



Statement on integrating sustainability risks into investments

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Statement on the integration of sustainability risks

OTP Fund Management Ltd. has developed its policy entitled *"On sustainable investments, sustainability risk management and consideration of the main adverse impacts on sustainability factors"* (hereinafter: Policy) in accordance with the regulation on sustainability disclosures in the financial services sector (Regulation 2019/2088/EU). We define sustainability risk as an environmental, social or corporate governance event or condition that, if it occurs, could have a material negative impact on the value of an investment. These include, for example, the physical risks of climate change (extreme weather events) or the so-called transition risks arising from stricter environmental regulations, which mainly affect companies that operate in a less sustainable manner.

The Policy outlines the general principles and specific measures that OTP Fund Management Ltd. applies in its portfolio management activities when making investment decisions in order to identify, manage, and monitor sustainability risks.

Terms and explanations necessary for understanding the statement:

<u>Sustainability / ESG risk</u>	According to the definition in Article 2(22) of the SFDR, an environmental, social, or governance event or condition that, if it occurs or persists, could have an actual or potential material negative impact on the value of an investment.
<u>Sustainability factor</u>	Environmental, social, and employee issues, respect for human rights, and issues related to combating corruption and bribery.
<u>Adverse impact in terms of sustainability</u>	From a sustainability perspective, an adverse impact can be defined as a negative outcome of the investment underlying the product in terms of sustainability factors, i.e., investments in the fund or managed portfolio may have a direct or indirect adverse impact on sustainability factors (such as air quality, biodiversity, drinking water resources, human rights, working conditions, etc.).
<u>Sustainability / ESG rating</u>	Key components of ESG ratings related to sustainability risks that should be taken into account: a/ Environmental and Climate-related Risks aa/ Effects of climate change ab/ Natural resources

	ac/ Pollution prevention and waste management ad/ Environmental opportunities b/ Social Risks ba/ Human capital bb/ Product liability bc/ Conflicting interests of the parties concerned bd/ Social opportunities c/ Governance Risks ca/ Corporate Governance cb/ Corporate conduct
<u>SFDR</u>	REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability-related disclosures in the financial services sector.
<u>ESG fund</u>	Investment fund or managed portfolio in accordance with Article 8 or 9 of the SFDR. SFDR Article 8 fund: In addition to other characteristics, the fund promotes environmental or social characteristics, or a combination thereof, and the companies selected for investment purposes follow good corporate governance practices. SFDR Article 9 fund: In addition to the characteristics of an SFDR 8 fund, the fund's objective is sustainable investment.
<u>Sustainable investment</u>	a) investment in economic activities that contribute to an environmental objective, such as energy consumption, renewable energy use, raw material use, water use, land use, waste generation, greenhouse gas emissions, or biodiversity and measured by basic resource efficiency indicators relating to the impact on the circular economy, or b) investment in economic activities that contribute to a social objective, in particular investments that contribute to combating inequality, social cohesion, social integration and labor relations, or in human capital or economically or socially disadvantaged communities, provided that such investments do not have a significant negative impact on any of those objectives, and where the enterprises receiving the investment follow good corporate governance practices, with particular regard to sound governance

	structures, labor relations, remuneration of relevant personnel, and compliance with tax legislation.
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The management of sustainability risks is an integral part of the comprehensive risk management framework. It is essential for the Fund Manager to establish a broad and comprehensive risk management system that effectively identifies, measures, monitors, and controls risks under the supervision and control of the Supervisory Board.

The sustainability risk level of investment funds and managed portfolios is determined by taking into account the ESG rating¹ and scoring provided by MSCI ESG Research as an external data provider, with the external data provider's assessment being aggregated into a single ESG rating.

According to the methodology of *MSCI ESG Research*, ESG ratings can range from CCC to AAA, with CCC being the worst rating and AAA being the best. The Fund Manager determines the ESG score of each instrument by weighting it with its current market value to determine the ESG score and rating of the given fund or portfolio.

The Fund Manager classifies funds and portfolios as follows:

ESG Score	ESG Rating	ESG Risk Rating
8.571-10	AAA	Low
7.143-8.571	AA	
5.714-7.143	A	
4.286-5.714	BBB	Medium
2.857-4.286	BB	
1.429-2.857	B	
0-1.429	CCC	High

OTP Fund Management Ltd. uses the ESG rating thus obtained to assess the sustainability risks of a given fund or portfolio.

If the portfolio contains items whose rating cannot be determined (e.g., cash, bank deposits, derivatives), these assets are disregarded, and the Fund Manager determines the portfolio rating based on the ESG ratings of the remaining assets.

¹ ESG ratings measure and evaluate a company's resilience to long-term environmental, social, and corporate governance (ESG) risks that are relevant to the industry. The assessment is made in comparison with industry peers, and the ability to manage risks is also taken into account in relation to exposure to ESG risks that are relevant to the industry.

Interpretation of internal sustainability risk categories
Low: These funds invest in issuers that reflect strong and excellent ESG performance and provide a high level of transparency in the public disclosure of ESG data. These companies may be more resilient to impacts from ESG events.
Medium: these funds invest in issuers that are average in their ESG management or have a mixed ESG rating of above average and below average ESG ratings.
High: These funds invest in issuers with a high exposure to sustainability risks, which are publicly disclosed to be under-managed relative to peers.

When constructing and rebalancing the portfolio, the maintenance and achievement of the sustainability risks expected by the Fund Manager shall be taken into account. If the sustainability risk exposure is outside the level expected from the portfolio, the Manager will take measures to reduce the sustainability risk to an acceptable level .

The ESG mapping of the sustainability risk of the Funds managed by the Fund Manager is as follows:

SFDR Article 9 funds managed by the Manager must comply with the following ESG criteria:

- The fund may only make sustainable investments² and may only hold other assets for hedging and liquidity purposes.
- The fund's adjusted weighted ESG Rating, calculated on the basis of its ESG-rated assets, must be between AA and AAA.
- At least 85% of the fund's assets must consist of assets of companies and countries that are considered appropriate in terms of ESG data provider ratings. For developed market issuers or developed market exchange-traded assets, or investment funds in the case of funds of funds, this means a rating of AAA-BBB, while for emerging markets it means a rating of AAA-BB.
- The fund may not contain any assets with a CCC ESG Rating.
- The proportion of assets with unrated ISIN codes may not exceed 5%.

² Sustainable investments are investments in economic activities that contribute to a specific environmental or social objective, provided that these investments do not have a significant negative impact on any of these objectives and that the companies receiving the investment follow good corporate governance practices, with particular regard to sound governance structures, employee relations, remuneration of relevant personnel, and compliance with tax regulations. The Fund Manager currently uses the MSCI ESG Research sustainable investment methodology

- In the fund of funds structure, the fund aims to achieve a weighting of at least 85% for funds classified in accordance with Articles 8 and 9 of the SFDR.

If the underlying fund does not have SFDR compliance, then for funds investing in instruments listed on developed market exchanges, we consider funds with a rating of AAA-BBB to be sustainable in terms of ESG compliance, while for funds investing in emerging market equities, we consider funds with a rating of AAA-BB to be sustainable.

Within the SFDR Article 8 category, the Fund Manager has developed two sub-categories for ESG considerations, taking into account the different investment objectives and opportunities of each fund. These are

- high ESG focus,
- or normal ESG funds.

Funds with a high ESG focus must meet the following ESG criteria:

- The fund's adjusted weighted ESG rating, calculated on the basis of its ESG-rated assets, must be between A and AAA.
- At least 75% of the fund's assets must consist of assets of companies and countries that are considered appropriate in terms of ESG data provider ratings. For developed market issuers or developed market exchange-traded instruments, or investment funds in the case of funds of funds, this means a rating of AAA-BBB, while for emerging markets it means a rating of AAA-BB.
- The fund may not contain any assets with a CCC ESG Rating.
- The proportion of assets with unrated ISIN codes may not exceed 10%.
- In the fund of funds structure, the fund aims to achieve a weighting of at least 75% for funds classified in accordance with Articles 8 and 9 of the SFDR.

If the underlying fund does not have SFDR compliance, funds with a rating of AAA-BBB for funds investing in developed market listed assets and AAA-BB for funds investing in emerging market equities are considered sustainable for ESG compliance.

Normal ESG funds must meet the following conditions:

- The fund's adjusted weighted ESG rating, calculated on the basis of its ESG-rated assets, must be between BBB and AAA.
- At least 51% of the fund's assets must consist of assets of companies and countries that are considered appropriate in terms of ESG data provider ratings. For developed market issuers or developed market exchange-traded instruments, or investment funds in the case of funds of funds, this means a rating of AAA-BBB, while for emerging markets it means a rating of AAA-BB.

- The fund may not contain any instruments with a CCC ESG Rating.
- The proportion of assets with unrated ISIN codes may not exceed 10%.
- In the fund of funds structure, the fund aims to achieve a weighting of at least 51% for funds classified in accordance with Articles 8 and 9 of the SFDR.

If the underlying fund does not comply with SFDR, then in the case of funds investing in assets listed on developed market exchanges, we consider funds with an AAA-BBB rating to be sustainable in terms of ESG compliance, while in the case of funds investing in emerging market equities, we consider funds with an AAA-BB rating to be sustainable.

Funds that are not SFDR-rated must meet the following conditions:

- The adjusted weighted ESG Rating of the fund, calculated on the basis of its ESG-rated assets, should be between BB and AAA.

OTP Fund Management Ltd.