

Union Investment Engagement Policy

Union Investment's engagement process comprises voting at annual general meetings (UnionVote) and maintaining a constructive dialogue with companies (UnionVoice). Our proxy voting policy constitutes the framework for our voting activities, whereas this engagement policy provides guidance for our direct dialogue with companies as part of our engagement activities and must be followed, except in justified exceptional cases. The policy applies to engagement with both stock-issuing and bond-issuing companies. It also applies to engagement in relation to government bonds. This engagement policy supplements the proxy voting policy. It is reviewed and, if needed, updated annually. Engagement is an integral part of sustainable investment. Please therefore also see Union Investment's proxy voting policy, voting dashboard and guidelines for responsible investment.

Link to the voting guidelines and to the guidelines for responsible investing: [Guidelines \(union-investment.de\)](https://www.union-investment.de)

Link zum Voting-Dashboard: [engagement \(union-investment.de\)](https://www.union-investment.de)

1. Philosophy

Union Investment stands for active and responsible ownership. We consider it our duty to represent the interests of our investors in our interactions with the companies in which we invest. This includes, in particular, actively exerting our influence to avoid risks and promote sustainability. As an active investor, it is part of our self-image not to outsource or delegate our involvement to third parties. We firmly believe that sustainability can have a substantial impact on a company's performance in the long term. Businesses with inadequate sustainability standards are significantly more susceptible to reputational risk, regulatory risk, event risk and litigation risk. ESG-related (environmental, social and governance) aspects can have a material effect on the operations of a business, its brand/enterprise value and its continued existence and this makes them an important element of our investment process.

With our commitment, we want to bring about changes in the sustainability actions of investment properties through dialogue and voting rights strategies. In doing so, we are pursuing the goal of initiating changes towards sustainable development in the real world. Our engagement policy defines key guidelines for action in order to fulfil this objective and thus also increase shareholder value in the long term. Union Investment defines engagement as a **substantive discussion** in the context of **ongoing dialogue** with specific objectives to be achieved over a **certain period of time**, with **progress being measurable**. Our view of engagement therefore encompasses far more than a traditional ESG dialogue and promotes a structured discussion with issuers.

The extent to which a company is able and willing to transform is of paramount importance to us. From our

perspective as a sustainable investor, some companies have no real prospect of transformation because they cannot adapt their business model to minimum sustainability standards or do not want to. Such companies are simply of no interest to us as investors. However, there are also companies that have embarked on a journey to improve their sustainability track record or adapt their business model. For us, it is essential to champion this second category of company and to use our engagement activities to support them on their journey. This is why, at its core, our engagement approach is also a transformation approach.

2. Principles and values

As a trustee, Union Investment is obliged to give top priority to the interests of investors. In addition to applying the applicable laws and regulatory requirements, our approach to responsible investment is based on leading national and international standards that serve as a benchmark for decision-making, such as the United Nations Principles for Responsible Investment (UN PRI) and the UN Global Compact (UNGC).

At Union Investment, however, the entire engagement process goes beyond the aforementioned rules and is based on additional sets of values and codes of conduct. Our values and fundamental principles that form the framework for our engagement activities are based on the rules of conduct of the German Investment Funds Association (BVI) and on the German Corporate Governance Code. Union Investment also adheres to the principles of the Stewardship Code of the European Fund and Asset Management Association (EFAMA) and the Stewardship Guidelines of the Society of Investment Professionals in Germany (DVFA).

Further selected standards, certificates and initiatives that are reflected in and supported by our engagement approach and, where possible, are required to be applied by companies:

- Carbon Disclosure Project (CDP Carbon and CDP Water)
- Climate Bonds Initiative (CBI)
- Corporate Human Rights Benchmark (CHRB)
- International labour standards of the International Labour Organization (ILO)
- ISO standards for environmental and energy management, quality management, health and safety

- KnowTheChain initiative
- Principal adverse impacts (PAI) defined by the Sustainable Finance Disclosure Regulation (SFDR)
- OECD Guidelines for Multinational Enterprises
- Science-Based Targets Initiative (SBTI)
- Task Force on Climate-related Financial Disclosures (TCFD)
- UN Guiding Principles on Business and Human Rights
- UN sustainable development goals (SDGs)

In addition, our engagement is guided by sector-specific standards and initiatives. These may include:

- Access to Medicine Foundation
- Aquaculture Stewardship Council (ASC)
- Farm Animal Investment Risk & Return (FAIRR)
- Forest Stewardship Council (FSC)
- International Council on Mining & Metals – Sustainable Framework
- IRMA's Standard for Responsible Mining
- Investor Initiative on Human Rights Data (II-HRD)
- Leadership in Energy and Environmental Design (LEED)
- Marine Stewardship Council (MSC)
- REACH regulation
- Roundtable on Sustainable Palm Oil (RSPO)
- The Extractive Industries Transparency Initiative
- Transition Pathway Initiative (TPI)
- Institutional Investors Group on Climate Change (IIGCC)

The relevant standards on which our values and our engagement approach are based are communicated to the companies.

3. Themen

The ESG issues for an engagement arise from a company's misbehaviour or potential for improvement, i.e. a violation of one of the above principles, from the findings of the information on the most significant adverse sustainability impacts from the areas of greenhouse gas emissions, biodiversity, water, waste, social affairs and employment, and from discussions with the sustainability team and sector analysts. The internal analysis and investment processes also help us to assess the relevance, urgency and significance of the topics for the capital markets. Information provided by our stakeholders and customers can also be taken into account in the selection of topics.

When prioritising themes and target companies, factors such as fund holdings, negative lists, company contacts and the prospects of success of an investment play an important role.

Union Investment expects companies to address and accept environmental factors and, in particular, their adverse sustainability impacts. This also applies in particular to adverse sustainability impacts resulting from business activities. These include:

- acknowledging climate change and reducing climate risk
- the promotion and preservation of biodiversity
- the management of water risks and emissions to water
- preventing or minimising damage to the environment (e.g. as a result of hazardous or radioactive waste)
- evaluating and disclosing the company's impact on the environment on society

Union Investment also expects companies to ensure that their social interactions with all stakeholders are sustainable, transparent, fair and limited in their adverse sustainability impacts. This includes

- ensuring compliance with human rights (particularly along the supply chain, and especially the right to free, prior and informed consent (FPIC) as a key principle of international human rights pursuant to ILO Convention No. 169)
- ensuring safe and healthy working conditions
- upholding employee rights
- reducing the impact of products on the environment, health and safety
- maintaining a constructive dialogue with all stakeholders

Thirdly, Union Investment expects companies to have a well-functioning system of corporate governance that takes account of all stakeholders' interests in a balanced manner.

This includes:

- encouraging diversity
- implementing an appropriate remuneration policy
- Preventing and combating corruption
- implementing a robust and efficient audit process
- upholding shareholders' rights
- establishing a diverse, capable and independent supervisory board
- ensuring that the abilities and composition of the executive board are appropriate

4. Consideration of climate change

In line with the Paris Agreement on climate change and our membership of the Net Zero Asset Manager Initiative, Union Investment has committed to reducing greenhouse gas emissions from the securities it manages to net zero by 2050. This is in line with the goal of limiting global warming to 1.5 degrees above pre-industrial levels.

As part of our commitment, we continuously review and engage with the largest greenhouse gas emitting companies in the portfolio. Around 50 companies account for up to 75 percent of the emissions we finance. These companies will be the focus of our engagement in the coming years. In addition, the company will work towards ensuring that the transformation begins or is accelerated within set deadlines, especially for the largest CO₂ emitters. The adverse sustainability impacts from investments in companies without initiatives to reduce CO₂ emissions should thus be limited.

Understanding the climate change opportunities and risks of companies requires meaningful reporting of greenhouse gas emissions (scope 1 to 3) according to recognised standards. Union Investment expects appropriate implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). For companies with a high market capitalisation (> €1 billion), Union Investment considers it appropriate that this reporting also takes place via the Carbon Disclosure Project.

In addition, Union Investment expects companies to

1. a net-zero target by 2050 or earlier that covers at least 95 percent of Scope 1-3¹ emissions
2. short- and medium-term climate targets to achieve the long-term goal
3. a credible and consistent plan to achieve the emission reduction targets
4. investment plans must be consistent with climate change objectives

The impacts of climate change should also be analysed holistically in terms of potential risks to biodiversity (see Chapter 5).

Coal:

It is to be expected that coal mining and coal-based power generation, which are very harmful to the climate, will become unprofitable over the coming years as carbon emission pricing becomes more commonplace. Union Investment will therefore phase out investments in coal mining companies completely by 2025 at the latest in order to protect its investors against downside risk and to make a decisive step towards a carbon-neutral future. Since 2020, we have been excluding investments in securities from companies that regularly generate more than 5 percent of their revenue from mining thermal coal.

Investments in coal-based power generation will be phased out by Union Investment in the medium term for the same reasons. Power companies that generate more than 25 per cent of their electricity from thermal coal and cannot demonstrate that they have a credible climate action plan and exit strategy will be excluded from the investment universe. We will progressively lower the percentage cap for coal-based power generation to zero by 2035 in order to achieve climate neutrality by 2050. Union Investment systematically engages in dialogue with the relevant electricity suppliers in the investment universe in order to achieve this goal.

5. Consideration of biodiversity

With regard to the protection of biodiversity, Union Investment expects companies to assess and report on the most important impacts on nature and their dependencies on it. Union Investment expects companies that have a negative impact on biodiversity aspects through their business model or are highly dependent on them to have an awareness, strategy, risk management and internal governance to reduce adverse sustainability impacts on biodiversity. In order to prioritize our engagement activities, Union Investment focuses on sectors with high impact and dependencies in which we are most strongly invested. This is done either through thematic exposures or on a case-by-case basis.

Union Investment has recognized the high priority of biodiversity and has therefore defined its own approach to the protection of biodiversity. At this point, reference is made to the guidelines for biodiversity, which provide a detailed approach to our commitment in this area: Guidelines ([union-investment.de](https://www.union-investment.de))

6. Consideration of labor and human rights standards

Union Investment expects the Management Board to take appropriate measures to protect human rights along the entire value chain in accordance with the UN Guiding Principles on Business and Human Rights. The Supervisory Board is responsible for actively monitoring the Executive Board's strategy for handling risks relating to labor and human rights standards. Companies should respect human and labor rights in all phases of their value chain. The basis for this is compliance with recognized and established standards and frameworks, such as the UN Guiding Principles on Business and Human Rights, the ILO Core Labour Standards and the current OECD Guidelines for Multinational Enterprises. In addition, as companies decarbonize, they should develop robust just-transition strategies and plans that consider the impact of their decarbonization strategies on workers, communities and other key stakeholders.

¹ Due to the still unsatisfactory data situation for Scope 3 emissions, we are currently not setting our own Scope 3 target, but will closely monitor the financed Scope 3 emissions and manage them via the commitment.

7. Process

The overall goal of our engagement activities is to improve sustainability. Our engagement approach follows a clear process with the aim of achieving a positive impact for our investors. Priority is given to addressing risks and issues that may become material for companies in order to avert potential harm to the respective company, its shareholders and stakeholders. We essentially define our engagement approach as:

- (1) A **substantive discussion** in the context of the ongoing dialog with
- (2) **concrete objectives** that
- (3) to be achieved over a **certain period** of time, whereby the
- (4) **Progress is measurable.**

Engagement success is measured along a series of milestones, ideally culminating in the implementation of the required measures and their credible and verifiable realization.

This process allows us to maintain a binding and transparent dialog with the companies. To measure our progress, our commitment milestones are structured as follows: (see illustration)

Our engagement process consists of three key stages: pre-engagement, the actual engagement and post-engagement. The entire engagement process relies on our internal systems (SIRIS and PROVOX) for the analysis, implementation, monitoring and documentation of our engagement activities. Commitment is possible even before an investment. Our engagement process is binding in nature. Each focus engagement follows a predetermined goal and a set time frame for achieving the goal and intermediate goals. In addition, the maximum escalation level if the goals are not achieved is defined.

Implementation

- **Implementation** of the requirement has taken place
- **Implementation** is credible and verifiable

Development

- The addressee reports that the claim has begun to be **processed**
- Requirement can be met through **specific individual measures** or further **development of the strategy**
- **The credibility** of the development is to be assessed thematically for each target assess

Appreciation

- **Recognition** of the claim
- Further **processing** of the claim is assured
- **Response** to the request is promised

Speech

- **Claim** is addressed
- Can be done via various **engagement tools** (e.g. letter, conversation).
- Address the right **addressees** in the company

7.1 Pre-engagement

The pre-engagement stage and associated research lay the groundwork and detect any problem areas for Union Investment’s engagement activities. Together with our sectoral analysts, Union Investment’s sustainability team discusses all relevant controversies and weaknesses of companies that may be revealed, for example, as part of the preparation of the transformation rating and through theme-based research. In addition, external data providers such as MSCI ESG Research, ISS, CDP and Trucost are brought in to assist.

Ongoing sustainability research, managed using SIRIS, thus forms an important basis for Union Investment’s engagement process. SIRIS is a special IT platform that was developed for Union Investment in order to efficiently implement our proprietary approach to sustainability research and broaden our range of ESG-related services, including engagement.

During the pre-engagement phase, the material engagement topics for constructive dialog with companies are identified and defined using the following criteria:

- (1) **Relevance:** The topics have the needed importance and urgency.
- (2) **Practicability:** The resources required are available.
- (3) **Impact:** There is a high chance of impact to unfold.

7.2 Engagement

The starting points identified in pre-engagement are actively pursued in the core of our engagement approach, which consists of exercising voting rights at Annual General Meetings (UnionVote) and constructive corporate dialog (UnionVoice).

Constructive dialogue with companies focuses on speaking at annual general meetings, talking to companies and their decision-makers directly, and holding discussions on platforms provided by external institutions. In particular, this involves making clear demands of companies and setting appropriate deadlines for them in order to achieve the engagement objective. If a company does not meet these demands, either partly or at all, we introduce escalation measures simultaneously or one after another.

The escalation and activity levels in our engagement process are as follows:

Union Investment’s leverage as an active asset manager



In the first instance, Union Investment always tries to achieve its objective by entering into constructive dialogue with the company's senior management. These discussions, which are conducted by Union Investment portfolio managers and portfolio management analysts with company representatives, focus on the company's understanding of sustainability, its strategy ESG transparency. Occasionally, Union Investment expresses its criticism and demands more vocally at the annual general meeting. The escalation levels available to the portfolio management team offer the necessary granularity and can be combined in a variety of ways.

The initial escalation, for example, may involve not formally approving the acts of the company's management board and supervisory board (or voting against the relevant resolution at the annual general meeting) if discussing the controversial issue and related demand with the management board, supervisory board, or investor relations managers does not bear fruit. Other escalation levels include supporting shareholders' motions at annual general meetings and participating in collaborative engagement in which investor interests and influence are combined. Finally, making a public statement – for example raising criticism in an interview or in a speech at the annual general meeting – may be a suitable way of expressing the demand more forcefully.

In extreme cases, if dialog, demands and votes do not lead to the desired goal, restrictive consequences follow: Exit, disinvestment or exclusion of the issuer from the investment universe. The respective issuer is then blocked for the investment funds and any existing positions are liquidated. As an active investor, we consistently implement the findings of our ESG analyses in our securities portfolios. In extreme cases, we may even exclude issuers from the investment universe if, for example, an issuer is in serious breach of the principles of the UN Global Compact and we cannot achieve a positive outcome through engagement dialogue. Nonetheless, we generally do not invest in companies involved in the manufacture of banned weapons or in coal mining and coal-based power generation (see the 'Consideration of climate change' section). Furthermore, we do not invest in derivatives based on agricultural commodities.

Through the exercise of our voting rights, Union Investment portfolio managers regularly influence the management and business policy of public limited

companies at annual general meetings. They act in the interests of investors and exclusively for the benefit of the invested assets. All UnionVote activities are prepared, implemented, monitored and documented in the PROVOX system. We vote in respect of all of our investments, provided the effort involved is reasonable and the formal criteria are met.

Our policy: Union Investment supports all action that will sustainably increase the value of the company in the long term and votes against any action that is contrary to this objective.

A binding voting policy is required if we are to exercise the voting rights entrusted to us transparently and consistently. Union Investment has therefore laid down comprehensive voting guidelines that take their bearings from the recommendations of the German Corporate Governance Code and the guidelines of the BVI.

Please see Union Investment's proxy voting policy.

7.3 Post-engagement

The engagement process has a long time horizon, with results sometimes only becoming apparent after months or years. Our activities, and the results of these activities, are monitored, evaluated and reported to our customers in summarised form at regular intervals. The sustainability team discusses possible consequences for the companies. It is not out of the question for engagement activities that have already been undertaken to be re-initiated in order to achieve a goal. If we are not satisfied with the responses and actions of certain companies in spite of our repeated engagement, those companies are excluded from the investment universe. This is because exiting from an investment, as the final escalation level, is also a form of engagement

8. Procedures for dealing with inside information and conflicts of interest

Dealing with inside information: Because we are an active investment manager, we occasionally receive important, non-public information from companies or their advisors (e.g. when sounding out the market ahead of potential transactions involving a company's securities). Union Investment's default position is that

we wish to avoid receiving such information because it makes us an 'insider' and therefore limits our opportunities to trade in the affected company's shares.

Dealing with conflicts of interest: Acting in the customer's interest is the guiding principle that shapes our business relationship with our customers. This requires us to take appropriate precautions to avoid actual and potential conflicts of interest. The action that we take is always focused on the interests of investors. Union Investment has therefore put various organisational measures in place to avoid possible conflicts of interest that would disadvantage investors. For all holdings of a particular security, we vote in the same way in the best interests of the investor and irrespective of whether we have a business relationship with the company in which we are investing. This approach also applies to engagement dialogue. In both of these scenarios, we systematically apply the principles, values and criteria set out in the different policies. Before providing a service, we disclose any conflicts of interest that cannot be avoided despite these and other special measures in accordance with Union Investment's general conflict of interest policy before carrying out the service. The policy can be found in the following link: [545710_UIN_InkoPolicy_02.2022_CorporateDesign.pdf \(union-investment.de\)](https://www.union-investment.de/545710_UIN_InkoPolicy_02.2022_CorporateDesign.pdf)

Measures for dealing with and avoiding conflicts of interest that may arise in connection with engagement activities:

1. Internal conflicts of interest between asset classes and/or investment strategies (e.g. equity strategies and fixed-income strategies)
 - a. Analysts in the equities, fixed-income and ESG teams work closely together to ensure that account is taken of the individual interests. The proxy voting policy provides a transparent and binding framework for dealing with corporate actions in the interests of the share portfolio
 - b. The guidelines for responsible investment govern how the various asset classes are managed
 - c. In the event of doubt, or if required to act as a final arbiter, the ESG committee, which is made up of senior managers and portfolio management executives, advises and takes decisions in the best interests of the fund assets after due consideration of the opportunities and risks

2. External conflicts of interest in respect of external stakeholder groups (e.g. customers)
 - a. The engagement activities are based on the general guidelines and are the same for all customer portfolios, regardless of the business relationship
 - b. Engagement topics are prioritised and implemented according to their relevance, feasibility and impact, as determined by an internal assessment system; customers can suggest topics and ideas, but the stewardship team decides which topics make the engagement topic list
 - c. Customer relationship management and engagement are handled by separate units to minimise potential conflicts of interest, e.g. in cases where the customer of a segregated fund mandate is also the subject of engagement activities

9. Dealing with securities lending (Securities Lending Policy)

Union Investment aims to ensure that clients benefit from the income generated by securities lending. At the same time, we actively seek to protect client interests in important voting matters.

Union Investment therefore recalls shareholdings lent prior to important general meetings if critical issues are identified. This is done taking into account the following factors:

1. subject of the vote,
2. amount of shareholding,
3. possibility of exerting influence.

In consultation with the Stewardship Team, the Securities Lending Team arranges for the timely recall of securities. This ensures that Union Investment, as an active investor, retains control over voting rights in companies where active engagement is needed.

10. Cooperation with other shareholders

Union Investment participates in collaborative engagement when this is the most effective way of achieving the engagement objectives and is in the best interests of our customers. We particularly seek to collaborate with others where we have the same interests and the objectives are based on material issues. Collaboration may also take place at a general level with regard to a

specific issue, but without relating to a particular company. Union Investment's collaborative engagement is conducted in accordance with the pertinent statutory and regulatory requirements.

11. Engagement with governments

We hold government bonds and therefore engage with governments with the aim of exerting influence over them and motivating them to improve their sustainability performance. Countries are different from other asset classes because their most important stakeholders are not investors but citizens. This means that the government has to account for its actions primarily to its citizens rather than to investors. There are also fewer channels available through which influence can be exerted: for example, there is no annual general meeting at which shareholders can exercise their rights. Although the opportunities for influence are limited, Union Investment still strives for an improvement in countries' sustainability and a sustainability-oriented transformation. To this end, Union Investment uses its SIRIS sustainability platform and examines additional information, some of which it obtains by talking directly to government representatives. Obtaining information is also a way of initiating the engagement process with the countries in which we invest.

Engagement with governments is a balancing act and requires a lot of critical research and diplomacy. The findings are incorporated into the investment and engagement process. The fact that we hold a large

pool of assets in trust gives us a certain amount of influence. In addition, we can use platforms like the UN PRI and other initiatives to pursue engagement activities together with other investors in order to expand our influence. If the engagement process is unsuccessful, the government is excluded as an issuer from the investment universe. Exclusion and divestment should be regarded as a last resort because we are then no longer able to exert any influence.

12. Engagement reporting

The progress of our engagement activities is evaluated and documented on an ongoing basis. Our customers receive quarterly reports on the engagement activities that we have conducted, including a summary of the issues raised, content and outcome.

We also keep detailed records of our voting activities in relation to the investments of each individual customer. These activities are then summarised in a report. This report also provides an explanation of why we voted in a particular way. We also provide the customer with information about any ESG criteria that were material to our voting decision.

Union Investment's voting behavior can be viewed publicly on our Engagement homepage ([union-investment.com](https://www.union-investment.com)).

This engagement policy is updated regularly (at least once a year).

Last updated on 1 July 2024.

References to natural persons in this Engagement Policy explicitly include all gender identities.

Disclaimer

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All information, illustrations and explanations are presented as at **1 July 2024**, unless otherwise stated.