Guidelines on responsible investment

Shaping a sustainable future

Content

Union Investment and sustainability

Sustainability is part of Union Investment's cooperative identity. We have been committed to acting with an eye on the long term and taking a holistic view of markets, developments and the needs of our investors for over 60 years.

We have adopted a clear sustainability str ategy, which provides us with a framework for responsible actions. These guidelines[1] express our approach to responsible investment. They supplement the applicable code of conduct of the German Investment Funds Association (BVI) and the German government commission's Corporate Governance Code, whose requirements we also implement. These guidelines apply to all funds for which Union Investment has responsibility for the entire value chain in the investment process. While awarding mandates in which individual aspects of the management service are transferred by or to us, we work to ensure that the principles in these guidelines are fully taken into account in the management process.

[1] Any formulations in this document referring to natural persons expressly include all gender identities

Our principles

1. **Our cooperative principles as part of a cooperative banking group have always required us to act responsibly and we put this into practice at company level as well as in our core business.**

2. **Our corporate culture is characterised by partnership, professionalism and transparency. These values reflect our actions in line with our cooperative principles. Furthermore, "sustainability" is embedded in our values as part of our corporate identity.**

3. **As an asset management company, we bear responsibility for looking after our investors' money. We therefore act in the interests of our investors at all times and integrate this principle into our business processes.**

4. **As an active asset manager, we believe in the positive link between sustainable actions and economic added value over the long term. To ensure the future viability of our investments in states, companies and real estate, we take environmental, social and governance (ESG) criteria into account in our investment decisions in addition to financial parameters. This way, we generate long-term added value for our investors.**

5. **We exert an active influence on companies in order to promote responsible business practices and good corporate governance, thus contributing to sustainable increases in their value. By integrating sustainability aspects into the management of our properties, we aim not only to safeguard their value and rental income, but also to equip them for the future.**

Standards

Our responsibility for looking after our investors' money requires us to give the interests of our investors top priority. Beyond observing the relevant applicable laws and regulatory requirements, we are guided in our approach of responsible investment by leading national and international standards, which serve as a benchmark for our actions. In particular, we draw on the following sets of rules in this context:

- **the UN Principles for Responsible Investment (PRI)**
- **the UN Global Compact**
- **the OECD Guidelines for Multinational Enterprises**
- **the Oslo Convention on Cluster Munitions**
- **the Ottawa Convention on Anti-Personnel Mines**
- **the code of conduct of the BVI**
- **the BVI guidelines on sustainable portfolio management**

As an active asset manager, we implement the insights gained from our ESG analyses in our securities portfolios. In extreme cases, this can lead to issuers being excluded from the investment universe, for example for grave violations of the principles of the UN Global Compact or of the labour standards of the International Labour Organization (ILO), if we are unable to achieve a positive outcome through engagement dialogue with issuers.

We do not invest in companies who are involved in manufacturing outlawed weapons (such as land mines and cluster bombs) or in mining or generating electricity from coal[2]. Our mutual funds do not hold securities of companies directly involved in the manufacture and maintenance of nuclear weapons systems, nor do we invest in such securities[3]. Furthermore, we do not invest in derivative financial instruments based on agricultural commodities.

[2] The following companies are excluded:
- those who generate more than 5 % of their revenue from coal mining and
- coal-fired power generators who cannot demonstrate a credible climate strategy and generate > 25 % of their energy using thermal coal (see "Addressing climate change" section). A credible climate strategy means an undertaking to achieve climate neutrality by 2050, no new coal projects or plans to expand existing facilities and exiting coal production by 2035.

[3] This exclusion does not apply if these activities are performed on behalf of a legitimate NATO nuclear power in accordance with the Nuclear Non-Proliferation Treaty and do not exceed minor turnover (< 5 % share of turnover).

Memberships and initiatives

We are aware of our responsibilities as one of the largest asset managers in Germany. We have taken on the challenge of actively helping to shape a future-proof environment for investment.

We are advancing the acceptance and implementation of sustainable principles in the investment industry. For this reason, Union Investment is an active member of various associations and initiatives addressing the topic of sustainability.

Union Investment actively supports sustainable investment through its membership of various organisations:

- **Principles for Responsible Investment (PRI)**
- **UN Global Compact**
- **Net Zero Asset Managers Initiative**
- **Eurosif**
- **PRI Montréal Pledge**
- **Carbon Disclosure Project (CDP)**
- **Climate Bonds Initiative (CBI)**
- **Transition Pathway Initiative (TPI)**
- **Task Force on Climate-Related Financial Disclosures (TCFD)**
- **LuxFLAG**
- **Green and Sustainable Finance Cluster Germany e.V. (VfU)**
- **German CEO Alliance for Climate and Economy (Stiftung KlimaWirtschaft)**

You can find further initiatives and examples of collaborative engagement by Union Investment on the relevant web page: Memberships and initiatives | Homepage (union-investment.de).

1. ESG integration

Responsible actions are firmly embedded within the organisational structure at all levels of the company as well as in our investment processes. In Portfolio Management, the ESG team assumes the role of coordinating securities portfolios in order to implement our high quality standards in the area of sustainability and ensure that investment approaches are up to date and sustainability aspects are integrated effectively.

ESG integration in the securities segment

We understand ESG integration to mean systematically taking sustainability factors into account in the key steps of the investment process. This also includes sustainability risks and adverse impact on sustainability factors. At the same time, we also analyse companies with regard to opportunities arising from strategic positioning in terms of sustainability. This reflects our belief that an increasingly complex capital market environment demands close cooperation between all our specialists. Our aim here is to analyse the financial implications of ESG aspects in companies and countries in order to make better investment decisions.

The ESG team is integrated into Portfolio Management as an interdisciplinary authority within the Research & Investment Strategy department and is thus interlinked with all major asset classes.

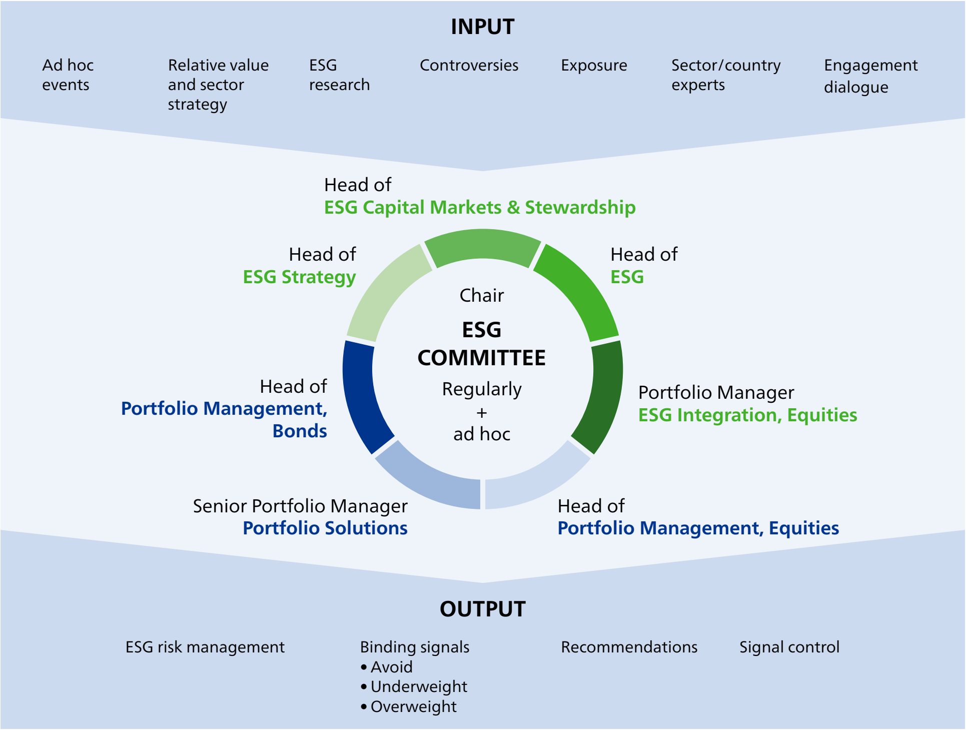
ESG as an interdisciplinary authority in Portfolio Management

Research & ESG Investment Strategy			
Multi Asset	Equities	Fixed Income	Portfolio Solutions

ESG Committee

Our ESG Committee is the most senior ESG body in Portfolio Management, and has central responsibility for defining a sustainable investment strategy. The Committee ensures that ESG findings are integrated into investment strategies and the fundamental research process on a continuous basis. It deals with specific companies, sectors and countries that, due to specific events and/or structural trends, are particularly relevant to risk, income and valuation considerations with regard to sustainability aspects. The Committee issues binding signals and recommendations with relevance to all asset classes and portfolio managers. The graphic (right) shows the members of the ESG Committee and how it functions.

Composition of the ESG Committee and how it functions



Engagement and stewardship

As a responsible and active asset manager, we engage in constructive dialogue with the companies we invest in. Our primary aim is to actively influence companies with respect to opportunities and risks linked to ESG factors. In this way, we aim to make a positive contribution to sustainable increases in enterprise value and responsible corporate governance.

We consider it our duty to represent the interests of our investors vis-à-vis the companies. This also includes having an active influence with regard to avoiding risks and promoting sustainability. We believe sustainability will have a decisive influence on a company's performance over the long term. Companies with inadequate sustainability standards are significantly more susceptible to reputational risks, regulatory risks, event risks and litigation risks. ESG aspects can have a substantial impact on the operating activities, brand and enterprise value, and continued existence of the enterprise. Through our engagement policy, we pursue the overarching goal of increasing sustainability and thus also shareholder value over the long term.

Union Investment's engagement process includes voting behaviour at annual general meetings (UnionVote) and constructive dialogue with companies (UnionVoice). While the Proxy Voting Policy provides a framework for voting behaviour, the Engagement Policy provides a guideline for direct company dialogue in the context of engagement activities. It applies to companies who issue equities or bonds and is considered an addition to the Proxy Voting Policy. You can also find further information on this in our Engagement Policy or on our Engagement homepage.

Through UnionVote, we exercise the voting rights entrusted to us at annual general meetings in order to influence the corporate governance and business policy of public limited companies in the interests of investors and ultimately to the benefit of the fund concerned. We support all measures that increase enterprise value on a long-term and sustainable basis, and vote against steps that are incompatible with this aim. A binding voting policy is essential to transparent and consistent exercising of the voting rights entrusted to us.

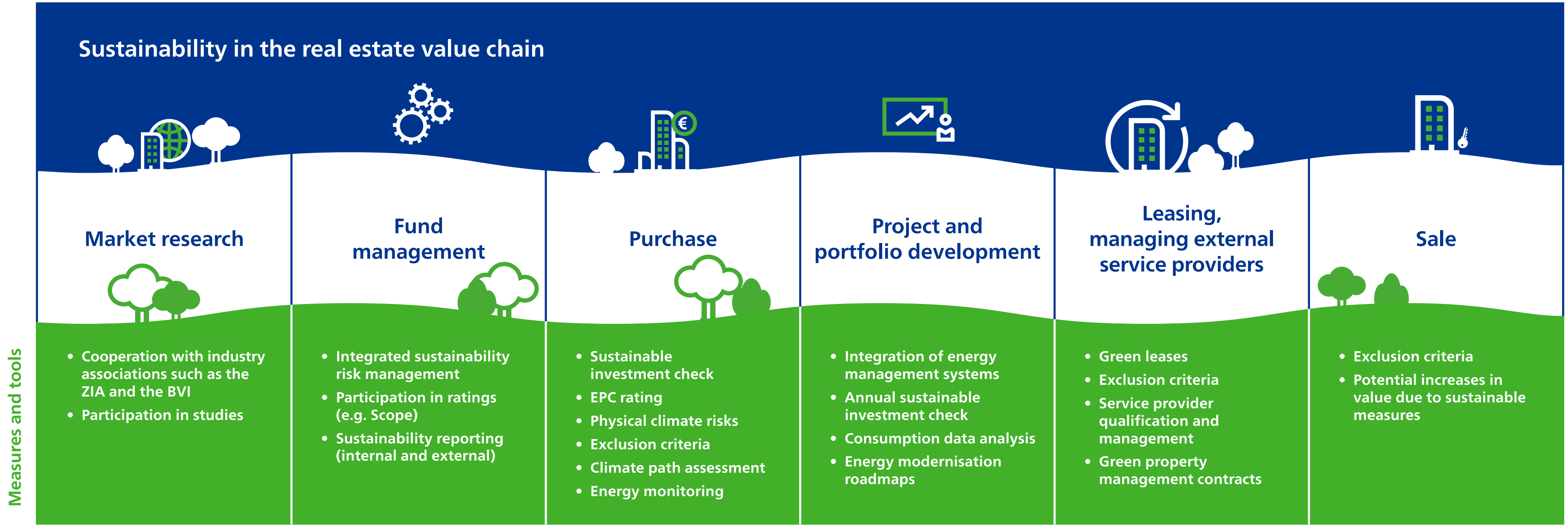
UnionVoice takes the form of active dialogue with companies as part of the engagement process. We consider it our duty to represent the interests of our investors vis-à-vis the companies. In particular, this includes having an active influence with regard to avoiding risks and promoting sustainability. While doing so, we follow the principles of the EFAMA Stewardship Code and the DFVA Stewardship Guidelines.

Integrating sustainability in the real estate segment

In Union Investment's[4] real estate segment, sustainability topics are integrated into the entire value chain. As early as the purchasing stage, properties and project developments are subject to a check regarding different sustainability criteria as part of the due diligence process. In this process, an external service provider analyses the property or project using our sustainable investment check (SI check) to identify and assess qualitative sustainability features. In addition, consumption data, physical climate risks and the status of the 1.5 °C climate path play an important role. If the property or project does not meet the minimum requirements based on the type of use, it is necessary to highlight potential for improvement and take this into account in the profitability calculation.

[4] The real estate-related sustainability strategy and tools described in the document apply to funds that are actively managed by Union Investment (excluding ZBI). It is not possible to influence service mandates for third parties.

The real estate sustainability team is integrated in real estate asset management. Sustainability topics are addressed in all departments through close interlinking with investment, fund and asset management, as well as with real estate project management. The industry faces major challenges with regard to implementing sustainability requirements due to the unique nature of each property, the large number of different actors involved in the life cycle of a property and the long service life and high value of each property. In order to manage this, we draw on our expertise in sustainable real estate fund management to engage in various working and expert groups of the German Property Federation (ZIA) and the BVI and also participate in relevant studies. We thus pursue the aim of increasing sustainability standards and transparency throughout the entire real estate industry.



Tools for sustainable real estate investments

As part of our "Manage to Green" strategy, we use the full range of available tools for all our actively managed real estate funds to improve the sustainability performance of real estate funds while taking investors' aims into account.

The following tools are used here.

Key performance indicators (KPIs)

The key performance indicators comprise all the consumption data specific to real estate, such as electricity, heating and water consumption, the volume of waste produced and CO_2 emissions. Recording and evaluating consumption figures allows property optimisation potential to be identified and savings targets to be defined, both at property and portfolio levels. Measures for more efficient use of resources and for reducing operating costs can then be introduced and the targets monitored. Recording of consumption data is firmly integrated in standard asset and property management processes and ensures that portfolios are analysed on an annual basis.

Sustainable investment check (SI check)

With the sustainable investment check developed specifically by Union Investment, buildings are assessed in terms of their sustainability as early as the purchasing process. This allows for optimisation potential to be identified and measures for upgrading properties to be planned at an early stage. The SI check is applied annually to buildings already within the portfolio, with criteria in the areas of technical equipment, measurement and control, resources, economy, user comfort, measures in operation and location being examined and analysed. This tool not only determines the current condition of a building but also checks its specific development potential on an annual basis. The SI check is continuously enhanced and adapted to the latest market developments.

The combination of the SI check for qualitative assessment and the recording of KPIs for quantitative analysis guarantee that Union Investment comprehensively documents and evaluates real estate and portfolio data on an annual basis. At the same time, it follows up the impact of the actions it has taken and is successively integrating this review of the success of the actions into work processes as a standard requirement.

Energy modernisation roadmaps

An energy modernisation roadmap serves to determine specific measures for optimising selected properties within the portfolio to bring them into line with the 1.5 °C climate path over the medium and long term.

Following the targeted selection of properties in need of optimisation, in the next step they undergo extensive surveys conducted by experts. In this process, property-specific measures aimed at reducing energy consumption and CO_2 emissions are determined and assessed using economic feasibility studies in combination with emission and environmental analyses. This provides the property manager with a sound decision-making basis for the ongoing development of the building.

Exclusion criteria

We also apply the Union-wide exclusion criteria used in securities portfolio management in the active real estate funds. Specifically, this means companies that are excluded from the investment universe on the basis of the Union-wide exclusion criteria in the securities segment also cannot become tenants of properties in the mutual funds or selected special funds. Properties cannot be purchased if excluded companies are already tenants. Likewise, transactions are not permitted if excluded companies are involved as buyers or sellers of the properties.

Energy monitoring

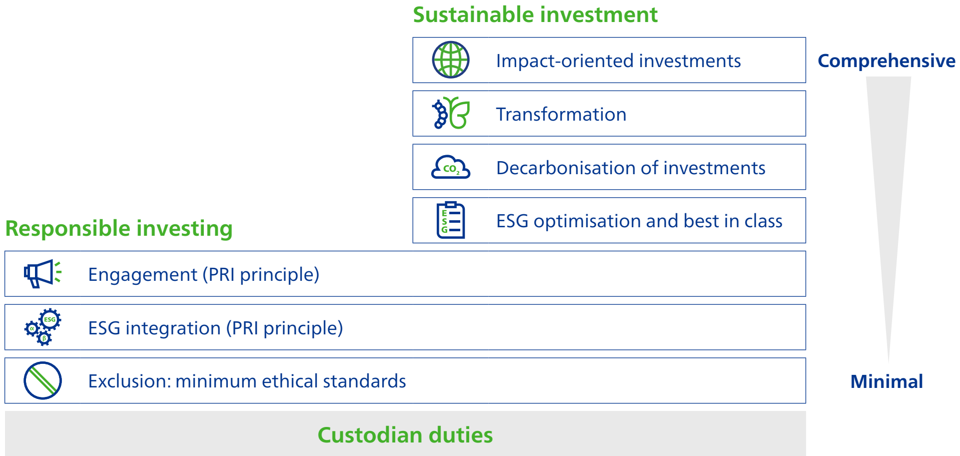
Energy monitoring can be used to record and analyse consumption data, e.g. for electricity, heating, cooling or water, in short time intervals and to derive energy optimisations. To this end, buildings are equipped with digital meters which enable data to be transferred and analysed in real time.

The aim is for standardised monitoring to create a basis for calculating specific energy saving potential and using this potential in cooperation with property managers and tenants. By 2025, Union Investment plans to gradually equip its entire portfolio with energy monitoring systems and reduce consumption figures and CO_2 emissions through rigorous optimisations. An additional obligatory criterion is to achieve the taxonomy in existing buildings (or "those completed before 1 January 2021".)

2. Sustainable investment solutions

We offer our clients sustainable investment solutions in all major asset classes. These solutions are based on investment processes geared specifically towards sustainability and can take clients' individual sustainability preferences into account.

Through this, we pursue the goal of bringing our clients' sustainability convictions and return requirements into alignment, having particular regard for risk aspects. We have an extensive product range that offers clients diverse products with various focal points in terms of sustainability:



Standard products	Products with an ESG strategy	Sustainable products[5] (may have one or more features)		
Taking **ESG opportunities and risks** into account	Dedicated **ESG strategy**	**Taking account of the principal adverse impact** at product level	Products with the minimum share of **ecologically sustainable investments** (Art. 2 no. 1 of the Taxonomy Regulation)	Products with the minimum share of **sustainable investments** (Art. 2 no. 17 of the Disclosure Regulation)

[5] Products that may be aimed at clients with sustainability-related goals pursuant to the first subparagraph of Art. 9(9) of the MiFID II Directive

We apply the following elements:

Exclusion criteria
In this approach, individual or several criteria are defined as exclusion filters that rule out investment in certain companies, industries or countries. Institutional clients may individually determine criteria such as the exclusion of companies that generate more than 5 % of their revenue from gambling, armaments, nuclear energy or coal mining.

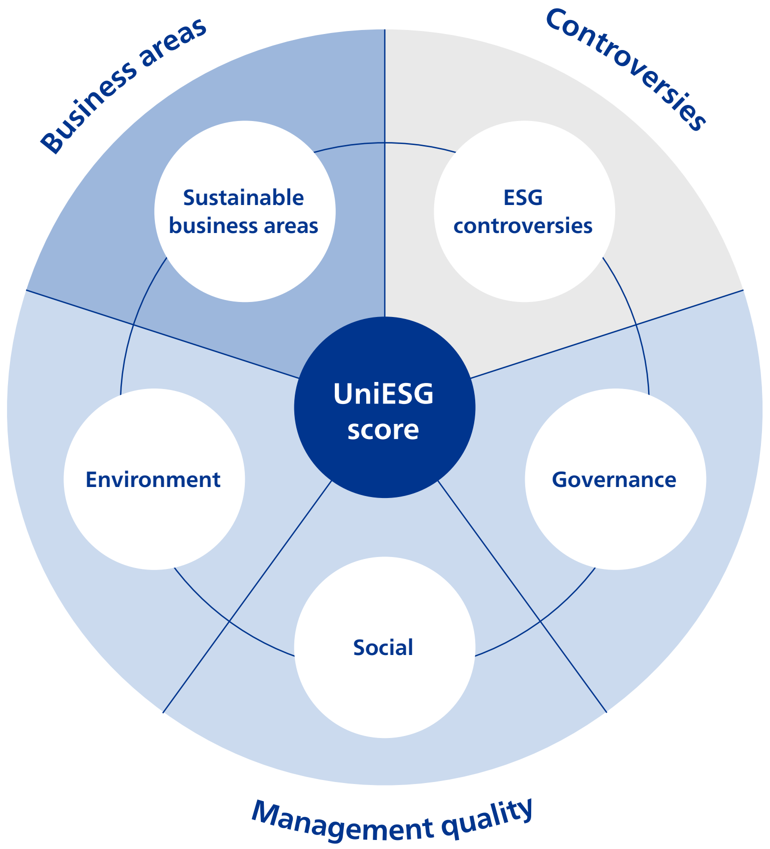
ESG optimisation and best in class
In this process, companies and states are systematically analysed using the company's ESG scores. The UniESG score (right) takes all relevant ESG aspects into account using indicators. There are various implementation options for portfolios:

a) Portfolios are optimised in line with the UniESG score. The portfolio must have a higher UniESG score than the benchmark.
b) Use of the best-in-class approach. Issuers who receive a low UniESG score in an industry comparison are excluded.

Transformation
Union Investment is focusing on the topic of transformation as a new element in sustainable investment: we would like to support and encourage companies that are particularly relevant to climate and environmental protection on their path to sustainable transformation. However, social sustainability aspects are of equal importance. This includes, for example, reducing social inequality, gender equality, promoting education or fighting poverty.

CO_2 and decarbonisation of investments
We can implement various approaches in order to decarbonise investments. These include measuring and controlling portfolios for CO_2 intensity. This takes into account companies' (Scope 1 and 2) CO_2 emissions per USD million of company revenue. Furthermore, we can calculate how many tonnes of CO_2 portfolios emit and the extent to which this conforms to the two-degree target.

UniESG score for companies



Principle of “do no significant harm” for sustainable investments

In the context of investments in economic activities that contribute to an environmental or social goal, this ensures that none of these goals are significantly compromised. To this end, the issuers of the assets are examined using indicators that are also used as a basis for analysing the adverse impact of investments on sustainability factors. In addition to applying the exclusion criteria, there is a check on business practices with reference to the principal adverse impact (PAI). If serious violations of the PAI categories are identified, assets will not be acquired from this issuer.

Human rights

As an asset manager with responsibility for managing investors’ money, we are keen to maintain compliance with human rights in all our investments, not only to fulfil legal requirements, but also to minimise litigation and reputational risks. In Portfolio Management, we have therefore established appropriate processes for monitoring and managing human rights risks in the investment universe. Here, we align ourselves with the United Nations Guiding Principles on Business and Human Rights. In our declaration of principles on the respect of human rights we set out how we implement human rights due diligence at Union Investment.

Investments contributing to the UN Sustainable Development Goals

We consider the extent to which investments make a positive contribution to achieving the 17 UN goals for sustainable development (SDGs). Companies’ sustainable business areas (e.g. renewable energies, energy-efficient technologies, medical technology) generate a positive contribution to the SDGs. Companies’ exposure to the 17 UN goals can be determined via the revenues they generate in a sustainable business area. It is therefore possible to calculate, for both portfolios and benchmarks, which of the holdings support the UN goals and in what context.

Taking account of the principal adverse impact of investment decisions on sustainability factors

The sustainability analysis is extended to include further tools in the case of funds with a sustainable investment strategy oriented towards reducing the principal adverse impact on sustainability factors. The principal adverse impact on sustainability factors is also taken into account when acquiring and analysing the assets of such funds. The criteria used in accordance with the Disclosure Regulation to calculate the principal adverse impact of investments in companies on sustainability factors are derived, in particular, from the categories of greenhouse gas emissions, biodiversity, water, waste and social and employment factors. In the case of investments in states, criteria are defined in the categories of environmental and social factors.

Details on exclusions and exclusion limits

Exclusion criteria for companies

Controversial business practices (UN Global Compact Principles, OECD Guidelines)	I	II	III
Violation of ILO labour standards, including child labour and forced labour; Violation of human rights, environmental protection, corruption	Grave violations	Serious violations	Problematic violations
Controversial business areas			
Banned weapons	No revenue tolerance		
Nuclear weapons / systems	5 %[6]	No revenue tolerance	
Thermal coal mining	5 % (0 %[7])		
Coal-fired power generation	25 % (for insufficient climate strategy)	25 % (for insufficient climate strategy)	10 %, regardless of climate strategy
Oil and gas: Tar sands	5 %[7]	5 %	
Oil and gas: Fracking	—	5 %	
Oil and gas: Oil and gas production	—	0 %[8]	
Armaments	—	10 %	5 %
High risk of addiction: Tobacco production, sale & distribution	—	5 % —	5 % 15 %
High risk of addiction: Gambling, alcohol, Cannabis recreational use	—	—	5 %
Controversial gene technology, nuclear energy, pornography	—	—	5 %
Animal testing for non-medical purposes	—	—	0 %

Exclusion criteria for states

	I	II	III
Non-free states (including restricted religious and press freedom) according to Freedom House	—	Exclusion if "not free"	
UN Nuclear Non-Proliferation Treaty, Paris Climate Agreement or UN Convention on Biological Diversity	—	—	Exclusion for failure to sign
Use of the death penalty	—	—	States that have not carried out the death penalty for at least ten years
Nuclear energy (if the share of the country's overall energy mix attributable to nuclear energy is higher than 50 %)	—	—	Average share of the energy mix in the last three years
High level of corruption (Transparency International)	—	Exclusion of the bottom 20 %	Exclusion of the bottom 40 %
High GHG intensity	—	Exclusion of the bottom 20 %	Exclusion of the bottom 20 %

I Union-wide exclusion II UniESG basic filter + III UniESG sustainability filter

[6] 5 %, provided that business is conducted indirectly on behalf of a legitimate NATO nuclear power. A limit of 0 % applies to sustainable real estate funds.

[7] from January 2025

[8] from April 2025

Union Investment's transformation strategy

Climate change is advancing, so numerous critical sectors need to undergo a transformation towards a more sustainable business model. However, government targets and funds are not enough to finance this kind of environmental conversion. The capital market – and thus investors – must support this development.

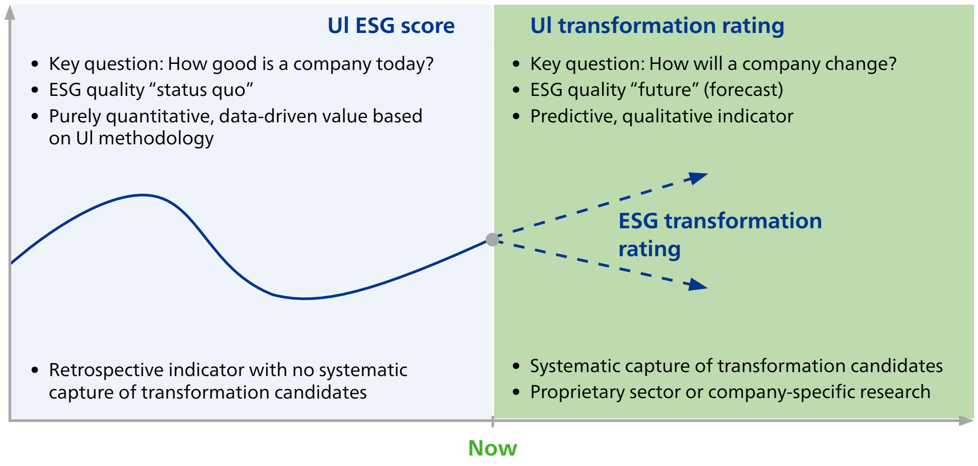
Therefore, Union Investment is focusing on the topic of transformation as a new element in sustainable investment: we would like to support and encourage companies that are particularly relevant to climate and environmental protection on their path to sustainable transformation. However, social sustainability aspects are of equal importance. This includes, for example, reducing social inequality, gender equality, promoting education or fighting poverty. We have therefore significantly enhanced our sustainable investment process. Specifically, this means that the investment focus is no longer solely on companies that are already comparatively very sustainable, but increasingly also on those that want to undergo a credible transformation – that is, those that are reliably pursuing ambitious sustainability goals. This approach requires additional dedicated ESG analysis steps. In this context, we analyse companies' sustainability plans and compare them with the actual results.

As an asset manager with an explicit sustainability strategy, we want to achieve good performance as well as a positive impact on society for our clients. To achieve this, we believe we need more than just companies who are already reaching a high level of sustainability. We can have the greatest impact by identifying the most sustainable companies of tomorrow. Our transformation strategy is therefore a new element that supplements our sustainable investment process. We consider this further development as the next logical step in the area of sustainable investment.

UniESG transformation rating

(Qualitative) ratings are the traditional tool used to enable multidimensional, largely qualitative analyses to be compared and operationalised for a variety of companies. Consequently, Union Investment has developed a transformation rating for categorising the expected future sustainability of companies.

Differentiation between UniESG score and UniESG transformation rating

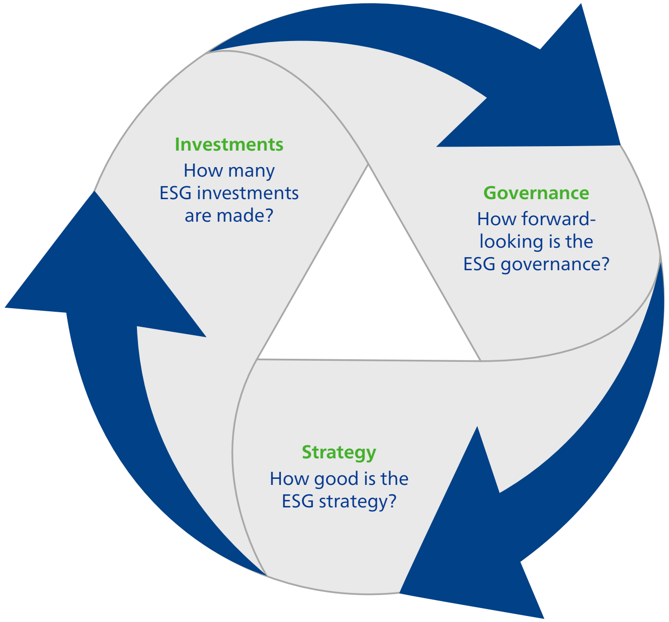


The UniESG score aims to answer the following question: How sustainable is a company currently? The analysis approach is quantitative and draws on past or ideally present data. UniESG scores therefore do not provide any information about the future. In particular, they do not include any change processes such as the transformation to greater sustainability – particularly where companies are not yet demonstrating a high level of sustainability. The UniESG transformation rating supplements the UniESG scores and aims to record and assess potential change processes in a systematic way. Specifically, it is aimed at forecasting transformation and the associated future sustainability of the company. The rating is largely based on a qualitative analysis of a current total of 87 forward-looking sustainable key performance indicators (KPIs) – an average of six per sector.

UniESG transformation rating system

For our UniESG transformation rating, we analyse companies across three dimensions in the context of our sustainability research:

- **ESG strategy:** Is it credible and ambitious? Does the company set itself long-term and interim goals? Which levers does the company have to drive the transformation forward?
- **ESG investments:** Does the company systematically invest in the transformation of its business model in pursuit of sustainability in line with its strategy?
- **ESG governance:** Do the company's management and corporate culture indicate that the company will adhere to the sustainability strategy in the long term? Does well-structured corporate governance ensure the transformation of the business model?



The process is structured as follows: first, for each sector, we define different aspects of transformation for the three specific dimensions, which are mapped by the KPIs. The respective ESG analyst for a specific company categorises them in consultation with the competent portfolio managers on the fixed-income and equities side. To this end, they prepare an analysis and seek active dialogue with the company. The aim is to be able to categorise depth and genuine ambition with regard to sustainable transformation in the business model. The transformation rating is derived from the results.

In a second step, the ESG analysts check whether the rating is sufficient for a pre-determined transformation path for a specific sector. Each company's transformation potential is different, but can be categorised according to individual industries or sectors. Union Investment only considers a company to be a transformation candidate and admits it to its sustainable funds when its transformation path meets or exceeds the expectations for the sector.

Theoretically, even companies that currently have a mediocre or rather poor sustainability status can become transformation candidates. In reality, however, some are excluded: these are companies whose business models are particularly problematic in terms of certain sustainability aspects due to their focus on a core product with a negative assessment. Where this applies, an acceptable ESG status is ruled out. Therefore, some business models are considered ‚non-transformable" – for example, businesses involving addictive substances such as alcohol or tobacco.

For all companies, however, sustainable transformation is ultimately a question of ambition. Climate change is presenting the world with enormous challenges. The few companies that are already sustainable will not be able to solve these challenges alone. It is therefore essential to persuade as many companies as possible to embark on a sustainable transformation. For this reason, our chosen approach favours an integrative concept.

Proprietary sustainability tools

Our proprietary Sustainable Investment Research Information System (SIRIS) is used to generate in-house sustainability research and implement the sustainability requirements.

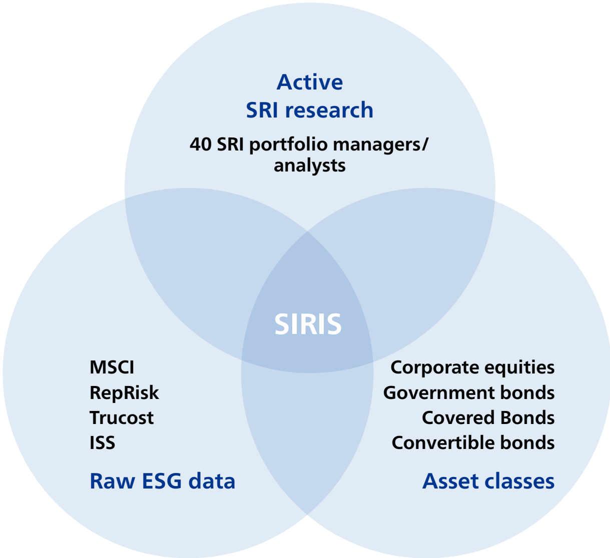
SIRIS is our research platform, which makes sustainability transparent, measurable and controllable in portfolio management for securities. SIRIS generates sustainability research for issuers and sustainability analysis for Union Investment funds. Internal and external data sources are used to generate the sustainability research. There are several interfaces with other systems used by Union Investment. Moreover, SIRIS enables clients' individual sustainability requirements to be implemented. It also supports company dialogue in the context of our engagement activities (UnionVoice). The dialogue and insights derived from it are documented and analysed in SIRIS.

Sustainability data in real estate funds is recorded and controlled using the specially developed ImmoSustain tool. This not only creates the necessary transparency as regards the sustainability aspects in the portfolio, but also tracks the resulting targets and measures. Artificial intelligence is used to record property-specific energy consumption for electricity, heating and cooling and calculate CO_2 emissions based on this. Water consumption and waste volumes are also recorded. The sustainable investment check developed specifically by Union Investment is also managed via ImmoSustain. The software uses the submitted data to automatically generate ideas to improve the properties. Thanks to connection with other systems and continuous enhancement, it provides in an effective management tool for all the participants in the value chain.

SIRIS: our proprietary Sustainable Investment Research Information System

An SRI research platform for five asset classes

50,000 securities
10,000 issuers
100 states



Monitoring

In addition, technical control mechanisms have been implemented in our trading systems to monitor and ensure compliance with investment restrictions defined to meet the ecological and social features of the fund and/or achieve a sustainable investment goal in the investment strategy (e.g. the application of exclusion criteria or minimum requirements of sustainability indicators).

Data used to analyse companies and/or assets with regard to sustainability indicators is obtained from external service providers. We rely on various data providers in order to benefit from the highest possible data quality.

3. Climate strategy and taking natural capital into account

Addressing climate change

As an asset manager, our mission is to earn trust by increasing assets. In this way, we make provisions for the future with our investors. However, this is dependent on sufficiently reliable and predictable environmental conditions. Unchecked climate change massively undermines these conditions.

As a custodian of our clients' money, we want to make an effective contribution to fighting climate change and financing a sustainable transformation of the economy. Our main objective is to limit global warming to 1.5 °C before 2050 if at all possible. We have therefore adopted a firm climate change strategy for securities business in order to expand our commitment to climate protection and make the client funds that we manage fit for the future. When we revised our climate strategy in 2022, our goals in operations were stepped up. We are aiming to achieve climate neutrality in the securities portfolio before 2050. At the same time, we have been working intensively for years to keep reducing our own greenhouse gas emissions as a company.

At the heart of our climate protection strategy is focussed, systematic engagement. We specifically focus on emitters with which we have the most leverage as an asset manager: the companies that are among the biggest polluters in terms of the financed emissions in our securities assets. With this focussed approach, we are currently targeting three-quarters of all financed emissions of the corporate bonds and equities that we hold overall.

We will systematically require these major emitters to provide long-term as well as medium and short-term emissions reduction targets, along with the necessary implementation and investment plans, and will review the pace of emissions reduction on an ongoing basis. Major emitters that do not meet these requirements by the deadlines set will gradually be excluded from the securities portfolios.

Specifically, we call on these major emitters worldwide to take the first step by publicly setting themselves exhaustive long-term climate-neutrality goals by 2025. By 2030, at the latest, this must be followed by binding and exhaustive short and medium-term goals and, at a minimum, discernible approaches to implementation planning. In the subsequent years, we require target companies' implementation planning to be exhaustive, detailed and quantified. In addition, investment planning may no longer conflict with climate protection goals. By 2040, at the latest, the companies must be on the right path to reducing emissions or already be climate neutral.

These steps are being taken in line with the Paris Agreement with the goal of reducing the financed greenhouse gas emissions of our securities portfolio by at least 50 % by 2030 as compared to the reference year 2019.

In compliance with the Net Zero Investment Framework (NZIF) of the Institutional Investors Group on Climate Change (IIGCC), the climate-neutrality goal relates to the financed Scope 1+2 CO_2 emissions of all managed securities assets, wherever this assessment is possible and useful. This covers equities and similar instruments as well as fixed-income and similar instruments in direct investments. In investment classes such as government bonds, foreign currencies, derivatives or commodities, this management of financed emissions is not consistently possible or useful as things stand, because either the instrument has no direct influence on greenhouse gas emissions in the real economy or we as an investor have no direct way of influencing the emitters. We will gradually extend the climate strategy to all other major asset classes by 2030. In line with the recommendations of the TCFD and PCAF, we measure the financed emissions based on the share of enterprise value scaled on the basis of the invested volume. As the data situation for Scope 3 emissions remains unsatisfactory, we do not currently have a Scope 3 goal of our own, although we will monitor financed Scope 3 emissions very closely and manage them via our engagement.

The measures required to achieve climate neutrality have already been initiated on the basis of a resolution by the Board of Managing Directors. They include the systematic introduction of internal monitoring and controlling of funds based on their impact on the climate ("internal climate protection audits"). In addition, we will expand our expertise in analysing the consequences of climate change as well as climate policies and climate economics and embed them in the investment process even more systematically.

The climate-neutrality goal means that, as an asset manager, Union Investment has embarked on the path to overall climate neutrality. We are decarbonising our portfolio by decarbonising companies through engagement. However, companies are subject to different political and economic regimes. The speed of decarbonisation will therefore differ from fund to fund depending on asset class, investment region and investment goals. This is also explicitly set out in the Paris Agreement on climate change through the principle of "common but differentiated responsibilities and respective capabilities in view of different national situations". In particular, this means that funds in developed markets will decarbonise earlier than funds in developing markets.

Union Investment's securities portfolio will only become climate neutral when its investee companies become climate neutral. In this context, we focus on the principle of credible transformation of companies. We monitor this using the UniESG transformation ratings we create systematically. Investments in transformation candidates thus naturally remain possible. Through escalating our engagement in a systematic manner, we will work alone and together with initiatives such as Climate Action 100+ towards beginning or accelerating this transformation within prescribed time limits, particularly with regard to the largest CO_2 emitters. Time limits ranging from a few months to several years are appropriate depending on the regional situation. In accordance with our voting guidelines, the actions of the Board of Managing Directors or Supervisory Board will not be approved if they do not adopt and implement a credible climate strategy. If companies persistently and substantially refuse to make the necessary transformation and engagement does not yield the desired result, the ESG Committee will consider an exclusion from the investment universe in order to protect assets. Companies with business models that cannot be sufficiently transformed (such as coal mining, oil and gas) will gradually be managed out of the investment universe over the next few decades (see side note: Exiting fossil-based energies).

Union Investment will always prioritise avoiding financed greenhouse gas emissions over compensating for such emissions. It is not currently possible to predict with certainty which emissions in which industries cannot be fully avoided and at which points in time. In particular, this is due to the fact that, although technological developments are advancing significantly, especially in what are known as "hard-to-abate" sectors, their viability depends on as yet uncertain political and economic conditions. Therefore, we are not planning any systematic compensation for financed greenhouse gas emissions at present and are instead concentrating on reduction. If greenhouse gas emissions are to be compensated, it goes without saying that this can only be done subject to the highest ecological and social standards.

Side note: Exiting fossil-based energies

We expect the increasing pricing for CO_2 emissions to make climate-damaging mining and electricity generation from thermal coal unprofitable in the coming years. Union Investment is therefore ending investments in thermal coal producers completely by 2025 to protect our investors from potential losses, thereby helping to achieve climate targets. Investments in securities of companies that regularly generate more than 5 % of their revenue from mining thermal coal have been excluded since 2020.

For the same reasons, Union Investment will also stop financing electricity generation from coal in the medium term. Union Investment has therefore systematically entered into company dialogue with the relevant electricity suppliers in the investment universe.

In the course of this continuous dialogue, we discussed whether and how these companies will achieve climate neutrality by no later than 2050 and rapidly exit coal-fired power generation before 2035. In the interests of our investors, Union Investment will – following dialogue and on the basis of a decision by the ESG Committee – dispose of the securities of electricity suppliers that do not present a credible climate strategy[9] for exiting coal-fired power generation or repeatedly miss their milestones for transitioning to climate neutrality. It goes without saying that a climate strategy is only credible if electricity generation from coal is scaled back rather than expanded. Investments in securities of electricity suppliers who cannot demonstrate a credible climate strategy and generate more than 25 % of their energy or revenue using thermal coal are thus ruled out. We will successively reduce this threshold for coal-fired power generation to zero by 2035 to enable us to reach climate neutrality before 2050.

These decisions are applied analogously to actively managed mutual funds and selected special funds in the real estate segment. This means, in particular, that transactions and new leases with excluded companies are avoided and that, as far as legally possible, contracts will not be extended for the purpose of continuing leases.

For our portfolio management, a strategy for investments in the production and processing of oil and gas was adopted. This will ensure a responsible gradual but significant reduction in the financing of such business models over the next few years. From April 2025, sustainable products will not include direct investments in securities of companies that produce oil and gas. A gradual approach will be taken for conventional products: From January 2025, companies that generate more than 5% of their turnover from the extraction of tar sands will be excluded.

In addition, as part of our voting rights policy, we will refuse to grant relief if there is a substantial expansion in oil or gas production. From 2030, companies that do not present a credible strategy for adapting their production to a net-zero world (i.e. a 1.5°C emissions pathway) by 2050 will be excluded.

From 2050, companies that produce substantial quantities of oil and gas will be excluded. This excludes companies that achieve complete climate neutrality, whereby carbon removal of up to 10% of total emissions is accepted.

[9] A credible climate strategy means
1) an undertaking to achieve climate neutrality by 2050,
2) no plans to expand coal and
3) exiting coal mining by 2035.

Real estate portfolio[10]

Buildings are a significant lever for curbing climate change, accounting for around 40 % of global CO_2 emissions. Union Investment is one of the largest property owners in Germany with real estate assets under management of around EUR 45 billion. We are aware of the responsibility associated with this and see no alternative to decarbonising our real estate portfolio.

For this reason, in 2018 we adopted our “Manage to Green” strategy with the aim of making our global real estate portfolio climate neutral by 2050 in terms of energy consumption and CO_2 emissions within the company. We are also preparing our buildings for increasing physical climate risks in the medium term.

As owner of the properties, we are responsible for the transformation ourselves. A property’s sustainability is complex. The measures must take the complexity of the real economy, the distinctive features of each property, the regulations of the respective countries, the different stakeholders and many more factors into account.

A key element of the sustainability analysis for a portfolio property is its emission and consumption data. We collect data on CO_2 emissions (kg of CO_2 per m^2 per year), energy consumption (kWh per m^2 per year), water consumption (m^3 per m^2 per year) and waste volumes (kg per m^2 per year) for each property and evaluate it. CO_2 emissions caused by the consumption of electricity, heating and cooling in the buildings are currently the top priority. Our specifically developed system, ImmoSustain, calculates this data for each square metre and year and compares it with scientific data from the Carbon Risk Real Estate Monitor (CRREM). For the respective class of building and geographical location, it shows whether or not a building is currently on the 2 °C climate path and contributing to limiting global warming to 2 °C. Specifically, this means, for example, that office properties in Germany may not emit more than 67.3 kg CO_2 per m^2 and year by 2030.

Fund management assesses the sustainability performance and returns of the properties in the fund portfolio using the FitFor50 matrix. The matrix shows, for example, which properties are subject to a high holding period target but do not meet Union Investment’s sustainability requirements or have already left the climate path and thus present a high risk of becoming a stranded asset, i.e. a property that is no longer tradable. An energy modernisation roadmap is prepared and implemented for such properties with the aim of bringing the building back to the climate path. In close collaboration with technical and commercial asset management and the sustainability managers, the potential measures uncovered by the modernisation roadmap are assessed, included in investment planning and executed taking the overall strategy for the building into account and retaining value to the greatest extent possible.

Furthermore, external service providers are currently carrying out an energy performance monitoring and assessment for almost all our buildings. This maps all technically relevant investments, analyses a building’s energy consumption and devises energy saving measures for the individual buildings such as optimising building technology systems, for example for cooling systems or electricity control systems. This can significantly reduce the buildings’ energy consumption before more in-depth renovation measures become necessary.

However, we can only make our properties more sustainable in collaboration with their tenants. Active communication therefore plays a decisive role in our sustainability strategy in terms of raising our stakeholders’ awareness and prompting them into action. In reality, it is possible to achieve sustainable transformation only if all parties are pulling in the same direction.

[10] The real estate-related sustainability strategies described apply to funds that are actively managed by Union Investment (excluding ZBI). It is not possible to influence service mandates for third parties.

Our approach to natural capital

Why is natural capital important to investors?
Natural capital, i.e. the global base of natural resources (including soil, air, water and living organisms), has declined by 40 % in just two decades. As around half of global GDP is generated in sectors that depend on natural capital or ecosystem services to a high or moderate degree, this loss is becoming a key issue for asset managers.

As a financial investor with a long-term outlook, we are exposed to potential portfolio risks if natural resources are depleted. We hold a broadly diversified portfolio across different industries and markets. Over time, external effects, caused by non-sustainable use of natural ecosystems, can impair long-term performance. In a similar way to climate change, nature-related risks for financial institutions fall into two categories:

- **Physical risks:** for companies whose production processes or income are dependent on ecosystem services such as rainfall or fertile soils, a deterioration can lead to a shortage of raw materials and a lower level of process stability. An example of a physical nature-related risk is the extinction of pollinators (particularly honey bees).

- **Transition risks:** these can be described as changes in the regulation landscape and a heightened (critical) mood among consumers. Regulation could make access to land increasingly difficult for businesses or impose higher due diligence costs on companies that procure resources from ecologically sensitive areas and subject them to penalties in the event of non-compliance.

What is Union Investment doing?
Against this backdrop, over the last few years we have primarily addressed the topic of natural capital through our engagement and stewardship activities. However, our approaches continue to mature in line with the development of tools and data in order to take dependencies on natural capital and the impact of our portfolios into consideration.

In general, we encourage the companies we invest in to do the following:

a) **Avoid or minimise impacts on biological diversity and ecosystem services**
b) **Manage living natural resources such as forests sustainably**
c) **Improve efficiency in the consumption of energy, water and other resources**
d) **Avoid or minimise the release of harmful substances into the air, water and soil**
e) **Use independent certification systems such as the Forest Stewardship Council or Roundtable on Sustainable Palm Oil**
f) **Commit to "no deforestation", "no peat" and "no exploitation" and disclose policies and associated strategies**
g) **Make disclosures in accordance with the CDP forest and water programme.**

Diversity of species
In sustainable funds, we primarily exclude the following areas, which are deemed to present the greatest risks to biological diversity:

- **UN Convention on Biological Diversity: companies that have not signed this**
- **Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES): non-signatory states**
- **World heritage sites: companies that jeopardise the status of UNESCO World Heritage Sites protected by the World Heritage Convention**
- **Violations of the UN Global Compact in connection with the Rio Declaration on Environment and Development**
- **Genetically modified organisms**
- **Palm oil**

In accordance with our climate strategy, our first choice is to carry out engagement and stewardship activities with companies to reduce their negative impact on biological diversity. However, in cases where collaborating with companies we invest in does not bring about sufficient progress, we exclude them on a selective basis that is continuously reviewed.

In order to prioritise our engagement activities, we concentrate on those sectors with major impacts and dependencies in which we are most heavily involved through our investments. This either takes place through thematic engagement (e.g. deforestation, sustainable proteins, plastics, circular economy) or on a case-by-case basis.

In 2022, we assessed the principal impacts and dependencies in terms of biological diversity using the ENCORE tool in order to determine the sectors that should be prioritised in this context. Based on this assessment, we are engaging with companies that concentrate on agricultural commodities and tropical deforestation.

We are observing the development of the Taskforce on Nature-related Financial Disclosures and assessing the possibility of adopting the recommendations in future.

4. Reporting

Acting responsibly also means creating transparency regarding procedures and bases for decision-making within the company. According to our philosophy, responsible actions should be part of holistic corporate communications. Our general commitment to issues of corporate responsibility and sustainability is regularly published in the sustainability report of the Union Investment Group.

Union Investment has been addressing the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD) ever since they were published, and has been a public supporter of these recommendations since 2018. When revising the recommendations in autumn 2021, with the "TCFD Executive Summary" published in the sustainability report Union Investment created fundamental transparency as to the steps that are taken in the Union Investment Group to identify and manage climate risks and opportunities above and beyond the extensive integration of climate risks and opportunities into the investment processes.

Union Investment takes account of the principal adverse impact of investment decisions on sustainability factors. The strategies for identifying and weighting negative sustainability impacts are described in the principle adverse impact statement.

We provide monthly sustainability reports for our institutional mutual funds. In the reports, the exclusion rates of the fund assets and the ESG scores of the funds are compared with the respective peer group and the ESG scores of the largest investments are set out.

We provide further information on our activities as an active shareholder and on specific questions regarding sustainable investment for investors and business partners via our website.

In the sustainability report of the Union Investment Group, we also report on our activities in the field of sustainable real estate management. This includes not just a presentation of the various processes and tools, but also the consumption data gathered and extrapolated for the investment fund. We are therefore making an important contribution to transparency as a basis for the sustainable ongoing development of the real estate investment sector.

5. Updates and application

Regular cycle and audits

In view of global political developments leading to greater sustainability on a business and regulatory level, we review and assess our guidelines on responsible investment on an annual basis. In this process, we aim to identify and address current and future topics that affect our core business early while ensuring consistency with our internal guidelines. We check they are up to date and review their application regularly.

Scope of application

The real estate-related sustainability strategies and tools described in the document apply to funds that are actively managed by Union Investment (excluding ZBI, Quoniam Asset Management GmbH and VisualVest GmbH). It is not possible to influence service mandates for third parties.

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