SUSTAINABILITY RISK INTEGRATION POLICY (GP-P3)

Version 2

LORETO MUTUA, MPS

LORETO INVERSIONES, SGIIC, S.A.U.

Approved by the Board of Directors of Loreto Mutua, MPS on 25 October 2022

Approved by the Executive Board of Loreto Inversiones, SGIIC, S.A.U. on 4 November 2022

Responsible for review:	Investment, Risk and Sustainability Committee RCU
Responsible for implementation:	Members of management bodies, the Investment, Risk and Sustainability Committee, the Engagement and Sustainable Investment Committee, General Managers, heads of the investment departments, risk management and regulatory compliance units.
Scope of application:	Investment, Risk and Sustainability Committee Engagement and Sustainable Investment Committee and Sustainable Investments Committee LORETO MUTUA, MPS Board of Directors General Management Investment Department Risk Management Regulatory Compliance LORETO INVERSIONES, SGIIC, S.A.U. Executive Board General Management Investment Management Department Risk Management Regulatory Compliance
Dissemination:	Members of the Investment, Risk and Sustainability Committee and the Engagement and Sustainable Investment Committee. Members of the Board of Directors, the General Manager, staff of the Investment Department, UGR staff, and RCU staff of LORETO MUTUA, MPS. Members of the Executive Board, General Manager, Investment Management Department staff, UGR staff, and RCU staff of LORETO INVERSIONES, SGIIC.

CHANGE CONTROL

Date	Version	Changes made
July 2022	1	Approved by the Board of Directors of Loreto Mutua, MPS on 19.07.2022 and by the Executive Board of Loreto Inversiones, SGIIC, S.A.U. on 27.07.2022.
Oct/Nov 2022	2	References to the Sustainability Committee are replaced by Investment, Risk and Sustainability Committee.

TABLE

1. INTRODUCTION

1.1 Aims of the Policy

The purpose of this document is, in application of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability disclosures in the financial services sector, to define the integration of sustainability factors and risks in the investment decision-making process by LORETO MUTUA, MPS (hereinafter, "LORETO MUTUA" or "MPS") and LORETO INVERSIONES, SGIIC, S.A.U. (hereinafter, "LORETO INVERSIONES" or "SGIIC") –these entities will be referred to as "ENTITIES"– as "Financial Market Participants", and to provide transparency on how the ENTITIES take sustainability into risks account in asset management.

The Policy, available to the public on the ENTITIES' websites, describes the methodology by which sources of information on environmental, social and corporate governance aspects are incorporated into the investment decision-making process. These aspects, which were not usually taken into consideration in traditional financial analysis of assets, provide further insight into the assets, particularly on potential non-financial risks which may affect the profitability of the investments.

1.2 Who draws up, approves and updates the Policy

The body in charge of drawing up the Policy is the Regulatory Compliance Unit (hereinafter, "RCU") according to the guidelines established by LORETO MUTUA's Investment, Risk and Sustainability Committee. Likewise, the RCU shall update the Policy in accordance with the regulations in force at the request of the Investment, Risk and Sustainability Committee.

The management bodies of LORETO MUTUA and LORETO INVERSIONES are responsible for approving the Policy, as well as any subsequent updates.

The Policy shall be subject to periodic review by the Investment, Risk and Sustainability Committee at least on an annual basis. It will be updated in the following cases:

a) When regulatory changes affecting the Policy occur;

b) When, at the proposal of the Investment, Risk and Sustainability Committee, the management bodies approve new measures or amend those set out in the Policy;

c) When suggested by the Supervisory Authority or an internal audit.

The different versions of the Policy are listed in the Change Control table at the beginning of the document.

1.3 Who implements the Policy

The investment departments of the ENTITIES are in charge of the investment decision-making process, for the benefit of the investment vehicles and portfolios under management, and in accordance with the investment policies of the vehicles and the discretionary portfolio management agreements. The investment departments, in addition to carrying out the financial analysis of the assets for investment decisions, will also analyse the environmental, social and corporate governance aspects of those assets according to the methodology set out in this Policy.

The Engagement and Sustainable Investment Committee shall periodically compare the sources of information on environmental, social and corporate governance. It will propose any changes to the methodology for integrating sustainability risks established in this Policy to the Investment, Risk and Sustainability Committee.

The risk management units of the ENTITIES are in charge of regular monitoring and control of sustainability risks.

The RCU will monitor compliance with this procedure.

The General Managers shall ensure that the ENTITIES comply with the provisions of this Policy.

The management bodies of the ENTITIES are ultimately responsible for ensuring that the guidelines set out in the Policy are effectively implemented.

1.4 Who this Policy is for

The procedure is intended for the Investment Management Department staff of LORETO INVERSIONES, which makes investment decisions on the investment funds and discretionary portfolios under management.

This Policy is also intended for the Investment Department staff of LORETO MUTUA, which is responsible for investment decisions on the part of LORETO MUTUA's portfolio not managed by LORETO INVERSIONES.

This Policy also applies to the risk management units of LORETO MUTUA and LORETO INVERSIONES, which will monitor sustainability risks.

The Engagement and Sustainable Investment Committee will periodically review the methodology set out in this Policy.

Finally, the Policy is intended for the RCU staff, who will monitor compliance with this procedure.

This document is available to all LORETO MUTUA and LORETO INVERSIONES employees on the intranet and on the document manager, respectively. The RCU will update the published version, provided that the changes to the Policy have been approved by the management bodies of LORETO MUTUA and LORETO INVERSIONES, and also publish it on the ENTITIES' websites.

The RCU will notify anyone subject to the Policy of any changes, once approved by the management bodies.

2. SCOPE

The Policy applies to LORETO MUTUA and LORETO INVERSIONES as, according to the regulations, "financial market participants" engaged in investment vehicle management activities and offering discretionary portfolio management services.

This Policy is intended for group-wide application, as it establishes the general methodology for the assessment of sustainability risks, which is intended to be applied across all the portfolios managed by the LORETO MUTUA Group. It shall apply to both third-party and own investment management activities.

3. SUSTAINABILITY RISK

Sustainability risk is an Environmental, Social or Governance event or condition (known as "ESG factors") that, if it were to occur, could cause an actual or potential negative material impact on the value of an investment.

These are the three key factors to measure sustainability:

- Environmental factors: any company activity that has an impact on the environment, including both activities that have negative effects on the environment and the company's efforts to reduce environmental impact. Compliance with these environmental criteria is increasingly valued as a factor of efficiency, quality and commitment on the part of the company. The idea is that companies can make a profit while being aware of their impact on the environment, minimising adverse effects and climate change. Therefore, efficient electricity and water consumption, use of consumable materials, reduction of greenhouse gas emissions, waste management and, in general, all aspects that have an impact on climate change, biodiversity and the depletion of natural resources, among others, are considered of vital importance.

- Social factors: social criteria pertain to the relationship between the company and society, especially on aspects related to health, welfare, education, culture, human and workers' rights, or any other that can help reduce the vulnerability of society. Social factors include respect for human rights, working conditions (slavery, forced labour, child labour, equality between women and men, any kind of discrimination, ethnic communities,...), occupational health and safety, employee relations and human capital management, product liability and consumer protection. Consequently, it is essential for companies to comply with social criteria in terms of ethics and social responsibility to have a positive effect on the company's perception and brand image.

- Governance factors: these have to do with how the company is organised, such as the structure of the administrative and management bodies (independence and diversity), management remuneration policies, internal procedures, quality management, regulatory compliance, the company's risk profile, professional ethics and transparency in the disclosure of information. All of this emphasises the protection of shareholders' interests.

4. INTEGRATING SUSTAINABILITY RISKS INTO INVESTMENT DECISIONS

The integration of sustainability risks requires the assessment of aspects that are not traditionally included in financial asset analysis criteria, as well as including this assessment in the investment decision-making process. Taking these aspects into account does not entail any changes to the asset investment analysis process followed in the LORETO MUTUA Group, but rather the addition of new sources of information on the assets.

Information on ESG aspects therefore complements the investment analysis criteria that are already in place.

Sources of information on ESG factors are very diverse. On the one hand, companies' own published documentation, such as annual reports, contain references to ESG aspects. Company ESG policies are also available as well as, increasingly, company-specific ESG reports. Furthermore, ESG information can be obtained from external sources, through specialised providers that publish quantitative information (ratings and indices) on ESG factors or reports on companies' ESG performance. Finally, the involvement of LORETO MUTUA and LORETO INVERSIONES, as asset managers and institutional investors, contributes to the good ESG performance of investee companies. The various engagement activities foreseen in the LORETO MUTUA Group's Engagement Policy are also a source of information to identify, measure and mitigate sustainability risks.

Sustainability risk integration is the process of analysing information about the ESG factors inherent to the asset to be invested in, so as to assess the material risks that these factors could have on the value of the asset. This process concludes with a decision on whether or not to add the asset to the managed portfolio.

The degree of integration of sustainability risks depends on the ESG profile of the investment vehicle or managed portfolio. Thus, investment vehicles that promote environmental and/or social aspects, or vehicles aiming at sustainable investing in assets with high ESG scores, which implicitly reduces the sustainability risks of the assets.

5. METHODOLOGY FOR INTEGRATING SUSTAINABILITY RISKS

The methodology set out in this Policy has been established to systematise the integration of ESG factors into the decision making process of LORETO MUTUA and LORETO INVERSIONES.

As part of the asset analysis process, the investment departments of LORETO MUTUA and LORETO INVERSIONES (hereinafter, "Investment Department"), shall carry out the following checks before the investment decision is taken, depending on the type of asset concerned.

5.1 Equities, corporate bonds and notes

The issuer's S&P Global ESG Rank will be checked.

The S&P Global ESG Rank, whose methodology takes sustainability risk into account by giving greater weight to factors with greater long-term impact, is one of the indices covering the largest number of companies. This Index gives scores on a scale from 0 to 100, from worst to best ESG performance, 100 being the highest possible score.

A minimum threshold of 20 points according to the S&P Global ESG Rank has been set as an exclusion criterion, with the exception of money market instruments, where ESG aspects are less relevant due to their maturity.

5.2 Public debt

The Investment Department will refer to the Sustainable Development Goals Index, published annually in the Sustainable Development Report and calculated on the basis of public data from the World Bank, the World Health Organisation and the International Labour Organisation, among other official agencies.

The Sustainable Development Goals Index gives scores on a scale of 0 to 100, from worst to best ESG performance, 100 being the highest possible score.

A minimum threshold of 60, according to the Sustainable Development Goals Index, has been set as an exclusion criterion, so the Investment Department will consider any asset with a score of less than 60 as ineligible for investment.

5.3 Collective investment institutions and listed investment funds

In the process of making investment decisions in relation to collective investment institutions (CIIs) or exchange-traded funds (ETFs), the Investment Department will seek qualitative ESG information from the CII/ETF manager, although an ESG score from a rating system or index will not be required.

5.4 Alternative investment funds

In the process of making investment decisions in relation to alternative investment funds (AIFs), the Investment Department will seek qualitative ESG information from the manager, although an ESG score from a rating system or index will not be required.

5.5 Unrated assets

Excluding money market instruments, 30% of the assets of the managed portfolio shall be allowed not have an ESG rating according to the S&P Global ESG Rank or Sustainable Development Goals Index.

5.6 Unrestricted assets

In any case, investing in assets that do not meet the requirements set out in sections 5.1 to 5.4 above is possible, provided that, together, they do not make up more than 10% of the portfolio. These investments will go to securities whose ESG score, while not optimal, shows a positive trend in future reviews of the indices used, both in terms of their activity and their commitment to sustainability.

6. SUSTAINABILITY RISK CONTROL

ESG factors may have an actual or potential negative material impact on the value of investments. Proper monitoring of sustainability risks requires not only identifying and measuring risks at the time the investment is made, but also throughout the duration of the investment, as ESG factors and risks vary over time.

The risk management units of LORETO MUTUA and LORETO INVERSIONES are in charge of monitoring sustainability risks. In particular, they shall ensure that the investment decision-making process takes into account the sustainability risks of the assets and shall report to the LORETO MUTUA and LORETO INVERSIONES management bodies on a regular basis on the sustainability risks associated with the various managed portfolios.

Moreover, the LORETO MUTUA Group has internal control measures in place to monitor the ESG ratings of the various assets, in accordance with the methodology set out in this Policy.

7. TRANSITIONAL PERIOD AND UNFORESEEN CIRCUMSTANCES

The investment departments of the ENTITIES shall make sure the managed portfolios comply with the provisions of this Policy by 31 December 2022.

In the event that the ESG score of an asset changes and the asset is no longer eligible according to the methodology set out in the Policy, a period of 3 months from the date on which the change in the asset's score was detected shall be allowed for appropriate action to be taken.

8. ORGANISATIONAL STRUCTURE

The Board of Directors of LORETO MUTUA delegates sustainability matters at Group level to the Investment, Risk and Sustainability Committee. Its mission is to contribute to the LORETO MUTUA Group being recognised for its excellent management in the area of sustainability, which is a fundamental pillar of its future strategy and a source of both risks and opportunities.

The Investment, Risk and Sustainability Committee is supported by the Engagement and Sustainable Investment Committee (hereinafter, "ESIC").

Given that the availability of sources of information on ESG factors is limited and regulations are still in early stages of development, the quality and sufficiency of the sources of information used in the methodology set out in this Policy will be assessed by the ESIC on a regular basis. The ESIC may propose changes to the methodology for integrating sustainability risks to the Investment, Risk and Sustainability Committee in order to improve the effectiveness of the ESG risk integration process in decision-making.

9. PROMOTING THE INTEGRATION OF SUSTAINABILITY RISKS

The remuneration Policies of LORETO MUTUA and LORETO INVERSIONES shall encourage factoring in sustainability risks in the investment decision-making process, so that investment decisions are based not only on purely financial aspects but also on ESG factors.

10. POLICY COMPLIANCE OBLIGATIONS

10.1 Duties of the General Managers

The General Managers of LORETO MUTUA and LORETO INVERSIONES have the following obligation:

a) Ensuring compliance with the provisions of the Sustainability Risk Integration Policy.

10.2 Duties of the investment departments

The investment departments of LORETO MUTUA and LORETO INVERSIONES have the following obligation:

a) Applying the methodology set out in this Sustainability Risk Integration Policy to the investment decision-making process.

10.3 Duties of the risk management units

The risk management units of LORETO MUTUA and LORETO INVERSIONES have the following obligations:

a) Ensuring that the investment decision-making process takes sustainability factors into account;
b) Monitoring the sustainability risks of the managed portfolios;
c) Reporting on the sustainability risks of the managed portfolios to the management bodies.

10.4 Duties of the Engagement and Sustainable Investment Committee

The ESIC has the following obligations:

a) Periodically reviewing the sources of information on sustainability factors used in the methodology set out in this Policy;
b) Proposing changes to the methodology for integrating sustainability risks, if any, to the Investment, Risk and Sustainability Committee.

10.5 Duties of the Investment, Risk and Sustainability Committee

The Investment, Risk and Sustainability Committee has the following obligation:

a) Encouraging the RCU to update the Policy in the light of regulatory changes, whenever the methodology needs to be modified and upon proposal of the Supervisory Authorities and the Internal Audit, and submitting it to the management bodies for approval.

10.6 Duties of the management bodies

The management bodies of LORETO MUTUA and LORETO INVERSIONES have the following obligation:

a) Approving the Sustainability Risk Integration Policy and any subsequent updates.

10.7 Duties of the RCU

The RCU must carry out the following tasks:

a) Submitting the Policy, on the Investment, Risk and Sustainability Committee's proposal, to the management bodies of LORETO MUTUA and LORETO INVERSIONES for approval;
b) Submitting updates to the Policy, on the Investment, Risk and Sustainability Committee's proposal, to the management bodies for approval;
c) Giving anyone affected by the procedure notice of the Policy and any changes to it, once approved by the management bodies;
d) Keeping the Policy up to date on the LORETO MUTUA intranet and the LORETO INVERSIONES document manager;
e) Ensuring that the Sustainability Risk Integration Policy and any subsequent updates get published on the LORETO MUTUA and LORETO INVERSIONES websites;
f) Bringing any non-compliance detected in relation to the Policy to the attention of the management bodies and, where appropriate, proposing measures to be adopted.