Criteria for incorporating ESG factors into managed assets and sustainable investment - CaixaBank Group

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CaixaBank

Contents

1. Purpose and scope

The CaixaBank Group (hereinafter, the 'Group') and its constituent companies base their management on responsible conduct and a business model founded on quality, proximity and specialisation, with a long-term vision and a focus on the sustainable socio-economic development of people and the territory.

The Group is aware of the fundamental role played by the financial sector in channelling resources towards activities that contribute to the evolution towards a more sustainable and inclusive economy. Similarly, the Group is mindful of its fiduciary responsibility to preserve its customers' financial savings.

In this regard, the Group is committed to offering its customers financial instruments that take into account sustainability criteria and, to this end, considers sustainability factors (environmental, social and governance, hereinafter 'ESG') in the investment decision-making processes for its managed products.

This document sets out how the Group Entities that are considered market participants—[1] in accordance with applicable regulations[2] incorporate ESG factors into the management of their products and services and interpret the regulatory definition of sustainable investment in[3].

In addition to the above, CaixaBank, S.A., when providing investment advice, will take into account the sustainability preferences indicated by customers in the suitability test.[4].

[1] CaixaBank, S.A.; VidaCaixa, S.A.U.; CaixaBank Asset Management, S.A.U.—

[2] 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 (hereinafter, the 'SFDR'),

[3] Article 2.17 of the SFDR.

[4] In accordance with Delegated Regulation (EU) 2021/1253 of the Commission of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms.

2. Minimum standards, exclusions and restrictions

As part of its Corporate Sustainability Risk Management Policy/ESG, the CaixaBank Group has established principles, premises and mechanisms to ensure the governance, management and control of risks affected by cross-cutting ESG factors.

This Policy sets out the criteria to be applied to maintain risk levels in line with appetite:

- General criteria for excluding or limiting the assumption of ESG risk exposure. These are cross-cutting criteria that apply to all entities in which the group companies may invest directly.
- Specific criteria for excluding or limiting exposure to certain sectors (hereinafter, 'sectoral') and activities with a significant impact on the environment or society, with a special focus on certain ecosystems, heritage sites or protected communities.

CaixaBank's management companies adapt this Policy and its general criteria, as well as the sectoral criteria if data is available to monitor them, and apply restrictions and exclusions based on:

- General criteria: companies and their groups for which there is solid evidence of material breaches in the areas of human rights, climate change and nature.
- Criteria by activity and sector:
    - Defence: Controversial weapons (exclusion).
    - Fossil fuels: Companies with exposure to thermal coal, unconventional oil and gas (tar sands, explored in the Arctic), or significant exposure to conventional oil and gas without an adequate transition plan.

These exclusions apply to all direct investments in companies. In addition, management companies may apply additional sector exclusions to certain specific products.

For further details on the applicable exclusions and restrictions, see:

- Operating Principles of CaixaBank's ESG/sustainability risk management policy: link
- Corporate framework for integrating ESG risks into CaixaBank's investment and portfolio management services: link
- CaixaBank AM's sustainability risk integration policy: link
- VidaCaixa's policy on integration of sustainable risks: link

3. Approach by asset type and at the portfolio level

3.1 Public debt

In general, direct investment in public debt is made in issues by member countries of the Organisation for Economic Co-operation and Development (OECD), an organisation in which member countries work to respond to the economic, social and environmental challenges arising from interdependence and globalisation.

When investing in public debt assets, management companies carry out a qualitative analysis of the ESG quality of the issues, in addition to traditional financial analysis, prior to purchase.

In addition, enhanced controls are carried out on sovereign issues from countries with low ESG performance, and issues from countries subject to international sanctions by the United Nations or the European Union for human rights violations are excluded.

Quarterly, alerts are monitored and managed regarding changes in ESG ratings (both overall and for the various pillars that comprise them) and Major Adverse Events (hereinafter MAEs) of an environmental and social nature in the countries in the investment universe.

For issues labelled as sustainable, i.e. when the financial resources of these issues pursue a specific environmental or social objective, see section 3.3.

3.2 Corporate fixed income and equities

The process of direct investment by management companies in companies (in equities and fixed income) incorporates the analysis of ESG criteria in addition to traditional financial analysis.

To this end, ESG data from specialised providers or published by the companies themselves and analysed internally is used to detect and mitigate the investment risk in a company or sector:

- Firstly, an analysis is carried out to determine whether a particular security is 'investable' or 'non-investable' based on whether or not the issuing company complies with the sustainability criteria and parameters defined in the ESG/Sustainability risk management policies of CaixaBank Group companies (see section 2).
- In addition, the material ESG criteria for the company are analysed during the investment process. Materiality is a central concept in the integration of such data into the investment process and is defined based on the type of asset, sector, activities and geographical location of the assets. The integration should focus on the ESG aspects relevant to the company, sector or area that are considered to affect the present or future value of the investment.

Subsequently, the ESG criteria are monitored and reviewed periodically through:

- The assessment of companies' ESG performance prior to purchase (based on data such as carbon emissions levels; the company's management of the transition to a low-carbon economy; talent management; diversity, and the independence rate in governance bodies).
- Monitoring the ESG performance of its portfolios, at a company and aggregate level, to identify potential risks and act accordingly at an early stage.
- Engagement with investee companies, as detailed in section 4.

3.3 Specific case of ESG bonds

Both sovereign and corporate ESG bonds include two main types of bonds:

- Green, social and sustainable bonds, in which the proceeds from the issue are used exclusively to finance activities or projects with specific social and/or environmental benefits, identified by reference standards. These bonds must provide details in the issue prospectus on the following aspects, among others:
    - Use of the funds obtained in accordance with the eligible areas under the framework in which they are issued.
    - Specify the project evaluation and selection processes.
    - Specify the fund management mechanisms.
    - Monitoring reports to be carried out.
- Sustainability-linked bonds, not intended to finance a specific project but linked to the company's ESG performance. In this case, the issue prospectuses must detail what are known as Sustainability Performance Targets, which must be quantitative, predetermined, and externally verified using Key Performance Indicators linked to environmental, social, and governance aspects. If the company does not meet the established targets, there may be penalties, such as an increase in the issue coupon.

Management companies carry out additional checks on ESG bonds, verifying that they have been issued in accordance with market standards such as the principles of the International Capital Market Association (CMA) or the European green bond standard, and that they have been independently verified or have received a positive second party opinion.

In the specific case of sustainability-linked bonds, enhanced controls are carried out to verify that the performance indicators on which the coupon is based are consistent with the issuer's activity and have adequate coverage and ambition.

3.4 Selection and monitoring of third-party funds

The assessment of the integration of ESG criteria in the selection and monitoring of third-party funds is carried out at three levels:

- Fund manager: assessment and analysis of ESG policies, resources and commitment at fund manager level.
    - A due diligence questionnaire (hereinafter 'DD') is sent to managers to gather all the necessary information regarding their (Socially) Responsible Investment (hereinafter 'RI') policy, including how they exercise their commitment to the companies in which they invest through voting at General Meetings and dialogue with companies (engagement).
    - The managers are periodically asked to complete the questionnaires again, reporting any new developments that may affect the interpretation of this issue.
- Investment funds: assessment of the integration of ESG criteria in investment processes and recommendations for funds and ETFs.
    - A DD questionnaire is sent for the selected fund, gathering the necessary information at the individual level of the Collective Investment Institution (IIC), including specific RI aspects. When deemed necessary, enhanced ESG DD is carried out. These DDs are reviewed and updated periodically.
    - In addition, the following are monitored periodically: relevant ESG indicators; controversial activities; controversies, and restrictions in accordance with the Management Company's Integration Policy.
    - For third-party funds that are not aligned with the Sustainability Risk Integration Policy, the possibility of engaging in dialogue with the managers of those funds will be analysed, identifying the objectives and priorities of such actions.
- Mandates:
    - If a third party receives a management mandate from the management company, it is informed of the sustainability risk integration policy, which is included in the Investment Guidelines, and must complete the RI questionnaire included in the Request for Proposal (RFP).

3.5 Another asset type (alternative)

In the case of alternative assets in private markets (private equity, private debt, real estate, infrastructure), ESG data is not yet available on a scale comparable to that for listed markets. Therefore, ESG criteria analysis by management companies is based on a due diligence process with the managers of these assets, during which their ESG performance is assessed.

3.6 Summary

Direct investment	**Equities (shares)** • Exclusions and restrictions • Analysis of companies' ESG metrics • Engagement with companies through voting at shareholder meetings and dialogue with companies	**Fixed income (bonds)** • Exclusions and restrictions • Analysis of the ESG metrics of companies and public authorities/countries • Engagement with issuers through dialogue with companies, public administrations and countries
Indirect investment	**Third-party funds** • ESG considerations included in thedue diligence processes with the management companies and funds • Analysis of the ESG metrics and criteria of the funds • Engagement through dialogue with fund managers	**Alternatives** • ESG considerations included in the due diligence processes with external management companies and funds • Analysis of ESG metrics and criteria of the portfolio • Engagement through dialogue with external management companies of the funds

4. Integration of ESG factors at the portfolio building level

ESG criteria are incorporated into the investment process, with specific processes depending on the asset categories presented above.

Additionally, depending on the product's investment policy and its ESG characteristics, additional specific ESG criteria may be applied at the portfolio building level:

- Products that promote environmental and/or social aspects in accordance with the definition in the SFDR Regulation are required to meet the following additional requirements:
    - have an ESG rating higher than their benchmark index;
    - have specific environmental or social ESG indicators that are better than those of their benchmark index. These indicators are identified according to the environmental or social aspect promoted by the product, the type of asset and/or the geographical area;
    - integrate environmental and/or social MAE into their investment process and management;
    - and, in some cases of actively managed corporate fixed income or equity products, commit to maintaining a minimum percentage of sustainable investments with environmental and/or social objectives in accordance with the methodology developed for this group of products by the Group's Management Companies in accordance with the criteria defined in Article 2.17 of the SFDR.
- Products with sustainable investment objectives are subject to specific criteria, which are defined in accordance with the sustainable investment objective pursued by the fund:
    - Products with a sustainable investment objective must invest in companies and/or projects that seek to generate a positive and measurable social and/or environmental impact, in addition to complying with the principle of DNSH and good governance as defined in Article 2.17 of the SFDR.
    - Products with a climate-related sustainable investment objective must invest in companies and/or projects that address this climate challenge in their activities, in addition to complying with the DNSH principle and good governance as defined in Article 2.17 of the SFDR.
- Thematic products invest only in companies or funds that contribute, in a measurable way, to a sustainable theme such as: sustainable food, social welfare, energy transition, resource optimisation, etc.

5. Engagement

The transition to a more sustainable economy and the long-term profitability of investments can be achieved both through investment decisions and through long-term engagement with the issuers in which management companies invest, through constructive dialogue and active voting.

- Dialogue initiatives with issuers always relate to ESG factors on material issues or controversies, with the primary objective of promoting long-term value creation. Dialogue initiatives seek to improve and bring about a change in behaviour among issuers on certain relevant issues, such as adverse incidents or improving the management of their impacts.
- Voting rights are exercised at AGMs, which give management companies the status of shareholder in the companies in which they invest, as this can have a favourable effect on the companies' long-term results and contribute to greater economic, social and environmentally sustainable progress.

The engagement strategy applies the criteria of the Management Companies' Engagement Policy to protect and guarantee the interests of investors/shareholders in all cases.

The Engagement Plan sets out the commitments in terms of long-term engagement with the companies in which it invests, through constructive dialogue and active voting. The engagement plan defines the channels and communication process for establishing dialogue and sets out the priority areas, prioritisation criteria and objectives for engagement, as well as expectations regarding the actions of issuers.

The priority areas identified in the 2025-27 Engagement Plan are as follows:

SCOPE	CLIMATE CHANGE AND NATURE
Criteria for selection and prioritisation of issuers with which to establish dialogue	High intensity and/or footprint of greenhouse gas (GHG) emissions. Non-existence of, insufficient ambition towards and/or non-compliance with decarbonisation targets. Relevant exposure to fossil fuels. Relevant exposure to activities with a potentially high impact on nature.

SCOPE	HUMAN RIGHTS, AND VIOLATIONS OF KEY INTERNATIONAL STANDARDS
Criteria for selection and prioritisation of issuers with which to establish dialogue	Areas for improvement to strengthen compliance with the principles of the United Nations Global Compact. Controversies that may represent a possible breach of respect for human rights.

SCOPE	GOOD GOVERNANCE AND GOOD SOCIAL PRACTICES
Criteria for selection and prioritisation of issuers with which to establish dialogue	Structures and policies not aligned with best governance practices. Limited performance in terms of gender diversity (insufficient % of women on governance bodies). Low level of transparency and/or performance of remuneration systems and pay gap.

- For further details, please refer to the engagement plans for the 2025-2027 period of the management companies:

  - CaixaBank AM: link

  - VidaCaixa: link

- Please also consult CaixaBank's Engagement Policy at this link, which sets out the principles, criteria and procedures governing CaixaBank's active engagement with the companies in which it invests through discretionary portfolio management mandates.

6. Transparency and reporting: general approach

The group's management companies promote/consider transparency towards their clients regarding the ESG characteristics and performance of their products to be key.

In 2019, the SFDR Regulation was published, imposing disclosure requirements on certain products (e.g. investment funds, SICAVs, alternative investment funds, insurance products with an investment component, pension plans, etc.) depending on the level of integration of sustainability factors in their investment policies.

ESG disclosure takes place at various levels and through various media:

- At the CaixaBank Group level, with the publication in the Consolidated Management Report of statistics on ESG factors relating to investment (such as the volume of ESG bonds in the portfolios managed, the number of dialogues and votes cast, and the alignment of the portfolios with the green taxonomy). Adverse incident statements are also published, as a participant in financial markets and as an investment and insurance advisor.
- At the level of the management companies themselves, through the publication of various documents such as sustainability risk management policies detailing the applicable criteria and exclusions, and the Statement of Main Adverse Incidents in the portfolios at entity level, and through reporting on their main progress in ESG matters and their voluntary commitments, dialogues or voting intentions.
- At the product level, and in accordance with the standards defined by the SFDR, a high level of detail is provided regarding ESG characteristics in:
    - pre-contractual documentation: on the criteria, if applicable, for promoting environmental and social characteristics, sustainable investment objectives, impact objectives,
    - periodic documentation: the results achieved with respect to the objectives defined in the pre-contractual documentation, and any adverse incidents generated by the investments.

Furthermore, as part of their process of incorporating ESG criteria, asset management companies have the option of adhering to and/or supporting public commitments, reference frameworks and similar initiatives such as the Principles for Responsible Investment (PRI), net zero alliances and collective dialogue initiatives.

Such commitments may give rise to additional transparency obligations that must be met by the asset management companies that have signed up to them. In such cases, these companies must ensure that the information required under these frameworks is reported to the highest standards of quality and that it meets criteria of reliability, clarity, traceability, completeness and efficiency.

7. Sustainable investment, European regulation approach (SFDR 2.17)

The European Commission's SFDR Regulation, which affects investment funds, pension plans and insurance-based investment products (IBIPS), introduces the concept of sustainable investment (Art. 2.17)[5]. In this article, it defines sustainable investment as investment in economic activities with the following characteristics:

- They contribute to an environmental or social objective, and
- They do not significantly harm any other objective (do no significant harm or DNSH), and
- They follow good governance practices.

Management companies have developed different sustainable investment models:

<table>
<tr><th colspan="4">Models of CaixaBank Group Management Companies (art. 2.17)</th></tr>
<tr><th></th><th>Fixed income sovereign</th><th>Corporate fixed income</th><th>Equity securities</th></tr>
<tr><td rowspan="2">Positive contribution</td><td colspan="2">• Activities financed by ESG bonds, provided they comply with the controls defined in section 3.3.</td><td rowspan="2">• Investment in companies where >20% of revenue contributes to positive environmental and/or social impacts.
• And, depending on the fund's investment policy and objective, other investments are considered: companies that seek to generate a positive and measurable social and/or environmental impact; companies and/or projects that address a climate challenge in their activity.</td></tr>
<tr><td></td><td>• Non-ESG bonds from companies where >20% of revenues contribute to positive environmental and/or social impacts.</td></tr>
<tr><td>DNSH</td><td>They are not considered sustainable when the issuing country:
• has not ratified the Paris Agreement;
• has a low climate score;
• does not comply with international treaties with regard to DDHH;
• or does not respect political and civil rights.</td><td colspan="2">• The general framework of exclusions and restrictions of Management Companies (section 2) applies.
• In addition, activities related to controversial weapons, tobacco and thermal coal (threshold >1% of sales) are not considered sustainable; have disputes classified as very serious, or whose main adverse incidents (MAEs) are among the highest in their sector and/or among the leading companies globally.</td></tr>
<tr><td>Good governance</td><td colspan="3">The activities of issuers with a low ESG score are not considered sustainable.</td></tr>
</table>

[5] *The Regulation is available on the European Commission's website at the following link: [Regulation - 2019/2088 - EN - sfdr - EUR-Lex]*

An investment can only be considered sustainable when it complies with all three premises at the same time.

Finally, in the case of third-party funds: funds classified as Article 9 are considered sustainable and funds classifiedas Article 8 with a minimum sustainable investment commitment are considered partially sustainable.

To apply these models, management companies rely on information from various specialised external providers, which is integrated into their management systems.

The above models are subject to periodic review and may be updated to align with, among other things, regulatory changes and methodological developments.