A Munich Re company

MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH

Exclusion policy for controversial weapons, thermal coal, oil sands and MSCI ESG CCC rated sovereigns

Content

1 Objective

This policy ("Policy") outlines MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH's ("MEAG") approach to excluding from its investments companies involved in (i) controversial weapons, (ii) thermal coal and (iii) oil sands as well as (iv) sovereign bonds, issued by governments or government-related institutions with a MSCI ESG CCC Rating. Main objective of these exclusions is MEAG's aim to contribute to the mitigation of adverse environmental, including climate, and social impacts associated with the activities of these issuers as described below. At the same time, these exclusions may contribute to the reduction of sustainability risks[1].

Controversial Weapons

MEAG acknowledges that weapons can be of use for ensuring national and regional security. However, there are certain weapon categories – so called controversial weapons – which must not be supported by any means. Several of them have been deemed unacceptable by certain international conventions[2] due to their humanitarian impact.

For this reason, MEAG rules out investments in companies that are involved in controversial weapons stated in this Policy.

Thermal Coal

In 2015, 195 countries ratified the Paris Agreement to continue efforts to limit the global temperature increase to 1.5°C above pre-industrial levels. The use of thermal coal is at odds with these efforts, as the fuel emits the most CO2 relative to its energy content compared to other fuel sources. In addition, coal mining often has a negative impact on the surrounding environment and local communities. By excluding certain thermal coal-based businesses, MEAG aims to mitigate these negative impacts and to contribute to achieving the goals of the Paris Agreement.

Oil Sands

The detrimental effects of extracting oil from oil sands (also known as tar sands) can be significant for the environment and local communities. Among other things, extracting oil from oil sands consumes more energy and resources than the extraction and refining of conventional oil, and it is among the most carbon intensive methods of crude oil production.

For this reason, MEAG restricts investments of companies involved in the extraction of oil sands.

Sovereigns with low ESG ratings

Specific ESG government ratings aim to complement traditional government debt analysis when analyzing a country's creditworthiness, by providing a long-term view on ESG criteria and risks. These ratings identify the country's exposure to and management of ESG risks. Countries with a low ESG rating indicate a critical exposure to sustainability risks paired with a poor management of those.

For this reason, MEAG rules out investments in government bonds[3] and bonds of government-related institutions of countries rated "CCC" by MSCI ESG Rating (scale AAA-CCC).

2 Scope of application

MEAG takes into account and integrates this Policy in its investment processes concerning all asset classes reasonably controllable by MEAG (e.g. equities, corporate bonds, government and covered bonds, infrastructure and real estate investments) in all portfolios managed by MEAG regardless of

[1] Analysis and assessment of sustainability risks alongside conventional financial analysis is integrated in MEAG's investment decisions process. Exclusion criteria and/or limits are thereby a method for managing and/or limiting sustainability risk (BaFin Guidance Notice on Dealing with Sustainability Risks, Sec. 6.2.1), Sustainability risks if they occur notably may have or potentially have significant negative impacts not only on the assets, financial and earnings situation, but also the reputation of a supervised entity (BaFin Guidance, Sec. 2.4)
[2] Relevant international conventions include: the Anti-Personnel Mine Ban Convention, the Convention on Cluster Munitions, the Chemical Weapons Convention
[3] This also includes sub-sovereign level

their type or disclosure classification according to SFDR[4]. The Policy may be amended by MEAG from time to time and is subject to the following exemptions.

Binding sustainability-related product terms and conditions or mandate agreements shall prevail in the event of a contradiction, for example any stricter ESG-criteria of a given product are to be applied, or differing mandatory ESG-policies of investors may be given preference. Further, this Policy does not apply to asset classes which are not reasonably controllable by MEAG (e.g. funds of funds or ETFs). As concerns assets under administration, where external asset managers act as investment managers, MEAG strives to apply this policy subject to especially technical and contractual feasibility.

3 Excluded investments

3.1 Controversial weapons

MEAG will not invest in companies involved in the production of whole weapon systems or intended use components for the following weapon categories

- Anti-personnel mines
- Cluster munitions
- Biological weapons
- Chemical weapons
- Depleted uranium weapons
- Blinding Laser weapons
- Incendiary weapons using white phosphorus
- Non-detectable fragments

With regards to alternative investments, MEAG will not invest in any infrastructure assets, directly linked to the production, maintenance, storage or transportation of these types of weapons. As for Real Estate, MEAG rules out restricted companies as tenants for its Real Estate Portfolio.

3.2 Thermal coal

MEAG will not invest in coal-based companies along the following criteria and thresholds which have been defined in line with scientific targets to limit global warming to 1.5°C above pre-industrial levels:

- Coal Share of Revenue (CSR): Companies that derive more than 15% of their revenues from thermal coal mining
- Coal Share of Power Production (CSPP): Companies that generate more than 15% of their commercialized electricity from thermal coal
- Coal Development: Companies which are expanding their capacities to generate power from thermal coal or coal-dedicated infrastructure
- With regards to alternative investments, MEAG will not invest in any infrastructure and real estate assets, directly linked to the production, maintenance, storage or transportation of thermal coal.

MEAG recognizes that business violating those thresholds might nevertheless contribute to the renewable energy transition. Hence, MEAG further supports companies with a credible decarbonization strategy as well as Paris-aligned and externally-verified GHG emission reduction

[4] Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector

targets[5]. To enable the renewable energy transition, those companies are exempted from the investment restriction. Further, MEAG exempts its currently engaged companies from exclusion.

These exemptions do not apply for companies which are expanding their capacities to generate power from thermal coal.

Further, MEAG will continue to invest in green bonds issued by companies on the thermal coal exclusion list under specific sustainable conditions[6].

In order to further support the overarching goals set forth by the Paris Agreement, MEAG strives to fully phase out coal-based business models in its investment portfolio by 2030 for OECD countries and by 2040 for non-OECD countries.

3.3 Oil Sands

MEAG will not invest in companies that derive more than 10% of their revenues from the mining of oil sands.

3.4 Governments and government-related institutions with MSCI ESG CCC rating

MEAG will not invest into bonds from governments[7] and government-related[8] institutions in countries with a MSCI ESG government rating of CCC.

4 Operationalization

4.1 Public Markets

Exclusions are managed through a "MEAG KAG ESG Exclusion List", which restricts any new investments into excluded issuers. This list is updated on a quarterly basis. In case of active breaches of these exclusions, MEAG strives to conduct divestment immediately or within one trading day. In case of passive breaches, stakes will be divested in a timely manner, considering the market conditions and the interest of the fund or portfolio: pre-existing holdings are generally to be sold until the end of the quarter. Fixed income holdings of excluded coal-based companies may be held until maturity but shall not exceed 2030 for issuers situated in OECD countries and 2040 for the remaining.

4.2 Alternative Assets

The exclusion criteria are integrated into the respective ESG checklists and tools for alternative assets, which are obligatorily applied during the due diligence of any prospective investment or screening of tenants. This aims to remove any restricted investment or tenant[9] from further consideration.

---

[5] In order to evaluate decarbonization strategies and targets, we take into account multiple sources such as information provided by SBTi or CA100+ as well as issuer statements and reports

[6] The conditions under which green bonds are allowed are as follows: 1) The issuer does not expand their capacities to generate power from thermal coal or coal-dedicated infrastructure, and 2) the issuer must publicly commit to a 2050 net zero target (or Paris-aligned pathway) and 3) the issuer must publicly commit to a thermal coal exit by 2040 the latest, and 4) the issuer must be compliant with an accredited Green Bonds Framework (such as ICMA Green Bond Principles or future EU Green Bond Standards)

[7] This also includes sub-sovereign level

[8] Government-related institutions are defined as agencies owned, guaranteed or sponsored by a rated sovereign entity with the exemption of utilities, retail banks and industrials (e.g. transportation, energy, consumer services)

[9] Restricted companies as defined by 3.1 Controversial Weapons

5 Methodology and Data

Identification of restricted companies and sovereigns are based on MSCI ESG data and the Global Coal Exit List.

For controversial weapons exclusions, MSCI's Business Involvement Screening Research is used.

The rules for treating exclusions along the company hierarchy structure are as follows:

Operating entities

When a company owns 50 percent or more of a subsidiary, and where no standalone assessment of the subsidiary proves otherwise, the subsidiary inherits its parent's data in the case of thermal coal and oil sands or is given a direct involvement tie in the case for controversial weapons and thus is excluded as well.

Financing companies[10]

Due to the nature of their business and risk structure, financing companies inherit data on thermal coal and oil sands and controversial weapons involvement ties from their parent companies, whereby they do not need to necessarily be fully owned by the operating entity from which they inherit a data point.

Sovereigns

Next to sovereigns, sub-sovereign issuers[11] are excluded, as well as government-related institutions.

Policy valid as of January 1, 2024.

[10] Financing companies are defined as entities without operations of their own and whose sole purpose is to finance other entities

[11] States, regions or provinces depending on the sovereign's administrative structure