

Asset Management by CIO

a. Summary

The Asset Management by CIO invests exclusively in investment funds besides generally holding a small amount of liquidity. Most of the selected investment funds take into account ecological and/or social characteristics (funds in the context of Art. 8 of the EU Disclosure Regulation) or pursue specific sustainable investment objectives (funds in the context of Art. 9 of the EU Disclosure Regulation). The objective is to reduce adverse sustainability impacts, particularly in the areas of environment (E = Environment), social (S = Social) and corporate governance (G = Governance). The focus lies on the reduction of CO2 intensity. The carbon intensity should be at least 10% below the economic reference benchmark.

We pursue these objectives by taking into account the following defined sustainability indicators:

1. Minimum requirements for ESG ratings for investment funds and single equities
2. Classification of at least 85% of the invested investment funds as Art. 8 or Art. 9 investment funds in accordance with the EU Disclosure Regulation
3. Reduced carbon intensity

Compliance with these sustainability criteria is reviewed and analysed on a regular basis (at least once a month). If an investment fund 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 takes into account environmental and/or social characteristics and, while not targeting sustainable investments, will have a minimum of 2% of sustainable investments with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU taxonomy.

c. Environmental or social characteristics of the financial product

In addition to achieving its performance targets, the focus of Asset Management by CIO 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 characteristics are implemented by applying four defined sustainability indicators:

1. 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, an investment fund must have an ESG Rating of at least BBB from MSCI. For the portfolio average, we target an ESG rating of AA and as a result a portfolio with above-average ESG risk management. The ratings also include an assessment of the companies' good governance practices.

2. Minimum quota of the invested investment funds as Art. 8 or Art. 9 investment funds in accordance with the EU Disclosure Regulation

The EU Disclosure Regulation classifies investment funds according to their sustainability characteristics. Investment funds in accordance with Art. 8 take into account environmental and/or social characteristics. This can be achieved, for example, by observing ESG exclusion criteria (for example, serious violations of the [UN Global Compact](#) such as involvement in corruption cases, or activities in controversial business sectors such as weaponry). Investment funds in accordance with Art. 9 pursue specific sustainable investment objectives, such as investments in production of renewable energy. The share of invested investment funds in accordance with Art. 8 and Art. 9 EU Disclosure Regulation amounts to at least 85% in total.

3. 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 ESG Research. 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 Asset Management by CIO.

4. Exclusion criteria for funds

Exclusion criteria for investment funds have been defined. Here, the primary check is whether the respective investment management company takes sustainability aspects into account in its investment processes.

d. Investment Strategy

In a first step, the investment strategy includes the consideration of the sustainability indicators outlined above.

In a second step, we define a best-in-class approach to limit sustainability risks while still achieving a broad diversification effect. This evaluation is based on ESG ratings from MSCI Research.

Within the best-in-class approach, Asset Management by CIO requires a minimum rating of BBB and hence excludes investments with ratings of BB, B and CCC. For investment products or single equities with identical investment ratings, preference is given to those in a peer group that have superior sustainability rating. The Asset Management by CIO portfolio focuses on investments with above-average ratings of AAA and 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 by CIO invests exclusively in investment funds apart from generally holding a small amount of liquidity. It is required to allocate at least 85% of its portfolio in E/S/G compliant ETFs. This is achieved by taking into account the sustainability indicators defined above.

Exceptions to this are temporary liquidity in Commerzbank accounts, that also have an above-average [ESG-Rating](#) or other investments that, in line with their asset class or specific concept, do not take into account sustainability characteristics, but which feature favourable correlation properties with regard to the sustainable investment strategy. Their allocation is limited to a maximum of 15% of the total portfolio. This share may be temporarily exceeded in exceptional circumstances.

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, especially the ESG ratings, deteriorate or the exclusion criteria for equities 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 four defined sustainability indicators:

1. 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 investment funds in the portfolio.

The better an ESG rating, the better sustainability risks are managed by companies and countries. By avoiding below-average ESG ratings, sustainability risks are hence limited.

Therefore, the Asset Management by CIO requires ESG ratings of at least BBB for the allocated investment funds.

The Asset Management by CIO identifies and evaluates the actual and potential sustainability risks of the 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 in the investment. This can result in a better risk-reward ratio.

2. Minimum quota of of the invested investment funds as Art. 8 or Art. 9 investment funds in accordance with the EU Disclosure Regulation

At least 85% of the investments in the portfolio will be made in sustainable investment funds in accordance with Article 8 or Article 9 of the EU Disclosure Regulation. Of these, at least 2% of the invested investment funds should account for sustainable investments, that are in accordance with the EU Disclosure Regulation.

3. Carbon intensity

Commerzbank aims to hold investments in its Asset Management by CIO with a significantly lower level of carbon emissions compared to the [benchmark](#). The emissions levels are communicated via the so-called Scope 1 and 2 carbon intensity of the respective companies and funds 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.

4. Exclusion Criteria for 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)

h. Data sources and processing

Asset Management by CIO 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, investment funds are filtered according to the ESG rating requirements.
- Moreover, the total carbon emissions for the portfolio are calculated automatically and compared with the respective emissions level of the benchmark.

i. Limitations of the 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 not currently aware of any limitations resulting from the used methodologies and data that could impact on the achievement of the environmental and social objectives of Asset Management by CIO.

j. Due diligence

Environmental and social characteristics are taken into account in Asset Management by CIO through the following measures in the investment process:

1. Daily monitoring and control with special consideration and analysis of sustainability characteristics as well as the economic risk-reward ratio
2. Changes in the sustainability characteristics of the investment funds, in particular the MSCI ESG ratings, are reviewed on a regular basis (at least once a month). If the change of sustainability characteristics results in a violation of our investment criteria, we generally sell the respective investment fund position within four weeks.

k. Engagement policies

Commerzbank acts as a mere investment manager and not as an asset owner within the scope of Asset Management by CIO, which is why it cannot exercise any voting rights in the assets held by the investment funds concerned. Each investment company publishes the respective engagement policy for its investment funds.

l. Designated reference benchmark

The reference benchmark of the Asset Management by CIO does not explicitly take into account environmental or social characteristics. It is calculated from four differently weighted broad-based equity, fixed income and liquidity indices. The various risk profiles of Asset Management by CIO have different benchmark weights. The reference benchmark is composed of the following indices:

- Equities: MSCI EMU
- Equities: MSCI World AC ex EMU
- Fixed Income: Bloomberg Barclays Aggregate Euro Bond
- Liquidity: ESTR Euro Short Term Rates

For more information, please visit:

[MSCI](#)
[Bloomberg](#)
[ESTR Euro Short Term Rates](#)

Status as of: Version 2 / December 2022