



Guidelines for responsible investment



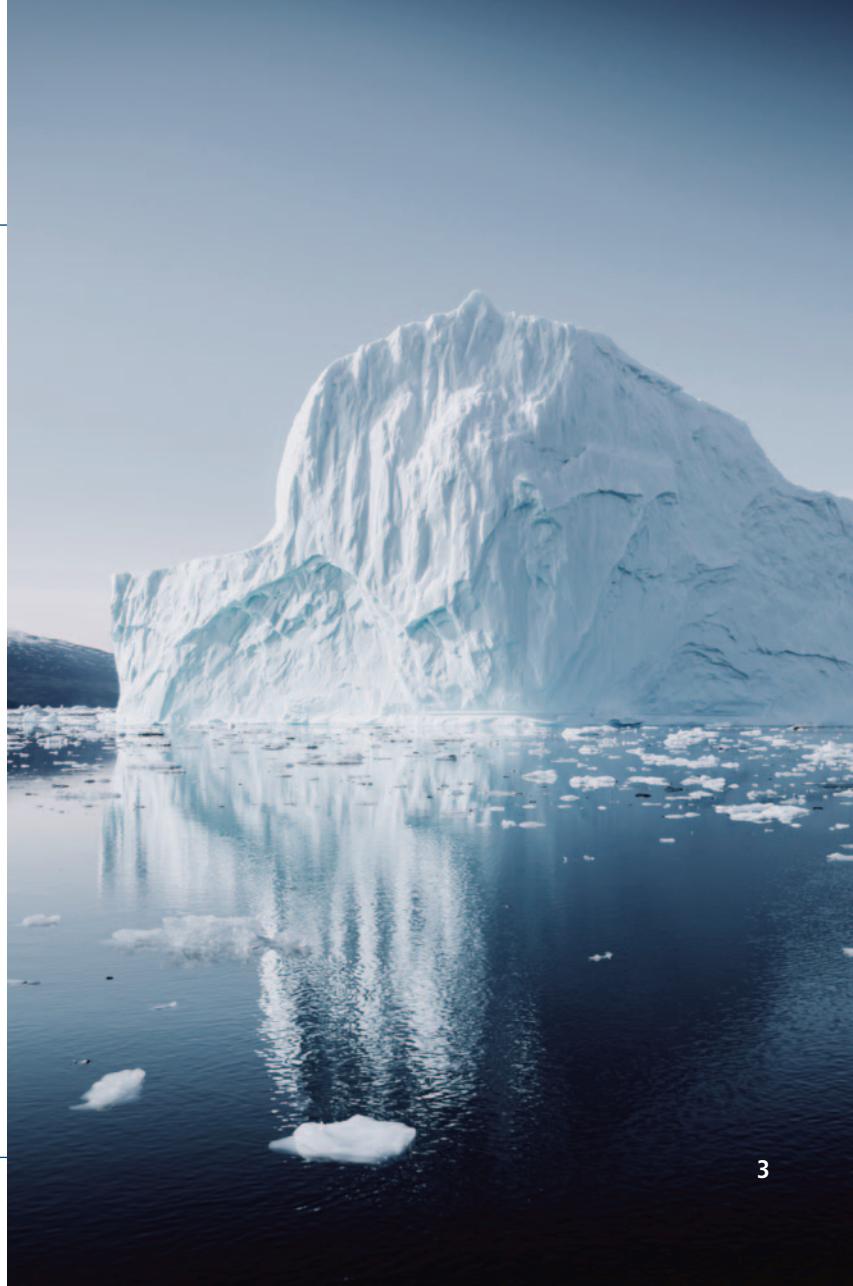
Contents

Our principles	4
Standards	5
1. ESG-integration	6
Integrating ESG criteria into the securities business	6
ESG committee	6
Engagement and stewardship	8
Integrating ESG criteria into the real estate business	10
2. Sustainability-oriented investment solutions	14
Proprietary sustainability tools	18
3. Consideration of climate change	20
4. Reporting	21
5. Updates and application	23
Evaluation at regular intervals	23
Reach and scope of application	23

Union Investment and sustainability

Union Investment considers sustainability to be a core element of the cooperative principles by which it operates. For more than 60 years, our mission has been to focus on the long term and to achieve a holistic view of the markets, of developments, and of the needs of our investors.

We have adopted a clear sustainability strategy that provides a framework for responsible action. These guidelines set out the approach that we take to ensure responsible investment. They supplement the BVI code of conduct and the Corporate Governance Code of the German Government Commission, the provisions of which we also follow. These guidelines are applied in all funds where Union Investment is responsible for the entire value chain in the investment process. In cases where individual aspects of the management of a client portfolio are assigned by or to us, we strive to ensure that the principles in these guidelines are fully implemented in relation to the management activities.



Our principles

1. As part of the cooperative financial network, we have always been under an obligation to act responsibly in accordance with cooperative principles. We apply these principles both at company level and in our core business.
2. Our corporate culture is characterised by partnership, professionalism and transparency. These three values are reflected in the way that we exercise our cooperative responsibilities.
3. Because we are an investment management company, we are of course bound by the principle of trusteeship and we always act in the interests of our investors and embed this principle in our business processes.
4. We are an active asset manager and firmly believe in the long-term positive correlation between a sustainable approach and economic added value. As well as financial parameters, we take environmental, social and corporate governance (ESG) criteria into consideration in order to ensure the future viability of our investments in countries, companies and property. This enables us to generate long-term added value for our investors.
5. We actively seek to influence companies so as to encourage responsible business and good corporate governance and thus to help them deliver sustained returns. By managing our property portfolio on a sustainable basis, we are not only protecting its value and rental income but also ensuring its future viability.

Standards

In our capacity as a trustee, we are committed to giving top priority to the interests of our investors. As well as complying with the relevant statutory and regulatory requirements, we take an approach to responsible investment that is guided by leading national and international standards, in particular:

- the United Nations Principles for Responsible Investment (UN PRI)
- the UN Global Compact
- the Oslo Convention on Cluster Munitions
- the Ottawa Convention on Anti-Personnel Mines
- the BVI code of conduct
- the BVI guidelines for sustainable real estate portfolio management
- the real estate sector sustainability code.

As we are an active asset manager, the findings from our ESG analysis has a bearing on the management of our securities portfolios. In extreme cases, we may even exclude issuers from the investment universe if, for example, an issuer is in serious breach of the principles of the UN Global Compact and we cannot achieve a positive outcome through engagement dialogue.

We generally do not invest in companies involved in the manufacture of outlawed weapons (e.g. weapons of mass destruction, landmines and cluster bombs) or coal mining*. Furthermore, we do not invest in derivatives based on agricultural commodities.

* Excluded if more than 30 per cent of revenue/power generation is derived from coal mining.

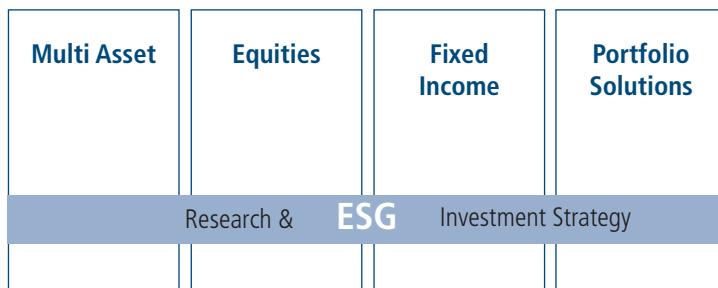
1. ESG integration

Taking a responsible approach is embedded in the organisational structures at every level of the company and in our investment processes.

Integrating ESG criteria into the securities business

ESG criteria are integrated into our systems and processes. This reflects our firm belief that all of our capital markets specialists have to work closely with each other due to the increasing complexity of the capital market environment. ESG criteria are also integrated into our overall investment process.

ESG criteria: an interdisciplinary aspect of portfolio management



Our objective in this context is to analyse the financial implications of ESG criteria for companies and countries so that we can make better investment decisions.

The ESG team acts in an interdisciplinary capacity in portfolio management as part of the Research & Investment Strategy unit, which means it is involved in all of the main asset classes.

ESG committee

Our ESG committee is the highest-level ESG body in portfolio management and holds central responsibility for specifying a sustainability-oriented investment strategy. Through this committee, Union Investment ensures the permanent integration of ESG-related findings in the fundamental research process. The committee deals specifically with companies, sectors or countries that are particularly relevant in terms of risk, reward and valuation considerations from a sustainability perspective because of actual events and/or structural trends. The committee issues binding indicators and recommendations that are relevant to all asset classes and all portfolio managers. The chart (right) shows the members of the ESG committee and how it works.

The following chart shows the members of the ESG committee and how it works:

Composition and work of the ESG committee

The ESG committee issues binding indicators and recommendations on ESG-related matters that are relevant to all asset classes.



Engagement and stewardship

In our role as a responsible and active asset manager, we maintain a constructive dialogue with the companies in which we invest. Our primary aim is to exert influence on companies with regard to opportunities and risks linked to ESG factors. This enables us to help companies to increase their value over the long term and to run their businesses responsibly.

We consider it our duty to represent the interests of our investors in our interactions with the companies in which we invest. Exerting our influence to avoid risks and promote sustainability is one of the ways in which we fulfil this duty. We firmly believe that sustainability can have a substantial impact on a company's performance in the long term. Businesses with inadequate sustainability standards are significantly more susceptible to reputational risk, regulatory risk, event risk and litigation risk. ESG-related aspects can have a material effect on operations, on brand/enterprise value and even on the continued existence of a business. The overriding objective of our engagement policy is to promote sustainability and, as a result, improve shareholder value for the long term.

Union Investment's engagement process comprises voting at annual general meetings (UnionVote) and maintaining a constructive dialogue with companies (UnionVoice). Our proxy voting policy constitutes the framework for our voting activities, whereas our engagement policy provides guidance for our direct dialogue with companies as part of our engagement activities. The engagement policy, which supplements the proxy voting policy, is applied to companies that issue shares or bonds.

Through UnionVote, we exercise the voting rights entrusted to us in the interests of investors during annual general meetings in order to exert influence on the management and business policy of public limited companies for the benefit of the invested assets.

We support all actions that will sustainably increase the value of these companies in the long term and we vote against any actions that go against this objective. A binding voting policy is required if we are to exercise the voting rights entrusted to us transparently and consistently.

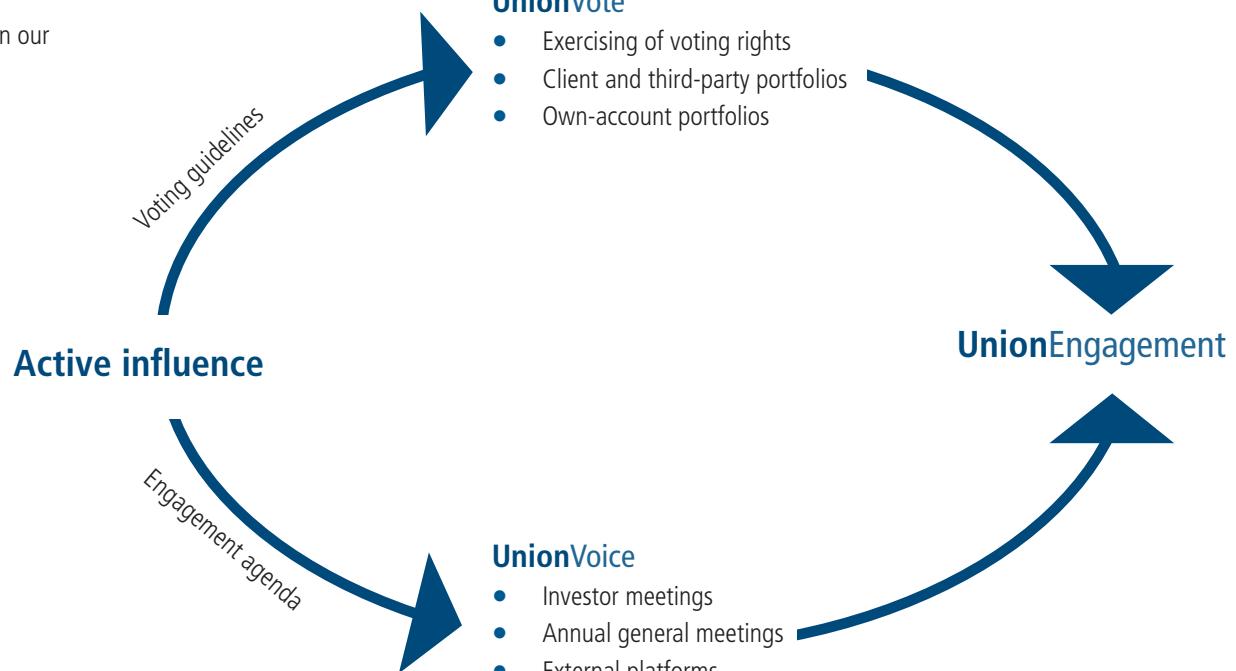
We have therefore laid down comprehensive voting guidelines that take their cue from the recommendations of the German Corporate Governance Code (e.g. in relation to corporate actions) and the guidelines of the BVI.

These voting guidelines are set out in the proxy voting policy, which is publicly available.

UnionEngagement

Further information can be found in our

[voting guidelines*](#)
and in our
[engagement policy*](#)



* The documents can be downloaded at www.union-investment.com

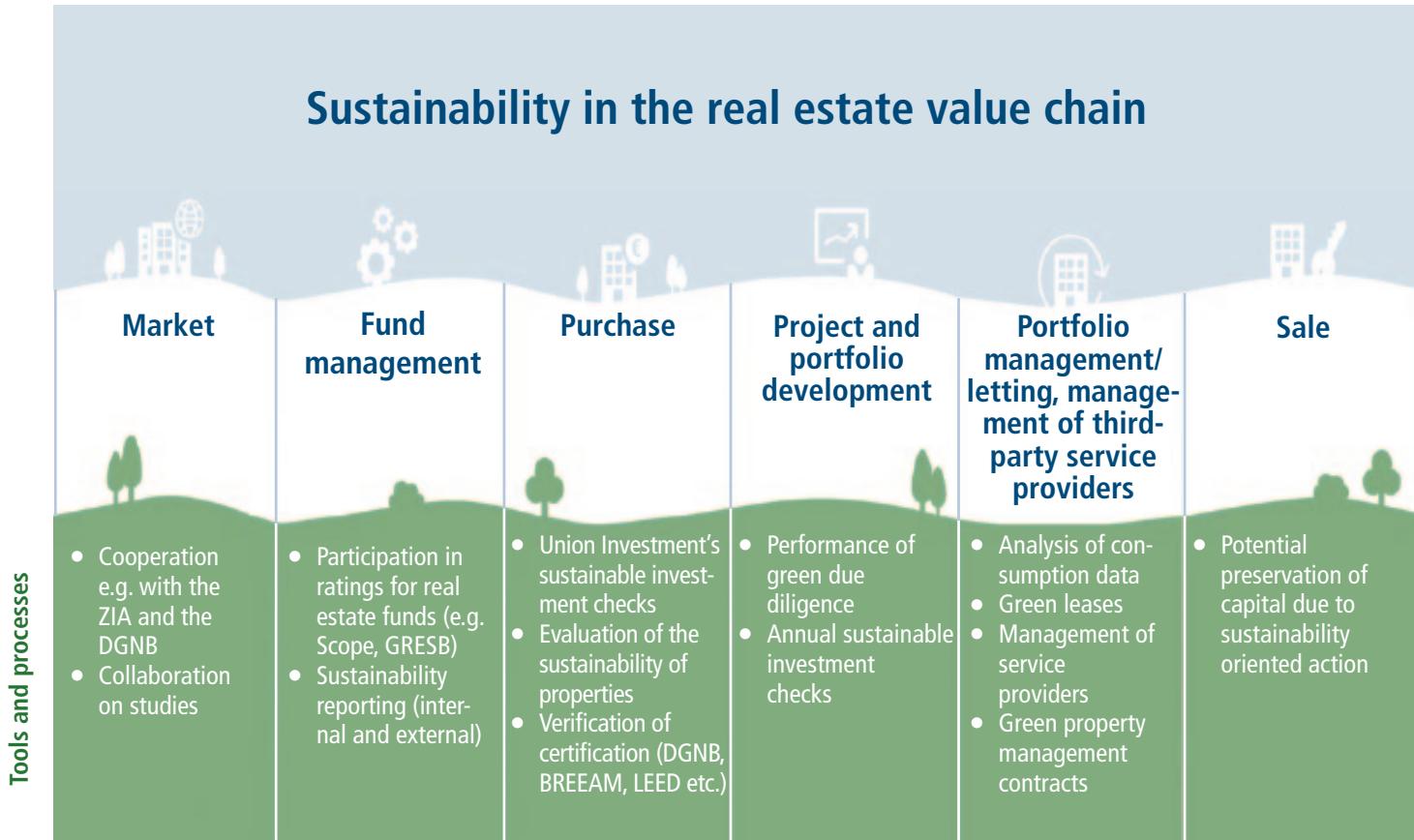
Integrating ESG criteria into the real estate business

ESG matters are integrated into every phase of the real estate value chain. Properties are analysed in respect of ESG criteria as part of the due diligence process at the time of purchase. To this end, an external service provider conducts a sustainable investment check (SI check) on the property. If the property does not satisfy the minimum requirements for the particular type of use, the potential for improvement has to be identified and factored into the profitability calculation.

The Real Estate Sustainability team is involved in the management of this segment. ESG matters are addressed in all departments thanks to the close links between Investment Management, Fund Management, Asset Management and Real Estate Project Management. The uniqueness of each property, the multitude of people and organisations involved in the lifecycle of a property and the long lifetime of a property and its high

value mean that ESG criteria create significant challenges for the sector. To overcome these challenges, we share our expertise on the sustainability-oriented management of real estate funds as a member of various working groups and expert bodies of the German Property Federation (ZIA), the German Investment Funds Association (BVI) and the German Sustainable Building Council (DGNB). We also participate in relevant studies. In doing so, we aim to improve the standard of sustainability and transparency throughout the property industry.

Sustainability in the real estate value chain



Tools for sustainability-oriented real estate investments

Our tools for sustainability-oriented investment are also increasingly being used in the property industry. The exclusion criteria, for example, are applied not only when we select securities but also when we are choosing tenants. Under our 'manage to green' sustainability strategy, we always deploy the full range of instruments at our disposal for our actively managed real estate funds. This enables us to improve the real estate funds' sustainability performance while taking investors' objectives into consideration. In doing so, our objective is not to exclude properties from the investment universe but to ensure that they can remain in our portfolio and to boost their future viability. We use the instruments described below.

Key performance indicators (KPIs)

The key performance indicators are all types of property-specific consumption data, such as electricity, heating and water consumption, the volume of waste and CO₂ emissions. Capturing and evaluating consumption data makes it possible to identify potential for optimising the properties and to define targets for savings at individual property level and portfolio level. Measures aimed at the efficient use of resources and the reduction of

operating costs can then be determined, and target achievement can be monitored. Consumption data is routinely recorded as part of the asset and property management process. It underpins the annual analysis of the portfolio.

Sustainable investment check (SI check)

In the sustainable investment check developed by Union Investment, buildings are assessed in terms of their sustainability credentials at the time of purchase. This allows potential for optimisation to be identified, and steps to increase the value of the properties can be arranged at an early stage. The SI check is updated for the buildings in the portfolio each year by reviewing and analysing criteria relating to energy, building automation, resources, efficiency, convenience for users, operational measures and location. This instrument makes it possible to ascertain the current state of each building and examine its potential for development each year. The SI check was developed on the basis of common certification systems. It is constantly expanded and adapted in line with the latest developments in the market.

The combination of the SI check for qualitative evaluation and the capture of KPIs for quantitative analysis ensures that Union Investment is able to

conduct a comprehensive annual review of its property-specific and portfolio data. At the same time, Union Investment can monitor the effectiveness of the actions that it has taken and progressively incorporate performance measurement into its range of standard work processes.

Green due diligence (GDD)

Green due diligence helps to determine specific steps for optimising selected properties in the portfolio in terms of economic, environmental and social aspects. It therefore goes beyond a mere energy analysis. The first step is the strategic selection of properties in need of improvement. Experts then conduct extensive checks on these properties. In this process, property-specific measures to reduce energy costs and operating costs, improve convenience for users and increase the value of the building are defined and then evaluated on the basis of profitability calculations combined with environmental and emissions analysis. This gives the property manager a set of reliable criteria on which to base decisions about the further development of the building. The impact of any work undertaken is monitored so that target achievement can be measured and corrective action taken if needed.

Exclusion criteria

We apply the exclusion criteria to the real estate funds that we use in securities portfolio management. Specifically, this means that those companies that are excluded from the investment universe for securities cannot become tenants in the properties included in the mutual funds and selected segregated funds. Properties cannot be purchased if their existing tenants are on the list of excluded companies. Furthermore, transactions cannot take place if the buyer or seller of the real estate is an excluded company.

2. Sustainability-oriented investment solutions

We offer our customers solutions for sustainability-oriented investment in all of the main asset classes. These solutions are based on investment processes that have been specifically tailored to sustainability requirements and can take into account customers' individual ESG criteria.

We aim to reconcile our customers' sustainability considerations and return requirements while paying special attention to risk criteria.

The range of responsible and sustainability-oriented investment options

Responsible investment



Engagement (PRI principle)



ESG integration (PRI principle)



Exclusion: minimum standards

Sustainability-oriented investment



Impact investment: UN sustainable development goals



Decarbonisation of investments



ESG-optimisation and a best-in-class approach

Comprehensive

Minimum

Fiduciary duties

We apply the following:

Exclusion criteria

Under this approach, we define one specific criterion or a range of criteria as exclusion filters that rule out investments in certain companies, sectors or countries. The criteria can be individually specified, for example companies that generate more than 5 per cent of their revenue from gambling, armaments or nuclear power can be excluded.

ESG optimisation and a best-in-class approach

This process systematically analyses companies and countries on the basis of ESG scores. The ESG score (see right) uses indicators to factor in all of the relevant ESG aspects. There are different options for applying this process to portfolios:

- a) Portfolios are optimised according to ESG scores. A portfolio must have a higher ESG score than the benchmark.
- b) The best-in-class approach is used. Issuers with a low ESG score relative to the rest of their sector are excluded.



CO₂- and decarbonisation of investments

We can take various approaches to decarbonising investments. They include the measurement and management of portfolios on the basis of CO₂ intensity. This considers the companies' CO₂ emissions (scope 1 and 2) per million US dollars of revenue. We can also calculate the tonnes of CO₂ issued per portfolio and thus ascertain the extent to which it is compliant with the two degrees target.

Impact investment: UN sustainable development goals

We can measure the extent to which investments make a positive contribution to achieving the UN's 17 sustainable development goals (SDGs). Companies' sustainability-related business lines (e.g. renewable energies, energy-efficient technologies, medical technology) make a positive contribution to the SDGs. The exposure of the companies to the 17 SDGs is ascertained on the basis of the revenue that they generate from sustainability-related business lines. This makes it possible to calculate which investments – both at portfolio level and benchmark level – support the goals and to what extent.

Proprietary sustainability tools

We carry out our own sustainability research and implement sustainability requirements using SIRIS, our proprietary Sustainable Investment Research Information System.

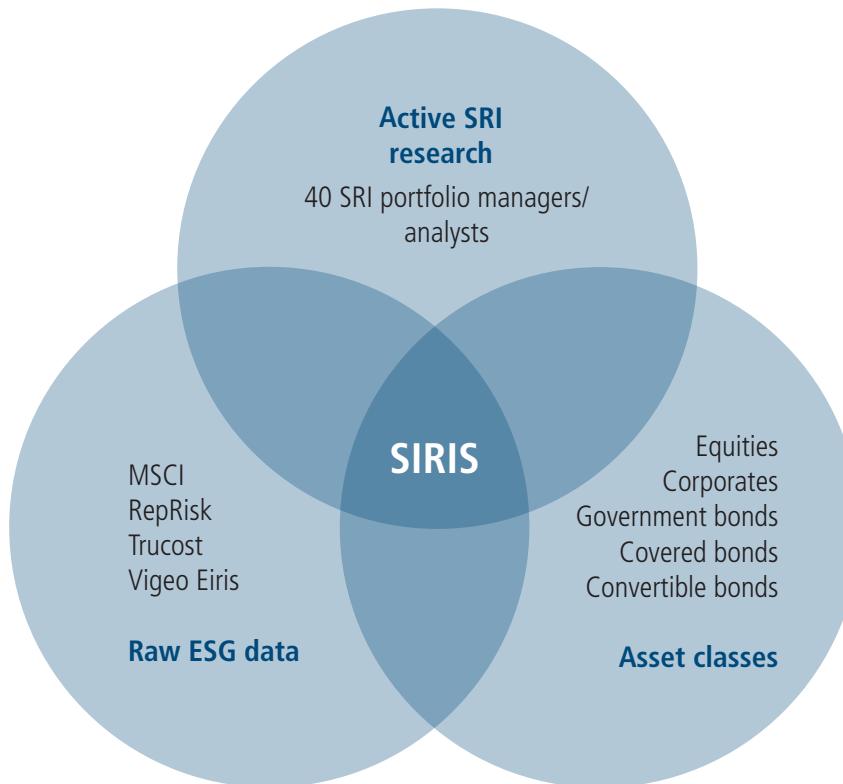
SIRIS is our research platform and makes sustainability in portfolio management transparent, measurable and manageable. It provides us with sustainability research on issuers and sustainability analysis of Union Investment funds. The system draws on internal and external data sources for the research and has interfaces to other systems used by Union Investment. SIRIS also enables us to implement customer-specific sustainability requirements and can be used to facilitate dialogue with companies as part of our engagement activities (UnionVoice). The dialogue and the information obtained from it are documented and analysed in SIRIS.

We use the proprietary Portfolio Sustainability Management (PSM) tool to record and manage sustainability criteria in respect of real estate funds. The tool provides the necessary insights into sustainability-related aspects in the portfolio and, moreover, enables the resulting targets and action steps to be monitored. PSM is used to measure property-specific

consumption data, such as electricity, heating and water consumption, the volume of waste and CO₂ emissions. The tool also enables professional data editing in accordance with the guidelines recommended by the ZIA in 'Nachhaltigkeitsbenchmarking – was und wie sollte verglichen werden?' [sustainability benchmarking – what should be compared, and how?] Internal benchmarking for specific types of use is then possible. PSM is also used to manage the sustainable investment check developed by Union Investment.

An SRI research platform for 5 asset classes

SIRIS: our proprietary Sustainable Investment Research Information System



72,000 securities
10,000 issuers
95 countries

3. Consideration of climate change

Because we are one of Germany's leading asset managers when it comes to sustainability-oriented investment, we take account of climate change risks in our investment decisions. Our climate strategy clearly demonstrates that we take global efforts to stop climate change very seriously and that we want to support these efforts not only through our investment activities but also in our business operations. We therefore began to study the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) very early on and are progressively integrating them into our operational and investment processes.

By signing the Montréal Carbon Pledge, we have undertaken to measure and publish the carbon footprint of our investment portfolios each year. We analyse the CO₂ intensity of different funds using SIRIS, our propri-

tary ESG analysis and research platform. SIRIS gathers data from suitable data providers and gives us information on relevant climate variables, such as CO₂ intensity and scope 1 and 2 emissions.

We will continue to call on companies with high emissions to reduce their greenhouse gases as part of our engagement activities.

4. Reporting

Another aspect of being a responsible corporate citizen is creating transparency about action taken and the reasons behind decisions that are made. Acting responsibly in accordance with our principles and values therefore needs to be reflected in comprehensive corporate communications. Our general objectives regarding corporate responsibility and sustainability are published in our regular [CSR reports](#).

We provide further information for investors and business partners about our activities as an active shareholder and particular aspects of sustainability-oriented investment on our website.

We also report on our activities in relation to sustainable real estate management in our annual report. As well as presenting various processes and instruments, we disclose the consumption data that has been collected and extrapolated for the fund* in the past three reporting periods. This enables us to play a significant part in creating transparency as the basis for the sustainable development of the property investment industry.

* In each case less the number of residential buildings, buildings under construction and buildings being remodelled.



Evaluation at regular intervals

As part of the global political developments aimed at greater sustainability at both corporate and regulatory level, we review and evaluate our guidelines for responsible investment annually. Our aim in doing so is to quickly identify and address current and future issues that affect our core business.

Reach and scope of application

The purpose of this document is to provide information about our internal policies and guidelines. Although Union Investment Management Holding AG has compiled and produced this document with due care and attention, Union Investment assumes no liability for the information therein being up to date, accurate or complete.

5. Updates and application

The content of this document does not constitute a recommendation and is not a substitute for the Bank's personal investment advice or for personal tax advice from a suitably qualified professional. Union Investment accepts no liability for any adverse effects or losses arising either directly or indirectly from the distribution or use of this document or its content.

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as at 31 October 2019 unless stated otherwise.

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