

Annual Summary for the statement on principal adverse impacts of investment decisions on sustainability factors summary.

Ejercicio 2023

BBVA Asset Management, S.A., S.G.I.I.C.



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Statement on principal adverse impacts of investment decisions on sustainability factors summary.

Financial market participant BBVA Asset Management, S.A., S.G.I.I.C. (Código LEI: 95980020140005542272)

Summary

BBVA ASSET MANAGEMENT, S.A., S.G.I.I.C. (Legal Entity Identifier (LEI): 95980020140005542272) (hereinafter the "Management Entity") considers the principal adverse impacts of its investment decisions on sustainability factors (hereinafter also referred to as "PAI"). This statement regarding the principal adverse impacts on sustainability factors covers the period from January 1 to December 31, 2023.

The figures of the indicators presented in this statement have been calculated with average positions, taking the closures of March, June, September, and December 2023, and the value of the PAI at the end of December 2023. The data is not entirely comparable to the previous period as, exceptionally, for the year 2022, they were calculated taking the average levels of each indicator at the end of September, October, November, and December 2022, instead of the average levels at the end of each of the natural quarters of that year, due to the impossibility of obtaining representative data as of March 31 and June 30.

Following the publication of Delegated Regulation (EU) 2022/1288 (the "SFDR RTS"), which came into force on January 1, 2023, the Management Entity established the appropriate processes to monitor and/or manage the mandatory PAI (included in Table 1 of Annex I of the SFDR RTS) and two additional voluntary ones; specifically, a climate-related one, such as "Investments in companies without carbon emission reduction initiatives" (included in Table 2 of Annex I of the SFDR RTS) and another social one, "Absence of anti-corruption and anti-bribery policies" (included in Table 3 of Annex I of the SFDR RTS). The voluntary PAI selected reflect the Management Entity's belief in the importance of establishing clear frameworks towards reducing greenhouse gas emissions and combating potential violations of international climate standards and the protection of human and social rights from corrupt practices or bribery.

In 2023, data was included in the "Explanation" column that reflects, for PAI 1, 2, 3, 8, 9, and 15, the percentage variation in the data of each PAI between 2022 and 2023, and for the rest of the PAI, as well as for the coverage of all of them, the difference from the previous year (these variations can be either positive or negative).

The specific coverage data for the reported period for each PAI is also included in the "Explanation" column and represents the percentage of assets under management of the Management Entity on which the calculation was made, as data was available. It is noteworthy that, in most metrics, coverage has improved compared to the previous period; however, as occurred in 2022, it has not been entirely complete. In fact, for some indicators, it was so low that the Management Entity did not consider it representative.

Regarding the information presented, it should be noted that both the external provider, MSCI ESG Research LLC (or, where applicable, other subsidiaries of the group), and the Management Entity have made adjustments to the calculation methodology of some PAI. Additionally, the data provider has carried out a series of corrections and improvements in the quality of the information, which in some cases has resulted in a deterioration of coverage. The most affected PAI have been:

PAI 5 - Proportion of non-renewable energy production and consumption: the data for 2023 has been subject to corrections, improvements in information selection, and methodological changes by the external provider. Likewise, there has been an improvement in the calculation methodology by the Management Entity. All this makes the data for 2023 not comparable to those of 2022.

PAI 8 - Emissions to water: in 2023, the information provider improved data selection and calculation methodology.

PAI 9 - Hazardous and radioactive waste ratio: in 2023, the provider improved data selection.

The process of monitoring and managing the PAI is carried out in accordance with the Management Entity's Principal Adverse Impacts Management Policy (hereinafter, PAI Management Policy). This Policy establishes a series of tools and mechanisms that, in turn, are mostly developed by other standards or policies of the Management Entity. Thus, the treatment of the PAI is summarized as follows:

For mandatory PAI 1 to 3 (related to greenhouse gas emissions by companies), 4 (regarding companies active in the fossil fuel sector), 10, and 14 (related to social and labor issues), the Management Entity's Exclusion Standard applies.

For mandatory PAI 1 to 3 (related to greenhouse gas emissions by companies), 4 (regarding companies active in the fossil fuel sector), 5 (associated with non-renewable energy production and consumption by companies), 6 (energy consumption intensity by high climate impact sector), and 15 (related to greenhouse gas emissions by countries), as well as for voluntary PAI 4 of Table 2 "Investments in companies without carbon emission reduction initiatives", the climate strategy applied by the Management Entity aligns with the adherence to the Net Zero Asset Managers initiative (an initiative that aims for asset managers to commit to achieving net zero by 2050 in line with the premises set out by the Paris Agreement).

For mandatory PAI 7 to 9 (related to biodiversity, water, and waste) and 16 ("Investee countries subject to violations"), the ESG risk control and management policy in the investment process applies.

For PAI 5 (associated with non-renewable energy production and consumption by companies), 6 (energy consumption intensity by high climate impact sector), 7 to 9 (related to biodiversity, water, and waste), 11, 12, and 13 (related to social and labor issues), the Management Entity conducts monitoring consisting of periodic tracking and analysis of the ten invested companies that contribute the most to these adverse impacts, in order to avoid investing in companies with poor evolution and impact in each of them.

The Engagement Policy is a potential strategy applicable to all PAI. However, it particularly emphasizes its application to voluntary PAI 4 of Table 2 (Investments in companies without carbon emission reduction initiatives) and 15 of Table 3 (Absence of anti-corruption and anti-bribery policies). Also to mandatory PAI 7 to 13, as a result of sustainability risk integration policies or monitoring strategies, in cases where it is deemed appropriate to carry out an engagement action or exercise voting rights to promote an improvement in the actions of a particular company.

For PAI 17 and 18, no data is provided because: 1) the Management Entity does not make direct investments in real estate assets, 2) indirect investment is very minimal, and 3) there is hardly any information from the external provider in this regard.

The PAI Management Policy and the rest of the standards or policies considered in the management and monitoring of the PAI are agreed upon by the Sustainable Investments, Compliance, Global Product, and BBVA Asset Management & Global Wealth (hereinafter, BBVA AM&GW) Risk teams, together with the BBVA Asset Management Legal Services department. They are also supervised by the BBVA AM&GW Risk and Compliance departments. Both the mentioned standards and policies may be reviewed and updated for expansion and/or alignment with reforms, new trends, or regulatory developments.

During 2023, as in the previous year, the Management Entity has worked with the data provider to gather available PAI information. It plans to use the same provider for the period from January 1, 2024, to December 31, 2024. The meetings and information provided periodically by the provider allow understanding their progress, both in obtaining the data and improving its quality. Despite these advances, certain deficiencies remain, including: not all company data being available, some data being unreliable and/or improvable. Additionally, the regulatory framework for sustainable finance within the EU is still in a significant implementation process, so, for example, the disclosure of sustainability information will be mandatory for the companies concerned gradually over time; similar reporting obligations are also in development or pending definition in other geographic areas.

Finally, it should be noted that the Management Entity, in its effort to improve the management of the PAI, continues to review the various standards and policies affecting their management and analyze the options proposed by different data providers, as well as the data and methodologies reported by the provider it currently works with.

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