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 Sustainability Risk Management Policy (the "Policy") in accordance with the Regulation on Sustainability Disclosures in the Financial Services Sector (Regulation (EU) No 2019/2088). Sustainability risk is defined as an environmental, social or governance event or condition that, if it were to occur, could have a material adverse effect on the value of an investment. Examples include the physical risks of climate change (extreme weather events) or the so-called "transition risks" resulting from tightening environmental regulation, which mainly affect less sustainable companies.

The Policy describes in general terms the general principles and specific measures that OTP Fund Management Ltd. applies in its portfolio management activities in the investment decision-making process in order to identify, manage and monitor emerging sustainability risks.

Terms and explanations needed to understand the statement:

Sustainability risk	As defined in Article 2(22) of the SFDR, an environmental, social or governance event or circumstance, the occurrence or existence of which has the actual or potential to have a material adverse effect on the value of the investment;
Sustainability factor	Environmental, social and labour issues, respect for human rights and issues related to the fight against corruption and bribery.
Adverse impact on sustainability	An adverse sustainability impact is defined as a negative outcome of the underlying investment in the product on sustainability factors, i.e. that the investments in the fund or managed portfolio may have a direct or indirect adverse impact on sustainability factors (such as: air purity, biodiversity, drinking water resources, human rights, working conditions, etc.)
ESG rating	The main components of ESG ratings for sustainability risks to be taken into account: a/ **E**nvironmental and Climate-related Risks aa/ Climate change impacts ab/ Natural resources ac/ Pollution prevention and waste management ad/ Environmental opportunities

	b/ **S**ocial Risks ba/ Human capital bb/ Product responsibility bc/ Counter-interests of interested parties bd/ Social opportunities c/ **G**overnance Risks ca/ Corporate governance cb/ Corporate conduct
SFDR	REGULATION (EU) No 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 27 November 2019 on sustainability disclosures in the financial services sector
ESG fund	an investment fund or managed portfolio complying with Article 8 or 9 of the SFDR SFDR 8 fund: The fund promotes, **among other characteristics, environmental or social characteristics or a combination of these**, and the companies selected for investment follow good corporate governance practices, SFDR 9 Fund: In addition to the characteristics of SFDR 8, **the Fund's objective is to invest sustainably**
Sustainable investment	(a) investment in an economic activity that contributes to an environmental objective, as measured, for example, by key resource efficiency indicators relating to energy use, renewable energy use, raw material use, water use, land use, waste generation, greenhouse gas emissions, or the impact on biodiversity and the circular economy; or b) investment in economic activities contributing to a social objective, in particular investments contributing to the fight against inequality, investments strengthening social cohesion, social inclusion and labour relations, or investments in human capital or in economically or socially disadvantaged communities, provided that such investments do not have a significant negative impact on any of these objectives and that the enterprises receiving the investment follow good corporate governance practices, in particular with regard to sound management structures, employee

	relations, remuneration of the staff concerned and compliance with tax legislation.

The management of sustainability risks is an integral part of the overall risk management framework. It is essential for the Fund Manager to develop 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 the investment funds or managed portfolios is determined for the individual investments of the assessed fund or portfolio by taking into account the ESG rating[1] and scoring provided by MSCI ESG Research as the external data provider, aggregating the external data provider's assessment into a single ESG rating.

According to MSCI ESG Research's methodology, ESG ratings can be in the range CCC-AAA, where "CCC" is the worst rating and "AAA" is the best rating. The Fund Manager will determine the ESG score of each instrument by weighting it by the current market value to determine the ESG score rating and classification of the fund or portfolio.

Funds and portfolios are classified by the Fund Manager as follows*:

ESG Score	ESG Rating	ESG Risk Classification
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

The resulting ESG rating is used by OTP Fund Management Ltd. when assessing the sustainability risks of a given fund or portfolio.

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

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

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

- The fund may only invest in sustainable investments[2] and may hold other assets for hedging and liquidity purposes only.
- The fund's adjusted weighted ESG Rating, calculated on the basis of its ESG-rated assets, should be between AA and AAA.
- At least 85% of the fund's assets consist of assets of companies and sovereigns that are considered to be eligible for ESG reporting. For developed market issuers or developed market exchange traded funds - mutual funds in the case of a fund of funds - this means AAA-BBB, and for emerging market, AAA-BB.
- The fund may not include an asset with a CCC ESG Rating.
- The maximum percentage of assets with a non-qualifying ISIN code is 5%.
- the fund of funds seeks to achieve a weighting of at least 85% in the fund of funds construction for funds classified in accordance with paragraphs 8 and 9 of the SFDR Regulation.

  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.

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

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

- strong ESG focus,
- or normal ESG funds.

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

- The adjusted weighted ESG Rating of the fund, calculated on the basis of its ESG rated assets, should be between A and AAA.
- At least 75% of the fund's assets consist of assets of companies and sovereigns that are considered to be eligible for ESG reporting. For developed market issuers or developed market exchange traded funds - mutual funds in the case of a fund of funds - this means AAA-BBB, and for emerging market, AAA-BB.
- The fund may not include an asset with a CCC ESG Rating
- The maximum proportion of assets with a non-qualifying ISIN code is 10%.
- the fund of funds seeks to achieve a weighting of at least 75% in the fund of funds construction for funds classified in accordance with paragraphs 8 and 9 of the SFDR Regulation.

  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 adjusted weighted ESG Rating of the fund, calculated on the basis of its ESG-rated assets, must be between BBB and AAA.
- At least 51% of the fund's assets consist of assets of companies and sovereigns that are considered to be eligible for ESG reporting. For developed market issuers or developed market exchange traded funds - mutual funds in the case of a fund of funds - this means AAA-BBB, and for emerging market, AAA-BB.
- The fund may not include an asset with a CCC ESG Rating.
- The maximum proportion of assets with a non-qualifying ISIN code is 10%.
- the fund of funds seeks to achieve a weighting of at least 51% in the fund of funds construction for funds classified in accordance with paragraphs 8 and 9 of the SFDR Regulation.

  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.

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.

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