COMMERZBANK

Asset Management by CIO+

a. Summary

The Asset Management by CIO+ invests mainly in investment funds and individual equities 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 sustain-ability 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
4. Exclusion criteria for individual equity selection

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 generally sold.

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, 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.

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 environmental and/or social characteristics into account. 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 Regula-tion 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 individual equity selection**

We adopted comprehensive exclusion criteria. Our review primarily focuses on whether companies are involved in controversial business activities or engage in controversial business practices (see section “g) Methodologies”).

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 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 ratings, preference is given in a peer group to those with a better 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.

In our equity selection process, we use exclusion criteria to take into account a company's potential involvement in serious controversies.

e. Proportion of investments

The Asset Management by CIO+ invests mainly in investment funds and individual equities, besides 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 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 by CIO+ requires ESG ratings of at least BBB for the allocated investment funds and individual equities.

The Asset Management by CIO+ gradually 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 of the investment. This can result in a better risk-reward ratio.

2. Minimum quota 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 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.

4. Exclusion criteria for individual equity selection

The Asset Management by CIO+ will only invest in equities of companies that are classified as sustainable in accordance with our criteria. In order to reduce adverse sustainability impacts, Commerzbank requires companies to consistently adhere to the Principles of the UN Global Compact. In addition, we require a minimum rating (see 1.) and apply various exclusion criteria. Furthermore, we review companies for controversial business activities and practices with respect to sustainability. The exclusion criteria impose a limit to the share of revenues a company may generate in controversial business activities and require compliance with certain sustainability standards. The necessary data is prepared and provided by MSCI ESG Research.

Corporate exclusion criteria:

Controversial business activities

Alcohol

- Producers of high alcoholic beverages with a revenue share of 5 percent 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 investable equity universe for the Asset Management by CIO+.

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 (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

Our focus regarding controversial business practices is on the following serious violations of the UN Global Compact:

Human rights violations

- Severe violation of fundamental human rights by the company itself or by suppliers / subcontractors

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.

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.

Environmental protection

- Severe violation of environmental laws or generally recognised minimum environmental standards / codes of conduct by the company itself or by suppliers / subcontractors.

Corruption

- Serious cases of fraud or corruption

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

Any company that has a red controversy flag will be excluded from the investable equity universe for Asset Management by CIO+.

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

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 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 for specific companies and their respective shares.
- 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 currently not aware of any limitations resulting from the used methods and data that could have an impact on the achievement of 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 financial instruments, in particular the MSCI ESG ratings, are reviewed on an ongoing basis (at least once a month). If the change of 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

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

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