Sustainability risk

Article 4 (5) b Disclosure Regulation – Opt-out clause for financial advisors

Consideration of adverse sustainability impacts*

As part of the cooperative financial network, we have always been under an obligation to act responsibly in accordance with cooperative principles. We apply these principles both at company level in our portfolio management activities and in the investment advice that our company provides. Sustainability is central to the way Union Investment interprets its role as an asset manager and investor. In order to live up to this self-image, we put the consideration of adverse impacts on aspects of sustainability at the heart of all of our investment decisions and our investment advice. Statements on our wider ambitions regarding corporate social responsibility and sustainability are published regularly in our CSR report.

1. Principal aspects of sustainability and adverse impacts

For Union Investment, the principal aspects of sustainability include environmental, climate-related, social and employee matters, and aspects relating to good corporate governance, respect for human rights and the fight against corruption. Adverse impacts on these aspects can result, for example, from decisions to invest in financial products that are used to fund controversial business practices or controversial lines of business. In this context, controversial business practices comprise, for instance, violations of the standards of the International Labour Organization (ILO), including those on child labour and forced labour, and serious infringements of human rights, environmental standards and anti-corruption standards. Controversial lines of business include, for example, the manufacture of outlawed and controversial weapons (ABC weapons, landmines, cluster bombs) as well as coal mining and coal-based power generation.

Contributing to the funding of these practices and business lines can cause a wide range of adverse sustainability impacts, as illustrated in the following examples. A violation of human rights should be regarded as a significant adverse impact on the peaceful and dignified coexistence of people on our planet. Exploitative working conditions clearly contradict the objectives of equality of opportunity, human dignity and mental and physical well-being. Violations of environmental standards may cause loss of biodiversity, the contamination of water, soil and air, or the destruction of natural resources. This can severely compromise the foundations of life for nature and mankind. High levels of greenhouse gas emissions, e.g. as a result of coal-fired power generation, clearly run counter to global efforts to mitigate climate change.

2. Strategy for the identification and weighting of adverse impacts on sustainability

The assessment of investments regarding their negative impact on the aforementioned aspects of sustainability is based on sustainability-related data obtained from external ESG data providers and internal analyses. Union Investment's portfolio management applies the principle of ESG integration. This means that all material steps in the investment process systematically take account of aspects of sustainability. As part of this process, sustainability analysts and portfolio managers also analyse the principal adverse impacts of (planned) investments on aspects of sustainability and document the findings. Union Investment's portfolio managers can then access this documentation and review the adverse sustainability impact (e.g. greenhouse gas emissions, water intensity, below-par sustainability ratings, extent of implication in controversial business practices and business lines) of issuers and entire portfolios, evaluate it, and take it into account in their investment decisions.

As part of the sustainability assessment of investments, the different sustainability criteria are typically weighted in accordance with their relevance to the investment in question. For example, greenhouse gas emissions are weighted more heavily for highly carbon-intensive sectors than for sectors with a small carbon footprint. Whether it is possible to take account of the most significant adverse impacts on sustainability crucially depends on the availability of relevant information in the market. The necessary data is not available in sufficient quality and quantity for all of the assets in which the company invests through the funds and client portfolios that it manages. The company regularly reviews the availability and reliability of data and decides on this basis whether consideration of the most significant adverse impacts on sustainability can be extended to investment decisions on further assets.

3. Consideration of adverse impacts of investment decisions on aspects of sustainability in investment advice

Where Union Investment Institutional GmbH provides investment advice in respect of financial products, it will recommend financial products to the client that have already undergone the aforementioned research process.

The investment advisers at Union Investment Institutional GmbH can access the documentation compiled by the sustainability analysts, review the adverse sustainability impact (e.g. greenhouse gas emissions, water intensity, below-par sustainability ratings, extent of implication in controversial business practices and business lines) of a potential decision to invest in a financial product, and take this information into account in their investment advice.

4. Measures to mitigate adverse impacts of investment decisions on sustainability

Union Investment mainly relies on three core measures to minimise or completely avoid significant adverse impacts of investment decisions on aspects of sustainability.

ESG integration

The concept of ESG integration, as explained above, ensures that aspects of sustainability and – by extension – adverse sustainability impacts are taken into account in all investment decisions.

Company-wide application of exclusion criteria

Companies that engage in controversial business practices or operate in controversial lines of business are excluded from the eligible investment universe. This applies, for example, to companies that commit violations of ILO labour standards (including those pertaining to child labour and forced labour), serious human rights violations or serious breaches of environmental or anti-corruption standards. Exclusions also apply to companies that manufacture outlawed or controversial weapons (ABC weapons, landmines, cluster bombs) and companies that extract coal or generate power from coal (exclusion if more than 5 per cent of revenue is generated from coal mining or more than 25 per cent of revenue is generated from coal-fired power generation and if no credible strategy for achieving climate neutrality has been adopted).

Engagement

For Union Investment, engagement means exercising voting rights at annual general meetings (UnionVote) and maintaining a constructive dialogue with companies (UnionVoice). The objective of engagement activities is to actively exert influence on issuers in order to prevent or reduce negative impacts on aspects of sustainability.

5. Engagement policy summary

Union Investment sees itself a s an active and responsible investor. We consider it our duty to represent the interests of our investors in our interactions with the companies in which we invest. This includes actively exerting our influence to avoid risks and promote sustainability. The escalation levels available to the portfolio management team offer the necessary granularity and can be combined in a variety of ways. They are adapted to individual engagement activities and investments on a case-by-case basis.

As a first step in the process of minimising or preventing negative impacts on aspects of sustainability, the portfolio managers generally seek to establish a constructive dialogue with the issuers of the assets in which we invest. The aim of this dialogue is to actively influence the issuers' behaviour with a view to the prevention or reduction of negative sustainability impacts. This constructive dialogue with companies focuses on speaking at annual general meetings, talking to companies 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. Further information on this subject can be found in our engagement policy and on our engagement website.

Through the exercise of our voting rights, Union Investment portfolio managers regularly influence the management and business policies of public limited companies at annual general meetings. They act in the interests of investors and exclusively for the benefit of the invested assets. For further information on our voting activities in general, please refer to our proxy voting policy.

6. Consideration of international standards and frameworks

In its capacity as a trustee, Union Investment is committed to giving top priority to the interests of investors. As well as implementing the applicable statutory and regulatory requirements, we take an approach to responsible investment that is guided by leading national and international standards that set the benchmark for decision-making, such as the United Nations Principles for Responsible Investment (UN PRI) and the UN Global Compact. These standards also serve as a basis for the determination of what we regard as the principal adverse impacts on sustainability. Our values and fundamental principles that form the framework for our engagement activities are based on the 2019 Code of Conduct of the German Investment Funds Association (BVI) and on the 2019 German Corporate Governance Code of the German Corporate Governance Code Government Commission. Union Investment also adheres to the principles of the 2018 Stewardship Code of the European Fund and Asset Management Association (EFAMA) and the Stewardship Guidelines of the Society of Investment Professionals in Germany (DVFA).

In December 2015, coinciding with the international climate summit in Paris, Union Investment adopted a climate strategy under the headline '2°C can be done', which clearly expresses the company's commitment to the implementation of, and support for, long-term political targets for the reduction of emissions. Work to develop a separate climate strategy for our portfolio management, aimed at progressively reducing the amount of financed emissions, is currently in progress.

*In accordance with Article 4 (5) of Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainabilityrelated disclosures in the financial services sector 'Disclosure Regulation'.

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READ THE PROSPECTUS BEFORE INVESTING

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Unless otherwise stated, all information, descriptions and explanations are dated **24 November 2021**.