

Sustainable and responsible investment policy

Global policy approved for UK adoption at
SAM UK PGC on 22 July 2021

Version 1.2 (incl. SAM UK SRD II Statement)



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1. Introduction

Santander Asset Management Group (hereinafter “SAM”) can have a relevant impact on society and the environment through its investment activities.

On the other hand, environmental, social and governance aspects (hereinafter ESG) can have an impact on investments.

In this regard, there is already a high degree of consensus within the asset management industry with respect to the fact that the consideration of ESG aspects in investment decisions contributes to a better management of risks and to exploring new opportunities that create value for clients and society as a whole.

As asset managers, each local unit of SAM has the fiduciary duty to always act in the long-term interest of its clients. In order to fulfil this duty, it is necessary to consider the financial aspects together with the extra-financial ones in order to have a more complete vision of the assets under management, which often results in better-informed investment decisions.

Consequently, SAM's purpose is to act in a responsible manner, assuming a series of commitments beyond legal obligations, through a better management of risks and opportunities **(including those related to sustainability)**, seeking to meet the financial objectives of customers while contributing to a sustainable development of businesses and society.

SAM's purpose is to try to maximize its contribution to sustainable development, promoting the positive impact of its activities, while being aware that these can generate adverse impacts on sustainability factors, which must be managed properly, trying to minimize them whenever necessary, keeping in mind the objective of always acting in clients' best interest.

SAM's responsible and sustainable investment approach is inspired by the United Nations Principles of Responsible Investment:

- Incorporate ESG issues into investment analysis and decision-making processes.
- Incorporate ESG issues into our ownership policies and practices.
- Seek appropriate disclosure on ESG issues by the entities in which SAM invests.
- Promote acceptance and implementation of the Principles within the investment industry.
- Work together to enhance SAM's effectiveness in implementing the Principles.
- Report on SAM's activities and progress towards implementing the Principles.

This policy defines the sustainable and responsible investment (hereinafter SRI) approach of SAM and defines the criteria considered in the integration of ESG variables in the investment process. It also incorporates other relevant aspects as part of its fiduciary duty, such as the exercise of voting rights and engagement activities, which are described in detail in the corresponding policies defined in this regard.

2. Scope of application

This policy was drawn up by SAM and is made available to local units in each geography as a reference document, establishing the regime to be applied in the matters referred to in this policy.

Each local unit is responsible for drawing up and approving their own internal regulations to enable the local application of the provisions contained in this policy, with the adaptations that, where applicable, may be strictly essential to make them compatible and enable them to comply with legal and regulatory requirements or with the expectations of their supervisors.

The approval of this local internal regulation must be validated by SAM's Risk and Compliance global area, after reviewing it in cooperation with SAM global SRI team, so as to guarantee coherence with the internal regulatory and governance system operated by SAM.

This policy **aims** to be applied to all assets, sectors and countries in which SAM invests through its active investment **products managed by any entity within SAM's Group. Illiquid products and those funds that are passively managed (such as guaranteed, structured or index funds) fall outside the scope of this policy.**

The investment process defined in section 4 of this policy applies to direct investment in equities and fixed income, as well as to indirect investment **through funds managed by third parties. In the case of funds mandated to third-party managers, SAM performs an analysis of the manager's ESG capabilities, which is incorporated into the RFPs (Requests for proposal), being especially relevant for mandates with a sustainable and / or responsible approach.**

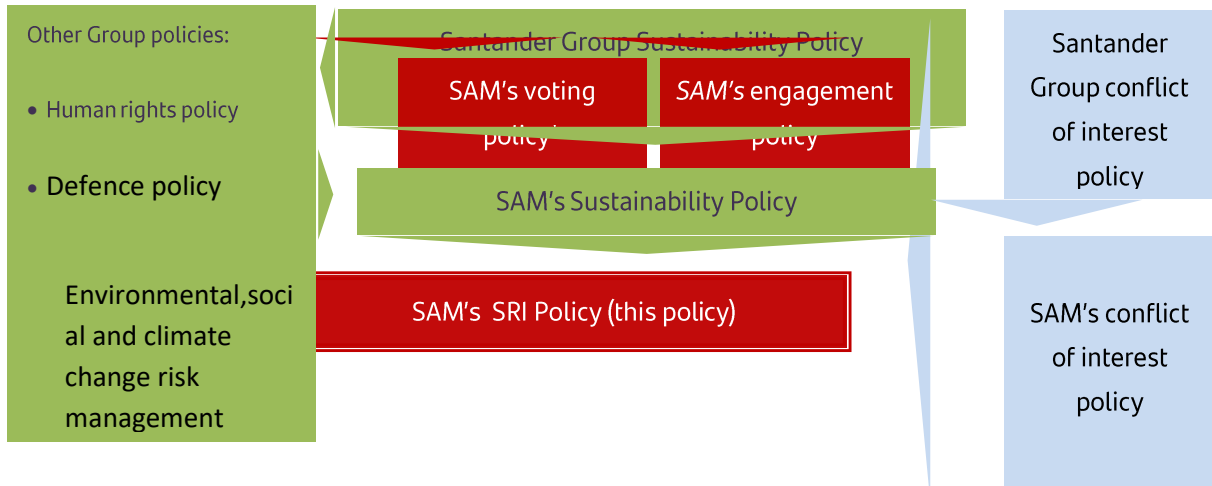
3. General principles of reference and relationship with other policies

This policy, which defines the general guiding principles of SAM regarding sustainable and responsible investment, is based on the best practices included in international conventions and protocols, codes of conduct and internationally relevant guides on this particular subject, including:

- UN Principles for Responsible Investment
- UN Global Compact
- United Nation Sustainable Development Goals.
- United Nations: Universal Declaration of Human Rights.
- The United Nations Guiding Principles on Business and Human Rights.
- OECD guidelines for multinational companies.
- The International Labour Organization's (ILO) Fundamental Conventions.
- Agreements reached at the 2015 COP21 summit on climate change in Paris.
- Task Force on Climate Related Financial Disclosures Recommendations - Financial Stability Board
- United Nations Convention Against Corruption

- Conventions and treaties on non-proliferation of weapons included in Santander Group’s General Policy on Defence Sector
- International Corporate Governance Network (ICGN) Global Stewardship Principles
- OECD Principles of Corporate Governance
- Local Corporate Governance Codes (e.g. Spanish National Securities Market Commission’s (CNMV) Code of Good Governance, UK Stewardship Code, AMEC Stewardship Code in Brazil, etc.)

This policy is complemented by other SAM and Santander Group policies, according to the following chart:



4. ESG methodology, tools and investment process

SAM carries out an ESG assessment of the different assets in which it invests, which allows a broader view of the **sustainability** risks and opportunities they present. This analysis seeks to identify those issuers that are better prepared to face future challenges and, therefore, have policies and management systems with greater potential for positive impact on society and the environment and that allow them to anticipate and avoid potential ESG risks.




The ESG assessment is a robust process that takes into account different components:

- A valuation analysis where the behaviour of issuers is assessed in relation to different environmental, social and governance factors. For this assessment, SAM uses the information provided by external data providers, incorporating it into its own valuation methodology. This methodology is designed by the SAM SRI team and based on market references and the main international frameworks and standards resulting in an ESG rating of each issuer.
- Exclusions based on the nature of the activities carried out by the issuers or on the identification of risks through the monitoring of possible controversial issues. The exclusions are based on the policies of Santander Group, which apply to different sensitive sectors. In addition, other exclusions are applied for non-compliance with regulations or are related to specific SRI products conditions.

The ESG evaluation of companies **is based on the concept of double materiality and takes into account the impact of ESG criteria on investments, as well as the impact of investments on sustainability factors.** This assessment is composed of general analysis criteria - common to all sectors - and specific criteria - depending on the sector and activity - covering all relevant ESG aspects related to the essential thematic areas for an environmental, social and good governance analysis.

For the analysis of governments, SAM uses ESG criteria adapted to the characteristics of each country.

Examples of ESG criteria:

	Analysis for companies	Analysis for governments
 <p>Environmental</p>	<ul style="list-style-type: none"> • Strategy and environmental management • Climate change • Natural resources • Pollution prevention and control 	<ul style="list-style-type: none"> • Energy • Climate change • Natural capital • Emissions and pollution
 <p>Social</p>	<ul style="list-style-type: none"> • Human capital • Client and product • Community • Products and services with a social focus 	<ul style="list-style-type: none"> • Health and nutrition • Education and wellbeing • Employment and equality
 <p>Governance</p>	<ul style="list-style-type: none"> • Corporate governance • Business ethics 	<ul style="list-style-type: none"> • Civil rights • Corruption • Government effectiveness

Summary table of ESG analysis applications:

			All products	SAM products	SRI products
Exclusions	Exclusions by activity	Exclusions related to Santander Group policies on sensitive sectors.	✓		✓
	Other exclusions	Exclusions related to the analysis of controversial issues and exclusions related to specific SRI products.			✓
Valuation analysis	ESG assessment	Analysis of the behaviour of issuers in relation to different environmental, social and corporate governance criteria. It results in an ESG rating for each issuer.	✓		✓
	Best in class analysis	Analysis that aims to identify those issuers with a better ESG performance.			✓
	Thematic analysis	Analysis that seeks to identify those issuers that contribute prominently to the development of certain social and / or environmental issues.			✓

In the case of third-party funds, and when possible due to information availability, SAM conducts an ESG analysis in order to assess their alignment with SAM's SRI approach.

This analysis is carried out by SAM's global SRI team, through its own ESG methodology and is made available to the investment teams in the different local units. Additionally, the SRI team maintains continuous contact with the investment teams to ensure the appropriate interpretation of this information.

The ESG assessment is applied to all issuers of fixed income and equities and is integrated in our investment platforms in a systematic way together with financial information in order to be able to take into account information related to assets' sustainability risks in investment decisions

5. Voting and engagement

SAM monitors the companies in which it invests in order to protect the interests of its clients, promote long-term value creation, manage risks and promote good governance in companies. Therefore, it carries out voting and engagement activities that are based on specific policies for this purpose.

Voting

SAM's voting policy and, when necessary and applicable, the voting policies defined at local level establish the guidelines to be considered in the voting process at the annual general meetings (and extraordinary general meetings, if applicable) of the companies in which SAM invests in. The policy is aligned with the applicable legislation and voluntary codes promoting best practices, and it is consistent with the respective objectives of each portfolio. SAM aspires to exercise its right to vote whenever possible and when the costs associated with exercising the right to vote do not exceed the potential benefits. The information necessary to decide the vote comes from different sources that include internal analysis, and can take as an input the recommendations of an external proxy advisor.

SAM is responsible for controlling possible conflicts of interest that may arise when exercising their right to vote. In the event of a conflict of interest, the provisions of the Voting Policy, the SAM Global Conflict of Interest Policy (and, when applicable, the policies defined at local level) and the Santander Group Conflict of Interest Policy will apply.

Engagement

SAM seeks a double objective through dialogue and engagement activities with the companies in which it invests. On one hand, to understand in depth the issuers' business model, risks and opportunities. On the other hand, to promote change, so as to improve the strategy, management and reporting of environmental, social or governance aspects that are material for each issuer, with the aim of protecting the value of SAM's investments.

Likewise, SAM collaborates with other agents (other asset managers, investors networks, etc.) in order to promote responsible and sustainable investment. Through its participation in initiatives such as the Principles of Responsible Investment of the United Nations and forums such as Spainsif in Spain and Sustainability Technical Group at ANBIMA (Brazilian Financial and Capital Markets Association) in Brazil, SAM encourages the consideration of environmental, social and governance criteria in the sector, promotes knowledge regarding

sustainable and responsible investment and participates in a dialogue with stakeholders to facilitate the development of SRI.

The engagement policy defines SAM's fundamentals regarding these engagement activities, which focus on those issues that are most relevant and have a greater impact on the value of the assets.

SAM combines the perspective of investment management teams with that of the SRI Team in order to reach a consensus for these engagement activities that can be carried out either bilaterally between SAM and the companies, or collectively to through participation in collaborative engagement initiatives.

6. Transparency

SAM expects issuers to report on the ESG aspects that are relevant to their activity and that can substantially influence the analysis and decisions of investors and other stakeholders.

In addition, being responsible for the investment implies being transparent about how SAM incorporates ESG aspects into its investment decisions. Therefore, SAM makes its sustainable and responsible investment policies available to its stakeholders, being accessible on the website.

Similarly, SAM strictly monitors and complies with reporting requirements legally required in each jurisdiction and with the requirements derived from adhering to voluntary initiatives or standards.

The periodic information that customers receive about SAM's SRI products includes information related to the ESG analysis whenever it is considered appropriate and complying, in any case, with applicable regulation. The information is communicated using different channels and formats (mails, reports, videos, etc.) As for its employees, SAM promotes information sharing on its activity in terms of sustainable and responsible investment, which can be extended to its commercial network.

SAM is committed to transparency promotion so that all its stakeholders receive quality, accurate and timely information about their sustainable and responsible investment management. To this end, it promotes the continuous improvement of the reporting systems to provide better information about the incorporation of ESG criteria in the investment processes, as well as information regarding the voting and engagement activities carried out by SAM.

7. Governance of the policy

The governance mechanism of SRI in SAM is mainly composed of 5 bodies: the SRI governance committee, the SRI Strategy and Supervision Committee, the Voting and Engagement Committees, the Investment and Sustainability Committees and the SRI team.

- **SRI Government Committee**

The committee is made up of - among others - SAM CEOs **the Global Head of ESG, SRI team, representatives from Private Banking and Insurance** and is chaired by the Head of Wealth

Management. It is responsible for approving and supervising compliance with the SRI strategy at a global level. Occasionally and depending on the topics to be discussed, representatives from other areas may participate in this committee.

- **SRI Strategy & supervision Committee**

This committee is made up of – among others – SAM CEOs and CIOs (Latin America and Europe), representatives of the Global Product **Legal and Risk & Compliance areas**, the SRI team and is chaired by SAM's Global CIO. It is responsible for defining SAM's SRI strategy, as well as the supervision of compliance with the SRI policy, and for monitoring and control of all activities related to the application of the SRI in SAM. Occasionally and depending on the topics to be discussed, representatives from other areas may participate in this committee.

- **Voting and engagement committees**

There is a global committee in addition to local committees. The committees are made up of representatives from different areas of SAM involved in voting activities (investments, compliance, legal, SRI team, control, etc.). It is responsible for monitoring compliance with SAM's voting and engagement policies, and for monitoring and control of all activities related to these policies.

The global Voting & Engagement committee oversees and coordinates local committees.

- **Investment and Sustainability Committees**

SRI products have an investment and sustainability committee that monitors compliance with the ESG requirements of the products. Likewise, if any possible controversies are identified, these are presented and discussed in order to reach a consensus on how to proceed, and if it is necessary to exclude issuers affected by relevant controversies from the products. Similarly, these committees propose individual engagement activities with companies.

- **SRI team**

SAM has a specialized team responsible for the ESG analysis of all SAM assets, as well as the development and updating of methodologies and tools for this analysis. This team is also responsible for the development and updating of SAM's SRI policies, and actively monitors and participates in voting and engagement activities.

Additionally, there are SRI reporting lines to SAM and Wealth Management governance bodies (senior management) at a global level, which are responsible for approving and supervising the implementation of the SRI strategy.

Each entity at the local level is responsible for establishing its own governing bodies or incorporate these functions into existing bodies, in order to implement and monitor the provisions contained in this policy, and the local adaptations that, where appropriate, have been made.

8. Policy ownership and updates

The Board of Directors of SAM Investment Holdings Limited owns this policy. Any review or modification on it must be approved by the board of directors.

This policy will be subject to review and adoption by the SRI Strategy and Supervision Committee. Any review and / or substantial modification must be approved by this Committee.

It will be the responsibility of SAM's SRI team to inform SAM's local units of any revision or modification of this policy for its correct adoption and, where appropriate, local adaptation.

The content of this policy constitutes a process of continuous improvement that will be reflected in periodic reviews of this document.

This policy was last revised in March 2021 and is published for general knowledge on the corporate intranet and on the website.

9. Change track

Version	Responsible Area	Description	Approval Committee	Approval date
1	SRI Team	SRI Policy approval	Board SAM Investment Holdings Ltd.	18.03.2020
1.1	UK Distribution & Client Services	UK Adoption & Appendix 2: SAM UK Shareholder Rights Directive (SRD) II Statement added	SAM UK Product Governance Committee	16.12.2020
1.2	UK Distribution & Client Services	Tracked changes to reflect 2021 updates to Policy made by Global	SAM UK Product Governance Committee	22.07.2021

Appendix 1: SAM UK Shareholder Rights Directive II Statement

Document hosted on SAM UK's website here:

https://www.santanderassetmanagement.co.uk/content/view/1728/file/479_1000_SRD%20II.pdf?inLanguage=eng-GB

1. Background

The Shareholder Rights Directive II ("SRD II") aims to promote long-term shareholder engagement. The updated Directive, which has been implemented into domestic law in the United Kingdom, became effective as of 10 June 2019.

It imposes transparency obligations on institutional investors (such as insurers and pension funds) and on asset managers (such as Santander Asset Management UK ("SAM UK")) to the extent investments are made in shares traded on a regulated market, including certain markets situated outside the European Economic Area (EEA).

2. Engagement Policy & Reporting

Under Article 3g of SRD II, asset managers must develop and publicly disclose an engagement policy which describes how they integrate shareholder involvement in their investment strategy or, if they do not, publicly disclose a clear and reasoned explanation about why they have chosen not to do so.

The engagement policy required by Article 3g must describe how the firm monitors investee companies on relevant matters including strategy, financial and non-financial performance and risk, capital structure, social and environmental impact and social governance; conducts dialogues with investee companies, exercises voting rights and other rights attached to shares; cooperates with other shareholders; communicates with relevant stakeholders of investee companies; and manages actual and potential conflicts of interest in relation to their engagement.

Asset Managers must also publicly disclose, on an annual basis, how their engagement policy has been implemented.

SAM UK's UK fund range falls into one of two distinct categories:

- Multi Asset Fund of Funds managed by SAM UK; or
- Equity and fixed income funds which SAM UK has delegated to third party managers

SRD II relates to equity investment strategies in shares traded on a regulated market, including certain markets situated outside the EEA. SAM UK has chosen not to implement an engagement policy (nor to report on it) as SAM UK does not itself directly control the individual investment decisions made to invest in equities.

Due to its delegated model to third party managers for equity strategies, SAM UK does not itself directly control the individual investment decisions made to invest in equities and as such SAM UK has chosen not to implement an engagement policy or report on this on an annual basis.

However, where SAM UK has delegated the investment management of an equity mandate, SAM UK either have in place, or are in the process of putting in place, enhanced Investment Management Agreements with our delegated managers with regards to the stewardship, engagement and voting approach. As at the end of November 2020 those third party managers with whom we have enhanced our Investment Management Agreements are as follows:

Third Party Manager	Mandates Held	Further Information
Schroders	Santander Enhanced Income Portfolio Santander Max 30% Income Shares Portfolio (<i>Partial Mandate</i>) Santander Max 70% Shares Unit Trust (<i>Partial Mandate</i>) Santander UK Equities (<i>Partial Mandate</i>) Santander Equity Income Unit Trust Santander UK Growth Unit Trust	https://www.schroders.com/en/about-us/active-ownership/

Further information on these funds can be found in SAM UK's fund centre, either by following [this link](#), or by visiting this URL: <https://toolkit.financialexpress.net/santanderam>

3. Review

This SRD II Statement is reviewed and approved annually or more frequently as needed and is publicly available on SAM UK's website.

Annex: Glossary

Sustainable and Responsible Investment: Type of investment that applies financial and extra-financial criteria in the analysis and investment processes.

Fiduciary duty: legal obligation of one of the parties to act in the best interest of the other. The most important fiduciary duties are to act in the best interest of the client, avoid any conflict of interest (duty of loyalty) and act with due care, skill and diligence (duty of prudence).

ESG criteria: Environmental, social and governance criteria.

Voting rights: Shareholders' right to vote at general shareholders meetings on corporate policy matters, including decisions on the composition of the board of directors, the initiation of corporate actions, the making of substantial changes in the operations of the corporation, etc.

Engagement: it is the practice of monitoring the behaviour of companies and establishing a dialogue with them, with the aim of improving information about them and promoting change in terms of strategy, risk management, ESG performance, etc.