

Metzler Asset Management: ESG Policy

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1. Significance of ESG at Metzler Asset Management

1.1. ESG philosophy

ESG is short for "Environment, Social and Governance".

For us, sustainability includes a clear commitment to developing concepts that are feasible in the long term. This relates first and foremost to products and services, but also to providing long-term support to our clients in all matters relating to financial markets. The commitment to a sustainable business focus is thus a core component of how Metzler Asset Management GmbH sees itself.

In the investment process for our equity and corporate bond funds, we not only consider financial criteria but also how companies integrate ecological, social and governance aspects. In particular, the aim is to further enhance the risk-return profile of our portfolios.

1.2. Initiatives, associations and cooperation partners

Metzler Asset Management GmbH is a signatory and/or supporter of various initiatives and associations. We also work with different cooperation partners in the area of ESG data and analysis.

■ Initiatives and associations

As a member of the **Bundesverband Investment und Asset Management e.V. (BVI)**, Metzler Asset Management GmbH consults regularly on ESG issues with other members of the **BVI's** ESG Working Group and is a member of the Sustainability Committee.

In 2012, Metzler Asset Management GmbH became one of the first German asset managers to sign the **Principles for Responsible Investment (PRI)**, a voluntary commitment by signatories established in 2005 on the initiative of the United Nations.

Since 2002, Metzler has been a member of the **Forum für Nachhaltige Geldanlagen (FNG)**, an association promoting sustainable investment. Its aims include raising awareness for sustainable solutions in investing in order to have a positive impact on the direction of investments. Through FNG, Metzler is also a member of **EuroSIF** and a signatory of the **Carbon Disclosure Project** and the **Water and Forestry Disclosure Project**.

In addition, Metzler Asset Management GmbH is a founding member of the **sustainability initiative "Green and Sustainable Finance Cluster Germany"**. This new cluster was formed in April of 2018 when the initiative "Accelerating Sustainable Finance" was combined with the Green Finance Cluster of the Hessian Ministry of Economics.

The new cluster aims to further advance sustainable development and the associated transformation process in the financial sector. It utilizes its bundled financial market expertise to make financial market structures fit for the future – at both national and European levels. Through the cluster, Metzler Asset Management can exert political influence on the issue of sustainability in an appropriate manner. Metzler Asset Management is also a sponsor of the "Green and Sustainable Finance Cluster Germany".

Furthermore, Metzler Asset Management is a supporter of the **Task Force on Climate-Related Financial Disclosures (TCFD)** which was established by the Financial Stability Board (FSB) and is committed to disclosing climate change-related information and data from companies. Companies are required to analyze and evaluate the opportunities and risks arising from climate change and this additional information is intended to help investors make informed decisions. As a supporter of the TCFD, Metzler Asset Management is committed to greater transparency in climate reporting.

■ **Cooperation partners**

Metzler Asset Management GmbH procures ESG integration data and assessments of “very severe controversies” primarily from **MSCI ESG Research**.

Metzler Asset Management GmbH works with **ISS ESG** to develop ethical and/or sustainable exclusion criteria and/or “best-in-class” approaches to managing special AIFs.

On matters of proxy voting and engagement, Metzler Asset Management GmbH cooperates with **BMO Global Asset Management** (please see chapter 3).

1.3. Organs and control mechanisms

The **Sustainable Investment Office** at Metzler Asset Management GmbH deals with ESG advisory and ESG integration in the portfolio management department.

A ten-member **ESG Board** at Metzler Asset Management meets regularly to discuss sustainability issues. Participants include ESG specialists, the CIO, portfolio managers for equities and fixed income as well as representatives from client relationship management, reporting and compliance.

Besides the controlling tasks performed by our portfolio management team, our **Fund Risk Controlling team** carries out additional (ex-post) risk controls. ESG topics are monitored in regular review meetings.

Metzler’s **group-wide Compliance team** bears the ultimate responsibility for supervising and examining all compliance-related issues in the Metzler Group. This team is organizationally independent from the other departments and is not involved in any business, trading or other operational activities of the company. Due to this functional segregation, Metzler is able to avoid all conflicts of interests. The Management Board of Metzler Asset Management GmbH, ESG experts and the Compliance Officer hold regular meetings to ensure continuous exchange of ESG topics. The Compliance Officer also participates in the regular ESG Board meetings of Metzler Asset Management GmbH.

2. ESG in portfolio management

The goal of ESG integration at Metzler Asset Management is to improve the risk-return profile of our funds by including all relevant sustainability aspects in traditional investment analysis. Sustainability aspects are taken into account throughout the entire investment process. Our team of ESG experts and portfolio managers attend regular events and conferences on how to invest more sustainably.

2.1. ESG integration in equity and corporate bond portfolios

2.1.1. Exclusion criteria for all equity and corporate bond portfolios

For all of Metzler Asset Management's equity and corporate bond funds, exclusion criteria are applied based on 120 international norms and conventions. The data stems mostly from MSCI ESG Research. In case of a "very severe controversy," the most serious infringement of one of these standards, we exclude the company from our investment universe. Companies that produce and/or distribute banned weapons are also excluded from our investment universe. The United Nations classifies various weapon systems as an extreme violation against humankind and has thus adopted several conventions to ban these weapons. Banned weapons include anti-personnel landmines, nuclear weapons, biological and chemical weapons, and cluster munitions. Manufacturers of uranium munitions are also excluded, although they are not yet explicitly banned by conventions.

If requested by the client, we also integrate other criteria into the investment process using, for example, data from ISS ESG.

2.1.2. Selecting individual stocks and issuers for equity and corporate bond portfolios

The valuation takes into account how the different general and industry-specific key ESG indicators impact business performance. Financial analysis, supported by economic valuation models, is rounded off by extensive ESG analysis which provides more comprehensive information for the investment decisions made by the portfolio managers. ESG analysis is comprised of four steps:

- Identify controversial business practices, e.g. serious cases of corruption or bribery
- Analyze key ESG indicators, e.g. ESG ratings or the ability to attract, develop and retain skilled employees
- Evaluate climate risks, e.g. in terms of 2-°C compliance

- Identify and measure sales in structural, topical areas, e.g. renewable energies, energy efficiency and waste prevention.

Despite currently rapid growth in the ESG sector, specialized rating agencies and our ESG cooperation partners MSCI ESG Research and ISS ESG do not fully cover the small and mid cap universe or all IPOs and spin-offs. For companies not analyzed by external partners, Metzler Asset Management has developed an internal ESG research assessment procedure that is conducted by Metzler's Sustainable Investment Office. The results of this analysis determine whether a specific security makes a suitable investment or not. Three ESG experts assess a company's ESG profile, including ESG risks and opportunities, based on publicly available information. For these analyses, information from various sources is considered, including official prospectuses, sell-side research, financial news, CSR reports, company website information and financial data from providers like FactSet or Bloomberg – in addition to direct exchange with the companies themselves. Coverage of issuers by external research agencies or by our Sustainable Investment Office is also monitored by our internal Fund Risk Controlling department. Our MIG21 monitoring system (GX Compliance) is linked to the front office and reviews ex-ante instructions to traders in order to ensure compliance with contractual or client-specific restrictions.

2.2. Selecting issuers of government bonds

As part of a holistic ESG approach, sustainability factors are used to reduce risks and identify opportunities. Investments are made only in countries that are deemed sustainable according to a sustainability filter. This filter covers the following criteria:

- a. Management of ESG risk factors based on ESG ratings for individual countries. Data is provided primarily by MSCI ESG Research
- b. Access to political rights and civil liberties
- c. Extent of corruption
- d. Peace status
- e. Frequency of money laundering cases.

2.3. ESG portfolio construction tool QbrickS®

With QbrickS®, we offer our clients a complete concept that includes client-specific advisory services, customized implementation and comprehensive reporting. Using QbrickS®, the most diverse client requirements can be met, regardless of whether they are based on values, economic parameters or regulatory restrictions. For more information, go to:

www.metzler.com/en/metzler/asset-management/esg
> Downloads (ESG:strategy: "Introducing QbrickS")

2.4. ESG portfolio controlling and risk management

As part of our **portfolio controlling**, we use our MIG21 monitoring system (GX Compliance), which is linked to our front office, to check orders ex-ante in order to ensure compliance with legal, contractual, client-specific and internal restrictions. Companies where exclusion criteria apply (e.g. because they do not comply with the generally recognized standards of the United Nations, the UN Global Compact and the International Labor Organization ILO) are blocked in our MIG21 system (GX Compliance) and are thus not eligible for investment.

The following ESG **meetings** are part of our ongoing **risk management**:

- Regular meetings of Metzler Asset Management GmbH's ESG Board
- Quarterly performance review meetings with portfolio management, CIO and the Fund Risk Controlling team. In addition to monthly portfolio analysis (i.e. comparison of return and risk ratios for all funds and their benchmarks), ESG indicators are also evaluated (companies with "very severe controversies", i.e. a red flag, at MSCI ESG Research).

The Fund Risk Controlling team prepares a monthly ESG risk report that includes relevant ESG risk indicators on controversial business practices and violations of global norms, the quality of ESG risk management, as well as physical and transitory climate risks of the assets aggregated at fund level.

The "warming potential"* of the funds and the so-called "climate value at risk"* help us examine the resilience of assets after an adverse event or scenario – caused by physical, transitory climate risks.

The fund risk report helps us to identify, assess, manage, monitor and report sustainability risks. A risk assessment of the funds is carried out as of the reporting date based on defined threshold values.

* Data is based on information provided by MSCI ESG Research

2.5. Quality assurance and certification of employees as CESGA® experts

To ensure quality, Metzler Asset Management has entered into a cooperation with the German Association for Financial Analysis and Asset Management (DVFA). All portfolio managers, sales staff and risk management staff are required to take a training program and pass the exam to become a Certified Environmental, Social and Governance Analyst (CESGA®). As of May 2021, more than 30 employees have passed the exam.

3. Proxy voting and engagement

Metzler Asset Management GmbH works with BMO Global Asset Management, which we have specifically mandated for this task, to ensure that business-relevant ESG challenges are discussed with the companies represented in our portfolios in a process known as “**engagement**.” BMO Global Asset Management was also appointed to exercise **voting rights** and to prepare reports on its voting, as well as on the engagement milestones reached, sections of which we include in our ESG reporting for our clients.

The current principles of ownership responsibility and details of the engagement procedure are available at all times on our website:

www.metzler.com/en/metzler/asset-management/esg
> **Dialogue and voting rights**

4. Reporting

4.1. Transparency and publications

Transparency of ESG topics is important for Metzler Asset Management GmbH. The following documents are publicly accessible:

- The fund price is published daily. The **composition of our mutual funds** is published monthly (master data, investment strategy, risk profile, performance, fund structure, industry composition, top 10 equities, top 10 industries, key figures, costs and fees)

www.metzler.com/en/metzler/asset-management/fund-prices-und-documents

- The Metzler **PRI report** is accessible at

www.metzler.com/en/metzler/asset-management/esg

> Downloads

- The guidelines for exercising **voting rights** at annual general meetings by Metzler Asset Management GmbH, the principles and guidelines on owner responsibility, the Global Corporate Governance Guidelines, and the voting results of BMO Global Asset Management from the shareholder meetings of the companies represented in our funds are accessible at

www.metzler.com/en/metzler/asset-management/esg

> Dialogue and voting rights

Information provided by BMO Global Asset Management about **reo engagement** (responsible engagement overlay) can be found here:

www.metzler.com/en/metzler/asset-management/esg

> Dialogue and voting rights

4.2. ESG reporting

Metzler Asset Management GmbH is continuously expanding its ESG reporting. Currently, we provide a detailed review of the portfolios according to social, environmental and governance factors. In addition, Metzler Asset Management GmbH publishes some of BMO Global Asset Management reports on the milestones achieved in engagement.

For Metzler's sustainability mutual funds, an ESG report is accessible on our website at

www.metzler.com/en/metzler/asset-management/fund-prices-und-documents

5. Social responsibility

Since the 1674 establishment of the Metzler Bank in Frankfurt/Main, several members of the Metzler family in all generations have been committed – both personally and financially – to promoting social, scientific and cultural causes in their home city. These Metzler family members have been among the founders of several public institutions or their sponsoring associations, e.g. the Städel Museum, the Senckenberg Nature Research Society, Goethe University or the Bürgerhospital, and are still committed to their further development.

In 1998, the commitments of the Metzler Bank and the Metzler family – some of them dating back centuries – led to the establishment of the Metzler Foundation which concentrates on the development of children and adolescents, primarily in the field of German language learning, and also helps resolve social problems. Patronage of the arts and culture, health care, science and research, nature and the environment, and community development round off the “portfolio” of support. The Foundation’s work extends to all of Germany and beyond, especially locations where Metzler has offices.

In addition to Metzler’s own charitable activities, Metzler also persuades others to donate (“Anstiften zum Stiften”). This project is a cornerstone in Metzler’s commitment to involve as many other people, companies or institutions as possible in order to secure project funding. Innovative fundraising concepts have been used since the beginning of the 21st century, e.g. the matching fund model “1 + 1 = 3”. Furthermore, employee commitment is actively promoted as employees take on sponsorships for charity projects and get personally involved. Metzler employees can also submit their own applications for funding to the Metzler Foundation. Thus, social commitment is becoming more and more widespread and the Metzler network is constantly growing.

The work of the Metzler Foundation is non-profit and takes place in cooperation with other charitable or non-profit groups, scientific specialists and initiatives, and the public authorities in order to achieve the best results.

The Metzler family, the Foundation and Metzler Bank with its employees are all convinced of the importance of their chosen commitments and will surely remain committed “corporate citizens” full of ideas and zest.

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