

ANNUAL REPORT

Engagement policy

2022



Best Sustainability team
in asset management
nationwide



Principles for
Responsible
Investment

Signatory
of UNPRI



Signatory of The Net
Zero Asset Managers



Best Short-Term Fixed
Income Pension Plan

Engagement Policy Annual Report

The Engagement Policy is one of the cornerstones of BBVA Asset Management's (BBVA AM) sustainability strategy.

BBVA AM is the unit of the BBVA Group that is responsible for the Group's asset management activities, which it does through collective investment institutions and pension fund managers located in various places.

Currently, the investments of the BBVA AM Europe unit are managed by BBVA Asset Management, S.A., S.G.1.1.C. (the Management Company). The Management Company is responsible for handling the investments of collective investment institutions located in different European countries (Spain, Luxembourg, etc.), of venture capital entities and other instruments and portfolios through its discretionary management service (pension funds, voluntary social welfare entities, insurance portfolios, etc.).

The Engagement Policy in this area is developed by the Management Company and is available free of charge on its website (www.bbvaassetmanagement.com). It applies to the portfolio of the Management Company and to all those instruments and portfolios that are handled by it, except for those instruments or customers that, as an exception, have decided to retain voting rights and to carry out of their own accord any engagement activities, or local entities that, due to regulatory requirements, have their own policy.

The most significant actions carried out in 2022 in application of the Engagement Policy are as follows:

BBVA AM's endorsement of Sustainability commitments

BBVA AM has adopted the following international agreements or principles in 2022:

1. Institutional Investors Group on Climate Change (IIGCC)

IIGCC is the benchmark European body for partnership between investors in the field of climate change. Its members can be both asset owners and managers, so many of the largest institutional investors and managers of global and European assets are involved.

Its mission is to provide support and encourage investments to contribute in a real and significant way to achieving the 2050 goals of the Net Zero signatories, as well as a resilient future. This must be attained through the proper allocation of capital, good governance and an efficient commitment to companies, governments and other investors. Therefore, by joining IIGCC, BBVA AM is making progress in fulfilling the commitments it acquired as part of the Net Zero Asset Managers initiative.

Other International Commitments

1. United Nations Global Compact (UNGC)

BBVA AM is committed to the United Nations principles set out in the Global Compact. These ten principles focus on the defense of human rights, work, the environment and the fight against corruption. As part of its exclusions standard, the Management Company does not invest in companies that do not adhere to these principles.

2. United Nations Sustainable Development Goals (SDG)

BBVA AM works to promote the development of the Sustainable Development Goals set by the United Nations.

Through the Call for Solidarity of the BBVA Futuro ISR investment fund, the Management Company donated one million euros in 2022 to implement several charity projects throughout Spain. The projects fall within three areas of activity: social inclusion, health, the elderly and dependency, and the environment. These projects foster the achievement primarily of SDG 1 (no poverty), SDG 2 (zero hunger), SDG 3 (good health and well-being), SDG 4 (quality education), SDG 6 (clean water and sanitation), SDG 7 (affordable and clean energy), SDG 10 (reduced inequalities), SDG 13 (climate action), SDG 14 (life below water) and SDG 15 (life on land).

3. United Nations Principles for Responsible Investment (UN PRI)¹

The UN PRI is an international network of investors backed by the United Nations that work together to implement six Principles for Responsible Investment:

¹ <https://www.unpri.org/>

PRINCIPLE 1

Incorporate ESG (environmental, social and governance) issues into investment analysis and decision-making processes.

PRINCIPLE 2

Be active owners and incorporate ESG issues into our ownership policies and practices.

PRINCIPLE 3

Seek appropriate disclosure on ESG issues by the entities in which we invest.

PRINCIPLE 4

Promote acceptance and implementation of the Principles within the investment industry.

PRINCIPLE 5

Work together to enhance our effectiveness in implementing the Principles.

PRINCIPLE 6

Report on our activities and progress towards implementing the Principles.

The Principles for Responsible Investment were developed in 2006 by an international group of institutional investors to reflect the growing importance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General. By implementing these principles, the signers contribute to the development of a more sustainable global financial system. There are currently 5,179 signatories, with a total of 121 trillion dollars under management.

The BBVA AM unit has supported the UN PRI since early 2008, through Gestión de Previsión y Pensiones EGFP, S.A (GPP), the management company of occupational pension funds. In 2021, BBVA AM joined, which extended its application to the rest of the vehicles and portfolios it manages.

The Management Company, as a manager of institutional investments, publicly undertakes to adopt and implement the Principles to the extent that they are consistent with its fiduciary responsibilities. It also has to assess their effectiveness and help improve the content of the Principles over time. All of this will result in better alignment between the investments managed by the Management Company and the broader interests of society.

4. Net Zero Asset Managers²

The Net Zero Asset Managers initiative is an international group of asset managers committed to supporting the goal of net zero greenhouse gas emissions by 2050 or earlier, in line with global efforts to limit global warming to 1.5 degrees Celsius above pre-industrial levels, as well as investments consistent with this target.

There are currently 291 signatory asset managers that manage more than 66 trillion dollars.

BBVA AM joined this initiative in 2021, which entailed its public commitment to mark the path toward decarbonizing the portfolios of the instruments it manages, and requiring it to set intermediate targets to achieve zero emissions by 2050. It has also undertaken to actively monitor compliance with these objectives.

In 2022, BBVA AM made public the objectives set for 2030, which involve a 50% reduction in emissions associated with investments in equities and corporate fixed-income assets of the portfolios of vehicles domiciled in Europe and Mexico, as well as the improvement of the Climate Change Performance Index of the developed countries in which these portfolios have public debt investments. To do this, different levers have been set, from investments focused more on assets with lower emissions or investments in companies with a significant focus on the energy transition, to a responsible and active commitment to decarbonize companies that are currently the biggest emitters of CO₂.

Monitoring investments and corporate relations

The Management Company oversees the companies in which it invests to make sure they create long-term value for its investors and stakeholders and act in the interest of shareholders. This supervision involves regular monitoring of various indicators and metrics that not only include economic-financial aspects, but also environmental, social and corporate governance elements.

Any changes in the ESG rating of the companies are continuously monitored, as are any severe controversies involving any social, environmental, or governance aspects, and those with the worst ratings cannot be invested in. If either of these two variables were to significantly worsen, the Management Company would consider the possibility of incentivizing the company to improve these aspects, or potentially divest from it. Similarly, it can also engage in dialogue with companies that, while having a sufficient sustainability rating or exhibiting no significant controversies, it believes can improve certain environmental, social or good governance aspects.

² <https://www.netzeroassetmangers.org/>

As a result of the foregoing, meetings were held with some companies to gain direct information on relevant aspects of their business strategy, financial and sustainability aspects, and to try to maintain a dialogue that motivates them to improve those aspects of their activity that the Management Company thinks may be most controversial. These meetings also served in many cases to achieve a better understanding of the sustainable risks associated with the managed portfolios. In this sense, we were in communication with the sustainability managers in some companies, analysts of external suppliers of ESG information, and outside analysts specialized in them to understand their vision of the sustainability aspects. Some examples of this activity are shown below.

Company	Topics covered
Volkswagen	Labor relations in production plants
Glencore	Working conditions in mined Relations with local communities

Dialogue and engagement with other shareholders and stakeholders

The Management Company's intervention has focused primarily on regulatory aspects, the media and training activities.

The Management Company usually takes a very active role within the financial industry, both during regulatory processes and through dialogue with supervisors, which sometimes includes lobbying for legislative initiatives.

In 2022, it took part in numerous forums, including INVERCO (Spanish Association of Collective Investment Institutions and Pension Funds), ALFI (Association of the Luxembourg Fund Industry), ASCRI (Spanish Association of Capital, Growth and Investment), where it promoted the best market practices on behalf of its investors (including, especially, with regard to sustainability). It has also contributed to the debate around the upcoming code of best practices for institutional investors, asset managers and voting advisers promoted by Spain's National Securities Market Commission (CNMV).

This year was once again key in the roll-out of the European Commission's action plan on sustainable finance. In particular, over the course of 2022, financial institutions were forced to integrate sustainability into their corporate governance and risk management. Those institutions had to add customers' sustainability preferences when assessing the suitability of offering them discretionary portfolio management or consulting services.

This, in addition to the approval of technical standards that complement Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services, has contributed to a greater development of financial products with a sustainable bias and to improving information on their environmental, social and good governance aspects. However, the financial industry is still facing significant obstacles to the full development of sustainable products, such as a lack of quality data on sustainability issues and the delay in expanding the EU taxonomy.

Against this backdrop, the Management Company has taken part in numerous forums and surveys administered by the media, most notably MSCI, European Financial Planning Association (EPFA), Mercer, Spain Nab, Funds People, etc. In all of them, the Management Company has expressed its belief in the importance of the financial sector as a facilitator of the transition towards a more sustainable economy, and the need for additional regulatory developments regarding the requirements needed to launch sustainable products. It has also upheld the view that information on sustainability that is disclosed should be as complete, clear and precise as possible, with a prudent view in the application of standards that are not yet fully developed, so as to avoid the confusion that this can cause customers when it comes to investing their savings (i.e. trying to prevent the eventual greenwashing of savings, which would have an opposite effect on the ultimate goal of the regulation).

To supplement the above, in 2022, BBVA AM also contributed to the promotion and implementation of sustainability among various agents of society through training actions, most notably the following:

- In the Financial Education section of its website, BBVA AM provides information on sustainability issues to all investors. In 2022, 14 articles were published, equivalent to 3 hours of training in EPFA/CFA.
- In 2022, 8 training courses were given to BBVA Group employees, and specifically to the commercial network, on sustainability. They dealt with the following topics: Regulatory obligations, new developments in responsible and sustainable investment and how sustainability is integrated into the customer suitability tests. Training was also provided to all of the Management Company's investment teams, in which topics related to the integration into the investment process of the cornerstones of BBVA AM sustainability and the climate strategy were discussed. Finally, 5 training sessions were held for private bankers from the different geographical areas in which the BBVA Group operates. They were given an introduction to regulation, taught about types of sustainable investments and how to adapt products and customer preferences to sustainability factors.

- We collaborated with Spainsif and Pictet in a course aimed at the general public on the main concepts of sustainable investment to share knowledge and its application in private investments.
- Two articles, one podcast and two interviews were published in the media on topics specifically related to sustainability.
- We participated in the CNMV's Sustainable Finance Workshop and in the workshop organized by Women Action Sustainability to present its Sustainable Finance as a Fuel for Action report, which we collaborated on.
- In 2022, 39 international SDG certificates were obtained by BBVA AM employees, bringing the total number of people in the Management Company who now have a prestigious SDG certificate to 71.

Exercising the right to vote

The Management Company exercises voting and attendance rights on behalf of the vehicles and portfolios it manages, provided that these rights have been delegated to it, in the cases described in its Engagement Policy:

- When required by the applicable regulations.
- When the company is based in Spain and the payment of an attendance premium is expected.
- When, with all the vehicles and portfolios represented by the Management Company, a 1% stake in the company's share capital is exceeded.
- For companies that are part of the Ibex 35.

In addition, the Management Company estimated in 2022 that the exercise of these rights was also relevant in the following cases:

- The main European and North American companies for which it has more than 0.04% of voting rights for all delegated vehicles.
- Other companies in which a total investment of more than 73 million euros was held in all delegated vehicles, and which were not in the cases described in the Engagement Policy or in the above case.

- Companies that are strategic for their sector and activity from a sustainable point of view.

In application of the aforementioned criteria, with data on consolidated rights from 27 December 2021, the Management Company initially chose 250 companies to exercise its voting rights (52 Spanish, 171 European and 27 North American), which account for more than 70% of the Management Company's voting rights. During the year, this list was expanded to 20 additional companies, all European, either due to an increase in the relevant positions or due to being newly acquired during the year, in compliance with the requirements described above, or because they are companies that operate in an industry that is key in the energy transition.

To exercise its political rights, the Management Company relied on the opinion of **an independent voting adviser: Institutional Shareholder Services Europe S.A. (ISS)**. This company specializes in providing responsible investment solutions and advice on Corporate Governance issues. The services contracted consist of issuing reports and advising on how to vote on the different items on the agenda at shareholder meetings.

In 2022, improvements were also made to the internal voting procedures and internal flows of the Management Company.

The Management Company has always voted in the exclusive interest of the owners and/or shareholders of the vehicles and portfolios represented. In this regard, the Management Company views as significant those votes cast in relation to the particularly relevant issues described in its Engagement Policy (with the others, therefore, being not significant), to which the criteria described below were applied:

1. The annual financial statements were approved when they were endorsed by an independent audit report without qualifications (or with qualifications, if an analysis determined that they were not significant)
2. It voted in favor of appointing and renewing the company's auditors unless special circumstances occurred that advised against it.
3. It voted in the most favorable way for the vehicles and portfolios represented in the proposals that had an immediate impact on the value of the company's securities (such as mergers, acquisitions, capital increases, issue or exchange of convertible bonds, etc.).
4. It voted in the most favorable way for the vehicles and portfolios represented in the event of modifications to the articles of association or to the regulations of the General Shareholders' Meeting.

5. It voted in favor of renewing or modifying the structure of the board of directors provided there was separation between the CEO and the Chairman of the Board, or a minimum percentage of independent directors. Turnover and diversity on the Board were also seen as positives.
6. It voted in favor of the remuneration policy for directors in those cases where there was transparency in the process and the directors' objectives were determined by the company's performance and the shareholders' objectives.
7. It voted in the most favorable way for the vehicles and portfolios represented in the proposals involving changes to the capital structure and financing of the company (issues of preferred shares, debt issues, treasury stock, capital increases without preferred subscription rights, etc.).
8. It voted in favor of social and environmental proposals for which there was sufficient information and transparency, and that were in keeping with the relevant regulation in the company's region of operation.

The Management Company did not follow the recommendation of the external adviser on those agenda items that went against the CNMV's Code of Good Governance in the case of Spanish companies. Specifically, it voted in favor of items involving capital increases without preferred subscription of shares up to 20% of the capital, which is the limit set by the aforementioned Code, while the external adviser had set a limit of 10%.

A breakdown of the items voted on in 2022 is as follows:

Votes	In favor	Against	Abstentions	Total
Points	39,983	3,086	281	43,350
Percentage	92%	7%	1%	100%

Details of the aspects in which a no vote was cast:

Points voted against	Executive Remuneration	Financial Operations	Election of Board Members	Approval of Accounts	Other Resolutions	Total
Points	1,231	447	805	3	600	3,086
Percentage	40%	14%	26%	0%	19%	100%

The Management Agency invests in investment vehicles of third-party managers. The sustainability policy and engagement of these management agencies is monitored by Quality Funds, the BBVA Department specializing in international funds).

At the end of 2022, 95% of the equity collective investment institutions that had investments exercised the right to vote in the investee companies, and had an active commitment policy with respect to said companies.