COMMERZBANK

Asset Management Sustainability

a. Summary

The Asset Management Sustainability, besides holding a small amount of liquidity, invests in investment funds, equities and bonds. Exclusion criteria for companies and countries 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 carbon intensity should be at least 10% below the reference benchmark of the equity block (for further information on the reference benchmark, please refer to the section l. Specific 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 world

b. No sustainable investment objective

This financial product takes into account environmental and social characteristics and, while sustainable investments are not an explicit investment objective, has a minimum of 2% of sustainable investments with an environmental objective in economic activities that qualify as environmentally sustainable under the EU taxonomy.

For sustainable investments, we exclude companies that have a significant negative impact on the following environmental goals:

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

We achieve this by excluding those financial instruments whose environmental controversy score has an orange or red flag. 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.

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 carbon intensity is to be at least 10% below that of the reference benchmark of the equity block.

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. 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.

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

2. Carbon intensity

The carbon intensity refers to the carbon emissions that companies produce per USD 1 million in revenues. The carbon intensity is calculated by MSCI. We comply with this requirement by keeping the carbon intensity of the model portfolio at least 10% below the carbon intensity of the benchmark of the equity block of the Sustainable Asset Management.

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 (investment fund, bonds and equities) 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.

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.

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 the good governance practices of companies. Through our defined minimum requirements for ESG ratings good governance practices are thus also taken into account.

e. Proportion of investments

The Asset Management Sustainability invests exclusively in equities, bonds and investment funds apart from generally holding a small amount of liquidity. It is required to allocate approximately 100% of its portfolio in E/S/G compliant financial instruments. 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 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, 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.

   Corporate exclusion criteria:

   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

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 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 it-self 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

2. 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 alternative methods, or publishes its own animal welfare guidelines

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.

Country exclusion criteria:

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. Defence budget

- Countries that have a defence budget of more than 3% of gross domestic product.

13. 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. Weighted carbon intensity of a fund > 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)

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 equity benchmark. The emissions levels are communicated via the so-called Scope 1 and 2 carbon intensity of the respective companies and financial products and assessed accordingly. Scope 1 covers the self-generated carbon emissions, while Scope 2 includes all emissions caused by 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 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.

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 provided data is processed as follows:

Extract of the data processing performed in 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 - according to predefined parameters - change.
- Moreover, the total carbon emissions for the portfolio are calculated automatically and compared with the respective emissions level of the benchmark.

i. Limitations to methodologies and data

MSCI is a market-leading and recognised sustainability data provider. Nevertheless, the informative value of the methods and data may be limited in terms of timeliness and scope of data.

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 Research. This service provides ad-hoc reportings on changes with regard to sustainability characteristics of financial instruments, 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 the Asset Management Sustainability Commerzbank acts as an investment manager and not as an asset owner, which is why it does not control any voting rights in assets held in the portfolio. Each investment company publishes the respective principles of participation for its investment funds.

I. Designated reference benchmark

The benchmark for the equity block of the Asset Management Sustainability does not explicitly take into account any environmental or social criteria. The various risk profiles of the Asset Management Sustainability have different benchmark weightings. For the equity block, this benchmark is comprised of the following indices:

- MSCI Europe ex United Kingdom
- MSCI USA
- MSCI Japan
- MSCI United Kingdom
- MSCI Emerging Markets

More information on these indices can be found here.

Status as of: Version 2 / December 2022