Statement on the Principal Adverse Impacts of investment decisions on sustainability factors

1. Introduction

One of the main purposes of Santander Asset Management Luxembourg, S.A. (hereinafter SAM) is to seek 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, where possible, through Environmental factor integration strategies, Social and Governance (ESG) policies contained in the SAM policies available on the website www.santanderassetmanagement.lu and in the relevant internal procedures:

- Sustainability Policy: Includes the commitment to consider the environmental and social impact of SAM's activity, through the coordination 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 ISR):** Which defines the principles governing the management of ESG risks in investment decision-making, through the coordination of strategies for the assessment of ESG assets in which it invests.

- **Engagement policy:** Describes 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.

- **Global voting policy:** Includes the principles followed by SAM for the execution of the ESG voting rights of listed companies in which investment vehicles hold open positions.

- **Sustainability Risk Integration Procedure:** Establishing 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.

- **Sustainable Investment Procedure:** Establishing criteria and procedures for considering investments as sustainable.

- **Integration procedure for principal adverse events:** Which includes the methodology for measuring management, control and monitoring of principal adverse events at entity and product level.

In addition, SAM also considers the guiding principles of corporate defense and human rights policies approved by Santander Group. These policies are adapted for application to the SAM business and work is ongoing on the implementation of the principles related to the Environmental, Social and Climate Change Risk Management Policy.

In addition, SAM respects the best practices set out 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 legal obligations with its main stakeholders. These include the contribution to the United Nations Sustainable Development Goals (SDGs), the United Nations Responsible Investment Principles (a PRI), the Institutional Investors Group on Climate Change (IIGCC) and the Net Zero Asset Managers initiative.

2. Identification of the main 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 if the objectives set out in the Paris Agreement were not met and the greater ability to measure impacts by the existence of commonly accepted metrics. Based on this and on the positions contained in Santander Group's corporate policies and specific SAM policies, as well as the reference standards that guide its activity described above, the priority of climate change indicators is raised, in addition to those related to gender diversity in the council, the violation of international standards and the exposure to controversial weapons.

In accordance with the regulatory requirements and the methodology for measuring and managing major adverse events developed by Santander Asset Management, the 18 mandatory indicators of adverse impacts on sustainability, as set out in Table 1 of the Regulatory Technical Standards, are considered (RTS) The European Commission on ESG Disclosure:

1. Indicators applicable to investments in the undertakings in which it is invested

- Total greenhouse gas (GHG) emissions.
- Carbon footprint.
- Carbon intensity.
- Exposure to companies active in the fossil sector.
- Proportion of production and consumption of non-renewable energy
- Energy consumption intensity by high climate impact sector
- Activities adversely affecting biodiversity sensitive areas
- Emissions to water
- Level of hazardous waste and radioactive waste
- Wage gap between men and women, not adjusted
- Gender diversity in the board.
- Violations of the UN Global Compact and the OECD Guidelines.
- Lack of compliance processes and mechanisms to monitor compliance with the principles of the UN Global Compact and the OECD Guidelines for Multinational Enterprises
- Exposure to controversial weapons.

2. Indicators applicable to investments in sovereign and supranational entities

- Carbon intensity of countries receiving the investment
- Number of countries receiving the investment subject to social infringements

3. Indicators applicable to investments in real estate assets

- Exposure to fossil fuels through real estate assets
- Exposure to energy-inefficient real estate assets

In addition, two optional indicators are considered, one related to environmental aspects of Table 2 of Annex I, and the other related to social aspects of Table 3 of Annex I. These indicators are as follows:

- Investments in companies without carbon reduction initiatives
- Number of cases detected of serious human rights problems and incidents.

For the mandatory indicators together with the selected optional indicators, SAM carries out a comprehensive analysis and monitoring with the aim of detecting and mitigating the principal adverse impacts on sustainability arising from its activity, in accordance with a defined internal procedure for this purpose. This procedure applies to all SAM products which are within the scope of the ISR Policy and which indicate this in their pre-contractual information; making it available to investment teams to take it into account as a source of additional information in investment decision-making. This procedure allows the assessment of the context, relevance, and mitigation actions to be taken for each of the 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. The Management Company is currently working with limited availability and data quality for indicators. For this reason, it carries out a regular analysis of data coverage and quality, through collaboration with data issuers and providers.

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 ESG criteria on investments as well as the impact of investments on sustainability factors. This assessment, which is detailed in the ISR Policy, consists of general analysis criteria -homogeneous for all sectors- and specific criteria -depending on the sector and activity- covering all relevant ESG factors belonging to the thematic areas that are 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 to reduce the adverse impacts of SAM´s investments on sustainability factors.

SAM also works with other actors (other managers, investor networks, regulators, etc.), 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 importance.

Vote

Sam's voting policy sets out the guidelines to be considered in the voting process at the 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.

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