BBVA Asset Management

Sustainability-related exclusion policy

Madrid, 30 September 2022

BBVA Asset Management, S.A., S.G.I.I.C.

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1. Introduction and definition

The purpose of the Exclusion Policy (the Policy) is to document a key part of BBVA Asset Management & Global Wealth's (BBVA AM &GW) sustainability strategy. This strategy consists of four main pillars: exclusions in the investment universe, integration of risks and sustainability factors in the decision-making process, exercise of voting rights and commitment, and sustainability impact.

BBVA AM&GW is the unit of the BBVA Group that encompasses all asset management activities carried out through the collective investment institutions and pension funds managers present in different geographical areas.

BBVA AM&GW's investments in Europe are currently managed by BBVA Asset Management, S.A., S.G.I.I.C. (the Management Company). The Management Company is responsible for managing the investments of collective investment schemes domiciled in different European geographies (Spain, Luxembourg, and Portugal), private equity entities, and other vehicles and portfolios through the discretionary management service (pension funds, voluntary social security entities, insurance portfolios, etc.).

The Policy applies to the direct investment of the Management Company's own portfolio and of all vehicles and portfolios entrusted to the management.

In doing so, it includes all the particularities, regulations and characteristics of the specific products under management. In addition, it benefits from the analysis and coordination work of the BBVA AM&GW Sustainability Governance Group (GGS), and from the strategic positioning of the Group as a whole with respect to Sustainability.

It is available for information and consultation on the web page (www.bbvaassetmanagement.com).

Exclusions of various types and scope have been defined. Exclusions are made on the basis of non-compliance with international standards and regulations on environmental, social and governance aspects; exclusions of certain economic activities such as controversial weapons, tobacco, alcohol and gambling; exclusions specific to and from certain regions; exclusions based on specific exclusion criteria regulated for EU climate funds.

Exclusions can have a different scope: universal exclusions that apply to all funds and some additional exclusions that apply only to certain funds, with a specific sustainability component in their definition, and that may even appear in the public legal documentation of these products.

For an introductory overview of the typology and scope, see the table below:

	International Standards					Regions (+issuers)		Economic Activities					
	UN Global Compact	OECD Guidelines	ILO	UNGP BHR	International Bill HR	AML + Sanctions	Weapons embargo	Controversial weapons	Carbon+ No conventional Oil&Gas	Tobacco	Alcohol	Gambling	Other
Article 6 funds (General range)													
All the funds	x	x	x	x	x	x	x	x	x				
Article 8 funds (ESG promotion)													
Asset Allocation, Fixed Income and Equity active management funds	x	x	x	x	x	x	x	x	x	x			
Article 9 funds (Sustainable)													
Asset Allocation, Fixed Income and Equity active management funds	x	x	x	x	x	x	x	x	x	x	x	x	x

2. Types of exclusions

2.1. Exclusions based on international standards

There are several widely accepted international standards that define the basic principles that companies must adhere to in relation to environmental, social and governance aspects. Failure to comply with any of these standards will result in exclusion from the investor universe of managed products. The international standards that the Management Company takes into account for all its activities are:

- United Nations Global Compact (UNGC)
- OECD Guidelines for Multinational Enterprises
- United Nations Guiding Principles on Business and Human Rights (UNGPs).
- International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work
- International Bill of Human Rights

2.1.1. United Nations Global Compact (UNGC)

The UN Global Compact was launched in July 2000 by UN Secretary-General Kofi Annan to mobilise businesses around the world to align their activities and strategies with ten universal principles in the areas of human rights, labour, environment and anti-corruption.

The aim of the ten principles of the UN Global Compact is for businesses to adopt a principled approach to corporate sustainability, in order to create a positive impact on society. This means that a company operates in a way that fulfils its core responsibilities in each of the four areas.

Companies that incorporate these ten principles into their strategies, policies and procedures and establish a culture of integrity not only fulfil their core responsibility to people and the planet, but also lay the foundation for long-term success and contribute to the goals of the Paris Agreement.

2.1.2. OCDE Guidelines for Multinational Enterprises

These Guidelines are one of the components of the OECD Declaration on International Investment and Multinational Enterprises. OECD governments propose recommendations to multinational enterprises operating or headquartered in OECD member countries.

These are principles and standards of good practise in accordance with applicable legislation and other internationally recognised standards of responsible business conduct. The Guidelines aim to promote companies that make a positive contribution to economic, environmental and social progress in the world, while mitigating the potential negative impacts of their activities. Compliance with the Guidelines by companies is voluntary and not legally binding.

2.1.3. United Nations Guiding Principles on Business and Human Rights (UNGPs)

These 31 principles are the first global standard for preventing and remedying human rights abuses by business. Adopted in 2011, they serve to implement the UN's "Protect, Respect and Remedy" framework.

The state duty to protect against human rights abuses by third parties, including business, through appropriate policies, regulation, and adjudication; Businesses must respect human rights. In addition, mechanisms must be put in place to redress human rights violations committed against victims.

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2.1.4. International Labour Organisation (ILO) Declaration on Fundamental Principles and Rights at Work

This Declaration was adopted in 1998 at the 86th International Labour Conference. In this declaration, the member states of the International Labour Organisation (ILO) undertake to respect and promote the principles and rights set forth in four categories and 8 conventions.

These categories are: freedom of association and the effective recognition of the right to collective bargaining; the abolition of forced or compulsory labour; the abolition of child labour; and the elimination of discrimination in respect of employment and occupation.

2.1.5. International Bill of Human Rights

The International Bill of Human Rights[1] is the set of human rights instruments proclaimed by the United Nations at various times.

- The International Covenant on Civil and Political Rights (ICCPR), adopted by the General Assembly of the United Nations by Resolution 2200A (XXI) of 16 December 1966, entry into force 23 March 1976.
- The International Covenant on Economic, Social and Cultural Rights (ICESCR), adopted by the General Assembly of the United Nations by Resolution 2200A (XXI) of 16 December 1966 and which entered into force on 3 January 1976.
- The relevant optional protocols.
- The Universal Declaration of Human Rights, adopted by the United Nations General Assembly in its Resolution 217 A (III) of 10 December 1948 in Paris.

2.2. Exclusions of economic activities

Additional exclusions of varying scope are established for certain economic activities of companies and issuers. In particular, due to their association with: controversial weapons, tobacco, alcohol, gambling, coal or unconventional oil and gas. In this area, the approach established by BBVA in its internal regulations is used as an additional input for the analyses and conclusions of the Management Company and GGS.

2.2.1. Controversial weapons

The Management Company has established exclusions for all its investment decisions in:

- Companies selling arms to countries or groups subject to United Nations, European Union, or United States arms embargoes.
- Producers of controversial weapons and their key components: anti-personnel mines, biological weapons, chemical weapons, cluster munitions, depleted uranium and white phosphorus munitions and nuclear weapons.
- Companies involved in the production or marketing of nuclear weapons or nuclear weapons components in countries that are not signatories to or non-compliant with the Non-Proliferation Treaty.
- Manufacturers of military assault weapons for civilian use.
- Companies that are not in possession of the relevant export licence.

In defining controversial weapons, the Management Company applies the exclusion criteria defined by BBVA, based on the following international conventions:

- Anti-personnel mines: as defined in the Ottawa Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (1997).
- Biological weapons: as defined in the Convention on the Prohibition of the Development, Production and Stockpiling of Bacteriological (Biological) and Toxin Weapons and on their Destruction (1972).
- Chemical weapons: as defined in the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on their Destruction (1993).
- Cluster munitions: as defined in the Convention on Cluster Munitions (2008) on the Prohibition of the Use, Stockpiling, Production and Transfer of Cluster Munitions.
- Depleted uranium and white phosphorus munitions: as defined by the independent external consultant who prepares defence exclusion lists for BBVA, in the absence of international conventions and legal frameworks governing their use.
- Nuclear weapons: BBVA will not invest in or provide financial services to companies directly involved in the development, manufacture, testing or maintenance of nuclear weapons in countries that are not signatories to the Nuclear Non-Proliferation Treaty (NPT) or in countries that do not comply with this treaty (1968). Nuclear weapons are considered controversial because of their potential impact on civilians and their indiscriminate use, but are not prohibited under international law. The possession, production, proliferation and use of nuclear weapons are strictly regulated and supervised by the NPT.

2.2.2. Coal and non-convencional oil and gas

The process of extracting, processing, refining and distributing these fossil fuels is associated with significant environmental and climate impacts, according to scientific evidence and the position of key international organisations. Companies whose share of total activity exceeds 25% in the case of coal and 10% in the case of oil and gas exploration, transportation and production in the Arctic and in the case of oil sands.

2.2.3. Tobacco

Tobacco is a controversial product because, according to scientific evidence and the position of key international bodies, it can cause health damage and problems in society. Companies that produce tobacco are excluded from some sustainable funds.

2.2.4. Alcohol

Alcohol is a controversial product because, according to scientific evidence and the position of the main international organisations, it can cause damage to health, an increase in road accidents and other negative effects on society. Companies that produce alcohol are excluded from some sustainable funds.

2.2.5. Gambling

Gambling is a controversial activity as it can have a negative impact on society, according to scientific evidence and the position of the main international organisations. Companies directly linked to gambling are excluded from some sustainable funds.

2.3. Geographical exclusions

The Management Company apply another group of exclusions that typically have a distinct geographic and jurisdictional allocation or are associated with certain criminal activities.

Thus, aspects related to the prevention of money laundering and tax evasion, the financing of terrorism, war and other criminal activities (drug trafficking, human trafficking, genocide, etc.) are taken into account. The exclusions may apply to all issuers and institutions originating, domiciled or operating in a state or jurisdiction, or they may apply to specific issuers, companies, activities, entities or to specific persons.

These exclusions are based on applicable international rules on the above matters, including sanctions imposed by supranational bodies or treaties of the European Union, the United States, Spain or other countries.

The exclusions to be implemented by the Management Company will be fully consistent with the implementation that the Group defines in the geography for all its activities and local regulation.

In this regard, BBVA has comprehensive set of rules, regulations and procedures that the Management Company adapts and implements for its activity. This set of rules defines and establishes criteria for analysis, authorisation and exclusion, and determines the specific tasks, measures and controls, as well as responsibilities throughout the organisation.

For further details on all these aspects, we recommend that you consult the specific internal regulations.

2.4. Exclusions for EU climate funds

For the time being, the Management Company has not developed climate funds in line with the Paris Agreement. These funds would have to comply with the exemptions set out in Article 12 of Regulation 2020/1818 of the European Parliament and of the Council on EU climate change transition benchmarks and EU benchmarks aligned with the Paris Agreement (EU CTB /PAB).

This regulation states that administrators of EU benchmark indices aligned with the Paris Agreement must exclude the following companies from these benchmark indices:

- Companies engaged in activities related to controversial weapons.
- Companies engaged in the cultivation and production of tobacco.
- Companies determined by management to be in breach of the UN Global Compact principles or the Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises.
- Companies deriving 1% or more of their revenues from prospecting, mining, extraction, distribution or refining of anthracite, hard coal and lignite.
- Companies deriving 10% or more of their revenues from the exploration for, extraction, distribution or refining of liquid fuels.
- Companies deriving 50% or more of their revenues from the exploration for, extraction, production or distribution of gaseous fuels.
- Companies deriving 50% or more of their revenues from electricity generation with a GHG intensity above 100 g CO_2 e/kWh.

In addition, the managers of these indices shall exclude companies which, in their opinion or that of external data providers, constitute a significant detriment to one or more of the environmental objectives referred to in Article 9 of Regulation (EU) 2020/852.

3. Implementation

The Management Company exclusion policy is in line with that established by the Sustainability Governance Group (GGS), which includes BBVA AM&GW's Control & Compliance, Global Risk, Investments and Global Product. The GGS not only sets the general exclusion policies, but also decides on the procedure for their implementation in the different areas of activity of BBVA AM &GW and monitors their implementation.

The different exclusions are listed in section 2 of the Exclusion Policy: 1) Based on international standards and norms on environmental, social and governance aspects; 2) From certain activities; 3) From geographical areas; 4) From EU climate funds.

These exclusions apply to the direct investments over which the Management Company has decision-making authority, both for its own portfolio and for all the vehicles and portfolios entrusted to it for management. As previously mentioned, the implementation of these exclusions is carried out by differentiating the exclusions according to their scope: some concern all direct investments, others only certain funds, vehicles and portfolios:

- Universal exclusions. Under no circumstances may investments be made in controversial arms companies and in bonds issued by countries subject to an arms embargo. Nor may investments be made in companies that do not respect the principles of the UN Global Compact, the principles of human rights and the principles of labour rights,
- Additional exclusions. These are the remaining exclusions that apply to certain funds, vehicles and portfolios.

Regarding the definition of the exclusions rule, Control & Compliance, Global Risk, Investments and Global Product areas of the Management Company work together to identify and define the exclusions to be implemented, in coordination and coherence with the proposals of the Sustainability Governance Group. The outcome and proposed rule is shared with the rest of the heads of the business lines and the governing bodies of the Management Company.

The definition and subsequent updates of the standard will use information from external providers as well as internal Company information to provide a robust analysis of the investment universe of the companies' funds and particularities.

Once the Policy is approved and in force:

- Control & Compliance and/or Global Risk draw up the exclusion list of the affected companies and communicate this exclusion list to all affected areas.

- Blocking and control mechanisms are put in place in the trading system to prevent managers from investing in the affected companies and issuers for each fund, vehicle and portfolio.

- Control & Compliance is responsible for detecting and monitoring breaches of these exclusion lists.

- If investments are identified in a security that is on the list of exclusions, this will be reported and analysed in conjunction with the other areas: Investments and Global Risk, mainly.

- As a rule, a maximum period of 3 months is set for the sale of the position, except in cases of exclusions arising from international standards and in some cases that may be considered exceptional.

The Management Company expects the companies and issuers in which it invest to respect the principles of the UN Global Compact and the principles of human and labour rights. However, should a portfolio company or issuer fail to comply with any of these principles at the time of issuing or updating the exclusion policy, the Control & Compliance team will inform the other areas concerned and the GGS of the non-compliance.

Within the framework of the Management Company and the GGS, two alternative solutions will be considered: firstly, divestment or secondly, engagement with the company or issuer. Both parties will have to agree on which option is more appropriate in each case:

- In the case of divestment, the maximum period of 3 months to liquidate the position is maintained.

- Otherwise, an engagement process would be initiated with the company to assess the violation.

Engagement with the companies or issuers in which the Management Company invest is another of the four pillars on which the sustainable investment process is based. Generally, the process of engagement with the company can take up to 3 years from the time the breach begins. If the problem has not been resolved by that time, the Management Company will finally liquidate the investment in that company.

Breaches of international standards may also occur at any time after the date of the initial investment in the Company. In this case, the Management Company and the GSS would apply the general procedure described above.

Exclusions are made at the company or issuer level, but may also apply to the parent company that holds a stake of more than 50% in a company to which an exclusion applies. In the case of controversial weapons, companies that hold a controlling position are also excluded.

Due to the lack of decision-making power with regard to the active management or the specific composition of the portfolios or for the purpose of efficient management of the client portfolios with the derivative instruments and indices available and customary in the market, investments in the following companies are not included from this implementation of the exclusions:

- Third-party funds and vehicles.
- Derivatives on financial indices

In addition, the investments made for:

- Passively managed index and exchange-traded funds, with no active management decision-making capacity.
- Vehicles under discretionary management with client mandate, explicit with respect to sustainability positioning and/or exclusions.

If for any reason, specifically and not generally, any of the exclusions set out in this document apply to any of these investments or products outside the scope, it shall be specifically documented.

Change log

V.	Date of change	Approved by	Change summary
1	29/09/2022	BBVA AM, S.A., S.G.I.I.C.'s Board of Directors	Newly created