Union Investment engagement policy

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 this engagement policy provides guidance for our direct dialogue with companies as part of our engagement activities and must be followed, except in justified exceptional cases. The policy applies to engagement with both stock-issuing and bond-issuing companies. It also applies to engagement in relation to government bonds. This engagement policy supplements the proxy voting policy. It is reviewed and, if needed, updated annually. Engagement is an integral part of sustainable investment. Please therefore also see Union Investment's proxy voting policy, voting dashboard and guidelines for responsible investment.

Link to the proxy voting policy:
https://union-investment.com/home/About-us/Principles.html?unique_tab_id_c3ec41bd-8b7a-464d-9c97-c7cd6a4a20c2=22
Link to the voting dashboard:
https://union-investment.com/home/Competencies/Sustainable_Investments/Engagement.html#Voting%20Dashboard
Link to the guidelines for responsible investment:
https://union-investment.com/home/About-us/Principles.html?unique_tab_id_c3ec41bd-8b7a-464d-9c97-c7cd6a4a20c2=8

1. Philosophy

Union Investment stands for active and responsible ownership. We consider it our duty to represent the interests of our investors in our interactions with the companies in which we invest. This includes, in particular, actively exerting our influence to avoid risks and promote sustainability. But it also means that we do not outsource or delegate our engagement activities to third parties. 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 (environmental, social and governance) aspects can have a material effect on the operations of a business, its brand/enterprise value and its continued existence and this makes them an important element of our investment process. The overriding objective of our engagement policy is to promote sustainability and, as a result, improve shareholder value for the long term. The extent to which a company is able and willing to transform is of paramount importance to us. From our perspective as a sustainable investor, some companies have no real prospect of transformation because they cannot adapt their business model to minimum sustainability standards or do not want to. Such companies are simply of no interest to us as investors. However, there are also companies that have embarked on a journey to improve their sustainability track record or adapt their business model. For us, it is essential to champion this second category of company and to use our engagement activities to support them on their journey. This is why, at its core, our engagement approach is also a transformation approach.

2. Principles and values

In its capacity as a trustee, Union Investment is committed to giving top priority to the interests of investors. As well as implementing the applicable statutory and regulatory requirements, we take an approach to responsible investment that is guided by leading national and international standards that set the benchmark for decision-making, such as the United Nations Principles for Responsible Investment (UN PRI) and the UN Global Compact.

At Union Investment, however, the entire engagement process goes beyond the aforementioned rules and is based on additional sets of values and codes of conduct. Our values and fundamental principles that form the framework for our engagement activities are based on the rules of conduct of the German Investment Funds Association (BVI) and on the German Corporate Governance Code. Union Investment also adheres to the principles of the Stewardship Code of the European Fund and Asset Management Association (EFAMA) and the Stewardship Guidelines of the Society of Investment Professionals in Germany (DVFA).

Further selected standards, certificates and initiatives that are reflected in and supported by our engagement approach and, where possible, are required to be applied by companies:

- Carbon Disclosure Project (CDP Carbon and CDP Water)
- Climate Bonds Initiative (CBI)
- Corporate Human Rights Benchmark (CHRB)
- International labour standards of the International Labour Organization (ILO)
- ISO standards for environmental and energy management, quality management, health and safety
- KnowTheChain initiative
- Principal adverse impacts (PAI) defined by the Sustainable Finance Disclosure Regulation (SFDR)
- OECD Guidelines for Multinational Enterprises
- Science-Based Targets Initiative (SBTI)
- Task Force on Climate-related Financial Disclosures (TCFD)
- UN Guiding Principles on Business and Human Rights
- UN sustainable development goals (SDGs)

In addition, our engagement is guided by sector-specific standards and initiatives. These may include:

- Access to Medicine Foundation
- Aquaculture Stewardship Council (ASC)
- Farm Animal Investment Risk & Return (FAIRR)
- Forest Stewardship Council (FSC)
- International Council on Mining & Metals – Sustainable Development Framework
- IRMA's Standard for Responsible Mining
- Leadership in Energy and Environmental Design (LEED)
- Marine Stewardship Council (MSC)
- REACH regulation
- Roundtable on Sustainable Palm Oil (RSPO)
- Extractive Industries Transparency Initiative
- Transition Pathway Initiative (TPI)

The relevant standards on which our values and our engagement approach are based are communicated to the companies.

3. Topics

The ESG topics for our engagement projects are derived from incidents of misconduct on the part of a company and/or a company's potential for improvement, i.e. from violations of one of the aforementioned principles, from analyses and their findings as well as from the dialogue with our sustainability team and our sector analysts. The internal analysis and investment processes also help us to assess the relevance, urgency and significance of the topics for the capital markets. Information provided by our stakeholders and customers can also be taken into account in the selection of topics. When deciding which topics and investee companies to prioritise, we consider a range of factors such as the relevant holdings in our funds, negative lists, company contacts and the general extent of our influence.

Union Investment expects companies to examine and accept the environmental factors that impact on their business activity and are material to their business. This includes:

- acknowledging climate change and reducing climate risk
- encouraging biodiversity
- managing water risk
- preventing or minimising damage to the environment (e.g. as a result of hazardous waste)
- evaluating and disclosing the company's impact on the environment

Union Investment also expects companies to be sustainable, transparent and fair in their interactions with all stakeholders. This includes:

- ensuring compliance with human rights (particularly along the supply chain, and especially the right to free, prior and informed consent (FPIC) as a key principle of international human rights pursuant to ILO Convention No. 169)
- ensuring safe and healthy working conditions
- upholding employee rights
- reducing the impact of products on the environment, health and safety
- maintaining a constructive dialogue with all stakeholders

Thirdly, Union Investment expects companies to have a well-functioning system of corporate governance that takes account of all stakeholders' interests in a balanced manner. This includes, in particular:

- encouraging diversity
- implementing an appropriate remuneration policy
- preventing corruption
- implementing a robust and efficient audit process
- upholding shareholders' rights
- establishing a diverse, capable and independent supervisory board
- ensuring that the abilities and composition of the executive board are appropriate

4. Consideration of climate change

In line with the Paris Agreement on climate change and our membership of the Net Zero Asset Manager Initiative, Union Investment has committed to reducing greenhouse gas emissions from the securities it manages to net zero by 2050. This is in line with the goal of limiting global warming to 1.5 degrees above pre-industrial levels.

As part of our commitment, we continuously review and engage with the largest greenhouse gas emitting companies in the portfolio. Around 50 companies account for up to 75% of the emissions we finance. These companies will be the focus of our engagement in the coming years.

Understanding the climate change opportunities and risks of companies requires meaningful reporting of greenhouse gas emissions (scope 1 to 3) according to recognised standards. Union Investment expects appropriate implementation of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). For companies with a high market capitalisation (> €1 billion), Union Investment considers it appropriate that this reporting also takes place via the Carbon Disclosure Project. In addition, Union Investment expects companies to

- a net zero target by 2050 or earlier, covering 95% of Scope 1-3[1] emissions
- short- and medium-term climate targets to achieve the long-term goal
- a credible plan to achieve the emissions reduction targets
- investment plans must be consistent with climate change objectives
- evidence that the intensity of greenhouse gas emissions is compatible with the path to climate neutrality.

The impacts of climate change should also be analysed holistically in terms of potential risks to biodiversity (see Chapter 5).

Coal:

Furthermore, we expect that coal mining and coal-based power generation, which are very harmful to the climate, will become unprofitable over the coming years as carbon emission pricing becomes more commonplace. Union Investment will therefore phase out investments in coal mining companies completely by 2025 at the latest in order to protect its investors against downside risk and to make a decisive step towards a carbon-neutral future. Since 2020, we have been excluding investments in securities from companies that regularly generate more than 5 per cent of their revenue from mining thermal coal.

Investments in coal-based power generation will be phased out by Union Investment in the medium term for the same reasons. Power companies that generate more than 25 per cent of their electricity from thermal coal and cannot demonstrate that they have a credible climate action plan and exit strategy will be excluded

[1] Due to the still unsatisfactory data situation for so-called Scope 3 emissions, we are currently refraining from setting our own Scope 3 target, but will closely monitor the financed Scope 3 emissions and manage them through the commitment.

from the investment universe. We will progressively lower the percentage cap for coal-based power generation to zero by 2035 in order to achieve climate neutrality by 2050. Union Investment systematically engages in dialogue with the relevant electricity suppliers in the investment universe in order to achieve this goal.

5. Consideration of biodiversity

With regard to biodiversity, Union Investment expects companies to assess and report on their main impacts on and dependencies on nature. This applies in particular to companies whose business is particularly relevant to biodiversity: oil and gas, basic and consumer goods, metals and mining, utilities, agriculture and real estate.

With respect to deforestation, we expect companies that are highly dependent on agricultural commodities (especially palm oil, soy, beef, timber, paper and pulp) to take steps to address these risks in their operations and supply chains. Companies should 1) have a commodity-specific zero deforestation policy; 2) have processes and metrics in place to identify, assess and manage commodity-related deforestation risks throughout the supply chain; and 3) report annually on progress in implementing the company's zero deforestation policy.

6. Objectives and indicators

The overriding objective of our engagement activities is to promote more sustainable practices and to improve shareholder value as a result.

A key element in our analyses is to establish where a company stands in terms of compliance with ESG criteria and how its risk management is set up. We then focus on specific topic areas, analyse them and discuss them with the company. The goal is to challenge existing criteria and to improve them for the future. The criteria we use are summed up in the acronym 'GOOD AT', which stands for:

G: guidelines (governance)
The company should develop clear policies on sustainability-related topics such as human rights, environmental impact and the prevention of corruption. It must demonstrate a clear commitment to implementing a sustainable business strategy.

O: organisation
The company's organisation should be structured in a way that facilitates the efficient and systematic implementation of sustainability-oriented policies. Clear allocation of responsibilities and systems that incentivise compliance with ESG criteria at management board level are of particular importance.

O: openness
The company should be willing to discuss ESG-related opportunities and risks with relevant stakeholders. The company's willingness to take greater responsibility for sustainability should also be examined.

D: due diligence
The company has an obligation to exercise due diligence by reviewing and monitoring the effectiveness of the implemented mechanisms, systems and processes both internally and along its supply chain.

A: action
The company should take appropriate measures and action to eliminate any identified ESG-related shortcomings. Our particular focus is on best practice and on how companies react to serious allegations.

T: transparency
Relevant policies and findings from due diligence processes should be communicated openly.

7. Process

Our engagement process consists of three key stages: pre-engagement, the actual engagement and post-engagement. The entire process relies on our internal systems (SIRIS and PROVOX) for the analysis, implementation, monitoring and documentation of our engagement activities.

7.1 Pre-engagement

The pre-engagement stage and associated research lay the groundwork and detect any problem areas for Union Investment's engagement activities. Together with our sectoral analysts, Union Investment's sustainability team discusses all relevant controversies and weaknesses of companies that may be revealed, for example, as part of the preparation of the transformation rating and through theme-based research. In addition, external data providers such as MSCI ESG Research, ISS, CDP and Trucost are brought in to assist.

Ongoing sustainability research, managed using SIRIS, thus forms an important basis for Union Investment's engagement process. SIRIS is a special IT platform that was developed for Union Investment in order to efficiently implement our proprietary approach to sustainability research and broaden our range of ESG-related services, including engagement.

7.2 Engagement

The centrepiece of Union Investment's engagement approach is UnionEngagement, a combination of constructive dialogue with companies (UnionVoice) and the exercising of our voting rights at annual general meetings (UnionVote).

Constructive dialogue with companies focuses on speaking at annual general meetings, talking to companies and their decision-makers directly, and holding discussions on platforms provided by external institutions. In particular, this involves making clear demands of companies and setting appropriate deadlines for them in order to achieve the engagement objective. If a company does not meet these demands, either partly or at all, we introduce escalation measures simultaneously or one after another.

The escalation and activity levels in our engagement process are as follows:

Union Investment's leverage as an active asset manager

In the first instance, Union Investment always tries to achieve its objective by entering into constructive dialogue with the company's senior management. These discussions, which are conducted by Union Investment portfolio managers and portfolio management analysts with company representatives, focus on the company's understanding of sustainability, its strategy, ESG transparency and its specific plan of action for and response to controversies. Occasionally, Union Investment expresses its criticism and demands more vocally at the annual general meeting. The escalation levels available to the portfolio management team offer the necessary granularity and can be combined in a variety of ways.

They should be adapted to individual engagement activities and the particular investment and, in some cases, can be deployed in a different sequence. In addition, we set appropriate deadlines in order to attach a sense of urgency to our demands at each individual escalation level.

The initial escalation, for example, may involve not formally approving the acts of the company's management board and supervisory board (or voting against the relevant resolution at the annual general meeting) if discussing the controversial issue and related demand with the management board, supervisory board, or investor relations managers does not bear fruit. Other escalation levels include supporting shareholders' motions at annual general meetings and participating in collaborative engagement in which investor interests and influence are combined. Finally, making a public statement – for example raising criticism in an interview or in a speech at the annual general meeting – may be a suitable way of expressing the demand more forcefully.

In the most extreme cases, however, when dialogue, demands and voting do not bring about the hoped-for changes, there can only be one consequence: exit and divestment. This means blocking the issuer from the fund and closing out any existing positions. As we are an active asset manager, the findings from our ESG analysis have 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. Nonetheless, we generally do not invest in companies involved in the manufacture of banned weapons or in coal mining and coal-based power generation (see the 'Consideration of climate change' section). Furthermore, we do not invest in derivatives based on agricultural commodities.

Through the exercise of our voting rights, Union Investment portfolio managers regularly influence the management and business policy of public limited companies at annual general meetings. They act in the interests of investors and exclusively for the benefit of the invested assets. All UnionVote activities are prepared, implemented, monitored and documented in the PROVOX system. We vote in respect of all of our investments, provided the effort involved is reasonable and the formal criteria are met.

Our policy: Union Investment supports all action that will sustainably increase the value of the company in the long term and votes against any action that is contrary to this objective.

A binding voting policy is required if we are to exercise the voting rights entrusted to us transparently and consistently. Union Investment has therefore laid down comprehensive voting guidelines that take their bearings from the recommendations of the German Corporate Governance Code and the guidelines of the BVI.

Please see Union Investment's proxy voting policy.

7.3 Post-engagement

The engagement process has a long time horizon, with results sometimes only becoming apparent after months or years. Our activities, and the results of these activities, are monitored, evaluated and reported to our customers in summarised form at regular intervals. The sustainability team discusses possible consequences for the companies. It is not out of the question for engagement activities that have already been undertaken to be re-initiated in order to achieve a goal. If we are not satisfied with the responses and actions of certain companies in spite of our repeated engagement, those companies are excluded from the investment universe. This is because exiting from an investment, as the final escalation level, is also a form of engagement.

Success is measured and the milestones are documented in our systems (SIRIS and PROVOX) using both qualitative and quantitative data. The success and outcome of discussions are recorded and documented on a qualitative basis, whereas measurable success, the objective and effect of engagement are recorded using a target achievement rate in quartiles:

1. Target achievement rate of 0% – 25%
2. Target achievement rate of 25% – 50%
3. Target achievement rate of 50% – 75%
4. Target achievement rate of 75% – 100%

8. Procedures for dealing with inside information and conflicts of interest

Dealing with inside information: Because we are an active investment manager, we occasionally receive important, non-public information from companies or their advisors (e.g. when sounding out the market ahead of potential transactions involving a company's securities). Union Investment's default position is that we wish to avoid receiving such information because it makes us an 'insider' and therefore limits our opportunities to trade in the affected company's shares.

Dealing with conflicts of interest: Acting in the customer's interest is the guiding principle that shapes our business relationship with our customers. This requires us to take appropriate precautions to avoid actual and potential conflicts of interest. The action that we take is always focused on the interests of investors. Union Investment has therefore put various organisational measures in place to avoid possible conflicts of interest that would disadvantage investors. For all holdings of a particular security, we vote in the same way in the best interests of the investor and irrespective of whether we have a business relationship with the company in which we are investing. This approach also applies to engagement dialogue. In both of these scenarios, we systematically apply the principles, values and criteria set out in the different policies. Before providing a service, we disclose any conflicts of interest that cannot be avoided despite these and other special measures in accordance with Union Investment's general policy on dealing with conflicts.

Measures for dealing with and avoiding conflicts of interest that may arise in connection with engagement activities:

1. Internal conflicts of interest between asset classes and/or investment strategies (e.g. equity strategies and fixed-income strategies)
   a. Analysts in the equities, fixed-income and ESG teams work closely together to ensure that account is taken of the individual interests. The proxy voting policy provides a transparent and binding framework for dealing with corporate actions in the inter ests of the share portfolio
   b. The guidelines for responsible investment govern how the various asset classes are managed
   c. In the event of doubt, or if required to act as a final arbiter, the ESG committee, which is made up of senior managers and portfolio management executives, advises and takes decisions in the best interests of the fund assets after due consideration of the opportunities and risks
2. External conflicts of interest in respect of external stakeholder groups (e.g. customers)
   a. The engagement activities are based on the general guidelines and are the same for all customer portfolios, regardless of the business relationship
   b. Engagement topics are prioritised and implemented according to their relevance, feasibility and impact, as determined by an internal assessment system; customers can suggest topics and ideas, but the stewardship team decides which topics make the engagement topic list
   c. Customer relationship management and engagement are handled by separate units to minimise potential conflicts of interest, e.g. in cases where the customer of a segregated fund mandate is also the subject of engagement activities

9. Cooperation with other shareholders

Union Investment participates in collaborative engagement when this is the most effective way of achieving the engagement objectives and is in the best interests of our customers. We particularly seek to collaborate with others where we have the same interests and the objectives are based on material issues. Collaboration may also take place at a general level with regard to a specific issue, but without relating to a particular company. Union Investment's collaborative engagement is conducted in accordance with the pertinent statutory and regulatory requirements.

10. Engagement with governments

We hold government bonds and therefore engage with governments with the aim of exerting influence over them and motivating them to improve their sustainability performance. Countries are different from other asset classes because their most important stakeholders are not investors but citizens. This means that the government has to account for its actions primarily to its citizens rather than to investors. There are also fewer channels available through which influence can be exerted: for example, there is no annual general meeting at which shareholders can exercise their rights. Although the opportunities for influence are limited, Union Investment still strives for an improvement in countries' sustainability and a sustainability-oriented transformation. To this end, Union Investment uses its

SIRIS sustainability platform and examines additional information, some of which it obtains by talking directly to government representatives. Obtaining information is also a way of initiating the engagement process with the countries in which we invest.

Engagement with governments is a balancing act and requires a lot of critical research and diplomacy. The findings are incorporated into the investment and engagement process. The fact that we hold a large pool of assets in trust gives us a certain amount of influence. In addition, we can use platforms like the UN PRI and other initiatives to pursue engagement activities together with other investors in order to expand our influence. If the engagement process is unsuccessful, the government is excluded as an issuer from the investment universe. Exclusion and divestment should be regarded as a last resort because we are then no longer able to exert any influence.

11. Engagement reporting

The progress of our engagement activities is evaluated and documented on an ongoing basis. Our customers receive quarterly reports on the engagement activities that we have conducted, including a summary of the issues raised, content and outcome.

We also keep detailed records of our voting activities in relation to the investments of each individual customer. These activities are then summarised in a report. This report also provides an explanation of why we voted in a particular way. We also provide the customer with information about any ESG criteria that were material to our voting decision.

In our publicly available engagement magazine, we report regularly on the latest engagement topics, specific ESG trends and selected engagement case studies. Union Investment publishes its voting record on its website.

This engagement policy is updated regularly (at least once a year).

Last updated on 1 April 2023.

References to natural persons in this Engagement Policy explicitly include all gender identities.

Contact: Union Asset Management Holding AG, Weissfrauenstrasse 7, 60311 Frankfurt am Main, Germany,
tel +49 (0)69 589 986 060

All information, illustrations and explanations are presented as at **1 April 2023**, unless otherwise stated.