

Statement on the key negative impacts of the investment advisory service on sustainability factors

LAW JU1U6S0DG9YLT7N8ZV32

Banco Comercial Português S.A., within the scope of its investment advisory service, considers the principal adverse impacts on sustainability factors to the extent that the process used to select Undertakings for Collective Investment in Transferable Securities (UCITS), analyses how the Management Companies address the principal adverse impacts on sustainability factors in their investment processes.

The selection of UCITS for the investment advisory service undergoes a thorough due diligence process comprising eight steps before the final selection, that aim to assess the ability to generate value above an index representative of the market and its peers, taking into consideration the social, environmental and governance characteristics of the assets in which it invests.

The process begins with the creation of a sample of eligible UCITS in the desired asset class. This sample is then subjected to exclusion criteria, namely a track record of less than 3 years, a small amount under management and a Low Morningstar Sustainability Rating (lowest decile of its category).

Next, a quantitative analysis is carried out in order to assess the consistency of the performance, market and sustainability risks of each of the UCITS in the defined universe. Qualitative aspects are also evaluated, to assess the UCITS investment process, targeted returns and investment guidelines, experience of the manager/management team, possible bias towards a certain type of instrument, market, sector or management style, current and historical indicators of sustainability risks and their comparison with the Morningstar category average. During this step, the approach adopted by Management Companies regarding principal negative impacts of investment decisions on sustainability factors is analysed based on the information published within the scope of the SFDR regulations. Currently no ranking is made based on the indicators described in table 1 of Annex I of the mentioned regulation, nor is any selection exclusively based on how the indicators are taken into account by managers, but their analysis is of particular importance since the materialisation of sustainability risks may generate a material negative impact, current or potential, on the value of investments.

As a result of the analysis of the various aspects outlined above UCITS deemed unsuitable may be excluded from the selection process.

A short-list of UCITS that have met the above criteria is prepared, and additional information is gathered from the Management on the following aspects:

- Management Company - amount of assets under management, experience in the market, strategy used, corporate reputation, shareholder structure, among other
- Assets under management - how the fund's assets under management and investment strategy evolved
- Team - number of analysts and individual experience, number of companies followed by each analyst, existence of manager risk, remuneration policy and employee incentive system
- Investment Process - detailed description of the process and investment guidelines
- How sustainability risks are incorporated into investment decisions - assessment of the principal adverse impacts and measures planned or goals set to reduce these impacts
- Portfolio characteristics - turnover, types of instruments used, investment universe
- Market risk management - risk management process and control, portfolio construction and diversification rules, description of how and when the management team uses derivatives, and counter-party risk assessment
- Execution process - description of how and by whom transactions are executed for the fund
- Performance - detail of the absolute, relative and the performance attribution of the last 5 years, with an indication of the allocation and investment decisions in assets with the biggest and smallest contributions to relative performance
- Customer service and reporting - access to managers and quality of information provided

Additionally, a meeting is held with each Management Company, in order to detail issues that are relevant or have raised doubts and to validate the information that has been collected in writing.

Taking in consideration all aspects collected and after analysing the costs, a UCITS is selected that will be accompanied and monitored monthly. If the selected UCITS has a Morningstar Corporate Sustainability Score greater than 30, which means that it has a high sustainability risk, an additional analysis is performed to substantiate the selection. This analysis compares the sustainability profile of the UCITS with that of the average of funds in the same category and with a similar risk profile.