COMMERZBANK

Asset Management Sustainability

LEI-Code: 851WYGNLUQLFZBSYGB56

a. Summary

The Asset Management Sustainability, besides holding a small amount of liquidity, invests in investment funds, equities and bonds. Exclusion criteria for companies, countries and investment funds are defined and minimum requirements for ESG ratings are set. In addition, the application of good governance is also taken into account via the ESG rating. Thus, the Asset Management Sustainability promotes environmental and social characteristics and is a financial product according to Art. 8 of the EU Disclosure Regulation.

The Asset Management Sustainability aims to reduce adverse sustainability impacts, particularly in the areas of environment (E = Environment), social (S = Social) and corporate governance (G = Governance). This is done via three sustainability indicators. In particular, the minimum requirements for the ESG rating and the use of exclusion criteria (for further information, please refer to section g. Methodologies) are used to reduce adverse social impacts. However, the particular focus of the Asset Management Sustainability is on reducing carbon intensity. The CO2 intensity of the equity component of the portfolio is targeted to be at least 10% below the CO2 intensity of the equity component of the reference benchmark. The environmental and social characteristics are taken into account with the help of three defined sustainability indicators:

1. Exclusion criteria
2. Carbon intensity
3. Minimum requirements for ESG ratings

Compliance with these sustainability criteria is reviewed and analysed on a regular basis (at least once a month). If a financial instrument no longer meets these criteria, the respective position is sold as a matter of principle.

The relevant ESG data is provided by MSCI ESG Research. MSCI ESG Research is one of the leading ESG data rating agencies worldwide.

b. No sustainable investment objective

This financial product advertises environmental or social characteristics but does not seek to invest in sustainable assets. Even if this financial product does not target sustainable investments, the minimum percentage of sustainable investments with an environmental objective in economic activities that qualify as environmentally sustainable under the EU taxonomy is targeted to be 2%.

For sustainable investments, we exclude companies that have a significant negative impact on the six environmental objectives of Art. 9 of the EU taxonomy regulation:

- climate change mitigation
- climate change adaptation
- the sustainable use and protection of water and marine resources
- the transition to a circular economy
- pollution prevention and control
- the protection and restoration of biodiversity and ecosystems

We achieve this by excluding those companies whose environmental controversy score has an orange or red flag when including a financial instrument for the calculation of the sustainable investment ratio. Environmental controversy scores from MSCI ESG Research are used, ranging from 0 to 9. MSCI differentiates between controversies that are structural and therefore ongoing or are classified as isolated issues that have already been concluded or partially concluded. MSCI ESG Research defines the environmental controversy scores as follows:

- A Red Flag indicates an ongoing Very Severe ESG controversy implicating a company directly through its actions, products, or operations.
- An Orange Flag indicates a Severe ongoing controversy with the company's direct involvement, or a Very Severe controversy that is either partially resolved or indirectly attributed to companies' actions, products, or operations.
- A Yellow Flag: Indicates direct moderate ongoing ESG controversies to very severe direct ESG controversies that have been concluded.
- A Green flag: Indicates direct moderate ESG controversies that have been at least partially concluded, or minor to no ESG controversies.

		Ongoing	Partially Concluded	Concluded
Very Severe	Direct	0	1	2
Very Severe	Indirect	1	2	3
Severe	Direct	1	2	3
Severe	Indirect	2	3	4
Moderate	Direct	4	5	6
Moderate	Indirect	5	6	7
Minor	Direct	6	7	8
Minor	Indirect	7	8	9

To promote responsible corporate governance, we require a minimum ESG rating of BBB. MSCI ESG Research does not provide ESG ratings for all types of financial instruments. If MSCI ESG Research does not provide an ESG rating for a specific financial instrument, e.g. real estate funds, the respective fund must at least meet one sustainability standard according to MiFID Delegated Regulation Art. 2 No. 7 a-c for the fund to be eligible for inclusion in the portfolio.

Sustainability standard 7a refers to the consideration of sustainable economic activities according to the EU taxonomy, 7b to the pursuit of sustainability objectives according to the EU Disclosure Regulation and 7c to the reduction of adverse ESG impacts.

Principal adverse impacts are mainly taken into account by our exclusion criteria, which are clearly defined later in the document and which, among other things, severely limit the share of fossil fuels. In this way, we aim to achieve lower greenhouse gas emissions via a reduction in carbon intensity. The CO2 intensity of the equity component of the portfolio shall be at least 10% below the CO2 intensity of the equity component of the reference benchmark.

As we require consistent adherence to the principles of the UN Global Compact by investable companies, we also consider our investments to be in line with the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights.

c. Environmental or social characteristics of the financial product

In addition to achieving its performance targets, the focus of the Asset Management Sustainability is on reducing adverse sustainability impacts. These relate to the areas of environment, social issues and corporate governance. The particular focus is on the reduction of carbon intensity. The environmental and social criteria are implemented by applying three defined sustainability indicators:

1. **Exclusion criteria**

   We established extensive exclusion criteria for issuers of equities and bonds. By applying the criteria, we primarily review whether companies are active in controversial business sectors or engage in controversial business practices. For government bonds, we aim to limit the sustainability risks of the respective country through corresponding analysis, evaluation and subsequent exclusion of critical issuers. Furthermore, there are exclusion criteria for investment funds. This is primarily to assess whether the respective sustainability criteria for capital management companies are taken into account in their investment processes.

   Please refer to section "g) Methodologies" for a detailed presentation of the exclusion criteria.

2. **Carbon intensity**

   We adhere to this criterion by keeping the CO2 intensity of the equity component of the portfolio at least 10% below the CO2 intensity of the equity component of the benchmark for the Asset Management Sustainability.

   CO2 intensity is defined as the CO2 emissions produced by a company per USD 1 million in revenues. This is computed by MSCI ESG Research. These emissions are reported via the so-called Scope 1 and 2 CO2 intensity of the respective companies and investment funds and evaluated accordingly. Scope 1 represents the CO2 emissions caused by the company itself, while Scope 2 covers all emissions generated by the purchased energy. Scope 1 hence includes, for example, emissions from company vehicles. Scope 2 also includes emissions resulting from the use of electricity by machines, depending on the selected energy supply company.

3. **Minimum requirements for ESG ratings**

   ESG ratings from MSCI Research are used, with a rating scale ranging from CCC to AAA. MSCI ESG Research defines the rating order as follows:

   - AAA and AA: above-average ESG rating
   - A, BBB and BB: average ESG rating
   - B and CCC: below average ESG rating

   To be eligible for portfolio inclusion, a financial instrument must have an ESG Rating of at least BBB from MSCI. For the portfolio, we target an average ESG rating of AA, implying a portfolio with above-average ESG risk management. The ratings also include an assessment of the companies' good governance practices. MSCI ESG Research does not provide ESG ratings for all types of financial instruments. If MSCI ESG Research does not provide an ESG rating for a specific financial instrument, e.g. real estate funds, the respective fund must at least meet one sustainability standard according to MiFID Delegated Regulation Art. 2 No. 7 a-c for the fund to be eligible for inclusion in the portfolio.

   Sustainability standard 7a refers to the consideration of sustainable economic activities according to the EU taxonomy, 7b to the pursuit of sustainability objectives according to the EU Disclosure Regulation and 7c to the reduction of adverse ESG impacts.

d. Investment Strategy

In a first step, the investment strategy incorporates compliance with the defined exclusion criteria (see section "g) Methodologies").

In a second step, we define a best-in-class approach to limit sustainability risks while still achieving a broad diversification effect. This approach favours those financial instruments in a peer group with identical investment ratings that have superior sustainability ratings. This evaluation is based on ESG ratings from MSCI Research.

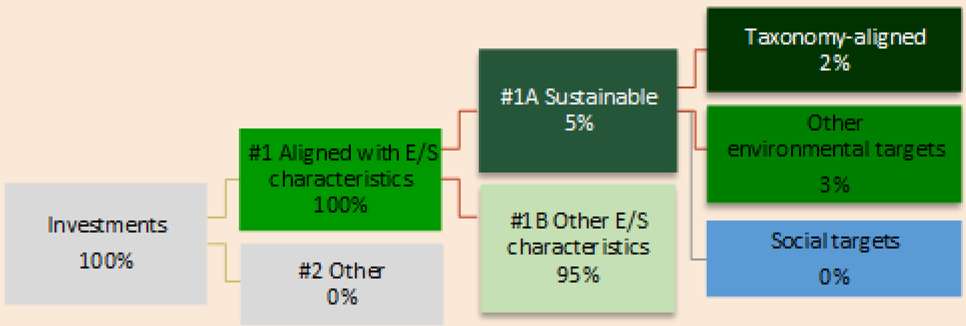
Within the best-in-class approach, the Asset Management Sustainability requires a minimum rating of BBB and hence excludes investments with ratings of BB, B and CCC. The Asset Management Sustainability focuses on investments with above-average ratings of AAA and AA. The average portfolio rating is expected to be at least AA. MSCI ESG Research does not provide ESG ratings for all types of financial instruments. If MSCI ESG Research does not provide an ESG rating for a specific financial instrument, e.g. real estate funds, the respective fund must at least meet one sustainability standard according to MiFID Delegated Regulation Art. 2 No. 7 a-c for the fund to be eligible for inclusion in the portfolio.

Sustainability standard 7a refers to the consideration of sustainable economic activities according to the EU taxonomy, 7b to the pursuit of sustainability objectives according to the EU Disclosure Regulation and 7c to the reduction of adverse ESG impacts.

Principles for the assessment of good governance practices

The MSCI ESG rating is based on three criteria: E (Environment), S (Social) and G (Corporate Governance). The G-factor assesses good governance practices. To determine the G-factor, MSCI ESG Research computes different key issues, which take into account sound management structures, employee relations, employee compensation and tax compliance, among other aspects. Through our defined minimum requirements for ESG ratings good governance practices are thus also taken into account.

e. Proportion of investments



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments. In this case these positions are temporary liquidity held in Commerzbank accounts.

The category **#1 Aligned with E/S characteristics** covers:
- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social targets.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

The Asset Management Sustainability invests exclusively in equities, bonds and investment funds apart from generally holding a small amount of liquidity. Risk exposures to companies exist directly through investments in individual equities or bonds and indirectly through investments in investment funds. We target an ESG exposure of close to 100%. This is achieved by taking into account the sustainability indicators defined above. This required minimum allocation may be temporarily breached in exceptional cases.

The share of sustainable investments with an environmental objective is at least 5% in total. This also includes sustainable investments of at least 2% that are compliant with the EU taxonomy. As the investment strategy is globally oriented, but the taxonomy is only applicable in the EU, sustainable investments with an environmental objective are also made not in compliance with the EU taxonomy. A minimum share is not specified for these investments.

The requirement does not include temporary liquidity positions held in Commerzbank accounts, which also have an above-average ESG Rating. The share of such holdings usually is in the single-digit percentage range.

f. Monitoring of environmental or social characteristics

As part of the implementation of the sustainable investment strategy, we continuously (at least once a month) review the sustainability indicators during our investment process. If the sustainability characteristics of any of our portfolio positions deteriorate, particularly the ESG ratings, or if the exclusion criteria for equities, bonds or investment funds apply, and this requires its exclusion from the portfolio, we usually sell the position within four weeks.

g. Methodologies

The environmental and social characteristics are implemented by applying the three defined sustainability indicators:

1. Exclusion criteria

We defined extensive exclusion criteria for companies and countries based on threshold levels and minimum requirements for sustainability standards. In order to reduce adverse sustainability impacts, for individual securities, Commerzbank requires that companies it invests in comply with the principles of the UN Global Compact. Moreover, the defined exclusion criteria for companies primarily allow for analysis of whether companies are active in controversial business sectors or whether they engage in controversial business practices. For government bonds, sustainability risks are limited by appropriate analysis, evaluation and subsequent exclusion of critical issuers. Furthermore, there are exclusion criteria for investment funds. Here, in addition to the minimum requirements for the ESG rating pursuant to section 3, we assess whether the respective capital investment company takes sustainability aspects into account in its investment processes.

Exclusion criteria for issuers (companies):

Controversial business activities

- **Alcohol**
  - Producers of high alcoholic beverages with a revenue share of 5% or more
- **Nuclear energy**
  - Producers of nuclear energy and uranium mining companies each with a revenue share of 0% or more
  - Production of key components for nuclear energy plants with a revenue share of 5% or more

- **Fossil fuels**
  - Producers of thermal coal with a revenue share of 0% or more
  - Energy production from coal-fired power plants with a 10% revenue share or more
  - Oil sands extraction with a revenue share of 0% or more
  - Oil and gas extraction in the Arctic with a revenue share of 0% or more
  - Fracking with a revenue share of 0% and more
- **Gambling**
  - Gambling activities (e.g. operation of casinos or betting offices) with a revenue share of 5% or more
  - Products and services for gambling activities with a revenue share of 5% or more
- **Green genetic engineering**
  - Producers of genetically modified seeds or livestock with a revenue share of 5% of or more
- **Pornography**
  - Producers of pornographic content with a revenue share of 0% or more
  - Distributors of pornographic content with a revenue share of 10% or more
- **Weaponry**
  - Producers of weapons and banned weapons with a revenue share of 0% or more
  - Producers of other military equipment with a revenue share of 5% or more
- **Tobacco**
  - Producers of tobacco articles and accessories / components with a revenue share of 5% or more
- **Animal welfare**
  - Non-medically induced animal testing, for example in the field of consumer goods (e.g. cosmetics, detergents, etc.) that are not required by law, unless the company supports alter-native methods, or publishes its own animal welfare guidelines

Any company that violates one of these revenue share limits will be excluded from the investment universe for the Sustainable Asset Management.

Controversial business practices

MSCI ESG Research evaluates controversial behaviour such as violations of environmental regulations or cases of corruption according to the following rationale based on a point scale of 0-10 (10 is the best score) points.

- Green Flag (10-5 points) - not involved in any significant incidents

- Yellow flag (4-2 points) - only minor incidents observed
- Orange Flag (1 point) - one or more serious incidents observed
- Red flag (0 points) - one or more very serious incidents

1. Serious violations of the UN Global Compact

- **Human rights violations**
  - Severe violation of fundamental human rights by the company itself or by suppliers / subcontractors
    - Controversy flag: red
- **Labour rights/child labour**
  - Labour rights: Severe violation of at least one of the four fundamental principles of the ILO Declaration on Fundamental Principles and Rights at Work or systematic circumvention of other minimum labour standards (e.g. in the areas of health & safety, pay, working time) by the company itself or by suppliers/subcontractors.
    - Controversy flag: red
  - Child labour: Severe violation of the fundamental principle of the ILO Declaration on Fundamental Principles and Rights at Work on child labour by the company itself or by suppliers / subcontractors.
    - Controversy flag: orange and red
- **Environmental protection**
  - Severe violation of environmental laws or generally recognised minimum environmental standards / codes of conduct by the company itself or by suppliers / subcontractors.
    - Controversy flag: red
- **Corruption**
  - Serious cases of fraud or corruption
    - Controversy flag: red

If one of these controversy flags is on red or, for child labour, on orange or red, the company is excluded from the investment universe for the Asset Management Sustainability.

For further details on MSCI's evaluation procedures, please click here.

Exclusion criteria for issuers (countries):

1. Labour rights

- Countries that do not guarantee labour rights according to the ITUC Global Rights Index.

2. Possession of nuclear weapons

- Countries that possess nuclear weapons.

3. Nuclear energy

- Countries where nuclear energy accounts for more than 10% of total primary energy consumption and which have not decided to phase out of nuclear energy.

4. Authoritarian regimes

- Countries classified as “not free” by Freedom House.

5. Biodiversity

- Countries that have not ratified the UN Biodiversity Convention.

6. Torture

- Failure to ratify the UN Convention against Torture.

7. Money laundering

- Countries where money laundering is widespread, according to the Basel Institute for Governance.

8. Child labour

- Countries where child labour exists on a large scale.

9. Corruption

- Countries that score < 50 on the corruption index compiled by Transparency International on a scale of 0 to 100.

10. Inadequate climate protection

- Countries that have not ratified the Kyoto Protocol to the United Nations Framework Convention on Climate Change.
- Countries that have not ratified the Paris Climate Agreement.

11. Human rights violations

- Countries where fundamental human rights are frequently violated on a massive scale.

12. Death penalty

- Countries where the death penalty has not been entirely abolished, according to Amnesty International.

Any country that violates one of these criteria will be excluded from the investment universe for the Sustainable Asset Management.

Exclusion Criteria for Investment Funds:

1. Principles for Responsible Investments not recognized by the fund company
2. When the weighted carbon intensity of a fund is bigger than 500 tons of carbon per USD 1 million in sales (the weighted carbon intensity of a portfolio is derived by calculating the carbon intensity (Scope 1 + 2 emissions per USD 1 million in sales) for each portfolio company, weighted

according to the corresponding portfolio share)

3. If an ESG rating from MSCI Research for an investment fund is available, it may not be lower than BBB (scale: CCC to AAA, with AAA being the highest rating). If MSCI ESG Research does not provide an ESG rating for a specific financial instrument, e.g. real estate funds, the respective fund must at least meet one sustainability standard according to MiFID Delegated Regulation Art. 2 No. 7 a-c for the fund to be eligible for inclusion in the portfolio. Sustainability standard 7a refers to the consideration of sustainable economic activities according to the EU taxonomy, 7b to the pursuit of sustainability objectives according to the EU Disclosure Regulation and 7c to the reduction of adverse ESG impacts.

2. Carbon intensity

Commerzbank aims to hold investments in its equity portfolio within the Asset Management Sustainability with a significantly lower level of carbon emissions compared to the benchmark of the equity component.

3. Minimum requirements for ESG ratings and consideration of sustainability risks

ESG ratings also include indicators for adverse sustainability impacts in the areas of environment, e.g. biodiversity and recycling, and social issues, e.g. labour rights and discrimination. Commerzbank has set minimum requirements for these ESG ratings for the inclusion of financial instruments in the portfolio.

The better an ESG rating, the better sustainability risks are managed by companies and countries. By combining exclusion criteria and avoiding below-average ESG ratings, sustainability risks are hence limited. Therefore, the Asset Management Sustainability requires ESG ratings of at least BBB. MSCI ESG Research does not provide ESG ratings for all types of financial instruments. If MSCI ESG Research does not provide an ESG rating for a specific financial instrument, e.g. real estate funds, the respective fund must at least meet one sustainability standard according to MiFID Delegated Regulation Art. 2 No. 7 a-c for the fund to be eligible for inclusion in the portfolio.

Sustainability standard 7a refers to the consideration of sustainable economic activities according to the EU taxonomy, 7b to the pursuit of sustainability objectives according to the EU Disclosure Regulation and 7c to the reduction of adverse ESG impacts.

By taking into account the minimum ratings, the Asset Management Sustainability identifies and evaluates the actual or potential sustainability risks of investments. Sustainability risks are environmental, social or corporate governance events or conditions that may have actual or potential material negative impact on a company's financial position, financial performance or reputation.

These risks - along with other economic opportunities and risks - are considered in the investment decision-making process. Taking sustainability risks into account can reduce the potential for a negative performance of the investment. This can result in a better risk-reward ratio.

h. Data sources and processing

The Asset Management Sustainability uses data from MSCI ESG Research for its ESG investment process. The data are usually based on publicly available sources. As companies will not be required to report a comprehensive set of non-financial (ESG) data before 2024, estimates from MSCI ESG Research are currently used where necessary.

The MSCI ESG Research ESG rating process consists of the following elements, among others, to review the quality of the analysis, as well as the consistency of the methodology and the rating signal:

- Before publishing ESG ratings, all companies are reviewed for the quality of their provided data.
- Ratings and scores for companies in a sector peer group are regularly reviewed by a group of analysts.
- Analysts submit corporate analyses to the ESG Rating Methodology Committee on a weekly basis when they identify certain changes, such as a rating change of more than two notches (e.g. from AAA to BBB).

Commerzbank randomly reviews the quality of the data provided by MSCI ESG Research on a quarterly basis using publicly available sources.

The data provided will be processed by Commerzbank in accordance with the following excerpt from the MSCI ESG Data Manager:

- Prior to investing, financial instruments are filtered according to the defined exclusion criteria and the ESG rating requirements.
- By means of a mail alert function, we get notified automatically if sustainability characteristics for issuers- according to predefined parameters - change.
- Moreover, the total CO2 emissions for the equity component of the portfolio are calculated automatically and compared with the respective emissions level of the equity component of the benchmark.

i. Limitations to methodologies and data

The variety of available sustainable financial products has increased significantly in recent years. Many traditional investments are now also available as a sustainable alternative. However, there is currently no generally binding definition or uniform standards for sustainable investments. Accordingly, terms such as ethical, sustainable or environmentally friendly are not yet properly registered, and many different concepts are applied to capital investments. Some investment concepts, for example, rely on exclusion criteria, others on specific sustainability metrics.

Currently only some companies are obliged to provide (ESG) data, which is why sustainability rating agencies provide more detailed information. These providers use different methodologies, which means that the ratings may differ from each other. However, data providers only supply their data for a limited universe of issuers. Thus, gaps in data coverage may occur.

Commerzbank uses data from MSCI ESG Research for sustainability data, as detailed in section “h. Data sources and processing”. While sustainability rating agencies use data made available by the issuers, they also use estimates if issuers fail to provide data. These estimates are, from experience, less accurate than the data reported by the issuer itself, which may lead to discrepancies if the issuer publishes its own data at a later date.

Since further regulatory changes have already been announced and are to be expected, it might happen that a financial product that is considered sustainable today will no longer meet the sustainability requirements in the future.

Commerzbank AG is currently not aware of any limitations resulting from the used methods and data that could impact the achievement of environmental and social objectives of the Asset Management Sustainability.

j. Due diligence

The environmental and social characteristics are being considered in the Asset Management Sustainability through the following measures:

1. Daily monitoring and potential adjustment by our portfolio management with special consideration and analysis of sustainability characteristics as well as the economic risk-reward ratio
2. Moreover, compliance with our exclusion criteria and the minimum requirements for the MSCI ESG ratings is reviewed on a monthly basis by an internal control unit.
3. Internal use of an e-mail notification service (Mail Alert) from MSCI ESG Research. This service provides ad-hoc reporting on changes with regard to sustainability characteristics of issuers, in particular on changes of the MSCI ESG ratings. If the change of the sustainability characteristics results in a violation of our investment criteria, we generally sell the position in the respective financial instrument within four weeks.

k. Engagement policies

Within the scope of Asset Management Sustainability, Commerzbank acts as investment manager and not as asset owner. However, as part of the Asset Management mandate, the client also delegates the exercise of voting rights to the Bank.

The Bank shall exercise the custody account voting right on behalf of the custody account clients. This is based on a voting proxy, which can also be a permanent proxy, subject to the requirements of Section 135 of the German Stock Corporation Act (AktG). Section 135 provides that a bank - insofar as it offers its custody account clients the exercise of voting rights - must make accessible to clients its own guidance for exercising the voting rights as regards the individual agenda items in due time. We provide this guidance on the following web pages:

https://www.commerzbank.de/investieren/wissen/regulatorik/

Section 135 (2) specifies in this respect that the Bank, in developing this guidance for the exercise of voting rights, is to be oriented by the interests of the shareholder and is to take organisational measures to ensure that no interests of other business units influence this guidance. where a member of the management board or an employee of the Bank is a member of the company's supervisory board or where a member of the management board or an employee of the company is a member of the bank's supervisory board, the Bank is to indicate this fact to the custody account client. The same applies if the Bank holds an ownership interest shareholding in the company that Section 33 of the German Securities Trading Act (WpHG) requires to be registered or if the Bank was a member of a consortium that has assumed the last issuance, in terms of time, of securities of the company made in the past five years.

Therefore, the Management Board has organised the exercise of custody voting rights into a business division that operates completely independently of the Bank's investment decisions. As such, the Bank's guidance does not take into account own interests - including those of Asset Management or proprietary investments.

l. Designated reference benchmark

The reference benchmark of the Asset Management Sustainability does not explicitly take into account environmental or social characteristics. It is comprised of eight differently weighted broad equity, bond and liquidity indices. The benchmarks are assigned different weightings for the various risk profiles of the Asset Management Sustainability. The benchmark is comprised of the following indices:

- Equities: MSCI Europe ex United Kingdom (Net Return)

- Equities: MSCI USA (Net Return)
- Equities: MSCI Japan (Net Return)
- Equities: MSCI United Kingdom (Net Return)
- Equities: MSCI Emerging Markets (Net Return)
- Fixed Income: Bloomberg Barclays Aggregate Corporates
- Fixed Income: Bloomberg Barclays Aggregate Euro Treasury 1-10 Y.
- Liquidity: ESTR Euro Short Term Rates

As a reference value for CO_2 intensity, we use the equity indices of the reference benchmark for the equity component.

More information on these indices can be found here:

MSCI
Bloomberg
ESTR Euro Short Term Rates

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