Engagement policy

Content

1. Introduction

Santander Asset Management (hereinafter "SAM") has the fiduciary duty to act in the best interests of its clients. In order to meet this duty and according to market standards, SAM considers engagement or dialogue with companies as a key activity.

The objective of this policy is to describe the principles followed by SAM, in relation to environmental, social and governance (hereinafter ESG) engagement activities with investees or with those companies in which it has an interest in investing, either individually or through collaborative engagement initiatives.

Carrying out a constructive dialogue with companies influences their activities and behaviours, and can help improve their transparency and management on ESG issues, which are essential for the assessment of the assets in which SAM invests. SAM considers that, on many occasions, carrying out these engagement processes is a better way to promote change than choosing a divestment strategy. The principles and guidelines described in this policy are in line with this approach and are essential to guarantee the long-term performance of the assets managed by SAM, and to contribute to value creation for clients and society.

SAM aims to progressively increase its participation in engagement activities, both in number and degree of involvement, in order to promote greater transparency and improve companies' ESG performance.

2. Scope of application

This policy is drafted 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 drafting and approving its own internal regulations through its respective governing bodies 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 the legal and regulatory requirements, or with the expectations of their supervisors.

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

This policy is intended to be applied to listed and unlisted companies that are (or could potentially be) present in SAM's equity and fixed-income credit instruments in all sectors and countries in which SAM invests in, selected in accordance with the prioritisation process defined in point 5 of this policy.

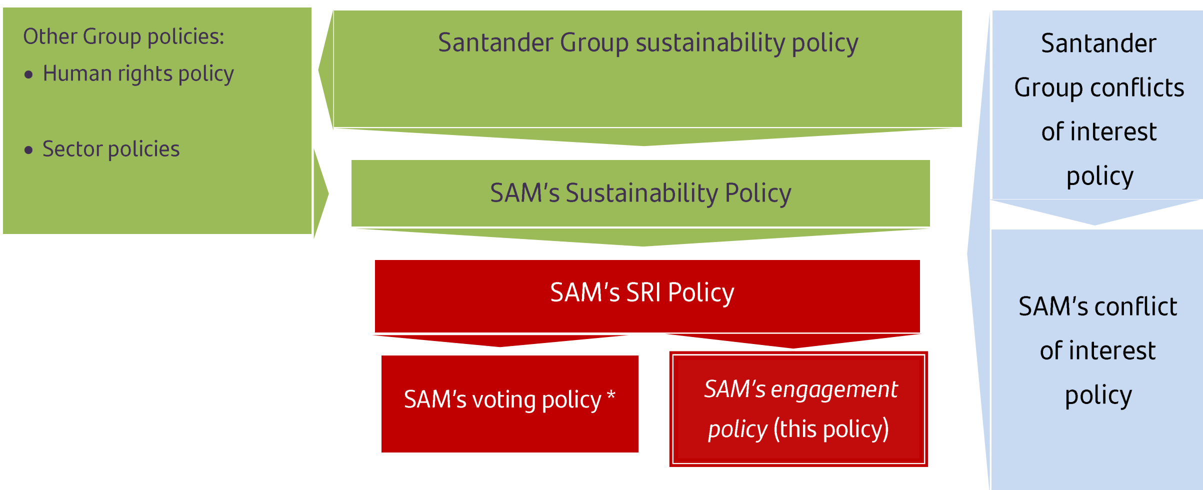
In the case of third-party ESG funds, SAM conducts an analysis of the fund manager in order to understand if its engagement and voting practices are aligned with best practices in the market.

3. General principles of reference and relationship with other policies

This policy is based on the best practises included in international conventions and protocols, codes of conduct and guidelines applicable in this area, including:

- United Nations Principles for Responsible Investment
- United Nations Global Compact.
- United Nations Sustainable Development Goals.
- United Nations Universal Declaration of Human Rights.
- United Nations Guiding Principles on Business and Human Rights.
- OECD guidelines for multinational enterprises.
- The International Labour Organisation's (ILO) Fundamental Conventions
- United Nations Convention against Corruption
- Agreements reached at the 2015 COP21 summit on climate change in Paris.
- Recommendations of the Task Force on Climate Related Financial Disclosures - Financial Stability Board (FSB)
- Conventions and treaties on non-proliferation of weapons included in the 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 policies of SAM and the Santander Group, according to the following chart:



** Currently being developed. Estimated approval date 2H 2020.*

4. Engagement process

Engagement consists in a constructive dialogue between companies and SAM to understand how they manage ESG risks and how they leverage the business opportunities associated with sustainability challenges. This process starts when SAM identifies a need for engagement, which may occur at any time during the year. In any case, SAM's Global Engagement Plan and the prioritisation framework detailed in section 5 of this policy are taken into account.

The Global Engagement Plan is established annually with the aim of being efficient in the use of resources and achieving a greater impact.

SAM uses mainly two approaches for these activities, individual engagement with each company, and collaborative engagement through initiatives that bring together a group of investors.

Individual engagement.

In this case, SAM communicates directly with the company (selected according to the prioritisation process detailed in point 5 of this policy) through various channels (mail, telephone, in-person meetings, etc.). Prior to this contact with the company, an engagement plan is established which sets the objectives to be achieved, the corresponding KPIs, and a schedule of tasks.

Collaborative engagement

In this type of engagement, SAM collaborates jointly with other investors through initiatives with different formats: open letters on a certain subject or sector, letters addressed to the board of certain companies, working groups, bilateral dialogue initiatives between investors and companies, interaction with regulators in the development of regulations to promote sustainable and responsible investment, etc.

Collaborative engagement is preferable when there is a consensus amongst several investors to act on a particular subject. This will have a greater impact and make use of economies of scale, by allowing us to contact a larger number of companies and facilitating the process for them, as they can deal with the requirements of different investors through one initiative.

The objectives of engagement activities may differ in each case. In some cases, they may focus on improving the company's reporting on ESG issues, in other cases promoting improvements in a company's strategy, ESG risk management, performance in some specific aspects, or even understanding the mechanisms the company is implementing in relation to a controversial issue. Engagement has a clear sectorial approach and is based on the concept of materiality, so that SAM focuses on the most relevant aspects for each sector.

In general, contact with companies is done via their investor relations area. However, this is analysed on a case-by-case basis, and other areas or persons of the organisation may be contacted if they are considered to be most appropriate to deal with the aspects in question.

The different interactions are recorded in a scorecard that monitors and assesses the degree of achievement of the objectives set. The results of engagement processes are shared with analysts and portfolio managers, which allows them to incorporate this information into their investment decisions. In addition, these processes may be taken into account in the voting decision-making process which is defined in the Voting Policy.

Structure of engagement process:

Each of the phases involves the following activities:

1. The prioritisation of engagement activities is detailed in point 5 of this policy
2. SAM defines an engagement plan (including objectives, tasks and schedule), which is shared with the company in order to agree on a final version.
3. Once the plan is defined, the dialogue process begins and SAM starts monitoring the fulfilment of defined tasks and the level of achievement of objectives.
4. In this final phase, SAM assesses if objectives have been achieved. The following cases may occur:
    - The objectives have been met. Engagement is closed in this case.
    - The targets have not been met, but are achievable within a longer period of time. In this case, SAM continues with the engagement activities.
    - The objectives have not been met and are not expected to be met. In these cases, an escalation process is chosen to attempt to achieve the objectives. Some examples of this escalation are: joining a collaborative engagement initiative, exercising voting rights to show SAM's disagreement over the company's practises or strategy, divestment, etc.

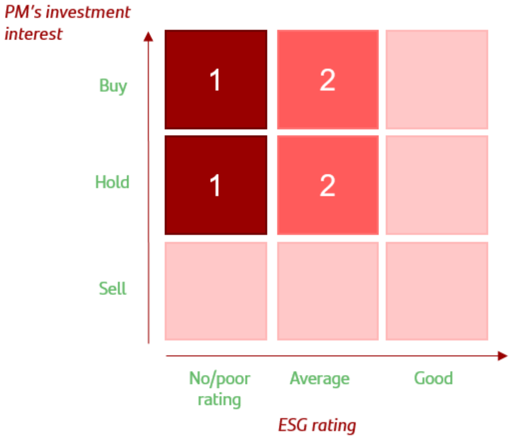
5. Prioritisation of engagement activities

SAM has established a framework for prioritising individual engagement activities in order to select those with a greater relevance and a greater ability to generate impact. In general, engagement will be prioritised with those companies included in SRI products' portfolios, where the companies' ESG performance is decisive for investment decision-making. However, engagement with companies in which SAM invests through other non-SRI products is also considered. In addition, collaborative engagement initiatives focused on a specific ESG topic, could be applicable to companies where SAM is invested through SRI and non-SRI products.

SAM has defined a prioritisation matrix that takes into account, on one hand, the portfolio managers' investment interest and, on the other hand, the company's ESG rating. In this way, it is possible to identify those companies for which there is a greatest interest in establishing a dialogue on ESG-related aspects.

The interest of investment managers is defined on the basis of the financial analysis carried out. The ESG rating is obtained by applying SAM's own methodology defined by the SRI team, which is described in the SRI investment policy available on the website.

Prioritisation matrix



- Priority 1: Those companies of interest to portfolio managers (they want to **hold** or **buy** them), but with **no ESG rating** or a **low ESG** rating
- Priority 2: Those companies of interest to **portfolio managers** (they want to **buy or hold** them), but with an **average ESG rating** (so, they are not bad performers but there is **room for improvement** in terms of ESG)

Other criteria may also be considered in the selection of companies, such as:

- Those companies in which SAM has the greatest exposure.
- Specific sectors or markets particularly exposed to ESG risks.
- Companies with a significant potential for positive ESG impact.
- Companies exposed to controversies.
- Companies with poor performance in specific ESG themes that are considered to be priority in certain products (for example, thematic funds).
- Companies in which any potentially controversial issue has been identified in the exercise of voting rights.

For collaborative engagement activities, SAM establishes its priorities based on various aspects, such as:

- Whether the initiative focusses on a significant aspect or sector for SAM.
- Whether the initiative is aligned with the Santander Group's global sustainability strategy.
- If the initiative applies to a region where SAM operates.
- If SAM complies with the initiative's resource requirements (experience, time, etc.)

It may be the case that the company itself proactively contacts SAM in order to establish a dialogue. In this case, SAM assesses the suitability of this engagement on the basis of the prioritisation criteria defined in this section, as well as resource availability, in order to decide whether it is possible to carry out the engagement activity according to the Global Engagement Plan.

6. Conflicts of interest

Engagement activities may sometimes lead to conflicts of interest between SAM and its clients.

Santander Group has policies and procedures in place to manage potential conflicts in a way that protects the interests of its clients. When potential conflicts are identified, SAM commits to manage them in a fair and effective manner to prevent these from harming the interests of our clients.

In the event of a conflict of interest, the provisions of this Policy, SAM's Voting Policy, SAM's Global Conflicts of Interest Policy and the Santander Group's Code of conduct and Conflicts of Interest Policy shall apply.

In addition, this activity shall comply with to the provisions on management of privileged information defined in SAM's internal regulations and local applicable regulations.

Besides this, SAM follows the following premises to prevent or resolve potential conflicts of interest:

- Developing this engagement policy in line with best practises and periodically monitoring and updating it.
- Engagement activities are performed in the best interests of customers to protect and improve the long-term value of their investments.
- SAM has an adequate organisational structure to ensure that SAM's employees act with independence and neutrality in their tasks and responsibilities. There is a functional, hierarchical and physical separation of SAM from other Santander Group entities, and there are information barriers that prevent or control the exchange of information, as well as separate areas to prevent the flow of inside or non-public information ("Chinese walls") between Santander Group entities.
- There is an internal governance structure with committees where solutions to possible conflicts of interest are discussed and agreed.

Conflicts of interest that could not be prevented or resolved are escalated to senior management.

7. Transparency

SAM expects companies to report on ESG aspects that are relevant to their business model and that can have a substantial influence on the analysis and decisions of investors and other stakeholders. It also expects companies to be open to dialogue and collaboration.

SAM communicates in a clear, direct and transparent manner with the companies with which it conducts engagement activities, as well as with partners in collaborative engagement initiatives. The terms and conditions that define SAM's engagement activities are accessible to any interested party through this policy that is publicly available on the website.

SAM also complies with the legal requirements in each jurisdiction regarding the reporting of engagement activities carried out, as well as the results thereof.

In addition, SAM promotes sustainable and responsible investment through participation in various associations and forums (presentations, working groups, etc.) and through the organisation of events for the dissemination of responsible and sustainable investment practises.

8. Organisational structure and monitoring of engagement activities

Engagement activities are carried out through the collaboration of different bodies within SAM, being led by the SRI Team.

SRI Team

This team assesses companies' ESG performance and, therefore, provides the necessary information to identify those companies that have a worse ESG performance or that do not have an ESG rating. This information is one of the inputs to take into account when prioritising the engagement activities explained in point 5 of this policy. This team works in close collaboration with portfolio managers and analysts (who also participate in the process) and leads the process, being responsible for the definition of objectives and timing of engagement activities, as well as and for monitoring them.

Investment and sustainability committees

Most SRI products have an investments and sustainability committee in which, with different frequency, compliance with the management strategy and ESG targets of the products is monitored. In these committees, engagement priorities are agreed upon and the progress made in these activities is monitored.

Voting and engagement committees

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

The global committee oversees and co-ordinates the local committees.

In the event of any conflict of interest, the discussion is escalated to the SRI strategy and Supervision Committee and to the SRI Governance Committee.

9. Policy owner and update

The owner of this policy is the Board of Directors of SAM Investment Holdings Limited, which is responsible for the approval and supervision of its application.

This policy will be subject to review and adoption by the SRI strategy and Supervision Committee. Any substantial review and/or 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 2020 and is published for general knowledge on the corporate intranet and on the website.

10. Change Track

Version	Responsible Area	Description	Approval Committee	Approval date
1	SRI Team	SRI Policy approval	Board SAM Investment Holdings Ltd.	18.03.2020

Appendix: Glossary of terms

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 availability of information and promoting change in terms of strategy, risk management, ESG performance, etc.