METZLER
Asset Management

Metzler Asset Management: Statement on Adverse Sustainability Impacts

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Statement

1. Summary

In accordance with REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of November 27, 2019 on sustainability-related disclosure requirements in the financial services sector, Metzler Asset Management GmbH takes into account any significant adverse impacts its investment decisions may have on sustainability factors. The ability to consider adverse sustainability impacts depends largely on the availability of relevant information in the market. Relevant data is not always available in sufficient quantity and quality for all assets in which Metzler Asset Management GmbH invests or for all funds and mandates it manages.

The most significant adverse impacts are taken into account quantitatively and qualitatively in the investment decision-making process. In addition to future reporting of the adverse sustainability impacts and sustainability indicators at product level, the indicators are made available to portfolio and risk management in an automated manner after publication. The weighting of sustainability indicators is based on their relevance for the business model and the sector to which the asset belongs. In its sustainability analysis, Metzler Asset Management GmbH goes beyond the indicators required by REGULATION (EU) 2019/2088 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of November 27, 2019 on sustainability-related disclosure requirements. Our analysis is based on data from external data providers, research from investment banks and information gathered in regular direct exchange with companies.

Our Engagement Policy ensures that business-relevant ESG challenges are addressed in discussions with the companies represented in our portfolios. Our proxy voting behavior is rooted in our Corporate Governance Guidelines. Our Engagement Policy is explained in the Guidelines for Proxy Voting by Metzler Asset Management GmbH at General Meetings, the Conflicts of Interest Policy, and the Corporate Governance Guidelines.

This statement applies to the management of discretionary funds and mandates by Metzler Asset Management GmbH. It does not apply in cases where Metzler Asset Management GmbH has outsourced the portfolio management function to an external third party or is advised by an external consultant. Please note that the indicators listed in chapter 2 do not apply in such cases.

For more information on how adverse sustainability impacts at the product level are considered for investments, please visit www.metzler.com/esg.

2. Description of the most significant sustainability factors

Some of the indicators of adverse sustainability impacts published in the Final Report of the Draft Regulatory Standard of REGULATION (EU) 2019/2088 are already included in ESG analysis (see chapter 3). Although the Level 2 Regulation of REGULATION (EU) 2019/2088 had not yet been adopted at the time of publication of this statement, Metzler Asset Management GmbH acknowledges that, with regard to the transparency of adverse sustainability impacts, many financial market players currently comply with the non-financial reporting requirements of Directive 2013/34/EU or international norms. Metzler Asset Management GmbH obtains information on negative sustainability impacts from external data providers and also uses information from financial market players. All information is automatically made available to portfolio and risk management. The weighting of sustainability indicators is based on their relevance for the business model and the sector to which the asset belongs.

The indicators for significant adverse sustainability impacts are sorted according to the following environmental and social aspects:

1) Greenhouse gas (GHG) emissions
2) Carbon Footprint
3) GHG intensity of investee companies
4) Exposure to companies active in the fossil fuel sector
5) Share of non-renewable energy consumption and production
6) Energy consumption intensity per high impact climate sector
7) Activities negatively affecting biodiversity-sensitive areas
8) Emissions to water
9) Hazardous waste ratio
10) Violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises
11) Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises.
12) Unadjusted gender pay gap
13) Board gender diversity
14) Exposure to controversial weapons (anti-personnel mines, cluster munitions, chemical weapons and biological weapons)

Other indicators are also taken into account, such as the number of identified cases of serious human rights violations or exposure to areas where water is extremely scarce. The methodology for identifying pertinent indicators is based on data from MSCI ESG Research.

Exclusion criteria also apply in ESG analysis (see chapter 3).

3. Description of the procedures for identifying and prioritizing significant sustainability impacts

The most significant adverse impacts are taken into account quantitatively and qualitatively in the investment decision process. In addition to future reporting of adverse sustainability impacts and sustainability indicators at product level, the indicators are made available to portfolio and risk management in an automated manner after publication. The weighting of the sustainability indicators is based on their relevance for the business model and the sector to which the asset belongs.

A multi-stage ESG analysis of the assets takes place at the higher level. Assets that can be directly or indirectly attributed to a company are excluded in all discretionary actively managed mandates if they violate global norms and conventions, whereby the most serious violations are decisive. In addition to our own analyses, sustainability data from external data suppliers and research partners are used for this purpose.

Multi-stage ESG analysis contains key figures on climate and other environmental concerns as well as on the negative impacts in the areas of social and employee concerns, human rights, and combating corruption. ESG analysis covers the following topics:

- Involvement in controversial business practices (based on more than 100 internationally recognized standards)
- Management of sustainability risks: ESG ratings, ESG scores and specific key ESG indicators like dealing with employee concerns are taken into account
- Climate rating for measuring the transition to a low-carbon economy
- Corporate conformity with the Paris climate agreement.

By taking adverse sustainability impacts into account in the investment process and excluding companies that violate at least one of the more than 100 internationally recognized standards, adverse impacts can be reduced. Once the binding transparency requirements have been announced, ESG reporting includes adverse sustainability impacts on master funds and their subsegments as well as on special AIFs and mutual funds.

Several departments bear the organizational responsibility for introducing the processes.

The **Sustainable Investment Office** at Metzler Asset Management GmbH is responsible for ESG advisory and ESG integration into portfolio management. It reports to the Managing Director and CIO. A 10-member **ESG Board** at Metzler Asset Management meets regularly to discuss sustainability concerns. Participants at these meetings include ESG specialists, the CIO, and representatives from Portfolio Management Equities and Fixed Income, Client Services, Reporting and Marketing.

The **Fund Risk Controlling Team** carries out further risk reviews (ex-post) independently of the controls already considered by the portfolio management team. ESG topics are monitored as part of the regular review meetings.

The **Compliance Team**, a team with group-wide functions, is responsible for supervising and reviewing all compliance-relevant topics. It performs these tasks independently of instructions and is not involved in any of the Metzler Group's business, trading or settlement activities. This separation of functions avoids conflicts of interest. The management of Metzler Asset Management GmbH, a designated ESG Expert and the Compliance Officer meet regularly to discuss ESG topics. This ensures a continuous exchange of information. The Compliance Officer is also a member of the ESG Board at Metzler Asset Management GmbH, which meets regularly.

MSCI ESG Research is the primary data source for sustainability analysis and indicators of adverse sustainability impacts. Data quality and the research methods used are reviewed regularly.

4. Summary of our Engagement Policy according to Article 3g of Directive 2007/36/EC

Metzler Asset Management GmbH, together with specially mandated company BMO Global Asset Management, ensures that business-relevant ESG challenges are addressed in discussions with the companies represented in our portfolios (so-called engagement). BMO Global Asset Management was also mandated to exercise voting rights. BMO Global Asset Management prepares reports on this and on the milestones achieved in the engagement, some of which we incorporate into ESG reports for our clients. Our Engagement Policy is explained in the Guidelines for Proxy Voting by Metzler Asset Management GmbH at General Meetings, the Conflicts of Interest Policy, and the Corporate Governance Guidelines. These can be found at: **www.metzler.com/esg**

5. Compliance with a code of responsible corporate governance and an internationally recognized standard for due diligence and reporting

Metzler Asset Management GmbH has committed to responsible corporate governance and adheres to the following standards and voluntary obligations:

- Metzler Asset Management GmbH signed the United Nations Principles for Responsible Investment (UN PRI) in 2012 and supports these principles without reservation.
- Metzler Asset Management GmbH observes the BVI rules of conduct.
- As a supporter of the Task Force on Climate-related Financial Disclosures (TCFD), the Carbon Disclosure Project and the Water and Forestry Disclosure Project, Metzler Asset Management GmbH is committed to greater transparency in climate reporting.

6. Degree of alignment with the objectives of the Paris Agreement

The Paris Agreement provides to keep the global temperature rise to well below 2 °C above pre-industrial levels. Metzler Asset Management GmbH is confident that climate change will be an important factor for capital investments in the long term. In the future, institutional investors will need to be able to analyze the orientation of their portfolios with regard to climate risks and report on their climate strategy. Metzler Asset Management GmbH therefore offers solutions that help investors better understand the impact of climate change on their portfolios and comply with climate risk disclosure requirements. When managing discretionary portfolios, climate models can increase transparency. This helps to safeguard assets from the worst impacts of climate change.

The forward-looking climate model used by Metzler Asset Management GmbH is based on the product "Climate Value-at-Risk" by the company MSCI ESG Research. This model is adapted on an ongoing basis and has various other climate models integrated into it. Analyses are based on the Asia-Pacific Integrated Model/Computable General Equilibrium, among others, which is a model that can be used to analyze the future fight against climate change and its impact on economic conditions. This equilibrium model covers all economic assets and takes the interactions between the different production factors into account.

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