Asset Management by CIO

LEI-Code: 851WYGNLUQLFZBSYGB56

a. Summary

The Asset Management by CIO invests exclusively in investment funds besides generally holding a small amount of liquidity. Most of the selected investment funds take into account ecological and/or social characteristics (funds in the context of Art. 8 of the EU Disclosure Regulation) or pursue specific sustainable investment objectives (funds in the context of Art. 9 of the EU Disclosure Regulation). The objective is to reduce adverse sustainability impacts, particularly in the areas of environment (E = Environment), social (S = Social) and corporate governance (G = Governance). The focus lies on the reduction of CO2 intensity. The CO2 intensity of the equity component of the portfolio is targeted to be at least 10% below the CO2 intensity of the equity component of the reference benchmark.

We pursue these objectives by taking into account the following defined sustainability indicators:

1. Minimum requirements for ESG ratings
2. Classification of at least 85% of the invested investment funds as Art. 8 or Art. 9 investment funds in accordance with the EU Disclosure Regulation
3. Reduced carbon intensity
4. Exclusion criteria

Compliance with these sustainability criteria is reviewed and analysed on a regular basis (at least once a month). If an investment fund no longer meets these criteria, the respective position is sold as a matter of principle.

The relevant ESG data is provided by MSCI ESG Research. MSCI ESG Research is one of the leading ESG data rating agencies worldwide.

b. No sustainable investment objective

This financial product advertises environmental or social characteristics but does not seek to invest in sustainable assets. Even if this financial product does not target sustainable investments, the minimum percentage of sustainable investments with an environmental objective in economic activities that qualify as environmentally sustainable under the EU taxonomy is targeted to be 2%.

Asset Management by CIO takes into account material adverse impacts on sustainability factors by predominantly investing in Article 8 or Article 9 funds in accordance with the EU Disclosure Regulation. These products in turn consider the adverse impacts on sustainability factors. In addition, we apply exclusion criteria, such as the weighted CO2 intensity of the funds.

Based on the information provided by the external data provider MSCI ESG Research, we assess prior to the investment whether the investments concerned are expected to comply with the norms and standards of the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights.

c. Environmental or social characteristics of the financial product

In addition to achieving its performance targets, the focus of Asset Management by CIO is on reducing adverse sustainability impacts. These relate to the areas of environment, social issues and corporate governance. The particular focus is on the reduction of carbon intensity. The environmental and social characteristics are implemented by applying four defined sustainability indicators:

1. **Minimum requirements for ESG ratings**

ESG ratings from MSCI Research are used, with a rating scale ranging from CCC to AAA. MSCI ESG Research defines the rating order as follows:

- AAA and AA: above-average ESG rating
- A, BBB and BB: average ESG rating
- B and CCC: below average ESG rating

To be eligible for portfolio inclusion, an investment fund must have an ESG Rating of at least BBB from MSCI. For the portfolio average, we target an ESG rating of AA and as a result a portfolio with above-average ESG risk management. The ratings also include an assessment of the companies' good governance practices. MSCI ESG Research does not provide ESG ratings for all types of financial instruments. If MSCI ESG Research does not provide an ESG rating for a specific financial instrument, e.g. real estate funds, the respective fund must at least meet one sustainability standard according to MiFID Delegated Regulation Art. 2 No. 7 a-c for the fund to be eligible for inclusion in the portfolio.

Sustainability standard 7a refers to the consideration of sustainable economic activities according to the EU taxonomy, 7b to the pursuit of sustainability objectives according to the EU Disclosure Regulation and 7c to the reduction of adverse ESG impacts.

2. Classification of at least 85% of the invested investment funds as Art. 8 or Art. 9 investment funds in accordance with the EU Disclosure Regulation

The EU Disclosure Regulation classifies investment funds according to their sustainability characteristics. Investment funds in accordance with Art. 8 take into account environmental and/or social characteristics. This can be achieved, for example, by observing ESG exclusion criteria (for example, serious violations of the UN Global Compact such as involvement in corruption cases, or activities in controversial business sectors such as weaponry). Investment funds in accordance with Art. 9 pursue specific sustainable investment objectives, such as investments in production of renewable energy. The share of invested investment funds in accordance with Art. 8 and Art. 9 EU Disclosure Regulation amounts to at least 85% in total. This threshold may be temporarily missed in exceptional circumstances, but any such shortfall will be remedied at the latest as part of the monthly review of sustainability indicators.

3. Reduced Carbon intensity

We adhere to this criterion by keeping the CO2 intensity of the equity component of the portfolio at least 10% below the CO2 intensity of the equity component of the benchmark for the Asset Management by CIO.

The carbon intensity refers to the carbon emissions that companies produce per USD 1 million in revenues. The carbon intensity is calculated by MSCI ESG Research. These emissions are reported via the so-called Scope 1 and 2 CO2 intensity of the respective companies and investment funds and evaluated accordingly. Scope 1 represents the CO2 emissions caused by the company itself, while Scope 2 covers all emissions generated by the purchased energy. Scope 1 hence includes, for example, emissions from company vehicles. Scope 2 also includes emissions resulting from the use of electricity by machines, depending on the selected energy supply company.

4. Exclusion criteria for funds

Exclusion criteria for investment funds have been applied. Here, the primary check is whether the respective investment management company takes sustainability aspects into account in its investment processes.

d. Investment Strategy

In a first step, the investment strategy includes the consideration of the sustainability indicators outlined above. In a second step, we define a best-in-class approach to limit sustainability risks while still achieving a broad diversification effect. This evaluation is based on ESG ratings from MSCI Research.

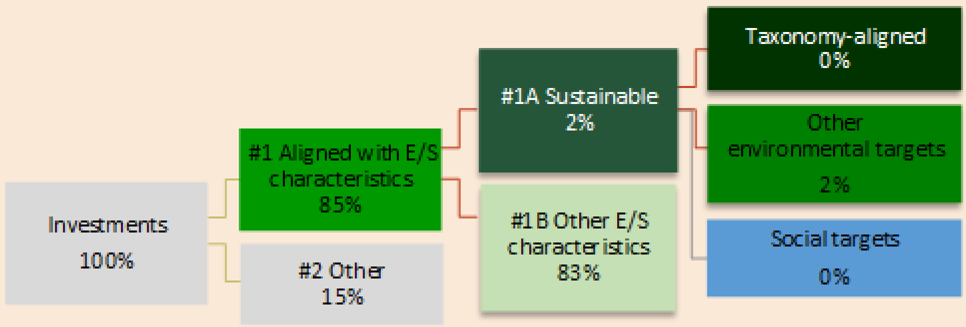
Within the best-in-class approach, Asset Management by CIO requires a minimum rating of BBB and hence excludes investments with ratings of BB, B and CCC. For investment products or single equities with identical investment ratings, preference is given to those in a peer group that have superior sustainability rating. The Asset Management by CIO portfolio focuses on investments with above-average ratings of AAA and AA. MSCI ESG Research does not provide ESG ratings for all types of financial instruments. If MSCI ESG Research does not provide an ESG rating for a specific financial instrument, e.g. real estate funds, the respective fund must at least meet one sustainability standard according to MiFID Delegated Regulation Art. 2 No. 7 a-c for the fund to be eligible for inclusion in the portfolio.

Sustainability standard 7a refers to the consideration of sustainable economic activities according to the EU taxonomy, 7b to the pursuit of sustainability objectives according to the EU Disclosure Regulation and 7c to the reduction of adverse ESG impacts.

Principles for the assessment of good governance practices

The MSCI ESG rating is based on three criteria: E (Environment), S (Social) and G (Corporate Governance). The G-factor assesses good governance practices. To determine the G factor, MSCI ESG Research computes different key issues, which take into account sound management structures, employee relations, employee compensation and tax compliance, among other aspects. Through our defined minimum requirements for ESG ratings good governance practices are thus also taken into account.

e. Proportion of investments



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristics, nor are qualified as sustainable investments.

The category **#1 Aligned with E/S characteristics** covers:
- The sub-category **#1A Sustainable** covers sustainable investments with environmental or social targets.
- The sub-category **#1B Other E/S characteristics** covers investments aligned with the environmental or social characteristics that do not qualify as sustainable investments.

The Asset Management by CIO invests exclusively in investment funds apart from generally holding a small amount of liquidity. This means it only holds indirect risk positions vis-à-vis companies. It is required to allocate at least 85% of its portfolio in E/S/G compliant investments. This is achieved by taking into account the sustainability indicators defined above.

Exceptions to this are temporary liquidity in Commerzbank accounts, that also have an above-average ESG-Rating or other investments that, in line with their asset class or specific concept, do not take into account sustainability characteristics, but which feature favourable correlation properties with regard to the sustainable investment strategy. Their allocation is limited to a maximum of 15% of the total portfolio. This threshold may be temporarily exceeded in exceptional circumstances, but any such shortfall will be remedied at the latest as part of the monthly review of sustainability indicators.

f. Monitoring of environmental or social characteristics

As part of the implementation of the sustainable investment strategy, we continuously (at least once a month) review the sustainability indicators during our investment process. If the sustainability characteristics of any of our portfolio positions, especially the ESG ratings, deteriorate or the exclusion criteria for investment funds apply, and this requires its exclusion from the portfolio, we usually sell the position within four weeks.

g. Methodologies

The environmental and social characteristics are implemented by applying the four defined sustainability indicators:

1. **Minimum requirements for ESG ratings and consideration of sustainability risks**

   ESG ratings also include indicators for adverse sustainability impacts in the areas of environment, e.g. biodiversity and recycling, and social issues, e.g. labour rights and discrimination. Commerzbank has set minimum requirements for these ESG ratings for the inclusion of investment funds in the portfolio.

The better an ESG rating, the better sustainability risks are managed by companies and countries. By avoiding below-average ESG ratings, sustainability risks are hence limited. Therefore, the Asset Management by CIO requires ESG ratings of at least BBB for the allocated investment funds. MSCI ESG Research does not provide ESG ratings for all types of financial instruments. If MSCI ESG Research does not provide an ESG rating for a specific financial instrument, e.g. real estate funds, the respective fund must at least meet one sustainability standard according to MiFID Delegated Regulation Art. 2 No. 7 a-c for the fund to be eligible for inclusion in the portfolio.

Sustainability standard 7a refers to the consideration of sustainable economic activities according to the EU taxonomy, 7b to the pursuit of sustainability objectives according to the EU Disclosure Regulation and 7c to the reduction of adverse ESG impacts.

The Asset Management by CIO identifies and evaluates the actual and potential sustainability risks of the investments. Sustainability risks are environmental, social or corporate governance events or conditions that may have actual or potential material negative impact on a company's financial position, financial performance or reputation.

These risks - along with other economic opportunities and risks - are considered in the investment decision-making process. Taking sustainability risks into account can reduce the potential for a negative performance in the investment. This can result in a better risk-reward ratio.

2. **Classification of at least 85% of the invested investment funds as Art. 8 or Art. 9 investment funds in accordance with the EU Disclosure Regulation**

   At least 85% of the investments in the portfolio will be made in sustainable investment funds in accordance with Article 8 or Article 9 of the EU Disclosure Regulation.

3. **Carbon intensity**

   Commerzbank aims to hold investments in its equity portion of the Asset Management by CIO with a significantly lower level of carbon emissions compared to the equity portion of the benchmark.

4. **Exclusion Criteria for funds**

   - If the Principles for Responsible Investments are not signed by the fund company
   - If the weighted carbon intensity of a fund is greater than 500 tons of carbon per USD 1 million in sales (the weighted carbon intensity of a portfolio is derived by calculating the carbon intensity (Scope 1 + 2 emissions per USD 1 million in sales) for each portfolio company, weighted according to the corresponding portfolio share)
   - If an ESG rating from MSCI Research for an investment fund is available, it may not be lower than BBB (scale: CCC to AAA, with AAA being the highest rating). If MSCI ESG Research does not provide an ESG rating for a specific financial instrument, e.g. real estate funds, the respective fund must at least meet one sustainability standard according to MiFID Delegated Regulation Art. 2 No. 7 a-c for the fund to be eligible for inclusion in the portfolio.

     Sustainability standard 7a refers to the consideration of sustainable economic activities according to the EU taxonomy, 7b to the pursuit of sustainability objectives according to the EU Disclosure Regulation and 7c to the reduction of adverse ESG impacts.

h. Data sources and processing

Asset Management by CIO uses data from MSCI ESG Research for its ESG investment process. The data are usually based on publicly available sources. As companies will not be required to report a comprehensive set of non-financial (ESG) data before 2024, estimates from MSCI ESG Research are currently used where necessary.

The MSCI ESG Research ESG rating process consists of the following elements, among others, to review the quality of the analysis, as well as the consistency of the methodology and the rating signal:

- Before publishing ESG ratings, all companies are reviewed for the quality of their provided data.
- Ratings and scores for companies in a sector peer group are regularly reviewed by a group of analysts.

Analysts submit corporate analyses to the ESG Rating Methodology Committee on a weekly basis when they identify certain changes, such as a rating change of more than two notches (e.g. from AAA to BBB).

The data provided will be processed by Commerzbank in accordance with the following excerpt from the MSCI ESG Data Manager:

- Prior to the investment, the investment funds are filtered based on the defined exclusion criteria and the ESG rating requirements as well as the so-called Art. 8 or Art. 9 classification. If verification with regard to an Art. 8 or Art. 9 classification is not possible via the ESG Manager, e.g. because the classification is not yet currently filed in the ESG Manager, the verification is carried out directly via data and information provided by the ETF provider.
- Moreover, the total CO_2 emissions for the equity component of the portfolio are calculated automatically and compared with the respective emissions level of the equity component of the benchmark.

i. Limitations of the methodologies and data

The variety of available sustainable financial products has increased significantly in recent years. Many traditional investments are now also available as a sustainable alternative. However, there is currently no generally binding definition or uniform standards for sustainable investments. Accordingly, terms such as ethical, sustainable or environmentally friendly are not yet properly registered, and many different concepts are applied to capital investments. Some investment concepts, for example, rely on exclusion criteria, others on specific sustainability metrics.
Currently only some companies are obliged to provide (ESG) data, which is why sustainability rating agencies provide more detailed information. These providers use different methodologies, which means that the ratings may differ from each other. However, data providers only supply their data for a limited universe of issuers. Thus, gaps in data coverage may occur.

Commerzbank uses data from MSCI ESG Research for sustainability data, as detailed in section "h. Data sources and processing". While sustainability rating agencies use data made available by the issuers, they also use estimates if issuers fail to provide data. These estimates are, from experience, less accurate than the data reported by the issuer itself, which may lead to discrepancies if the issuer publishes its own data at a later date.

Since further regulatory changes have already been announced and are to be expected, it might happen that a financial product that is considered sustainable today will no longer meet the sustainability requirements in the future.
Commerzbank AG is not currently aware of any limitations resulting from the used methodologies and data that could impact on the achievement of the environmental and social objectives of Asset Management by CIO.

j. Due diligence

Environmental and social characteristics are taken into account in Asset Management by CIO through the following measures in the investment process:

- Changes in the sustainability characteristics of the investment funds, in particular the MSCI ESG ratings, are reviewed on a regular basis (at least once a month). If the change of sustainability characteristics results in a violation of our investment criteria, we generally sell the respective investment fund position within four weeks.

k. Engagement policies

Within the scope of Asset Management by CIO, Commerzbank acts as investment manager and not as asset owner. However, as part of the Asset Management mandate, the client also delegates the exercise of voting rights to the Bank.

The Bank shall exercise the custody account voting right on behalf of the custody account clients. This is based on a voting proxy, which can also be a permanent proxy, subject to the requirements of Section 135 of the German Stock Corporation Act (AktG). Section 135 provides that a bank - insofar as it offers its custody account clients the exercise of voting rights - must make accessible to clients its own guidance for exercising the voting rights as regards the individual agenda items in due time. We provide this guidance on the following web pages:

https://www.commerzbank.de/investieren/wissen/regulatorik/

Section 135 (2) specifies in this respect that the Bank, in developing this guidance for the exercise of voting rights, is to be oriented by the interests of the shareholder and is to take organisational measures to ensure that no interests of other business units influence this guidance. where a member of the management board or an employee of the Bank is a member of the company's supervisory board or where a member of the management board or an employee of the company is a member of the bank's supervisory board, the Bank is to indicate this fact to the custody account client. The same applies if the Bank holds an ownership interest shareholding in the company that Section 33 of the German Securities Trading Act (WpHG) requires to be registered or if the Bank was a member of a consortium that has assumed the last issuance, in terms of time, of securities of the company made in the past five years.

Therefore, the Management Board has organised the exercise of custody voting rights into a business division that operates completely independently of the Bank's investment decisions. As such, the Bank's guidance does not take into account own interests - including those of Asset Management or proprietary investments.

l. Designated reference benchmark

The reference benchmark of the Asset Management by CIO does not explicitly take into account environmental or social characteristics. It is calculated from four differently weighted broad-based equity, fixed income and liquidity indices. The various risk profiles of Asset Management by CIO have different benchmark weights. The reference benchmark is composed of the following indices:

- Equities: MSCI EMU (Net Return)
- Equities: MSCI World AC ex EMU (Net Return)
- Fixed Income: Bloomberg Barclays Aggregate Euro Bond
- Liquidity: ESTR Euro Short Term Rates

As a reference value for CO2 intensity, we use the equity indices of the reference benchmark for the equity component.

For more information, please visit:

MSCI
Bloomberg
ESTR Euro Short Term Rates

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