



Asset Management

Policy to manage the Principal Adverse Impacts at BBVA AM SGIIC

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1. Framework for incorporating sustainability into BBVA AM

BBVA Asset Management, S.A., S.G.I.I.C. ("BBVA AM"), in keeping with the BBVA Group's strategic vision, is committed to sustainable investment and has incorporated sustainability into its investing, risk control and measurement processes and product design.

This incorporation relies on four pillars - the integration of ESG risks, exclusions, commitment and sustainable investments - and is reflected in a series of policies and standards approved by the bank, such as:

- The policy to control and manage risks when integrating ESG into the investment process.

Within this policy, an internal ESG assessment has been developed that measures the risk profile against these variables of the different entities and issuers that are part of the investment universe of the portfolios managed by BBVA AM. As part of this process, criteria are established that exclude investments in issuers with the lowest rating; these criteria can be determined both by the high ESG risks of issuers, and by their involvement in severe controversies.

- Engagement Policy¹, and concerns the monitoring and management of the companies in which it invests (exercise of voting rights, activities for interacting with the companies themselves, other investors, regulators, etc.).
- The Standard on sustainability-related exclusions²

¹ This Policy is available at the following link: https://bbvaassetmanagement.com/wp-content/uploads/sites/2/2021/11/GEST.92.02-Pol%C3%ADtica-de-Implicaci%C3%B3n_nuevo.pdf

² This Standard is available here: <https://bbvaassetmanagement.com/wp-content/uploads/sites/2/2022/10/GEST.89.01-Norma-de-exclusiones-relacionadas-con-la-Sostenibilidad.pdf>

This Standard lays out exclusions in the universe of assets where BBVA AM may invest by identifying violations or breaches of international labor standards or human rights, or involvement in certain economic activities in controversial sectors, or those that are considered harmful from an environmental or social point of view.

As part of its commitments, BBVA AM has also endorsed various international initiatives that promote sustainability, such as the United Nations Principles for Responsible Investment (UNPRI) and the Net Zero Asset Managers (NZAM) initiative³.

Within the framework of this latest initiative, BBVA AM has published its initial commitments to reduce the emissions of its portfolio in 2030, this being the first step towards meeting the objective of decarbonizing the entire portfolio by 2050. A key driver to achieve this objective involves dialogue with the companies and issuers in which it invests, in order to monitor their decarbonization plans and encourage those that do not have such a plan to establish one. All of this thus falls under and is reinforced by the aforementioned Engagement Policy, as well as by the resources and capacities acquired through its membership in investor associations, such as the IIGCC (Institutional Investors Group on Climate Change).

2. Objective and scope of this Standard

This Standard falls within BBVA AM's sustainability framework, as just mentioned. Its purpose is to describe the process, principles and criteria that govern how BBVA AM controls the PAIs of its investment decisions from an environmental, social and governance (ESG) point of view, as these are defined in 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, and its implementing regulation (hereinafter, the "SFDR Regulation").

³ BBVA Asset Management's commitments to the NZAM initiative are available at the following link: <https://www.netzeroassetmanagers.org/signatories/bbva-asset-management/>

3. Managing Principal Adverse Impacts (PAI)

3.1 Management tools

The framework for incorporating sustainability described above offers a series of tools to manage, directly or indirectly, many of the PAIs measured through the indicators regulated by the SFDR Regulation. Specifically:

- Exclusion and sector policy.

These PAIs are managed through exclusion strategies, since they are affected by the exclusions identified in the Regulation on Sustainability-related Exclusions.

- Net Zero Commitment

These PAIs are controlled as part of BBVA AM's actions to comply with its portfolio decarbonization commitments in the scope of the NZAM initiative.

- Integrating sustainability risks

These PAIs are also handled as part of the process to manage sustainability risks defined in the policy to control and manage risks when integrating ESG into the investment process.

It is also important to note that the control and management of PAIs are currently affected by some limitations.

The first one involves indirect investments. In the case of investments implemented through vehicles or funds managed by third parties, although tools are available to calculate the adverse impacts, the nature of these funds and the unavailability of relevant data pertaining to them makes it impossible to apply the same criteria as in a direct investment. Despite this, BBVA AM, as part of the due diligence process it carries out prior to investing in a fund from another entity, is working to incorporate and learn about the PAI management policies of the managers and funds in which it invests. The goal is to conform, as much as possible, with the requirements set up for direct investments when investing in funds of other entities.

Direct investments are not exempt from difficulties in some cases either. Nowadays, there is a wide range of information available for each issuer. Similarly, not all PAI indicators are equally relevant or material to all issuers. All of this means that there are some PAIs that cannot be

effectively controlled through the tools described above, since their short-term management is extremely complicated, and better formulated and more available data is needed from the industry.

As a result, for those PAIs that cannot yet be managed through any of the tools described above, BBVA AM will engage in a monitoring process which will consist of periodically tracking and analyzing the ten companies invested in that contribute the most to these impacts. The evolving risk, the development of BBVA AM's strategy and the improved quality and coverage of the information received may lead to a change in the criteria for managing these adverse impacts in future fiscal years.

Lastly, it should be noted that BBVA AM also has strategies for monitoring and interacting with companies and issuers of assets of managed portfolios, described in its Engagement Policy, which complement the PAI management tools described above.

3.2 Handling of PAIs

As part of the current PAI management process, in addition to the PAI indicators required by the SFDR Regulation (chart 1 in the attached table), two other indicators have been selected from those listed as voluntary in the aforementioned regulation due to their relationship with BBVA AM's sustainability strategy. These indicators are:

- in the environmental field, monitoring companies that have set carbon emissions reduction targets; and
- in the social and governance fields, monitoring the companies' establishment of anti-corruption and bribery policies.

It should also be noted that in the case of indirect investments, although, as mentioned above, the PAIs will not be managed directly, given the information limitations pointed out, we will monitor all the PAIs that are reported by the relevant managers in an analogous fashion to how we manage direct investments to which management strategies are not applied (that is, monitoring of the ten main contributors to each PAI).

The coverage and management specific to each PAI indicator is detailed below:

Cuadro 1
INDICADORES RELACIONADOS CON EL CAMBIO CLIMÁTICO Y OTROS INDICADORES RELACIONADOS CON EL MEDIO AMBIENTE

Indicador de sostenibilidad en relación con incidencias adversas	Parámetro	ESTRATEGIA DE GESTION			Monitorización
		Política de exclusiones y sectorial	Compromiso Net Zero	Integración de riesgos de sostenibilidad	
Emisiones de gases de efecto invernadero (GEI)	1. Emisiones de GEI				
	2. Huella de carbono				
	3. Intensidad de GEI de las empresas en las que se invierte				
	4. Exposición frente a empresas activas en el sector de los combustibles fósiles				
	5. Proporción de producción y consumo de energía no renovable				
	6. Intensidad de consumo de energía por sector de alto impacto climático				
	7. Actividades que afectan negativamente a zonas sensibles en cuanto a la biodiversidad				
Biodiversidad					
Agua	8. Emisiones al agua				
Residuos	9. Ratio de residuos peligrosos y residuos radiactivos				

INDICADORES SOBRE ASUNTOS SOCIALES Y LABORALES, EL RESPETO DE LOS DERECHOS HUMANOS Y LA LUCHA CONTRA LA CORRUPCIÓN

Indicador de sostenibilidad en relación con incidencias adversas	Parámetro	Política de exclusiones y sectorial	Compromiso Net Zero	Integración de riesgos de sostenibilidad	Monitorización
Asuntos sociales y laborales	10. Infracciones de los principios del Pacto Mundial de las Naciones Unidas y de las Líneas Directrices de la Organización de Cooperación y Desarrollo Económicos (OCDE) para Empresas Multinacionales				
	11. Ausencia de procesos y mecanismos de cumplimiento para realizar un seguimiento del cumplimiento de los principios del Pacto Mundial de las Naciones Unidas y de las Líneas Directrices de la OCDE para Empresas Multinacionales				
	12. Brecha salarial entre hombres y mujeres, sin ajustar				
	13. Diversidad de género de la junta directiva				
	14. Exposición a armas controvertidas (minas antipersonas, municiones en racimo, armas químicas y armas biológicas)				

INDICADORES APLICABLES A LAS INVERSIONES EN ENTIDADES SOBERANAS Y SUPRANACIONALES

Indicador de sostenibilidad en relación con incidencias adversas	Parámetro	Política de exclusiones y sectorial	Compromiso Net Zero	Integración de riesgos de sostenibilidad	Monitorización
Medioambientales	15. Intensidad de GEI				
Sociales	16. Países receptores de la inversión sujetos a infracciones sociales				

Cuadro 2
Indicadores relacionados con el cambio climático y otros indicadores relacionados con el medio ambiente adicionales

Indicador de sostenibilidad en relación con incidencias adversas	Parámetro	Política de exclusiones y sectorial	Compromiso Net Zero	Integración de riesgos de sostenibilidad	Monitorización
Emisiones	4. Inversiones en empresas sin iniciativas de reducción de las emisiones de carbono.				

Cuadro 3
Indicadores adicionales sobre asuntos sociales y laborales, el respeto de los derechos humanos, y la lucha contra la corrupción y el soborno

Indicador de sostenibilidad en relación con incidencias adversas	Parámetro	Política de exclusiones y sectorial	Compromiso Net Zero	Integración de riesgos de sostenibilidad	Monitorización
Lucha contra la corrupción y el soborno	15. Ausencia de políticas de lucha contra la corrupción y el soborno				

4. Monitoring the policy

This Standard will be reviewed annually in accordance with the sustainability strategy decided by BBVA AM. The following will be taken into account, among others:

- The prioritization of BBVA AM's sustainability objectives
- The quality of the information used to measure these impacts, as well as the coverage of the information sources for the instruments that are part of the portfolios of the vehicles managed by BBVA AM.

Change control

V.	Modification date	Approved by	Summary of changes
1	13 Dec 2022	BBVA AM SGIIC Board of Directors	Initial issue