



**STATEMENT OF INVESTMENT POLICY PRINCIPLES OF FONDLORETO EMPLEO
PENSION FUND.**

Version 4.0 (Supervisory Committee of 30 March 2022)

LORETO MUTUA, M.P.S. Pension Fund Management Company. Reg. DGSFP no. G-0124



STATEMENT OF INVESTMENT POLICY PRINCIPLES OF FONDLORETO EMPLEO PENSION FUND.

By definition, Pension Plans are savings systems linked to retirement. The purposeful nature of the participants' contributions defines their profile: people interested in supplementing the retirement benefits offered by the Social Security.

The fund investment policy principles, in which the Plans are integrated, are governed by the objective of maintaining the purchasing power of the capital earmarked for retirement and obtaining additional long-term profitability.

I. GENERAL PRINCIPLES

1. The assets of the pension fund shall be invested in the interest of the members and beneficiaries. In the event of a conflict of interest, priority shall be given to the protection of members and beneficiaries.
2. The assets comprising the assets of the Fund are held collectively and proportionately by all members and beneficiaries.
3. The assets of the pension fund shall be invested in accordance with criteria of security, profitability, diversification, dispersion, liquidity, currency matching and terms appropriate to its purpose.
4. The management shall be carried out by persons of good repute with appropriate professional qualifications and experience.
5. The assets of the pension fund shall be invested mainly in securities and financial instruments admitted to trading on regulated markets. Investments in assets that cannot be traded on regulated markets will be kept within prudential levels.
6. With regard to the criteria for the selection and distribution of investments, as well as the control of investment risks, the rules established in the Spanish Royal Legislative Decree 1/2002, revised text of the Pension Plans and Funds Act and subsequent amendments, as well as in the Spanish Royal Decree 304/2004, Regulations on Pension Schemes and Funds and subsequent amendments, shall be complied with.
7. The selection of investments takes into account the ESG aspects (Environmental, Social and Governance impact) of the companies in which the pension fund's assets are invested. These aspects, together with the liquidity, profitability and risk associated with the assets likely to be part of the pension fund portfolio, enrich traditional financial analysis and portfolio construction.



II. INVESTMENT SELECTION CRITERIA

- a. Investments shall be made in accordance with the criteria of suitability, diversification, dispersion and consistency, in accordance with art. 70 and 72 of the Regulations on Pension Schemes and Funds.

The following assets are eligible for investment by the pension fund: *fixed-income and equity securities and financial instruments, structured financial assets, shares and units of collective investment undertakings, demand or term deposits with credit institutions, loans and derivative instruments, among others.*

The assets of the pension fund shall be invested at least in 70% financial instruments admitted to trading on regulated markets. Investments in assets that cannot be traded on regulated markets will be kept within allowed limits.

Fondloreto Empleo is classified as a mixed fixed income fund in accordance with the criteria of the Pension Plans and Funds regulations.

For simplicity reasons, the Fund's investments are divided into three asset classes, cash, bonds and equities. The investment percentages, in bonds and equities, may vary to allow for appropriate portfolio management. As a maximum, the percentage of investment in variable income may fluctuate from 0% to 30% of the pension fund's assets.

Investment in variable income will preferably be made in large cap stocks traded on OECD markets and may include cash or product derivative positions.

The fixed income portfolio of the pension fund will be composed, for the most part, of securities issued by governments of OECD countries, as well as non-government securities issued by entities belonging to these countries. The creditworthiness and average credit quality of the portfolio will be assessed through the assessment of different data: fundamental analysis of various companies, credit ratings and other statistical measures of counterparty risk.

The duration of the fixed income portfolio will be managed in line with interest rate expectations. Most of the fixed income assets will be denominated in euro. Investment in fixed income instruments may include cash or product derivative positions.

Investments shall be sufficiently diversified so as to avoid dependence , on a single asset, issuer or group of entities and to avoid concentration of risk at the portfolio level.

Investment in securities or financial instruments issued or guaranteed by the State or States belonging to the OECD shall not be subject to any limit, provided that the investment in securities of the same issue does not exceed 10 percent of the nominal value of the same issue.



No more than 5% of the assets of the pension fund may be invested in securities or financial instruments issued by the same entity. If the fund invests no more than 40 per cent of assets in entities in which more than 5 per cent of the fund's assets are invested, the limit per issuing entity is 10 per cent.

Investment in companies of the same group may not exceed 10 per cent of the fund's assets.

The limit for investment in securities or financial instruments not admitted to trading on regulated markets or which are not susceptible to generalised trading, issued by the same entity, may not exceed 2 per cent of the assets of the fund, 4 per cent when issued or guaranteed by entities belonging to the same group.

Investment in securities or rights issued by a single entity traded on the alternative stock market or the alternative bond market, as well as investment in shares and units issued by a single venture capital or closed-end collective investment undertaking may amount to 3 per cent of the assets of the pension fund. The above limit shall be 6% for such securities or financial instruments when issued by entities belonging to the same group.

Investment in a single collective investment scheme may amount to up to 20 percent of the assets of the pension fund provided that, in the case of investment funds, their units are either regarded as listed securities or are admitted to trading on regulated markets; and, in the case of investment firms, their shares are susceptible to generalised and impersonal traffic and are admitted to trading on regulated markets. Same limit for investments in several collective investment undertakings where they are managed by the same collective investment undertaking manager or by several managers belonging to the same group. Investments in open-ended collective investment undertakings are excluded from this limit.

Investment in securities or financial instruments issued or guaranteed by the same entity, positions vis-à-vis it in derivative instruments and deposits held by the pension fund with of the pension the same entity may not exceed 20 percent of the assets of the pension fund. This limit shall also apply to several entities forming part of the same group. This limit shall not take into account shares or units in collective investment undertakings or units in open-ended pension funds where they are managed by the same entity or group of entities.

The Fund may of the pension not invest more than 5 percent of its assets in securities or financial instruments issued by entities of the group to which the promoter or promoters of the employment schemes integrated therein belong. Investment in a single collective investment scheme may amount to up to 20% of the assets of the Fund provided that, in the case of investment funds, their units are either regarded as listed securities or are admitted to trading on regulated markets; and, in the case of investment firms, their shares are susceptible to generalised and impersonal traffic and are admitted to trading on regulated markets.



b. Pension fund liquidity

Based on the needs and characteristics of the pension fund, a liquidity ratio of 3% of the fund's assets is established, which is an adequate level of coverage of liquid assets against benefits.

Such liquidity requirement shall be held in overnight deposits and money market assets with a maturity of no more than three months.

c. General terms and conditions of operations

1. As a general rule, the pension fund shall carry out transactions in financial assets admitted to trading on regulated markets on the basis of the prices prevailing on those markets, unless the transaction can be carried out on terms more favourable to the fund than those prevailing on the market.
2. The pension fund shall at all times have title to and free disposal of the assets in which its assets are invested. However, where the fund is operating in foreign markets where the use of omnibus accounts is mandatory or would significantly reduce costs, the custody of securities and assets may be carried out by the depositary through such accounts.
3. The assets must be located in the European Economic Area. Transferable securities shall be deposited with a financial intermediary authorised to operate through an establishment in a Member State of the European Economic Area.
4. The management and custodian of the pension fund, as well as its directors and trustees, the members of the supervisory committee of the pension fund, the members of the supervisory committee of the schemes, as well as their promoters, may not purchase or sell the assets of the fund for themselves, either directly or through an intermediary person or entity. The same restriction shall apply to the contracting of credits.
5. The assets of the pension fund may only be pledged as security for the performance of the fund's obligations. Liabilities to third parties may in no case exceed 5 per cent of the assets of the fund.
6. In the event of a supervening breach of the investment policy statement or an excess over any of the maximum investment limits due to the exercise of rights in the securities in the portfolio, a change in the value of the securities, a reduction in the assets of the pension fund itself or a circumstance occurring after the investment, the fund shall have a period of one year from the time when the excess occurred in order to regularise the situation.

In cases where an asset classified as eligible at the time of acquisition no longer meets the eligibility requirements, the period for its regularisation or sale shall be six months.



d. Assessment criteria

1. Securities and negotiable financial instruments, whether fixed or variable income, belonging to the pension fund shall be assessed at their realisable value, criteria:
 - a. For those securities and financial instruments admitted to trading on a regulated market, the realisation value shall be taken to be the closing price on the day to which the estimate refers or, failing that, the last published price or the weighted average exchange rate if there is no official closing price. Where trading has taken place on more than one market, the quotation or price corresponding to the market on which the largest volume of trading has taken place shall be taken.
 - b. In the case of fixed-income securities or financial instruments not admitted to trading on a regulated market or, when admitted to trading, their price or quotation is not sufficiently representative, the realisable value shall be determined by discounting their future cash flows, including the redemption value, at the market interest rates at any given time for Public Debt that can be assimilated to such securities due to their characteristics, increased by a premium or margin that is representative of the degree of liquidity of the securities or financial instruments in question, the specific conditions of the issue, the issuer's solvency, the country risk or any other risk inherent to the security or financial instrument.
 - c. In the case of securities or financial instruments other than those referred to in the preceding paragraphs, the realisable value shall be taken to be the value resulting from the application of rational valuation criteria accepted in practice and in accordance with the principle of maximum prudence.
2. Loans shall be valued at their present value, up to the limit of the value of the guarantee, using the market interest rates at any given time for Public Debt with a term closest to the residual term of the loan, plus a premium or margin that is representative of the specific terms of the contract, the issuer's solvency, the country risk or any other risk inherent to the loan.
3. The value of the position account of the funded pension scheme shall be calculated on a daily basis.

The quantification of the fund-integrated plan position account is derived from the application of the investment valuation criteria above and the general accounting valuation rules or those specifically applicable to pension funds.

4. The daily value applicable to the mobilisation of rights, payment of benefits and liquidity of rights in exceptional cases, as well as the early provision of rights, will be the value of the position account of the plan corresponding to the business day prior to that on which the mobilisation or payment of the benefit becomes effective.



III. INVESTMENT CRITERIA FOR DERIVATIVE INSTRUMENTS

Investment in derivative instruments shall be undertaken to the extent that it contributes to the reduction of investment risk or facilitates efficient portfolio management.

Derivative instruments shall be valued prudently, taking into account the underlying asset, and shall be included in the valuation of the assets of the fund. Excessive risk exposure to a single counterparty and to other derivative transactions shall be avoided.

The use of derivatives shall be limited to the products and terms set out below:

- a. Commitments for positions in financial derivative products, defined as any actual or potential obligation, may not exceed 50% of the assets of the pension fund.
- b. The use of derivative products is limited to the percentage of investment fixed to that of the underlying asset. Derivative positions shall, together with securities issued or guaranteed by the same entity or by entities belonging to the same group, be subject to 20% of the assets of the pension fund.

Derivative instruments will be subject to limits on the spread by the market risk associated with the evolution of the underlying. For the application of diversification and spread limits associated with market risk, derivative instruments that qualify as hedging instruments shall be considered on a net position basis.

- c. No more than 2 per cent of the assets may be invested in derivatives instruments not traded on regulated markets because of the counterparty risk associated with the position.

The above limit shall be 4% for such financial instruments when issued or guaranteed by entities belonging to the same group.

- d. In the case of over-the-counter (OTC) derivatives:
 - I. The counterparties shall be financial institutions in OECD Member States subject to supervision and regularly and professionally engaged in such transactions and rated BBB- or above, as rated by S&P or similar Moody's or Ficht agencies.
 - II. The counterparty or the financial intermediary that has undertaken this commitment shall be obliged to provide firm daily bid and offer quotations.
 - III. Transaction contracts shall incorporate precise documentation of the valuation method according to which daily quotes are to be determined.
- e. The pension fund shall mark to market its derivative positions on a daily basis.



- f. The amount of cash deposits and debt securities included in derivative transactions to reduce the counterparty risk of such transactions may be deducted from such risk, provided that such collateral is fully realisable in the event of default of the counterparty.
- g. Derivative financial instruments eligible for use:

Type of Derivative Instrument	Listed / Non-Listed	Underlying Suitable
Futures	Only listed	Fixed I./I. Variable/Currency
Forward sale/purchase	Non-listed	V.I. Fixed I./I. Variable
Swaps	Both	Dividends Stock indices Interest rates
Structures	Both	Fixed I./I. Variable/Currency

IV. INVESTMENTS RISKS

Investments in financial assets mean that the fund's performance is affected by the volatility (a measure of the change in asset prices) of the markets in which it invests. Investments in debt securities are subject to changes in interest rates and the credit quality of the securities in the portfolio which, under certain conditions, can lead to negative variations in the fund's assets.

In this sense, sensitivity to rate changes will be determined by the portfolio's duration and credit quality as specified above.

Investments in assets denominated in currencies other than the euro entail a risk arising from exchange rate fluctuations.

Derivative instruments may also pose additional risks compared with cash investments.

Investment risk control processes.

Based on the characteristics of the portfolio, the distribution of the different assets that comprise it and the risks inherent to them, it will be necessary for the management entity to establish an internal control system to ensure that the objectives set are met, the risks are adequately controlled and the assets are duly protected. In particular, it is considered necessary to establish mechanisms for credit, market and liquidity risks.

With regard to credit risk, for any investment involving counterparty risk, a specific study of the characteristics of the issuer and the issue to be acquired will be necessary. Once the investment has been made, the evolution of the credit risk will be monitored on an ongoing basis by monitoring the probability of the occurrence of a credit contingency. Alerts to be taken into account, significant change in asset price not attributable to interest rate hikes, downgrade of credit rating, significant deterioration of fundamentals, or announcement of a credit event.



Market risk is measured through estimates of probable losses resulting from adverse fluctuations in the financial markets. This will be done using simulation and sensitivity methods that take into account the likelihood of risk factors affecting the fund moving against it, measuring the impact this would have on its performance. Measurements through VAR calculation.

Derivative instruments will be subject to limits on the spread by the market risk associated with the evolution of the underlying.

Liquidity risk is minimised by investing most of the portfolio in assets listed on organised markets with depth and transparency, limiting the concentration in unlisted assets.

The measurement of the risks inherent to the investments will be carried out by independent entities with which the fund manager has contracted the portfolio analysis service.

Risk control management shall be carried out by the pension fund management company, in particular for derivatives, structured risks and assets not traded on regulated markets.

The processes of supervision and monitoring of compliance with the principles set out in this investment policy fall, in the first instance, to the pension fund depositary, as specified in art. 83 of the Regulations on Pension Schemes and Funds.

V. LONG-TERM INVESTMENT STRATEGY IN SHARES OF COMPANIES ADMITTED TO TRADING ON A MARKET WHICH OPERATES OR IS LOCATED IN A MEMBER STATE OF THE EUROPEAN UNION

Background

Spanish Royal Decree 738/2020 of 6 August, which amended RD 304/2004 of 20 February, establishes in its article 69.bis the need to complement the Statement of Principles of the Pension Fund Investment Policy with the development of a Long-Term Investment Strategy that is consistent with the profile and duration of the pension fund's liabilities, in particular its long-term liabilities, and the way it contributes to the medium and long-term performance of its assets.

The content of this statement is limited to shares of companies admitted to trading on a regulated market located or operating in a Member State of the European Union

The Supervisory Committee of Fondloreto Empleo, with the participation of the Fund's Management Company, has prepared this Strategy by bringing to the attention of stakeholders and the public at large issues such as the principles of the Fund's long-term investment strategy and the strategic asset allocation with respect to the nature and duration of its commitments.



Long-term equity investment strategy

The defined objective of the Fund's long-term investments is to maintain the purchasing power of the members' retirement capital and to achieve an additional long-term return, i.e., to outperform the consumer price index (CPI). This definition shall in no way imply any guarantee of future profitability.

In order for the Fund's investments to achieve its long-term return objective, they must assume a certain level of risk, and therefore at times there is a likelihood that the portfolio may experience negative returns.

The assets of the pension fund shall be invested in accordance with criteria of security, profitability, diversification, dispersion, liquidity, currency matching and terms appropriate to its purpose in the interest of the members and beneficiaries.

In the event of a conflict of interest, priority shall be given to the protection of members and beneficiaries.

Fondloreto Empleo is classified as a mixed fixed-income portfolio, which means that the investment percentage in equities will not exceed 30% of the fund's assets. This investment will preferably be made in large cap stocks traded on OECD markets and may include cash or derivative positions.

Profile of the Fund's group

Fondloreto Empleo does not guarantee the profitability of the contributions made and therefore the participants and beneficiaries assume the investment risk. The age distribution of members and beneficiaries determines the profile and duration of the Pension Fund's long-term liabilities.

As at 31/12/2021, the fund had 6 unitholders with an average age of 44 years. It is clear that the group of participants of the Pension Fund is small and the profile and duration of the liabilities is in line with the Mixed Fixed Income strategy aligned with the return objective of the investments.

The Pension Fund Supervisory Committee shall review the composition of the group profile on a regular basis and situations that may lead to a change in the profile of the group.

Long-Term Strategy on shares admitted to trading on an EU market

All investments made in the Fondloreto Employment portfolio have a long-term time horizon. The portfolio is diversified across different asset classes with the aim of preserving wealth and achieving long-term stability, as long as the market situation allows it. Investments are mainly in euro, but also in other currencies. Long-term returns are prioritised over short-term results, and the collective returns of the unitholders are prioritised over individual interests. Planning, approval and execution of the investments are geared towards achieving profitability in a risk-controlled environment.



Fondloreto Employment invests in global equities with a maximum limit of 30% of the assets and within this percentage in shares of companies admitted to trading on a regulated market located or operating in a member state of the European Union, either directly or through units in collective investment undertakings. All of this is aimed at contributing to the long-term performance of the Pension Fund.

The chosen strategy (mixed fixed income) must allow a long-term return to be obtained, sustained over time, that exceeds the annual CPI (Spanish General Consumer Price Index), and this reference should be understood as an indication of the long-term strategy, without, under any circumstances, being interpreted as a guarantee or collective or individual commitment for participants and beneficiaries.

The investment shall be made with a view to diversification and avoiding the assumption of excessive specific risks, in accordance with the provisions of current legislation, this declaration of principles and always in the interest of the unitholders and beneficiaries.

Loreto Mutua as a managing entity participates as a signatory to the UN Principles for Socially Responsible Investment by participating in the International Network for Good Corporate Governance and Socially Responsible Investment. One of the objectives of this participation is to encourage European companies and their boards to adopt best practices on governance, corporate social responsibility policies and disclosure of the exercise of political rights with effective tools to do so.

Performance measurement metrics

In order to provide a dynamic benchmark over time and adjusted to the type of assets in which the investments will be made, an internal benchmark has been established by the Fund Management Company and the Supervisory Committee to measure and evaluate the performance of the Pension Fund and the risk assumed by the investments, as well as to measure the long-term contribution of the investments made in equities traded on European Union markets.

80% Bloomberg Barclays Euro Govt 1-3 Yr (BERPG1 Index) + 20% Eurostoxx 50 (SX5T Index)

VI. ADDITIONAL INFORMATION REQUIREMENTS

Spanish Royal Decree 738/2020 of 6 August, incorporated into RD 304/2004 of 20 February, the obligation, when the shares of companies that are admitted to trading on a regulated market that is located or operates in a Member State of the European Union and are held through an asset manager, the Management Entity and the Supervisory Committee must make this known to the general public, through the web or other means that are easily accessible online.

The creation of Loreto Inversiones SGIIC by Loreto Mutua MPS in 2018 led to the signing of a discretionary and individual portfolio management contract between Loreto Inversiones and Loreto Mutua as manager of Fondloreto Empleo FPE, with the express agreement of the Fund's Supervisory Committee.



The contract covers the entire investment portfolio of Fondloreto Empleo and is governed by the clauses of the contract signed between the two companies. It sets out the Fund's risk profile and the investment criteria and limits applicable to the portfolio.

Loreto Inversiones, as manager of the assets, in the investment decisions and in their execution, expressly agrees to take into consideration the STATEMENT OF INVESTMENT POLICY PRINCIPLES OF FONDLORETO EMPLEO FONDO DE PENSIONES, and to comply with the long-term strategic profile that this declaration sets out.

As well as compliance with the investment, diversification and dispersion limits, in addition to the quantitative and qualitative conditions indicated by Loreto Mutua in the contract signed, and in any case, by the legislation on the organisation and supervision of pension funds and plans, in such a way that diligent and prudent management and adequate control of the assets entrusted to it is guaranteed at all times.

The portfolio management delegation contract signed is tacitly renewable for annual periods. Nevertheless, the contract includes the cases in which the parties may terminate the contract early.

Loreto Mutua MPS, as manager of the Pension Fund, within the agreements signed with Loreto Inversiones SGIIC, does not incorporate a remuneration system based on the long-term results obtained by the Pension Fund or on the profile of the group. While Loreto Mutua is aware that Loreto Inversiones' incentive system takes into account the achievement of the pension fund's performance targets and their appropriateness to the risk profile.

Loreto Mutua has verified Loreto Inversiones' investment processes to ensure that managers take into consideration the assessment of medium and long-term financial risk and are incorporating the assessment of non-financial risk into these processes.

The Pension Fund's asset management is also subject to the Involvement Policy, which describes, in accordance with article 69.8 of Royal Decree 304/2004 of 20 February, how the pension fund is involved as a shareholder in its strategy of investing in shares of companies admitted to a regulated market located or operating in the European Union and the relationship with the companies in which it invests (exercise of voting rights). This policy, approved at Loreto Mutua Group level, was adopted by the Supervisory Committee of Fondloreto Empleo, F.P. and is available on the Loreto Mutua website.

The delegation contract requires Loreto Inversiones to provide annual information on the following matters:

- How its investment strategy and its implementation are in line with the agreement and contribute to the medium to long term performance of the assets of Fondloreto Empleo.
- Description of the main medium and long-term risks associated with the investments, the composition of the portfolio, portfolio turnover and associated costs, as well as the engagement activities undertaken and its securities lending policy.



- Information on whether and how investment decisions have been made based on the assessment of the medium and long-term performance of investee companies, including non-financial performance, as well as whether and how conflicts of interest have arisen in relation to the engagement activities and, if so, which conflicts and how they have been resolved.

No disclosure to Loreto Mutua is required if such information is publicly available and included in the annual engagement report prepared by Loreto Inversiones as managing entity.

Furthermore, according to this contract, Loreto Mutua has the right to intervene in the management if the performance does not comply with the mandate given and Loreto Inversiones, as manager of the assets, has the obligation to provide information regarding the operations carried out, the situation of the securities and cash accounts, the valuation of the assets, the criteria used in the valuation, the investment strategy proposed or any other information that may be required.

TERM. This Statement shall be public and shall be valid indefinitely, although it shall be reviewed at least every three years and updated in the event of significant changes in Fondloreto Empleo's policy, legislative changes or modifications arising from internal control reports. Without prejudice to the foregoing, the Pension Fund Supervisory Committee may review and, if necessary, alter or amend this Statement, always with the participation of the Management Company.

Register of reviews

Version	Date	Amendments	Approved by
1.0	14 May 2018	Adaptation to RD 62/2018 of 9 February and for GDC contract	Supervisory Committee
2.0	18 January 2019	Deletion of reference to extra-financial risks from art. 69.5 of the RPPF	Supervisory Committee
3.0	28 September 2020	Adaptation to RDL 3/2020 of 4 February (IORP II Directive) and RD 738/2020 of 4 August. Insertion of Statement of ISR principles of the management company of a P.F.	Supervisory Committee
4.0	30 March 2022	It incorporates long-term investment strategy and GDC contract information	Supervisory Committee