

Guideline on responsible investment

Shaping a sustainable future

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Union Investment and sustainability

For Union Investment, sustainability is part of our cooperative identity. For over 60 years, we have been committed to acting with a long-term focus and taking a holistic view of markets, developments and the needs of our investors.

We have adopted a clear sustainability strategy that sets the framework for our responsible behaviour. These guidelines¹ are an expression of our approach to responsible investment. They supplement the applicable BVI Code of Conduct and the Corporate Governance Code of the German Government Commission, whose requirements we also implement. These guidelines apply to all funds for which Union Investment is responsible for the entire value chain in the investment process. In the course of awarding mandates in which individual aspects of the management service are transferred from or to us, we endeavour to ensure that the principles of these guidelines are fully taken into account in the management process.

¹ Any formulations in this document referring to natural persons expressly include all gender identities



Our principles

1. As part of the cooperative financial services group, we have always been committed to acting responsibly in accordance with cooperative principles, and we implement this both at company level and in our core business.
2. Our corporate culture is characterised by partnership, professionalism and transparency. These values reflect our actions in the spirit of cooperation. In addition, sustainability is anchored in our mission statement as part of our self-image.
3. As a capital management company, we have a fiduciary responsibility: we always act in the interests of our investors and integrate this principle into our business processes.
4. As an active asset manager, we are convinced of the long-term positive correlation between sustainable action and economic added value. In order to secure the future viability of our investments in countries, companies and real estate, we take environmental, social and governance criteria (ESG aspects) into account in our investment decisions in addition to financial parameters. In this way, we achieve long-term added value for our investors.
5. We actively engage with companies to promote responsible business practices and good corporate governance, thereby contributing to their sustainable value enhancement. By integrating sustainability aspects into the management of our properties, we aim not only to secure their value and rental income, but also to equip them for the future.

Standards

Our fiduciary responsibility obliges us to prioritise the interests of our investors. In addition to complying with the relevant applicable laws and regulatory requirements, our approach to responsible investing is based on leading national and international standards that serve as a benchmark for our actions. In particular, we rely on the following regulations:

- the United Nations Principles for Responsible Investment (PRI)
- the UN Global Compact
- the OECD Guidelines for Multinational Enterprises
- the Oslo Convention banning cluster munitions
- the Ottawa Convention on the Prohibition of Anti-Personnel Mines
- the BVI Code of Conduct
- the BVI guidelines for sustainable portfolio management

As an active asset manager, we implement the findings of our ESG analyses in our securities portfolios. In extreme cases, this can lead to the exclusion of issuers from the investment universe, for example in the event of serious violations of the principles of the UN Global Compact or the labour standards of the International Labour Organization (ILO), if we are unable to achieve a positive result through engagement dialogues with issuers.

As a matter of principle, we do not invest in companies involved in the manufacture of banned weapons (such as landmines and cluster bombs) or the extraction and conversion of coal or oil sands into electricity. Our funds do not hold any securities of companies that are directly involved in the manufacture and maintenance of nuclear weapons systems. Furthermore, we do not invest in derivative financial instruments on agricultural commodities.²

² The following companies are excluded:

- that produce thermal coal or generate more than 5 per cent of sales from tar sands, and
- Companies that generate more than 25 per cent of their turnover from coal-fired power generation with an inadequate climate strategy.
- The nuclear weapons exclusion does not apply to conventional funds if these activities are carried out on behalf of a legitimate NATO nuclear power in accordance with the Nuclear Non-Proliferation Treaty and do not exceed minor turnover (< 5 per cent share of turnover).

Details of our exclusions are shown on page 13.

Memberships and initiatives

As one of the largest asset managers in Germany, we are aware of our responsibility. We have accepted the challenge of actively helping to shape a future-proof investment environment.

We promote the acceptance and implementation of sustainable principles in the investment industry. For this reason, Union Investment is an active member of various associations and initiatives concerned with sustainability.

Union Investment actively supports sustainable investment through its membership of various organisations:

- Principles for Responsible Investment (PRI)
- UN Global Compact
- Net Zero Asset Managers Initiative
- Climate Bonds Initiative (CBI)
- Transition Pathway Initiative (TPI)
- LuxFLAG
- Association for Environmental Management and Sustainability in Financial Institutions (VfU)
- Climate Economy Foundation
- Nature Action 100

Further initiatives and collaborative engagement by Union Investment can be found on the corresponding website [Memberships and initiatives | union-investment.de](https://www.union-investment.de/memberships-and-initiatives).



1. ESG integration

Responsible action is firmly anchored in the organisation at all levels of the company and in our investment processes. The ESG team in Portfolio Management assumes the coordination role for securities portfolios in order to implement our high quality requirements in the area of sustainability, ensure that our investment approaches are up to date and guarantee the effective integration of sustainability aspects.

ESG integration in the securities segment

By ESG integration, we mean the systematic consideration of sustainability factors in the key steps of the investment process. Sustainability risks and adverse effects on sustainability factors are also taken into account.

At the same time, we also analyse companies with a view to opportunities that arise from strategic positioning with regard to sustainability. This reflects our conviction that close cooperation between all our specialists is necessary in an increasingly complex capital market environment. Our aim here is to analyse the financial implications of ESG aspects for companies and countries in order to make better investment decisions.

The ESG team is integrated into portfolio management as a cross-divisional competence and is thus interlinked with all key asset classes.

ESG Committee

Our ESG Committee is the highest ESG body in portfolio management and is centrally responsible for defining a sustainable investment strategy. The committee ensures the permanent integration of ESG findings into the fundamental research process. It deals with specific companies, sectors and countries that are particularly relevant from a sustainability perspective for risk, return and valuation considerations due to specific events and/or structural trends. The committee provides binding signals and recommendations that are relevant for all asset classes and all portfolio managers. The diagram (right) shows the members and the functioning of the ESG Committee.

Composition and functioning of the ESG Committee

Members of senior management form the ESG Committee. Meetings are held on a regular and ad hoc basis.



Implementation in the strategies/portfolios:
AVOID – the corresponding title may not be held; a reduction must take place
UW – an underweighting must take place



Engagement and stewardship

As a responsible and active asset manager, we maintain a constructive dialogue with the companies in which we invest. Our primary objective is to actively influence companies with regard to opportunities and risks associated with ESG factors. In this way, we aim to make a positive contribution to a sustainable increase in company value and responsible corporate governance.

We see it as our duty to represent the interests of our investors vis-à-vis the companies. This also includes actively exerting influence to avoid risks and promote sustainability. We are convinced that sustainability has a significant influence on the long-term performance of a company. Companies with poor sustainability standards are significantly more susceptible to reputational risk, regulatory risk, event risk and litigation risk. ESG issues can have a significant impact on a company's operations, brand and enterprise value and its continued existence. With our engagement strategy, we are pursuing the overarching goal of increasing sustainability and thus also shareholder value in the long term.

Union Investment's engagement process comprises voting behaviour at Annual General Meetings (UnionVote) and constructive dialogue with companies (UnionVoice). While the proxy voting policy provides a framework for voting behaviour, the engagement policy provides guidelines for direct dialogue with companies as part of engagement activities. It applies to companies that issue shares or bonds and is a supplement to the Proxy Voting Policy. Further information can also be found in our Engagement Policy or on our Engagement homepage.

Through UnionVote, we exercise the voting rights entrusted to us at annual general meetings in the interests of investors in order to influence the management and business policy of public limited companies for the benefit of the investment assets concerned. We support all measures that sustainably increase the value of the company in the long term and vote against measures that run counter to this objective. A binding voting policy is a prerequisite for the transparent and consistent exercise of the voting rights entrusted to us.

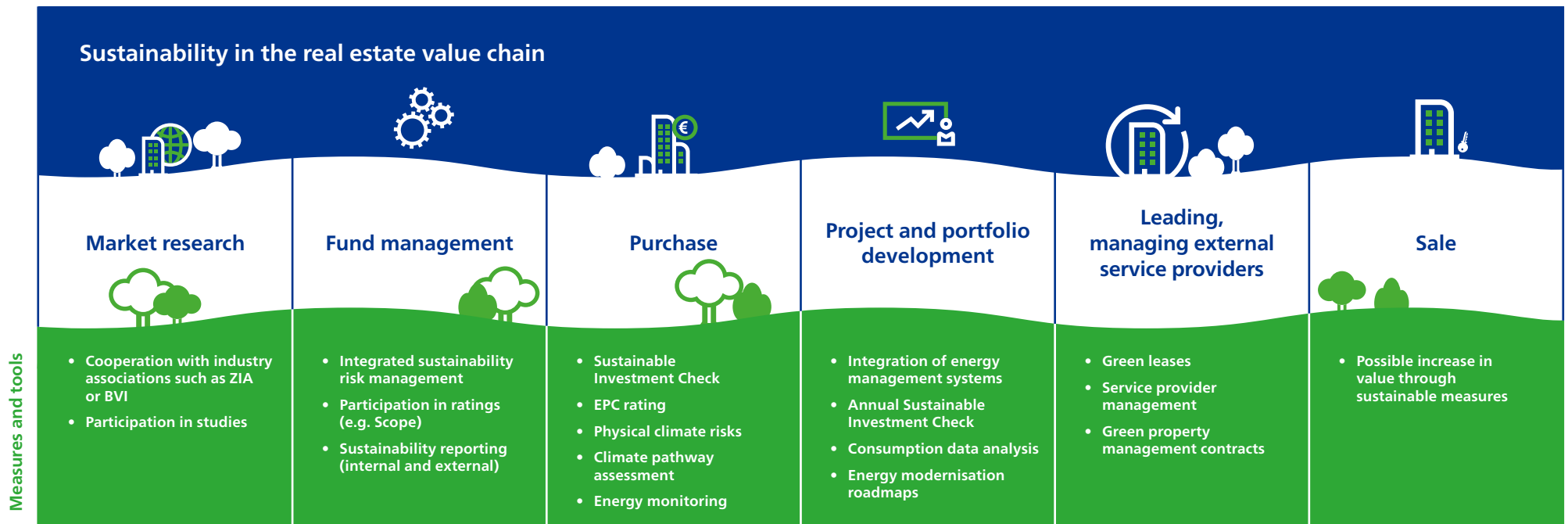
UnionVoice represents the active dialogue with companies as part of the engagement process. We see it as our duty to represent the interests of our investors vis-à-vis the companies. In particular, this includes actively exerting influence to avoid risks and promote sustainability. The principles of the EFAMA Stewardship Code and the DFVA Stewardship Guidelines are followed.

Integrating sustainability in the real estate segment

In Union Investment's real estate segment³, sustainability issues are integrated into the entire value chain. As part of the due diligence process, properties and project developments undergo a review of various sustainability criteria as early as the purchase stage. To this end, an external service provider analyses the property or project using our Sustainable Investment Check (SI Check) to identify and evaluate qualitative sustainability features. Consumption data, physical climate risks and the status on the 1.5 °C climate pathway also play an important role. If the property or project does not fulfil the minimum requirements depending on the type of use, potential for improvement must be identified and taken into account in the profitability calculation.

³ The real estate-related sustainability strategies and instruments described in this document apply to the funds actively managed by Union Investment (excluding ZBI). No influence can be exerted on service mandates for third parties.

The "Real Estate Sustainability" team is integrated into Real Estate Asset Management. Thanks to the close integration with investment, fund and asset management, as well as with property project management, sustainability issues are addressed in all specialist areas. Due to the uniqueness of each property, the large number of different players involved in the life cycle of a property, the long lifespan and the high value of each property, the industry faces major challenges when it comes to implementing sustainability requirements. In order to master these challenges, we use our expertise in the sustainable management of real estate funds to participate in various working and expert groups of the German Property Federation (ZIA) and the German Investment and Asset Management Association (BVI) and also take part in relevant studies. In doing so, we are pursuing the goal of raising sustainability standards and transparency throughout the real estate industry.



Tools for sustainable real estate investments

As part of our "Manage to Green" strategy, the full range of available instruments is used for all of our actively managed real estate funds in order to improve the sustainability performance of the real estate funds while taking investor objectives into account.

The following instruments are used:

Key Performance Indicators (KPIs)

The key performance indicators include all real estate-specific consumption data such as electricity, heat and water consumption, waste generation and CO₂ emissions. By recording and evaluating consumption, it is possible to identify potential for optimising the properties and define savings targets at property and portfolio level. Measures to conserve resources and reduce operating costs can then be introduced and targets tracked. The recording of consumption data is firmly integrated into the standard asset and property management processes and ensures that the portfolio is analysed annually.

Sustainable investment check (SI check)

With the Sustainable Investment Check developed by Union Investment, buildings are assessed in terms of their sustainability as early as the purchase process. Potential for optimisation can thus be uncovered and measures for upgrading the properties can be planned at an early stage. In existing buildings, the SI check is updated annually by reviewing and analysing criteria from the areas of technical equipment, measurement and control, resources, economy, user comfort, operational measures and location. This tool is used not only to determine the current condition of a building, but also to review the development potential of each individual property on an annual basis. The SI check is continuously developed and adapted to current developments on the market.

The combination of the SI check for qualitative assessment and KPI recording for quantitative analysis ensures a comprehensive annual review of Union Investment's property and portfolio data. At the same time, the effectiveness of measures taken is tracked and performance measurement is successively integrated into the work processes as standard.

Energy modernisation roadmaps

An energy modernisation roadmap is used to identify specific measures to optimise selected existing properties in order to bring them onto the 1.5 °C climate path in the medium and long term.

After a targeted selection of properties in need of optimisation, the next step is for experts to carry out extensive investigations. This includes property specific measures to reduce energy consumption and CO₂ emissions are determined and evaluated using economic feasibility studies in combination with emission and environmental analyses. This provides the property manager with a sound basis for making decisions on the further development of the building.

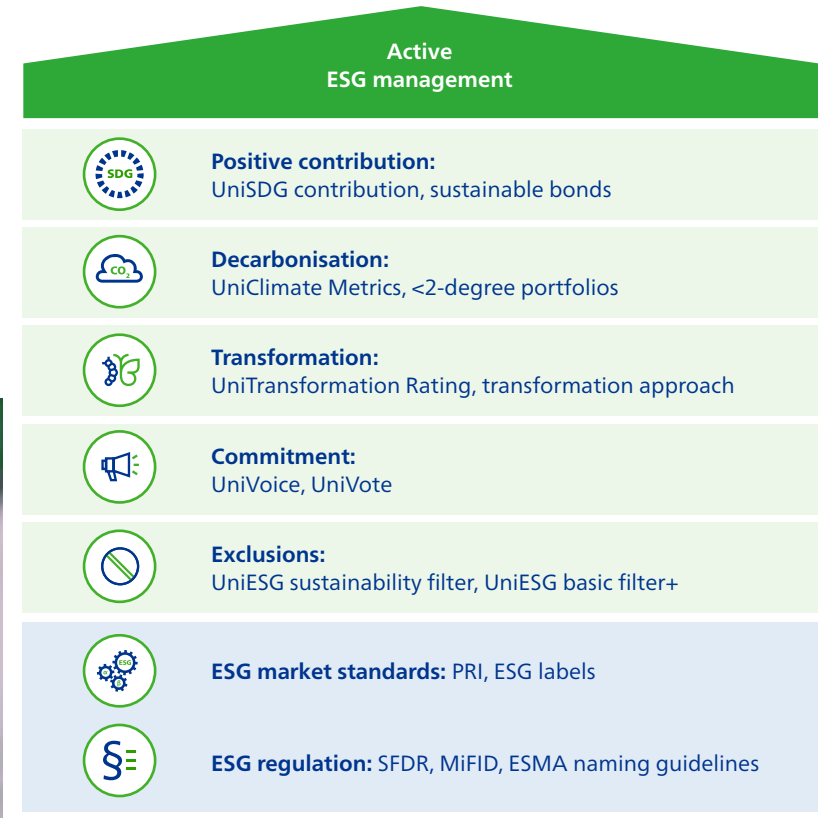
Energy monitoring

With the help of energy monitoring, consumption values, e.g. for electricity, heating, cooling or water, can be recorded and analysed at short time intervals and energy optimisations can be derived. For this purpose, the buildings are equipped with digital meters that enable data to be transmitted and analysed in real time.

The standardised monitoring is intended to create the basis for identifying specific energy-saving potential and exploiting this in collaboration with property managers and tenants. Union Investment plans to gradually equip the entire portfolio with energy monitoring by the end of 2025 and to reduce consumption values and CO₂ emissions through consistent optimisation. It is also a mandatory criterion for achieving the taxonomy for buildings completed before 1 January 2021.

2. Investment solutions with sustainability strategies

We offer our investors investment solutions in all major asset classes that take sustainability aspects into account. These solutions are based on investment processes specifically geared towards sustainability and can take individual sustainability preferences into account for institutional clients. In doing so, we aim to harmonise our clients' sustainability convictions and return requirements while taking particular account of risk aspects.



We apply the following elements:

Exclusion criteria

With this approach, individual or multiple criteria are defined as exclusion filters that exclude investments in certain companies, sectors or countries. The individual criteria can be determined individually by institutional clients.

ESG optimisation and best in class

Here, companies and countries are systematically analysed using in-house ESG scores. The UniESG score (see right) takes all relevant ESG aspects into account using indicators. There are various implementation options for portfolios:

- a) Portfolios are optimised according to the UniESG score. The portfolio must have a higher UniESG score than the corresponding benchmark.
- b) Application of the best-in-class approach. Issuers are excluded if they have a low UniESG score in a sector comparison.

Transformation

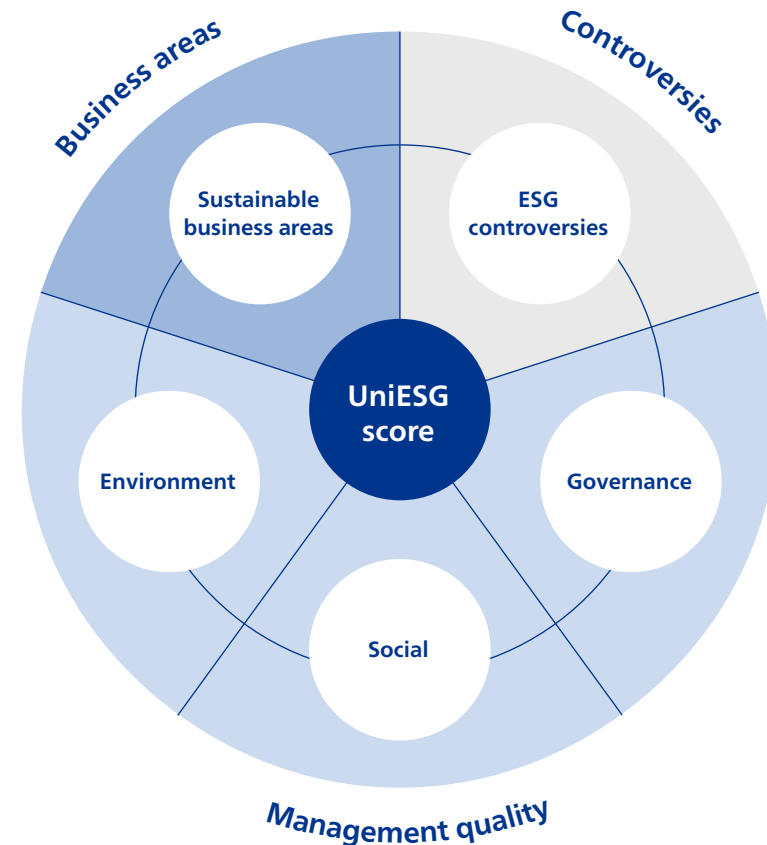
Union Investment is focussing on the topic of "transformation" as a building block of sustainable investment: we want to support and promote companies that are particularly relevant to climate and environmental protection in terms of sustainable transformation. However, the social aspects of sustainability are just as important.

These include, for example, reducing social inequality, gender equality, promoting education and combating poverty.

CO₂ and decarbonisation of investments

We can implement various approaches to decarbonise investments. These include measuring and managing portfolios according to different CO₂ intensities. We can also calculate how many tonnes of CO₂ are financed for portfolios and the extent to which they are compliant with various climate scenarios.

UniESG Score for companies



Human rights

As an asset manager with responsibility for funds managed on a fiduciary basis, it is important for us to ensure that all investments comply with human rights in order to not only fulfil legal requirements, but also to minimise the risk of legal action and reputational risks. We have therefore established appropriate processes in portfolio management for monitoring and managing human rights risks in the investment universe. In doing so, we are guided by the United Nations Guiding Principles on Business and Human Rights. In our policy statement on respect for human rights, we set out how we implement human rights due diligence at Union Investment.

Sustainable investments with a contribution to the UN Sustainable Development Goals

We invest in economic activities that make a positive contribution to the UN's environmental and/or social Sustainable Development Goals (SDGs). The exposure of companies to the 17 UN goals can be determined via their activities in sustainable business areas (e.g. renewable energies, energy-efficient technologies, medical technology). The positive contribution of countries to the SDGs is measured by the progress made in achieving the goals. In the context of investments that contribute to the aforementioned goals, it is avoided that these goals are significantly impaired. To this end, issuers are reviewed on the basis of key adverse impacts on sustainability factors ("PAI").

Consideration of principal adverse impacts of investment decisions on sustainability factors (Principal Adverse Impact)

For funds with a sustainable investment strategy aimed at reducing the principal adverse impacts on sustainability factors, the sustainability analysis is expanded to include additional tools. When acquiring and analysing the assets of such funds, the principal adverse impact on sustainability factors ("Principal Adverse Impact" or "PAI") is also taken into account. The criteria used to determine the principal adverse impacts on sustainability factors caused by investments in companies in accordance with the Disclosure Regulation are derived in particular from the categories of greenhouse gas emissions, biodiversity, water, waste, social affairs and employment. For investments in countries, criteria are defined in the environmental and social categories.



Details on exclusion limits

Companies



Controversial business practices (UN Global Compact Principles, OECD Guidelines)

	Grave violations	Serious violations	Serious violations	Problematic violations
Violation of ILO labour standards including child labour and forced labour				
Violation of human rights, environmental protection, corruption				

Controversial business areas

Outlawed weapons			0 %	
Nuclear weapons/systems	5% ⁴		0 %	
Arms	–	10 %		5 %
Climate strategy	major greenhouse gas emitters without a climate strategy			
Coal	Thermal coal mining		0 %	
	Exploration, mining, distribution, extraction or refining of hard coal and lignite ⁵	–	–	1 %
	Coal-fired power generation ⁵	25 % (if the climate strategy is inadequate) ⁶		10 %
Oil and gas	Oil and gas extraction ⁵	–	–	0 %
	Tar sands		5 %	
	Distribution or refining of petroleum ⁵	–	–	10 %
	Exploration, production, extraction or distribution of gaseous fuels ⁵	–	–	50 %
Electricity generation with GHG emission intensity > 100g CO ₂ e/kWh ⁵	–	–	–	50 %
High risk of addiction	Tobacco producers	–	0 %	
	Tobacco sales and distribution	–	–	15 %
	Gambling, alcohol producers, cannabis producers for recreational use	–	–	5 %
Controversial genetic engineering, nuclear energy, pornography	–	–	–	5 %
Animal testing for non-medical purposes	–	–	–	0 %

Countries



Unfree states (including restricted freedom of religion and freedom of the press) according to Freedomhouse	–			Exclusion of unfree states
UN Nuclear Non-Proliferation Treaty, Paris Climate Agreement or the UN Convention on Biological Diversity	–	–	–	Exclusion for non-signature
Use of the death penalty	–	–	–	States without carrying out the death penalty for at least 10 years
High level of corruption (Transparency International)	–		Exclusion of the bottom 20 %	Exclusion of the bottom 40 %
High greenhouse gas intensity	–	–	Exclusion of the bottom 20 %	



⁴ 5%, provided that business activities are carried out indirectly on behalf of a legitimate NATO nuclear power

⁵ Under certain conditions, green, social or sustainability bonds may be exempted from this if the project being financed does not violate our exclusion criteria.

⁶ Such a strategy is generally only sufficient if a) coal-fired power generation is not expanded, b) coal-fired power generation is responsibly phased out by 2035 at the latest, and c) climate neutrality is to be achieved by 2050 at the latest.

Exclusions are not applied to real estate investments.

Union Investment’s transformation strategy

Climate change is advancing, which is why many critical sectors need to undergo a transformation – towards a more sustainable business model. However, government regulations and funds are not enough to finance such an ecological transformation. The capital market – and therefore investors – must support this development.

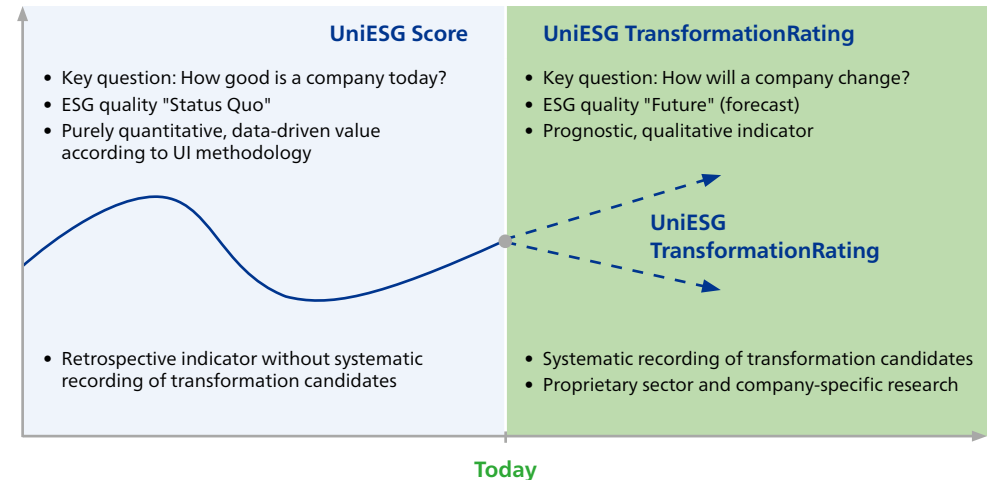
Union Investment is therefore focussing on the topic of "transformation" as a building block of sustainable investment: we want to support and promote companies that are particularly relevant to climate and environmental protection in terms of sustainable transformation. However, the social aspects of sustainability are just as important. These include, for example, reducing social inequality, gender equality, promoting education and combating poverty. We have therefore significantly enhanced our sustainable investment process. In concrete terms, this means that the investment focus is no longer only on companies that are already very sustainable by comparison. Instead, it also increasingly includes those that want to transform themselves credibly – in other words, those that reliably pursue ambitious sustainability goals. This approach requires additional, dedicated ESG analysis steps. In this context, we analyse the sustainability plans of companies and compare them with the actual results.

As an asset manager with an explicit sustainability strategy, we want to achieve both performance and a positive impact on society for our clients. We believe that we do not only need companies that already have a high level of sustainability. We can achieve the greatest impact if we identify the most sustainable companies of tomorrow. Our transformation strategy therefore complements our sustainable investment process as a building block. We consider this further development to be a logical step in the area of sustainable investing.

UniESG TransformationRating

Union Investment has developed a transformation rating that categorises the expected future sustainability of companies.

Distinction between UniESG Score and UniESG TransformationRating

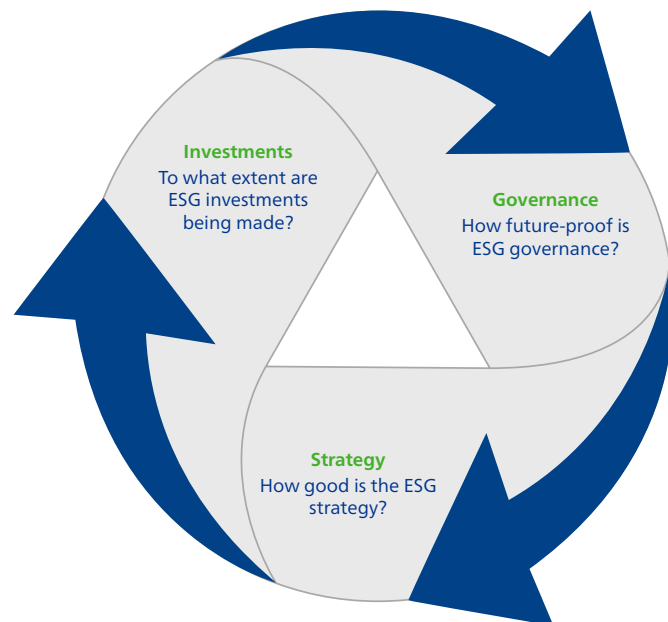


The UniESG Score is designed to answer the following question: How sustainable is a company currently? The analysis approach is quantitative and is based on past or, ideally, present data. UniESG scores therefore say nothing about the future. In particular, they do not capture any process of change, such as a transformation towards greater sustainability – especially where companies do not yet have a high level of sustainability. The UniESG TransformationRating supplements the UniESG Scores and is intended to systematically record and evaluate a potential change process. Specifically, it is aimed at forecasting transformation and the associated future sustainability of the company.

UniESG TransformationRating system

For our UniESG TransformationRating, we analyse companies along three dimensions as part of our sustainability research:

- **ESG strategy:** Is it credible and ambitious? Does the company set itself long-term goals and interim targets? What levers does the company have to drive the transformation forward?
- **ESG investments:** Does the company systematically invest in the transformation of its business model in line with its sustainability strategy?
- **ESG governance:** Can the management and corporate culture be expected to adhere to the sustainability strategy in the long term? Does well-designed corporate governance ensure the transformation of the business model?



Firstly, our specialists determine various aspects of the transformation for each of the three dimensions mentioned, which are mapped by the KPIs. The respective ESG analyst in portfolio management categorises these for a specific company in consultation with the responsible portfolio managers on the bond and equity side. To this end, they prepare an analysis and seek active dialogue with the company.

The aim is to be able to categorise the actual ambition of a sustainable transformation of the business model. For this reason, the UniESG TransformationRating is in most cases linked to parallel engagement dialogues in order to check the plausibility and consistency of the issuer's own assessment with company representatives.

The UniESG transformation rating for the respective issuer is based on the results. Only if a company's transformation path is at or above expectations is it considered a transformation candidate and is then also authorised for funds with Union Investment sustainability strategies.

In theory, companies with a moderate or rather poor sustainability status can also become transformation candidates. In fact, however, some are ruled out: These are companies that have a business model that is critical from a certain sustainability perspective or that offer a problematic product range. For almost all other companies, however, sustainable transformation is a question of ambition and the will to reorganise the business model if necessary. The UniESG transformation ratings are reviewed annually to assess whether this is being consistently pursued.

Proprietary sustainability tools

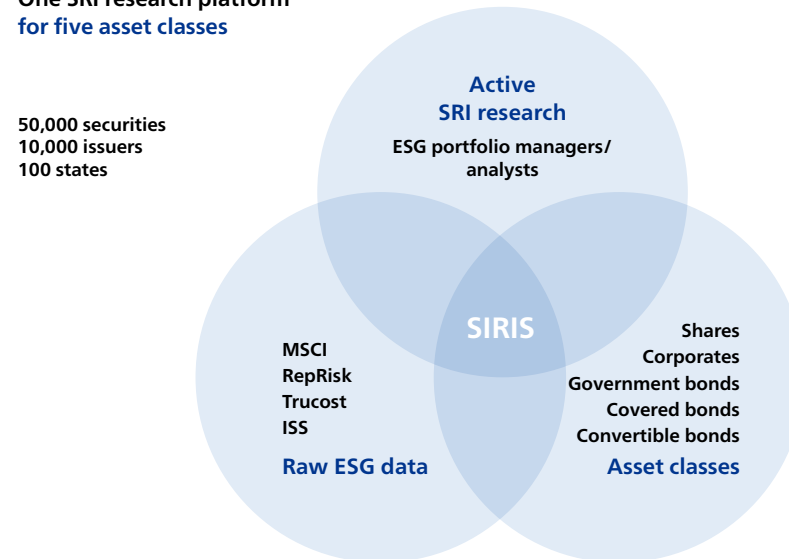
Our proprietary Sustainable Investment Research Information System (SIRIS) is used to generate our own sustainability research and implement sustainability requirements.

SIRIS is our research platform that makes sustainability in portfolio management for securities transparent, measurable and controllable. SIRIS generates sustainability research for issuers and sustainability analyses for Union Investment funds. Internal and external data sources are used to generate the sustainability research. There are several interfaces with other systems used by Union Investment. SIRIS also enables the implementation of customised sustainability requirements. It also supports the corporate dialogue as part of our engagement activities (UnionVoice). The dialogue and the resulting findings are documented and analysed in SIRIS.

The specially developed "ImmoSustain" tool is used to record and manage sustainability data in real estate funds. This not only creates the necessary transparency with regard to sustainability aspects in the portfolio, but also tracks the resulting targets and measures. With the help of artificial intelligence, property-specific energy consumption for electricity, heating and cooling is recorded and CO₂ emissions are calculated on this basis. Water consumption and waste generation are also recorded. In addition, the Sustainable Investment Check specially developed by Union Investment is managed via ImmoSustain. The software automatically generates ideas for improving the properties from the data transmitted. The connection to other systems and continuous further development results in an effective management tool for everyone involved in the value chain.

SIRIS: Our proprietary Sustainable Investment Research Information System

**One SRI research platform
for five asset classes**



Monitoring

Technical control mechanisms are also implemented in our trading systems to monitor and ensure compliance with investment restrictions that are defined in the investment strategy to fulfil the environmental and social characteristics of the fund and/or to achieve a sustainable investment objective (e.g. the application of exclusion criteria or minimum requirements for sustainability indicators).

In addition to our own research, we obtain data from external service providers to analyse companies and/or assets with regard to sustainability indicators. We utilise various data providers in order to benefit from the highest possible data quality.

3. Climate strategy and taking natural capital into account

Addressing climate change

As an asset manager, our mission is to earn trust by growing wealth. In this way, we provide for the future together with our investors. However, this requires sufficiently reliable and predictable ecological framework conditions. Unchecked climate change is massively undermining these framework conditions.

As a trustee of our clients' funds, we want to make an effective contribution to combating climate change and financing a sustainable transformation of the economy. Limiting global warming to 1.5° if possible is our central concern. We have therefore adopted a dedicated climate change strategy for the securities business in order to expand our commitment to climate protection and make the client assets we manage fit for the future. With the revision of the climate strategy in 2022, our targets in business operations were further tightened. We want to achieve climate neutrality in our securities portfolio before 2050. At the same time, we have been working intensively for years to continuously reduce our own greenhouse gas emissions as a company.

The core of our climate protection strategy is a focussed, systematic commitment. We are targeting those issuers where we have the greatest leverage as an asset manager: the companies that, measured by the emissions financed in our securities assets are among the biggest polluters.

With this focussed approach, we are currently targeting three quarters of all financed issues of the corporate bonds and equities we hold in total.

We systematically demand long-term, medium-term and short-term emission reduction targets from these major issuers, as well as the necessary implementation and investment plans, and continuously review the pace of emission reduction. Material issuers that do not fulfil these requirements within the set deadlines are gradually excluded from the securities portfolios.

Specifically, we call on these major emitters worldwide to publicly set complete long-term climate neutrality targets by 2025 at the latest as a first step. Binding and complete short and medium-term targets must follow by 2030 at the latest and implementation must be recognisable. In subsequent years, we require the target companies to provide complete, detailed and quantified implementation plans. Investment planning must also no longer conflict with the climate protection targets. By 2040 at the latest, companies must be on the right emissions reduction path or already climate-neutral.

These steps are being taken in line with the Paris Agreement with the aim of reducing the financed greenhouse gas emissions of our securities portfolio by at least 50 per cent by 2030



compared to the reference year 2019. In accordance with the Net Zero Investment Framework (NZIF) of the Institutional Investors Group on Climate Change (IIGCC), the climate neutrality target relates to the financed Scope 1+2 CO₂ emissions of the total securities assets under management, wherever this assessment is possible and meaningful. This generally includes equities and equity-like instruments as well as bonds and bond-like instruments in direct investments. In the case of asset classes such as government bonds, currencies, derivatives or commodities, this management via financed emissions is not yet consistently possible or sensible at the present time because either the instrument has no direct influence on real economic greenhouse gas emissions or we as an investor have no direct influence on the issuer via the instrument.

In accordance with the recommendations of the TCFD and PCAF, we measure the financed emissions via the share of the company value standardised to the invested volume. Due to the still unsatisfactory data situation for Scope 3 emissions, we are currently refraining from setting our own Scope 3 target for financed emissions, but will monitor financed Scope 3 emissions closely and manage them via the commitment.

We will gradually expand the climate strategy to other key asset classes by 2030.

Other measures necessary to achieve climate neutrality have also already been activated by resolution of the Executive Board. These include the systematic introduction of internal monitoring and management of funds based on their climate impact ("internal climate protection balance sheets"). In addition, we will expand our expertise in analysing the impact of climate change as well as climate policy and climate economics and anchor this even more systematically in the investment process.

The climate neutrality target means that Union Investment as an asset manager is embarking on the path to climate neutrality overall. We are decarbonising our portfolio by decarbonising the companies within the scope of our commitment. However, the companies are in different political and economic regimes. The pace of decarbonisation will therefore vary from fund to fund depending on the asset classes, investment regions and investment objectives. This is also

explicitly recognised in the Paris Climate Agreement by the principle of "common but differentiated responsibilities and respective capabilities in light of different national circumstances". In particular, this means that funds in developed markets are likely to decarbonise earlier than funds in developing markets.

Union Investment's securities portfolio will only become climate-neutral if the companies it invests in become climate-neutral. Here we rely on the principle of credible transformation of the companies. We review these using the UniESG transformation rating that we systematically compile. Investments in transformation candidates thus remain naturally possible. Through systematically escalated engagement, we will work alone and together with initiatives such as Climate Action 100+ to ensure that this transformation begins or is accelerated within set deadlines, especially for the largest CO₂ emitters. Depending on the regional circumstances, a period of a few months to several years is appropriate.

In accordance with our voting guidelines, the actions of the Executive Board or Supervisory Board are not to be ratified if they do not adopt and implement a credible climate strategy. If companies persistently and severely refuse to undergo the necessary transformation and their commitment does not have the desired effect, the ESG Committee will consider excluding them from the investment universe in order to protect investment assets. Companies with business models that cannot be sufficiently transformed (such as the production of thermal coal, oil and gas) will gradually be steered out of the investment universe over the coming decades (see side note: Phasing out fossil fuels, p.19).

Union Investment will always prioritise the avoidance of financed greenhouse gas emissions over offsetting these emissions. At present, it is not possible to predict with certainty which emissions in which industries cannot be completely avoided and when. This is particularly true as technological development is progressing rapidly, especially in the so-called "hard-to-abate" sectors, but their profitability is still dependent on uncertain political and economic conditions. We are therefore not currently planning any systematic offsetting of financed greenhouse gas emissions, but are instead focussing on reducing them. If greenhouse gas emissions are offset, this will of course only be possible under the highest ecological and social standards.

Side note: Phasing out fossil fuels

We expect that the increasing pricing of CO₂ emissions and competition from renewable energies will make the production and generation of electricity from thermal coal unprofitable in more and more parts of the world in the coming years. In the medium and long term, this will also apply to the oil and gas industry in its current form. Coal as well as oil and gas will only be able to play a very limited role in a climate-neutral world. This is why we were the first major German asset manager to initiate a complete exit from the financing of fossil fuels in 2020.

Thermal coal

The extraction of coal is an obsolete model that cannot be transformed. The extraction of a non-renewable, enormously harmful fossil resource that is at odds with global climate protection goals must be stopped. That is why we have decided in favour of a rapid and uncompromising exit from coal extraction. As a result, Union Investment will cease all investments in thermal coal producers from 2025 in order to protect our investors from the threat of losses and thus contribute to achieving the climate targets. Investments in securities issued by companies that regularly generate more than 5 per cent of their revenue from the production and trading of thermal coal have already been excluded since 2020. Since 2025, a turnover limit of 0 per cent has applied to the production and trading of thermal coal. This makes Union Investment the first major German asset manager to withdraw completely from thermal coal financing.

For the same reasons, Union Investment will also stop financing the generation of electricity from coal by 2035. The sale of electricity from coal-fired power generation is also a phase-out model, but one that can be transformed. Many electricity producers around the world are currently closing their coal-fired power plants and investing heavily in renewable energies. We would be thwarting this process by simply excluding them with hard revenue limits, as is the case with coal mining. That is why we are focussing on a transformative, forward-looking exclusion approach. Union Investment has systematically entered into a corporate dialogue with the relevant electricity suppliers in the investment universe. As part of this ongoing dialogue, we discussed whether and how these companies will phase out coal-fired power generation before 2035 and achieve climate neutrality by 2050 at the latest. Union Investment will sell the securities of electricity suppliers that do not present a credible climate strategy for phasing out coal-fired power generation or repeatedly miss their milestones in the transition to climate neutrality in the interests of our investors – following the dialogue and at the decision of the



ESG Committee. In principle, such a strategy is only credible if a) coal-fired power generation is not expanded, b) coal-fired power generation is responsibly phased out by 2035 at the latest and c) climate neutrality is achieved by 2050 at the latest. This excludes investments in securities of electricity suppliers that do not have a credible climate strategy and generate more than 25 per cent of their turnover from coal-fired power generation. We will gradually reduce this limit for coal-fired power generation to zero by 2035.

Oil and gas

An exit strategy for investments in oil and gas production was also adopted for portfolio management in 2024. This will ensure a responsible, gradual but significant reduction in the financing of these business models over the next few years. We are prioritising the phase-out according to the types of extraction that have the greatest environmental impact and are also less relevant to energy security. Oil sands have a massive local environmental impact. On the other hand, the end of oil sands production will not have a significant impact on global security of supply. While the complete cessation of other types of extraction could currently still limit energy security temporarily and in certain regions, we will gradually review and gradually eliminate other unconventional extraction methods.

From January 2025, securities from companies that generate more than 5 per cent of their turnover from the extraction of tar sands will be excluded from all funds. This rule already applied to products with sustainability strategies.

From April 2025, our funds with sustainability strategies will also initially not allow direct investments in securities of companies that produce oil and gas. A turnover limit of 0 per cent will therefore apply here. Transformation products are excluded from the oil and gas strategy. A step-by-step approach is applied in conventional funds: From 2030, companies that do not present a credible strategy for adapting their extraction behaviour to a net-zero world (i.e. a 1.5°C emissions pathway) by 2050 will be excluded. From 2050, companies that produce substantial quantities of oil and gas will be excluded. This excludes companies that achieve complete climate neutrality, whereby carbon removal of up to 10 per cent of total emissions is accepted.

In addition, as part of our voting rights policy, we will already refuse to grant discharge to members of the Executive Board and Supervisory Board for all client assets under management if there is a substantial expansion in oil or gas production.

Real estate portfolio⁴

With a share of around 40 per cent of global CO₂ emissions⁵, buildings are a key lever for mitigating climate change. With property assets under management of around EUR 45 billion (as at 31 December 2024), Union Investment is one of the largest property owners in Germany. We are aware of the responsibility this entails and see there is no alternative to decarbonising our property portfolio.

For this reason, we adopted our Manage to Green strategy in 2018 with the aim of making our global property portfolio climate-neutral in terms of energy consumption and CO₂ emissions during operation by 2050. We are also preparing our buildings for the increasing physical climate risks in the medium term.

As property owners, we are responsible for the transformation ourselves. The sustainability of a property is multi-layered. The measures must take into account the complexity of the real economy, the special features of each property, the regulations of the respective countries, the various stakeholders and much more.

A key component of the sustainability analysis of an existing property is its emissions and consumption data. We record the CO₂ emissions (kg CO₂ / m² / year), energy consumption (kWh / m² / year), water consumption (m³ / m² / year) and waste generation (kg / m² / year) of each property and analyse the data. CO₂ emissions caused by the consumption of electricity, heating and cooling in the buildings are currently the top priority. They are calculated per square metre and year using our specially developed ImmoSustain system and compared with scientific data from the Carbon Risk Real Estate Monitor, the so-called "CRREM" data. They indicate for the respective building class and geographical location whether a building is currently on the 1.5 °C climate pathway or whether it is contributing to limiting global warming to 1.5 °C or not. In concrete terms, this means that office properties in Germany, for example, must not emit more than 21 kg of CO₂ per m² per year in 2030.

The fund management uses the FitFor50 matrix to assess the sustainability performance and returns of the properties in the fund portfolio. Among other things, the matrix shows which properties are subject to a targeted long holding period but do not meet Union Investment's sustainability standards or have already left the climate pathway and therefore have a high risk of becoming a stranded asset, i.e. a property that is no longer tradable. For these properties, an energy modernisation roadmap is drawn up and implemented with the aim of bringing the

⁴ The real estate-related sustainability strategies described apply to the funds actively managed by Union Investment (excluding ZBI). No influence can be exerted on service mandates for third parties.

⁵ United Nations Environment Programme (2024). Global Status Report for Buildings and Construction: Beyond foundations: Mainstreaming sustainable solutions to cut emissions from the buildings sector. Nairobi. <https://doi.org/10.59117/20.500.11822/45095>

building back onto the climate path. In close cooperation with the technical and commercial asset management teams and the sustainability managers, the possible measures identified in the modernisation roadmap are evaluated, included in the investment planning and implemented in a way that preserves the value of the building as much as possible while taking into account the overall strategy.

Energy Performance Monitoring & Assessment is currently being introduced by external service providers for almost all of our buildings. This maps all technically relevant systems, analyses the energy consumption of a building and derives energy-saving measures such as optimisation of the technical building systems – for example for cooling systems or electricity control – for the individual buildings. As a result, the energy consumption of buildings can be significantly reduced even before more extensive remodelling measures become necessary.

In principle, however, we can only make our properties more sustainable together with their tenants. Active communication therefore plays a key role in our sustainability strategy in order to sensitise and activate our stakeholders. The sustainable transformation can only really be achieved if everyone pulls together.



Our approach to natural capital

Why is natural capital important for investors?

Natural capital, i.e. the global stock of natural resources (including soil, air, water and living organisms), has declined by 40 per cent⁶ in just two decades. As around half of global GDP is generated in sectors that are highly or moderately dependent on natural capital or ecosystem services, this loss is becoming an important issue for asset managers.

As a long-term oriented financial investor, we are exposed to potential portfolio risks when natural resources are extracted. We hold a broadly diversified portfolio across sectors and markets. Over time, external effects caused by the unsustainable use of natural ecosystems can have a negative impact on long-term performance. Similar to climate change, nature-related risks for financial institutions can be divided into two categories:

- **Physical risks:** For companies whose production processes or revenues depend on ecosystem services, such as rainfall or fertile soils, degradation can lead to a shortage of raw materials and reduced stability of processes. An example of a physical nature-related risk is the extinction of pollinators (especially honey bees).
- **Transition risks:** These can be described as changes in the regulatory landscape and increased (critical) consumer sentiment. Regulation could make access to land for operations increasingly difficult or impose higher due diligence costs and penalties for non-compliance on companies sourcing resources from environmentally sensitive areas.

What is Union Investment doing?

Against this backdrop, we have addressed the issue of natural capital in recent years, primarily through our engagement and stewardship activities. However, our approaches continue to mature in line with the development of tools and data to consider the dependencies on natural capital and the impact of our portfolios.

⁶ United Nations: Department of Economic and Social Affairs (2021). Countries to consider ground-breaking change to economic reporting that includes natural capital | United Nations21

In general, we encourage the companies in which we invest to do the following:

- a) Avoid or minimise impacts on biodiversity and ecosystem services
- b) manage living natural resources, such as forests, in a sustainable manner
- c) Improving efficiency in the consumption of energy, water and other resources
- d) Avoid or minimise the release of pollutants into the air, water and soil
- e) Utilisation of independent certification systems such as the Forest Stewardship Council or the Roundtable on Sustainable Palm Oil
- f) Commitment to "No Deforestation", "No Peat" and "No Exploitation" and disclosure of policies and corresponding strategies
- g) Disclosure in accordance with the CDP forest and water programme

Biodiversity

In funds with sustainability strategies, we prioritise the exclusion of the following areas where the risks to biodiversity are considered to be greatest:

- UN Convention on Biological Diversity: companies that have not signed it
- Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES): non-signatory countries
- World Heritage Sites: Companies that jeopardise the status of UNESCO World Heritage Sites protected by the World Heritage Convention
- Violations of the UN Global Compact in connection with the Rio Declaration on Environment and Development
- Genetically modified organisms
- Palm oil

In line with our climate strategy, conducting engagement and stewardship activities with companies to reduce their negative impact on biodiversity is our first choice. However, in cases where engagement with companies in which we invest does not result in sufficient progress, we selectively exclude them, which is reviewed on an ongoing basis.

In order to prioritise our engagement activities, we focus on sectors with major impacts and dependencies in which we are most heavily involved with our investments. This is done either through thematic engagements (e.g. deforestation, sustainable proteins, plastics, circular economy) or on a case-by-case basis.



In 2022, we used the ENCORE tool to assess the main impacts and dependencies in relation to biodiversity in order to identify the priority sectors that should be addressed under this topic. Based on this assessment, we have engagement with companies that focus on agricultural commodities and tropical deforestation.

We are monitoring the developments of the Taskforce on Nature-related Financial Disclosures and are examining the possibility of adopting the recommendations in future. Further information can be found in our [Guideline for Biodiversity](#).

4. Reporting

Acting responsibly also means creating transparency about the company's behaviour and the reasons behind its decisions. In line with our philosophy, responsible behaviour should be part of holistic corporate communication. Our general approach to corporate responsibility and sustainability issues is regularly published in the Union Investment Group's sustainability report.

As a member of the UNPRI, the integration of sustainability aspects into the investment processes is regularly assessed by the PRI Assessment. The results of this assessment and the detailed responses are published on our website as part of the PRI Assessment Report and the PRI Public Transparency Report.

In line with our commitment as a signatory to the Net Zero Asset Managers Initiative (NZAM) and the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD), Union Investment publishes an annual report on progress and developments in the integration of climate risks and opportunities into the investment process.

Union Investment considers the main adverse impacts of investment decisions on sustainability factors. The strategies for identifying and weighting adverse sustainability impacts are described in the Principle Adverse Impact Statement.

We provide reports on environmental and social characteristics for our institutional and retail mutual funds with sustainability strategies.

We provide further information on our activities as an active shareholder and on specific issues relating to sustainable investment for investors and business partners on our website.

In the Union Investment Group's sustainability report, we also report on our activities in the area of sustainable property management. This not only presents various processes and instruments, but also discloses the consumption data collected and extrapolated for the investment fund. In this way, we make an important contribution to transparency as a basis for the sustainable development of the property investment industry.

5. Updates and application

Regular cycle and audits

In the course of global political developments towards greater sustainability at both a corporate and regulatory level, we subject our guideline for responsible investment to an annual review and evaluation process. We endeavour to identify and address current and future issues that affect our core business at an early stage. In doing so, we ensure congruence with our internal guidelines. Their up-to-dateness and application are regularly reviewed.

Scope of application

The sustainability strategies and instruments described in this document apply to the funds actively managed by Union Investment (excluding ZBI, Quoniam Asset Management GmbH and VisualVest GmbH). No influence can be exerted on service mandates for third parties.

Legal notice

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