Implementation of the basic sustainability strategy in asset management

1. Introduction

"Sustainability" and the preservation of ecological resources, including fair living conditions, is a central and important issue for us to which we attach great importance. As part of the financial industry, we see ourselves as having a special responsibility to actively promote climate protection goals, including through the means of financial investment, and thus to contribute to a more sustainable economy overall.

To this end, we want the asset management mandates entrusted to us to take into account not only return, liquidity and security, but also ecological and social criteria as well as aspects of responsible corporate governance in the companies we invest in. This applies in principle to every investment strategy agreed with the client.

As a result, the selection of financial instruments as part of the implementation of the agreed investment strategy is primarily geared to avoiding adverse consequences for environmental, social and employee issues or to contribute to respect for human dignity and the fight against corruption and bribery (so-called sustainability factors).

2. ESG risk scores in asset management

In order to determine whether, and if so to what extent, the sustainability concerns mentioned in point 1 are taken into account in the financial instruments invested in, we currently make use of a points-based assessment system provided by Clarity AI, a leading sustainable data science and technology company, for our Infront portfolio management system. With the help of the so-called ESG risk scores assigned to each company, the ESG performance of a company can be compared with those of other companies.

Just as an overall value is derived for each company from the scores in the three ESG segments "Environment," "Social," and "Governance," this is done accordingly at the overall portfolio level.

The rating system has a scale from 0 to 100, which in turn is divided as follows:

- 0 to 29 points= poor
- 30 to 49 points= fair
- 50 to 69 points= good
- 70 to 100 points= excellent

Even though detailed ESG risk scores are available for over 30,000 companies, over 200,000 funds and 200 countries, it cannot be ruled out that no scores have been calculated for individual financial instruments selected as part of the investment strategy. It should also be noted that no ESG scores can be calculated for account liquidity.

In the case of an asset management mandate, we generally consider the adverse impact on sustainability concerns to be sufficiently taken into account if the ESG risk score for a financial instrument invested in it is above 30 points and that for the overall portfolio is not permanently

below 50 points. Other score values for the individual financial instruments and for the overall portfolio can be agreed.

In doing so, we expressly accept that

- as part of the investment strategy, in addition to financial instruments for which no ESG risk score is available, investments are also made in financial instruments that have an ESG risk score of less than 30 points, although this is generally only permissible to the extent that and as long as the overall risk score of 50 for the portfolio is not permanently undercut,
- the customer's sustainability preferences in individual cases may possibly exceed the level applied here, these were then adjusted to the level offered by us by means of a corresponding declaration on the part of the customer after appropriate clarification.

3. Methodology for determining ESG risk scores (based on the rating system of the company Clarity AI)

The ESG risk scores are calculated for three different levels (L1 to L3). For reasons of clarity, we will until further notice only present the values from Level 1 and 2 to our customers.

ESG risk scores for companies (shares, funds and bonds)

Total ESG risk score (L1)	Aggregated total score, based on the Environment World, Social and Governance Score
Environment (L2)	Aggregated environmental score, based on sub-ranked scores.
Resource consumption (L3)	Score for a company's water and energy use and impact on land and biodiversity.
Emissions (L3)	Score for a company's carbon emissions, waste and pollution.
Environmental performance of suppliers (L3)	Score for resource consumption and emissions from the company's supply chain.
Environmental balance of the products (L3)	Score for the product's impact on the environment and sustainability in product development.
Environmental management and -processes (L3)	Score in relation to a company's sustainability policy, strategy and processes.
Social (L2)	Aggregate score for social matters, based on subordinate scores
Employees (L3)	Score for employment law, diversity, employee health and safety, and employee satisfaction.
Customers and products (L3)	Score for customer feedback, media attention, and customer/safety incidents.
Supply chain (L3)	Score for health and safety and the ethical principles of suppliers.
Community and society (L3)	Score for community involvement, donations, and various policies related to human/labour rights.
Governance (L2)	Aggregate governance score, based on subordinate scores

Corporate Governance (L3)	Score for the composition, function and coordination within the Board of Directors, the committees and their accounting processes.
Business ethics and behaviour (L3)	Score for risk management, code of conduct and public affairs.
CSR and sustainability (L3)	Score for corporate social responsibility policy and strategy.
Partnerships, memberships, awards and certifications (L3)	Score for certifications (ISO) and memberships (signatory of the UN Global Compact) in terms of sustainability and quality.

ESG risk scores for governments (bonds and funds)

Total ESG risk score (L1)	Aggregated total score based on environmental, social and governance score
Environment (L2)	Aggregated environmental score, based on subordinate scores.
Government resource consumption (L3)	Score for the use of natural resources such as water, land, energy management, oceans, and other resources.
State emissions (L3)	Score for GHG emissions and air pollutant emissions.
External environmental impacts (L3)	Score for biodiversity and natural disasters.
Social (L2)	Aggregated score for social, based on subordinate scores.
Human capital (L3)	Score for a wide range of metrics: demographic transition, education, health, gender inequality, inequality in wealth, employment, working conditions, and economic environment.
Physical capital (L3)	Score for infrastructure
Technology (L3)	Score for information and communication technology adaptation and technological progress and innovation.
Governance (L2)	Aggregated governance score, based on subordinate scores
Formal institutions (L3)	Score for economic, financial, legal and political rules, government effectiveness and level of corruption.
Informal institutions (L3)	Score for social capital within a government.
Stability (L3)	Score for stability within a government and net migration.

Important notes:

- It cannot be ruled out that Clarity AI, as data provider, will reduce or expand the number of Level 3 segments used to determine the ESG risk score in Level 2 or change the content requirements for these segments.
- We also reserve the right to make fundamental changes to the methodology used to determine the ESG score, e.g., by changing the data supplier. We will inform our customers about this in good time.

4. No specific focus on measurable simple or significant contributions to advance environmental goals and social objectives

The investment strategy is not designed to invest specifically in economic activities that make measurably simple or substantial contributions to the promotion of environmental objectives and social objectives. Insofar as, as part of the implementation of the investment strategy, investments are nevertheless made in financial instruments that make a simple contribution to the achievement of one or more environmental, social or good governance objectives, or that even make a significant contribution to the achievement of one or more environmental objectives, this is done with the intention of improving the sustainability balance of the investment strategy on the basis of the ESG risk score.