Conducting Officer at CaixaBank AM LUX, responsible for Portfolio Management, as a participant in the SRI Committee, will be in charge of periodically inform CaixaBank AM LUX's Management Committee of the progress of the main topics discussed, the decisions taken in relation to socially responsible investment, so that if necessary they are reported to the Board of Directors of CaixaBank AM LUX, especially those which may involve reputational risk for the ManCo.

## **8. Approval of and amendments to the Policy**

This Policy will become applicable after initial approval from the CaixaBank AM LUX Conducting Officers and Board of Directors in March 2021.

This Policy will be reviewed biennially and as necessary to adapt its governance to current regulatory requirements and applicable sector recommendations.

Non-significant updates, such as simple typographical or linguistic modifications, may be performed at the discretion of the Management Committee, in the context of the daily business management of the ManCo, with information to the Board of Directors, to ensure the adoption of corrective measures with the necessary responsiveness.

## **9. Publication**

This Policy will be made available publicly on the corporate website of CaixaBank AM LUX ([www.caixabankamlux.com](http://www.caixabankamlux.com)).