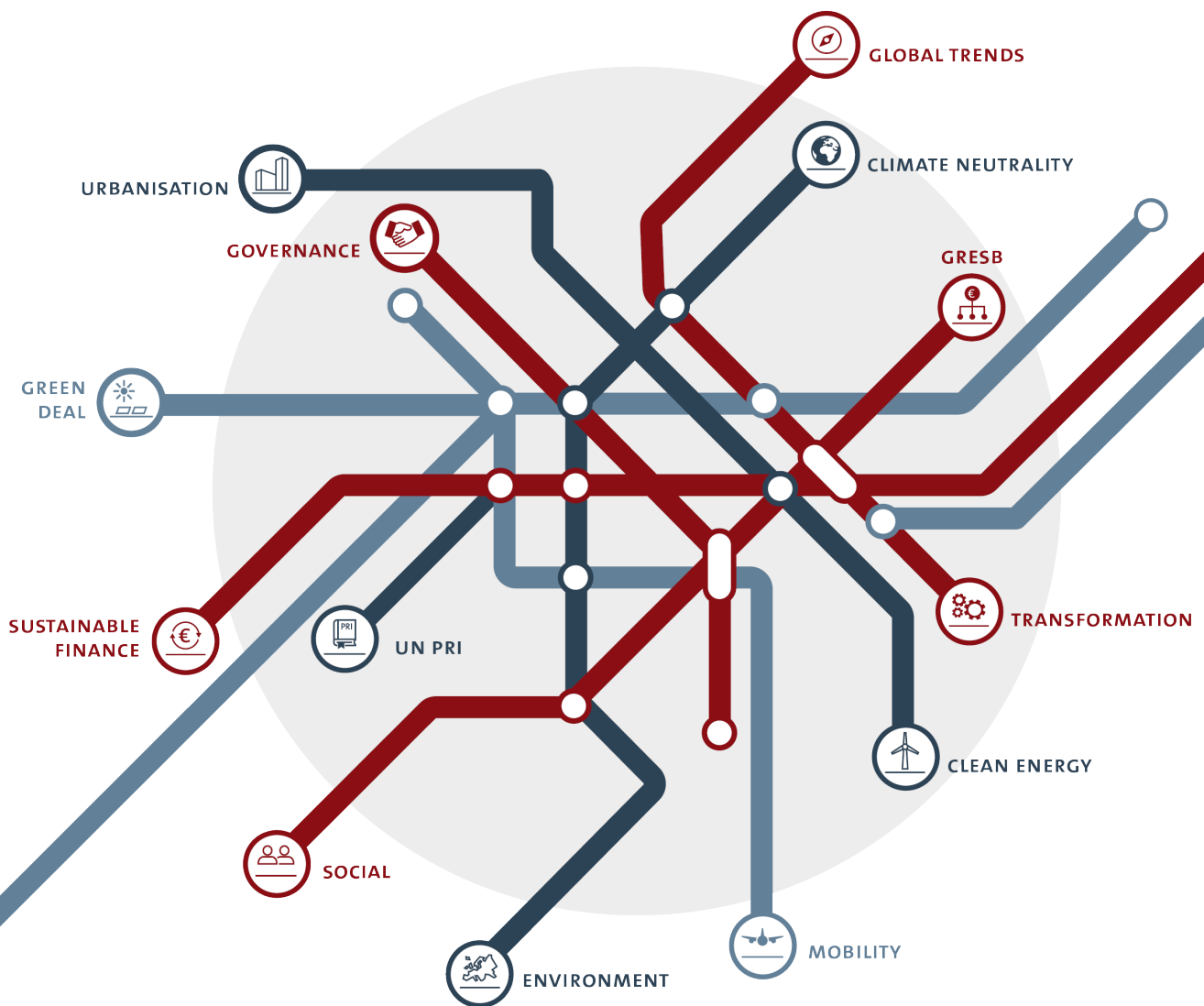


KGAL Climate Strategy

# OUR CONTRIBUTION TO FIGHT CLIMATE CHANGE

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## THE CHALLENGE

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Climate change is probably the biggest global challenge of our time. Scientists estimate that we are currently heading towards a 3 - 4°C average temperature increase by the end of the century. If that happens, large portions of our planet will become uninhabitable, with disastrous consequences all life around the world. In 2019, global carbon emissions reached a new record high, the trend being upward. As a consequence of this development, the last 30 years have been the hottest on record in Europe. Heatwaves, flooding and forest fires more and more often impact the lives of Europeans.

On 28 November 2018, the EU Commission presented its strategic long-term vision for a climate-neutral economy by 2050. This goal is in line with the Paris Agreement 2015 to keep the global average temperature increase to well below 2°C and pursue efforts to keep it to 1.5°C. A number of European governments announced their intention to introduce policies to achieve net zero emissions by 2050, among them Germany.

It has been agreed as one of three goals to channel global financial flows into projects and technologies that reduce greenhouse gas emissions and promote climate-resilient development. In the opinion of experts, achieving the EU climate goals needs additional EUR 180bn of investment every year. The financial sector will play a key role in its mobilisation.

By 2030, Germany intends to reduce greenhouse gas emissions by at least 55 percent compared to 1990. To this end, the German government has laid down its national climate protection target in a binding climate protection law. The Climate Protection Act sets annual emission targets in the form of maximum emission levels for the individual sectors of energy, industry, transport, buildings, agriculture and waste management. The federal ministries are obliged to ensure that the annual emission targets in the individual sectors are met. However, the sectoral targets do not specifically concern the financial sector, but indirectly via the sectors in which KGAL is invested (e.g. promotion of energy-efficient buildings).

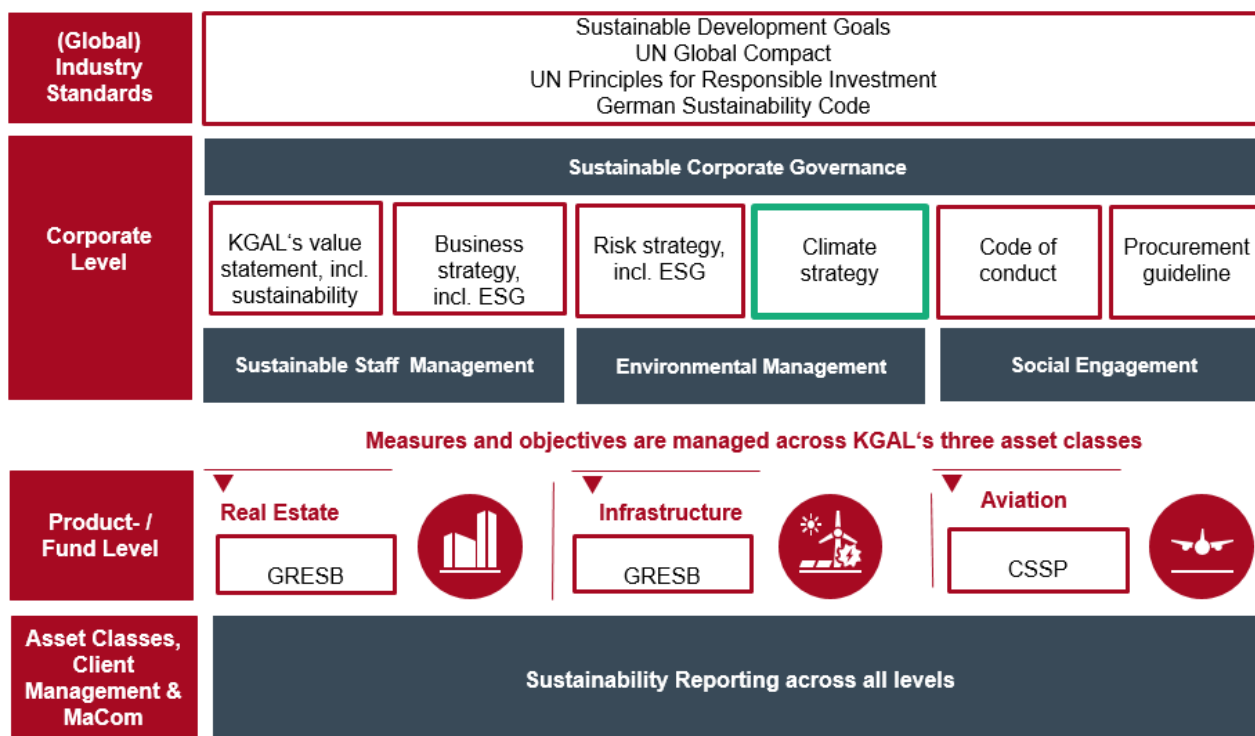
## OUR MISSION

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KGAL Group ("KGAL") has already adopted a mission statement in 2010 that incorporates environmental protection requirements into our corporate goals. According to these values, KGAL not only aims to offer sustainable products for its investors. Protection of the assets of our customers: In exchange with our customers and other stakeholders, KGAL, as a sustainable investment manager, also wants to be an integral part of a sustainable society. To underline this, KGAL signed the United Nations Principles for Sustainable Investment ("UN PRI") in September 2018. Consequently, sustainability aspects are an integral part of KGALs business and risk strategy.

In line with the business strategy, KGAL also regards climate related risks, which we consider as factors influencing financial risks, as an integral part of the risk management. The company wants to contribute to the reduction of climate risks and be prepared for changes in the interests of its customers. On behalf of our customers, we protect the investments of our managed investment funds from climate-related risks and mobilise private and institutional capital for a low carbon economy. At the same time, KGAL intends to contribute to the Paris Agreement and to the national climate targets. In addition, this climate strategy is to meet the future requirements of the European and national financial supervisory authorities with regard to the integration of climate risks in a forward-looking manner.

An overview of how the climate strategy fits into KGAL’s overall sustainability management is illustrated in the chart below:



## OUR IMPACT

KGAL is convinced that a long-term reliable, transparent and comprehensible form of climate policy is a prerequisite for future successful economic activity and competitiveness. As an international investment manager, the KGAL Group seeks to fulfil its responsibility in combating climate change by supporting the transition to being carbon neutral. Climate change is both: A risk and opportunity for KGAL’s business model. Already today, the investments in renewable energy produce over 2 TWh of green electricity per year and thus supply the electricity consumption of approximately 1.5 million people. KGAL intends to increase the total amount of green energy produced by the investments of its managed investment funds in renewable energy annually and considers emission aspects when investing in other asset classes.

Nevertheless, it is understood that the investments of our managed investment funds are associated with substantial greenhouse gas emissions. As an investment manager in Real Assets, we mobilise the capital of institutional investors for investments that promote climate protection and adaptation to climate change, and we support the transition to a low carbon economy. Furthermore, our direct business operations have an impact on the climate through building emissions and waste generation. We seek to minimise these impacts, using strict environmental management criteria for our corporate buildings and activities, and by raising colleague’s awareness to encourage environmentally responsible behaviour at work and at home. Our business activity currently leads to approximately 1.700 t of CO<sub>2</sub> per year. From 2018 to 2019, we have reduced our total emissions on a corporate level by more than 13%. Our calculations show that the largest share of the total emissions is caused by business trips and commuting. In terms of materiality, we have therefore focused our targets and measures on mobility aspects.

## OUR OBJECTIVES

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In order to meet our responsibility, KGAL has set itself ambitious goals:

1. KGAL will be a climate-neutral<sup>1</sup> asset manager from 1 January 2021. That means net zero in Scope 1 (all direct emissions), Scope 2 (indirect GHG emissions from the consumption of purchased electricity, heat or steam), and Scope 3 emissions related to our business operations (business trips, commuting, water- and paper consumption, office supplies).
2. Aligning to the goals of the Paris Agreement, we are also setting a goal to be net zero in Scope 3, that are directly linked to the investment activities for the investment funds managed by us, by 2050. The "Scope 3" emissions for a financial institute are, in simple terms, particularly the GHG footprint of our investments across all investment classes.
3. In addition to the climate neutrality goals, KGAL`s understanding of climate protection also includes the reduction of emissions due to our own behaviours in the workplace. Starting from the base year 2018 (first measurement), KGAL aims to reduce its emissions per employee by 5% annually over the next 10 years.

## OUR ACTIONS

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Our standardized risk, compliance and operational processes provide for procedures and instruments with which environmental and social risks can be detected, assessed and monitored. This includes KYC processes, transaction due diligence, product development and investment decision processes and guidelines for our suppliers. Through these processes, customers, transactions or suppliers can be identified, that could potentially violate our standards or which are the subject of considerable environmental or human rights controversy are. This also includes climate change.

Furthermore, KGAL has developed a catalogue of measures that covers business activities and investments in order to achieve our ambitious goals. The measures and objectives are based on five principles:

1. Measure
2. Integrate
3. Reduce/Avoid
4. Compensate
5. Disclose

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<sup>1</sup> In every business, greenhouse gas emissions are generated through business activity. The use of energy and materials, business travel or employees' commutes are sources of CO<sub>2</sub> that occur in business operations. The term "carbon neutrality" refers to processes in which the atmospheric equilibrium is not changed and in the course of which there is no net emission of greenhouse gases. The basis for the assessment are the emissions of climate-relevant gases, in particular CO<sub>2</sub>. Processes are therefore labelled as climate-neutral if no climate-relevant gases escape, or gases already emitted can be saved or compensated elsewhere.

The following overview shows activities that have already been initiated and implemented as well as measures that we will implement in the future:

Principles of KGAL's climate strategy	Our investment activities	Our corporate business activities
<p><b>1. Measure</b></p>	<ul style="list-style-type: none"> <li>▪ Due to the lack of data and measurement methods, it is currently difficult to reliably measure CO<sub>2</sub> emissions at product level. Nevertheless, we strive for better emission data availability and in the long term, we want to survey our CO<sub>2</sub> emissions at product level. However, we are one of only a few institutions to have already measured this for individual funds, such as our "Walkability" real estate fund and the "ESPF4" infrastructure fund.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Annual data collection of environmental indicators of business operations. These include energy-, water- and paper consumption, waste and mobility (business travel).</li> <li>▪ Measurement of the corporate carbon footprint on an annual basis: an independent partner according to the requirements of the Greenhouse Gas Protocol (GHG) calculates the data.</li> </ul>
<p><b>2. Integrate</b></p>	<ul style="list-style-type: none"> <li>▪ In order to manage physical and transitional risks of climate change, KGAL plans to survey all our asset classes based on scenario analyses (for example based on TCFD<sup>2</sup>).</li> <li>▪ KGAL will integrate climate risks into its risk and investment policies and processes. We have already started to integrate sustainability risks into risk due diligence and risk reporting.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Employee mobility is by far the largest contributor to our CO<sub>2</sub> footprint from our business activities. For this reason, we want to raise awareness and include sustainability aspects in our travel policy, for example through positive incentives or alternatives to air travel. The travel booking system should then be adapted accordingly.</li> </ul>

<sup>2</sup>Task Force on Climate-related Financial Disclosure

- 3. Reduce / Avoid**
- KGAL does not invest for its managed investment funds and will not invest in fossil fuels, including oil and gas. This includes all investments that directly invest in fossil energy projects/plants. This means no investments in oil and gas production, no infrastructure primarily focused on oil and gas, and no electricity and heat generation from fossil sources.<sup>3</sup>
  - Furthermore, KGAL will not invest in Coal Mining and Coal Fired Power, Mountain Top Removal Coal Mining, Arctic Oil, Oil Sands and in the future also no longer in Gas
  - KGAL will introduce bicycle leasing for all our employees to reduce emissions from commuting. KGAL will set up a carpooling platform in the Intranet.
  - KGAL wants to implement a regular information format on sustainability issues that informs our employees about, among other things, the effects of climate change.
  - All employees have the opportunity to work mobile for up to 10 working days a month, which significantly reduces emissions from commuting.
- 4. Compensate**
- KGAL will begin to offset the emissions of selected investment funds to be completely climate-neutral by 2050.
  - KGAL will compensate unavoidable emissions with certificates from climate projects and thus make our entire corporate business activities climate-neutral by 2021.
  - KGAL offsets all emissions resulting from the procurement of office supplies. All our office supplies are climate-neutral since 2019. Furthermore, we ask our suppliers and contractors to join us in environmental efforts to reduce their impact in our Supplier Code of Conduct, and we consider the environmental performance of suppliers in our sourcing process.
  - Our subsidiary GOAL offsets all emissions resulting from business travel since 2019. This means that all GOAL business trips are climate-neutral.
- 5. Disclose**
- KGAL has set itself the goal of increasingly measuring and reporting the CO<sub>2</sub> footprint at product level.
  - KGAL will play an active role in future climate initiatives (e.g. Climate100+ Initiative, net zero alliance).
  - KGAL will report transparently on its CO<sub>2</sub> footprint annually.

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<sup>3</sup> Investments in installations or buildings that use fossil fuels for their operations (e.g. renewable energy installations, electricity and heating for buildings) are not excluded.

## OUR ACHIEVEMENTS AND NEXT STEPS

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KGAL has improved its climate performance in recent years, which have led to significant emission reductions:

- Reduction of the Corporate Climate Footprint from 2018 to 2019 by over 13 % (reduction of approx. 238 t CO<sub>2</sub>)
- Reduction of our company commuting emissions by approx. 20% (reduction of approx. 114 t CO<sub>2</sub>)
- Installation of photovoltaic systems on our office buildings (reduction of approx. 48 t CO<sub>2</sub>)
- Purchase of 100% green electricity at the Grünwald site as well as a variety of energy saving measures like LED technology and motion detectors (reduction of approx. 310 t CO<sub>2</sub>)
- Compensation of all emissions caused by our procurement (reduction of about 17 t CO<sub>2</sub>)
- Our subsidiary GOAL offsets all emissions resulting from business travel (reduction of approx. 36 t CO<sub>2</sub>)

Nevertheless, we have developed a roadmap to achieve our ambitious goals:

# 2020

# 2030

### Achievements

- Integrate climate risks into its risk and investment policies and risk reporting
- Exclusion of fossil fuels (oil, gas) in the business strategy
- KGAL will begin to offset the emissions of selected funds (e.g. walkability)
- Annual Corporate Climate Footprint Reports
- Mobile Working for all employees
- Active environmental management (e.g. LED, 100% green electricity, climate neutral procurement)

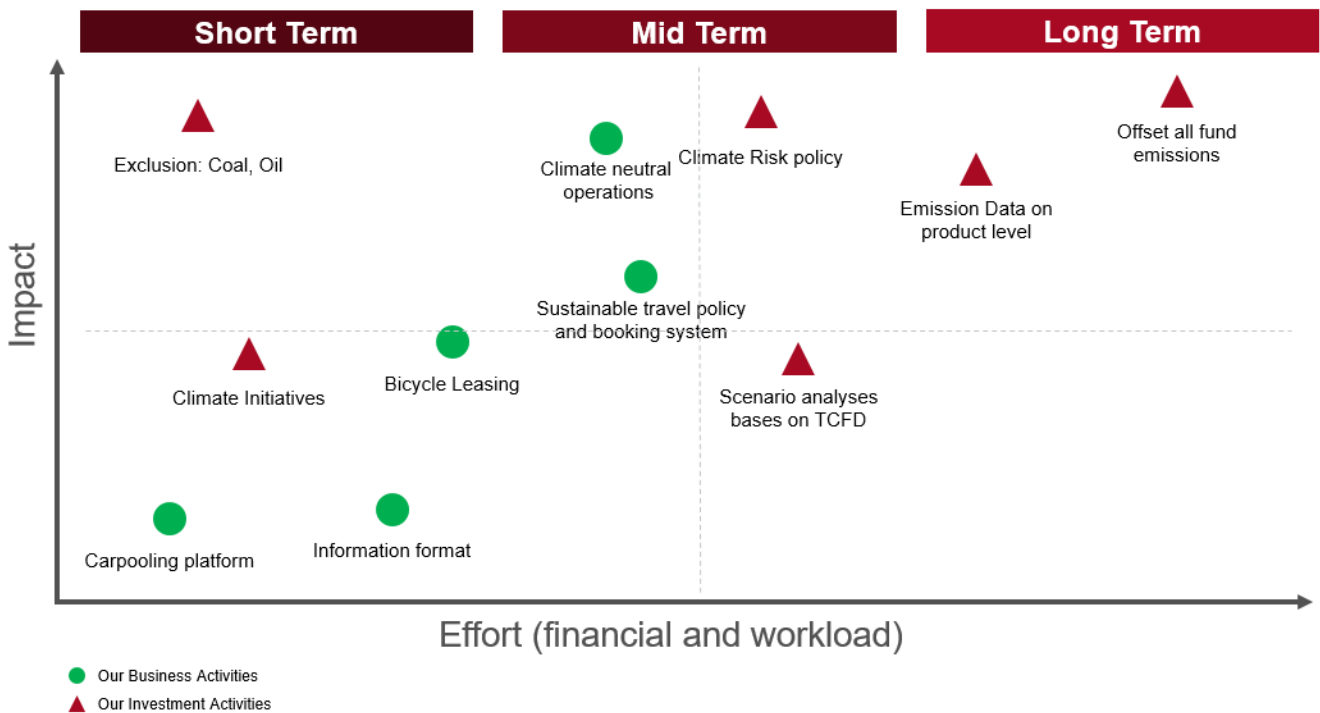
### What's next?

- Exclusion of coal mining and coal fired power, mountain top removal and Oil in the business strategy
- Measuring and reporting the CO<sub>2</sub> footprint at product level.
- active role in future climate initiatives (e.g. Climate100+ Initiative, net zero alliance).
- Climate friendly travel policy
- We will compensate unavoidable emissions with certificates from climate projects and thus make our entire business activities climate-neutral by 2021.
- KGAL bike leasing

### Goals

- Emission Date on Fund Level
- Scenario analyses of sustainable risks based on TCFD recommendations
- Offset fund emissions

We prioritise the topics as follows:



Short Term	Mid Term	Long Term
Market positioning and meeting investor expectations	Strategic orientation to meet future regulatory requirements	Transformation to a climate-friendly business orientation
<p><b>OUR INVESTMENT ACTIVITIES</b></p> <ul style="list-style-type: none"> <li>We will integrate climate risks into its risk and investment policies and processes.</li> <li>KGAL will not invest in Coal Mining and Coal Fired Power, Mountain Top Removal Coal Mining, Arctic Oil and Gas, Oil Sands.</li> <li>Signing climate initiatives: Climate100+ Initiative, net zero alliance</li> </ul> <p><b>OUR BUSINESS OPERATIONS</b></p> <ul style="list-style-type: none"> <li>We will introduce bicycle leasing for all our employees to reduce emissions from commuting.</li> <li>We will set up a Carpooling platform in the Intranet</li> <li>We will implement a regular information format on sustainability issues</li> </ul>	<p><b>OUR INVESTMENT ACTIVITIES</b></p> <ul style="list-style-type: none"> <li>We will survey all our asset classes on the basis of scenario analyses based on the recommendations of the TCFD</li> <li>Due to the lack of data and measurement methods, it is currently difficult to reliably measure CO2 emissions at product level. Nevertheless, we strive for better emission data availability and in the long term we also want to survey our CO2 emissions at product level.</li> </ul> <p><b>OUR BUSINESS OPERATIONS</b></p> <ul style="list-style-type: none"> <li>Raise awareness and include sustainability aspects in our travel policy, for example through positive incentives or alternatives to air travel. The travel booking system should then be adapted accordingly.</li> </ul>	<p><b>OUR INVESTMENT ACTIVITIES</b></p> <ul style="list-style-type: none"> <li>KGAL will begin to offset the emissions of selected funds (e.g. walkability)</li> <li>KGAL has set itself the goal of increasingly measuring and reporting the CO2 footprint at product level.</li> </ul> <p><b>OUR BUSINESS OPERATIONS</b></p> <ul style="list-style-type: none"> <li>We will compensate unavoidable emissions with certificates from climate projects and thus make our entire business activities climate-neutral by end of 2025</li> </ul>