

# **POLICY ON THE INTEGRATION OF SUSTAINABILITY RISKS IN THE INVESTMENT PROCESS**

**December 2023**

*Translation originally issued in Spanish.  
In the event of discrepancy, the Spanish-language version prevails.*

## STATUS OF REVIEWS AND CHANGES

### A. Review dates

Review date	12/2023
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### B. Change details

VERSION	DATES	REASONS	CHANGES	Approved
1.0	21/12/2023	MV and MVP merger.	Initial drafting of the Policy after the merger of MV and MVP with reference to the existing MV policy.	By the Board of Directors meeting on 21/12/2023 (with effect from the effective date of the merger between MV and MVP).

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## 1. INTRODUCTION

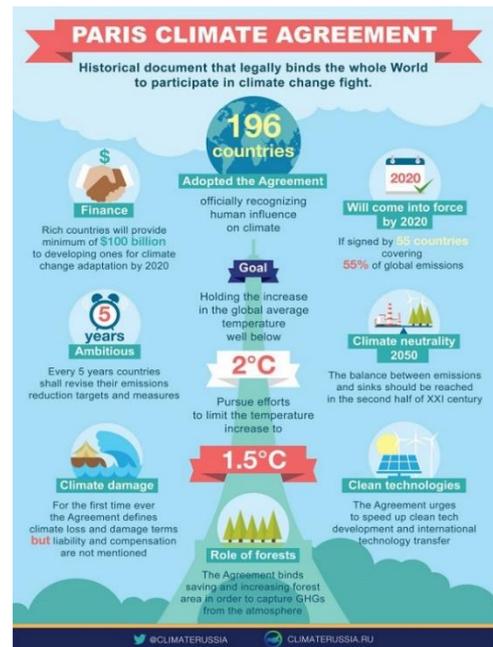
The growing importance of the global sustainability agenda, based on strategic projects such as the United Nations Sustainable Development Goals, the Paris Agreements and the European Green Deal, highlights the need for the insurance sector to have a repository of environmental, social and corporate governance indicators related to its activity.

In 2015, the United Nations General Assembly adopted a new global framework for sustainable



development at the COP21 conference in Paris, which produced the so-called Paris Agreement on Climate Change, consisting of the Sustainable Development Goals (SDGs) set out in the 2030 Agenda. These goals serve as a guiding instrument for preparing a future that ensures the stability of a just and sustainable society and planet through prosperous economies. The Paris Agreement aims to incentivise and strengthen the response to climate change by making financial flows consistent with an economy that contributes to achieving the SDGs by ensuring the long-term competitiveness of the global economy.

At the end of 2019, the European Commission presented a comprehensive plan to halt the advance of climate change in several policy areas called the European Green Pact. This pact sets out an action plan to boost resource efficiency by moving to a clean and circular economy, restoring biodiversity and reducing pollution. The Pact outlines the necessary investments and financing tools available to meet the commitments made in the Paris Agreement. The EU aims to be climate neutral by 2050. To achieve this goal, action will be needed in all sectors of our economy, the EU has developed laws that turn this political commitment into a legal obligation.





## 1.1. Regulatory Framework

### 1.1.1. Legal regulation

	<b>REGULATION OF TAXONOMY</b>	<i>Regulation (EU) 2020/852 on establishing a framework to facilitate sustainable investment (EU Taxonomy).</i>
	<b>REGULATION DISCLOSURE-SFDR -</b>	<i>Regulation (UE) 2019/2088 on sustainability-related disclosures in the financial services sector (hereinafter "SFDR Regulation"). This regulation requires financial market participants and financial advisers to disclose specific information on how they address the integration of sustainability risks and the analysis of adverse sustainability impacts.</i>
	<b>LOCAL REGULATIONS</b>	<i>Law 7/2021 of 20 May on climate change and energy transition.</i>
	<b>SII REGULATION</b>	<i>EU Delegated Regulation 2021/1256 21 April 2021 amending EU Delegated Regulation 2015/35 as regards the integration of sustainability risks in the governance of insurance and reinsurance undertakings.</i> <i>Directive 2014/95/EU regarding the disclosure of non-financial information and information on diversity by certain large companies and certain groups and its transposition in Law 11/2018 of December, regarding non-financial information and diversity.</i>
	<b>INFORMATION NON-FINANCIAL</b>	<i>Directive UE 2022/2464 of 14 de December 2022 as regards corporate sustainability reporting (CSRD)</i>

The main objective of this document is to set out the Policy for integrating sustainability risks into your decision-making process, taking into account article 3 of Regulation (EU) 2019/2088 on sustainability disclosures in the financial services sector. This regulation establishes the need to specify in their policies how they integrate into their investment management processes, as well as assess on an ongoing basis, all relevant sustainability risks that could have a material adverse effect on the financial performance of the investment and publish them.

This Policy is approved by the Board of Directors of the Entity and will be reviewed annually.

### 1.1.2. Internal regulation

- o Code of Conduct.
- o Criminal Liability Prevention Manual

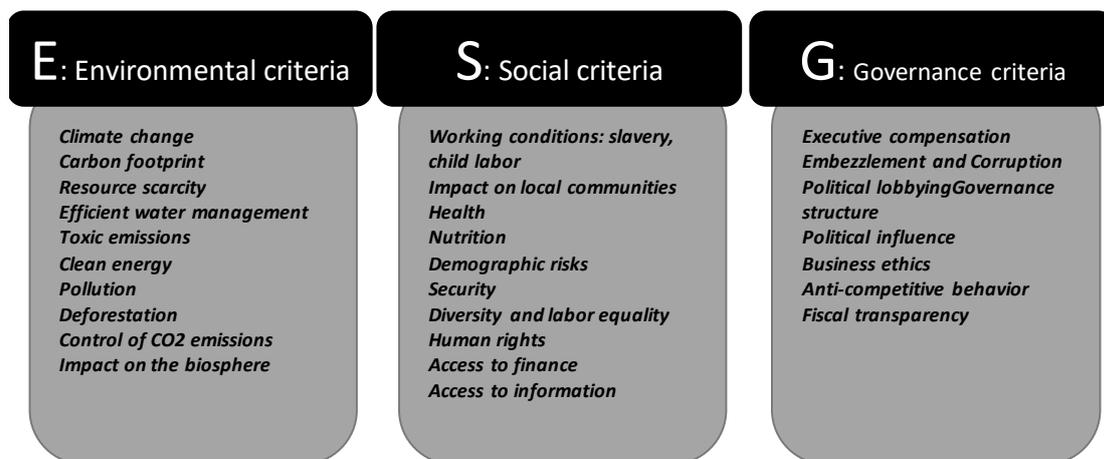
## 2. OBJECTIVES, DEFINITION AND PRINCIPLES

### 2.1. Objectives

Financial market participants should integrate into their processes the ongoing assessment not only of all relevant financial risks but also of all sustainability risks that could have a material adverse effect on the financial performance of the investment. Therefore, financial market participants should specify in their policies how they integrate such risks and make them publicly available.

MedVida Partners de Seguros y Reaseguros, S.A. (Sociedad Unipersonal) (hereinafter MedVida Partners or the Entity) will ensure the identification and assessment of sustainability risks in the areas of *underwriting* and *investments*, with the aim of taking into account the responsible use of resources and environmental, social and governance concepts in its investment decisions. This policy aims to change the investment process towards sustainability by setting out the principles of action in investment management.

Sustainability criteria include not only *environmental* criteria, but also *social* and *governance* criteria, therefore, the main objective of this policy is to establish the general framework for sustainability risk assessment and the consideration of ESG factors<sup>1</sup> in order to ensure their correct integration and therefore compliance with applicable regulations.



<sup>1</sup> ESG stands for Environmental, Social and Governance criteria.

## 2.2. Definition of sustainability or ESG risks

The SFDR Regulation establishes the following definitions:

- **Sustainability risk:** An environmental, social or governance event that, if it occurs, could cause an actual or potential negative impact on the value of the investment or the value of the liability.
- **Sustainability factor:** Any information related to environmental and social issues, as well as personnel, respect for human rights and the fight against corruption and bribery.

For the Entity, environmental, social and governance risks are defined as follows:

- **Environmental risks:** Issues relating to the quality and functioning of the natural environment and natural systems. These risks include: biodiversity loss, greenhouse gas emissions, climate change, renewable energy, energy efficiency, air, water or resource depletion or pollution, waste management, stratospheric ozone depletion, land use change, ocean acidification, and changes in nitrogen and phosphorus cycles.
- **Social risks:** Issues relating to the rights, welfare and interests of individuals and communities. These issues include: human rights; labour standards in the supply chain; child, slave and bonded labour; workplace health and safety; freedom of association and freedom of expression; human capital management and employee relations; diversity; relations with local communities; activities in conflict zones; health and access to medicine; HIV/AIDS; consumer protection; and controversial weapons.
- **Governance risks:** Issues related to the governance of companies and other investees, including: board structure, size, diversity, skills and independence, executive pay, shareholder rights, stakeholder interaction, disclosure, business ethics, bribery and corruption, internal controls and risk management, and, in general, issues related to the relationship between an Entity's management, its board of directors, its shareholders and its stakeholders.

This category may also include business strategy issues, which cover both the implications of the business strategy for environmental and social issues, and how the strategies will be implemented. Governance issues also include fund governance issues, the powers of advisory committees, valuation issues, fee structures, etc.

## 2.3. Basic principles

### 2.3.1. Principle of proportionality

Bearing in mind that the solvency of insurance entities must be assessed individually according to the nature of their risks, we can consider that the integration and assessment of the sustainability risks of an entity in its Solvency II governance system will be carried out according to and in proportion to the nature, scale and complexity of the risks inherent to its activity.

### 2.3.2. Principle of Prudence

Investment shall be made only in assets and instruments the risks of which can be properly identified, measured, monitored, managed, controlled and notified, taking due account of the assessment of overall solvency needs. All assets, in particular solvency capital requirement and minimum capital requirement cover assets, shall be invested in such a way as to ensure the safety, liquidity and profitability of the portfolio as a whole.

The covering assets of the technical provisions shall also be invested in a manner consistent with the nature and duration of the insurance and reinsurance obligations. These assets shall be invested in the general interest of all policyholders and beneficiaries, taking into account all stated policy objectives.

### 2.3.3. Principle of Effectiveness and Efficiency

The principle of effectiveness aims at achieving the objectives by complying with the principles of the stated objectives.

The principle of efficiency, which complements the principle of effectiveness, aims to optimise the use of resources in order to achieve the stated objectives.

### 2.3.4. Principle of Integration

The substantial contribution to sustainability risk mitigation (ESG) shall be duly integrated into the organisational structure of the Entity in a cross-cutting manner, in investment management decision-making as well as in its underwriting activity.

### 2.3.5. Principle of Accountability

Responsibility in the Company for compliance with the Sustainability Risk Integration Policy lies mainly with the Risk Function and the Investment Department, with the Board of Directors being ultimately responsible for compliance with the Policy.

### 2.3.6. ESG principles

MedVida Partners takes the UN Global Compact Principles as a reference:

MedVida Partners rejects any illegal or fraudulent practice to obtain business advantages and has mechanisms in place to prevent, monitor, denounce and sanction any practice of this nature that becomes evident in the Group, in any of the territories in which it operates.

MedVida Partners rejects any conduct that may entail a violation of human rights and aims to consolidate a culture of respect for people and behaviour that is favourable and open to diversity, as well as to guarantee effective equality of opportunities and treatment for all groups with which it interacts.

### 3. ORGANISATIONAL MODEL

#### 3.1. Organisational structure

Responsibility for the management of ESG risks falls on all units of the entity, the first line in terms of taking positions and management, the second in terms of evaluation, control and reporting, and the third in the evaluation of effectiveness. In particular, the Risk Function at MedVida Partners is the responsibility of the Director of Risk, with the support of both the Risk Unit and the Risk Committee.

This structure is considered appropriate in view of the size, nature, scale and complexity of the Entity's operations.

#### 3.2. Relations with other Units.

In carrying out its activities, the Risk Function must coordinate with the other Core Functions, as well as with the other units, as it has to use the information and documentation generated by them to achieve the Entity's risk management process, including ESG risks. In this respect, a cooperative working relationship between the Risk Function and the other areas of the Entity is conducive to proper management.

In order to monitor sustainability risk management, the Risk Function is authorised to request the information it deems relevant. In the event that the person responsible for such information considers it to be of a restricted nature, express authorisation shall be required, for which purpose the corresponding authorisation mechanisms shall be developed. The information requested shall be provided within a reasonable period of time and shall be accurate and complete. In this regard, the Risk Function may also require ongoing access to relevant data and IT systems.

The Risk Function shall communicate to the other key functions of the Entity those events that are relevant to the achievement of its objectives.

The Risk Function shall immediately report any attempt to hinder the performance of its duties to the Chief Executive Officer of MedVida Partners and ultimately to the Board of Directors of MedVida Partners or its delegated committees.

#### 3.3. Resources

The Risk Function shall have sufficient resources to fulfil its objectives effectively and independently, including human, technological and financial resources.

The team of people involved in the Function shall be appropriately sized to fulfil its responsibilities, taking into account the volume and complexity of its activities. The head of the Risk Function shall have the necessary knowledge, skills and competencies to fulfil its responsibilities.

In addition, the head of the Risk Function shall comply with the competency framework and the fit and proper requirements for the position.

For the performance of certain activities, external experts may be appointed, in which case the head of the Risk Function must ensure that he/she has a proper understanding of both the procedures performed and the implications of the results obtained by the assigned external experts.

#### 4. OPERATIONAL MODEL

##### 4.1. Competences and responsibilities of the areas affected by the integration of sustainability risks in the investment decision-making process

###### 4.1.1. The administrative, managerial and supervisory bodies are responsible for

The administrative, managerial and supervisory body should promote the integration of sustainability risks by facilitating their identification and assessment through the following actions:

- Define the entity's strategy for the incorporation (adaptation and mitigation) of ESG risks.
- Identify the risks that may cause real and potential impacts for the entity, considering the economic, social, political, technological and regulatory environment in the short, medium and long term.
- Establish the institution's strategy that it has decided autonomously, taking into account its risk appetite.
- Set general guidelines for governance policies consistent with the impacts of ESG risks.
- Integrate ESG risks to a greater or lesser extent into different areas of the institution's strategy (e.g. investment, business, HR and incentives) so that ESG risks can be taken into account to a greater or lesser extent.

Management should promote the integration of sustainability risks, facilitating their identification and assessment through the following actions:

- Establish the tasks and responsibilities appropriate to the entity's personnel in relation to the identification, assessment and management of ESG risks.
- Establish processes for the involvement and coordination of the entity's staff in the strategic plans relating to these risks (including training plans if necessary).
- Establish procedures and reporting processes to ensure appropriate monitoring of established strategic plans.
- Establish effective procedures for proper monitoring of ESG risks in risk management.
- Introduce, as far as possible, effective monitoring systems across functions.

#### 4.1.2. The Risk function is responsible for

The Risk Function should support the integration of sustainability risks by facilitating their identification and assessment through the following actions:

- Establish a risk management strategy that can be taken into account in the capital or strategic plan; setting priorities, exclusions, approved tolerance limits for certain ESG factors.
- Establish procedures and reporting processes to ensure active monitoring and analysis of information on significant ESG risks faced by the Entity and the effectiveness of the risk management system to identify, address and incorporate appropriate modifications to the system where necessary.
- Monitor potential impacts on sustainability risks in the entity's general policies, including, where appropriate, underwriting and/or investment policies.
- Monitor the impact on liabilities (BE) and assets of investment impairment arising from sustainability risks.
- Review of compliance with transparency requirements in relation to sustainability.
- Impact assessment of ESG risks versus operational and reputational risk.
- Establishment of mitigation measures and possible contingency measures for ESG risk impacts.

The risk function must identify and assess sustainability risks. These risks must also be taken into account as elements in the assessment of the overall solvency requirements. Within the risk management areas, sustainability risks shall be explicitly incorporated into the tasks of each area:

##### **Investment risk management:**

The entity takes measures to ensure that sustainability risks related to the investment portfolio are properly identified, assessed and managed.

The integration of ESG criteria in investment management as a policy principle is compatible with the establishment, where appropriate, of criteria for excluding certain assets from the investment portfolio.

The potential impacts of sustainability risks on the entity's investments are:

**Physical risks:** Risks arising from the physical impacts of events and trends of the sustainability driver under consideration (e.g. weather or other factors) on assets, companies and sectors, to the extent that they affect profitability and cost of doing business and may result in impacts on financial assets and portfolios (i.e. debt, equity).

**Transition risk:** Risks arising from market, policy, technological and social changes, which affect the profitability and costs of the various businesses and sectors affected by the

changes, to the extent that they may result in impacts on financial assets and portfolios (i.e. debt, equity).

**Liability risks:** Risks arising from litigation (e.g. a class action lawsuit related to consideration of climate change in investment decision-making, or inadequate disclosure of climate risks).

#### 4.1.3. Investment Committee Responsibilities

Investment Committee will monitor compliance with the criteria of this policy and will report on potential conflicts of interest that may arise in this area.

Review this policy at least annually, with any amendments considered appropriate being submitted to the Board of Directors for approval.

#### 4.1.4. Investment Department Responsibilities

The Investment Department is responsible for the implementation of this Policy established by administrative, managerial and supervisory bodies, Risk Management function and Investment Committee.

### 4.2. Control and monitoring of sustainability risk integration process

MedVida Partners will limiting its investment in companies that demonstrate the least effort to contribute to a more sustainable future. Where relevant and reasonably possible, **the analysis of investments should include information on ESG considerations.**

ESG risks should be taken into account when making investment decisions<sup>2</sup>. To this end, MedVida Partners has established certain ESG related investment criteria described below.

#### 1. Restrictions relating to sectoral exclusions.

These sectoral exclusions are applied to unit linked and pensions funds.

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<sup>2</sup> SFDR - Art.6 - 1. a) how sustainability risks are integrated into investment decisions; and b) the results of the assessment of the potential impact of sustainability risks on the profitability of the financial products they offer.

Delegated Regulation SII - Art. 260.1. c) measures that the insurance or reinsurance undertaking shall take to ensure that sustainability risks related to the investment portfolio are identified, assessed and appropriately managed.

Delegated Regulation SII - Art. 275a. 1. Integration of sustainability risks into the principle of prudence. When identifying, measuring, monitoring, controlling, reporting and assessing risks arising from investments, in accordance with the first subparagraph of Article 132(2) of Directive 2009/138/EC (SII), insurance and reinsurance undertakings shall take into account sustainability risks.

Sector	Absolute limit (%)	Minimum Moody's ESG Scores
Controversial weapons	5	50
Fossil Fuels	5	50
Tobacco	5	50
Gambling	5	50
Adult Entertainment	0	N/A
Transgenics	0	N/A
Alcoholic Beverages	5	50
Animal testing	0	N/A

Absolute limit means the maximum percentage of portfolio investment in each controversial sector. The computation of the portfolio shall not take cash into account.

Moody's ESG Scores are issuer-specific scores reflect Moody's assessment of the likelihood and magnitude of current and future credit exposures related to the category of ESG risk, including, for example, the impact they have on the value of the underlying collateral backing the securities, in addition to considering how the transaction's governance affects its credit quality. Moody's ESG Scores provide a ranking against other companies in the same investment universe, with 100 being the best score. The rest of the investments different from unit linked and pensions funds must have a score of 40 or greater in the above listed sectors, unless otherwise approved by the Investment Committee.

*In the case of investment proposals outside these limits, the investment will not be restricted as long as the Investment Committee approves it, providing an analysis of the justification of the investment and Moody's score.*

(In all of the above cases it is understood that the ESG score may be from Moody's or a similar provider).

## 2. Inclusion criteria based on alignment with the United Nations Global Compact Principles

The following principles of the UN Global Compact are verified in accordance with best market practice to unit linked and pensions funds.

UN Global Compact Principles	Description
Principle 1:	Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence.
Principle 2:	Businesses should make sure that they are not complicit in human rights abuses.

<b>Principle 3:</b>	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.
<b>Principle 4:</b>	Businesses should support the elimination of all forms of forced and compulsory labour.
<b>Principle 5:</b>	Businesses should support the elimination of child labour.
<b>Principle 6:</b>	Businesses should uphold the elimination of discrimination in respect of employment and occupation.
<b>Principle 7:</b>	Businesses should maintain a precautionary approach that favours the environment.
<b>Principle 8:</b>	Businesses should encourage initiatives that promote greater environmental responsibility.
<b>Principle 9:</b>	Businesses should encourage the development and diffusion of environmentally friendly technologies.
<b>Principle 10:</b>	Businesses should work against corruption in all its forms, including extortion and bribery.

Preference within the investment universe different from unit linked and pensions funds will be given to companies that comply with the following principles of the UN Global Compact.

### 3. Investment in Sustainable debt market.

All else being equal, MedVida Partners will have a preference for investments that are classified as sustainable debt market instruments. The International Capital Markets Association (ICMA) established the following types of sustainable debt:

- Green Bonds
- Social Bonds
- Sustainable Bonds
- Sustainable linked Bonds
- Climate Bonds

### 4. Investment in private debt market

All else being equal, MedVida Partners will have a preference for investments in the private debt market that pursue the following investment objectives:

- Renewable Energy
- Clean Transportation
- Sustainable water and wastewater management
- Energy efficiency
- Protection and restoration of biodiversity, ecosystems and environmentally sustainable management of natural resources
- Pollution prevention and control and circular economy
- Adaptation to climate change

## 5. Country restrictions

MedVida Partners sets the following restrictions on all investments in countries that do not combat money laundering and terrorist financing are excluded, through the exclusion of countries on the FATF black and grey lists (Financial Action Task Force).

### 4.3. Integrating sustainability risks into remuneration policy

Remuneration policy should be used as a tool for integrating sustainability risks into the Entity's strategic decisions.

The policy should include information on the consistency of the integration of sustainability risks by publishing such content on their websites.

This transparency obligation shall take into account the legal obligations established, considering that the integration of sustainability risks in the remuneration policy must be coordinated with the information that the institution must or may report in this respect.

### 4.4. Exercising voting rights and engagement

MedVida Partners has chosen not to develop an Implication Policy as indicated in Royal Decree 288/2021 of 20 April amending Royal Decree 1060/2015 of 20 November as a consequence of the transposition of Directive (EU) 2017/828 of the European Parliament and of the Council of 17 May 2017, amending Directive 2007/36/EC as regards the encouragement of long-term shareholder involvement for insurance undertakings authorised to operate in the life insurance business, with respect to life insurance activity, by not including in their long-term investment strategy investments in shares of companies admitted to trading on a regulated market located in a Member State of the European Union.

### 4.5. Communication channels and information flow

Financial market participants shall publish on their websites information on their policy for integrating sustainability risks into their investment decision-making process.

Financial advisors shall publish on their websites information on their policies for integrating sustainability risks into their investment or insurance advice.

MV has internal mechanisms for preventing, monitoring, reporting and sanctioning practices that violate the Group's standards.

## 5. RULES OF CONDUCT

The Risk Function must comply with the rules of conduct described in the Entity's Fit and Proper Policy.

## 6. CONTINGENCY PLANS

The Risk Function has identified its risks, the controls associated with each of the risks and the risk indicators associated with these controls, as well as the contingency plan established in each case, which have been incorporated into the Entity's Process Map, where all material risks are identified and grouped together, as well as their contingency plan.

The Entity has a Business Continuity Plan which constitutes the reference framework aimed at facilitating the definition, management, administration and implementation of the mechanisms and procedures necessary to ensure recovery in the event of a partial or total contingency, affecting our Customers and therefore our Business as little as possible.

## 7. ADMINISTRATION AND POLICY CHANGES

The responsibility for periodically reviewing this Sustainability Risk Integration Policy, at least once a year, lies with the head of the Risk Function, who will assess whether its content continues to be adequate to enable the activity to meet its objectives, or if necessary, update it for approval by the Board of Directors.

Any amendment to this document shall be subject to the prior approval of the Board of Directors.