Sustainability Risk Integration

bpES | bp Energy Solutions, Sociedad de Valores, SA

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Introduction

The European Commission's Sustainable Finance Action Plan aims to connect finance with the specific needs of the European economy for the benefit of the planet and our society to adapt to a more sustainable model. The three priority objectives for the Plan are as follows:

- Redirect private equity flows to sustainable investments
- Promote transparency and long-term focus
- Integrating Sustainability into Risk Management

The implementation of these objectives results in a series of legislative initiatives with a vocation to improve the information provided to investors and shareholders in terms of sustainability, as well as to articulate the integration of ESG factors (environmental, social and governance) in the investment decision-making processes.

In this context, Regulation (EU) 2019/2088 of the European Parliament and of the Council on the disclosure of information related to sustainability in the financial services sector establishes in Article 3 that "*participants in the financial markets and financial advisors will publish on their websites information on their policy of integrating sustainability risks in their investment decision-making process*."

This document aims to respond to the applicable regulatory requirements and to articulate BPES' sustainability risk integration policy. S.V., S.A. (hereinafter, "bpES", "SV" or "ESI"), which defines and regulates the incorporation of ESG factors into the investment processes of the SV, and establishes the procedure, methodology and governance structure necessary for a comprehensive assessment of investment risks and opportunities by incorporating ESG factors.

1 Key Concepts.

Sustainability risk is understood as any condition or event derived from environmental, social and corporate governance factors that, if they occur, could cause a material negative impact on the value of the investment.

Sustainability risk focuses on the analysis of variables that, while outside a strictly financial scope, can be determining in the performance of a business and therefore have a future economic impact that ends up affecting the valuation of the investment.

ESG factors fall into three large groups:

- Environmental: these are those aspects that regulate the impact of a company or entity in relation to the environment and the natural environment. They often take into account issues such as measuring the company's carbon footprint, scarcity and efficient resource management, the use of clean energy, or the impact on the biosphere, among others.
- Social: are those criteria linked to the management of the company towards the people who may be affected by its activity (from employees or suppliers, to the whole of society).
- Governance: Linked to company management and leadership, internal policies, compensation from management, internal controls, etc.

2 Scope of Application.

This Policy will be applicable to the SV and its personnel. Notwithstanding the foregoing, the persons and departments of bpES involved in the application of this Policy are as follows:

- SV Board of Directors: will be primarily responsible for ensuring the integration of sustainability risks.
- Commercial Department: will be responsible for implementing the procedures that allow the identification and assessment of sustainability risks.
- Compliance Unit: will be responsible for the oversight of compliance with this Policy by the above departments and will report any detected non-compliance to the Board of Directors.
- Internal Audit Unit: will be responsible for the supervision of compliance with this Policy by the previous departments and will report any non-compliance detected to the Board of Directors.

All of them shall be referred to in this Policy as "Subject Persons" and shall assume as general principles of conduct to act with honesty, impartiality and professionalism in the best application of this Policy.

3 Sustainability Risk Integration.

The SV will incorporate ESG information into the provision of the advisory service in the procedures for identifying new investment opportunities, as well as in the monitoring of the risks inherent to its activity. In this regard, bpES has the technical and human means necessary for the correct integration of ESG criteria and, therefore, for the implementation of this Policy. The fixed integration model sits on the following pillars:

3.1 ESG Information

In the process of integrating ESG criteria into investment **decision-making linked to investment advice**, the SV may have external data providers that provide ESG information of most assets in the portfolio or potentially investable, as well as ratings and scores based on this information or may obtain this information internally, through knowledge of the companies or the dialogue activities or due diligence questionnaires. Both types of information are complementary.
The information may be:

- Quantitative: ratings or scores or sustainability indicators and metrics.
- Qualitative – Information on management strategies and team, environmental and social policies, or risk integration strategies.

For the selection of external ESG data providers, bpES will consider the following criteria:

- Robustness of the methodology used by the supplier to analyze the extra-financial information and configure the ratings.
- Degree of coverage of the different assets held in the portfolio or over which one wishes to invest, in order to limit as much as possible, the number of assets on which information on ESG factors and risks is not available.

3.2 Integration Methodology

The integration of ESG factors in investment decision-making linked to advice is understood under a holistic approach focused on enhancing and improving risk management (risk management) over the entire range of assets, and especially in those securities that present a high material risk. The objective of ESG integration is to support investment decisions, contributing to the discussion about the validity of different securities from a return-risk point of view.

In this context, the ESI has established several investment parameters that ensure that, in addition to traditional risks, sustainability risks that may impact the valuation of investable assets are taken into account. This ensures that ESG factors play a relevant role in the investment decision-making process.

These criteria apply to all assets on which there is sufficient information on ESG risks to make an informed investment decision. In addition, controls are established to limit, to the extent possible, investment in assets with respect to which there is no information related to sustainability text.

3.3 Tracking and Control

Proper management of sustainability risks requires ongoing monitoring and control while the investment is maintained, as it is necessary to monitor the time course of ESG risks to assets.

This follow-up and control is articulated in the following processes:

- Periodic review of ESG information, to monitor that it is updated in a timely manner.
- Periodic monitoring of the evolution of ESG factors and risks, to verify whether there have been deviations from the established limits and criteria.
- Communication of possible deviations to managers within the ESG governance structure in order to make decisions and, where appropriate, correct deviations

4 ESG/ESG Governance Structure: Roles and Responsibilities

The SV has an organizational structure for the development of ESG risk integration. The main responsibilities of the different bodies and units that are relevant to the governance and control systems of ESG/ESG risks are identified below:

- Board of Directors: shall be responsible for carrying out the following functions:
    - Approve ESG Risk Integration Policy
    - Be ultimately responsible for compliance with this Policy
    - Ensure appropriate risk management procedures are in place to identify and assess sustainability risks
    - Promote the SV sustainability strategy.
    - Provide the human and material means necessary for compliance with sustainability obligations.
    - Receive periodic information from the control units on the degree of compliance with sustainability obligations and, where appropriate, adopt the necessary measures to remedy the deficiencies detected.

- Commercial Department: will be responsible for performing the following functions:
    - Implement the thresholds and criteria set out in this Policy in the investment and advisory decision-making processes
    - Communicate to the Regulatory Compliance Unit any relevant information that may affect this Policy, so that the need to carry out a modification or update thereof can be analyzed.

- Regulatory Compliance Unit: will be responsible for the following functions:
    - Periodically monitor and evaluate business units' compliance with this Policy
    - Inform the Board of Directors of the degree of compliance with the Policy, as well as of any breach detected to the Board of Directors
    - Promote sustainability training if necessary

- Internal Audit Unit: will be responsible for evaluating the adequacy and effectiveness of the internal control systems and procedures defined in matters of ESG and will inform the Board of Directors of the conclusions obtained in said evaluation.

5 Policy Review, Modification and Approval

The Policy will be updated and/or modified at least in the following cases:

- When legal or regulatory changes occur that affect the Policy.
- At the proposal of the Control Units when it understands that there are aspects susceptible to improvement to achieve the proposed objectives or to adapt suitably to the characteristics of the services offered by bpES at all times.
- At the proposal of the supervisory bodies.

5.1 Document Information

Name	
Master Version Location	
Version	
Date	

5.2 Version and historical control

Version Number	Author (Name, Role)	Comments	Date