Statement on Due Diligence Policies in relation to the Principal Adverse Sustainability Impacts

1. Introduction

One of the main purposes of Santander Asset Management (hereinafter SAM) is to maximize its contribution to sustainable development, promoting the positive impact of its activities and taking into account the objective of always acting in the best interests of customers.

In this context, SAM is aware that certain investment activities may cause adverse impacts on sustainability and seeks to minimize them, whenever possible, through the environmental, social and governance (ESG) integration strategies contained in the SAM policies available on the website www.santanderassetmanagement.com:

- Sustainability Policy: Include the commitment to consider the environmental and social impact of SAM's activity, through the articulation of a series of clear prohibitions and restrictions on the financing of activities that may have a direct environmental and social impact, including the long-term effects of climate change.

- Sustainable and Responsible Investment Policy (hereinafter SRI): Define the principles governing the management of ESG risks in investment decision-making, through the articulation of ESG assessment strategies of the assets in which it invests.

- Engagement Policy: Describe the principles followed by SAM in relation to ESG dialog activities with the companies in which it invests or has an interest to invest, either individually or through collaborative engagement initiatives.

- Voting Policy: Include the ESG principles followed by SAM for the execution of the voting rights of listed companies in which investment vehicles hold open positions.

- Sustainability Risk Integration Procedure: Establish the criteria and procedures to be followed for the identification, evaluation, monitoring and management of ESG risks in the investment analysis and decision-making process and as part of its fiduciary duty.

In addition, SAM also takes into account the guiding principles of corporate defense and human rights policies approved by Santander Group, Adapting its application to the reality of SAM's business and is working on the implementation of the principles related to environmental, social and climate change risk policy.

In addition, SAM respects the best practices contained in the international conventions and protocols, codes of conduct and guidelines applicable in ESG matters and has voluntarily undertaken certain ethical, social, and environmental commitments, which go beyond the legal obligations with its main stakeholders. These include the contribution to the United Nations Sustainable Development Goals (SDGs), the United Nations Responsible Investment Principles (PRI), the Institutional Investors Group on Climate Change (IIGCC) and the Net Zero Asset Managers initiative.

2. Identification of the principal adverse impacts on sustainability

SAM acknowledges that there are different areas where investments can have an adverse impact (e.g. biodiversity, use of natural resources, human rights, labor rights, etc.). However, SAM has prioritized climate change as the most relevant challenge currently due to international consensus on the objectives to be achieved, The greater certainty as to the consequences that would arise in the event of non-compliance with the objectives set out in the Paris Agreement and the greater ability to measure impacts by the existence of commonly accepted metrics.

Based on the positions set out in Santander Group's corporate policies and specific SAM policies, as well as the reference standards that guide its activity described above, Priority is raised on the following indicators of adverse impact on sustainability contained in the technical standards of Regulation 2019/2088 on the disclosure of information on sustainability in the financial services sector:

- Total greenhouse gas (GHG) emissions.
- Carbon footprint.
- Carbon intensity.
- Exposure to companies active in the fossil sector.
- Board gender diversity.
- Violations of the UN Global Compact and the OECD Guidelines.
- Exposure to controversial weapons.

For the rest of the indicators proposed in the technical standards, SAM continues to work on aligning current information with the new regulatory reporting requirements, insofar as issuers of assets in which SAM can invest, publish the information required by this regulation.

For the selected indicators, SAM carries out a comprehensive analysis and monitoring with the aim of detecting and mitigating the principal adverse impacts on sustainability resulting from its activity. This procedure applies to all SAM products that are within the scope of the SRI Policy and is provided to investment teams so that they can be considered as a source of additional information in investment decision-making. For funds with social and/or environmental characteristics and products with a sustainable objective (sustainable and responsible investment products or SRI), the analysis of the principal adverse impacts on sustainability is particularly relevant and constitutes a determining element in investment decisions.

This procedure allows the assessment of the context, relevance and mitigation actions to be taken for each of the monitored indicators. To this end, SAM carries out a measurement and reporting exercise based on the quantification of the indicators described above provided by external data providers.

Subsequently, a contextualization exercise of the indicator is carried out to check whether an impact on sustainability was taking place, analyzing the magnitude and severity of the indicator. To this end, the performance of the indicator is compared to a benchmark selected according to its coverage, sectoral and geographical distribution and best practices in the field of ESG. Where the performance of an adverse impact indicator is not aligned with the benchmark practices, mitigation measures are taken.

3. Stewardship activities: Engagement and voting

SAM tracks the companies in which it invests in to protect the interests of its customers, promote long-term value creation, manage risks, and promote good governance in companies. The company ESG assessment is based on the concept of double materiality and considers the impact of the ESG criteria on investments as well as the impact of investments on sustainability factors. This assessment, which is detailed in the SRI Policy, consists of general analysis criteria - common to all sectors - and specific criteria - depending on the sector and activity - covering all relevant ESG factors belonging to the thematic areas that are fundamental for environmental analysis, social and good governance.

In addition, SAM carries out stewardship activities (voting and engagement) which, as described above, are based on specific policies for that purpose. These activities are key to identifying potential adverse impacts on sustainability, monitoring companies' management of these adverse impacts, as well as establishing escalation processes in the event of an inadequate or insufficient response by companies.

Engagement

Through dialog and involvement with the companies in which SAM invests, SAM seeks a double objective. On the one hand, to understand in depth the companies' business model, their risks and opportunities and, on the other hand, to promote change, so as to improve the strategy, management and reporting of the material ESG aspects for each company, This helps to protect the value of SAM's investments and reduce the adverse impacts of SAM's investments on sustainability factors.

SAM also works with other actors (other managers, investor networks, regulators, etc.), in order to promote sustainable and responsible investment and commitment by the investment community and the companies invested to sound management of the ESG aspects, among which climate change is of particular relevance.

Voting

Sam's voting policy sets out the guidelines to be considered in the voting process at the general shareholders' meetings of the companies in which it invests. The policy is aligned with applicable legislation and voluntary codes that promote best practices and is consistent with the respective objectives of each portfolio. The information needed to decide the vote comes from different sources including internal analysis, and from the use of external proxy advisors which considers the analysis of ESG information in order to be able to incorporate it into voting recommendations based on standards and best practices.

4. Consideration of principal adverse impacts on sustainability in Sustainable and Responsible Investment products

The analysis of principal adverse impacts is particularly relevant in the management of sustainable and responsible investment products, in which this analysis is considered in investment decision-making. In addition to the above, in these SAM products, they monitor these impacts more closely, applying exclusion criteria for certain sectors with the greatest potential to generate them (in addition to the general exclusions that apply to all funds under the Environmental Risk Management policy, Social and Climate Change), as well as assessing and monitoring possible controversies of the companies analyzed that could lead to significant impacts due to non-compliance with internationally recognized standards or regulations.

The exclusion criteria result in lists of prohibited companies, which are regularly updated integrated into our management tools, so that investment in these companies is not allowed. The process is supervised by the compliance teams, ensuring its correct implementation.

The identification of controversies involves the analysis and discussion of controversies in the Investment and Sustainability Committees where the management teams and the SRI team are present. These committees agree on the action plan to be followed, which can range from monitoring through public information sources and data providers to engaging with the company in question. If, after a certain period defined by the committee, the appropriate response is not obtained from the company, escalation processes are carried out and could lead to divestment in the company.

In addition, some of these SRI products apply other strategies that enable managers to have a more complete view of the assets in which to invest and identify differentiators that reflect competitive advantages and prevent potential risks; and, above all, these strategies help to make well-founded investment decisions. Some of these strategies are: Best-in-class strategy, sustainable theme, ESG integration, impact investment, etc.

The measurement of the principal adverse impacts is currently carried out in accordance with its own methodology described above in this statement. SAM is strongly committed to continuing to work in alignment with existing regulations regarding the identification, prioritization, and application of due diligence to minimize the principal adverse impacts of its investments, for all its products. To this end, it continuously monitors regulatory progress, as well as the tools emerging in the market to improve the availability and access to this information, as well as the technical capabilities for integrating it into investment processes.

Asset Management