

Sustainability risk

Sustainability risk refers to events or circumstances in the environmental, social and corporate governance spheres that could have a definite or potential adverse effect on the value of an investment if they occurred.

Sustainability risks are part of established risk categories such as market risk, liquidity risk, counterparty risk and operational risk and can have an impact on the materiality of these risks.

I. Investment advice

If Union Investment provides investment advice in respect of financial instruments, it will recommend financial instruments to the client that have already undergone Union Investment's research process. The principle of ESG integration is embedded in this process. The term 'ESG integration' describes the systematic consideration of sustainability factors in the research process used to assess the issuer of the financial instrument. Sustainability factors include aspects such as environmental protection, social responsibility and treatment of employees, respect for human rights, and combating corruption and bribery. When selecting financial instruments to be offered to the client, the scores assigned to the financial instruments based on the research process are taken into account and presented to the client.

II. Consideration of sustainability risk in investment advice

Union Investment's sustainability analysts examine material sustainability risks for a particular industry and/or asset class and thus incorporate financially relevant sustainability risks into the traditional fundamental analysis. The findings from the ESG analysis and the sustainability risk assessment are documented. Union Investment's investment advisers can access this documentation and use it as a basis for their investment advice.

III. Impact on returns

Taking account of sustainability factors can have a significant influence on the long-term performance of a financial instrument for which investment advice is provided. Issuers with inadequate sustainability standards may be more vulnerable to event risk, reputational risk, regulation risk, litigation risk, and technology risk. These sustainability-related risks can, for example, have implications for the company's operations, its brand and/or enterprise value and even the continued viability of the business. If such risks materialise, they may have an adverse impact on the valuation of the financial instrument on which advice was provided.

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Unless otherwise stated, all information, descriptions and explanations are dated **24 November 2021**.