

## Due Diligence Policy Statement in relation to Principal Adverse Impacts on sustainability factors

### 1. Introduction

As part of its commitment to moving towards a sustainable economy and in keeping with the mission and values of the CaixaBank Group (hereinafter referred to as the “Group”), CaixaBank Wealth Management Luxembourg, S.A. (hereinafter “CWML”) has developed a comprehensive framework for sustainable investment that is applicable to the provision of investment advice and discretionary portfolio management services.

This sustainable investment framework is based on two main cornerstones:

- The incorporation of environmental, social and corporate governance (hereinafter ESG”) factors alongside traditional financial criteria in investment decision-making and analysis in relation to investment advice and discretionary portfolio management services.

ESG factors can be defined as follows:

- Environmental: Factors relating to the quality and functioning of the environment and natural systems, such as air, water and soil quality, carbon and climate, ecology and biodiversity, CO<sub>2</sub> emissions and climate change, energy efficiency, natural resource constraints and waste management.
  - Social: Factors relating to the rights, wellbeing and interests of people and communities, such as human rights, labour conditions and standards, education, gender equality and the prohibition of child and forced labour.
  - Governance: Factors relating to the governance of companies and other organisations in which investments are made, such as board independence and oversight, best practices and transparency, remuneration of senior management, shareholder rights, management structure and anti-corruption and insider trading measures.
- Long-term involvement in investee companies through active voting shares (or “proxy voting”) and open dialogue with listed companies (known as “engagement”). These actions are delegated to CaixaBank Asset Management S.G.I.I.C., S.A.U. (hereinafter “CaixaBank AM”) as the Group company responsible for managing the assets marketed by CWML.

CWML therefore satisfies these two ESG pillars in the provision of investment advice and discretionary portfolio management services on the basis of the integration and involvement of the Group.

The implementation of this model is considered to have a positive effect on companies' long-term results and to contribute to greater economic, social and environmentally sustainable progress.

## 1.1 Context of this Statement

CWML has adhered to the Principles for Responsible Banking of the United Nations Environment Programme Finance Initiative (UNEP FI) since 2019 and to the United Nations Global Compact since 2012.

In addition, the Group already takes ESG factors into account, using the criteria of the PRI (“Principles for Responsible Investment” endorsed by the United Nations), to which CaixaBank AM has adhered since 2016, as a demonstration of its commitment to sustainability and to integrate these principles into their asset management. These principles were the main guideline in the development of their sustainable investment model.

When providing advice, analysing and managing investments, CWML takes into consideration the various policies adopted by the Group in this regard, such as the Environmental Risk Management Policy, the Anti-Corruption Policy and the Corporate Human Rights Policy. The latter sets out the Group’s commitment to uphold the following:

- The United Nations International Bill of Human Rights, which includes:
  - The Universal Declaration of Human Rights.
  - The International Covenant on Civil and Political Rights.
  - International Covenant on Economic, Social and Cultural Rights.
- The ILO Declaration on Fundamental Principles and Rights at Work and the eight core conventions identified therein.
- The Charter of Fundamental Rights of the European Union.

Moreover, CWML has undertaken a commitment to perform its business in strict compliance with the applicable regulations and in accordance with the highest standards of ethics and professional conduct. These include:

- The United Nations Guiding Principles on Business and Human Rights;
- The OECD Guidelines for Multinational Enterprises;
- The United Nations Women's Empowerment Principles;
- The Equator Principles;
- The United Nations Environment Programme Finance Initiative's Principles for Responsible Banking (UNEP FI).

Lastly, the Group believes it is essential to accelerate the transition to a low-carbon economy that promotes sustainable development and is socially inclusive. To this end, the Group takes into account the goals of the Paris Agreement (COP21) and the United Nations Sustainable Development Goals (SDGs).

## 1.2 Purpose of this Statement

CWML has undertaken to be transparent and to disclose information on the procedures, results and plans relating to the due diligence procedures it has implemented in relation to the provision of investment advice and the Group companies in relation to asset management.

Article 4 of Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector (hereinafter the “Sustainable Finance Disclosure Regulation”) sets out the obligation to report on due diligence policies in relation to such adverse impacts, which is fulfilled through this Statement.

### 1.3 What does ESG integration involve?

This comprehensive framework includes the so-called “ESG integration”, which involves the explicit and systematic inclusion of ESG considerations in investment analysis, in the provision of investment advice and in the investment decision-making carried out by CaixaBank AM as part of the discretionary portfolio management delegated by CWML.

In this respect, financial advisors and investment managers must consider sustainability risks and the implications of adverse sustainability impacts on their investment processes, as defined below:

- **Sustainability risk** means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment<sup>1</sup>.
- **Principal adverse impacts** are understood as impacts of investment decisions and advice that may have negative effects on sustainability factors<sup>2</sup>.

ESG integration is intended to mitigate the effects of both sustainability risks and principal adverse impacts without compromising profitability. For customers, ESG integration should result in a better risk-adjusted outcome and greater control over the impact of their investments on ESG factors.

OECD Due Diligence Guidance for Responsible Business Conduct<sup>3</sup> recommends that companies carry out risk-based due diligence to avoid and address these negative impacts that are associated with investment decision-making in the provision of advice and discretionary portfolio management services.

In this respect, the Group has put in place risk-based due diligence processes to identify, prevent, mitigate and explain how these negative impacts are addressed.

CWML is therefore able to avoid adverse impacts and promote change through the dialogue and active voting policies implemented by CaixaBank AM (except for discretionary portfolio management, to which the Voting Policy is not applicable) and through the offering of financial products and assets managed by the Group companies.

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<sup>1</sup> As set out 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.

<sup>2</sup> As set out in the EBA Discussion Paper of 30 October 2020 on management and supervision of ESG risks for credit institutions and investment firms (EBA/DP/2020/03).

<sup>3</sup> <https://mneguidelines.oecd.org/Guia-de-la-OCDE-de-debida-diligencia-para-una-conducta-empresarial-responsable.pdf>

## 2. The Due Diligence Process

Due diligence serves to anticipate, prevent or mitigate adverse impacts. In some cases, due diligence may help to decide whether to continue or discontinue activities or investments as a last resort, either because there is too high a risk of negative impact or because efforts to mitigate it have been unsuccessful.

Taking into account that due diligence must be proportional to the risk and adjusted to the circumstances and context of a specific company, both in advice processes and in the investment decision-making processes performed by CaixaBank AM, the following principles are applied:

- Identify actual or potential negative impacts;
- Take measures to stop, prevent or mitigate these negative impacts;
- Monitor the implementation and outcomes of these measures;
- Report on how principal adverse impacts are dealt with.

CaixaBank AM has implemented a specific procedure to appropriately monitor compliance with these principles on a regular basis. In practice, the due diligence process is ongoing, iterative and not necessarily sequential, since several stages may take place simultaneously with results feeding back into each other.

## 3. How are Principal Adverse Impacts identified?

The process of identifying principal adverse events is directly linked to the investment decision-making process performed by CaixaBank AM as the company in charge of managing the assets distributed or marketed by CWML.

The first step is to identify the relevant sustainability factors in a given area, industry, sector or company.

To do so, in some cases, the Group entities use different materiality analyses from benchmark organisations and may be assisted by ESG analysis providers hired for this purpose along with public sources of information.

On this basis, material indicators are identified and integrated in the process of building and managing the different portfolios through the selection and allocation of the different assets in accordance with the procedures implemented by the Group.

Moreover, the Group companies will analyse the adverse sustainability impacts of the investments made in the different portfolios, publishing the indicators of the Principal Adverse Impacts considered ("PAIs") following the format and content required by the regulations applicable from time to time<sup>4</sup>, and applying the due diligence procedures described above.

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<sup>4</sup> Version published at the date of issue of this Statement in draft form: *ESG disclosures - Regulatory technical standards with regard to the content, methodologies and presentation of disclosures pursuant to Article 2a, 4(6) and (7), Article 8(3), Article 9(5), Article 10(2) and Article 11(4) of Regulation (EU) 2019/2088.*

CWML will monitor the actual and potential negative impacts identified and adopt the necessary measures which, where appropriate, will be assigned a priority when it is not possible to immediately address all the impacts.

As regards the advisory process, these measures may include not recommending a specific asset, and as regards the discretionary portfolio management process, these measures may include divesting, reducing exposure or placing it under observation pursuant to the procedures implemented by CaixaBank AM for portfolio management.

## **4. Engagement policies**

### **4.1 Dialogue policy**

As a credit institution providing discretionary portfolio management services, CWML relies on the engagement mechanisms implemented by CaixaBank AM as the management company to which CWML has delegated the provision of this investment service to its customers.

In this regard, in keeping with its fiduciary duties and with the aim of being an active owner of the investments it makes, CaixaBank AM puts in place mechanisms to initiate dialogue actions with a view to altering any possible conduct identified that:

- May be contrary to the values of CWML or of the investors and shareholders of the portfolios it manages.
- Allow for alignment with the strategic opportunities and risks identified by CaixaBank AM and the Group, such as climate change, the goals of the Paris Agreement through its support for the TFCF and the Sustainable Development Goals (SDGs).
- May have a negative impact on society, the environment, or the reputation or solvency of CaixaBank AM or CWML.

CaixaBank AM can initiate dialogue directly with the companies comprising its clients' portfolios, in collaboration with other investors, or through a third party acting on its behalf.

In the case of discussions with public or private companies or issuers of financial products, when deemed appropriate and with due regard for CaixaBank AM's independence and interest at all times, collaborative actions may be prioritised in order to achieve a greater impact on changing company conduct.

Lastly, if, as a result of a dialogue with a company, the outcome is not conducive to the aim of the dialogue, CaixaBank AM may use its vote at the General Shareholders' Meeting as an opposition mechanism pursuant to the voting mechanisms and the exercise of political rights set out in its own Voting Policy.

### **4.2 Voting policy**

In addition to the above (Section 4.1.), CaixaBank AM has implemented a Voting Policy under which it will exercise its voting rights by assessing the medium and long-term performance of the companies in which it invests, bearing in mind environmental (e.g. pollution, sustainable use of resources, climate change and biodiversity protection), social (e.g. gender equality) and governance (e.g. remuneration policies) matters.

Therefore, CaixaBank AM directly exercises the attendance and voting rights of listed securities whenever a customer has instructed it to do so, or by delegation to another shareholder, in which case it will be mandatory to vote as instructed in the delegation and previously decided by CaixaBank AM.

CaixaBank AM exercises these rights in a diligent manner for the exclusive benefit and in the interest of CWML's customers, taking into account the nature of each of the company resolutions submitted for consideration by the General Shareholders' Meeting and based on publicly available information or information that has been made available to shareholders in connection with the General Shareholders' Meeting.

In any case, the decision regarding how to vote will be taken with complete independence and objectivity with respect to the other Group companies.