

ANNUAL REPORT

Engagement and vote

2023

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



BBVA



Mejor Directiva de Gestora Grande
Belén Blanco Jerez



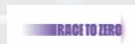
Mejor Director de Inversiones
Eduardo García Hidalgo



BBVA Asset Management
Mejor Equipo de Sostenibilidad en Gestora Nacional



Firmante de
los UNPRI



Firmante The Net Zero
Asset Managers

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This English Version is a translation of the original in Spanish for information purposes only. In case of a discrepancy, the Spanish original will prevail

Introduction

This report has been prepared following the structure of the "Principles" defined in the Code of good practices for institutional investors, asset managers, and proxy advisors in relation to their duties in respect of assets entrusted to or services provided by them ("Stewardship Code", "Good practices code for investors" or the "Code"), published by the National Securities Market Commission on February 22, 2023. It was considered that using this structure would facilitate a better presentation of the information.

However, **BBVA Asset Management, S.A., S.G.I.I.C., was not adhering to the Good practices code for investors in 2023** and has not yet adhered to it. Therefore, the proposed structure should not be taken as compliance with said Code by BBVA Asset Management, S.A., S.G.I.I.C.

Principle 1. Long-term strategy

Sustainability at BBVA Asset Management & Global Wealth

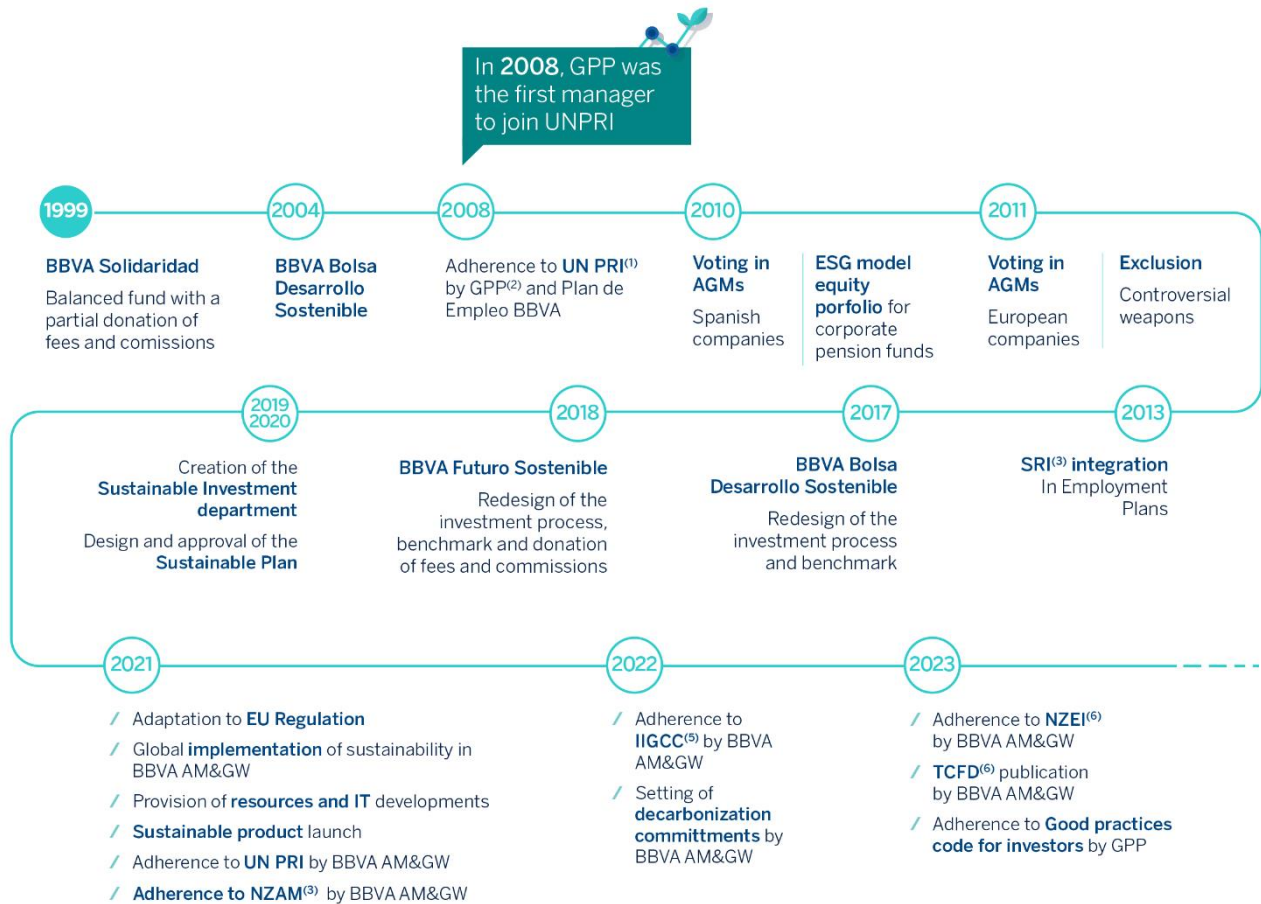
BBVA Asset Management & Global Wealth (hereinafter referred to as BBVA AM&GW) is the BBVA Group's division that encompasses its investment fund and pension fund managers as well as its global portfolio management services.

At present, investment management within the **BBVA Asset Management Europe** unit (which comprises the entities BBVA Asset Management, S.A., S.G.I.I.C., BBVA Pensiones, S.A., E.G.F.P., and Gestión de Previsión y Pensiones, E.G.F.P., S.A.) is conducted by **BBVA Asset Management, S.A., S.G.I.I.C.** (hereinafter, the "Management Company"). The Management Company is responsible for handling the investments of collective investment institutions located in different European countries (Spain, Luxembourg, Portugal, 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 2019 **strategic plan of Banco Bilbao Vizcaya Argentaria, S.A.** (hereinafter referred to as the BBVA Group) identifies **combating climate change and promoting social inclusion as one of its principal areas of focus**. In its General Sustainability Policy, it spells out its contribution to the United Nations 2030 Agenda for Sustainable Development. BBVA AM&GW also considers **sustainability as one of the strategic priorities of its business**.

BBVA AM&GW's commitment to sustainability and responsible investment has a **long-standing history**, demonstrated by the launch of its first solidarity-based investment fund — BBVA Solidaridad Investment Fund — in 1999, and its first sustainable investment fund — BBVA Sustainable Development Investment Fund — in 2004. Additionally, Gestión de Previsión y Pensiones, E.G.F.P., S.A. (hereinafter referred to as GPP), a member of the BBVA Group that primarily manages pension funds, was the first Spanish asset owner to join the United Nations Principles for Responsible Investment (hereinafter referred to as UN PRI) in 2008.

BBVA Asset Management & Global Wealth's sustainability pathway



(1) UN PRI: United Nations Principles for Responsible Investment

(2) GPP: Gestión de Previsión y Pensiones, E.G.F.P., S.A.

(3) SRI: Social Responsible Investment

(4) NZAM: Net Zero Asset Managers Initiative

(5) IIGCC: Institutional Investors Group on Climate Change

(6) NZEI: Net Zero Engagement Initiative

(7) TCFD: Taskforce on Climate-Related Financial Disclosures

i) Development of policies, procedures, and strategies

1. Policies, standards, and procedures

The Management Company executes its responsible investment actions based on the parameters outlined in the **policies and standards** available for review on the [BBVA Asset Management Europe website](#).

Engagement activities are governed by the **Engagement Policy**. This Policy extends beyond the scope of Directive (EU) 2017/828 on the encouragement of long-term shareholder engagement, as it encompasses not only investments in companies listed on a regulated market within or operating in a Member State of the European Union but also the broader spectrum of investments managed across the vehicles and portfolios.

The following briefly describes the Management Company's principal sustainability policies and standards:

GENERAL SUSTAINABILITY POLICY

It transposes BBVA Group's overall policy concerning the principles, goals, and promotion of sustainability.

EXCLUSIONS POLICY

It defines the exclusions applicable to the investment universe.

MANAGEMENT OF PRINCIPAL ADVERSE IMPACTS (PAI) POLICY

It describes the process, principles, and criteria for monitoring the PAIs in investment decisions with respect to environmental, social, and corporate governance aspects, as specified by European legislation.

CONFLICTS OF INTEREST POLICY

It sets forth the criteria and guidelines defining the policy for preventing and managing conflicts of interest.

SUSTAINABILITY RISK INTEGRATION POLICY¹

It outlines the integration of sustainability risks into the investment decision-making process.

ENGAGEMENT POLICY

It delineates the strategies for engagement and dialog, and the voting procedures for invested companies.

REMUNERATION POLICY

It elaborates on the Management Company's general remuneration policy in accordance with relevant regulations, and it transposes, in those sections that apply to it, the BBVA Group's general remuneration policy.

This report addresses the most significant actions undertaken in 2023 following the Engagement Policy.

¹ Nowadays information on this integration policy is published on the BBVA Asset Management Europe website, but the policy is not published.

2. Sustainability strategy

The Management Company incorporates sustainability criteria with the aim of improving the long-term value of investments, mitigating risks, and identifying growth opportunities. To this end, it operates under a **Sustainability Plan** based on four pillars, one of which is engagement:

PILLAR 1. INTEGRATION

Environmental, social, and governance (ESG) risks and opportunities are integrated into the investment decision-making process. The Management Company has devised a proprietary ESG rating system that it applies to companies, governments, and investment funds.

PILLAR 3. ENGAGEMENT

Engagement and dialog activities are conducted with the companies and governments in which investments are held, alongside the exercise of voting rights.

PILLAR 2. EXCLUSION

Investments are excluded in companies for non-compliance with key international standards, certain economic activities, and in issuers of specific government bonds.

PILLAR 4: IMPACT

Investments are made with specific environmental or social objectives that meet certain criteria.

3. Responsible investment strategy

UN PRI is an international network of institutional investors supported by the United Nations, which in 2006 developed the **Principles for Responsible Investment**, due to the growing relevance of environmental, social, and corporate governance issues in investment practices. By implementing these principles, the signers contribute to the development of a more sustainable global financial system.

GPP adhered to UN PRI in 2008, and in 2021, this commitment was extended when BBVA AM&GW's asset management unit also adhered, broadening its application to the rest of the vehicles and portfolios managed by the unit.

BBVA AM&GW is committed to **adopting the Principles and implementing them** insofar as they align with its fiduciary duties. It also has to assess their effectiveness and help improve the content of the Principles over time. This approach leads to a better alignment of the managed investments with the wider interests of society.

PRINCIPIE 1

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

PRINCIPIE 2

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

PRINCIPIE 3

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

PRINCIPIE 4

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

PRINCIPIE 5

Work together to enhance our effectiveness in implementing the Principles.

PRINCIPIE 6

Each signatory will report on its activities and progress towards implementing the Principles.

4. Climate strategy

In 2021, the BBVA AM&GW asset management unit adhered to the **Net Zero Asset Managers** (NZAM) initiative, a global coalition of international asset managers committed to supporting the ambition of net-zero greenhouse gas emissions by 2050 or sooner, in line with worldwide efforts to limit global warming to 1.5 degrees Celsius above pre-industrial levels and to ensure that investments are aligned with this target.

This commitment involved developing a **decarbonization plan** for the investment vehicles managed by the unit, establishing interim milestones to reach net-zero emissions by 2050, and actively monitoring the achievement of these targets.

In 2022, the committed decarbonization targets were disclosed, initially applying to **22% of assets under management in Europe and Mexico**. This figure is comprised of 12% of investments in companies (including both equity and fixed-income instruments) and 10% in Eurozone government bonds. This initial pledge is subject to upward revision as more comprehensive data and methodologies for the remaining assets in the portfolios become available. For **2030, three objectives** were set: to reduce emissions generated by investee companies, to improve the climate data rating for countries, and to ensure that 60% of the committed investments are aligned or on track to align with Net Zero.

In 2023, in line with the commitment to transparency, the first report was published following the recommendations of the **Task Force on Climate-Related Financial Disclosures** (TCFD) and is available on the [BBVA Asset Management Europe website](#).

To broaden engagement actions with portfolio companies needing improvements on the path to decarbonization, the asset management division of BBVA Asset Management & Global Wealth (AM&GW) joined the **Institutional Investors Group on Climate Change** (IIGCC) in 2022. IIGCC is the benchmark European body for partnership between investors in the field of climate change. IIGCC's membership includes both asset owners and asset managers. Its mission is to support and encourage investments to make a real and meaningful contribution to achieving the Net Zero by 2050 targets of the signatories, as well as a resilient future, built upon proper capital allocation, solid governance, and strong commitments from companies, governments, and other investors.

IIGCC supports global climate initiatives such as Climate Action 100+ or the similarly impactful Nature 100. In 2023, IIGCC launched its own initiative, the **Net Zero Engagement Initiative** (NZEI), which focuses on companies essential for achieving Net Zero goals that are not covered by Climate Action 100+. BBVA AM&GW's asset management division became a founding member of NZEI in 2023.

In addition, as part of the process of reviewing and improving our engagement activities, we continuously assess adherence to other global initiatives to promote collaborative engagement initiatives, as one of the necessary elements to achieve the environmental and social objectives to which we are committed.

ii) Corporate governance culture

1. Codes of conduct

The Management Company operates under the **BBVA Group's Code of Conduct**. This Code sets forth behavioral guidelines that all Group employees must follow to align their behaviour with BBVA Group's values. The values of the BBVA Group define its identity and shape the attitudes that, when applied daily by everyone working for the Group, enable us to fulfill the BBVA Group's Purpose: to make the opportunities of this new era accessible to everyone. All BBVA Group employees are expected to act with integrity and responsibility, respecting applicable laws and regulations, with prudence and professionalism befitting the social impact of the financial activity and the trust our customers and shareholders place in the BBVA Group. The BBVA Group offers all employees specific training on this Code of Conduct.

The Management Company is also governed by the **CFA Institute's Code of Professional Conduct for Investment Managers**. This Code encompasses customer loyalty, investment procedures, operations, risk management, investment returns, and customer information, among others.

2. Governance structure

Governance structures and committees



The **asset management unit of BBVA AM&GW** establishes the principal criteria and strategies related to sustainability, which are then communicated to each geographic region and each local management entity. These entities, in turn, tailor them to their specific regulatory and business characteristics, and so forth.

Within BBVA AM&GW, the following Committee has been established:

Global **Steering Committee** of BBVA AM&GW. It comprises the global departments of Investments, Product, Risk, Control and Regulatory Compliance, Quality Funds, High Net Worth, Strategy and Business Development, as well as Country-specific Business units.

The Management Company tailors and applies these sustainability criteria and strategies to its specific circumstances (business, regulations, etc.) as defined by the BBVA AM&GW unit it belongs to. Within the Management Company, the primary governing body is the Board of Directors.

Board of Directors. The Board is responsible for the administration, management, management and representation of the Management Company. It is composed of the Chairman and Chief Executive Officer, the Directors and the Non-Director Secretary.

The following committees/commissions are set up within the Board of Directors:

Remuneration Committee. Its main mission is to assist the Board of Directors in matters relating to the preparation of the decisions about remuneration policy, including those that have repercussions for the Management Company's risk and risk management, whilst protecting the long-term interests of the investors and other stakeholders, as well as ensuring compliance with the remuneration policy established.

Audit Committee. Its main mission is to assist the Board of Directors in the monitoring of both the financial information and the exercise of the function of the Company's internal control and risk management, to supervise and protect the independence of the internal audit and to monitor and assess the progress of the external audit, as well as to protect its independence as well.

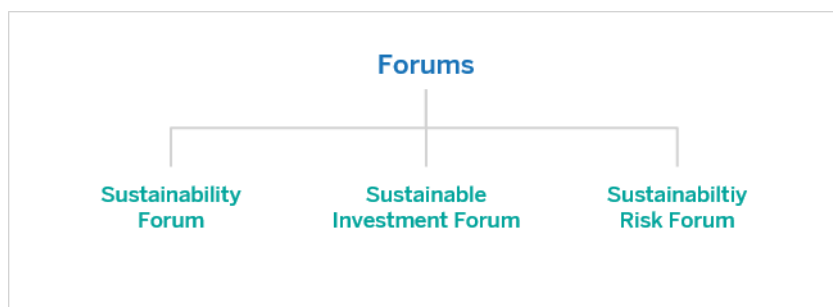
Working groups and forums

There are various teams, working groups, and committees within BBVA AM&GW or the Management Company, including the following:

Sustainable Investments Team. A team specialized in sustainability within the Investments area to integrate this matter into investment solutions and coordinate investment sustainability across various areas.

Sustainable Risks Team. A team specialized in sustainability within the Risk division tasked with assessing sustainability risks associated with investments.

Sustainability Governance Group. Composed of the global heads of their respective areas: Compliance, Risk, Investments, and Product, as well as the head of the Sustainable Investments division (within Investments).



Sustainability Forum. Consisting of the Sustainability Governance Group, this forum is in charge of designing the sustainability strategy and the related execution plans. It presents these plans for approval to the global head of BBVA AM&GW and the Global Management Committee.

Sustainable Investment Forum. Comprising the Sustainable Investments team and the Investments teams, this forum monitors the incorporation of sustainability into the managed investment vehicles. For example, it reviews potential issues related to issuers (companies, governments, or quasi-governments) to discuss action plans, considering the interests of the Investment teams and other aspects relevant to the issuer in question. The forum also evaluates new sustainable investment vehicles of potential interest to the asset selection teams.

Sustainability Risk Forum. Comprising members of the Sustainable Investments, Global Product and Risks teams. They oversee the implementation of the sustainable strategy and the decarbonization plan.

Principle 2. Knowledge and monitoring of companies

i) Analysis and monitoring of companies

The Management Company carries out its management activity with a long-term vision, which necessitates a **thorough understanding of the companies** in which it invests.

The investment process for actively managed vehicles is based on **fundamental analysis**, which in our case, is divided into two areas: qualitative and quantitative analysis. The qualitative process focuses on analyzing the industry to which the companies belong. This includes both the evolution of the industry structure and prices. The quantitative analysis examines parameters which include: the company's liquidity and ability to meet its short-term obligations, its solvency—its long-term ability to pay, its activity, the profitability of its assets and equity, and, lastly, its growth.

Moreover, the **non-financial information** of the companies is considered. The inclusion of these non-financial factors allows for more informed investment decisions through more comprehensive risk control. The **ESG sustainability factors** we consider include:

- **Environmental factors:** Such as climate change mitigation and adaptation, sustainable use and protection of water and marine resources, and the transition to a circular economy. This also includes pollution prevention and control, and the protection and restoration of biodiversity and ecosystems, among others.
- **Social factors:** Such as human rights, labor rights, human capital management, personal data protection, and social responsibility in product development, among others.
- **Governance factors:** Such as remuneration policy, division of duties on the Boards, and efforts to combat corruption and bribery, among others.

The Management Company has developed a **proprietary internal ESG rating model** for companies, countries, and funds. It applies to all actively managed vehicles and portfolios managed by the Management Company, with specific exceptions outlined in the internal Risk Control and Management Policy on ESG integration in the investment process. Therefore, the ESG rating can be categorized as **A, B, or C**, with C being the lowest rating. Assets that obtain this rating are excluded from the investment universe.

This model incorporates information from external data providers, public sources, information from fund managers, as well as internally generated data. External data providers offer sustainability-related data, such as ratings, controversies, non-compliance with international standards, issuer decarbonization data, etc. No conflicts of interest have arisen with data providers.

ii) **Monitoring processes**

The need to use a vast amount of data to obtain financial and non-financial information requires that the Management Company rely on **specialized external data providers**.

Financial analysis is conducted using both this information and other specialized research from external providers, as well as proprietary analysis and models developed internally.

All sustainability-related information is internally analyzed and is accessible through an internal **tool** compiling data on internal ESG ratings, controversies, decarbonization, and more. This tool is available at any time to the teams engaged in the investment process. This information broadens the managers' understanding of companies by providing sustainability data that offers insight into non-financial factors augmenting their financial analysis.

The monitoring of financial factors and sustainable characteristics in vehicles managed by third-party managers, as well as the approach to sustainability employed by these managers, is performed by the Quality Funds team, a BBVA unit specialized in third-party fund analysis.

Data processing is digital, automated, and undergoes continuous **quality monitoring and analysis**. The control layers are as follows:

- **Layer 1.** Data Provider Control: responsible for reporting any detected issues and variations in data. They also communicate improvements and modifications to the methodologies used for data calculation.
- **Layer 2.** BBVA AM&GW Control: tasked with verifying that the data supplied by the provider has been correctly uploaded to the internal databases and ensuring the data's coherence. This layer also monitors aspects such as coverage, frequency of revisions, and proactivity in implementing improvements.

Sustainability data is generally calculated once a month to maintain up-to-date information, although some data may be gathered more frequently.

Lastly, in terms of **oversight by the Management Company's personnel**, they possess the requisite training to integrate sustainability into investment strategies. Training on this topic is provided by the BBVA Group for all employees. Furthermore, the Management Company advocates for all staff involved in sustainability to pursue specialized **training** in sustainable investment through external certifications, such as the Certificate in ESG Investing from the CFA Institute, the EFFAS Certified ESG Analyst, the EFPA ESG Advisor Certification, and similar programs.

iii) Identification of events

The Management Company **routinely ensures** that portfolio positions comply with the criteria set forth in the internal procedure for integrating sustainability risks. It also has an alert system due to worsening of disputes or the ESG rating of the data provider.

These dynamics allow us to detect positions that either fail to comply with the management company's sustainability policy and should therefore be excluded from the investment universe, or deserve to be the subject of an **action plan** in accordance with the policy of engagement.

As described above, a company's **ESG internal rating** can be classified as **A, B or C**, the latter being the worst rating. Assets that obtain this rating are excluded from the investment universe. A company in the portfolio with an initial A or B rating may become "C" rating due to worsening of ESG factors or because it incurs a very severe controversy directly attributable to the company. When these **events** are identified, each case is analyzed and an action plan is established to assess whether the position is sold or an action is initiated to engage in and dialogue with the company, with a defined time horizon, aimed at improving its sustainability actions.

Principle 3. Development and publication of the engagement policy

The Management Company has established an **Engagement Policy** aimed at creating **long-term value** in the issuers it invests in. It may also actively engage with bodies, regulators, and other stakeholders.

The Policy is **accessible** on the [BBVA Asset Management Europe website](#), alongside the annual report detailing its application in the prior year.



The Engagement Policy encompasses both engagement activities and the exercise of voting rights.

Regarding **commitment**, the Management Company is prepared to take actions with the issuers it invests in to fulfill the goal of long-term value creation. **Prioritization** is given to cases based on factors such as the size and significance of the position, the management team's interest, the importance to the Management Company, and the viability of the action plan.

The **issues** addressed aim to achieve precise goals.

TARGETS	CIRCUMSTANCES
ESG rating and scores	When the ESG rating data can be improved
Controversies	When there are very severe or severe controversies
Negative impacts	When the data of Principal Adverse Impacts (PAIs) can be improved
SDSs	When the data of Sustainability Development Goals (SDGs) can be improved
Sector issues	When there are issues in certain economic sectors related to ESG
Thematics	When they have to do with climate strategy and other themes
Voting	When the voting rights can be exercised

These interactions can be conducted in various **ways** as described in the Policy:

Individual 	Collaborative 
<ul style="list-style-type: none"> - Direct, individual interaction - Dialogues and working groups with companies - Action plans defined by the Asset Manager Company 	<ul style="list-style-type: none"> - Direct interaction through initiatives with other investor groups - Dialogues and working groups with companies - Action plans defined by the investor groups

The Management Company evaluates each instance individually to determine the appropriate course of action and sets **escalation** protocols if the intended objectives are not met.

In terms of **voting**, the Engagement Policy stipulates when the Management Company will exercise political rights associated with the securities in its managed vehicles and portfolios and details the criteria for making voting decisions. Additionally, it specifies that information from an external voting-specialized provider is considered when casting votes. For more information, refer to section 4 on the Exercise of Voting Rights.

As for the **material and human resources** needed to implement the Engagement Policy effectively, there are databases and tools for handling provided data, including both financial and non-financial information such as ESG ratings, controversies, Sustainable Development Goals (SDGs), principal adverse events, carbon footprint, and other decarbonization metrics. The involved teams are seasoned in sustainability and possess specialized training in sustainable investment.

Principle 4. Exercise of 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 2023 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 0.07% of voting rights for all delegated vehicles.
- Other companies in which a total investment of more than 12 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, due to their sector and activity, are strategic from a sustainable point of view and in which there is a percentage greater than 0.04% or more than 10 million.

For the exercise of political rights, the Management Company has relied on the opinion of an **independent voting advisor, Institutional Shareholder Services** (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 always votes in the exclusive interest of the owners and/or shareholders of the vehicles and portfolios represented. It considers that the votes taken in relation to the matters of special relevance described in its Engagement Policy are significant, for which the following **criteria** have been followed:

- 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).
- It voted in favor of appointing and renewing the company's **auditors**, unless special circumstances occurred that advised against it.
- 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.).
- 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.
- 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.
- It voted in favor of the **remuneration policy** for directors in those cases where it was transparent and the directors' objectives were determined by the company's performance and the shareholders' objectives.
- 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.).
- 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 for listed companies 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%.

Principle 5. Transparency of the engagement and voting actions carried out and their results

i) Implementation of the engagement policy in 2023

As referred to in Section 2, the knowledge and supervision of the companies in which investment is made sometimes require, from a sustainability standpoint, that the Management Company implement engagement actions.

The initiation of dialogue may be the result of either a **proactive action plan** with issuers whose metrics, information, and/or practices are amenable to improvement, or a **reactive action plan** in response to the deterioration of certain sustainability metrics.

Consequently, in 2023, due to a decline in internal ESG ratings and corporate conduct, **six reactive cases** were addressed. These cases impacted several of the vehicles operated by the Management Company and were each evaluated on an individual basis. The Management Company has been active in 2023 and plans to continue this effort in the coming years to identify proactive engagement actions and to develop collaborative engagement plans applicable to both the vehicles with a distinct sustainability focus and the entire fleet of vehicles, with an emphasis on action plans aligned with the overarching climate strategy of BBVA AM&GW's asset management division.

1. Summary tables



In 2023, we addressed issues concerning **six companies with a C rating** within various vehicles under our management. This internal C rating represents the lowest category within our proprietary ESG rating model, which classifies companies as A, B, or C. Three incidents emerged at the end of 2022, with the remaining three surfacing throughout 2023.

Regarding the **deterioration in internal ESG ratings**, in four instances, this was attributable to severe controversies directly associated with the companies, which also entailed breaches of international standards such as the United Nations Global Compact (UNGC), the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights, and the International Labour Organization's Declaration on Fundamental Principles and Rights at Work. In the other two cases, the internal ratings of the companies decreased. Regarding **sustainability factors**, social aspects were addressed in all six cases, and governance issues were tackled in two.

In terms of **action plans**, during the first quarter of 2023, we resolved to divest from two companies and commenced an engagement plan with another, concluding successfully by the end of the year. Later, two more companies saw their positions divested, and as of the end of 2023, deliberations on how to proceed with the final company were ongoing.

2. Action plans launched in 2022

Mining and metal sector .C rating. Controversies. Non-compliance with international standards. Social aspects. Sale.

In 2022, a severe incident directly caused by the company—associated with social issues resulting in significant negative impact on local communities—led to controversies and breaches of multiple international standards, which caused the rating to drop from B to C. Following an analysis and considering the prevailing issues, no viable options were identified for maintaining engagement with the company. Hence, the position **was sold** in March 2023.

Communications sector .C rating. Social aspects and governance. Sale.

The company's rating deteriorated from B to C at the end of 2022, attributed to concerns over privacy and data security (social aspects) and corporate behavior (governance). Following an evaluation period and in light of the issues presented, no feasible plans for engagement were found. Hence, the decision was made to **sell the position** in February 2023.

Automotive sector .C rating. Controversies. Non-compliance with international standards. Social aspects. Commitment.

A very serious incident at the end of 2022, related to social matters impacting human rights within the production chain, gave rise to controversies and violations of several international standards, leading to a downgrade from B to C. In response, a 2023 **engagement and dialog plan** were initiated with the company. The plan's objectives were to clarify the company's conduct, recommend enhancements to transparency and communication, and implement solutions to the issues.

As a consequence of a favourable external audit in December 2023, **the company's rating was upgraded from C to B, marking the successful completion of the engagement effort, which met the action plan's goals**. The company's handling of the events was consistent with communications during the engagement process. Detailed information about the internal social policy, encompassing the entire group, including subsidiaries and joint ventures, was thoroughly and sufficiently disclosed. The engagement objectives were achieved, generating long-term value by addressing the contentious issue that was adversely affecting the company.

3. Action plans launched in 2023

Health sector .C rating. Controversies. Non-compliance with international standards. Social aspects. Sale.

In April 2023, a severe incident caused directly by the company, pertaining to social concerns about product safety and quality, led to controversies and breaches of various international standards, resulting in a downgrade in the rating from B to C. After a period of evaluation and considering the challenges at hand, no viable strategies were identified to continue an engagement with the company. Consequently, the decision was made to **divest** in April 2023.

Automotive sector .C rating. Social aspects and governance. Sale.

In late November 2023, the company's rating declined from B to C due to social issues, notably the inferior quality of its products compared to competitors, and governance issues related to poor corporate governance and unethical business practices by the leadership and major shareholders. Following an evaluation period and in light of the issues presented, no feasible plans for engagement were found. Therefore, the position **was sold** in mid-December 2023.

Mining and metal sector .C rating. Controversies. Non-compliance with international standards. Social aspects. Analysis.

In November 2023, a very serious incident directly caused by the company due to social issues affecting labor rights in the production chain led to the downgrade of the rating from B to C. The situation was studied and at the end of 2023 it was still in the **analysis** phase, without making any decision on whether to initiate an action plan or sell the position.

4. Engagement and dialog with shareholders and stakeholders

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

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

In 2023, 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).

This year has also been notably active regarding the launch of regulatory initiatives and discussions about the European Commission's Sustainable Finance Action Plan.

Significant **new initiatives** included consultations by: the European Securities and Markets Authority (ESMA) on guidelines for ESG terminology in fund naming; and jointly by the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and ESMA—following a European Commission mandate—on revising regulations that define sustainability disclosure obligations under Regulation (EU) 2019/2088 concerning sustainability-related disclosures in the financial services sector (SFDR). This focuses on refining and expanding the definition of principal adverse impacts and proposing to streamline disclosure templates for products with a sustainable approach. Additionally, the proposed European Regulation on transparency and integrity in ESG rating activities is deemed critical for the sustainable investment market's efficiency. It deals with transparency in ESG rating methodologies, conflict of interest prevention and mitigation, and the remuneration and authorization of providers.

Following the initial years of the Sustainable Finance Action Plan's implementation, the European Commission found it prudent to **collect** insights from the industry and various market stakeholders **about their experiences with the implementation of the SFDR**. The European Commission seeks to comprehend the application of SFDR, its potential shortcomings, and takes into consideration the broader sustainability-related regulations to explore options for refining the legislative framework in the future. Meanwhile, the EBA, EIOPA, and ESMA have progressed in their reporting on the definition of 'greenwashing,' detailing its key characteristics, driving factors, and associated risks within their regulatory domains, aiming to enhance prevention strategies.

The Management Company has actively participated in most of the legislative initiatives discussed and the debate over the implementation of SFDR and regulations on sustainable finance. It has contributed perspectives through relevant industry forums and/or direct engagement.

Lastly, advancements in defining the **EU Green Taxonomy** are viewed positively, notably with the publication of Delegated Regulation (EU) 2023/2486, which finalizes the pending environmental objectives. Additionally, improvements in non-financial reporting by companies in accordance with the Corporate Sustainability Reporting Directive (**CSRD**) and subsequent developments are commendable. In particular, the establishment of the first set of European Sustainability Reporting Standards (**ESRS**) that companies must adhere to when disclosing information regarding their ESG impacts, risks, and opportunities, stands out. It is anticipated that these developments will broaden and enhance the quality of available sustainability information in the coming years, thereby contributing to improved portfolio management with an ESG focus.

In addition to the aforementioned activities, concerning **communications**, the Management Company participated in various industry forums and conferences in 2023:

- Amundi ESG Days in Paris, Robeco's Factors and ESG Days in Madrid, CNMV's Regulation and Sustainability Day in Barcelona, Schroders' Net Zero Day in Madrid, BBVA Asset Management Europe's Pensions Day in Madrid and BBVA's Insurance Day in Madrid.
- Roundtables organized by Robeco, BNP, and BME in Madrid.
- Madrid Investor Networking Day (MIND) event.
- BME Medcap Forum in Madrid.
- BBVA Asset Management Europe's Investment Conferences in Madrid, Bilbao, and Barcelona.
- Participation in SpainNAB's impact investment workshops in Madrid.
- Surveys conducted by Spainsif and the Inverco Finresp Observatory.

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).

On the [BBVA Asset Management Europe website](#), we **share sustainability-related information** through the publication of articles, podcasts, and videos. In 2023, we updated the section that aggregates this content, organizing the topics into three categories: sustainability, sustainable solutions, and solidarity. Two articles, one podcast and two interviews were published in the media on topics specifically related to sustainability. Additionally, an infographic detailing ESG policies and the climate strategy has been prepared. In total, this content is equivalent to three hours of training.

In December 2023, we hosted a specialized sustainability **training** session in the Pension Training Classroom for institutional clients in Madrid, focusing on the integration of sustainability into investment strategies. Furthermore, all investment teams of the Management Company received training on incorporating the sustainability pillars of BBVA Asset Management Europe into the investment process, climate strategy, and regulatory updates.

Concerning individual **learning initiatives**, throughout 2023, BBVA AM&GW employees earned 17 international ESG certifications, of which ten are staff from the Management Company. Altogether, 82 individuals at BBVA AM&GW now hold prestigious ESG credentials, with 46 being part of the Management Company staff.

These efforts led to Funds People bestowing the Best Sustainability Team Award on BBVA Asset Management in February 2023.

ii) Application of the voting policy during 2023

In application of the aforementioned criteria, with data on consolidated rights from 29 December 2022, the Management Company initially chose 286 companies to exercise its voting rights (63 Spanish, 142 European and 81 North American), which account for more than 76% of the Management Company's voting rights.

Breakdown of issues voted during 2023:

Votes	In favor	Against	Abstentions	Total
Issues	41,725	4,543	69	46,337
Percentage	90%	10%	0%	100%

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

Issues voted against	Executive remuneration	Financial operations	Selection directors	Approval accounts	Other resolutions	Total
Points	1,324	469	1,410	0	1,340	4,543
Percentage	29%	10%	31%	0%	29%	100%

Besides direct investments in fixed-income and equity assets, the Management Company also invests in **funds and investment vehicles managed by third-party asset managers** for the vehicles and portfolios it oversees. The fund selection unit Quality Funds, a part of BBVA, is responsible for monitoring the engagement policies of these external managers. Information provided by Quality Funds indicates that, during the 2023 financial year, every equity collective investment scheme where the Management Company held a position maintained an active engagement policy and exercised voting rights in the invested companies.

This report details the voting activities conducted by the Management Company for the investment vehicles under its primary management. It also covers voting actions based on portfolio management mandates received from other asset managers, including, among

others, BBVA Pensiones, S.A., E.G.F.P. (hereafter referred to as BBVA Pensiones), and GPP. Both BBVA Pensiones and GPP have published their respective detailed engagement and voting reports for the 2023 financial year, accessible on the [BBVA Asset Management Europe website](#).

Principle 6. Conflict of interest management policy

Engagement actions and the exercise of voting rights can sometimes lead to conflicts of interest within the Management Company and/or among the unitholders or shareholders of the represented vehicles and portfolios. In these instances, the **Conflict of Interest Policy**, which is available on the [BBVA Asset Management Europe website](#), will be applicable.

The Management Company has implemented several measures to prevent and manage potential conflicts of interest in the execution of engagement actions and voting rights, including:

- Implementing an Engagement Policy guided by best practices and subject to regular review and updates.
- Maintaining an organizational structure that ensures independent and neutral action in the best interest of vehicle participants or shareholders.
- Establishing decision-making committees for addressing voting and engagement matters, as well as any associated potential conflicts of interest.
- Providing training for employees and board members on sustainability and conflict of interest issues.

Should the measures taken by the Management Company prove insufficient to prevent the risks of harming the interests of the managed vehicles, their investors, or other clients, the responsible service or activity area will promptly report to the Management Company's senior management. This enables them to make the necessary decisions to act in the clients' best interests.

If the measures adopted to manage a particular conflict of interest are inadequate to prevent client harm with reasonable certainty, the Management Company will impartially, clearly, and non-misleadingly disclose the general nature or origin of the conflict of interest to the client before acting on their behalf. This allows the client to make an informed decision on the investment.

Regarding **voting in BBVA Group companies**, conflicts of interest could arise. The Management Company has a voting procedure that avoids such conflicts by preventing the involvement of decision-makers from outside the Management Company and by setting up internal mechanisms for segregating voting decisions and reporting conflicts. The Management Company will not request or accept, from BBVA or any other controlled companies, any direct or indirect instructions on voting.

In 2023, no significant conflict of interest that required management was detected.

Principle 7. Remuneration policy

The General Remuneration Policy arises from compliance with the applicable regulations governing management companies in this field and the directives issued by regulatory authorities. It also involves adopting the relevant sections of the BBVA Group's remuneration policy. This policy is available on the [BBVA Asset Management Europe website](#).

The Policy governs **both the fixed and variable components of remuneration**:

- **Fixed remuneration:** reflects each employee's level of responsibility, job functions, and professional background, along with the principles of internal fairness and market valuation for their role. The granting and amount of fixed remuneration are based on pre-established objective criteria that are not subject to discretion. Constitutes the predominant portion of the overall remuneration.
- **Variable remuneration:** Consists of monetary or non-monetary payments or benefits supplemental to fixed remuneration, dependent on variable factors. It includes annual variable remuneration as well as, where applicable, other variable incentive plans and any other variable components that the Management Company may from time to time grant to its staff or specific employee groups.

The Policy **supports the Management Company's business strategy, thereby contributing to the BBVA Group's overall strategy**. It includes elements that ensure the prudent management of risk, the prevention and management of conflicts of interest, long-term sustainability, the robustness of the business model, and its sound growth and profitability. A range of indicators are utilized to determine the annual variable remuneration. These are aligned with the values and interests of the managed CIIIs (Collective Investment Schemes) and portfolios, as well as with the Management Company's strategic priorities and those defined at the Group level that are consistent with them. Included are sustainability indicators linked to the BBVA Group's direct actions on climate change.

Remuneration takes into account suitable quantitative and qualitative criteria. The total sum of remuneration tied to performance relies on an assessment beginning with a target annual variable remuneration. Metrics or indicators from the BBVA Group, area-specific and individual, both financial and non-financial, are applied on an annual basis. These metrics take into account the strategic priorities set by the BBVA Group and the Management Company, as well as present or potential future risks, which are weighted according to the fulfillment of specified objectives.

The Policy is founded on the following **principles**:

- Creating long-lasting value and sustainability.
- Achieving results through prudent and responsible risk management.
- Attracting and retaining top talent.
- Compensation for the level of responsibility and professional career.
- Upholding internal fairness, competitive parity in the market, and gender pay equality.
- Fostering responsible conduct, equitable client treatment, and the avoidance of conflicts of interest.
- Ensuring transparency in the remuneration model.

The Management Company's remuneration policy is in alignment with regulatory requirements and best market practices, which includes accounting for sustainability risks. **In 2023, it has updated its policy** to align it, as appropriate, with the BBVA Group's policy.