

Annual Report Engagement Policy

Fiscal year 2021



Mejor Estrategia de Sostenibilidad Global
Capital Finance International (CFI) 2022



Firmante de los Principios de Inversión
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Firmante
The Net Zero Asset Managers



Annual Report on the Engagement Policy

The Engagement Policy is one of the pillars on which the sustainability strategy of BBVA Asset Management (BBVA AM) is based.

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.I.I.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 field 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 the Management Company, 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 2021 in application of the Engagement Policy are as follows:

1. United Nations Principles for Responsible Investment (UN PRI)¹¹

The Management Company has adopted the following international agreements or principles:

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

- **Principle 1:** Incorporate ESG (environmental, social and governance) criteria into investment analysis and decision-making processes.
- **Principle 2:** Be active owners and incorporate ESG issues into 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.

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 more than 4,375 signatories, with a total of 121 trillion dollars under management.

By adhering to these Principles, the Management Company, as a manager of institutional investments, publicly undertakes to adopt and implement them to the extent that they are consistent with its fiduciary responsibilities. The Management Company also acquires the commitment to assess the effectiveness and contribute to the improvement of 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.

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. Thus, the Management Company, as a delegate of GPP in the management of pension fund investments, has already complied with these Principles for said vehicles. The new firm has involved extending this commitment to all the vehicles and portfolios managed by the Management Company.

¹¹ <https://www.unpri.org/>

2. 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, as well as investments consistent with this target.

There are currently 220 signatory asset managers that manage more than 57 trillion dollars.

By signing this initiative, the Management Company publicly undertakes to mark the path toward decarbonizing the portfolios of the instruments it manages, and must set intermediate targets to achieve zero emissions by 2050. It also undertakes to actively monitor compliance with these objectives.

² <https://www.netzeroassetmanagers.org/#>

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. 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 Sostenible ISR investment fund, the Management Company donated one million euros in 2021 to implement 23 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 (end 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) and SDG 15 (life on land).

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, socio-environmental and corporate governance elements.

To do this, the changes in the ESG rating of the companies are continuously monitored, as well as if they have had any severe controversy involving any ESG aspects. 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 ESG aspects.

As a result of the foregoing, meetings have been 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 we think may be most controversial. These include:

Company	Issues discussed
Gestamp Automoción SA	<ol style="list-style-type: none"> 1. Clarification on the organization and independence of the company's governing bodies. 2. Provide an option for electronic voting
Telefónica SA	<ol style="list-style-type: none"> 1. Understand its sustainability pillars and objectives 2. Provide an option for electronic voting 3. Sustainable information reported to external rating providers
JDE Peet's NV	<ol style="list-style-type: none"> 1. Learn about the company's approach to ESG 2. Analyze the policies to improve environmental issues 3. Learn the details and degree of discretion in the granting of long-term incentive plans to management.

Analysis of companies in which very severe controversies have been detected

In the specific case of companies with very severe controversies, and in an effort to better understand the risks they pose to our portfolios, we have maintained communication with analysts of external suppliers of ESG information in order to understand their analysis and vision of highly controversial aspects involving said companies.

Company	Issues discussed
Bayer AG	<ol style="list-style-type: none"> 1. Analyze the sustainability policy and actions taken to improve the environmental impact caused by genetically modified crops
Royal Dutch Shell PLC	<ol style="list-style-type: none"> 1. Analyze how new environmental commitments will affect its approach to sustainability 2. If measures are being taken to avoid the environmental impact of past spills
Walmart Inc.	<ol style="list-style-type: none"> 1. Analyze whether the company is taking measures to improve the working conditions of its employees 2. Analyze what is being done to improve diversity among employees
Wells Fargo & Company	<ol style="list-style-type: none"> 1. Analyze the measures taken to prevent cases of corruption among employees 2. Analyze the controls incorporated to improve the security of customers' private data

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 2021, 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 also stood out in 2021 as a crucial part in the implementation of the European Commission's Sustainable Finance Action Plan, thanks, among others, to the following milestones: the entry into force on March 10 of the first reporting obligations of Regulation (EU) 2019/2088 (Disclosure Regulation); the approval of amendments to European MIFID II regulations, distribution of insurance, UCITS and alternative investment funds to integrate sustainability factors into the governance of companies and their products; the approval of the first implementations of Regulation (EU) 2020/852 (Regulation on Taxonomy) on climate taxonomy; etc. However, the financial industry still faces the challenges posed by the delays in essential regulatory developments (such as the implementation of the Disclosure Regulation), or the lack of more data on sustainability.

Against this backdrop, the Management Company has taken part in numerous forums and surveys administered by the media, most notably *El Economista*, *FundsPeople*, *Social Investor*, *Portugal Investment Forum*, 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 need for the information on sustainability that is disclosed to 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 invest 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 2021 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 BBVA AM website, it provides information on sustainability issues to all investors. In 2021, 15 articles were published, equivalent to 5 hours of training in EFPA/CFA.
- In May, an online event on sustainability was held aimed particularly at institutional customers (although it was also open to the general public). It can be accessed at the following link: "Conference on Sustainability and How it is Applied in our Investment Portfolios"
- In 2021, 17 training courses were given to BBVA Group employees, and specifically to the commercial network, on sustainability. They dealt with the following topics: Regulatory obligations; The need for responsible and sustainable investment; How sustainability is integrated into BBVA AM; Funds classified as sustainable

Finally, BBVA AM also lobbied specifically to defend the interests of pension fund shareholders following the reduction of the maximum tax deduction limit for contributions as part of the General State Budget Act for 2021. BBVA AM has constantly lobbied to promote interpretations of the law that provide for the highest possible deduction.

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, for 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 2021 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 0.02% of voting rights for all delegated vehicles (except SICAVs).
- Other companies in which a total investment of more than 15 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.

In application of the aforementioned criteria, with data on consolidated rights from 29 January 2021, the Management Company initially chose 250 companies to exercise its voting rights (57 Spanish, 130 European and 63 North American), which account for more than 70% of the positions managed by the Management Company. During the year, this list was expanded to 12 additional companies (6 European and 6 North American), 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. In addition, the Management Company voted in four shareholder meetings for Mexican vehicles, selected due to being a significant part of the portfolios of these vehicles.

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.

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 a 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 (issue 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 country 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 2021 is as follows:

Votes	In Favor	Against	Abstentions	Total
	35,665	2,533	173	38,371
%	92.9%	6.6%	0.5%	100%

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

Items voted no on	Executive pay	Financial Transactions	Election of Board	Approval of accounts	Other decisions	Total
Points	1,166	271	683	33	512	2,665
%	43.8%	10.2%	25.6%	1.2%	19.2%	100%

The Management Agency invests in investment vehicles of third-party managers. The sustainability policy and engagement of these management agencies is monitored by BBVA (the Quality Funds unit). At the end of 2021, 90% 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.